

12 May 2017

Initiating Coverage (BUY)

ORIENT REFRACTORIES LTD

CMP

INR 138

Target Price

INR 170

Stock Details

Industry	OTHER INDUSTRIAL GOODS
Bloomberg Code	ORIENT:IN
BSE Code	534076
Face Value (Rs.)	1.00
Market Cap. (Rs. mn)	16577.9
52wk. Low/High (Adjusted) ((Rs.))	79.60/145.90

Shareholding Pattern Mar '17

Promoter (%)	69.62
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	30.38
No. of Share Outstanding (mn)	120.13

Valuation Summary

	FY 15A	FY 16A	FY 17P	FY 18P
P/E (x)*	19.53	29.68	30.00	30.00
EV/EBITDA (x)	11.87	17.90	17.28	17.09
P/BV (x)	6.08	8.28	7.63	7.19

*TTM for Current Year

Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 15A	FY 16A	FY 17P	FY 18P
Net Sales	4,514	4,589	5,048	5,552
EBITDA	852	906	1,007	1,111
Net Profit	528	558	617	682
EPS (Rs.)*	4.4	4.7	5.1	5.7

*Un adjusted

Key Ratios

	FY 15A	FY 16A	FY 17P	FY 18P
EBITDA Margin (%)	18.6	19.5	19.7	19.8
EBIT Margin (%)	17.4	18.2	18.4	18.5
Net Pro. Margin (%)	11.6	12.0	12.1	12.2
Debt/Equity (x)	0.00	0.00	0.00	0.00
RoNW (%)	34.4	29.8	27.6	25.9
RoCE (%)	33.7	29.3	27.2	25.3

One Year Price / Volume



We recommend 'BUY' on ORIENT REFRACTORIES LTD for a target of INR 170 - valuing the company at P/E 30x of FY18E Earning.

INVESTMENT RATIONALE:

- Stable revenue growth despite turbulent times in steel industry.
- RHI AG's (the parent of ORL and global leader in refractories) supply chain aids incremental traction in exports.
- Zero Debt, Improving Cash conversion cycle, healthy cash generation.
- Continuous technology and sales support from the holding company (RHI AG).
- RHI is a vertically integrated global provider of high grade refractory products, systems and services.
- Enjoys industry leading margins Refractories technology has undergone huge transformation over last three decades.
- Company is wholly dependent on steel industry and the Govt. has taken positive steps in several areas, policies and legislations will led to a sustainable growth.
- With RHI-AG flagship, company is optimist towards domestic and global business.
- Increasing Indian Products Demand (across EU, Middle East, South Africa and Far East, Malaysia & Indonesia).
- Expected Demand Uptake of Refectories in Sectors like Iron & Cement.

VALUATIONS AND VIEW:

ORL manufactures, distributes, and sells refractories, monolithics, and ceramic paper for integrated steel producers and mini steel plants in India. It is a global partner for over 500 customers in India and across the world. As a technology leader, ORL focuses on the development of solutions that are tailored to customers' trends. An in-house R&D facility supports the division's product development initiatives. This makes ORL the preferred choice for quality products. **We value the business at 30x FY18E EPS and recommend a BUY rating on the stock with a target price of INR 170 per share.**

RISK & CONCERN

- **Fluctuations in Raw material prices:** The company is dependent on domestic and international suppliers for the raw materials. The volatility in prices and inability to obtain adequate supplies can adversely affect the business operations.
- **Highly dependent on Steel Industry:** The fortunes of the refractory industry highly depend on the steel industry. Any major alterations in the steel industries structure, regulations and regular functioning would directly affect the company.
- **Exposure to foreign currency fluctuations:** Approximately 20% of the revenue is earned in foreign currencies. Hence, currency fluctuations cannot be fully mitigated to control the adverse impact on the results of the operations.
- **Competition:** ORL operates in a competitive scenario comprising of domestic and multinational players, especially Chinese companies. Since, it is a preferred vendor for a large number of steel producers in India, it needs to serve its customers rightly in order to build a long term relationship and grow its business.

COMPANY BACKGROUND:

Orient Refractories Ltd (ORL) was incorporated in November, 2010 when Orient Abrasives Ltd (OAL) decided to demerge its refractory undertaking with a view to de-risk and segregate the refractory business from the other two businesses viz. abrasive grains and power generation. ORL manufactures, distributes, and sells refractories, monolithics, and ceramic paper for integrated steel producers and mini steel plants in India. It is a global partner for over 500 customers in India and across the world. As a technology leader, ORL focuses on the development of solutions that are tailored to customers' trends. An in-house R&D facility supports the division's product development initiatives. This makes ORL the preferred choice for quality products.

Products-

- Slide Gate Plates
- Nozzles and Well Blocks
- Tundish Nozzles
- Bottom Purging Refractories and Top Purging Lances
- Slag Arresting Darts
- Basic Spray Mass for Tundish Working Lining
- Castables

INDUSTRY OVERVIEW:

The growth of global refractories market is fueled by the high potential of non-metallic minerals industry, increasing global demand for high grades of refractories, and increasing infrastructure development in emerging economies. According to a report, the global refractories market is projected to reach USD 33.7 Billion by 2020, registering a CAGR of 3.9% over a period of five years. Asia-Pacific is the global forerunner in refractories market, in terms of value and volume, and the trend is expected to continue till 2020. The countries in this region such as China and India are the fastest-growing markets for refractories due to increasing usage of refractories in iron & steel, cement, glass, non-ferrous metals, and other industries.

India's refractory industry has been buffeted over the last few years by the sharp fall in the price of steel, which has been compounded by accelerated dumping of Chinese steel products in the Indian market. India's steel industry consumes nearly 70% of the country's refractories output. In India, the infrastructure push is expected to drive steel growth and the government's proactive approach to confer infrastructure status to housing augurs well for steel industry and therefore the refractory industry as such.

Peer Comparison

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
AIA Engg.	1,509	29.9	14,228.0	1.19	120.3	18.54	590.1	19.67	5.42
SKF India	1,598	35.4	8,428.1	0.94	65.3	16.14	664.5	8.90	4.80
Vesuvius India	1,289	30.1	2,617.3	0.50	19.3	4.21	211.9	13.92	4.61
Graphite India	118	33.4	2,300.8	1.70	23.4	1.92	337.6	(5.35)	1.26
Orient Refrac.	142	30.0	1693.8	1.02	16.7	12.00	128.1	11.32	8.28
IFGL Refractor	241	16.0	833.8	0.83	13.7	28.93	208.4	18.07	1.90
Esab India	610	26.7	938.8	0.16	6.6	34.43	112.9	1.61	2.76

*TTM

FINANCIAL OVERVIEW

Q4 FY16 Performance Highlight

(in Million)	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	YoY (%)	QoQ (%)
Revenue	1,150.61	1,227.85	1,312.43	1,322.26	1,280.76	11.31%	-3.14%
Other Income	11.89	14.23	19.25	21.98	19.62		
Total Income	1,162.50	1,242.08	1,331.68	1,344.24	1,300.38	11.86%	-3.26%
Expenditure	-925.27	-973.50	-1,050.44	-1,071.38	-1,026.73		
As a % of Sales	80.42%	79.28%	80.04%	81.03%	80.17%		
Interest	--	-0.01	-0.01	-0.01	-0.01	#VALUE!	0.00%
PBDT	237.22	268.57	281.23	272.85	273.63		
As a % of Sales	20.62%	21.87%	21.43%	20.64%	21.36%		
Depreciation	-15.55	-15.34	-15.34	-15.88	-17.23		
PBT	221.67	253.23	265.89	256.97	256.4	15.67%	-0.22%
As a % of Sales	19.27%	20.62%	20.26%	19.43%	20.02%		
Tax	-72.49	-90.08	-92.1	-88.7	-89.28	23.16%	0.65%
Net Profit	149.17	163.15	173.79	168.27	167.12	12.03%	-0.68%
As a % of Sales	12.96%	13.29%	13.24%	12.73%	13.05%		
Equity	120.14	120.14	120.14	120.14	120.14	0.00%	0.00%
EPS (Rs)	1.24	1.36	1.45	--	--	#VALUE!	#VALUE!
CEPS (Rs)	1.37	1.49	1.57	1.53	1.53		
OPM %	20.62	21.87	21.43	20.64	21.37		
NPM %	12.96	13.29	13.24	12.73	13.05		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Net Sales	3,598	4,035	4,514	4,589	5,048	5,552	6,219
Other Operating Income	20	41	53	54	54	62	71
Expenditure	2,929	3,243	3,715	3,737	4,095	4,503	5,035
EBITDA	690	833	852	906	1,007	1,111	1,254
Depreciation	38	36	55	59	67	72	74
EBIT	652	797	797	847	940	1,040	1,180
Interest Expenses	19	1	0	0	0	0	0
PBT	633	796	796	847	940	1,039	1,180
Tax	201	267	268	288	323	357	405
Other Income	-	-	-	-	-	-	-
Extraordinary Items	(18)	-	-	-	-	-	-
Net Income Before Adjustment	414	528	528	558	617	682	775
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	414	528	528	558	617	682	775

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Equity share capita	120	120	120	120	120	120	120
Reserves & surplus	904	1,256	1,578	1,926	2,307	2,728	3,206
Share Warrants	-	-	-	-	-	-	-
Net worth	1,024	1,377	1,698	2,047	2,427	2,848	3,326
Minority Interest	-	-	-	-	-	-	-
Loan Funds	-	-	-	-	2	0	(2)
Net deferred tax liability	13	2	-	-	-	-	-
Other Long-term Liabilities	8	9	9	7	8	8	9
Long-term Provisions	1	17	22	25	27	30	33
Total Liabilities	1,046	1,406	1,731	2,080	2,465	2,888	3,369
Net block	298	320	372	399	412	370	326
Investment, Loan & Adv.	15	21	31	19	14	17	18
Total Current Assets	1,392	1,835	2,134	2,642	3,144	3,718	4,405
Current Liabilities & Provisions	659	771	807	982	1,105	1,219	1,383
Net Current Assets	733	1,065	1,327	1,661	2,039	2,499	3,022
Total Assets	1,046	1,406	1,731	2,080	2,465	2,888	3,369

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17P	FY 18P
Operating Cash Flow	802	672	644	717
Cash Flow from Investments	(42)	(83)	(35)	(34)
Cash Flow from Financing	(250)	(208)	(239)	(264)
Net Changes in Cash	511	381	371	420
Opening Cash	216	727	1,108	1,478
Closing Cash Balance	727	1,108	1,478	1,899

Disclaimer: This document has been prepared by Wealth Discovery Securities Private Limited (hereinafter referred to as WD) to provide information about the company (ies) and/sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company (ies). This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Wealth Discovery Securities Private Limited (hereinafter referred to as WD) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

WD generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, WD generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing among other things, may give rise to real or potential conflicts of interest. WD and its affiliated company(ies), their directors and employees and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the affiliates of WD even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Reports based on technical and derivative analysis center on studying charts company's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamental analysis. In addition WD has different business segments / Divisions with independent research separated by Chinese walls catering to different set of customers having various objectives, risk profiles, investment horizon, etc., and therefore may at times have different contrary views on stocks sectors and markets.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt WD or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold WD or any of its affiliates or employees responsible for any such misuse and further agrees to hold WD or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The information contained herein is based on publicly available data or other sources believed to be reliable. Any statements contained in this report attributed to a third party represent WD's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation has not been reviewed by the third party. This Report is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. While we would endeavor to update the information herein on reasonable basis, WD and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent WD and/or its affiliates from doing so. WD or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. WD or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and no infringement. The recipients of this report should rely on their own investigations.

WD and its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report. Subject Company may have been a client of WD or its associates during twelve months preceding the date of distribution of the research report WD and/or its affiliates and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report. To enhance transparency, WD has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of WD research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Orient Refractories Ltd.
1.Analyst ownership of the stocks mentioned above	No
2.Served as an officer, director or employee	No

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject WD & its group companies to registration or licensing requirements within such jurisdictions.

Wealth Discovery

Transforming Knowledge into Wealth.

COMPLETE WEALTH MANAGEMENT SOLUTIONS !



Understanding financial needs.
Optimising returns...

Head Office

Wealth Discovery Securities Pvt. Ltd.

1206, 12th Floor,
Kailash Building K.G. Marg.
Connaught Place
New Delhi-110001

Telephone:
91 +11-43444-666
91 +11-43444-623

Email:
info@wealthdiscovery.in

Website:
<http://www.wealthdiscovery.in>