

## Key Share Data

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Face Value (Rs)	10
Equity Capital (Rs Crore)	34.61
Mcap (Rs Crore)	125.46
52-wk High/Low(Rs)	64/27
Avg. Yearly Volume	16329
BSE Code	532133
NSE Code	IFGLREFRAC
Reuters Code	IFRF.BO
Bloomberg Code	IFGL IN

## COMPANY PROFILE

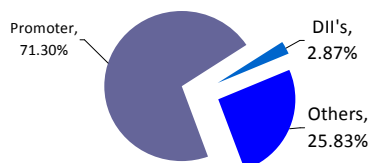
Incorporated in 1989 in Kolkata, **IFGL Refractories Limited (IRL)** commenced business in 1990. It has been promoted by Indo Flogates (IFGL) and the Bajorias. The company is engaged in the manufacturing of refractories for the steel industry.

## INVESTMENT RATIONALE

*Growth in the steel sector both domestically as well as internationally*

- About 75% of the refractories produced worldwide are consumed by the Steel industry. World wide steel production is expected to reach 1625 Mn MT by CY14.
- Domestically as well as internationally, many of the steel majors are now investing heavily into capital expenditure to increase their working capacities. This in turn augurs well for the refractories industry.

## Shareholding Pattern (as on 30th June. 2011)



Source: BSE

## Key Financials (Rs Cr)

Particulars	FY10	FY11	FY12E	FY13E
Net Sales	415	469	513	615
Sales Growth (%)	4.27	13.01	9.38	19.88
Op. Profit	63	48	68	81
PAT	35	24	40	50
PAT Growth (%)	466	-30	67	25
EPS (Rs.)	9.56	6.63	11.53	14.31
BVPS (Rs.)	39.63	50.77	67.03	86.97

*International Presence with major steel makers in its customer base*

- The company has got its plants spread across the Euro zone, USA, China and Latin America. Apart from domestic steel majors, it supplies its products to the renowned steel makers of the world, noteworthy amongst them being Arcelor Mittal.

*Room for increase in capacity utilization*

- At present the average capacity utilization of IFGL in India and abroad are at an average of 50%-55%. Hence any increase in demand for their products can be easily met without resorting to capital expenditure to increase their capacity.

*IFGL Exports from Kandla to start trial operations from September 2011*

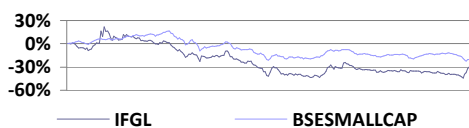
- IFGL Exports is a subsidiary of IFGL Refractories set up with the Japanese collaboration(Krosaki Harima Corporation) which is a subsidiary of Nippon Steel Corporation.
- The plant is expected to contribute about Rs 40 cr to the top line in FY13. Over the next 5 years period it is expected to go up to Rs 120 cr.

## Key Financial Ratios

Particulars	FY10	FY11	FY12E	FY13E
P/E	5.77	5.43	3.12	2.51
P/Bv	1.39	0.71	0.54	0.41
Mcap/Sales	0.46	0.27	0.24	0.20
EV/EBIDTA	4.17	5.00	3.53	2.96
ROCE (%)	25.12	12.70	16.92	18.03
RONW (%)	24.97	13.81	17.21	17.32
OPM (%)	15.23	10.22	13.23	13.19
NPM (%)	8.49	5.11	7.77	8.15
Debt - Equity	0.58	0.71	0.47	0.33

Source:: Capitaline, SKP Research

## 1 Yr price performance IFGL vis-à-vis BSE Small Cap



## VALUATION

We are positive on the company and have valued it at 4x FY13E EPS of Rs 14.31 and have placed a target of **Rs 57** over next 15 months, implying a **58%** rise from present levels.

Pinaki Banerjee

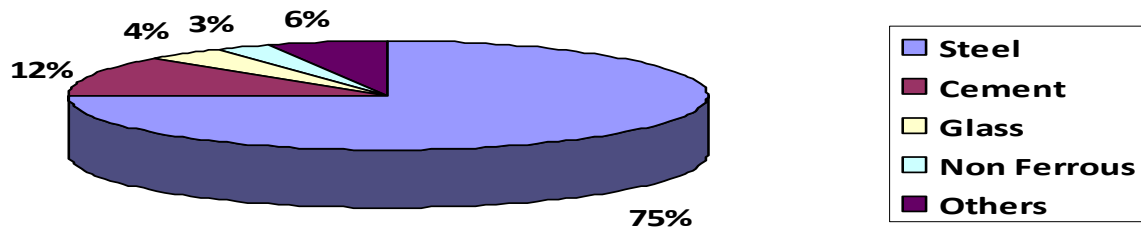
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**Industry Overview**

**Meaning:-** A refractory material is one that retains its strength at high temperatures. They are basically "non-metallic materials having those chemical and physical properties that make them applicable for structures, or as components of systems, that are exposed to environments above 1,000 °F.

**End User Industries**



Source:- SKP Research

**International scenario**

**Global demand to rise 5.3% annually through**

- Worldwide demand for refractories is projected to grow 5.3 percent per year through 2014 to 40.8 billion metric tons.
- The world refractory industry has been negatively affected in recent years by a slowdown in steel and iron output.
- Demand growth in the Asia/Pacific region will outpace the global average through 2014, with China remaining the largest international market and comprising a majority of global demand.
- Above-average growth will also occur in India due to solid gains in fixed investment expenditures and rising per capita income.

**Improving technologies to boost value gains**

- In value terms, demand will rise seven percent annually through 2014, reaching \$30.7 billion.
- Advances in value terms are stronger than volume terms, reflecting improving refractory technologies. These technologies have, in effect, lowered refractory consumption per unit of output in virtually all refractory-consuming industries, especially in steel, thereby limiting tonnage gains, but supporting value gains through higher prices.

**Indian scenario**

**Age old experience**

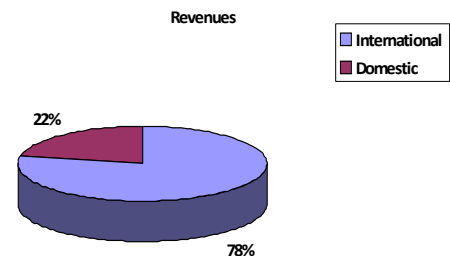
- The production of refractories started in India in the form of fireclay bricks at Raniganj in 1874 by Burn and Company (now Burn Standard Co. Ltd) to cater to the needs of Ordnance Factory, Railway workshops, Calcutta mint, Foundries etc.]
- With the setting up of Tata Iron and Steel Company(TISCO) now Tata Steel, in the beginning of the 20<sup>th</sup> century increased the demand for refractories significantly.
- After independence of India a number of integrated steel plants were set up by Hindustan Steel (now SAIL) at Durgapur, Bhilai, Rourkela and Tata Steel also doubled its capacity with technology up-gradation.
- From 80's onwards the demand for sophisticated refractories started to increase as in order to increase their campaign life and reduce cost of production.
- Besides Steel, other industries like - Cement, Hydrocarbon, Sponge iron, Glass, Aluminium etc. also started to opt for such new generation refractories in place of the conventional types.
- In the post-globalization era particularly since 1990's, Indian refractory makers were more inclined to enrich their indigenous technologies by blending advanced technologies of world's leading manufacturers.

**Technologically well developed**

- Indian refractory makers developed own technology indigenously, processing Indian raw materials into high quality products compatible with the changing technology of its user industries, particularly steel industry.
- The main strength of the refractory industry in India has been its ability to make cost-effective, good quality refractories by virtue of its assets like: Availability of adequate raw materials in the country itself and availability of skilled and qualified manpower at a cheap rate.
- Strong barriers to entry as the cost of setting up a new refractory plant is very high as well a long gestation period.. The technology for manufacturing of high end refractories is available with only selected players only. The steel majors are very cautious of the quality of the product before ordering the same.

**Company Profile**

Incorporated in 1989 in Kolkata, IFGL Refractories Limited (IRL) commenced business in 1990. It has been promoted by Indo Flogates (IFGL) and the Bajorias. The company is engaged in the manufacture of refractories for the steel industry. The domestic turnover is about 22% while the rest accrue from its international operations.



Source:- Company

**Plants and Products**

**India:- IFGL Refractories Ltd-** Carbon Bonded Refractories for Continuous Casting, Slide Gate Refractories, Purge Plugs, Cast Products, Refractories Unshaped/Castables, Ceramic Filters.

**UK:- Monocon International Refractories Ltd-** Lances, Darts, Unshaped Products.

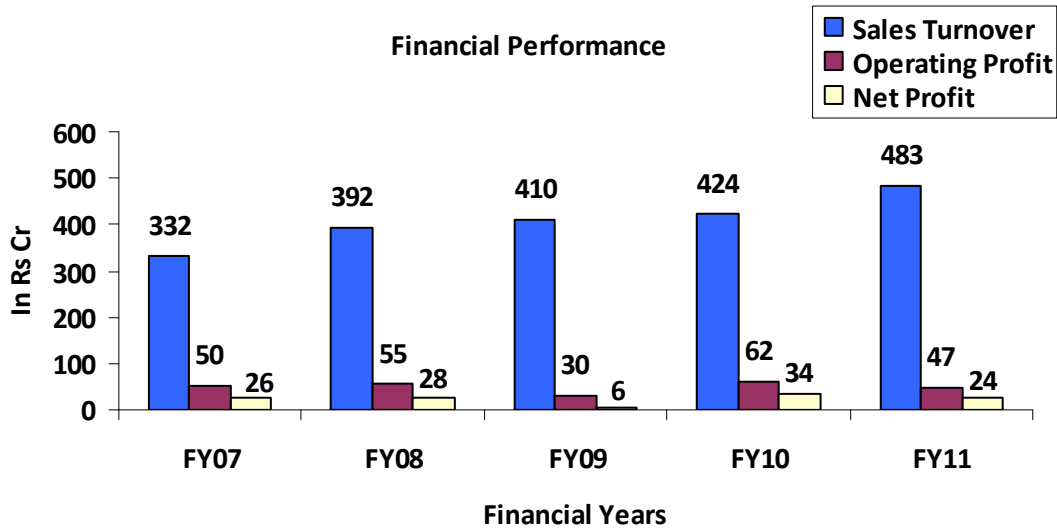
**Germany:- Hofmann Ceramics Gmbh-** Ceramic Filters, SIC Chill Plates.

**Czech Republic:- Hofmann Ceramic CZ s.r.o.-** Ceramic Filters.

**USA:- Mono Ceramics Inc-** Lance, Well Block, Pyometric Nozzle, Skimmer Blade, Porous Plug.  
**EI Ceramic LLC-** Carbon Bonded Refractories for Continuous Casting.

**Brazil:- Monotec Refratarios Ltda-** Unshaped Products

**China:- Tianjin Monocon Refractories Co Limited-** Unshaped Products  
**Tianjin Monocon Aluminous Refractories Co Limited-** Darts

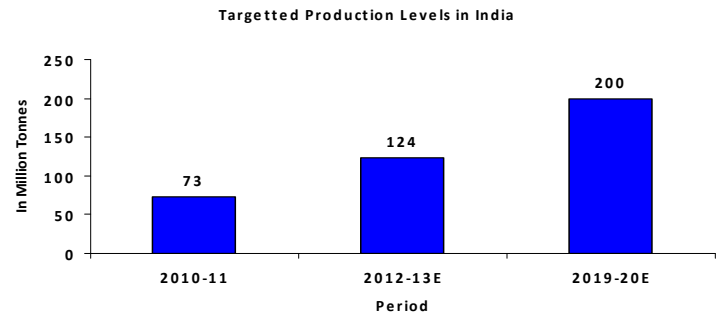
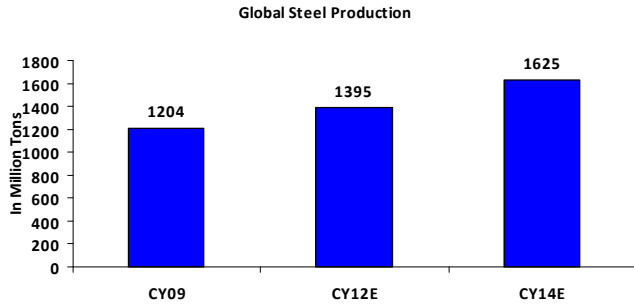


Source:- Capitaline

**Investment Rationale**

**Demand growth through the growth in the Steel Industry**

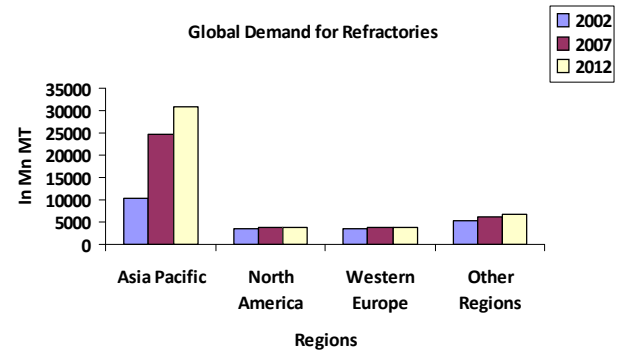
About 75% of the refractories produced worldwide are consumed by the Steel industry. Growth in the steel industry will automatically raise the demand for refractories. Domestically as well as internationally, many of the steel majors are now investing heavily into capital expenditure to increase their working capacities. The company having its plants in Asia, Europe, US as well as Latin America stands to benefit through this.



Source:- SKP Research

**Asia/Pacific Region to be the major focus areas**

India and China are going to be the main focus areas in the region with huge capacity build up taking place.

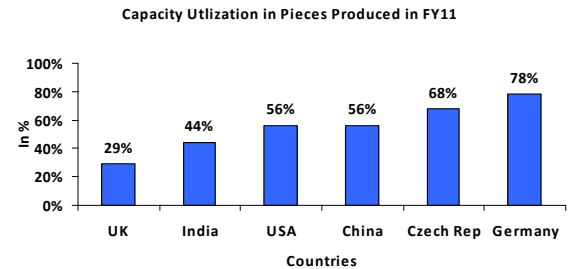
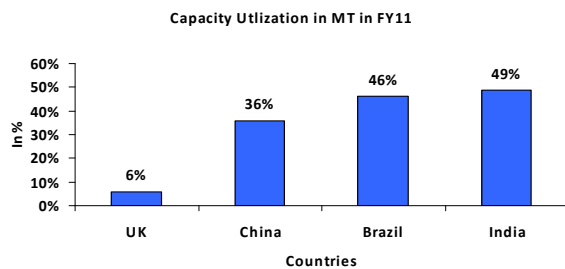


Source:- SKP Research

**IFGL Exports to start commercial production from Sep 2011 in Kandla**

- IFGL Exports is a subsidiary of IFGL Refractories set up with the Japanese collaboration(Krosaki Harima Corporation) which is a subsidiary of Nippon Steel Corporation. The Promoters of the company will hold 70% stake, 20% by Japanese and the rest 10% by IFGL.
- It is new CCR(Continuous Casting Refractories) plant.
- Being located in a SEZ zone, it shall derive some benefits from like duty exemption with respect to procurement on raw materials and some overall tax benefits as well.
- The capacity of the plant will be ramped up gradually and is expected to contribute about Rs 40 cr to the top line in FY13. Over the next 5 years period it is expected to go up to Rs 120 cr.

**Significant Room to increase capacity utilization**



Source:- SKP Research

Some products manufactured by IFGL and its international subsidiaries are measured in terms of Metric Tonne(MT) and some in terms of number of pieces produced. Here we have segregated the two of them separately. The Capacity Utilization rate of some products are high as 80%-85% while others are low at 25%-30%. Here we have taken an average of all the products across all the plants spread across various countries.

**Acquisition of EIC Ceramics LLC(EIC) to signify its presence in USA.**

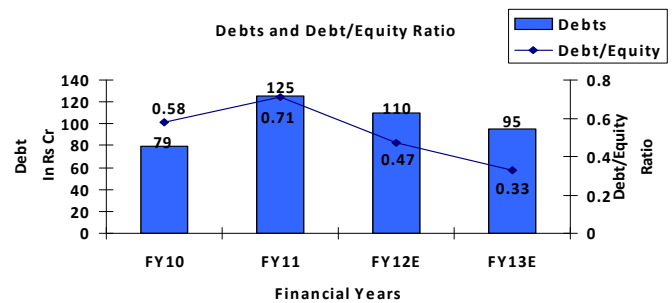
- During FY11, IFGL acquired EIC Ceramics which is primarily engaged in the manufacturing of Isostatically pressed Alumina Graphite Continuous Casting Refractories.
- EIC Ceramics is a prominent supplier of CC Refractories to steel mills in USA and Canada.
- The acquisition has given IFGL the opportunity to grow its customer base in USA significantly as it now has a well developed business model and team.
- The current capacity of the plant is 96,000 pcs annually and has got the ability to double within the next 3-4 years time period. The revenue in INR in FY11 was about Rs 22 cr and is expected to go up to Rs 35 cr in FY12.

**Growth in the Bio Ceramics segment**

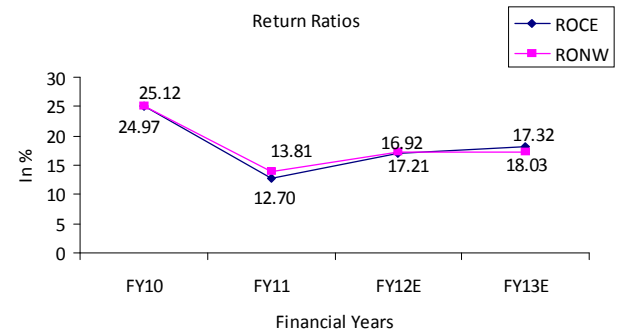
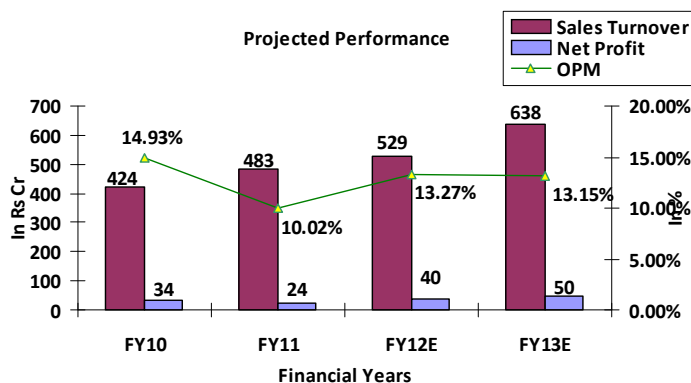
- IFGL has undertaken a collaborative project with National Metallurgical Laboratory, Jamshedpur for development of Nano- hydroxyapatite based injectables having applications in dental and orthopaedic treatments.
- Technologies for the same have been tied up and would be launched in current financial year.

**Low Debt Equity Ratio**

IFGL plans to reduce its debts gradually over the next 2 years time period, thereby improving the debt equity ratio as well as the bottomline.



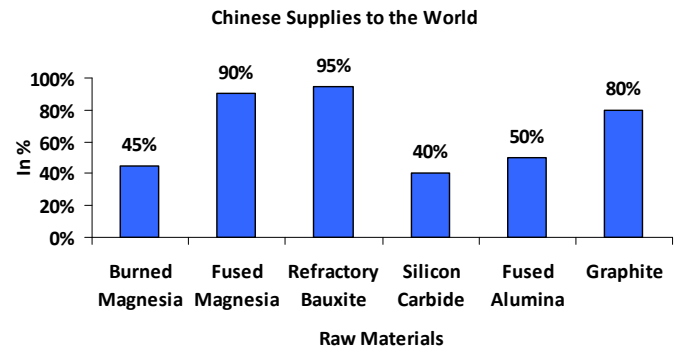
Source:- Capitaline, SKP Research



**Concerns**

**Availability of raw materials at the correct time**

- The main raw materials used in the manufacturing process are dead burned magnesia, fused magnesia, refractory bauxite, silicon carbide, brown fused alumina and graphite. In the Euro zone area, majority of the refractory majors have to depend on China for supply of these raw materials.
- Heavy duty is levied by the Chinese exporters on account of their own domestic policies.
- The prices of many refractory raw materials imported from China have risen dramatically, resulting from inflationary pressure in the Chinese economy due to strong demand, higher ocean and inland freight costs, and tax incentives introduced by the Chinese government.



Source:- SKP Research

**Recession in the western world**

As 78% of IFGL’s revenue accrue from its international operations, a slowdown or a recession in Euro zone or US can prove to be detrimental for the future growth of the company.

**Valuations**

At the CMP of Rs 36, the stock is trading at 3.12x FY12E and 2.52x FY13E earnings. We would place a target of **Rs 57** over next **15 months** where it would be trading at 4x FY13E EPS of Rs 14.31 implying a rise of **58%** from the present levels.

**Consolidated Financials**
**In Rs. Crores**
**Income Statement**

Particulars	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	415	469	513	615
<b>Growth(%)</b>	<b>4.27</b>	<b>13.01</b>	<b>9.38</b>	<b>19.88</b>
Other Income	6	4	4	5
Stock Adjustments	8	0	2	7
<b>Total Income</b>	<b>429</b>	<b>473</b>	<b>519</b>	<b>627</b>
Raw Materials Consumed	214	246	260	314
Power & Fuel Cost	13	18	19	26
Employee Cost	54	66	71	85
Other Mfg Expenses	13	14	16	19
Selling & And Expenses	59	59	65	78
Misc Expenses	13	22	20	24
<b>Total Expenditure</b>	<b>366</b>	<b>425</b>	<b>451</b>	<b>546</b>
Operating Profit	63	48	68	81
<b>OPM(%)</b>	<b>15.23%</b>	<b>10.22%</b>	<b>13.23%</b>	<b>13.19%</b>
Interest	5	6	7	6
Depreciation	8	9	10	12
<b>PBT</b>	<b>50</b>	<b>33</b>	<b>51</b>	<b>63</b>
Tax	15	9	11	13
PAT	35	24	40	50
<b>Growth(%)</b>	<b>466.66</b>	<b>-30</b>	<b>66.67</b>	<b>25</b>
EPS	9.56	6.63	11.53	14.31
<b>NPM(%)</b>	<b>8.49%</b>	<b>5.11%</b>	<b>7.77%</b>	<b>8.15%</b>

**Balance Sheet**

Particulars	FY10	FY11	FY12E	FY13E
Equity Capital	35	49	49	49
Reserves	103	127	183	252
Net Worth	138	176	232	301
Secured Loan	77	124	109	94
Unsecured Loan	2	1	1	1
<b>Total Liabilities</b>	<b>217</b>	<b>301</b>	<b>342</b>	<b>396</b>
Net Fixed Assets	111	178	218	256
Capital WIP	3	2	2	4
Investments	1	1	1	1
Inventories	59	70	75	89
Accounts Receivable	89	110	122	140
Cash & Bank	12	10	9	12
Loans & Advances	13	15	15	12
Current Assets	173	205	221	253
Current Liabilities	61	75	90	108
Provisions	6	6	6	6
Total Curr.Liab & Prov	67	81	96	114
Net Current Assets	106	124	125	139
Net Deferred Tax	-4	-4	-4	-4
<b>Total Assets</b>	<b>217</b>	<b>301</b>	<b>342</b>	<b>396</b>

**Cash Flow Statement**

Particulars	FY10	FY11	FY12E	FY13E
Profit Before Tax	50	33	51	63
Add:Dep,Int & Other Exp	13	12	17	18
Net Changes in WC & Tax	-28	-22	-22	-31
<b>Cash from Operations</b>	<b>35</b>	<b>23</b>	<b>46</b>	<b>50</b>
<b>Cash from Investing</b>	<b>-12</b>	<b>-68</b>	<b>-42</b>	<b>-38</b>
<b>Cash from Financing</b>	<b>-24</b>	<b>43</b>	<b>-5</b>	<b>-9</b>
Net Increase/Decrease in Cash	-1	-2	-1	3
Opening Cash Balance	13	12	10	9
<b>Closing Cash Balance</b>	<b>12</b>	<b>10</b>	<b>9</b>	<b>12</b>

**Key Ratios**

Particulars	FY10	FY11	FY12E	FY13E
<b>Valuation Ratios</b>				
P/E	5.77	5.43	3.12	2.51
P/BV	1.39	0.71	0.54	0.41
EV/EBIDTA	4.17	5	3.53	2.96
Mcap/Sales	0.46	0.27	0.24	0.20
<b>Earnings Ratios</b>				
OPM(%)	15.23	10.22	13.23	13.19
NPM(%)	8.49	5.11	7.77	8.15
ROCE(%)	25.12	12.70	16.92	18.03
RONW(%)	24.97	13.81	17.21	17.32
<b>Balance Sheet Ratios</b>				
Debt/Equity	0.58	0.71	0.47	0.33
Inventory Days	50	52	51	50
Debtors Days	76	82	83	79
Current Ratio	2.58	2.53	2.30	2.22

**The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg, Thomson First Call & Investext Myiris, Moneycontrol, Ticker plant and ISI Securities**

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