

Company Overview

Orient Refractories Ltd. (ORL) is amongst one of the top refractory manufactures in India. The company primarily manufactures refractories for the steel industry only. ORL sells its products both in India and overseas. It provides a wide range of special refractories. Orient Refractories Limited is engaged in manufacturing refractories and monolithics items, and trading of refractory items. The Company's geographical segments include India and Outside India. The Company's manufacturing facility is based in Bhiwadi, Rajasthan which is located in close proximity to New Delhi. The Company also has franchise operation in Salem, Tamilnadu for manufacturing basic spray mass. It caters to over 500 customers in India and across the world. The Company is a globally operating supplier of refractory products, systems and services for steel industries. Its product range includes Isostatically pressed Continuous Casting Refractories, such as Ladle to Tundish Shrouds, Monoblock Stoppers and Submerged Entry Nozzle/Submerged Entry Shrouds; 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, and Castables. It manufactures a range of slide gate plate refractories for various international systems, including Flocon, Interstop (including LS Series), Vesuvius (including LV Series), Saflow and Sanac.

Investment Rationale

Capex to provide further growth

Capacity expansion in Isostatic product line from 9,300 MTPA to 11,700 MTPA is a positive for the growth of the company. This shows the management's focus on export market. Isostatic product line commands premium margin and attracts good demand from RHI and direct export channel and this will further assure that the double digit growth in the export market to continue. The export potential for this product category is also visible from IFGL's two subsidiaries performance (EI Ceramics, US: Sales Up 14% Y/Y growth to Rs 1120 mn; IFGL Export, India: Sales up 72.8% Y/Y growth to Rs 804 mn). Additionally, ORIENT's initiative to increase transaction limit with parent from Rs600 mn in FY17 to Rs1680mn in FY19 (~67% CAGR) signifies aggressive plans to attract revenue from RHI. RHI is also the key driver for exports growth because its strong leads from its own sales network of the up-tick in demand.

Stable Revenue Growth despite turbulent times

ORL's revenue grew by 11% CAGR for the period of FY12-16 when steel industry was going through the lower production and weak demand phase. In such a phase too, ORL had a consistent performance is due to the long term association with Tier-I domestic integrated steel producers and strong portfolio of mini/small (600 Customers or 60% Market Share) steel plants and it also accounts for approx. 50% of its revenues. ORL is preferred vendor for a large number of steel producers in the country. The key clients are SAIL, Bhushan Steel, Sunflag Iron, Lloyd Steel, etc. ORL also has significant presence in the global market place with exports to over 35 countries across the globe. Nearly 20% of total sales are contributed by the exports and this number is scaling up. Further, increasing rules and regulations from India government on Chinese dumping and extension of Minimum Import Price should provide required balance between demand and supply.

Overall Steel Sector Improvement

The whole steel sector is expected to improve due to the recent measures taken by the government by confirmation of anti-dumping duty for 4 years that has put a floor to the steel prices as well as with the Indian steel demand and supply at its cusp, it is expected that the steel prices to not go any further below and to remain stable over the time. The union steel ministry also expects the steel industry to grow 4% and the total demand of steel in the infrastructure sector to be Rs. 4 lakh crore. The impact of GST on the steel industry has been neutral as the rate of taxes prior to GST was 18.1% and now the GST being 18% and therefore there will also not be any material impact on the end users too.

Valuation & Outlook

The company's leadership position in steel alloys segment and sizable market share in the stainless steel industry brings a lot of consistency in demand even in a down cycle. The company's revenue is directly linked to steel production. Higher steel production will require more and more refractories and thus benefit ORL. Given the higher return ratios and zero debt balance sheet, ORL deserves higher valuation. The company's strong free cash flow generation in a cyclical industry and ability to maintain higher margins in a tough industry environment speak a lot about its business model. Taking into account the above factors, we give the company a PE multiple of 22x at FY19 earnings estimate with a target price of Rs.182 with an upside potential of 22%.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

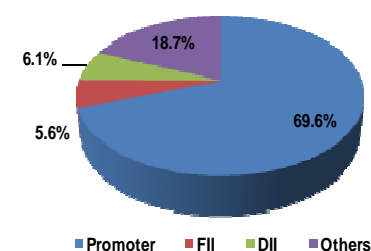
Stock

CMP (Rs)	150
Target Price (Rs)	182
BSE code	534076
NSE Symbol	ORIENTREF
Bloomberg	ORIENT IN
Reuters	ORRE.BO

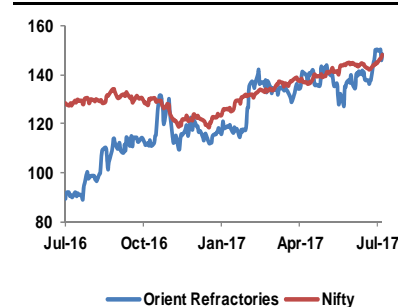
Key Data

Nifty	9,886
52WeekH/L(Rs)	153/89
O/s Shares (mn)	120
Market Cap (Rs Bn)	18
Face Value (Rs)	1
Average volume	
3 months	97,130
6 months	100,830
1 year	90,470

Share Holding Pattern (%)



Relative Price Chart



Research Team

022-61596407



Fundamental Pick

Key Financials

YE March (Rs. mn)	FY14	FY15	FY16	FY17	FY18E	FY19E
Revenue	4,035	4,514	4,589	5,194	5,978	6,725
<i>Growth%</i>	11.9%	11.9%	1.7%	13.2%	15.1%	12.5%
EBITDA	792	805	852	1,030	1,167	1,352
<i>Growth%</i>	18.1%	1.7%	5.8%	20.9%	13.3%	15.8%
Net Profit	528	528	558	686	837	995
<i>Growth%</i>	27.7%	0.0%	5.6%	22.9%	22.0%	18.9%
Diluted EPS (Rs.)	4.4	4.4	4.6	5.7	7.0	8.3
<i>Growth%</i>	27.6%	0.0%	5.6%	22.9%	22.0%	18.9%

Key Ratios

EBITDA(%)	19.6%	17.8%	18.6%	19.8%	19.5%	20.1%
NPM (%)	13.1%	11.7%	12.2%	13.2%	14.0%	14.8%
RoE (%)	38.4%	31.1%	27.3%	25.1%	23.4%	21.8%
BV/Per Share (Rs.)	11	14	17	23	30	38

Valuation Ratios

P/E (x)	34.1x	34.1x	32.3x	26.3x	21.5x	18.1x
EV/EBITDA (x)	22.6x	22.1x	20.3x	16.4x	14.3x	12.2x
Market Cap./ Sales (x)	4.5x	4.0x	3.9x	3.5x	3.0x	2.7x

Source: Company, BP Equities Research



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Disclaimer Appendix

Analyst (s) holding in the Stock : Nil**Analyst (s) Certification:**

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