

Current

CMP : Rs 87

Rating : BUY

Target : Rs 112

(NR-Not Rated)

Previous

Rating : NA

Target : NA

STOCK INFO

INDEX	
BSE	534076
NSE	ORIENTREF
Bloomberg	ORIENT IN EQUITY
Reuters	ORIENT.BO
Sector	Metal & Mining
Face Value (Rs)	1
Equity Capital (Rs mn)	120
Mkt Cap (Rs mn)	10,440
52w H/L (Rs)	97 / 70
Avg Daily Vol (BSE+NSE)	60,314

SHAREHOLDING PATTERN

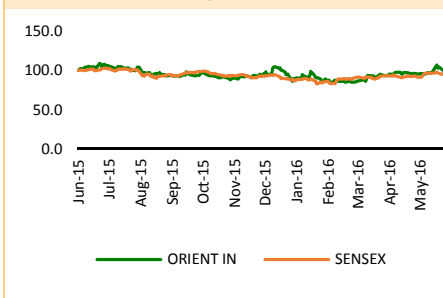
(as on Mar. 2016)	
Promoters	69.6
FII's	-
DII's	11.5
Public & Others	18.9

STOCK PERFORMANCE(%)

	3m	6m	12m
ORIENT IN EQUITY	18.0	5.6	2.5
SENSEX	6.0	4.2	(1.8)

Source: Bloomberg, IndiaNivesh Research

ORIENT IN EQUITY v/s SENSEX



Source: Bloomberg, IndiaNivesh Research

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ORL's strong manufacturing capabilities resulted in almost doubling the net profit over last 5 years. One of the key drivers for significant increase in revenue was cross-selling between ORL, RHI India and RHI Clasil clients. Additionally, the parent's umbrella offerings and go-to-market strategy led to entry into Tier-I steel manufacturers. The company has been able to consistently enjoy above industry level margins (last 4 Yr. 17.9% v/s Avg. Industry 14%) on back of product innovation and client mix. We believe under RHI AG APAC vision, ORL will be able to achieve parent's target of 100 mn Euro's (~Rs 7,631 mn) ~20% CAGR) before FY20.

Investment Rationale

- Higher Market Share = Robust Revenue Performance
- Technology Innovation = Industry Leading Margin
- Sound Cash Conversion Cycle = Favorable Free Cash Flow Generation
- Umbrella Offering = Strong Competitive Edge
- Strong Exports Growth = Revenue Risk Reduction
- New Capacity Creation = Increasing Revenue Visibility

Key Risks

- Delay in Economic Recovery = Revenue Risk
- High Raw Material Import = Business Risk
- Intensifying Competition = Pricing Pressure

Valuations:

We like ORL because of its niche business model and ability to deliver strong revenue growth in tough industry environment. The company's revenue growth multiplier is ~2.4x (past decade) v/s Indian steel industry. Additionally, the company enjoy higher than industry average margins on back of product innovation and client mix.

On back of diversified client base and expected uptake in infrastructure and rise in steel consumption, ORL looks a safe destination to ride infrastructure and steel recovery.

At the current price of Rs.87, ORL is trading at a EV/EBITDA multiple of 9.7x for FY17E and 7.9x of FY18E respectively. We recommend BUY with TP of Rs.112 (12.4x EV/EBITDA FY17E and 10.5x of FY18E respectively).

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	Adj.PAT	Adj.EPS (Rs)	EBITDA Margin	RoE(%)	Adj.P/E(x)	EV / EBITDA (x)
FY14	4,035	792	528	4.4	19.6	44.0	19.8	13.0
FY15	4,514	795	525	4.4	17.6	34.2	19.9	12.9
FY16	4,589	852	558	4.6	18.6	29.8	18.7	11.4
FY17E	5,164	977	657	5.5	18.9	28.5	15.9	9.7
FY18E	5,810	1,152	782	6.5	19.8	27.1	13.4	7.9

Source: Company, IndiaNivesh Research

Investment Rationale

Higher Market Share = Robust Revenue Performance

- ORL demonstrated robust revenue performance over last decade. The company had grown at revenue CAGR of 16.4% over FY06-16A. Despite being dependent on cyclical steel industry; ORL has been able to deliver consistent revenue growth. In last ten years, ORL has grown faster than the India steel industry [enjoy 2.4x Steel Industry Production Multiplier].
- Induction of new management [RHI Austria] post FY12 led to significant expansion in top-line on back of joint go-to-market strategy and complete umbrella offering and entry into Tier-I steel manufacturers. In last four years, the company delivered revenue CAGR of 15.4% [v/s Industry Avg. 10.3%].
- However, due to current global economic slowdown, expected decline in steel production, and over capacity in China, ORL's management expect some softness in H1FY17E revenue growth trajectory.
- RHI Austria expects ORL's to reach the revenue level of 100 mn Euro (~Rs.7296 mn) in FY20 from ~61 mn Euro in FY16 (Revenue CAGR 13.2% YoY) on back of expected recovery in the India economy, revival in the Indian steel demand. Further, increasing protectionism from India government on Chinese dumping should provide required balance between demand and supply. We estimate revenue CAGR of 9.9% over next five years to Euro 96 mn (v/s Euro 100 mn management estimate).

Segment (Rs mn)	Orient Abrasives (Before De-Merger)										Orient Refrac. (Post Demerger)												
	FY4	FY5	FY6	FY7	FY8	FY9	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY13	FY14	FY15	FY16	FY17E	FY18E		
Manufacturing:											3021.6	3605.8	4035	4513.7	4588.9	5164	5810						
Refractories	513	652	789	1,027	1,243	1,432	1,575	1,895	2,254	2,756	3,136	3,522	3,580	4,028	4,531	22.3%	13.8%	12.3%	1.7%	13%	13%		
Monolithics	214	256	280	381	376	489	429	558	397	489	481	517	526	555	588	23.4%	-1.8%	7.7%	1.7%	6%	6%		
Ceramic paper	2	0	2	2	1	31	0	1	1	3	3	6	6	8	13	334.0%	-11.7%	83.0%	1.7%	50%	50%		
Total	729	909	1,070	1,409	1,620	1,952	2,004	2,454	2,651	3,249	3,619	4,045	4,112	4,591	5,132	22.5%	11.4%	11.7%	1.7%	11.7%	11.8%		
Traded Goods:																							
Spray/Ramming mass											391	432	455	482	490	520	551	10.5%	5.3%	6.1%	1.7%	6%	6%
Others											105	135	202	273	278	372	487	29.2%	49.3%	35.0%	1.7%	34%	31%
Total											495	567	657	755	768	892	1,038	14.5%	15.8%	15.0%	1.7%	16.1%	16.4%
Sale of Services:																							
Refractory management services											63	68	68	54	55	52	48	7.7%	-0.1%	-19.5%	1.7%	-6.0%	-7.9%
Other Operating Revenue:																							
Export Incentive																							
Revenue (Gross)	729	909	1,070	1,409	1,620	1,952	2,004	2,454	3,210	3,884	4,344	4,854	4,935	5,535	6,219	21.0%	11.8%	11.7%	1.7%	12.2%	12.3%		
Less: Excise duty*											205	285	314	352	358	387	435	6.4%	7.3%	7.2%	7.3%	7%	7%
Revenue (net)	729	909	1,070	1,409	1,620	1,952	2,004	2,454	3,004	3,598	4,030	4,502	4,577	5,148	5,783	19.8%	12.0%	11.7%	1.7%	12.5%	12.3%		
Other Operating Income											17	7	5	12	12	16	27	-58.0%	-37.0%	152.2%	1.7%	39.0%	64.3%
Total Income	729	909	1,070	1,409	1,620	1,952	2,004	2,454	3,022	3,606	4,035	4,514	4,589	5,164	5,810	19.3%	11.9%	11.9%	1.7%	12.5%	12.5%		

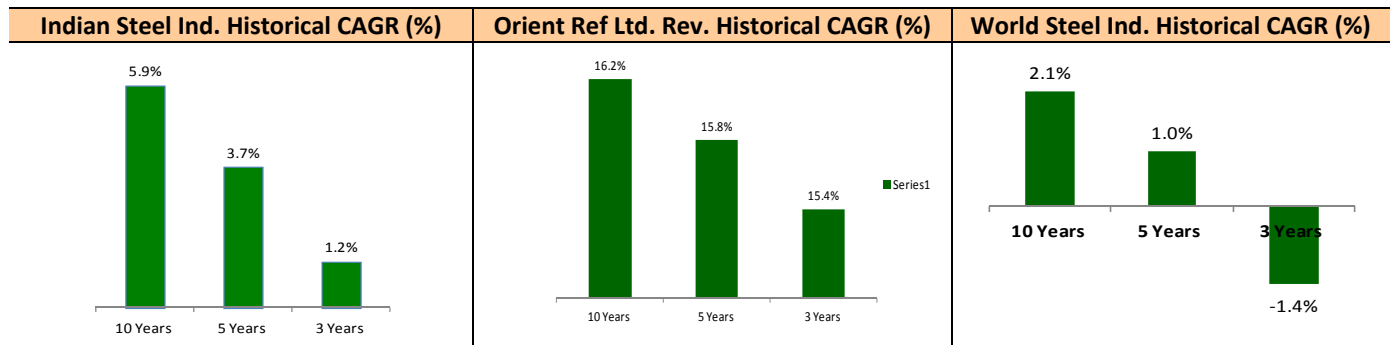
Orient Refractories Ltd.

	Actuals												Estimates				CAGR		
	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E	FY07-16	FY12-16	FY14-16
India Steel Production (MT)*	46	49	53	58	64	69	73	77	81	87	88	96	108	115	122	129	6.7%	5.6%	4.9%
Growth (%)		-	8.1%	8.1%	9.9%	8.6%	6.5%	5.2%	5.2%	7.4%	1.1%	8.7%	12.7%	6.0%	6.0%	6.0%			
Case 1: Est (5%)	49	53	57	62	68	73	78	82	87	93	94	100	105	110	116	122			
Case 2: Est (6%)	49	53	57	62	68	74	79	83	87	94	95	102	108	115	122	129			
Case 3: Est (7%)	50	54	58	63	69	75	80	84	88	95	96	104	111	119	127	136			
Revenue (Rs mn)	909	1,070	1,409	1,620	1,952	2,004	2,454	3,022	3,606	4,035	4,514	4,589	5,163	5,809	6,537	7,355	14.0%	11.0%	6.6%
Growth (%)		-	31.7%	14.9%	20.5%	2.7%	22.4%	23.1%	19.3%	11.9%	11.9%	1.7%	12.5%	12.5%	12.5%	12.5%			
Case 1:													5,068	5,702	6,415	7,218			
Case 2:													5,163	5,809	6,537	7,355			
Case 3:													5,259	5,917	6,658	7,491			

Source: Company Filings, World Steel Association, IndiaNivesh Research *Current Year for Steel Production

Production (MT Tonnes)	CY05	CY06	CY07	CY08	CY09	CY10	CY11	CY12	CY13	CY14	CY15	CY16
World	1,148	1,250	1,348	1,343	1,239	1,433	1,538	1,560	1,650	1,670	1,670	1,623
China	356	421	490	512	577	639	702	731	822	823	823	804
World ex-China	792	829	858	831	662	795	836	829	828	847	847	819
India	46	49	53	58	64	69	73	77	81	87	88	89
World Growth (%)	-	8.9%	7.8%	-0.3%	-7.8%	15.7%	7.3%	1.4%	5.8%	1.2%	0.0%	-2.8%
India Growth (%)	-	8.0%	8.1%	8.1%	9.9%	8.6%	6.5%	5.2%	5.2%	7.4%	1.1%	1.3%

Source: World Steel Association, INSPL Research



Source: Company Filings, IndiaNivesh Research

Technology Innovation = Industry Leading Margin

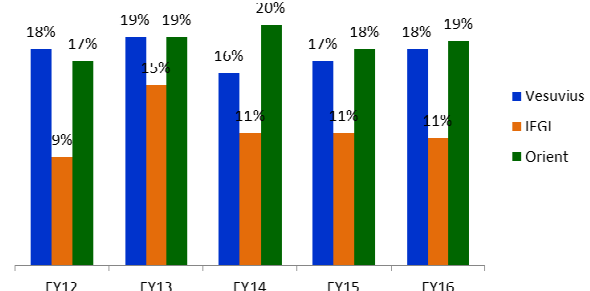
- Refractories technology has undergone huge transformation over last three decades. As a result, consumption of refractories per ton of steel manufactured declined from ~30kg/ton in 1990 to less than 10kg per/ton currently. Despite this, ORL has shown a consistent revenue growth along with increase in market share.
- Further, the company’s long term association with Tier-I domestic integrated steel producers and strong portfolio of mini/small [600 Customers | 60% Market Share] steel plants led to constant margin expansion. The key clients are SAIL, Bhushan Steel, Mukund, RINL – Vizag, Sunflag Iron, Lloyd Steel, Usha Martin and the Jindal Group.

FY16: Revenue Mix

Top Client Mix	Rev (Rs mn)	As a % of Rev
TMS	688	15%
Export	930	20%
Mini Steel	2294	50%
Others	677	15%
Total	4589	100%

Source: Company Filings, India Nivesh

EBIDTA Margin (%) Comparison

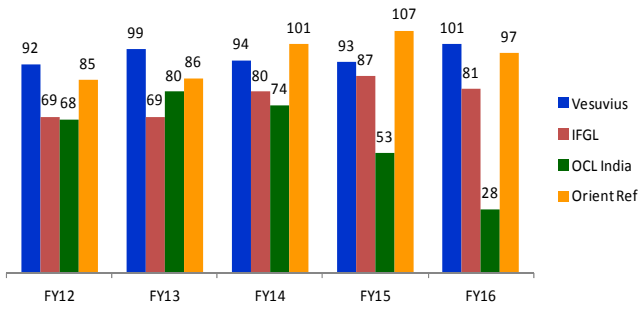


Source: Company Filings, IndiaNivesh Research

Sound Cash Conversion Cycle = Favorable Free Cash Flow Generation

Despite operating into the distressed steel industry cycle the company continues to maintain sound cash conversion cycle. As a result, the company’s average free cash flow to sales is 13.0% (v/s 6.2% Refractory Industry Avg). However, we highlight that in the past two years there has been a certain increase in cash-conversion-cycle days was due to higher inventory and receivable days.

Cash Conversion Cycle (Days)



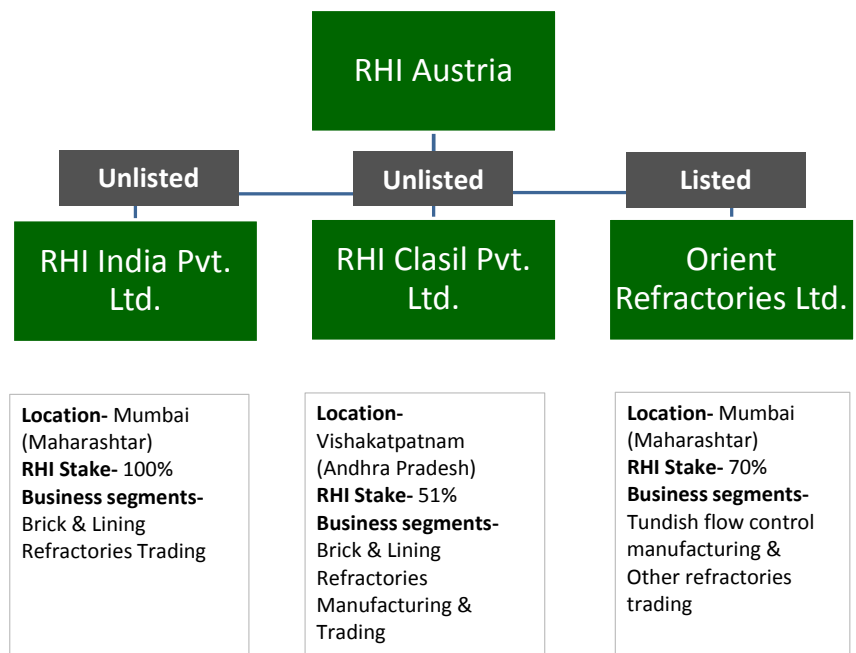
Free Cash-Flow Trend

	FREE CASH FLOW TO SALES (%)				
	FY12	FY13	FY14	FY15	FY16
Vesuvius	4.7%	6.7%	6.5%	N.A.	-15.6%
IFGL	7.1%	2.5%	6.7%	8.4%	4.3%
OCL India	N.A.	8.9%	2.7%	13.9%	22.9%
Orient Ref	8.7%	8.7%	5.5%	5.1%	13.0%

Source: Company Filings, IndiaNivesh Research

Umbrella Offering = Strong Competitive Edge

- ORL’s parent is one of the global leaders in refractory solutions with revenue base of €1,753 mn in CY15. The parent has two other unlisted subsidiaries in India - RHI India Pvt. Ltd. & RHI Clasil Pvt. Ltd. The unlisted subsidiaries are basically engaged in manufacturing and trading of brick and lining refractory solutions while flow control segment in India is taken care by ORL.
- The company’s customer base has doubled from 300 (Tier-I & Tier-II steel plants) to 600 in last four years. Key driver for significant increase in customer base was due to cross-selling amongst ORL, RHI India and RHI Clasil clients. Additionally, the parent’s umbrella offerings and go-to-market strategy led to entry into Tier-I steel manufacturers.
- RHI AG is the second largest global supplier of molten getting metal flow engineering and complete refractory solutions. Being associated and support from one amongst the largest global player we see good prospects and strong competitive advantage for ORL India going ahead.



Strong Pricing Power = Margin Stability

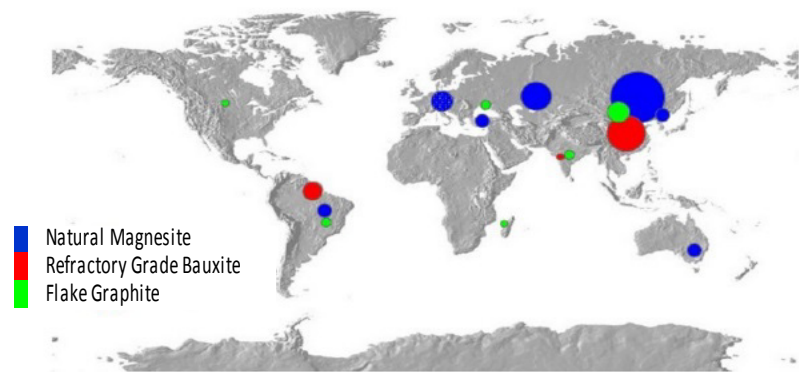
- Despite fluctuation in the input prices, ORL continue to maintain stable margin. The key reason is ability to pass-on raw-material price fluctuation to the clients. Overall, the refractories industry is dependent on import for key raw materials [alumina, bauxite, magnetite, silicon carbide, etc.].
- China is a major supplier and has been imposing heavy taxes on export of this raw material. This has resulted in sharp increase in imported raw material costs. However, ORL’s strong supplier power on back of RHI AG’s large buying ability of raw materials, resulted in margin stability even during the rising input prices scenario.
- In spite of international commodity prices cloaking; ORL has been able to pass on the inflation to the customers and sustain its margins.

% of RM Cost	FY12	FY13	FY14	FY15	FY16
Alumina	41%	37%	39%	39%	29%
Bauxite	8%	8%	8%	7%	6%
Zirconia	11%	12%	9%	9%	7%
Binders	10%	10%	11%	11%	8%
Graphite	8%	9%	8%	7%	6%
Others	22%	25%	26%	26%	45%
Total	1,258	1,536	1,604	1,841	1,816

EBITDA Margin	16.4%	18.1%	19.6%	17.6%	18.6%
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Source : Company Filings, Indianivesh Research

Sources of Raw materials available



Strong Exports Growth = Revenue Risk Reduction

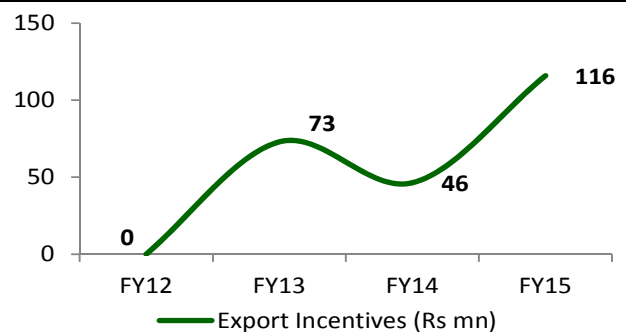
- ORL delivered export revenue CAGR of 19.2% during FY12-16. The growth in exports segment was faster than the domestic business CAGR of 9.5% (Same Period) on back of conversion of leads generated by parent (RHI AG) for the APAC region. Further, ORL’s cost advantage in ISO based product amongst other global RHI manufacturing plants is attracting significant demand from parent across the globe. As a result, the company’s export Incentives went-up exponentially during FY12-15. We see the Export v/s Domestic revenue ratio from 20:80 to move near to 30:70 over medium-term.

Rev. by Geography	FY12	FY13	FY14	FY15	FY16
India	2543	3018	3385	3778	3659
Growth (%)		19%	12%	12%	-3%
Export	461	580	650	736	930
Growth (%)		26%	12%	13%	26%
Total	3004	3598	4035	4514	4589

Segment as % of Rev.	FY12	FY13	FY14	FY15	FY16
India (%)	85%	84%	84%	84%	80%
Outside India (%)	15%	16%	16%	16%	20%

Source: Company Filings, India Nivesh Research

Export Incentives (Rs mn)



Source: Company filings, IndiaNivesh Research

New Capacity Creation = Increase Revenue Visibility

- ORL's refractory revenue is directly linked to steel industry capacity utilization. As per the 12th Five Year Plan, private company's capex expansion is directly linked to ORL's revenue visibility.
- However, due to surplus in the market, existing steel capacity has stalled. But GOI is imposing Minimum Import Price (MIP) and anti-dumping duties on steel imports. Also GOI's development vision and infrastructure revival will provide strength to drive the steel industry.
- ORL key clientele includes Bhushan Steel, SAIL, Mukund Steel,, RINL – Vizag, Sunflag Iron, Lloyd Steel, Usha Martin and the Jindal Group, etc. Their capex expansion and utilization will boost ORL's refractory business as the company revenue is linked to tonnage produced by steel manufacturers (Ratio Rs 800 worth of tundish for an average cost of Rs.40,000/per ton steel).

- India's steel production expansion to boost refractory business.
- ORL large market share will lead to higher benefit
- Steel Production = Refractory Requirement (average replacement cycle of 20 minutes to 2 weeks)

Sl No	Investor	Existing Capacity	Proposed Brownfield Capacity	Proposed Greenfield Capacity	Proposed Total Capacity
FY16					
1	Essar Steel Ltd	14.0	-	-	10.0
2	JSW steel Ltd	18.0	22.0	-	40.0
3	Jindal Steel & Power Limited	7.0	14.0	10.5	31.5
4	Bhushan Steel limited	2.3	-	-	2.3
5	Bhushan Power & Steel Limited	3.5	-	-	3.5
6	Monnet Ispat & Energy Limited	1.5	-	-	1.5
7	Electrosteel Limited	1.7	-	0.5	2.2
8	Visa Steel Limited	0.5	1.0	-	1.5

Source: INSL Research

Crude Steel Production

Production (Mn Tonnes)	CY05	CY06	CY07	CY08	CY09	CY10	CY11	CY12	CY13	CY14	CY15	CAGR 10 Yrs (%)	CAGR 5 Yrs (%)	CAGR 4 Yrs (%)
World	1148	1250	1348	1343	1239	1433	1538	1560	1650	1670	1617	3.7%	2.5%	1.3%
China	356	421	490	512	577	639	702	731	822	823	804	8.7%	4.9%	3.6%
World Ex-China	792	829	858	831	662	794	836	829	828	847	813	0.7%	0.5%	-0.7%
India	46	49	53	58	64	69	73	77	81	87	89	6.8%	5.2%	5.1%
World Growth (%)	N.M.	8.9%	7.8%	-0.4%	-7.7%	15.7%	7.3%	1.4%	5.8%	1.2%	-3.2%			
India Growth (%)	N.M.	6.5%	8.2%	9.4%	10.3%	7.8%	5.8%	5.5%	5.2%	7.4%	2.3%			

Source: World Steel Association, INSL Research

- World Steel Association has projected Indian steel demand to grow by 6.2% in CY15 and by 7.3% in CY16 (v/s global steel consumption growth of 0.5% and 1.4%, respectively). Chinese steel consumption is projected to decline in both these years by 0.5%

SWOT Analysis

	HELPFUL (to achieve the objective)	HARMFUL (to achieve the objective)
INTERNAL ORIGIN (attributes of the system)	<p>STRENGTHS</p> <ul style="list-style-type: none"> Total Refractory Management (TRM) - ANNUITY BUSINESS – Evolving Concept With RHI-AG flagship, company is optimistic towards domestic and global business. 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. Parent Support - Increasing Global Acceptance - (HIGHER EXPORT) 	<p>WEAKNESS</p> <ul style="list-style-type: none"> Dependency on China for raw materials There were high expectations from Govt. reforms and industrial growth. Though the economy has shown some sign of recovery but there is still a gap between industrial expectation and the actual growth. Scarcity of raw materials across the globe Technology changes in Steel Industry lowering consumption of refractories Direct Proportion to Steel Production
EXTERNAL ORIGIN (attributes of the environment)	<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> 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 India Steel Capacity & Production Expansion 	<p>THREATS</p> <ul style="list-style-type: none"> China dumping of substandard product at lower price Payment delays by steel manufactures Slowdown in China refractory market

Source: Company Filings, IndiaNivesh Research

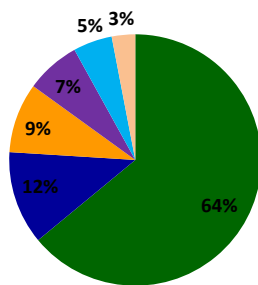
Key Take-away from above

- Given ORL’s strengths and hedged weaknesses, we expect, ORL to be a key beneficiary of domestic steel industry revival.
- Given the domestic niche refractory business and lucrative demand outlook along with market leadership (~ 23%). We see, ORL as the winner over long-term.

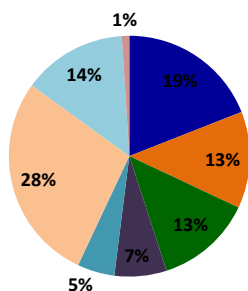
About RHI AG (ORL’s Parent)



- RHI is a vertically integrated global provider of high grade refractory products, systems and services
- The company has revenue of €1,753 million with EBIT of €124 million in CY15 with 32 productions sites, more than 60 sales offices along with more than 8,000 employees (>150 employees in R&D)
- Global partner for over 10,000 customers in more than 180 countries
- Technology leadership with close to market R&D facilities and tailor-made products



■ Steel ■ Cement ■ Nonferrous
 ■ Glass ■ EEC ■ Raw Materials



■ Asia ■ Middle East & Africa
 ■ South America & Mexico ■ Eastern Europe
 ■ CIS ■ USA & Canada
 ■ Western Europe ■ Australia & Japan

The RHI group of Austria is the leading global supplier in molten metal flow engineering. Being the second largest player in the refractory industry, RHI has been in existence since 1834 and produces more than 1.7 mn tons of refractory products per year.

The company has two main divisions - Steel & Industrials. RHI develops refractories under two product segments: steel under Interstop brand for steel flow control, Didier for lining, and refractories for glass industry under Monofrax & Refel brands.

RHI has 33 production sites, +160 international technical experts at customer locations, and 70 sales and service sites, together employing over 8,000 personnel and serving more than 10,000 customers from the steel, cement, non-ferrous metals, glass, energy and chemical industries in nearly all countries of the world.

Key Customers Includes:

- **Steel Segment** - ArcelorMittal, Severstal, etc.
- **Industrial Segment**
 - **Cement division** - Cemex, Holcim, Lafarge in,
 - **Glass division** - Ardagh Glass, Corning, Vitro in and
 - **Non-ferrous-** Division Glencore, Bhp Billiton, Rio Tinto, etc

Take away from one interaction with RHI-AG (INSL v/s RHI AG)

- RHI- AG acquired Indian Orient Refractories Ltd. and on January 15, 2013.
- RHI AG (Parent) targets revenue of €3.00bn by CY20 (v/s €1.75bn in CY15) at overall group level, which in 8% revenue CAGR. The company also intends to maintain EBIT margin of +12% over the same period.
- Parents future growth strategy is largely based on increasing presence in emerging markets (to+70% from 57% in CY15). On back of strong growth potential, weight of India is very high in the overall parent’s mission and vision. RHI has set revenue target of €100mn (v/s €60 mn in FY16) for ORL over next five years.
- Additionally, parent also intends to maintain its number two position in flow control segment; hence expect APAC sales to increase from €310 mn in CY15 to +€400 mn by CY20.
- The parent has no plans to do any acquisition in ORL subsidiary; hence, no major capex plan, debt free status should be maintained even going-ahead. Based on RHI’s management’s conference meeting, we understand that ORL’s acquisition remains key for parent, in perusing growth strategy and maintaining number two position in flow control business.

STRATEGY – 2020

PROFITBLE GROWTH	RAW MATERIAL INTEGRATION
<ul style="list-style-type: none"> ■ Capture growth in highly profitable markets (like India & US) and product groups ■ Strengthening No.2 position in flow control segment (€310 mn v/s €400 mn in CY20) with strong margin 	<ul style="list-style-type: none"> ■ Given the decline in refractory raw material prices (after reaching peak levels in 2011) driven by slower growth in China, no further projects currently envisaged ■ Access to high-quality raw materials still considered as a competitive advantage due to their significant influence on the performance of finished products
INNOVATION	BUSINESS EXCELLENCE
<ul style="list-style-type: none"> ■ Develop solutions that are tailored as per the customer trends – Steel: automation, environment, functional products ■ Focuses on substitution of raw materials for energy efficiency, recycling 	<ul style="list-style-type: none"> ■ Optimize plant structure to ensure optimal utilization of worldwide plants ■ Adapt business processes continuously to better serve customers and optimize costs ■ Lower growth of selling and administration costs compared to revenue growth

Key Risks

Delay in Economic Recovery = Revenue Risk

- Slowdown in steel sales momentum can impact ORL sales growth targets.

Higher Raw Material Import = Business Risk

- The industry is largely dependent on imports for key raw materials like high grade alumina, bauxite, magnesite, silicon carbide, etc. China is a major supplier and has been imposing heavy taxes on export of these raw materials. This resulted in sharp increase in raw material costs. In FY16, the raw materials cost constitute ~40% of the total net sales, including (~25% of raw material costs as) currency headwinds due to import. The company has a~11% (as % of Sales) of imports as compare to exports of ~16% (as % of Sales), making it a net exporter.

Intensifying Competition = Pricing Pressure

- Overall, refractory business got matured in previous decade; hence become more competitive. Further, the increasing focus of global players in Emerging markets intensifies the competition. E.g. Vesuvius Plc. which have a strong leadership position in steel flow control process globally, targets Emerging markets as key growth destination, Krosaki Harima had bought 51% in Tata Refractories, Calderys, part of Imerys of France which acquired ACE Refractories is also setting up base in India.

About Company





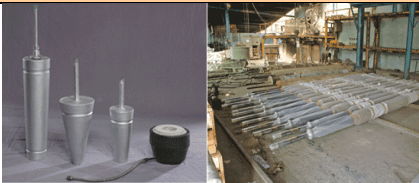



- Orient Refractories Limited was incorporated in 2010 (de-merged from Orient Abrasives Ltd.) and is as a subsidiary of RHI Austria (through holding c/o Dutch Us Holding B.V). The company manufactures, distributes, and sells refractories, monolithic, and ceramic paper for integrated steel producers and mini steel plants in India.

- ORL customer base include large domestic integrated steel producers and mini steel plants. The clientele is Steel Authority of India, Mukand Steel, RINL – Vizag, Sunflag Iron, Lloyd Steel, Usha Martin and the Jindal Group. The company has close to 600 small to medium sized iron and steel producing Indian companies as customers. ORL has significant presence in the global market with exports to over 35 countries including Germany, France, Spain, Turkey, Egypt, Indonesia, Saudi Arabia, Thailand, UAE and Greece.

Facilities Details:

- Headquartered in New Delhi, India, ORL's manufacturing facility is located in Bhiwadi, Rajasthan which is ISO - 9001 quality certified.
- This facility began commercial production in 1986. The division also has an allied plant based in Salem, Tamilnadu for manufacturing monolithics.
- The Bhiwadi facility is spread over 27 acres of land. The refractory facility is divided into 3 independent sub-divisions one each for the manufacture of slide gate plates, continuous casting refractories and castables and pre-cast shapes. The division currently produces more than **70,000** pieces of slide gate plate, **30,000** pieces of Continuous Casting Refractory products and over **2,000** tons of castables and mortars on a monthly basis.

ORL's Product Range:

Isostatically pressed continuous casting refractories	Nozzles and well blocks	Slag arresting darts	Basic spray mass for tundish working lining
			
Bottom purging refractories and top purging lances	Tundish nozzles	Slide gate plates	Castables
			

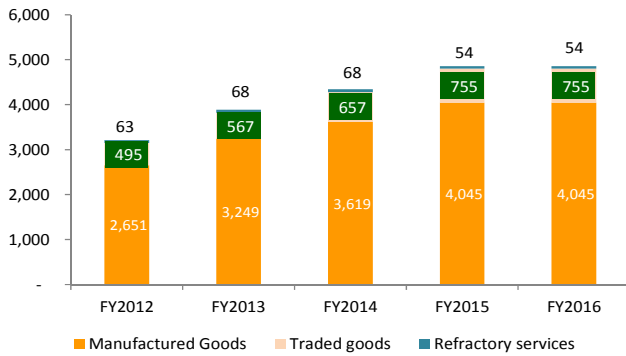
Source: Company Filings, IndiaNivesh Research

Capacity Expansion Trend

Class of Goods	Unit	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Refractories	MT	5,400	9,000	9,000	9,000	16,000	16,000	16,000	16,000
Monolithics	MT	13,600	17,200	17,200	23,200	28,000	28,000	28,000	28,000
Ceramic Paper	Pcs	10,000	10,000	10,000	20,000	20,000	20,000	20,000	20,000

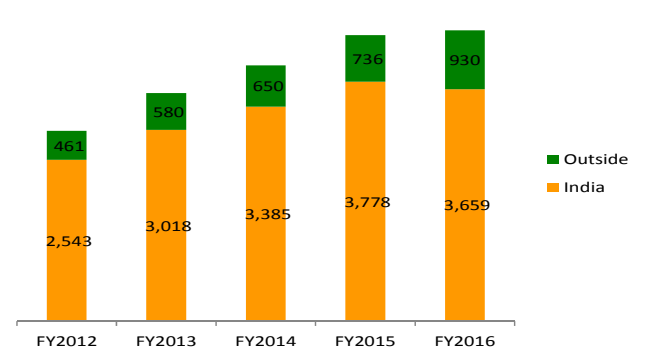
Source: Company Filings, IndiaNivesh Research

Segment Revenue Break-up



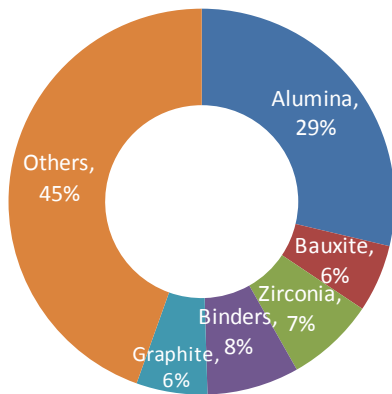
Source: Company filings, IndiaNivesh Research

Import/Export Sales Trend



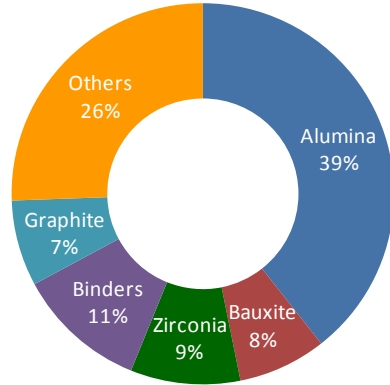
Source: Company filings, IndiaNivesh Research

Raw Materials consumption FY16



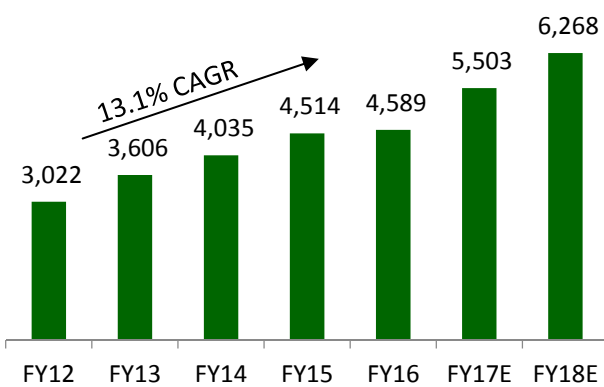
Source: Company filings, IndiaNivesh Research

Raw Materials consumption FY15



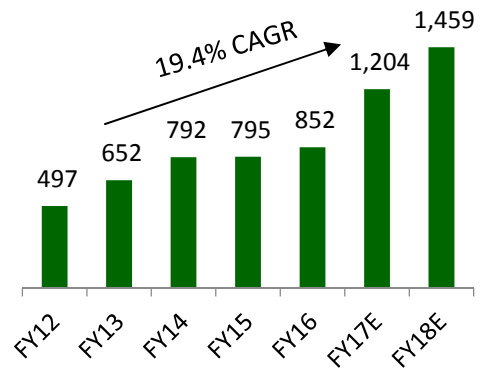
Source: Company filings, IndiaNivesh Research

Net Sales (Rs. Mn)



Source: Company filings, IndiaNivesh Research

EBITDA (Rs.Mn)



Source: Company filings, IndiaNivesh Research

Valuation & Outlook

We like ORL because of its niche business model and ability to deliver strong revenue growth in tough industry environment. The company's revenue growth multiplier is ~2.4x (past decade) v/s Indian steel industry. Additionally, the company enjoys higher than industry average margins on back of product innovation and client mix.

On back of diversified client base and expected uptake in infrastructure and rise in steel consumption, ORL looks a safe destination to ride infrastructure and steel recovery.

At the current price of Rs.87, ORL is trading at a EV/EBITDA multiple of 9.7x for FY17E and 7.9x of FY18E respectively. We recommend BUY with TP of Rs.112 (12.4x EV/EBITDA FY17E and 10.5x of FY18E respectively).

Valuation	FY17E
Price	87
Mcap	10,440
Net Debt	-765
Target EV/EBITDA	13.0
Target EV	12,707
Target Mcap	13,472
Target Price	112
Upside	29.0%
No of shares (Mn)	120

Income Statement (Consolidated)

Y E March (Rs m)	FY14	FY15	FY16	FY17E	FY18E
Net sales	4,035	4,514	4,589	5,164	5,810
Growth (%)	12	12	2	13	13
Operating expenses	(3,243)	(3,719)	(3,737)	(4,187)	(4,658)
Operating profit	792	795	852	977	1,152
Other operating income	0	0	0	0	0
EBITDA	792	795	852	977	1,152
Growth (%)	21.4	0.4	7.1	14.7	17.9
Depreciation	(36)	(55)	(59)	(62)	(70)
Other income	41	53	54	65	85
EBIT	797	794	847	981	1,167
Finance cost	(1)	0	0	0	0
Exceptional item	0	0	0	0	0
Profit before tax	796	793	847	981	1,167
Tax (current + deferred)	(267)	(268)	(288)	(324)	(385)
Profit / (Loss) for the period	528	525	558	657	782
Associates, Min Int	0	0	0	0	0
Reported net profit	528	525	558	657	782
Extraordinary item	0	0	0	0	0
Adjusted net profit	528	525	558	657	782
Growth (%)	24	(1)	6	18	19

Source: Company, IndiaNivesh Research

Balance Sheet (Consolidated)

Y E March (Rs m)	FY14	FY15	FY16	FY17E	FY18E
Share capital	120	120	120	120	120
Reserves & surplus	1,257	1,578	1,926	2,441	3,081
Net Worth	1,377	1,698	2,047	2,561	3,201
Minority Interest	0	0	0	0	0
Total Liabilities	799	839	1,014	1,006	1,088
Non-current liabilities	28	32	32	32	32
Long-term borrowings	0	0	0	0	0
Deferred tax liabilities	2	0	0	0	0
Other Long term liabilities	9	9	7	9	9
Long term provisions	18	22	25	22	22
Current Liabilities	771	807	982	975	1,057
Short term borrowings	57	52	0	60	60
Trade payables	509	515	719	651	732
Other current Liabilities	25	32	46	47	48
Short term provisions	180	208	217	217	217
Total Liabilities and Equity	2,176	2,537	3,060	3,567	4,289
Non Current Assets	340	403	418	517	597
Net Block	320	372	399	487	567
Goodwill	0	0	0	0	0
Non-current Investments	0	0	0	0	0
Long-term loans and advances	16	18	11	18	18
Deferred tax Assets	0	8	7	8	8
Other non current Assets	5	5	2	5	5
Current Assets	1,835	2,134	2,642	3,050	3,692
Inventories	633	716	642	821	923
Sundry Debtors	994	1,127	1,185	1,203	1,353
Cash & Bank Balances	180	261	765	997	1,385
Other current Assets	11	10	30	10	10
Loans & Advances	18	20	21	20	20
Current Investments	0	0	0	0	0
Total (Assets)	2,176	2,537	3,060	3,567	4,289

Source: Company, IndiaNivesh Research

Cash Flow Statement (Consolidated)

Y E March (Rs m)	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	796	793	847	981	1,167
Depreciation	36	55	59	62	70
Change in working capital	(220)	(173)	232	(252)	(171)
Total tax paid	(278)	(278)	(287)	(325)	(385)
Others	(44)	(62)	(105)	(6)	(85)
Cash flow from operations (a)	289	335	745	459	596
Capital expenditure	(36)	(55)	(59)	(62)	(70)
Change in investments	60	0	0	0	0
Others	(14)	(21)	(41)	(22)	4
Cash flow from investing (b)	9	(76)	(100)	(84)	(65)
Free cash flow (a+capex)	253	280	686	397	526
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	7	(5)	(52)	60	0
Dividend (incl. tax)	0	0	0	0	0
Others	(138)	(172)	(88)	(205)	(142)
Cash flow from financing (c)	(131)	(176)	(142)	(142)	(142)
Net change in cash (a+b+c)	168	82	503	233	389
Reconciliation of Other balances	0	0	0	(1)	(1)
Cash as per Balance Sheet	180	261	765	997	1,385

Source: Company, IndiaNivesh Research

Key Ratios (Consolidated)

Y E March	FY14	FY15	FY16	FY17E	FY18E
Adjusted EPS (Rs)	4.4	4.4	4.6	5.5	6.5
Growth	24.0	(0.6)	6.3	17.7	19.1
Dividend/share (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio	0.0	0.0	0.0	0.0	0.0
EBITDA margin	19.6	17.6	18.6	18.9	19.8
EBIT margin	19.7	17.6	18.4	19.0	20.1
Net Margin	13.1	11.6	12.2	12.7	13.5
Tax rate (%)	33.6	33.8	34.1	33.0	33.0
Debt/Equity(x)	0.0	0.0	0.0	0.0	0.0
Inventory Days	57	58	51	58	58
Sundry Debtor Days	90	91	94	85	85
Trade Payable Days	46	42	57	46	46
Du Pont Analysis - ROE					
Net margin	13.1	11.6	12.2	12.7	13.5
Asset turnover (x)	2.1	1.9	1.6	1.6	1.5
Leverage factor (x)	1.6	1.5	1.5	1.4	1.4
ROE(%)	44.0	34.2	29.8	28.5	27.1
RoCE (%)	62.0	48.9	43.9	41.5	39.3
Valuation (x)					
PER	19.8	19.9	18.7	15.9	13.4
PCE	18.5	18.0	16.9	14.5	12.3
Price/Book	7.6	6.2	5.1	4.1	3.3
EV/EBITDA	13.0	12.9	11.4	9.7	7.9

Source: Company, IndiaNivesh Research

Initiating Coverage

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