

Result Update

14 November 2016

## Shaping up well with solid show across operations

We reiterate our conviction Buy on IFGL with a revised TP of Rs220. Q2 performance surprised positively (EBITDA up 42% QoQ with margins of 15.1%) with all round improvement in margins across operations. We continue to like IFGL's operationally sound high-quality global assets providing enough scope for growth at no additional capex and expect strong earnings growth driven by i) increased share of higher-margin subs, ii) recovery in steel production in key markets of US/Europe/India (aided by regulatory support) and ii) EPS accretion (~10%) through the proposed merger of IEL with IFGL. Strong free cash flow visibility, solid balance sheet and attractive valuations (steep discount to peers) are added positives.

- Solid performance across all operations except standalone:** Monocon operations showed strong bounce back and saw 3x sequential increase in EBITDA to GBP1mn, with 15.6% margins. EIC (US) & IEL (Kandla) showed sequential improvement for the third consecutive quarter, with margins increasing to 16.5%/27.5% respectively and EBITDA increasing 4%/28% QoQ. Hoffmann continued its stable performance and only disappointment was from standalone operations (EBITDA down 34% QoQ). Management has indicated about improvement in standalone performance in H2 while building on the positive momentum in subs (Overseas & Kandla).
- Cons. EBITDA well above expectations:** Cons. EBITDA stood at Rs292mn, up 42% QoQ (~21% above estimates) and was lifted by strong performance of high margin subs (EIC/IEL) and bounce back in performance of Monocon operations. Gross margins improved 330bps QoQ to 54% (highest since Q1FY12). We believe that expansions at higher-margin subsidiaries, recovery in domestic steel production led by demand recovery and import substitution (regulatory support) and recovery in steel production in Europe/US (aided by regulatory support & demand recovery) will help IFGL derive operating leverage from its well invested global asset base.
- Earnings revised marginally, merger remains earnings accretive:** We adjust our revenue estimates to account for higher contribution from EIC/IEL operations and see marginal upward revision in EBITDA estimates led by higher contribution of high-margin subs negated partially by lower margins from standalone business. Merger of IFGL Export with IFGL announced (post Q1 and expected to complete by FY17-end) in 1:1 share swap valuing IFGL Exports at just 6.3x/2.8x FY16/17E P/E remains a positive move which is EPS accretive and factored in our estimates.
- Valuation and risks:** We expect strong EBITDA/PAT CAGR of 18.9%/30.3% during FY16-18E, led by volume growth and increased contributions from higher-margin subsidiaries of IEL/EIC coupled with low base effect due to subdued performance in FY16. Stock trades at inexpensive FY18E valuations of 6.9x P/E, 4.0x EV/EBITDA and FCF yield of 10.6% which is at steep discount to peers despite scoring well in our detailed [corporate governance & quality of earnings study](#). We continue to value the stock on SOTP basis (with 30% discount to peers) and maintain Buy, with a revised TP of Rs220. Key risk is extreme stress in the global steel industry.

Y/E Mar-Cons (Rs mn)	Q2FY17	Q2FY16	YoY (%)	Q1FY17	QoQ (%)	Q2FY17E	Var. (%)
<b>Net sales</b>	<b>1,932</b>	<b>1,849</b>	<b>4.5</b>	<b>1,810</b>	<b>5.7</b>	<b>1,936</b>	<b>(0.2)</b>
Raw materials	888	961	(7.6)	892	(0.4)	968	(8.3)
Employee costs	311	303	2.8	311	(0.1)	329	(5.5)
<b>EBITDA</b>	<b>292</b>	<b>139</b>	<b>110.2</b>	<b>206</b>	<b>41.6</b>	<b>242</b>	<b>20.5</b>
<b>EBITDA margin (%)</b>	<b>15.1</b>	<b>7.5</b>		<b>11.4</b>		<b>12.5</b>	
Depreciation	39	40	(4.2)	40	(2.3)	40	(3.3)
Interest	10	13	(24.6)	11	(9.3)	11	(10.9)
<b>PBT</b>	<b>253</b>	<b>102</b>	<b>147.2</b>	<b>165</b>	<b>53.2</b>	<b>201</b>	<b>25.7</b>
Tax	54	34	58.1	50	8.2	66	(18.8)
<b>PAT after MI</b>	<b>178</b>	<b>59</b>	<b>201.9</b>	<b>100</b>	<b>78.2</b>	<b>119</b>	<b>50.0</b>

Source: Company, Centrum Research Estimate

Target Price	Rs220	Key Data	
CMP*	Rs137	Bloomberg Code	IFGL IN
Upside	60.5%	Curr Shares O/S (mn)	34.6
Previous Target	Rs200	Diluted Shares O/S(mn)	34.6
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	4.7/70.7
Price Performance (%)*	52 Wk H / L (Rs)		172.2/75
1M	6M	1Yr	5 Year H / L (Rs)
IFGL IN	(4.4)	36.1	37.3
NIFTY	(4.7)	5.7	6.0
			Daily Vol. (3M NSE Avg.)
			42130

\*as on 11 November 2016; Source: Bloomberg, Centrum Research

### Shareholding pattern (%)\*

	Sept-16	June-16	Mar-16	Dec-15
Promoter	71.3	71.3	71.3	71.3
FII	0.0	0.0	0.1	0.3
Dom. Inst.	2.1	1.9	1.9	2.0
Public & Others	26.6	26.8	26.7	26.4

Source: BSE, \*as on 11 November 2016

### Subsidiary-wise quarterly key financials

	Q2FY17	Q2FY16	YoY (%)	Q1FY17	QoQ (%)
<b>Standalone (Rs mn)</b>					
Revenue	818	844	(3.1)	733	11.6
EBITDA	58	108	(45.9)	88	(33.8)
Margin %	7.1	12.7			12.0
<b>IFGL Exports (Rs mn)</b>					
Revenue	194	120	62.0	160	21.1
EBITDA	53	31	70.8	42	28.1
Margin %	27.5	26.0			26.0
<b>EI Ceramics (\$ mn)</b>					
Revenue	4.40	4.15	6.0	4.74	(7.1)
EBITDA	0.81	0.39	110.9	0.78	4.4
Margin %	18.5	9.3			16.5
<b>Monoco (GBP mn)</b>					
Revenue	6.41	6.22	2.9	5.47	17.1
EBITDA	1.00	(0.33)		0.34	196.2
Margin %	15.6	(5.4)			6.2
<b>Hoffmann (Euro mn)</b>					
Revenue	2.47	2.50	(1.1)	2.59	(4.7)
EBITDA	0.22	0.25	(12.9)	0.27	(19.0)
Margin %	9.0	10.2			10.6

Source: Company, Centrum Research

### Earnings Revision (Cons)

Particulars* (Rs mn)	FY17E			FY18E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	7,783	7,693	1.2	8,518	8,477	0.5
EBITDA	959	943	1.6	1,074	1,068	0.6
EBITDA Margin (%)	12.3	12.3		12.6	12.6	
PAT	612	585	4.7	712	687	3.7

Source: Centrum Research Estimates, \*Merger factored in estimates

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Source: Company, Centrum Research Estimate

Y/E Mar-(Rs mn)*	Rev	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY14	7,776	15.9	1,096	14.1	640	126.9	18.5	19.5	15.9	7.4	5.1
FY15	7,868	1.2	922	11.7	531	(17.0)	15.3	15.4	12.4	8.9	5.9
FY16	7,170	(8.9)	760	10.6	420	(21.0)	12.1	10.8	10.4	11.3	6.6
FY17E	7,783	8.6	959	12.3	612	46.0	17.0	13.9	13.0	8.1	4.9
FY18E	8,518	9.4	1,074	12.6	712	16.3	19.8	14.3	13.9	6.9	4.0

Source: Company, Centrum Research Estimates, \*Merger factored in from FY17E

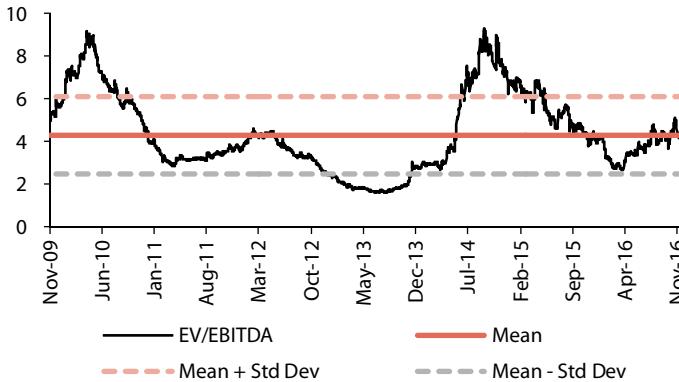
In the interest of timeliness, this document is not edited.

**Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet**

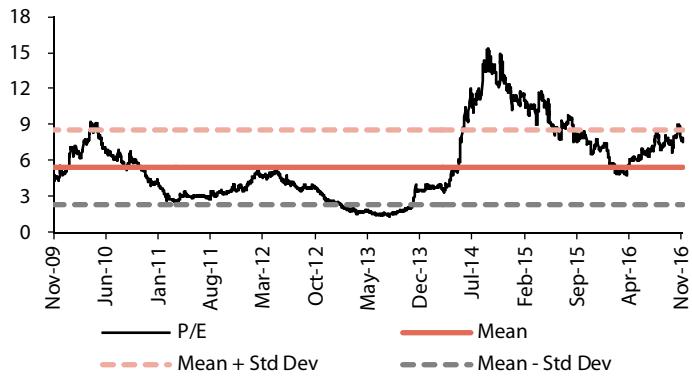
**Exhibit 1: Sensitivity Analysis (FY17E)**

1% change	% Chg in EBITDA	% Chg in PAT
Realizations	1.8	1.6
Volumes	1.4	1.1

Source: Company, Centrum Research Estimates

**Exhibit 2: 1 year EV/EBITDA chart**

Source: Bloomberg, Company, Centrum Research Estimates

**Exhibit 3: 1 year forward P/E chart**

Source: Bloomberg, Company, Centrum Research Estimates

**Exhibit 4: Valuation – Peer comparison**

Company	Mkt. Cap (US\$ mn)	CAGR CY15-CY17E (%)			EBITDA Margin (%)			P/E (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	CY15	CY16E	CY17E	CY15	CY16E	CY17E	CY15	CY16E	CY17E	CY15	CY16E	CY17E	CY15	CY16E	CY17E
<b>IFGL Refractories*#</b>	<b>71</b>	<b>9.0</b>	<b>18.9</b>	<b>30.3</b>	<b>10.6</b>	<b>12.3</b>	<b>12.6</b>	<b>11.3</b>	<b>8.1</b>	<b>6.9</b>	<b>6.6</b>	<b>4.9</b>	<b>4.0</b>	<b>10.8</b>	<b>13.9</b>	<b>14.3</b>	<b>1.5</b>	<b>1.8</b>	<b>1.9</b>
Vesuvius India*	348	16.1	20.3	23.4	17.9	18.7	19.2	32.1	25.2	21.0	17.4	13.8	11.4	14.8	16.4	17.1	0.5	0.8	1.0
Orient Refractories*#	223	16.3	19.7	22.4	18.6	19.4	19.7	28.0	22.1	18.7	17.4	14.1	11.7	27.3	28.2	27.4	1.1	1.4	1.6
<b>Global Peers</b>																			
RHI AG	982	1.3	(0.8)	15.2	11.3	11.0	11.4	16.2	12.2	12.4	7.2	6.9	7.3	12.5	15.0	15.0	3.2	3.2	3.3
Vesuvius PLC	1,280	(2.9)	(3.5)	(10.3)	12.5	12.3	11.6	11.9	13.1	14.7	7.3	7.9	8.8	9.9	8.5	7.5	4.2	4.3	4.3
Cie de St-Gobain	24,784	(2.0)	(2.4)	1.6	10.1	9.8	10.2	18.6	19.8	17.5	7.4	7.3	7.1	6.8	6.6	7.0	3.0	3.0	3.0

Source: Bloomberg consensus estimates,\* Centrum Research Estimates, #CY15=FY16 for Orient, IFGL

**Exhibit 5: SOTP Valuation**

Overseas Operations – Total				SOTP Valuation							
(GBP mn)	FY15	FY18E	(FY18E)	GBP=Rs80		GBP=Rs85	GBP=Rs90	GBP=Rs95			
Revenue	45.7	46.7	EV Overseas Ops (GBP mn)	26.8		26.8	26.8	26.8			
EBITDA	4.8	5.4	GBP/INR	80		85	90	95			
Global Peer avg. EV/EBITDA (CY17E)		7.5	EV Overseas Ops (INR mn)	2,147		2,281	2,415	2,549			
Discount for IFGL overseas ops.		30%	EV Domestic Ops (INR mn)	4,969		4,969	4,969	4,969			
Justified EV/EBITDA (x)		5.0	Total EV - IFGL Cons.	7,115		7,249	7,384	7,518			
<b>EV</b>		<b>26.8</b>	Add: Net Cash	660		660	660	660			
Domestic Operations – Total											
Rs mn	FY15	FY18E	Fair value mkt cap	7,776		7,910	8,044	8,178			
Revenue	3,785	4,314	No. of shares (mn)	36.0		36.0	36.0	36.0			
EBITDA	521	592	<b>Fair Value/share (Rs)</b>	<b>216</b>		<b>219</b>	<b>223</b>	<b>227</b>			
Domestic peer avg. EV/EBITDA (FY18E)		12									
Discount for IFGL domestic ops.		30%									
Justified EV/EBITDA (x)		8.4									
<b>EV</b>		<b>4,969</b>									

Source: Centrum research estimates

## Exhibit 6: Quarterly Financials (cons)

Y/E Mar (Rs mn)	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17
<b>Net sales</b>	<b>1,917</b>	<b>1,928</b>	<b>1,847</b>	<b>1,849</b>	<b>1,709</b>	<b>1,765</b>	<b>1,810</b>	<b>1,932</b>
Accretion to Stocks in trade & work in progress	(52)	84	9	5	83	28	(42)	(60)
Cost of Raw Materials consumed	963	797	755	804	615	662	735	880
Purchase of traded goods	67	177	187	152	168	184	199	68
Staff Cost	295	300	284	303	286	323	311	311
Other Operational expenses	419	407	362	447	365	388	401	441
<b>Operating Profit (Core EBITDA)</b>	<b>225</b>	<b>163</b>	<b>251</b>	<b>139</b>	<b>191</b>	<b>180</b>	<b>206</b>	<b>292</b>
Depreciation	39	31	39	40	40	35	40	39
<b>EBIT</b>	<b>186</b>	<b>132</b>	<b>211</b>	<b>99</b>	<b>151</b>	<b>145</b>	<b>167</b>	<b>253</b>
Interest	15	13	12	13	11	11	11	10
Other Revenue/Income	14	27	11	17	9	14	9	9
<b>Profit Before Tax</b>	<b>185</b>	<b>145</b>	<b>210</b>	<b>102</b>	<b>149</b>	<b>148</b>	<b>165</b>	<b>253</b>
Tax	59	67	50	34	42	32	50	54
<b>Profit After Tax</b>	<b>125</b>	<b>78</b>	<b>160</b>	<b>68</b>	<b>107</b>	<b>116</b>	<b>115</b>	<b>199</b>
Minority Interest	1	(5)	8	9	5	10	15	21
<b>Profit after minority interest</b>	<b>124</b>	<b>84</b>	<b>152</b>	<b>59</b>	<b>102</b>	<b>106</b>	<b>100</b>	<b>178</b>
<b>Growth (YoY %)</b>								
Revenue	(1.5)	(3.8)	(9.4)	(6.8)	(10.9)	(8.4)	(2.0)	4.5
EBITDA	(17.5)	(42.2)	(15.8)	(41.3)	(15.0)	10.4	(17.7)	110.2
PAT	(13.0)	(46.9)	(17.4)	(57.5)	(17.7)	26.8	(34.3)	201.9
<b>Margin (%)</b>								
EBITDA	11.7	8.5	13.6	7.5	11.2	10.2	11.4	15.1
EBIT	9.7	6.8	11.4	5.3	8.8	8.2	9.2	13.1
PAT	6.5	4.3	8.2	3.2	6.0	6.0	5.5	9.2
<b>Segment Revenue (Net Sales/ Income from ops)</b>								
India	931	968	913	963	824	807	893	1,012
Asia (excl India)	196	175	169	110	124	135	150	142
Europe	666	666	645	560	615	625	572	635
Americas	412	388	366	408	334	407	456	453
<b>Segment EBIT</b>								
India	116	96	125	124	76	66	109	91
Asia (excl India)	11	14	17	6	13	14	21	17
Europe	63	48	29	(41)	70	66	15	82
Americas	46	24	15	28	14	35	52	74

Source: Company, Centrum Research

**Exhibit 7: Key assumptions**

Revenue (Rs mn)	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Indian Operations</b>						
Domestic sales	1,495	1,391	1,623	1,597	1,865	2,048
Exports	1,567	1,883	1,724	1,445	1,351	1,365
Total standalone operations	3,061	3,274	3,347	3,042	3,216	3,413
IFGL Exports Ltd	90	399	439	465	765	901
<b>Total Indian operations</b>	<b>3,152</b>	<b>3,673</b>	<b>3,785</b>	<b>3,508</b>	<b>3,980</b>	<b>4,314</b>
<b>Overseas Operations</b>						
Monocon	2,801	3,288	3,324	2,770	2,269	2,571
El Ceramics	863	1,012	1,015	1,014	1,203	1,313
Hoffman Group	692	827	782	769	850	893
<b>Total Overseas operations</b>	<b>3,566</b>	<b>4,103</b>	<b>4,082</b>	<b>3,662</b>	<b>3,803</b>	<b>4,203</b>
<b>Total Consolidated operations</b>	<b>6,717</b>	<b>7,777</b>	<b>7,868</b>	<b>7,170</b>	<b>7,783</b>	<b>8,518</b>

Source: Company, Centrum Research Estimates

## Financials (Cons)\*

### Exhibit 8: Income Statement

Y/E Mar(Rs mn)	FY14	FY15	FY16	FY17E	FY18E
<b>Revenues from Operations</b>	<b>7,776</b>	<b>7,868</b>	<b>7,170</b>	<b>7,783</b>	<b>8,518</b>
Raw Materials consumed	3,207	3,366	2,835	3,242	3,542
% of net sales	41.2	42.8	39.5	41.7	41.6
Employee expenses	1,097	1,179	1,196	1,292	1,395
% of net sales	14.1	15.0	16.7	16.6	16.4
Other operational expenses	1,805	1,706	1,562	1,539	1,660
% of net sales	23.2	21.7	21.8	19.8	19.5
<b>Total expenses</b>	<b>6,680</b>	<b>6,946</b>	<b>6,410</b>	<b>6,825</b>	<b>7,443</b>
% of net sales	85.9	88.3	89.4	87.7	87.4
<b>EBITDA</b>	<b>1,096</b>	<b>922</b>	<b>760</b>	<b>959</b>	<b>1,074</b>
<b>EBITDA Margin (%)</b>	<b>14.1</b>	<b>11.7</b>	<b>10.6</b>	<b>12.3</b>	<b>12.6</b>
Depreciation & Amortisation	155	143	155	161	169
<b>EBIT</b>	<b>942</b>	<b>779</b>	<b>606</b>	<b>797</b>	<b>906</b>
Interest expenses	70	59	48	34	15
Other Income	34	67	51	53	59
<b>EBT</b>	<b>906</b>	<b>787</b>	<b>609</b>	<b>817</b>	<b>950</b>
Provision for tax	248	254	157	204	237
<b>Effective tax rate (%)</b>	<b>27.4</b>	<b>32.3</b>	<b>25.8</b>	<b>25.0</b>	<b>25.0</b>
<b>Net Profit</b>	<b>658</b>	<b>533</b>	<b>452</b>	<b>612</b>	<b>712</b>
<i>Less: Minority interest</i>	18	2	32	0	0
<b>Net Profit after MI</b>	<b>640</b>	<b>531</b>	<b>420</b>	<b>612</b>	<b>712</b>

Source: Company data, Centrum Research Estimates

### Exhibit 9: Key Ratios

Y/E Mar	FY14	FY15	FY16	FY17E	FY18E
<b>Growth Ratio (%)</b>					
Revenue	15.9	1.2	(8.9)	8.6	9.4
EBITDA	88.4	(15.9)	(17.5)	26.1	12.1
PAT	126.9	(17.0)	(21.0)	46.0	16.3
<b>Margin Ratios (%)</b>					
PBIT Margin	12.1	9.9	8.4	10.2	10.6
PBT Margin	11.6	10.0	8.5	10.5	11.2
PAT Margin	8.2	6.7	5.9	7.9	8.4
<b>Return Ratios (%)</b>					
ROE	19.5	15.4	10.8	13.9	14.3
ROCE	15.9	12.4	10.4	13.0	13.9
ROIC	24.3	18.2	15.6	20.5	22.2
<b>Turnover Ratios (days)</b>					
Asset turnover ratio (x)	1.7	1.6	1.5	1.5	1.6
Debtors	78	84	92	85	85
Inventory	49	46	40	42	42
Creditors	45	46	50	45	45
Net Working capital	81	84	87	83	82
<b>Gearing Ratio (x)</b>					
Debt-equity	0.4	0.3	0.2	0.1	0.0
Net debt-equity	0.3	0.2	0.1	0.0	-0.1
Current ratio	3.0	3.2	3.1	3.5	3.6
<b>Dividend</b>					
Dividend per share	1.8	2.0	2.0	2.4	2.6
Dividend Payout (%)	11.4	15.3	19.3	16.5	15.6
Dividend Yield (%)	1.3	1.5	1.5	1.8	1.9
<b>Per share Ratios (Rs)</b>					
Basic EPS	18.5	15.3	12.1	17.0	19.8
Fully diluted EPS	18.5	15.3	12.1	17.0	19.8
Book value	95.1	99.6	111.7	121.9	138.5
Cash earnings per share	23.0	19.5	16.6	21.5	24.4
<b>Valuation (x)</b>					
P/E	7.4	8.9	11.3	8.1	6.9
P/BV	1.4	1.4	1.2	1.1	1.0
EV/EBITDA	5.1	5.9	6.6	4.9	4.0
EV/Sales	0.6	0.6	0.6	0.6	0.5
M-Cap/Sales	0.6	0.6	0.7	0.6	0.6

Source: Company data, Centrum Research Estimates

\*Note – Merger of IFGL exports with IFGL factored in estimates from FY17E

### Exhibit 10: Balance Sheet

Y/E Mar(Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Equity share capital	491	346	346	360	360
Reserves & surplus	2,799	3,102	3,521	4,032	4,633
Shareholders' fund	3,290	3,448	3,867	4,392	4,993
Total debt	1,169	1,162	835	524	224
Deferred tax liabilities	74	108	112	112	112
<b>Total Liabilities</b>	<b>4,628</b>	<b>4,814</b>	<b>4,942</b>	<b>5,156</b>	<b>5,457</b>
Gross block	2,732	2,824	3,076	3,226	3,376
Less: acc. depreciation	1,494	1,584	1,778	1,939	2,108
Net block	1,238	1,240	1,298	1,287	1,268
Capital work in progress	8	41	20	20	20
Goodwill	1,342	1,240	1,277	1,277	1,277
Investments	5	5	85	85	85
Inventories	1,034	1,002	781	896	980
Trade Receivables	1,658	1,803	1,803	1,813	1,984
Cash & cash equivalents	307	479	548	727	884
Loans & advances	107	104	136	107	117
Trade payables	962	1,000	990	960	1,050
Other current liabilities	23	30	27	21	23
Provisions	124	108	22	107	117
<b>Total Assets</b>	<b>4,628</b>	<b>4,814</b>	<b>4,942</b>	<b>5,156</b>	<b>5,457</b>

Source: Company data, Centrum Research Estimates

### Exhibit 11: Cash Flow

Y/E Mar(Rs mn)	FY14	FY15	FY16	FY17E	FY18E
<b>PBT</b>	<b>906</b>	<b>787</b>	<b>609</b>	<b>817</b>	<b>950</b>
Interest	57	26	18	34	15
Depreciation	155	143	155	161	169
Increase in debtors	(303)	(200)	(24)	(9)	(171)
Increase in inventories	(186)	32	221	(115)	(85)
Increase in trade payables	104	49	(17)	(31)	91
Tax	236	267	170	204	237
<b>Cash flow from operations</b>	<b>526</b>	<b>635</b>	<b>830</b>	<b>708</b>	<b>674</b>
Change in fixed assets	(100)	(199)	(169)	(150)	(150)
<b>Cash flow from investments</b>	<b>(87)</b>	<b>(165)</b>	<b>(222)</b>	<b>(97)</b>	<b>(91)</b>
Change in debt	(95)	(91)	(166)	(312)	(300)
Dividends paid	(80)	(89)	(165)	(101)	(111)
Interest paid	(69)	(59)	(48)	(34)	(15)
<b>Cash flow from financing</b>	<b>(269)</b>	<b>(275)</b>	<b>(549)</b>	<b>(432)</b>	<b>(426)</b>
Net cash flow	193	176	70	179	157
Opening cash balance	113	307	483	553	732
<b>Closing cash balance</b>	<b>307</b>	<b>483</b>	<b>553</b>	<b>732</b>	<b>889</b>

Source: Company data, Centrum Research Estimates

## Appendix A

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### IFGL Refractories price chart



Source: Bloomberg, Centrum Research

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