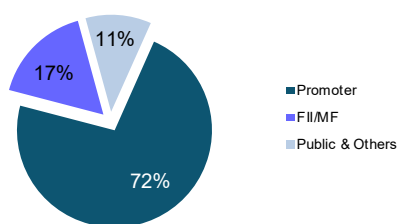


Key Share Data

Face Value (INR)	10.0
Equity Capital (INR Mn)	360.4
Market Cap (INR Mn)	10,119.8
52 week High/Low (INR)	324.5/64.1
6 month Avg. Daily Volume (NSE)	27,761
BSE Code	540774
NSE Code	IFGLEXPOR
Reuters Code	IFGLRF:NS
Bloomberg Code	IFGLRF:IN

Shareholding Pattern (as on December 2020)



Source: Company

Key Financials (Rs Million)

Particulars	FY20	FY21E	FY22E	FY23E
Net Sales	9,173.5	10,453.9	11,713.4	12,979.8
Growth (%)	-3.5%	14.0%	12.0%	10.8%
EBITDA	915.8	1,573.3	1,557.9	1,752.3
PAT	194.6	948.5	899.7	1,043.3
Growth (%)	-61.4%	387.5%	-5.1%	16.0%
EPS (INR)	5.4	26.3	25.0	28.9
BVPS (INR)	224.5	248.3	270.7	297.2

Key Financials Ratios

Particulars	FY20	FY21E	FY22E	FY23E
P/E (x)	52.0	10.7	11.2	9.7
P/BVPS (x)	1.3	1.1	1.0	0.9
Mcap/Sales (x)	1.1	1.0	0.9	0.8
EV/EBITDA (x)	9.9	5.4	5.1	4.1
ROCE (%)	4.9%	11.3%	10.1%	10.9%
ROE (%)	2.4%	10.6%	9.2%	9.7%
EBITDA Mar (%)	10.0%	15.1%	13.3%	13.5%
PAT Mar (%)	2.1%	9.1%	7.7%	8.0%
Debt - Equity (x)	0.1	0.1	0.0	0.0

Source: Company, SKP Research

12 Months price performance IFGL; vis-à-vis BSE Small Cap



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Company Background

IFGL Refractories Ltd (IFGL), promoted in 1989 by Mr S.K. Bajoria of Kolkata produces specialized refractories and operating systems for steel industry, in technical collaboration with Krosaki Harima Corporation, Japan, subsidiary of Nippon Steel. It has its manufacturing facilities at Kalunga, Odisha and Kandla SEZ, Gujarat. IFGL has expanded its product basket, markets, customer base and manufacturing footprints globally through several strategic acquisitions over the last decade. It's 100% subsidiaries viz. El Ceramics, USA, Hofmann Ceramics, Germany and Monocon, UK (which has a subsidiary in China) help IFGL serve respective local markets or exports. In August 2017, IFGL completed reverse merger with its subsidiary IFGL Exports Ltd (IEL).

Investment Rationale

Strong top line growth driven by healthy volumes

- During Q3FY21, IFGL net sales grew by ~32.8% y-o-y and ~17.5% q-o-q to Rs 2.9 bn on the back of increased demand from steel industry which witnessed sharpest V-shaped demand recovery post lifting of lockdown and improved realisation. The realisation improvement was mainly on account of better product mix and pass on of input cost escalations. Of late, raw material (RM) prices are on increasing trend, thus further increase in realisation will be in alignment with any upward movement in input cost.
- During the quarter, 100% subsidiaries of IFGL viz. El Ceramics, USA, Monocon, UK and Hofmann Ceramics, Germany reported a revenue growth of ~14% y-o-y and ~38.1% q-o-q to ~Rs 1.1 bn. Performance of overseas subsidiaries has witnessed a sharp improvement compared to preceding quarters led by gradual economic recovery in US and Europe. Thus, with visibility of sustainable demand, management expects overseas subsidiaries to deliver better results in future.
- Going forward, we expect IFGL's top line to grow by ~12% and ~10.8% to ~11.7 bn and ~12.9 bn in FY22E and FY23E respectively driven by buoyancy in steel demand which is expected to grow by ~4.1% to 1,795 mn tn globally in 2021 and ~23% to 100.4 mn tn in India supported by Govt's thrust on infrastructure development. Further, recovery in all sectors especially in steel consuming sectors of Real Estate and Auto augurs well for the refractory players. Iron and steel industry accounts for approximately 71% market share of refractories.

EBITDA margin to stabilize at ~13-14%

- EBITDA margin during Q3FY21 increased by 710 bps y-o-y to an all-time high of ~16.9% on account of favorable exchange rate, benign RM prices, higher volumes and cost optimization efforts undertaken by the Company. However, RM costs have started increasing from Q3FY21 onwards, the impact of which will be seen going forward. With acute shortage of containers at the port, IFGL is also being hit by the hardening up of ocean freight rates with delays in the delivery of both finished goods and RM shipments.
- Going forward, with cost headwinds sweeping in, current EBITDA levels of ~15-16% are not sustainable and management expects EBITDA margins to be in range of ~13-14%.
- During the quarter, other income was higher by ~499% y-o-y to ~Rs 107.2 m on account of ~Rs 79.1 mn of loan waived under the Pay check Protection Program obtained from the US Government. Further, the Company continues to amortize goodwill of ~Rs 67 mn quarterly (Rs 267 mn per annum) arising out of merger of IFGL with IFGL Exports in 2017, which is to be amortised over a period of 10 years. In Budget 2021, the Government has proposed to disallow depreciation on goodwill from 01 April 2021 (assessment year 2021-22 onwards). Thus, IFGL amortizing goodwill is subject to change, which might have an impact on FY22E and FY23E projected financials.

Incremental capacity to drive volumes

- IFGL is undergoing a brownfield capex for production of Monolithics and Precast Shapes at Kandla unit in a phase manner of which, Phase-I of 12,000 tons/pa capacity was completed in Q4FY20. Further Phase-II entailing a similar capacity is expected to commission by H1FY22. This expansion will boost profitability as margins at Kandla is better than consolidated margins due to SEZ benefits and freight cost advantage on exports because of proximity with customers in Europe and Middle East, resulting in lower transit time.
- IFGL is also undergoing a Greenfield capex at Visakhapatnam for introduction of new products such as bricks, monolithic, special precast shapes in a phased manner. Phase-I witnessed some delays because of Covid-19 led disruptions & heavy rain at the plant site and is now expected to be commissioned in Q1FY22 involving a capacity of ~48,000 tons p.a. at a cost of ~Rs 300 mn. Management plans to gradually ramp up the capacity utilization at optimal levels. A further capex of ~Rs 200 mn is envisaged for Phase-II expansion which is slated to be completed by Q1FY23.

Valuation

We have valued the stock on the basis of P/E of 10x FY23E EPS, upgrading it from 8x EPS, adjusted for goodwill write-off, on the back of buoyancy in steel demand leading to better demand visibility for refractories and well placed capex plans with strong cash flows. We recommend a "BUY" on the stock with a target price of Rs 347 (~24% upside) in 18 months.

Q3FY21 Result Update

Exhibit: Q3FY21 Consolidated Result Review

Figures in Rs Million

Particulars	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Total Income	2,890.0	2,176.0	32.8%	2,462.1	17.4%	7,384.3	6,952.6	6.2%
Expenditure	2,401.4	1,962.7	22.4%	2,071.6	15.9%	6,271.6	6,235.0	0.6%
Material Consumed	1,109.9	882.0	25.8%	772.0	43.8%	2,564.0	2,844.8	-9.9%
<i>(as a % of Total Income)</i>	38.4%	40.5%	(213)Bps	31.4%	705 Bps	34.72%	40.92%	(619)Bps
Purchases of stock-in-trade	187.6	116.2	61.4%	379.9	-50.6%	850.4	516.4	64.7%
<i>(as a % of Total Income)</i>	6.5%	5.3%	115 Bps	15.4%	(894)Bps	11.5%	7.4%	409 Bps
Employees Cost	400.8	381.9	4.9%	379.3	5.7%	1,127.8	1,131.4	-0.3%
<i>(as a % of Total Income)</i>	13.9%	17.6%	(368)Bps	15.4%	(154)Bps	15.3%	16.3%	(100)Bps
Changes in Inventories & WIP	60.8	85.8	-29.1%	(56.7)	-207.2%	(1.8)	157.4	-101.1%
<i>(as a % of Total Income)</i>	2.1%	3.9%	(184)Bps	-2.3%	441 Bps	0.0%	2.3%	(229)Bps
Other Expenses	642.3	496.8	29.3%	597.1	7.6%	1,731.2	1,585.0	9.2%
<i>(as a % of Total Income)</i>	22.2%	22.8%	(61)Bps	24.3%	(203)Bps	23.4%	22.8%	65 Bps
EBITDA	488.6	213.3	129.1%	390.5	25.1%	1,112.7	717.6	55.1%
<i>EBITDA Margin (%)</i>	16.9%	9.8%	710 Bps	15.9%	105 Bps	15.1%	10.3%	475 Bps
Depreciation	117.8	115.5	2.0%	124.6	-5.5%	361.7	347.1	4.2%
EBIT	370.8	97.8	279.1%	265.9	39.5%	751.0	370.5	102.7%
Other Income	107.2	17.9	498.9%	22.1	385.1%	160.8	77.7	106.9%
Interest Expense	6.0	7.5	-20.0%	8.5	-29.4%	21.8	24.8	-12.1%
Profit Before Tax	472.0	108.2	336.2%	279.5	68.9%	890.0	423.4	110.2%
Income Tax	99.2	35.5	179.4%	73.1	35.7%	208.9	89.6	133.1%
Effective Tax Rate (%)	21.0%	32.8%		26.2%		23.5%	21.2%	
Profit After Tax (PAT)	372.8	72.7	412.8%	206.4	80.6%	681.1	333.8	104.0%
<i>PAT Margins (%)</i>	12.90%	3.34%	956 Bps	8.38%	452 Bps	9.22%	4.80%	442 Bps
Diluted EPS	10.3	2.0	411.9%	5.7	80.5%	18.9	9.3	104.1%

Source: Company Data, SKP Research

Risks & Concerns

Sharp slowdown in steel industry leading to lower volumes

- ▶ Like any other refractory company, IFGL's fortunes depend on the steel industry and any slowdown in global economy may hamper the steel industry's growth and IFGL's volume growth would be more vulnerable. Sharp slowdown in the steel industry (vs expectations of recovery) in coming years could lead to lower capacity utilization and lower than expected volumes.

Intense Competition limit pricing flexibility

- ▶ IFGL's pricing flexibility is limited because of intense competition in the refractory manufacturing business driven by presence of a large number of players in the domestic market along with cheap import from China. This in turn exerts pressure on their margins.

Dependent on raw material sourcing through imports

- ▶ The industry is dependent on imports of key raw materials like high grade alumina, bauxite, magnesia, silicon carbide etc. China is the major supplier and has imposed heavy taxes on export of raw materials of refractories. This has resulted in sharp increase in imported raw material costs. IFGL sources ~52% of its raw materials through imports and remains exposed to increase in costs which can impact its margins. Also, fixed price nature of contract with the customers impedes their ability to immediately pass on the input costs escalations.

Currency fluctuations

- ▶ We believe that steady weakening of Rupee over the past couple of years has been favourable to the industry as well as for IFGL due to better import substitution and higher realizations on exports negated only to a partial extent by higher import costs for raw materials. IFGL has ~45-50% of its revenues coming from overseas on a consolidated basis. Company's revenues remain exposed to sharp appreciation of Rupee against foreign currencies.

Exhibit: Income Statement					Exhibit: Balance Sheet				
Figures in Rs Million					Figures in Rs Million				
Particulars	FY20	FY21E	FY22E	FY23E	Particulars	FY20	FY21E	FY22E	FY23E
Total Income	9,173.5	10,453.9	11,713.4	12,979.8	Share Capital	360.4	360.4	360.4	360.4
<i>Growth (%)</i>	<i>-3.5%</i>	<i>14.0%</i>	<i>12.0%</i>	<i>10.8%</i>	Reserve & Surplus	7,729.1	8,587.5	9,397.1	10,350.2
Expenditure	8,257.7	8,880.6	10,155.6	11,227.5	Shareholders Funds	8,089.5	8,947.8	9,757.5	10,710.6
Material Cost	3,908.6	3,664.1	4,509.7	5,062.1	Total Debt	646.6	560.5	448.5	316.5
Traded goods	682.4	1,191.7	1,276.8	1,466.7	Current Liabilities & Prov	1,555.7	1,731.1	1,978.7	2,152.5
Employee Cost	1,504.5	1,578.5	1,733.6	1,856.1	Total Liabilities	10,291.8	11,239.5	12,184.7	13,179.6
Admin & Other Exp.	2,162.1	2,446.2	2,635.5	2,842.6					
EBITDA	915.8	1,573.3	1,557.9	1,752.3	Net Block inc. Capital WIP	1,811.7	2,011.6	2,162.0	2,126.4
Depreciation	209.7	230.1	259.6	285.6	Goodwill on Consolidation	2,661.3	2,393.3	2,125.3	1,857.3
Goodwill	273.8	268.0	268.0	268.0	Other Non Current Assets	132.5	192.1	255.3	302.8
EBIT	432.4	1,075.2	1,030.2	1,198.7	Non-Current Assets	5,686.2	6,642.4	7,642.0	8,893.0
Other Income	109.6	193.0	150.0	160.0	Inventories	1,417.5	1,658.0	1,856.0	2,118.3
Interest Expense	36.1	28.4	23.8	17.7	Sundry Debtors	2,105.3	2,305.4	2,508.4	2,754.6
Profit Before Tax (PBT)	299.7	1,239.8	1,156.4	1,341.0	Cash & Bank Balance	1,107.4	1,738.3	2,141.4	2,735.1
Income Tax	105.1	291.4	256.7	297.7	Current Investments	932.1	731.8	843.4	908.6
Profit After Tax (PAT)	194.6	948.5	899.7	1,043.3	Other Current Assets	96.6	167.3	234.3	298.5
<i>Growth (%)</i>	<i>-61.4%</i>	<i>387.5%</i>	<i>-5.1%</i>	<i>16.0%</i>	Loans and Advances	27.4	41.8	58.6	77.9
Diluted EPS	5.4	26.3	25.0	28.9	Total Assets	10,291.8	11,239.5	12,184.7	13,179.6

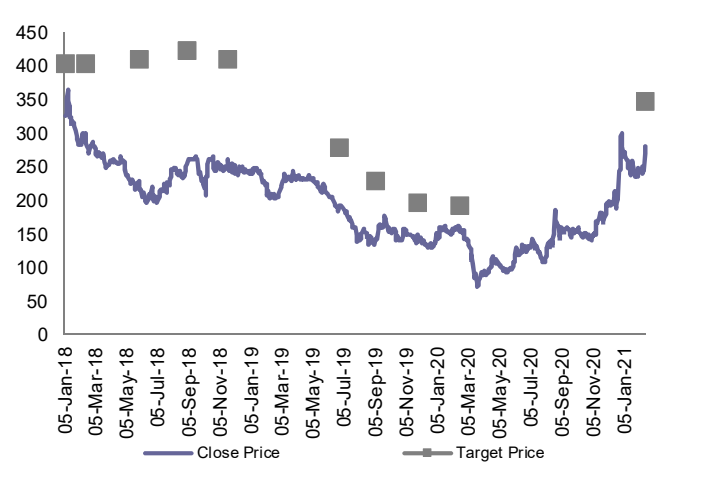
Exhibit: Cash Flow Statement					Exhibit: Ratio Analysis				
Figures in Rs Million					Figures in Rs Million				
Particulars	FY20	FY21E	FY22E	FY23E	Particulars	FY20	FY21E	FY22E	FY23E
Profit Before Tax (PBT)	299.7	1,239.8	1,156.4	1,341.0	Earning Ratios (%)				
Depreciation	483.4	498.1	527.6	553.6	EBITDA Margin (%)	10.0%	15.1%	13.3%	13.5%
Finance Costs	36.1	28.4	23.8	17.7	PAT Margins (%)	2.1%	9.1%	7.7%	8.0%
Chg. in Working Capital	458.2	(395.1)	(295.5)	(460.8)	ROCE (%)	4.9%	11.3%	10.1%	10.9%
Direct Taxes Paid	(4.1)	(291.4)	(256.7)	(297.7)	ROE (%)	2.4%	10.6%	9.2%	9.7%
Other Charges	225.4	-	-	-	Per Share Data (INR)				
Operating Cash Flows	1,498.7	1,079.9	1,155.7	1,153.8	Diluted EPS	5.4	26.3	25.0	28.9
Capital Expenditure	(249.5)	(430.0)	(410.0)	(250.0)	Cash EPS (CEPS)	18.8	40.1	39.6	44.3
Investments	(433.3)	185.7	(116.6)	(70.3)	BVPS	224.5	248.3	270.7	297.2
Others	145.8	-	-	-	Valuation Ratios (x)				
Investing Cash Flows	(537.0)	(244.3)	(526.6)	(320.3)	P/E	52.0	10.7	11.2	9.7
Changes in Equity	-	-	-	-	Price/BVPS	1.3	1.1	1.0	0.9
Inc / (Dec) in Debt	(395.7)	(82.1)	(112.0)	(132.0)	EV/Sales	1.0	0.8	0.7	0.6
Dividend Paid (inc tax)	(217.2)	(90.1)	(90.1)	(90.1)	EV/EBITDA	9.9	5.4	5.1	4.1
Others	(48.6)	(32.4)	(23.8)	(17.7)	EV/EBIT(x)	21.0	8.0	7.7	6.0
Financing Cash Flows	(661.6)	(204.6)	(225.9)	(239.8)	Mcap/Sales (x)	1.1	1.0	0.9	0.8
Exchange Diff on foreign currency	33.0	-	-	-	Balance Sheet Ratios				
Net Cashflow	333.1	630.9	403.2	593.6	Debt - Equity	0.1	0.1	0.0	0.0
Opening Cash Balance	878.7	1,107.4	1,738.3	2,141.4	Interest Coverage Ratio	12.0	37.9	43.3	67.6
Deposits with banks	(104.5)	-	-	-	Current Ratio	2.9	3.3	3.5	3.9
Closing Cash Balance	1,107.4	1,738.3	2,141.4	2,735.1	Asset Turn. Ratios	0.9	1.0	1.0	1.0

Source: SKP Research

Exhibit: Recommendation - History Table and Chart

Date	Rating	Issue Price	Target Price	Upside Potential	Period (months)
5-Jan-18	BUY	309	403	30%	18
13-Feb-18	BUY	271	403	49%	18
30-May-18	BUY	226	409	81%	18
1-Sep-18	BUY	250	422	69%	18
20-Nov-18	BUY	246	409	66%	15
28-Jun-19	BUY	191	279	46%	15
5-Sep-19	BUY	135	228	69%	15
27-Nov-19	BUY	140	196	40%	15
19-Feb-20	BUY	154	191	24%	18
16-Feb-21	BUY	281	347	24%	18

Source: SKP Research



Source: BSE, SKP Research

Notes:

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg and Thomson First Call.

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