



### Exports business drags overall performance

**IFGL Refractories Q3FY24 performance was largely impacted due to weakness in the export business especially in Europe which impacted the revenue growth and a one time provision for doubtful debts of Rs ~40crs eroded the profitability.**

#### Key business highlights

- India business grew in excess of 10%, while exports was under pressure mainly due to stress in Europe region
- Exception item of Rs 40 crs on account of provision for doubtful debts provided as a precautionary and prudent measure for a customer opting for preventive restructuring under laws of Czech Republic
- In Odisha, around 70% of the capex has been utilized to date. In Kandla, we have utilized 90% of the planned capex. In Visakhapatnam, approximately 75% of the planned capex has been utilized thus far. The capex is expected to be completed by Q1FY25.

#### Financial Highlights:

- Revenue at Rs 3,662Mn, +15.6% yoy/-19.6% qoq
- EBITDA (excl OI) at Rs -42 Mn, -106% yoy/-112% qoq
- EBITDA margin at -1.14% vs 10.86% vs 14.88% in Q3FY23/Q2FY24
- PAT at Rs 15Mn, -90% yoy/-96% qoq
- EPS at Rs 0.4 vs 4.4/10.6 in Q3FY23/Q2FY24

#### Outlook:

- Domestic revenue growth for the next 15-18 months will be driven by the brownfield expansion that will get completed by Q1FY25
- American operations are seeing signs of green shoots and should contribute positively going forward
- Management is hopeful that the European markets should recover gradually from here on
- Consolidated annual EBITDA margin guidance of 12% maintained

#### Consolidated Financial Summary

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net sales	12,595	13,865	16,464	18,872	21,290
<b>Growth</b>	<b>23%</b>	<b>10%</b>	<b>19%</b>	<b>15%</b>	<b>13%</b>
EBIDTA	1,426	1,529	1,655	2,340	2,640
<b>Growth</b>	<b>-8%</b>	<b>7%</b>	<b>8%</b>	<b>41%</b>	<b>13%</b>
Margins (%)	11.32%	11.03%	10.05%	12.40%	12.40%
Adjusted net profit	775	792	936	1,311	1,462
<b>Growth</b>	<b>18%</b>	<b>2%</b>	<b>18%</b>	<b>40%</b>	<b>12%</b>
EPS (Rs)	21.5	22.0	26.0	36.4	40.6
P/E (x)	23.3	22.7	19.3	13.7	12.3
RoCE (%)	10.51%	9.58%	9.04%	12.78%	13.32%
RoE (%)	8.30%	7.88%	8.72%	11.11%	11.34%

Source: Company, Dalal and Broacha Research

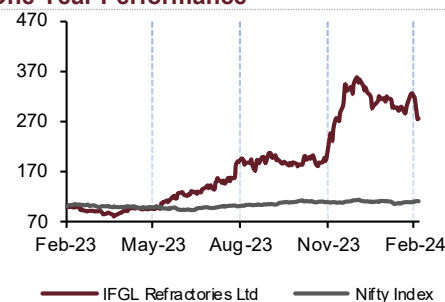
Rating	TP (Rs)	Up/Dn (%)
<b>BUY ON DIPS</b>	<b>730</b>	<b>4</b>

#### Market Data

Current price	Rs	700
Market Cap (Rs.Bn)	(Rs Bn)	25
Market Cap (US\$ Mn)	(US\$ Mn)	304
Face Value	Rs	10
52 Weeks High/Low	Rs	935.5 / 196.95
Average Daily Volume	('000)	539
BSE Code		540774

Source: Bloomberg

#### One Year Performance



Source: Bloomberg

% Shareholding	Dec-23	Sep-23
Promoters	72.43	72.43
Public	27.57	27.57
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Bloomberg

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## Concall Highlights:

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### Strategic focus

The company is extremely focused on increasing their domestic market share by introducing technologically advanced products which is best in class. The R&D centre will aid that progress through benchmarking across product categories & geographies within the organisation with focus on technology.

### Domestic operations

The domestic operations grew in excess of 10% on YoY basis. Within Isostatic products the company is focusing on El Ceramics to use it as a benchmark for those produced in Kandla. Casting flux and pre-cast shapes trial runs are going on and once product is accepted ramp up can happen very quickly. Management remains very optimistic that the contribution from the domestic market will keep increasing going forward.

### Overseas operations

Situation in Europe is under stress however America is showing signs of recovery. Till the demand scenario improves the management is focused on improving internal efficiencies, cost control and streamlining of operations.

- **Hoffman Ceramics** - scope to improve margins, operations being streamlined
- **Monoccon** - working on vertical integration, shifted to own manufacturing from outsourcing
- **El Ceramics** - Manufacturing plants will be consolidated over the next 2 years, introducing more automation to reduce costs
- **Sheffield Refractories**- Project transfer to India will happen in the next 12 to 18 months

### Red Sea issues impact

Currently surcharge being charged by shipping companies, transit time has increased and costs are getting impacted. Talks with customers for pass on will follow if the situation continues for an extended period

### Capex

In Odisha, around 70% of the capex has been utilized to date, 90% in Kandla and 75% in Visakhapatnam. The remaining capex is expected to be completed by Q1FY25. The greenfield project in Odisha should start commercial production from March'26 as there has been a delay in allotment of land. The management is hopeful that the land will be allotted in March'24.

### One time Provision for doubtful debts

Management is hopeful of recovering the amount however there is no certainty of timeline.

## Valuations and Outlook:

Q3FY24 performance of IFGL Refractories was significantly affected due to challenges in its international operations, leading to a 20% decline in revenue compared to the previous quarter, alongside a one-time charge for doubtful debts that impacted its profitability. Nevertheless, the management remains optimistic, anticipating that the downturn in overseas markets has more or less bottomed out and is set to recover gradually. In anticipation of an upturn in export market demand, the company is prioritizing internal efficiency improvements, cost management, and operational optimization. These measures are expected to bolster the company's long-term resilience and ability to leverage emerging opportunities. Domestically, IFGL Refractories is strategically positioning itself for success by investing in research and development, standardizing products across different locations, recruiting seasoned professionals, and expanding its sales force. These initiatives are aimed at strengthening the company's market presence.

We remain positive on the prospects of the company in the mid to long term however near term headwinds forces us to cut EPS estimates for FY24/25/26 by 27.3%/7.3%/7.1%. **We maintain our recommendation of BUY ON DIPS with a revised target price of Rs 730.**

## Q3FY24 Snapshot

IFGL Refractories Particulars (Rs Mns)	Q3FY24	Q3FY23	YoY Growth	Q2FY24	QoQ Growth
Revenue from operations	3,662	3,160	15.9%	4,555	-19.6%
Other income	42	23	77.8%	39	5.6%
<b>Total Income</b>	<b>3,703</b>	<b>3,183</b>	<b>16.3%</b>	<b>4,595</b>	<b>-19.4%</b>
Cost of goods sold	1,890	1,635	15.6%	2,273	-16.8%
Employee Benefit expenses	625	507	23.2%	618	1.1%
Other expenses	1,188	674	76.2%	986	20.5%
<b>EBITDA (excl other income)</b>	<b>-42</b>	<b>343</b>	<b>-112.2%</b>	<b>678</b>	<b>-106.2%</b>
Less : Depreciation	157	134	17.3%	155	1.2%
PBIT	-199	209		523	
Less: Interest cost	27	13	115.9%	24	11.9%
PBT (before exceptional)	-226	197	-214.8%	498	-145.3%
Other Income	42	23		84	
PBT (after exceptional)	-184	220	-183.7%	538	-134.3%
Less : Tax	-200	62		158	
<b>PAT</b>	<b>15</b>	<b>158</b>	<b>-90.4%</b>	<b>380</b>	<b>-96.0%</b>
<b>EPS</b>	<b>0.4</b>	<b>4.4</b>	<b>-90.4%</b>	<b>10.6</b>	<b>-96.0%</b>
Gross Margins	48.38%	48.25%		50.10%	
EBITDA Margins	-1.14%	10.86%		14.88%	
Net profit Margin	0.41%	4.96%		8.27%	

\* Consolidated P/L

Source: Company, Dalal and Broacha Research

## Quarterly Trend

Particulars	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Consolidated Sales	3,593	3,431	3,160	3,681	4,239	4,555	3,662
Standalone Sales	2,254	2,160	1,817	2,103	2,270	2,597	1,969
Subsidiary sales	1,339	1,271	1,343	1,579	1,969	1,958	1,693
Subsidiary EBITDA	59	88	68	95	162	144	102
Consolidated EBITDA	340	362	343	484	594	717	(0)
Standalone EBITDA	282	274	275	388	432	573	(103)
Consolidated PAT	146	195	158	294	296	380	15
Standalone PAT	120	139	123	229	225	301	(31)
Subsidiary PAT	26	55	35	65	71	79	46
Consolidated EBITDA Margins	9.47%	10.55%	10.86%	13.14%	14.02%	15.74%	-0.01%
Standalone EBITDA Margins	12.51%	12.67%	15.15%	18.47%	19.04%	22.08%	-5.21%
Subsidiary EBITDA margins	4.37%	6.96%	5.06%	6.04%	8.24%	7.34%	6.05%
Consolidated PAT margins	4.05%	5.67%	5.00%	7.99%	6.99%	8.34%	0.42%
Standalone PAT margins	5.31%	6.45%	6.79%	10.91%	9.92%	11.59%	-1.56%
Subsidiary PAT margins	1.93%	4.34%	2.58%	4.11%	3.61%	4.03%	2.72%

Source: Company, Dalal and Broacha Research

## FINANCIALS

P&L (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	10,220	12,595	13,865	16,464	18,872	21,290
Total Operating Expenses	4,740	6,146	7,228	8,298	9,436	10,645
Employee Cost	1,518	1,739	1,948	2,483	2,642	2,981
Other Expenses	2,408	3,284	3,160	4,029	4,454	5,024
<b>Operating Profit</b>	<b>1,554</b>	<b>1,426</b>	<b>1,529</b>	<b>1,655</b>	<b>2,340</b>	<b>2,640</b>
Depreciation	486	511	556	627	640	749
PBIT	1,068	915	974	1,027	1,700	1,891
Other income	205	159	132	157	157	157
Interest	31	34	48	94	109	99
PBT ( Before exceptional	1,242	1,039	1,057	1,090	1,748	1,949
PBT (post exceptional)	1,242	1,039	1,057	1,090	1,748	1,949
Provision for tax	586	265	265	154	437	487
Reported PAT	656	775	792	936	1,311	1,462

Balance Sheet (Rs mn )	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	360	360	360	360	360	360
Reserves	8,545	8,980	9,690	10,374	11,432	12,533
<b>Net worth</b>	<b>8,905</b>	<b>9,340</b>	<b>10,050</b>	<b>10,734</b>	<b>11,793</b>	<b>12,894</b>
<b>Non Current Liabilites</b>	<b>677</b>	<b>666</b>	<b>1,119</b>	<b>1,556</b>	<b>1,744</b>	<b>1,619</b>
<b>Current Liabilites</b>	<b>2,258</b>	<b>2,854</b>	<b>3,090</b>	<b>2,493</b>	<b>2,835</b>	<b>3,178</b>
<b>TOTAL LIABILITIES</b>	<b>11,830</b>	<b>12,861</b>	<b>14,259</b>	<b>14,784</b>	<b>16,371</b>	<b>17,690</b>
<b>Non Current Assets</b>	<b>4,555</b>	<b>4,809</b>	<b>5,898</b>	<b>5,853</b>	<b>6,363</b>	<b>6,672</b>
Fixed Assets	1,913	2,296	3,480	3,703	4,480	5,058
Goodwill	2,454	2,173	1,978	1,710	1,442	1,174
Non Current Investments	62	194	194	194	194	194
Deferred Tax Asset	-	-	-	-	-	-
Other Financial Assets	55	23	64	64	64	64
Other Non Current Assets	71	124	183	183	183	183
<b>Current Assets</b>	<b>7,275</b>	<b>8,052</b>	<b>8,361</b>	<b>8,931</b>	<b>10,008</b>	<b>11,018</b>
Current investments	1,217	1,155	1,130	1,130	1,130	1,130
Inventories	1,678	2,594	3,020	3,383	3,878	4,375
Trade Receivables	2,282	2,720	3,498	3,834	4,395	4,958
Cash and Bank Balances	1,908	1,279	580	446	461	405
Short Term Loans and Ad	39	90	15	15	15	15
Other Current Assets	151	214	118	124	130	136
<b>TOTAL ASSETS</b>	<b>11,830</b>	<b>12,861</b>	<b>14,259</b>	<b>14,784</b>	<b>16,371</b>	<b>17,690</b>

Source: Company, Dalal and Broacha Research

## FINANCIALS

Cash flow statement ( Rs in mn )	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Cash flow from operating activities</b>						
Profit before tax	1,242	1,039	1,057	1,090	1,748	1,949
Depreciation & Amortization	486	511	556	627	640	749
Interest expenses	31	34	48	94	109	99
<b>Operating profit before working capital change</b>	<b>1,759</b>	<b>1,585</b>	<b>1,661</b>	<b>1,812</b>	<b>2,497</b>	<b>2,797</b>
Working capital adjustment	(129)	(1,032)	(1,215)	(305)	(726)	(729)
<b>Gross cash generated from operations</b>	<b>1,629</b>	<b>552</b>	<b>446</b>	<b>1,507</b>	<b>1,771</b>	<b>2,068</b>
Direct taxes paid	586	265	265	154	437	487
Others	(351)	244	118	(698)	85	340
<b>Cash generated from operations</b>	<b>1,394</b>	<b>44</b>	<b>63</b>	<b>655</b>	<b>1,420</b>	<b>1,922</b>
<b>Cash flow from investing activities</b>						
Capex	(310)	(656)	(1,358)	(1,038)	(1,150)	(1,000)
Investment	(70)	25	-	-	-	-
Others	(684)	391	131	(268)	(268)	(268)
<b>Cash generated from investment activities</b>	<b>(1,064)</b>	<b>(240)</b>	<b>(1,227)</b>	<b>(1,306)</b>	<b>(1,418)</b>	<b>(1,268)</b>
<b>Cash flow from financing activities</b>						
Proceeds from issue of share	-	-	-	-	-	-
Borrowings/ (Repayments)	(28)	317	798	875	375	(250)
Interest paid	(31)	(34)	(48)	(94)	(109)	(99)
Dividend paid	-	(360)	(252)	(252)	(252)	(360)
Others	13	8	-	-	-	-
<b>Cash generated from financing activities</b>	<b>(46)</b>	<b>(70)</b>	<b>498</b>	<b>528</b>	<b>13</b>	<b>(710)</b>
<b>Net cash increase/ (decrease)</b>	<b>379</b>	<b>(285)</b>	<b>(622)</b>	<b>(123)</b>	<b>15</b>	<b>(56)</b>
<b>Ratios</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
OPM	15.2%	11.3%	11.0%	10.0%	12.4%	12.4%
NPM	6.3%	6.1%	5.7%	5.6%	6.9%	6.8%
Tax Rate	47.2%	25.4%	25.1%	14.1%	25.0%	25.0%
<b>Growth Ratios (%)</b>						
Net Sales	11.4%	23.2%	10.1%	18.7%	14.6%	12.8%
Operating Profit	69.6%	-8.2%	7.3%	8.2%	41.4%	12.8%
PBIT	147.0%	-14.3%	6.5%	5.5%	65.5%	11.2%
PAT	237.1%	18.1%	2.2%	18.2%	40.0%	11.5%
<b>Per Share (Rs.)</b>						
Net Earnings (EPS)	18.2	21.5	22.0	26.0	36.4	40.6
Cash Earnings (CPS)	31.7	35.7	37.4	43.4	54.1	61.3
Dividend	10.0	7.0	7.0	7.0	7.0	10.0
Book Value	247.1	259.2	278.9	297.8	327.2	357.8
Free Cash Flow	34.9	30.1	-17.0	-35.9	-10.6	7.5
<b>Valuation Ratios</b>						
P/E(x)	38.5	32.6	31.8	27.0	19.2	17.3
P/B(x)	2.8	2.7	2.5	2.4	2.1	2.0
EV/EBIDTA(x)	15.3	17.4	17.1	16.4	11.8	10.3
Div. Yield(%)	1.4	1.0	1.0	1.0	1.0	1.4
FCFF Yield(%)	5.0	4.3	(2.4)	(5.1)	(1.5)	1.1
<b>Return Ratios (%)</b>						
ROE	7.4%	8.3%	7.9%	8.7%	11.1%	11.3%
ROCE	13.5%	10.5%	9.6%	9.0%	12.8%	13.3%

Source: Company, Dalal and Broacha Research

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