

# Orient Refractories

**Rs 143**
*On a steady growth path*

BSE Sensex: 31,284

Nifty-50: 9,789

## FINANCIALS

	SALES	OPM (%)	OP	OTHER INC.	PBIDT	INTEREST	PBDT	DEP.	PBT	TOTAL TAX	PAT	EPS (RS) *
1403 (12)	403.5	19.6	79.19	4.1	83.29	0.07	83.22	3.63	79.59	26.74	52.85	4.4
1503 (12)	451.37	17.8	80.52	4.64	85.16	0.04	85.12	5.49	79.63	26.79	52.84	4.4
1603 (12)	458.88	18.6	85.19	5.38	90.56	0	90.56	5.91	84.66	28.84	55.82	4.6
1703 (12)	519.39	19.8	102.98	8.26	111.24	0	111.24	6.37	104.87	36.25	68.62	5.7
1803 (12P)&	568.43	18.9	107.41	9.47	116.88	0	116.88	6.97	109.91	37.79	72.13	6
1903 (12P)&	638.92	19.6	125.48	10.42	135.9	0	135.9	7.8	128.1	43.55	84.55	7

\* Annualized on current equity of Rs 12.01 crore. Face Value: Rs 1 each. &: Projections are as per new Indian Accounting Standard. Past year figures were as per earlier accounting standard and not comparable. (P): Projections .EO: Extra ordinary Items. Figures in Rs crore. Source: Capitaline Databases

Orient Refractories (ORL) is in the business of manufacturing and marketing Special Refractory Products, Systems and Services to the Steel Industry with Global Presence. ORL is a market leader for Special Refractories in India and has many Global partners for its international quality products. ORL is a global partner for over 500 customers in India and across the world.

ORL produces more than 40,000 tons of refractory per annum customized products and system solutions. Refractory material is used to provide thermal insulating lining in Furnaces, Kilns, Reactors, etc. The refractory material is mainly used in Iron & Steel industry, Metal Smelters, Cement, Glass Industries, etc.

Headquartered in New Delhi, India, ORL's manufacturing facility is located in Bhiwadi, Rajasthan.

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 2000 tons of castables and mortars on a monthly basis.

### RHI, AG, Austria holds 69.62% stake in the company

As technology leader, ORL focuses on the development of solutions that are tailored to customers' trends. In 2013, after acquisition of 69.62% shares by RHI, AG, Austria, ORL is setting new standards through continuous and innovative processes.

Being a part of RHI AG Group, Austria, who is one of the world market leaders in Refractories, ORL is setting new standards through continuous improvement and innovation processes by effectively adopting the RHI experience based on decades of research and development activities. This has given ORL a leading edge over the competitors to maintain high market share in their segment of special refractories business.



## STOCK DATA

BSE Code	:	534076
BSE Group	:	B
NSE Code	:	ORIENTREF
Bloomberg	:	ORIENT IN
Reuters	:	ORRE.BO
Par Value (Rs)	:	1
52-week High/Low	:	Rs 163 / Rs 105
Sector	:	Refractories

## SHAREHOLDING PATTERN\*

Category	% of equity
Foreign	: 6.06
Institutions	: 4.91
Corporate Holding	: 4.62
Promoters	: 69.62
Public & Others	: 14.8
Total	: 100

\* as on 30/06/2017.

Source: Capitaline Databases

Due to association and support of RHI AG, there are good prospects and strong competitive advantages for ORL going ahead.

In Year 2016, ORL parent Company, RHI AG acquired controlling shareholding of another global refractory company, M/s. Magnesita, GP & Rohne. The combined company will be able to offer ORL customers even more comprehensive range of products and services.

#### **ORL is a total refractory management company**

ORL provides a wide range of special refractories and monolithics to meet the needs of the iron and steel industry. The product range includes the following:

- Isostatically pressed Continuous Casting Refractories
- 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
- Castables

All these products are custom made to suit the casting conditions and grade of steel being cast and are a result of an intensive research and development effort by the company. To reinforce quality and development of products, the company has an in-house Research and Development facility that is recognized by the Government of India.

A well trained group of technical specialists at customer sites service any technical and commercial needs, which enables the company to sell on a Total Refractory Management basis to a large number of its customers.

Customers include large domestic integrated steel producers and mini steel plants across the globe

The growth of refractory industry primarily depends on the growth of Iron & Steel Industry.

Refractory products are crucial for the quality of the products and safety of the manufacturing processes at the customer end. ORL aims at maximum customer satisfaction by providing quality products for their complete refractory solution.

ORL customers include large domestic integrated steel producers and mini steel plants that include Steel Authority of India, Mukund Steel, Tata Iron and Steel Company, RINL – Vizag, Sunflag Iron, Lloyd Steel, Usha Martin and the Jindal Group. With close to 300 small to medium sized iron and steel producing Indian companies as customers, ORL is a preferred vendor for a large number of steel producers in the country.

ORL has significant presence in the global market place with exports to over 35 countries across the globe including Germany, France, Spain, Turkey, Egypt, Indonesia, Saudi Arabia, Thailand, UAE and Greece.

#### **June 2017 quarter performance affected by GST hiccups and high base**

For the quarter ended June 2017, it registered a 7% rise in sales to Rs150.50crore. OPM fell 280 basis points to 15.8% which saw OP fall 9% to Rs23.82crore.

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Other income grew 30% to Rs2.50crore and depreciation grew 8% to Rs1.64crore. Thus PBT went down 8% to Rs24.69crore.

The company is a debt free company and does bear interest cost. Tax fell 9% to Rs8.38crore, after which PAT went down 7% to Rs 16.30crore.

The performance was affected by GST transition. Moreover June 2016 quarter provided high base as the company had seen sales jump 28% to Rs 140.83crore and PAT jumped 46% to Rs 17.45 crore in the quarter ended June 2016. So on that base of high growth, performance is respectable.

In FY 2017, it had registered 13% rise in sales to Rs519.39crore. OPM had improved 130 basis points to 19.8% which saw OP rise 21% to Rs102.98crore. PBT had risen 24% to Rs 104.87 crore and PAT had grown 23% to Rs68.62crore.

#### **Increasing capacity to meet growing demand**

The company produces Isostatic Pressed Products (ISO, flow control) in its plant at Bhiwadi, India. The current production capacity for ISO products at Bhiwadi plant is 9,300 tons per annum. Considering the growth of steel industry in India and increasing demand in export market there is a forecast of market demand of 10,000 tons in 2018 and 11,700 tons in 2019 onwards.

The management decided to increase the existing capacity of ISO to 11,700 tons per annum, the addition serves to address a bottle neck in production capacity by building an additional ISO production line in existing plant at Bhiwadi.

The scheduled time for completion of project is second quarter of FY2018, with an estimated cost of Rs 17.27 crore.

#### **Outlook**

Indian Industry is expecting continuous growth momentum, which is driven by Government's initiatives, such as, investment in infrastructure projects, railway projects, new roads, smart city concept, Airports in 'B' Cities etc. Government has also taken policy initiatives, such as, change in taxation rules (GST), and introduction of Bankruptcy Policy & Insolvency Act to remove various impediments to faster growth.

To attract Foreign Direct Investment, the Government has eased the process of doing business in India. The Make in India initiatives should also boost the demand for Steel in India. This will also increase refractories products demand in the domestic market.

The Steel Industry in 2017-18 is optimistic because of increase in steel demand with continuous recovery in the developed economies and growth momentum in emerging and developing countries.

The US Administration is planning to spend on New Buildings, Roads, Highways, Bridges, Airports, Tunnels & Railways Lines across the countries. Some positive development from Europe because of stability in the region will also attract new investments. China, which accounts for almost 50% of global steel demand in expected to remain flat due to subdued growth rate.

India has recently become the second largest steel producer in the world. ORL has been focusing on building its market share in large mills domestically and acquire new clients in mid & mini steel plants.

With the positive support of RHI Ag, the management sees good prospects and strong competitive advantage for ORL India going ahead. The management is hopeful to sustain the same growth in year 2018 as seen in FY 2017.

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## Valuation

For FY 2018 we expect the company to register net sales and net profit of Rs 658.43 crore and Rs 72.13 crore respectively. In FY 2019 we expect the company to register net sales and net profit of Rs 638.92 crore and Rs 84.55 crore respectively. On an equity of Rs 12.01 crore (out of which around 70% is held by the MNC parent) and face value of Re 1 per share, EPS for FY 2018 and FY 2019 works out to Rs 6.0 and Rs 7.0 respectively. The scrip trades at Rs 143. P/E on expected FY 2019 earnings works out to 20.6.

With the positive support of RHI Ag, the management sees good prospects and strong competitive advantage for ORL India going ahead

ORIENT REFRACTORIES: RESULTS						
	1706 (3)₹	1606 (3)₹	VAR. (%)	1703 (12)	1603 (12)	VAR. (%)
Sales	150.50	140.83	7	519.39	458.88	13
OPM (%)	15.8	18.7		19.8	18.6	
OP	23.82	26.30	-9	102.98	85.19	21
Other inc.	2.50	1.93	30	8.26	5.38	54
PBIDT	26.32	28.22	-7	111.24	90.56	23
Interest	0.00	0.00		0.00	0.00	
PBDT	26.32	28.22	-7	111.24	90.56	23
Dep.	1.64	1.52	8	6.37	5.91	8
PBT	24.69	26.70	-8	104.87	84.66	24
Total Tax	8.38	9.25	-9	36.25	28.84	26
PAT	16.30	17.45	-7	68.62	55.82	23
EPS (Rs) *	5.4	5.8		5.7	4.6	

\* Annualized on current equity of Rs12.01 crore. Face Value: Rs 1 each. & Quarterly results are as per new Indian Accounting Standard, Full year results are as per old accounting standard. Figures in Rs crore.  
Source: Capitaline Databases