Press Release

IFGL Refractories Limited

May 31, 2018

Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Long Term Bank Facility – Term Loan	40	IVR AA /Stable (IVR Double A with Stable Outlook)	Assigned
Total	**40**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating derives comfort from its strong promoters with experienced management team, long track record in the domestic refractory sector, government support for the steel industry, ongoing expansion in steel sector- the user industry, locational advantages and reputed customer base in domestic as well as export market. Comfortable profitability along with improvement in capital structure and debt protection parameters also support the rating. However, the rating is constrained by fluctuation in foreign currencies, susceptibility of profitability to volatile input prices & finished goods prices, cyclicality of steel industries and presence of unorganised players in the segment leading to increased competition. Profitability and gearing level are the key rating sensitivities.

List of Key Rating Drivers

- Experienced Promoter and management
- Long track record in the domestic refractory segment
- Government support for the Steel Industry
- Major Capacity expansion of Steel Mills (end user industry) leading to good growth potential for the refractory segment
- Locational advantages
- Reputed customer base in domestic as well as export markets
- Comfortable profitability
- Comfortable capital structure and debt protection parameters
- Foreign Currency Fluctuation Risk
- Susceptibility of profitability to volatile input prices

- Cyclicality of steel industry
- Cheaper imports and presence of unorganized players leading to increased competition

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced Promoter and management

IFGL Refractories Ltd., an over 30 years old company, is a part of the reputed S.K.Bajoria group. The major companies of the group are Monocon International Refractories Ltd., UK, Monocon Ceramics Inc., USA and EI Ceramics LLC, with IFGL Refractories Ltd. being the flagship company. IFGL is managed by a team of experienced professionals who are guided by a ten member Board of Directors. The promoters are actively involved in the operations of IFGL.

Mr. S.K. Bajoria, son of a well known industrialist Mr. B.P. Bajoria, is the founder promoter of S K Bajoria group based out of Kolkata and is mainly engaged in manufacture of Specialised Refractories for the Steel Industry. He is a Director of various private and public companies.

Mr. P. Bajoria, Managing Director, has been associated with IFGL from the very early days of Indo Flogates, even before the commencement of production. With more than 30 years of experience of refractory industry, he has been involved in various capacities in Indian Refractories Makers Association.

Mr. Kamal Sarda, Whole-time Director, has more than 15 years of experience in the refractory industry. He is also the past Chairman of the Indian Refractory Makers Association.

Long track record in the domestic refractory segment

IFGL has been in the refractory segment for almost 30 years and has weathered many storms arising out of volatility in the refractory sector, among others, and made a notable presence in the sector. Its domestic market share is in the range of 15-18% now.

Government support for the Steel Industry

The main end user for refractory products is the steel industry. Refractory market is directly linked to steel industry. It can be said that iron and steel contribute to production and demand of refractories in volume terms. Effective Basic Customs Duty on refractories increased from

5.15% to 8.25% as per the Union Budget of 2018 which is beneficial for domestic refractories manufacturers. Moreover, the Government of India has allowed 100 per cent foreign direct investment (FDI) in the steel sector under the automatic route.

Major Capacity expansion of Steel Mills (end user industry) leading to good growth potential for the refractory segment

India's steel production is expected to increase from 97.42 MT in FY17 to 128.6 MT by 2021. Nearly 301 MoUs have been signed with various states for planned capacity of about 486.7 MT. There is significant potential for growth, given the low per capita steel consumption of 61 Kg in India, as compared to world average of 208 Kg. Indian economy is rapidly growing with enormous focus on infrastructure and construction sector, affordable housing, expansion of railway networks and the anticipated growth in the automobile sector, are expected to create significant demand for steel in the country. Further, the company has good growth potential, particularly with new greenfield steel mills coming up in Eastern India.

Locational advantages

The company has two manufacturing plants. One of the plants in Odisha, cater to the export demand as well as the domestic demand especially in Eastern India, where major steel plants are located. Most of the key customers lie within distance of 400 Km from IFGL's manufacturing site, which gives the company logistical advantage.

IFGL's Kandla plant (an SEZ) is strategically located in Gujarat near to the port, which helps in reducing freight cost (lower transit time) resulting in lower operating cycle along with other fiscal benefits like lower tax rates, tax savings on domestically procured raw materials and no duty on imported raw materials.

Reputed customer base in domestic as well as export markets

The company has a long track record which has aided in building a reputed client base in the domestic and export markets. The company sells its products to reputed Steel Industries across the Globe.

Comfortable profitability

Consolidated sales expanded by 7% over FY16. EBITDA increased to Rs.94.81 crore in FY17 from Rs.76.02 crore in FY16 on a consolidated basis majorly due to decline in the unit cost of raw materials. EBIDTA margins were comfortable in the range of 10.6-12.4% during FY15-17, the marginal volatility on account of change in export sales and raw material prices.

Going forward, the company is expected to achieve improved sales and better profitability margins in the near future due to increase in demand for refractory products owing to growth in infrastructural developments in emerging economies such as China, India, and Brazil and expansion of non-metallic minerals industry.

Comfortable capital structure and debt protection parameters

The overall gearing ratio was comfortable and improved from 0.31x as on March 31, 2016 to 0.25x as on March 31, 2017 on account of scheduled repayment of term loans and accretion of profit to reserves. The debt protection parameters were also comfortable and improved with the interest coverage ratio at 20.94x in FY17 as against 16.01x in FY16, Long-term Debt to GCA at 0.24x in FY17 as against 0.60x in FY16 and Total debt to GCA at 0.90x in FY17 as against 1.52x in FY16. Long-term Debt to EBIDTA was also comfortable at 0.24x in FY17. Further, Long-term debt equity ratio also improved from 0.12x in FY16 to 0.07x in FY17.

Key Rating Weaknesses

Foreign Currency Fluctuation Risk

IFGL has 30-40% of its revenue coming from overseas on a consolidated basis (Rs.242.65 crores in FY 17). Further, the company is largely dependent on imports for key raw materials like high grade alumina, bauxite, magnesite, silicon carbide, etc. (Rs.69.5 crores in FY17). Consequently, the company remains exposed to the fluctuations in forex rates. IFGL enters into forward contracts from time to time to hedge risk on account of foreign exchange fluctuation.

Susceptibility of profitability to volatile input prices

The raw materials are mainly imported from China. Crackdown by Chinese authorities on polluting units in steel and other industries has drastically cut down supplies. IFGL remains exposed to increase in costs of raw materials which can impact its margins.

Cyclicality of steel industry

IFGL's fortunes depend on the steel industry and any slowdown in global economy may hamper the steel industry's growth. Hence the company's performance is susceptible to the cyclicality of the steel industry.

Cheaper imports and presence of unorganized players leading to increased competition

The presence of more than 150 players of which around 15 -16 are major players leads to high fragmentation in the refractory industry. Cheap refractory products dumped from China which has captured more than 25% of the total market has imparted huge competitive threat to the Indian refractory industry. Players experience limited pricing flexibility and therefore work under high pressure on margins due to the highly competitive nature of the refractory industry.

Analytical Approach & Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

IFGL Refractories Ltd (IFGL; formerly known as IFGL Exports Ltd.), incorporated in 2007, was promoted by Shri S.K. Bajoria of Kolkata. The company had commissioned the manufacturing facilities for refractories (capacity 1.8 lac pieces per annum) at Kandla Special Economic Zone (SEZ), Gujarat in 2012. IFGL is a part of the IFGL Group which is into refractories business for the past three decades, and, as such, has experience in marketing & selling of the refractories products. Erstwhile IFGL Refractories Ltd (erstwhile IFGL), incorporated in 1989, was the flagship company of the group. The company, through its manufacturing facilities at Rourkela, Odisha, has an aggregate manufacturing capacity of 8.0 lac pcs of refractories per annum. IFGL Refractories Ltd (parent) merged with its subsidiary, IFGL Exports Limited, which was also engaged in manufacture of Continuous Casting Refractories, on and from 1st April, 2016 following an order passed on 3rd August, 2017 by the Hon'ble National Company Law Tribunal, Kolkata Bench. Subsequently, on and from 25th October, 2017 the name of the said IFGL Exports Limited has changed to IFGL Refractories Limited. IFGL has manufacturing facilities in China, Germany, India, UK and USA.

Financials (Consolidated):

(Rs. crore)

For the year ended* / As On	31-03-2016	31-03-2017
	Audited	Audited
Total Operating Income	716.97	765.57
EBITDA	76.02	94.81
PAT	45.20	44.18
Total Debt	83.73	83.98
Tangible Net worth	269.05	332.62
EBITDA Margin (%)	10.60	12.38
PAT Margin (%)	8.43	6.36
Overall Gearing Ratio (x)	0.31	0.25

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years: Nil

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities - Term Loan	-	-	Not Yet Disbursed	40	IVR AA /Stable Outlook