RHI Magnesita India Ltd. I HOLD I TP: 690

MONARCH NETWORTH CAPITAL

Company Update

Plant Visit Update – Crème de la crème

We visited the Bhiwadi plant of RHI Magnesita India (RHIM) followed by a meet with the management. We were positively surprised with RHIM's focus on product innovation at its newly commissioned R&D centre and constant drive to maintain product quality and cost efficiencies. RHIM's focus to be globally known as a solutions provider rather than a material provider through its TRM strategy is expected to result in market share gains. Strong support from parent has led to constantly improving product portfolio and mitigation of currency and raw material risks. Additionally, aggressive focus on capacity expansion – both organic and inorganic, target to increase exports to new geographies is expected to result in strong revenue growth. We maintain TP at Rs690, move to HOLD rating and recommend accumulation on dips.

- **Solution provider more than a material provider:** The clear differentiation of RHIM from other refractory manufacturers is that it aims to be globally known as a solution provider more than a material provider. Through the Total Refractory Management (TRM) strategy – 50% of its total revenues; RHIM provides complete basket of refractories, maintenance services and inventory management for customers. This is one of the reasons for gain in market share in last ~3years. RHIM has successfully executed TRM strategy due to new product development and maintaining best of quality manufacturing practices which was evident at the plant.
- **Product innovation + Parent's support keeps RHIM ahead of the curve:** We learned at the plant visit that RHIM has an edge over peers because of constant innovation and an unparalleled support from parent. We visited the new R&D centre at Bhiwadi which gave us an insight into some of the new products developed like Tap hole clay, Tap hole sleeve and purging plugs. Commercial production of Tap hole clay is already started and these products are expected to contribute substantial revenues in RHIM's target to achieve 25% market share in India. The next phase of expansion of Cuttack plant will be commissioned by end of this year thereby enhancing import substitution. Also, there was a clear indication during the plant visit that the parent recognises opportunities in the Indian markets and has extended every resource possible to expedite growth.
- **Minimizing currency and demand risks:** Our interaction with the management led to clear message that aggressive expansion and strong growth are the focus areas; but the prevailing currency and demand headwinds are hampering growth. RHIM indicated that the short term demand; both domestic and exports looks shaky due to the recession in Europe and export duties imposed on Indian steel exports, although later one being temporary phenomenon. RHIM is also facing currency headwinds as 70% of its exports are to Europe and large chunk of its raw material is sourced in USD. RHIM is increasing RM sourcing from Europe (parent has mines) to mitigate the currency risk.
- **Chasing robust growth via multiple tracks:** To capitalise the massive capacity expansion by steel manufacturers over the next 5years, RHIM is also aggressively looking for inorganic expansion in the ferrous refractory space. Parallelly, RHIM is open to acquire assets in the non-ferrous refractory space too. As announced last year, RHIM is already running trials in markets of West Asia and Africa and plans to ramp up exports to ~30% (from 18% currently) in foreseeable future taking advantage of low cost domestic labour and R&D expertise. Therefore, we believe RHIM will continue to outperform peers and we recommend accumulation on dips.
- **Valuation and rating:** We value RHIM at an average of 30x Jun'24 PE and 20x Jun'24 EV/EBITDA to arrive at TP of Rs690 and move to HOLD rating. Our downgrade in rating is due to limited upside. Key risks: RM cost inflation, currency headwinds and failure to achieve aggressive growth.

Target Price	690
CMP*	670
Upside	3%

Price Performance (%)	1M	6M	1Yr
RHIM IN	17.36	8.02	87.48
NIFTY	(1.97)	(1.45)	(4.38)

Key Data	
Bloomberg Code	RHIM IN
Curr Shares O/S (mn)	161.0
Diluted Shares O/S(mn)	161.0
Mkt Cap (Rsbn/USDbn)	104.8/1.3
52 Wk H / L (Rs)	701/322.7
5 Year H / L (Rs)	701/108
Daily Vol. (3M Avg.)	22270

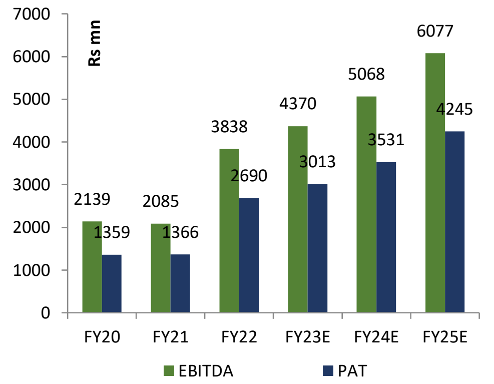
Source: ACE Equity, Bloomberg, MNCL Research

Shareholding pattern (%)

	June-22	Mar-21	Dec-21	Sep-21
Promoter	70.2	70.2	70.2	66.5
FIIs	0.0	0.6	0.4	0.6
DIIs	10.5	9.2	9.3	12.1
Others	19.3	20.0	20.1	20.8

Source: BSE

EBITDA and PAT – We expect 16.5% CAGR growth over FY22-25E excl. inorganic acquisitions



Source: Company, MNCL Research estimates

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Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	13,704	*-1.2*	2,085	*15.2*	1,366	*0.5*	8.5	*18.1*	*17.3*	22.7	14.4
FY22	19,951	*45.6*	3,838	*19.2*	2,690	*96.9*	16.7	*29.3*	*26.4*	22.4	15.6
FY23E	23,919	*19.9*	4,370	*18.3*	3,013	*12.0*	18.7	*26.4*	*25.3*	35.8	24.3
FY24E	28,385	*18.7*	5,068	*17.9*	3,531	*17.2*	21.9	*25.5*	*24.3*	30.5	20.6
FY25E	33,713	*18.8*	6,077	*18.0*	4,245	*20.2*	26.4	*25.3*	*24.2*	25.4	17.0

Source: Company, MNCL Research Estimates

Key Takeaways of the Plant Visit

We visited the Bhiwadi plant of RHI Magnesita India to understand the refractory manufacturing process, the research capabilities of the new R&D centre and product offerings. Post plant visit we had a meeting with management. Some of our main takeaways from these interactions are as follows:

Products and customers:

1. Refractories made by RHI Magnesita India (RHIM)
    - Alumina bricks are used in Non recovery coke oven
    - Magnesia Bricks are used in Basic Oxygen Furnace (BOF)
    - Ladle furnace uses the following: Magnesia bricks, purging plugs, slide gates,
    - Continuous casting lines uses: Nozzle, Monoblock stopper, Ladle shroud, etc.
2. Currently, there is about 230kt of magnesia bricks demand in India. Since last 1-2years, only 20% is locally manufactured and the rest is imported.
3. Vesuvius India is focusing more on continuous casting refractories and there focus is not on magnesia bricks for now.
4. Orient refractories used to make only castable and all flow control refractories and post the merger with RHI entities, RHI Magnesita now has a very comprehensive product portfolio.
5. RHIM wants to be globally recognized as a solution provider more than material provider. 50% of the total sales is currently happening through the TRM (total refractory management) strategy.
6. Sales and pricing contracts are 3/6/12 months and differ for every other customer.
7. With the help of technical expertise from parent RHI Magnesita India has started commercial production of Tap hole clay at a new line in Bhiwadi plant. Trial runs have been successfully accepted by several customers. RHIM has Rs8/10cr target for FY23. Other innovative products are Tap hole Sleeves and new Purging plugs.

Capacity expansion, RM cost and demand:

1. Capacity of the Cuttack plant will reach 30k by January 2023 and then next step will be increase it to 45-50kt. 50kt is the maximum capacity possible at Cuttack. Post that company will have to look for new land.
2. Domestic steel production has slowed July onwards due to monsoon led weakness and export duties which should be abolished soon.
3. Europe is almost under recession and most steel plants have cut capacity which is affecting export demand for refractories.
4. Raw material (RM) prices have corrected from the peak in June and customers have started asking for downward revision in refractory prices. Revenue in 2HFY23 will witness pressure from price correction.
5. USD appreciation has made RM expensive. RHIM is trying to mitigate this risk by shifting sourcing of RM to Europe from China. 70% of RHIM's exports are in Euro and rest 30% in USD. So depreciating Euro is also a matter of concern for exports.
6. Recycling of refractory material is very power consuming therefore ramp up will be slow but recycling also helps in de-carbonization.
7. Volume growth is expected to be double digit if steel production grows by 7%.
8. RHIM aims to increase exports to 30-32% in next 2-3years from current 18% with major focus on West Asia and Africa where currently travels are being done.
9. India is perceived as high growth market. So RHIM's parent is also focused on scaling up India business. 80mnt of steel capacity are expected to be added from 4 big steel manufacturers by 2030 according to the discussion with Steel manufacturers.
10. RHIM is actively looking for inorganic growth options both in the ferrous and non-ferrous refractory space primarily to chase faster growth and capitalize the boom in steel industry.

Financials and Guidance:

1. On long term basis, 16-17% margin is sustainable range unless product mix changes drastically.
2. Capex target for FY23 is Rs70-100crore.
3. Deloitte is being consulted for royalty and transfer pricing for technology transfer fees to parent.
4. TRM also includes managing inventories for customers which is one of the reason why inventory levels has remained elevated. RHIM is working on reducing inventory days.

Valuation – Best in the refractory business

We believe that RHIM has the best business among the three listed players due to comprehensive product portfolio (Magnesia bricks, specialised refractories from Bhiwadi, several other products traded through RHI India ltd.), strategy to expand domestic market share and also leverage its manufacturing and R&D expertise (from parent) to drive excellence in new product development, derive synergies from existing supply chain and expand to new geographies. Its presence in both, mini mills and large integrated steel plants will only grow larger in its pursuit for more Total Refractory Management contracts.

We attribute higher multiple (premium) in valuing RHIM i.e. average of 20x June'24E EV/EBITDA and 30x June'24E PER to arrive at a **TP of Rs690/share and move to HOLD rating**. The downgrade in rating is mainly due to limited upside. We advise accumulate on dips. At CMP of Rs670, the stock trades at 19.8x Jun24' EV/EBITDA and 29.5x Jun'24 PER.

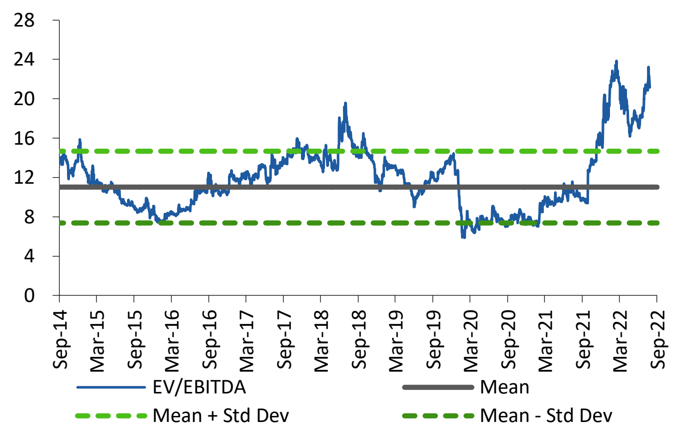
Bull case TP – Rs720: In this scenario, we expect the company to surpass our growth estimates and outperform. We expect the company to grow by 22.4% CAGR growth over FY22-24E vs 19% CAGR growth in our base case. Margin trajectory remains the same. This could be due to factors like faster improvement in domestic demand post lifting of export duties and improvement in export demand.

Exhibit 1: Valuation

Valuation	June'24E
EV/EBITDA Multiple	
EBITDA (Rs mn)	5,320
EV/EBITDA (x)	20
EV (Rs mn)	1,06,406
Add: Net Cash (Rs mn)	3,604
Fair value mkt cap (Rs mn)	1,10,010
No. of shares (mn)	161
Fair Value/share (Rs)	**683**
PE Ratio	
EPS (Rs)	23.0
P/E (x)	30
Fair Value/share (Rs)	691
Avg. of P/E & EV/EBITDA (Rs)	690
CMP	670
Upside	**3%**

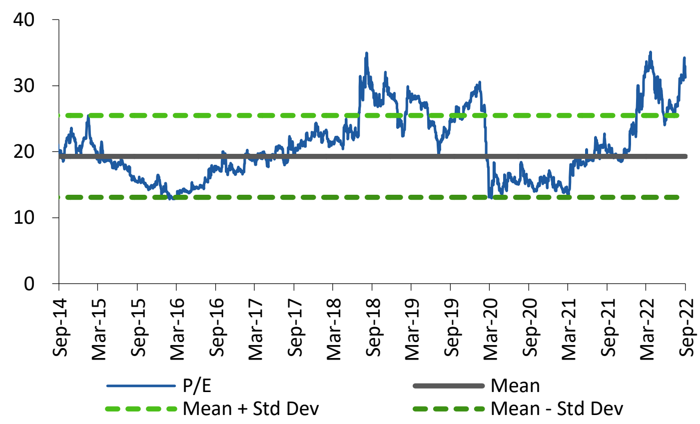
Source: MNCL Research estimates

Exhibit 2: 1-yr forward EV/EBITDA



Source: Company, Bloomberg, MNCL Research estimates

Exhibit 3: 1-yr forward PE ratio



Source: Company, Bloomberg, MNCL Research estimates

Quarterly Financials and Key Performance Indicators

Exhibit 4: Quarterly Financials

Y/E March (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	1QFY23
Net sales	**3476**	**3839**	**4073**	**4293**	**4326**	**5433**	**5900**	**6020**
Other Operating Income	0	0	0	0	0	0	0	0
Total Income	**3476**	**3839**	**4073**	**4293**	**4326**	**5433**	**5900**	**6020**
Accretion to Stocks in trade & work in progress	144	(167)	(377)	(653)	(611)	342	(311)	(264)
Cost of Raw materials consumed	1107	1350	1648	1420	1535	2126	2087	2067
Purchase of traded goods	996	1195	1235	1914	1800	719	1565	1827
Staff cost	247	277	325	279	303	308	345	382
Other operational expenses	492	524	591	590	643	876	837	852
Operating Profit (Core EBITDA)	**491**	**660**	**652**	**742**	**656**	**1063**	**1377**	**1157**
Depreciation	72	78	78	78	82	86	92	92
EBIT	**419**	**581**	**574**	**665**	**573**	**977**	**1285**	**1065**
Interest	8	10	42	26	(9)	8	(3)	(1)
Other Revenue/Income	29	19	49	36	8	32	20	42
Exceptional items	0	0	0	0	0	0	0	0
Profit Before Tax	**440**	**590**	**581**	**675**	**591**	**1001**	**1308**	**1108**
Tax	115	151	155	175	160	240	309	285
Profit After Tax	**326**	**439**	**426**	**500**	**431**	**761**	**998**	**823**
Growth (%)								
Revenue	115.1	65.8	17.2	5.4	0.8	25.6	8.6	2.0
EBITDA	78.4	133.0	32.9	13.8	-11.6	62.1	29.6	-16.0
PAT	67.9	150.1	30.7	17.5	-13.8	76.5	31.2	-17.5
Margin (%)								
EBITDA	14.1	17.2	16.0	17.3	15.2	19.6	23.3	19.2
EBIT	12.1	15.1	14.1	15.5	13.3	18.0	21.8	17.7
PAT	9.4	11.4	10.4	11.6	10.0	14.0	16.9	13.7

Source: Company, MNCL Research

Financials (Consolidated)

Exhibit 5: Income Statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenues	**13,876**	**13,704**	**19,951**	**23,919**	**28,385**	**33,713**
Materials cost	8,644	8,554	11,932	14,478	17,126	20,314
% of revenues	*62.3*	*62.4*	*59.8*	*60.5*	*60.3*	*60.3*
Employee cost	924	1,056	1,235	1,507	1,763	2,063
% of revenues	*6.7*	*7.7*	*6.2*	*6.3*	*6.2*	*6.1*
Others	2,169	2,008	2,946	3,564	4,286	5,091
% of revenues	*15.6*	*14.7*	*14.8*	*14.9*	*15.1*	*15.1*
EBITDA	**2,139**	**2,085**	**3,838**	**4,370**	**5,210**	**6,246**
EBITDA margin (%)	***15.4***	***15.2***	***19.2***	***18.3***	***18.4***	***18.5***
Depreciation & Amortisation	262	298	338	404	521	644
EBIT	**1,878**	**1,787**	**3,500**	**3,967**	**4,689**	**5,601**
Interest expenses	123	65	22	47	47	47
PBT from operations	**1,754**	**1,723**	**3,478**	**3,920**	**4,643**	**5,554**
Other income	104	123	97	146	244	325
PBT	**1,858**	**1,846**	**3,575**	**4,066**	**4,887**	**5,880**
Taxes	499	480	885	1,057	1,271	1,529
Effective tax rate (%)	*26.9*	*26.0*	*24.8*	*26.0*	*26.0*	*26.0*
Rep. PAT	**1,359**	**1,366**	**2,690**	**3,009**	**3,616**	**4,351**
Adj. PAT	**1,359**	**1,366**	**2,690**	**3,009**	**3,616**	**4,351**

Exhibit 6: Key Ratios

Y/E March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth Ratio (%)						
Revenue		*(1.2)*	*45.6*	*19.9*	*18.7*	*18.8*
EBITDA		*(2.5)*	*84.1*	*13.9*	*16.0*	*19.9*
Adjusted PAT		*0.5*	*96.9*	*12.0*	*17.2*	*20.2*
Margin Ratios (%)						
EBITDA	*15.4*	*15.2*	*19.2*	*18.3*	*17.9*	*18.0*
PBT from operations	*12.6*	*12.6*	*17.4*	*16.4*	*15.9*	*16.0*
Adjusted PAT	*9.8*	*10.0*	*13.5*	*12.6*	*12.4*	*12.6*
Return Ratios (%)						
ROE	25.2	18.1	29.3	26.4	25.5	25.3
ROCE	19.2	17.3	26.4	25.3	24.3	24.2
ROIC	21.4	18.8	26.1	26.9	28.4	28.9
Turnover Ratios (days)						
Gross block turnover ratio (x)	7.7	4.6	5.6	5.7	5.6	5.2
Debtors	87	87	89	82	82	82
Inventory	73	94	111	100	85	85
Creditors	62	93	96	90	90	90
Cash conversion cycle	99	89	104	92	77	77
Solvency Ratio (x)						
Net debt-equity	-0.1	-0.1	-0.0	-0.1	-0.2	-0.2
Debt-equity	0.1	0.1	0.1	0.0	0.0	0.0
Interest coverage ratio	15.3	27.6	160.6	85.2	97.7	116.7
Gross debt/EBITDA	0.3	0.3	0.2	0.0	0.0	0.0
Current Ratio	2.8	2.4	2.2	2.2	2.3	2.3
Per share Ratios (Rs)						
Adjusted EPS	8.4	8.5	16.7	18.7	21.9	26.4
BVPS	43.7	50.1	63.9	77.9	94.4	114.2
CEPS	10.1	10.3	18.8	21.2	25.1	30.4
DPS	1.9	2.1	2.5	4.7	5.5	6.6
Dividend payout %	22%	25%	15%	25%	25%	25%
Valuation (x)*						
P/E (adjusted)	25.4	22.7	22.4	35.8	30.5	25.4
P/BV	4.9	3.9	5.9	8.6	7.1	5.9
EV/EBITDA	15.8	14.4	15.6	24.3	20.6	17.0
Dividend yield %	0.9%	1.1%	0.7%	0.7%	0.8%	1.0%

Source: Company, MNCL Research estimates

Exhibit 7: Balance Sheet

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	161	161	161	161	161	161
Reserves & surplus	6,872	7,897	10,126	12,383	15,095	18,358
Shareholders' fund	7,033	8,058	10,287	12,544	15,256	18,519
Total Debt (incl. pref shares if its thr)	656	598	590	82	82	82
Def tax liab. (net)	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-
Total Liabilities	**7,689**	**8,656**	**10,878**	**12,626**	**15,338**	**18,602**
Gross Block	2,810	3,208	3,909	4,483	5,786	7,161
Less: Acc. Depreciation	578	832	1,171	1,574	2,095	2,739
Net Block	2,232	2,375	2,738	2,909	3,691	4,422
Capital WIP	86	463	338	1,284	1,361	1,416
Net Fixed Assets	2,318	2,838	3,076	4,193	5,052	5,838
Right to use asset	43	56	87	87	87	87
Investments	0	0	0	0	0	0
Inventories	2,778	3,531	6,080	6,553	6,610	7,851
Sundry debtors	3,324	3,277	4,890	5,374	6,377	7,574
Cash	1,270	1,602	781	1,692	3,081	4,223
Loans & Advances	56	52	17	66	78	92
Other assets	728	1,240	1,811	1,403	1,654	1,953
Total Current Asset	8,156	9,702	13,579	15,087	17,799	21,693
Trade payables	2,351	3,479	5,267	5,898	6,610	7,851
Lease liabilities	9	23	57	57	57	57
Other current Liab.	383	323	368	655	778	924
Provisions	84	116	174	131	156	185
Net Current Assets	5,328	5,762	7,714	8,346	10,199	12,677
Total Assets	**7,689**	**8,656**	**10,878**	**12,626**	**15,338**	**18,602**

Exhibit 8: Cash Flow

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Operating profit bef working capital changes	2,263	2,136	3,965	4,370	5,210	6,246
Changes in working capital	-40	16	-2,833	279	-464	-1,336
Cash flow from operations	**1,732**	**1,654**	**273**	**3,592**	**3,475**	**3,381**
Net Capex	828	853	620	1,520	1,380	1,430
FCF	904	801	-347	2,072	2,095	1,951
Cash flow from investments	**260**	**-788**	**-699**	**-1,374**	**-1,136**	**-1,105**
Cash flow from financing	**-1,179**	**-537**	**-503**	**-1,307**	**-951**	**-1,134**
Net change in cash	**813**	**330**	**-929**	**911**	**1,389**	**1,142**

Source: MNCL Research Estimates

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No

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Name of the Analyst: Sahil Sanghvi

Analyst holding in stock: **NO**

Key to MNCL Investment Rankings

Buy: Upside by >15%, Accumulate: Upside by 5% to 15%, Hold: Downside/Upside by -5% to +5%, Reduce: Downside by 5% to 15%, Sell: Downside by >15%

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