18th Feb'18

Coverage closure on Ruchira Papers

&

Dec'17 earnings update on

Tiger Logistics

Orient Refractories

Dear Members,

We have released 18th Feb'18 – Coverage closure on Ruchira Papers and Dec'17 earnings update on Tiger Logistics and Orient Refractories. The same has been produced below. For other updates, please log into the website at the following link – http://katalystwealth.com/index.php/my-account/

Date: 18th Feb'18

Ruchira Papers (NSE – RUCHIRA) – Mar'17 Alpha stock

CMP – 183.95 (BSE); 185.65 (NSE)

Rating – Negative and coverage closure; this is not an investment advice (refer rating interpretation)

Ruchira Papers investment recommendation was initiated on 26th Mar'17 around 146 odd levels.

At the time of the recommendation we had mentioned that we are looking at the company from medium term perspective because of industry tail winds and Ruchira being one of the most efficient players. At the same time we liked it on the grounds that it was gradually expanding its capacity without going for any big-bang expansion and had shown great consistency in maintaining margins despite the commodity nature of the industry.

Since the recommendation the company has done well backed by growth in both volumes and realizations; however the company is now planning to go for a Greenfield expansion and we believe it won't be easy for the company to manage the same.

The company is planning a CAPEX of Rs 800 crore for setting up 1 lakh TPA capacity of writing and printing paper. It will manage Rs 450 crore from term loan and remaining from internal accruals, QIP and preferential allotment to promoters. For a company managing annual profit of Rs 40 crore, we believe Rs 800 crore CAPEX is a big ask and there will be several challenges on the execution front.

Also, looking back at some of the major capacity expansions of other paper manufacturing companies, almost all of them suffered for a year or two during and post expansion. Further, the management's focus has now completely shifted to

Greenfield expansion and doesn't expect any major increase in volumes at the existing plant.

Thus, we have a negative view on Ruchira Papers and closing coverage on the same with a gain of around 25%.

Tiger Logistics (India) (BSE – 536264) – Nov'17 Alpha stock

CMP – 208.20 (BSE)

Rating – Positive – 3% weightage; this is not an investment advice (refer rating interpretation)

After a dip in sales in Sep'17 quarter, Tiger Logistics has now reported 17.67% growth in sales on YOY basis to Rs 80.08 crore.

As Tiger primarily deals in export of Cargos, its business got impacted due to GST implementation and liquidity crunch with exporters on account of delay in refunds. Prior to GST, exporters were upfront exempted from paying any duties. But under GST, they are required to first pay the tax and later claim refunds. This constrained their working capital, at least once after the regime switch, since exporters would have had to adjust to the new tax regime.

The refund process is getting normalized now and the exports witnessed good growth in Nov'17, though on a low base of Nov'16.

As far as other developments are concerned, the company has tied-up with USA based M/s Compass Forwarding Co. Inc. and its subsidiary for entering new geographies and expanding its horizons into import segment as well. As per the management, they are already witnessing good traction in import order book and expect to close the year with decent growth.

On the front of gross margins, the company has recorded 16.13% against 13.54% in Dec'16 quarter reflecting better sales mix between multi-modal, transportation and CHA businesses.

While the gross margins have improved, employee and other expenses have increased by 40.76%. The company has been investing in strengthening its employee base and expanding its network of offices and we believe if the company is able to execute well the investments will pay off in terms of higher TEUs and overall business.

Despite higher operating expenses, the EBITDA is up by 39% to Rs 5.2 crore on the back of both higher sales and improvement in gross margins.

Company doesn't own any major fixed assets and therefore the depreciation cost is more or less same, while the interest cost has increased by 0.42 crore resulting in slightly lower gain of 27% on PBT.

As mentioned above, the payment cycle for exporters is normalizing now and the business is expected to gain traction. Further, with company entering new geographies and segments, the long term prospects look good.

The stock is currently trading around 21 times trailing twelve months earnings.

Orient Refractories (NSE – ORIENTREF) – Jan'14 Alpha stock

CMP – 170.15 (BSE); 170.70 (NSE)

Rating – Positive – 3% weightage; this is not an investment advice (refer rating interpretation)

Orient Refractories 3 Years price chart Source: BSE India

For the Dec'17 quarter the company has reported 23.23% growth in sales on YOY basis to Rs 157.83 crore. It's important to note here that there's no impact of base effect as such because last year as well the company had grown by 11.51%.

Company's main competitor Vesuvius has reported 8.09% growth in sales on YOY basis.

We believe Orient is benefitting from improving domestic market for steel and RHIs strong focus on exports from Indian subsidiary i.e. Orient Refractories.

On the front of raw materials the company has recorded gross margins of 46.06% against 45.05% in Dec'16 quarter.

As far as operating expenses are concerned, while the employee expenses are up only marginally, the other expenses are up by 34.71%. While the company hasn't given the break-up of expenses, there might be some provisions for receivables from stressed steel accounts just like it made some provisions in Jun'17 quarter.

The company is a net interest earner as it has cash surplus of around 100 crore +. On the back of higher other income, the PBT for Dec'17 quarter is up by 30.08% on YOY basis to Rs 33.50 crore.

The fortunes of steel industry have turned around and a lot of consolidation is also happening. Further, if the new facilities opt for Electric Arc furnace route, it will be beneficial for refractory manufacturers. Orient is also in the process of expansion of capacity from 9,300 tons per annum to 11,700 tons per annum and the same is likely to be operational by second half of 2018. Thus, with improving demand outlook and expansion in capacity, Orient Refractories is likely to continue performing well.

The stock is currently quoting at around 27 times trailing twelve months earnings

Disclosure: Out of the stocks discussed above, I have personal investment in Tiger Logistics with a buy transaction in the last 30 days.

Best Regards,

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Rating Interpretation

Positive – Expected return of ~15% + on annualized basis in medium to long term for investment recommendations and in short term for Special situations
Neutral – Expected Absolute return in the range of +/- 15%
Negative – Expected Absolute return of over -15%
Coverage closure – No further update on the stock
% weightage – allocation in the subject stock with respect to equity investments

Short term – Less than 1 year
Medium term – Greater than 1 year and less than 3 years
Long term – Greater than 3 years

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Details of Associates: Not Applicable

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