

Morganite Crucible India (BSE Code: 523160) – Alpha/Alpha + stock recommendation for Feb'15

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Company Snapshot (25th Feb'15)

BSE CMP – 500.00

Dividend yield – 0.20%

BSE Code – 523160

Market capitalization – Rs 140.00 cr.

Total Equity shares – 0.28 cr.

Face Value – Rs 10.00

52 Weeks High/Low – Rs 579.00/240.00

Particulars (in cr.)	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Income from operations	25.91	28.06	41.41	65.67	82.57	99.32	100.03	100.99
Gross profit	15.89	17.94	25.1	40.57	43.67	56.29	56.04	57.09
Gross Profit margin (%)	61.33%	63.93%	60.61%	61.78%	52.89%	56.68%	56.02%	56.53%
EBITDA	3.86	4.23	4.98	14.77	15.36	21.40	21.62	17.88
EBITDA margin (%)	14.90%	15.07%	12.03%	22.49%	18.60%	21.55%	21.61%	17.70%
Foreign exchange fluctuation gain/(loss)			3.22	1.08			0.39	1.17
Foreign exchange effect on borrowing								
Other Income								
Div/interest/exchange variation	0.60	0.47	0.10	0.11	0.22	0.48	0.72	1.07
Miscellaneous income			0.56	0.53	2.07	0.67	0.22	0.08
Depreciation	-1.59	-1.66	-2.33	-3.71	-4.02	-4.02	-4.69	-5.59
Interest	-0.76	-0.76	-1.2	-1.29	-0.76	-0.35	-0.04	-0.34
PBT	2.10	2.28	5.33	11.48	12.28	18.18	18.22	14.27
PAT	1.23	1.14	3.51	7.87	6.72	11.59	10.92	8.73
Net PAT after minority interest	1.04	0.85	2.95	7.23	5.72	10.23	9.62	8.44
ROAE	7.09%	5.44%	16.83%	31.97%	19.66%	27.72%	20.69%	15.29%
Cash flows from operations	3.12	3.7	5.17	8.62	15.46	7.77	14.47	7.07
Net debt	4.58	8.05	18.83	10.91	-0.87	-2.8	-14.23	-17.68

Introduction

Morganite Crucible (India) Limited is engaged in the manufacturing and sale of crucibles and allied refractory products. The company offers silicon carbide crucibles, clay graphite crucibles, and carbon and graphite accessories of crucibles. It was formerly known as Greaves Morganite Crucible Limited and changed its name to Morganite Crucible (India) Limited in August 2006.

Morganite Crucible (India) Limited is based in Aurangabad, India and is a subsidiary of Morgan Advanced Materials plc UK which has a long heritage of manufacturing quality crucibles and allied products.

Due to the strong parentage of Morgan Group (Morgan Advanced Materials), Morganite Crucible India offers industry's largest selections of crucible brands, which enables it to appeal to the many regional application differences and specific customer requests. In general, they have three main families of brands: the Syncarb family, used primarily in aluminium alloys and zinc distillation; the Excel Himelt family, used primarily for high temperature applications like copper alloys and precious metals; and the Grafit family, used mainly for aluminium holding.

Various Applications of crucibles – Crucibles and allied products from Morganite Crucible provide melting solutions to foundries, die-casters and metal melting facilities covering melting applications that include zinc, precious metals, aluminium, copper/brass/bronze and other non-ferrous metals.

Crucibles are widely used in non-ferrous castings for automotive, aerospace, marine and rail markets; the recycling and refining of precious metals; the production of metal powder for the cosmetics, aerospace and defence markets; copper and brass castings for the construction, chemical processing and oil and gas sectors; the production of pure aluminium for electronics applications; the production of zinc and zinc oxide required in the making of plastics, ceramics, glass, cement, rubber and pharmaceuticals; and alternative energy applications, including wind and solar.

In fact, crucibles find usage in any application where the customer requires a consistent supply of high quality molten metal.

Industry Characteristics – Crucibles industry has reasonable level of entry barriers in the form of technology and customer stickiness. Customization based on the needs of the customers and constant support help in customer stickiness. Lastly, the cost of crucibles in the overall project cost is low, however the cost of failure is high and therefore vendor selection process by the clients is very stringent.

Performance and Valuations – As far as performance of Morganite Crucible is concerned, it has been very steady across the years with strong profitability, good return ratios and debt free balance sheet with surplus cash to the tune of ~10% of the market cap of the company.

Over the last 5 years the sales of the company have grown by ~20% on annualized basis with stagnation in growth during the last 2 years. Similarly the profitability has grown in excess of 25% while consistently maintaining EBITDA margins and return ratios in excess of 20% and attaining debt free status.

Considering the MNC parentage, quality of operations of the company, reasonable entry barriers to the business and the performance, we find the valuations of this debt free company reasonable at ~10 times pre-tax earnings.

Morganite Crucible – digging deeper

Strong Parentage – Morganite Crucible India is an Indian subsidiary of Morgan Advanced Materials plc, a United Kingdom based group with its headquarters in London, sales of ~£ 1 billion, more than 150 years of experience and a recognized leader worldwide in the supply of crucibles to non-ferrous metals industries.

Through a century and a half of continuous engineering innovation, Morgan Advanced Materials has been a recognized name in crucibles and foundry products. The company dates back to 1856 when six Morgan brothers began making their patented graphite crucibles in Battersea, now part of London, England.

During the last 160 years, Morgan group has developed a very extensive knowledge on the key aspects of formulation and glazing, as well as on the different technologies used to form a crucible, like oppressing, roller forming and rib forming, critical processes in the manufacture of quality crucibles.

At present, Morgan Group is a world leader in advanced materials with focus on specialty ceramics, carbon and composites. It employs around 9,844 people and serves customers in over 100 countries around the world with approximately 90 manufacturing sites around the world, working in ceramic and carbon materials.

Technical know-how and management services from the parent group – Morganite Crucible India Ltd. (MCIL) has business of Crucible, Crucible accessories, foundry consumables and allied products and in this industry technology plays a crucial role.

With the increasing price of energy and its cost impact on customers, the market is scouting for new energy efficient crucibles. Moreover, the trend is to minimize maintenance costs for the customer so the crucible lifetime is becoming a strong discriminant for choosing the right product for the right application. Further, customers also seek certain degree of customization based on their specific requirements.

Thus, technology plays a crucial role in this industry and this is where Morganite Crucible India gets the benefit of the parentage of Morgan Group.

With the optimistic growth of the Indian economy the demand for the Company's product is expected to pick up. Further with the agreement for providing services the company would get technical knowhow from the parent company and is therefore expected to improve the quality of the product significantly. The Directors are reasonably confident that with these changes the performance of the Company would improve barring unforeseen circumstances. Considering the same fact your company has entered into an agreement with The Morgan Crucible Company Plc UK for providing management services in the area of planning, sales, accounts, HR policies and various other commercial aspects. The benefit is seen in the year under review. Your Directors have also executed an agreement with The Morgan Crucible Company Plc UK for use of trade mark logo and GBU charges.

As can be observed from the above snapshot, the company has a tie-up to get the technical knowhow from the parent company and has also entered into an agreement for getting management services in the various areas from the Morgan group.

Morgan Group's focus on low-cost manufacturing of crucibles in India – It's important to note here that crucibles is the oldest business of Morgan Group and along with China, India's Morganite Crucible holds an important position in the group's affairs as a low cost and one of the very few crucibles manufacturing sites of the Morgan group.

In fact, in order to avail low cost manufacturing benefits in India, Morgan group moved one of its biggest plants from the UK to India in 2008 and Morganite Crucible now exports to Morgan's subsidiaries in North America, Germany, etc.

Particulars	2014					Total
	India	Outside India			Other	
		Asia and Far East	Europe	Africa and Middle East		
Revenue from external customers	386,397,128	137,889,713	207,256,994	181,523,327	83,643,745	996,710,907
Carrying amount of segment assets (Trade receivables only)	85,693,685	16,738,224	36,793,949	19,865,995	8,539,516	167,631,368
Addition to fixed assets during the year	73,634,308	-	-	-	-	-

Below, some excerpts have been produced from Morgan Advanced Material's AR 2013 indicating the significance of crucibles and India in the overall scheme of operations of the company.

Significant development has also taken place in the crucibles business. This is the Group's original and oldest product range, but there has been a major focus on and successful introduction of new, innovative coatings that give the crucibles much improved performance characteristics and expanding their applications to areas such as high-purity alumina processing for the electronics industry and for nuclear waste treatment.

Operations

As noted above, the Group has a truly global footprint that allows it to effectively serve its customer base. Utilising that footprint in terms of providing the highest level of service excellence to its customers and maximising operational excellence and cost-efficiency is a critical element of the business model.

The Group continues to increase the effective use of its low-cost manufacturing footprint, through sites in Hungary, Mexico, India and China. These sites act as points of supply to their immediate geographic regions and also as global points of supply where appropriate. Operational benchmarking across sites with similar products/processes is also utilised alongside a suite of operational efficiency initiatives.

of the year. Management have taken the view that the industrial part of the economies such as China and India, which represents the major part of Morgan's business in those countries, will recover and that the Group is well-placed to take advantage of this recovery and that the resource base that has been installed over recent years, and indeed added to where appropriate in 2013, needs to be largely retained to deliver this.

Footprint

As at 31 December 2013 the Asia/Rest of World Region comprises 25 operating sites employing 3,000 people. The principal manufacturing sites are located in China, India, South Korea, Australia, Japan, Brazil and Argentina. These manufacturing sites are supported by a network of sales and application engineers to ensure that customers are well supported across this large region with the appropriate Morgan resource. Where appropriate, use is also made of third-party distributors.

It is clear that many of the countries in the Region are starting to demand technically differentiated products for markets such as medical, aerospace and electronics. Morgan is ideally placed to take advantage of this through an ability to take a large product range to market, initially using Western-sourced technical support and products, but rapidly moving to in-Region manufacturing. The Region has already been successful in making sales to the medical and aerospace markets and are looking for the most effective way to develop full local capability, through a combination of direct investment and partnerships with locally established players.

Crucibles Industry – Basic understanding



A crucible is a pot that is used to keep metals for melting in a furnace. Furnace crucibles are designed to withstand the highest temperatures encountered in the metal casting works. The crucible should essentially be made of materials with a much higher melting

point than that of the materials to be melted. The crucible materials should also have good strength even when extremely hot.

Furnace crucibles come in a variety of metal constructions, such as clay-graphite, silicon-carbide, and more. These materials can resist the extreme temperatures in typical foundry operations. Silicon carbide has the additional benefit of being a highly durable material.

Crucible's unique ability to melt, hold and transfer metal using a single vessel, while also allowing incompatible alloy changes to be made simply by switching vessels is unchallenged in the industry.

Even when fixed within the furnace structure, crucibles offer significant advantages when compared to directly-heated fuel-fired furnaces and to electric resistance or induction furnaces with rammed refractory linings. These important benefits include:

- Lower Metal Loss / Cleaner Metal
- Alloy Flexibility
- Significantly Reduced Downtime/Quick Replacement

Applications and the sectors in which crucibles are used – Crucibles provide melting solutions to foundries, die-casters and metal melting facilities covering melting applications that include zinc, precious metals, aluminium, copper/brass/bronze and other non-ferrous metals.

Crucibles are widely used in non-ferrous castings for automotive, aerospace, marine and rail markets; the recycling and refining of precious metals; the production of metal powder for the cosmetics, aerospace and defence markets; copper and brass castings for the construction, chemical processing and oil and gas sectors; the production of pure aluminium for electronics applications; the production of zinc and zinc oxide required in the making of plastics, ceramics, glass, cement, rubber and pharmaceuticals; and alternative energy applications, including wind and solar.

In fact, crucibles find application wherever the customer requires a consistent supply of high quality molten metal.

As for emerging applications, more than ever, there's a strong focus on purer aluminium for electronics, applications with temperatures higher than 1500 C, and also some new markets where the crucibles are used as container for heat treatments of different materials.

Industry Characteristics – Crucibles industry has reasonable level of entry barriers in the form of technology and customer stickiness. Product customization based on the needs of the customers and constant support also helps in customer stickiness. Lastly, the cost of crucibles in the overall project cost is low, however the cost of failure is high and therefore vendor selection process is very stringent.

Further, with increasing cost of energy and its impact on customers, the market is seeking energy efficient crucibles with higher lifetime and also niche applications like nuclear waste treatment or high-purity alumina processing for the electronics industry requires constant innovation at the end of crucibles manufacturers giving well-established players with strong R&D an edge over others.

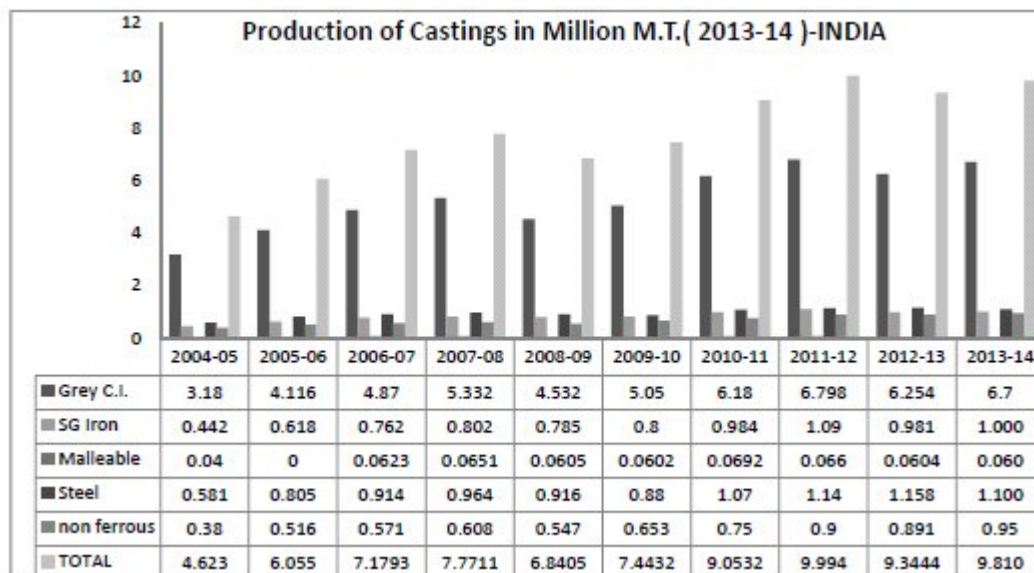
Growth outlook for Crucibles Industry

Crucibles are used as consumables in foundries and therefore the growth of crucibles industry is directly related to the growth of foundry industry in India and globally.

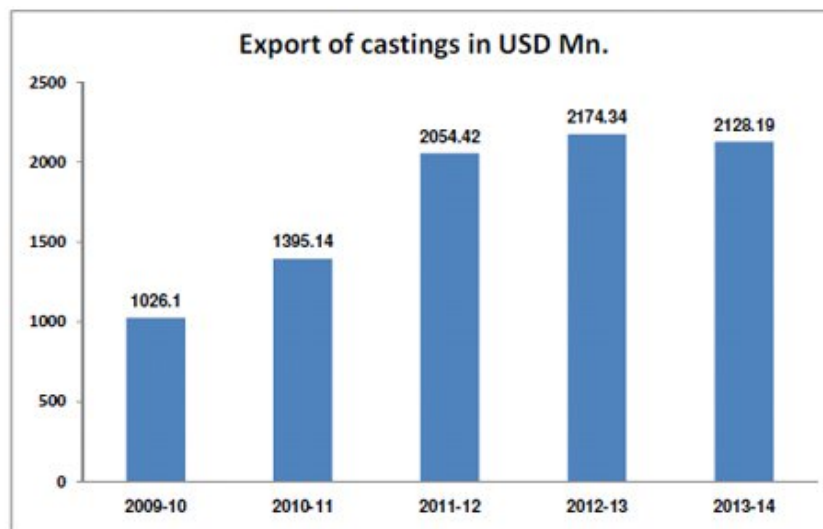
Foundries produce castings that are close to final product shape, i.e., "near-net shape" components. Castings are produced by pouring molten metal into moulds with cores, used to create hollow internal sections. After the metal has cooled sufficiently, the casting is separated from the mould and undergoes cleaning and finishing operations.



The Indian Metal Casting (Foundry Industry) production is estimated to be 9.8 Million MT of various grades of Castings (Source: Indian Institute of Foundrymen). Grey iron castings have the major share i.e. approx. 68% of total castings produced. The castings produced by foundries make way into various other end user sectors like the automotive, construction, heavy machinery, railways, valve and general engineering. Foundry Industry has a turnover of approx. USD 15 billion with exports of approx. USD 2 billion



The foundry industry in India has been growing steadily over the past several years despite economic slowdown denting its demand from the end user industry i.e. engineering and auto component sectors. Generally, moving in tandem with the growth of the country's economy, the Indian foundry industry has surpassed India's GDP growth with a wide margin. While India's GDP growth has been witnessing between 5-8 per cent in the last few years, the foundry industry has recorded a growth of around 12-15 per cent due to increasing demand of vehicles from tier II and III cities.



Though, the growth of the industry has been impacted due to economic slowdown during last couple of years, Indian casting players are optimistic about higher growth in the next few years. The Indian casting industry is projected to grow to \$19.2 billion by 2016-17.

Foundries moving out from developed world to developing countries – The position of Foundries is of conflicting importance among the manufacturing industries. The castings alone account only for 0.31% of the world GNP and 5% of the world metal production. Thus Foundries do not rule the world economy. But as main inputs into nearly all industrial products and daily life, this casting industry is indispensable.

The foundry industry is labor intensive and labor costs in India are some of the lowest in the world. Also constructing and registering new casting facilities are quicker and cost

effective. Cost of dies and tooling are significantly lower than in developed countries, although tooling quality may not be as good.

Opportunity in domestic as well as export market makes hi-tech foreign players to collaborate with local manufacturers. There's a possibility of technology collaborations to bring local suppliers up the value chain and cater to newer markets. Now several premium car manufacturers are looking to establish their manufacturing operations in India and the same is likely to result in global casting and component companies trending to follow their customers to destinations like India.

Already a major happening in the global scenario is the shift and moving of manufacturing bases from developed countries (Europe and US) to third world countries especially in Asia. Also China, the number one producer in the world, is now focusing on domestic demand created by its recent 1.5 trillion U.S. dollar investment in the infrastructure development. This temporary diversion of Chinese output has created a vacuum in the international market to be taken up by upcoming foundry producers like Mexico, Turkey, Poland, Czech Republic, and Russia apart from India.

Bright outlook for Indian Foundries – India offers several operational advantages to casting and component manufacturing companies.

As per Mr. Vinod Kumar, Vice-President, World Foundry Organization, The total requirement of castings is about 20 million metric tons in India per year. There is a projected gap in the supply and the demand of castings. The Indian foundry industry can look forward to accelerated growth for many years to come as the existing foundries have started investing to increase their productivity and capacity.

The government's focus on increasing the share of Manufacturing in GDP; the new Manufacturing Policy aimed at enhancing the creation of new jobs; the Automotive Mission Plan 2016; ambitious plans for infrastructure development and power projects in the 12th Plan (2012-17); and the gradual shift of manufacturing to India for global operations of various OEMs are the growth indicators for the Indian Foundry industry.

As per the report by Metalworld, the USA and the European Union are the biggest markets for casting products, however lately the market is weak because of the financial crisis in the Euro Zone. At the same time there are new growth opportunities, especially in specialty castings for power sector, including thermal (Ultra Mega Power projects), Nuclear Power, Renewable Energy and Automotive Sector (light-weighting of automobiles).

Also, though India's share in the world casting industry has doubled from 5% to ~10% in last decade on the back of strong growth in production capacity, the scope for enhancing the Indian share in the global market is still significant. In terms of manufacturing capability and technology a good castings company in India can not only match its rivals in Western Europe or North America but also has a competitive edge in terms of labour costs and current exchange rate.

Morganite Crucible – Performance Snapshot

Companies with consistent demonstration of earnings power, good return ratios, low or zero debt and simple businesses are in general good and safe investment opportunities unless bought at exorbitant valuations and as can be observed from the below performance illustration of Morganite Crucible, it ranks high in almost all the financial parameters mentioned above.

Particulars (in cr.)	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Income from operations	25.91	28.06	41.41	65.67	82.57	99.32	100.03	100.99
Gross profit	15.89	17.94	25.1	40.57	43.67	56.29	56.04	57.09
Gross Profit margin (%)	61.33%	63.93%	60.61%	61.78%	52.89%	56.68%	56.02%	56.53%
EBITDA	3.86	4.23	4.98	14.77	15.36	21.40	21.62	17.88
EBITDA margin (%)	14.90%	15.07%	12.03%	22.49%	18.60%	21.55%	21.61%	17.70%
Foreign exchange fluctuation gain/(loss)			3.22	1.08			0.39	1.17
Foreign exchange effect on borrowing								
Other Income								
Div/interest/exchange variation	0.60	0.47	0.10	0.11	0.22	0.48	0.72	1.07
Miscellaneous income			0.56	0.53	2.07	0.67	0.22	0.08
Depreciation	-1.59	-1.66	-2.33	-3.71	-4.02	-4.02	-4.69	-5.59
Interest	-0.76	-0.76	-1.2	-1.29	-0.76	-0.35	-0.04	-0.34
PBT	2.10	2.28	5.33	11.48	12.28	18.18	18.22	14.27
PAT	1.23	1.14	3.51	7.87	6.72	11.59	10.92	8.73
Net PAT after minority interest	1.04	0.85	2.95	7.23	5.72	10.23	9.62	8.44
ROAE	7.09%	5.44%	16.83%	31.97%	19.66%	27.72%	20.69%	15.29%
Cash flows from operations	3.12	3.7	5.17	8.62	15.46	7.77	14.47	7.07
Net debt	4.58	8.05	18.83	10.91	-0.87	-2.8	-14.23	-17.68

As can be observed above, the company has consistently reported good growth in sales barring the last 2 years when its sales growth was flat due to industrial slowdown both in India and worldwide. The sales of the company got a major push from FY 08 onwards when Morgan Group moved one of its biggest plants from the UK to India and made India it's one of the low cost manufacturing hubs for crucibles.

What is important to note is that despite a major industrial slowdown, Morganite Crucible could still maintain its sales at around 100 crores due to the repeat nature of the business. Basically, crucibles experience wear and tear with regular use and therefore have a limited lifetime and need to be replaced at regular intervals. This ensures repeat business for crucible's manufacturers and thereby stability in revenues.

As far as profitability is concerned, Morganite Crucible is a highly profitable company with very high margins, good returns ratios, strong cash flows and zero debt with surplus cash of 15 crores.

In general we look for companies with gross margins of 30% or more and maintenance of the same as to a certain extent higher gross margins and their maintenance is reflective of non-commodity nature of the product line and pricing power with the company and as can be observed Morganite Crucible has gross margins of 55% + and has consistently maintained them above 55%.

Similarly the EBITDA margins of the company have also been good in the range of 18-22%. With the improvement in sales and better capacity utilization, EBITDA margins of the company are again expected to climb up to 20% + levels.

On the capital allocation front and the return ratios, the company is debt free so the only capital employed is equity and on the same the company has consistently been generating 15% + (avg. of 23% for the last 5 years) return on post tax basis.

Company's cash flows from operations have also been extremely good enabling it to pay off the entire 20 crore debts it had at the end of the FY 09 to fund the CAPEX and is now debt free with surplus cash and cash equivalents to the extent of 15 crores.

Future outlook – As per the management, even with a bit of slowdown in parts of Europe, India and Asia, most industry analysts see some positive things happening in the industry and one of the key factors contributing to the growth is the continued migration of manufacturing operations to emerging markets including India.

For the crucible industry, the Asian market is becoming more and more attractive, which is the reason why Morgan group moved one of its biggest plants from the UK to India in 2008-09 and as a result Morganite Crucible India is now acting as a major crucibles export hub for the Morgan group.

It's still early days to predict the revival of growth, however the performance of Morganite Crucibles for the nine months ending has been good and further improvement is expected over the next 2-3 years.

Financial Performance details (Standalone) for 9M FY 15 are as below:

- Sales of the company are up by 10.06% to Rs 70.14 crores
- EBITDA of the company is up by 26.47% to Rs 16.38 crores.
- EBITDA margins for the 9M FY 15 are 23.35% against 20.32% for the corresponding period of FY 14
- The Profit before tax of the company is lower by 9.37% to 10.50 crores

Regarding Profit before tax being lower, reassessment of useful life of fixed assets has resulted in depreciation provision being higher by 2.13 crores and there are also prior period charges of 0.63 crores.

On ignoring the impact of the above two charges, the Profit before tax is up by 13.64%

Shareholding pattern

	Dec'14	Sep'14	Jun'14	Mar'14	Dec'13
Promoter and Promoter Group	75.00%	75.00%	75.00%	75.00%	75.00%
India					
Foreign	75.00%	75.00%	75.00%	75.00%	75.00%
Public	25.00%	25.00%	25.00%	25.00%	25.00%
Institutions	0.86%	0.34%	0.35%	0.40%	0.02%
FII	0.57%	0.02%	--	--	--
DII	0.29%	0.32%	0.35%	0.40%	0.02%
Non-Institutions	24.14%	24.66%	24.65%	24.60%	24.98%
Bodies Corporate	2.61%	3.13%	3.64%	4.10%	5.72%

Custodians	--	--	--	--	--
Total	2,800,000	2,800,000	2,800,000	2,800,000	2,800,000

From a passive investor's perspective it's important for the ones running the company to have high ownership as it aligns their interest in line with those of minority shareholders and in the case of Morganite Crucible the promoters owned 75.00% equity stake at the end of Dec'14.

As far as management team is concerned, it's headed by Mr. Hitesh Saiwal as the Managing Director. He is a Fellow Chartered accountant and Qualified Company Secretary having rich experience of more than 16 years in various areas such as Indian GAAP reporting, Direct and Indirect Taxation, Treasury, Business valuation, internal control process implementation, Company Secretarial work. He also has expertise in diverse fields such as ERP implementation, Process Automation, Advance Financial Reporting, developing financial strategies, Internal Control Strategies, Project Planning and implementation etc.

As on 31st Dec'14, the major shareholders of the company and their stakes are as below:

Name of the shareholder	Category	% stake in Morganite Crucible
Morgan Terrassen BV and PAC	Promoters	75.00%
Religare Finvest	Public	2.62%

Dividend Policy

Dividend Payout ratio					
	FY 10	FY 11	FY 12	FY 13	FY 14
Dividend Payout ratio	--	--	2.73%	2.91%	3.31%

We believe the dividend payout policy of Morganite Crucibles can be slightly better as at the moment it is paying out only 2-3% of the profits to the shareholders and retaining the rest.

The company is debt free with surplus cash to the tune of 15 crores and has consistently been generating strong cash flows from operations. Thus, even with higher payout of 15-20%, it will still have reasonable amount for carrying out further expansions as and when required.

Valuations

Before discussing valuations, let's recall all that we have learnt about Morganite Crucibles in the above sections:

- Morganite Crucibles is a part of Morgan Advanced Materials which is the leading company in the world in crucibles.
- The company has the technology backing and gets management related services from the parent group.
- There are reasonable entry barriers to the business of crucibles due to very high customer stickiness, technology and high cost of failure.
- Crucibles get corroded with use and therefore have limited lifetime and need to be replaced at regular intervals, thus giving sustainable and steady business to crucible's manufacturers even during periods of slowdown.
- Morgan Advanced Materials has only India and China as major manufacturing hubs for crucibles and in 2008-09 it moved its biggest plant from UK to India to make most of low cost manufacturing operations in India.
- Crucibles are used as consumables in foundries and therefore the growth of crucibles industry is directly related to the growth of metal casting industry in India. Over the last decade India has doubled its market share in the global metal casting industry from 5% to ~10% and there's still huge scope for improvement as the manufacturing facilities in India are comparable to the world's best and there are obvious cost advantages.
- The government's focus on increasing the share of Manufacturing in GDP; the new Manufacturing Policy aimed at enhancing the creation of new jobs; the Automotive Mission Plan 2016; ambitious plans for infrastructure development and power projects in the 12th Plan (2012-17); and the gradual shift of manufacturing to India

for global operations of various OEMs are the growth indicators for the Indian Foundry industry.

- Strong and consistent operating performance of Morganite Crucible in terms of growth, margins, return on equity, cash flow generation.
- Debt free with surplus cash to the tune of ~10% of the current market cap.
- Experienced promoters and strong management team with their interests directly aligned with those of minority shareholders.

Coming back to valuations, there are companies similar to Morganite Crucible like Foseco India, Vesuvius India, Orient Refractories, FAG Bearings, SKF India, etc. All the mentioned companies have similar product line and the operating performance is also similar in terms of low or zero debt, good return ratios, foreign parentage, consistent growth, etc.

Out of the above Foseco is very similar to Morganite Crucible as Foseco also deals in foundry consumables and Foseco is currently quoting around 20 times trailing pre-tax earnings. Similarly the other mentioned companies are also quoting in the range of 14 times to 30 times pre-tax earnings.

It's not right to expect Morganite Crucible to trade at same valuations as other mentioned companies, because the scale of operations of Morganite Crucible is much smaller, however considering the MNC parentage, quality of operations of the company, reasonable entry barriers to the business and the performance, we find the valuations of this debt free company reasonable at 10 times pre-tax earnings.

Also, with the improvement in scale of operations of the company, it could see re-rating in valuations in line with other companies.

Risks & Concerns

- For some time the industrial growth has been slow across the world and continuation of the same will directly impact the ability of Morganite Crucible to shore up its sales and profitability.
- Company derives more than 50% of its sales from exports and does not have 100% natural hedge against such exports and is therefore exposed to fluctuations in currencies like Euro, Pound and USD.
- The company pays management and royalty charges to the Morgan Group as it has been gaining from the management and technical know-how of the parent company, however if the same is increased disproportionately, it can impact the profitability of the company.
- Due to small equity base and high promoter holding, the liquidity in the stock is low.

Analyst Details

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Analyst ownership of the stock: No

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