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RHI Magnesita India

Recommended Date: 22 Dec 2025 **Price: 451** **Action: BUY**

Industry/Sector	Target Price	Upside Potential	Investment Duration
Refractory – Proxy to Steel Sector	532	18%	6 to 9 Months

About Company:

- RHI Magnesita India is the domestic refractory market leader with ~30% share & a total manufacturing capacity of 512ktpa, strengthened by the Dalmia OCL & Hi-Tech acquisitions. Company is positioned to benefit from strong demand in the steel sector, which contributes ~70% of revenue, along with broader industrial applications in cement, glass & non-ferrous. With ~150kt of available capacity headroom and access to global technology transfers, RHI is equipped for margin & product mix improvement over the medium term. Its pan-India manufacturing network spans Bhiwadi, Vishakhapatnam, Cuttack and now Jamshedpur and additional western and southern markets, enabling deeper geographical penetration & faster delivery to key steel clusters.

Investment Rationale:

- **Robust Operational Recovery and Volume Growth:** Company demonstrated strong operational momentum in Q2FY26, with capacity utilization jumping to 72% from 66% in the previous quarter. This recovery is underpinned by a healthy 9% QoQ growth in sales volumes (141kt) and an 18% increase YoY.
- **Imminent Margin Expansion in H2FY26:** While elevated raw material costs pressured margins in the first half of the year, a significant pivot is expected in H2. The exhaustion of high-cost alumina inventory in November 2025 clears the path for lower input costs. Management anticipates EBITDA margins to climb to 14–15% for the H2 of FY26, a sharp increase from the 10.6% seen in H1. This expansion will be further supported by product mix optimization and increased market share in high-value segments like ladle furnaces.
- **Strategic Integration and Synergy Gains:** The integration of Dalmia OCL & Hi-Tech is yielding tangible results, with the Dalmia segment already reporting a 27% QoQ revenue surge and margin improvement to 11.4%. The ongoing technology transfer from the global parent company is a key differentiator, allowing RHIM to modernize domestic plants and enhance product quality. This strategy not only improves efficiency but also positions the company to cater more effectively to Tier-2 steel mills.
- **Efficient Capital Allocation and Capacity Headroom:** The planned INR 1.5bn capex for FY26 is strategically focused on modernizing acquired assets to reduce labour costs and rejections. With current acquired capacities running at only ~60% utilization, RHIM has a substantial 150kt of "hidden" capacity available for ramp-up over the next 3-4 years. This allows for significant organic growth without the immediate need for massive greenfield investments, ensuring a high return on incremental capital.
- **Resilient Outlook Despite Macro Headwinds:** Despite risks such as volatile import prices for Magnesia and potential steel dumping from China, RHIM's financial health remains stable with a conservative Net Debt/EBITDA of 0.45x. The company's pivot toward higher-margin industrial orders and its critical role in the steel production process (accounting for 80% of revenue) make it a primary beneficiary of India's long-term infrastructure and industrial growth story.

Potential Risks:

- Company remains dependent on imported raw materials, especially magnesia and alumina, where price volatility and supply disruption can materially affect margins. Elevated global commodity prices may restrict near-term profitability until cost normalization fully reflects in operations.
- Steel dumping risk from China and Korea could pressure domestic steel production, affect utilisation rates and reduce refractory demand. Such a downturn may trigger operating deleveraging, impacting fixed-cost absorption and sales volume growth for RHI.
- Company carries exposure to external commercial borrowings, creating vulnerability to INR depreciation and foreign exchange losses. Any currency volatility may lead to higher finance cost and earnings volatility, affecting valuation sentiment.
- Company's business growth is heavily reliant on steel sector momentum; any slowdown or delay in steel industry expansion, or in turnaround and integration of recently acquired assets, could defer margin improvement and weaken earnings delivery.

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