Initiating Coverage

21st November, 2023

DALAL & BROACHA
STOCK BROKING PVT. LTD.

Poised for further Re-rating

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IFGL Refractories

Initiating Coverage | Refractories

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EQUITY RESEARCH DESK

21 November 2023

Poised for further Re-rating

IFGL emerges as a robust contender in the specialized refractories market, boasting a market share of 6% in the overall Indian refractory industry and an impressive 15% in the Indian flow control industry. The company's management has outlined ambitious plans, aiming to double its revenue from FY21 to FY26. This growth trajectory is expected to be powered by an expanded product portfolio, the introduction of cutting-edge technological products from its state-of-the-art R&D center, substantial investments in the domestic market (aligned with India's significant steel capacity expansion), and enhanced performance from its subsidiaries.

While peer companies command higher valuations due to their MNC status and marginally better return ratios, we firmly believe that IFGL offers a margin of safety merited by its past and expected operational performance. Based on our estimations, a contraction in the P/E multiple discount (currently ~50%) between IFGL and its peers (RHI Magnesita & Vesuvius) is likely, particularly if IFGL sustains its robust performance. IFGL is available at a PEG ratio of 0.9x which is reasonable in our opinion as compared to its peers which trade at PEG ratio in excess of 1.75x.

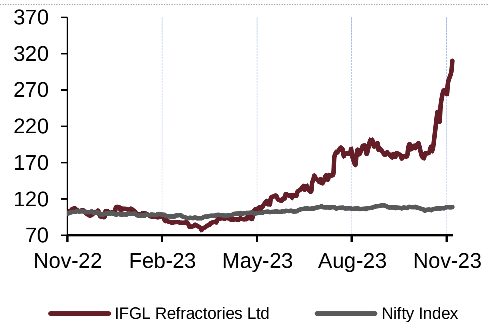
At its current market price of Rs 800, trading at 20.4x/18.3x FY25/FY26E, we value IFGL at 18x, representing a 40% discount compared to its peers. Considering the recent rally in the stock we inititate coverage on IFGL refractories with a recommendation of BUY on DIPS assigning a Target price of Rs 786 (18x FY26E).

Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	786	-3

Market Data		
Current price	**Rs**	**807**
Market Cap (Rs.Bn)	(Rs Bn)	29
Market Cap (US$ Mn)	(US$ Mn)	349
Face Value	Rs	10
52 Weeks High/Low	Rs	817 / 197
Average Daily Volume	('000)	153
BSE Code		5,40,774
Bloomberg		IFGLRF.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-23	Jun-23
Promoters	72.43	72.43
Public	27.57	27.57
Total	**100**	**100**

Source: Bloomberg

Financial Summary

Year End (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR (%) 23-26E
Net sales	10,220	12,595	13,865	17,301	19,258	21,640	16.00
Growth		*23.24%*	*10.08%*	*24.78%*	*11.31%*	*12.37%*	
EBIDTA	1,554	1,426	1,529	2,307	2,504	2,813	22.53
Growth		*-8.21%*	*7.25%*	*50.82%*	*8.54%*	*12.37%*	
Margins (%)	15.2	11.3	11.0	13.3	13.0	13.0	
Adjusted net profit	656	775	792	1,288	1,414	1,573	25.69
Growth		*18.14%*	*2.22%*	*62.57%*	*9.84%*	*11.19%*	
EPS (Rs)	18.2	21.5	22.0	35.7	39.2	43.6	
P/E (x)	44.0	37.2	36.4	22.4	20.4	18.3	
EV/EBITDA (x)	18	20	19	13	12	11	
RoCE (%)	13.51	10.51	9.58	13.47	13.32	13.77	
RoE (%)	7.37	8.30	7.88	11.62	11.55	11.68	

Source: Company, Dalal & Broacha Research

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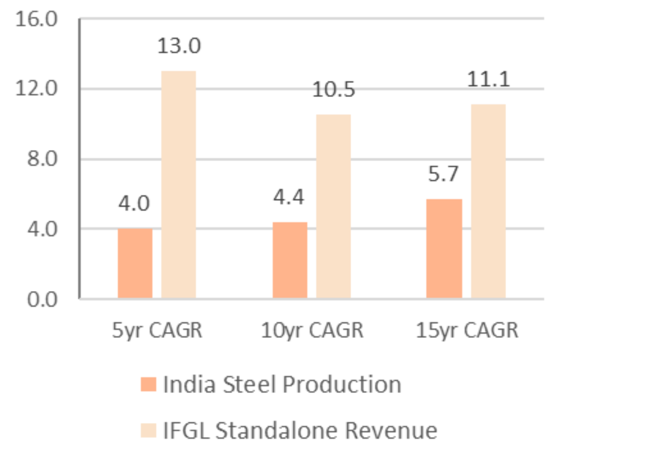
Investment Rationale:

➢ IFGL revenue growth outperforming Domestic and global steel production

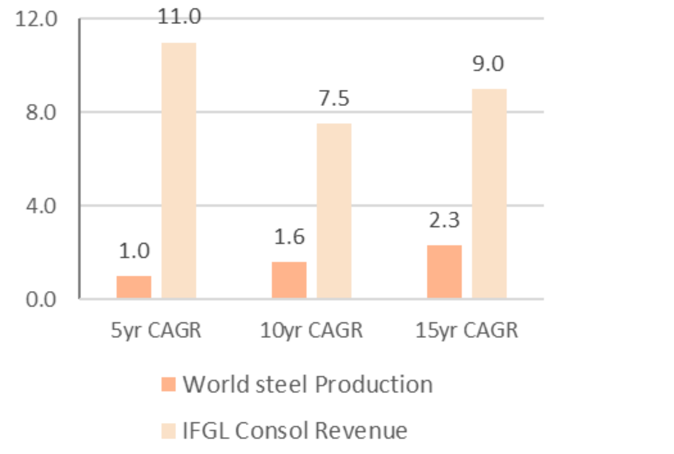
IFGL has demonstrated remarkable consistency in outperforming both global and domestic steel production across multiple time frames of 5 years, 10 years, and 15 years. This trend underscores the company's strategic expansion of its product offerings and its ability to capture a larger market share, as illustrated in the provided exhibit. Looking ahead, we anticipate IFGL to sustain its superior performance compared to the steel production sector. Our projections indicate a robust estimated consolidated CAGR revenue growth of 15% from FY23 to FY26E. This outlook stands in contrast to the relatively modest growth of low single digit expected in the global steel production during the same period.

Exhibit 1: IFGL standalone revenue CAGR vs India steel production over different timelines



Source: Company, Dalal & Broacha Research

Exhibit 2: IFGL consolidated revenue CAGR vs World steel production over different timelines



Source: Company, Dalal & Broacha Research

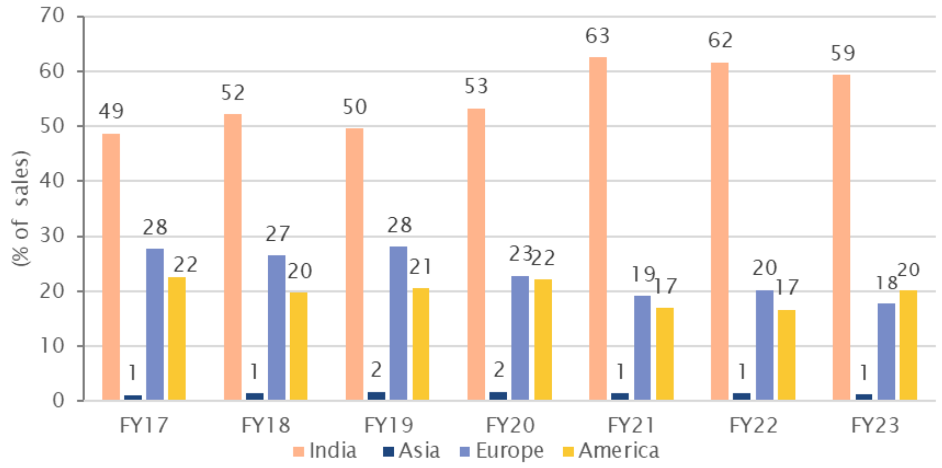
➢ Pivoting at the right time to reduce dependency on abroad markets and focus more on India

In the aftermath of the pandemic, the company's management astutely redirected their focus towards aggressive growth within the domestic markets. This strategic pivot aligns with the proactive initiatives undertaken by the Indian government, aiming to transform India into a global manufacturing powerhouse. These initiatives, undoubtedly, are poised to bolster the steel production sector in the country. Amidst a backdrop where several other nations are contending with challenges such as surging inflation, disruptions in gas supply, and geopolitical disturbances, India stands out as a beacon of growth in the steel industry.

Over FY23-30E, the world steel production is estimated to grow at a CAGR of ~4% vs 8 to 9% in India which clearly is the right move by the company to grow aggressively in India.

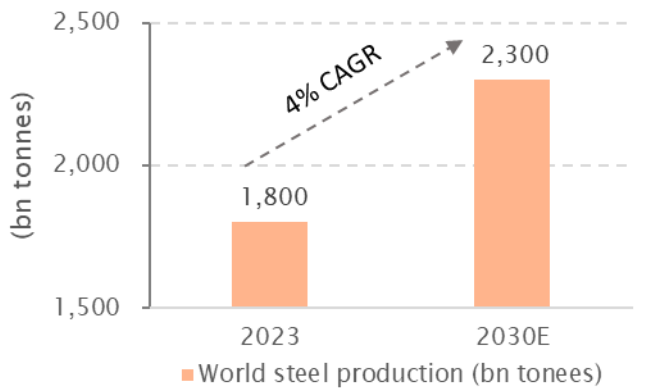
Prior to FY20, the revenue contribution from India was ~45 to 50% which has now gone up to ~60% providing a lever for improvement in the operating margins and we believe this mix should continue forward. The company has a better margin profile in India than other geographies. This shift in the geographical mix will help to improve the operating margins by 100 bps to 200 bps on a consolidated level. Currently the capex of Rs ~3000 Mn announced by the company is focused towards domestic markets which should bode well for the margins.

Exhibit 3: Revenue contribution geography wise



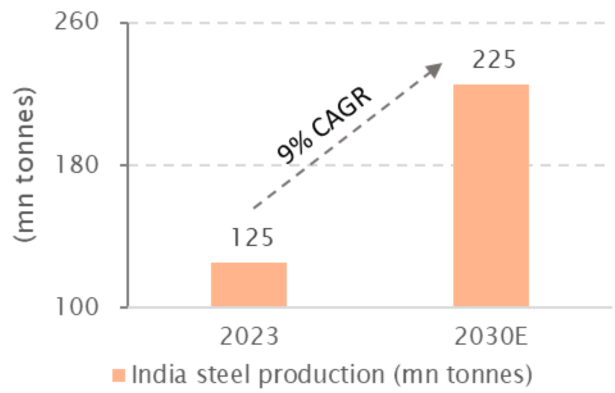
Source: Company, Dalal & Broacha Research

Exhibit 4: World steel production CAGR 23-30E



Source: World Steel Association

Exhibit 5: India steel production CAGR 23-30E



Source: World Steel Association

➢ Vizag plant opened doors for new products and customers

IFGL in FY22 commissioned Phase 1 of the Vizag plant at a capital outlay of Rs ~300 Mn and would mainly be focused on Monolithics and pre-cast products which are high margin products. In FY23, Phase 2 was commissioned at a capital outlay of Rs ~200 Mn. **With this plant it will be able to cater to the export markets**. IFGL had no production facility in the southern markets leading to higher freight costs to supply to steel plants in south from west. It is a modern plant which will help to reduce the consumption of fuel leading to cost savings leading to better margins going forward.

➢ Going aggressive in domestic markets with capex in full force which should help double the revenue by FY26 over FY21

- Between FY18 and FY22, IFGL incurred a capex of Rs ~850 Mn at 3 of its plants which was towards expansion of ISO products, monolithics & precast and debottlenecking activities.

- Between fiscal years 2015 and 2020, the company strategically directed its efforts towards significant growth initiatives, notably centering on the expansion of its Kandla plant, dedicated exclusively to exports, and its Odisha plant. During this period, the Kandla facility primarily specialized in the production of ISO products but also made successful forays into the realms of monolithic and precast materials, showcasing the company's adaptability and diversification.

- Building upon this momentum, in the subsequent fiscal years 2021-22, the company continued its expansion trajectory by establishing a robust presence in Vizag. This strategic move involved the development of a state-of-the-art facility for monolithic and castable products, boasting an impressive production capacity of 48,000 metric tons per annum.

- Over FY23-24, the company announced a capex of Rs ~1700 Mn of which Rs ~1200 Mn would be funded through debt and the balance by internal accruals.

I. Rs ~590 Mn would be spent in Odisha plant of which Rs ~200 Mn is towards development of R&D centre which would be operationalized by Q3FY24. Focus of this technology centre is to develop technological advanced products with better margins. 67% of the capex amount has been spent in FY23, balance to be spent in FY24.

II. Rs ~500 Mn would be spent at the Kandla plant for increasing the isostatic capacity from 20,000 pm to 40,000 pm. 90% has already been spent in FY23.

III. Rs ~700 Mn to be spent at the Vizag for precast shapes and casting flux. 50% has already been spent in FY23.

- **Greenfield capex in Odisha to be a key driver of sharp revenue growth from FY26 onwards:**

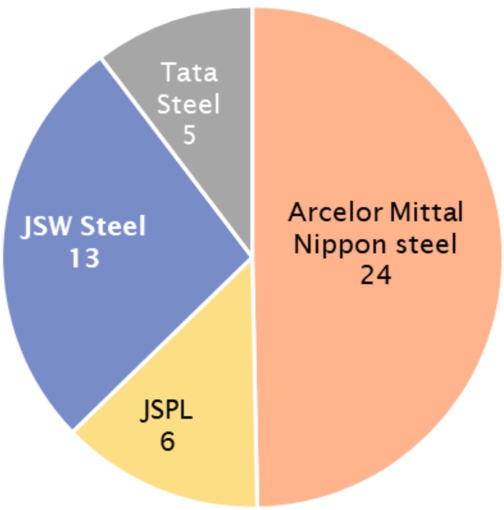
In addition to the existing capital expenditure initiatives, IFGL had recently secured approval from the Investment Corp. of Odisha for an exciting greenfield expansion project worth Rs ~1500 Mn, aimed at enhancing the continuous casting refractory capacity. It will add 2,40,000 pieces pa capacity. This is a high margin product which should help improve the overall margins and any further additions on that land will benefit from operating leverage. Since it is a greenfield capacity addition, the initial asset turnover would be ~1x-1.5x. Any further capacity expansion on that land would have an asset turnover of ~3x. IFGL has chosen Odisha as the location for greenfield as there are massive steel capacities to be commissioned in Odisha (30mn tonnes in 2023 is expected to go to 130mntonnes by 2030-31. Currently among the listed players, IFGL is one of the few players who has presence in Odisha and this should give them an advantage over other players in our opinion.

DID YOU KNOW?

It is estimated that Odisha will produce 40- 45% of the Indian steel production by FY30.

Anticipated to be completed by March 2025, this project represents a strategic milestone for IFGL. Moreover, given that it involves the expansion of an existing product line, company expects a swift ramp-up, ensuring a streamlined integration process and rapid market penetration.

Exhibit 6: Steel capacity addition announced in Odisha till date

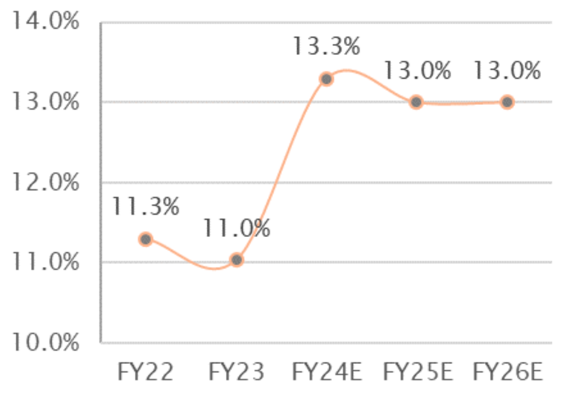


Source: Dalal & Broacha Research

➢ Margin Improvement to be visible in the next couple of years

Over the last decade, the standalone margins have been more or less in the range of 14 to 15% which is similar to its peer companies. The drag on the consolidated margins is due to its overseas subsidiaries who operate at lower operating margins (~7 to 8%). Since FY20 the margins of the subsidiaries have been more affected due to muted demand, disruption in the supply chain, higher material costs & lower utilization levels. However since the last 2 quarters, there has been an improvement in the margins lead by El Ceramics and Hoffman. The recent acquisition of Sheffield will be accretive to the margins as it has a product portfolio with better margins.

Exhibit 7: EBITDA margin trend



Source: Company, Dalal & Broacha Research

Levers for margin improvement:

I. IFGL will localize some part of Magnesia carbon bricks by manufacturing it in the Vizag plant which should lead to cost savings and aid margins. IFGL uses 12 to 15% of recycled material which helps to reduce the cost and over time this should increase helping to further reduce costs.

II. R&D centre is being developed at Kalunga which will be operationalized by Q3FY24. The focus of this centre would be to enhance product offerings and introduce high technology products leading to better margins.

III. The greenfield capex announced by IFGL in continuous casting will be used in Tunidsh management which is a high margin product. Any further expansion in this product at the Odisha plant will benefit from operating leverage.

IV. Improved demand in the overseas operations will lead to higher capacity utilization thereby providing a push to the margin profile on a consolidated basis.

➢ Acquisition to drive growth with new innovation product portfolio

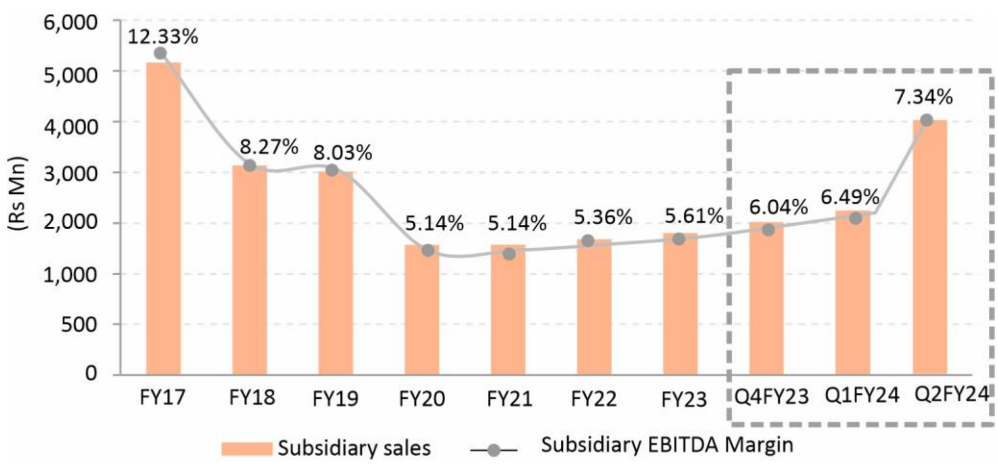
IFGL had recently acquired UK based leading Sheffield Refractories Limited (SRL) which is engaged into manufacturing of blast furnace cast-house products, shot-creting materials, and an extensive range of other specialist monolithic products, that are used in the Iron & Steel, Cement, Incineration, and Waste-to-Energy industries. Sheffield has its expertise in the Blast Furnace Cast house which will enable the company to expand its superior product portfolio in India and expanding its presence in UK market.

➢ Subsidiaries performance seeing some signs of green shoots

IFGL's subsidiary EBITDAM saw a decline from 8% in FY19 to 5.6% in FY21, attributed to high raw material costs and supply chain disruptions caused by COVID-19 and the Russia-Ukraine war. Many of IFGL's subsidiaries struggled in FY21 due to factors such as low product demand, pandemic-related disruptions, product acceptance issues, and elevated costs due to underutilization, impacting profit margins adversely.

Encouragingly, there has been a positive shift in subsidiary performance during the last two quarters, with EBITDA margins exceeding 6%. This improvement is largely credited to the enhanced performances of El Ceramics and Hoffman. IFGL anticipates these improved margins to be sustained, driven by ongoing operational enhancements within the subsidiaries. These efforts are expected to enable IFGL to uphold consolidated margins above 12% in the foreseeable future

Exhibit 8: Subsidiary sales and EBITDA margin trend



Source: Company, Dalal & Broacha Research

➢ Return ratios to see an improvement led by healthy revenue growth and margin expansion and healthy balance sheet

Every year since FY17, PAT and return ratios have been impacted due to the goodwill created after the merger of Kandla entity with its parent. Total goodwill of Rs ~2680 Mn was created which would be amortized equally upto FY26.

We believe the ROCE/ROE will see an improvement of 342bps/316bps from FY23 to FY26 led majorly due to healthy revenue CAGR of 15% and operating margin expansion of 150 bps that will take place over the said period after accounting for goodwill ammortisation. Post FY26 the improvement in the return ratios will be sharp considering the fact that the goodwill ammortisation will no longer take place.

Over the years IFGL has been able to maintain a net debt free balance sheet, however due to its aggressive capex program and working capital getting impacted in FY22 &FY23, we expect the net debt to increase to Rs 767 Mn in FY26 from Rs -224 Mn in FY23 but well below 0.5 D/E ratio.

Exhibit 9: Return Ratios

	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Including Goodwill:									
ROE (%)	6.27	6.35	2.41	7.37	8.30	7.88	11.62	11.55	11.68
ROCe (%)	7.75	7.70	6.32	13.51	10.51	9.58	13.47	13.32	13.77
Excluding Goodwill:									
ROE (%)	9.83	9.72	5.72	10.38	11.17	10.55	14.03	13.74	13.67
ROCe (%)	10.88	10.75	9.45	16.36	13.14	11.91	15.46	15.11	15.45

Source: Company, Dalal & Broacha Research

How has IFGL performed against its peers?

Vesuvius India

	CY18	CY19	CY20	CY21	CY22	CAGR 18-23 (%)	*CY23E	*CY24E	*CY25E	CAGR 22-25E (%)
Sales	9,251	8,870	7,915	10,472	13,426	9.76	15,650	17,735	20,495	15.14
EBITDA	1,702	1,500	978	1,189	1,867	2.35	2,452	2,746	3,172	19.32
EBITDA margin	18.40	16.91	12.36	11.35	13.91		15.67	15.48	15.48	
PAT	925	856	531	681	1,168	6.00	1,830	2,009	2,293	25.22
PAT margin (%)	10.00	9.64	6.70	6.50	8.70		11.69	11.33	11.19	
ROE (%)	12.54	10.63	6.30	7.59	11.70		**15.00**	**15.00**	**15.50**	
ROCE (%)	19.30	15.34	8.50	10.22	15.72		**14.00**	**14.00**	**14.60**	

Source: Bloomberg Estimate

RHI Magnesita India

	FY18	FY19	FY20	FY21	FY22	FY23	CAGR 18-23 (%)	*FY24E	*FY25E	*FY26E	CAGR 23-26E (%)
Sales	6,372	7,479	13,876	13,704	19,994	27,263	33.74	42,828	49,075	54,358	39.57
EBITDA	1,377	1,462	2,243	2,209	3,935	3,748	22.18	6394	7722	8325	28.38
EBITDA margin (%)	21.60	19.54	16.16	16.12	19.68	13.75		14.93	15.74	15%	
PAT	858	898	1,359	1,366	2,690	(4,657)		3,322	4,494	5,046	23.33
PAT margin (%)	13.47	12.01	9.79	9.97	13.45	-17.08		7.76	9.16	9.28	
ROE (%)	26.59	23.87	19.32	16.96	26.15	-15.62		**9.45**	**10.78**	**12.72**	
ROCE (%)	40.52	36.55	25.76	22.07	33.06	6.79		**13.50**	**12.50**	**18.00**	

Source: Bloomberg Estimate

IFGL Refractories Consolidated

	FY18	FY19	FY20	FY21	FY22	FY23	CAGR 18-23 (%)	FY24E	FY25E	FY26E	CAGR 23-26E (%)
Sales	8,393	9,504	9,173	10,220	12,595	13,865	10.56	17,301	19,258	21,640	16.00
EBITDA	1,059	1,087	916	1,554	1,426	1,529	7.62	2,307	2,504	2,813	22.53
EBITDA margin	12.62	11.44	9.98	15.20	11.32	11.03		13.33	13.00	13.00	
PAT	471	505	195	656	775	792	10.95	1,288	1,414	1,573	25.69
PAT margin (%)	5.61	5.31	2.12	6.42	6.15	5.71		7.44	7.34	7.27	
ROE (incl G/W ammortisation) (%)	6.27	6.35	2.41	7.37	8.30	7.88		**11.62**	**11.55**	**11.68**	
ROE (excl G/W ammortisation) (%)	9.83	9.72	5.72	10.38	11.17	10.55		**14.03**	**13.74**	**13.67**	
ROCE (incl G/W ammortisation) (%)	7.75	7.70	6.32	13.51	10.51	9.58		**13.47**	**13.32**	**13.77**	
ROCE (excl G/W ammortisation) (%)	10.88	10.75	9.45	16.36	13.14	11.91		**15.46**	**15.11**	**15.45**	

Source: Company, Dalal & Broacha Research

IFGL Refractories standalone

	FY18	FY19	FY20	FY21	FY22	FY23	CAGR 18-23 (%)
Sales	4,473	4,890	4,986	6,491	7,873	8,334	13.26
EBITDA	735	718	700	1,362	1,173	1,219	10.65
EBITDA margin (%)	16.44	14.68	14.04	20.98	14.90	14.63	
PAT	226	260	297	448	632	612	22.06
PAT margin (%)	5.05	5.31	5.96	6.91	8.03	7.34	

Source: Company

Analyzing the data from the tables provided, it becomes evident that RHI Magnesita has shown remarkable revenue growth during FY18-22, primarily attributed to its strategic mergers and acquisitions. This sets it apart from both Vesuvius and IFGL. Additionally, RHI Magnesita has significantly outperformed Vesuvius and IFGL in terms of return ratios.

On the other hand, IFGL has demonstrated a consolidated performance superior to Vesuvius, particularly in sales, EBITDA, and PAT levels throughout the same period. However, the return ratios of IFGL have been affected by goodwill amortization resulting from the consolidation, as explained earlier.

Just to put things into perspective, when we look at the standalone numbers of IFGL over FY18-23 it has outperformed Vesuvius on every operating metric which is a major positive indicator of how efficiently the business has been operating in India. We believe that IFGL deserves better valuation than what is currently been valued at.

(Standalone operations include sales from India whether consumed domestically or exported)

Looking ahead into the forecasted period of FY23 to FY26, there is optimism regarding IFGL's future performance. It is anticipated that IFGL will surpass its previous achievements, with return ratios expected to improve by approximately 300 basis points. This positive trend is likely to trigger a re-rating, indicating a favorable outlook for IFGL in our analysis.

VALUATION AND OUTLOOK

IFGL emerges as a robust contender in the specialized refractories market, boasting a market share of 6% in the overall Indian refractory industry and an impressive 15% in the Indian flow control industry. The company's management has outlined ambitious plans, aiming to double its revenue from FY21 to FY26. This growth trajectory is expected to be powered by an expanded product portfolio, the introduction of cutting-edge technological products from its state-of-the-art R&D center, substantial investments in the domestic market (aligned with India's significant steel capacity expansion), and enhanced performance from its subsidiaries.

The promoters of IFGL, Bajoria Financial Services (BFSPL), had agreed to purchase Krosaki Harima Corp.'s (KHC) full stake of 15.51% in IFGL at a rate of Rs200 per share (taking up the promoters stake to 72.44%) This agreement was marred by a breach when KHC manufactured AG bricks at TRL Krosaki, leading to the resignation of two Krosaki directors from IFGL's board in August 2022. Despite this breach, the stake purchase has resolved uncertainties around the stock and demonstrates the promoters' confidence in IFGL. Furthermore, the absence of technical transfers from KHC to IFGL over the past means the risk of losing technical support is not a concern.

Over the past five years, IFGL has shown a steady Compound Annual Growth Rate (CAGR) of 11% in revenue, 8% in EBITDA, and 11% in PAT from FY18 to FY23. Looking forward, we anticipate an even more impressive performance, with a projected CAGR growth of 15% in revenue, 20% in EBITDA, and 22% in PAT from FY23 to FY26. Furthermore, we expect a substantial improvement in Return on Equity (ROE) and Return on Capital Employed (ROCE) by approximately 300 basis points. One significant factor bolstering this positive outlook is the cessation of goodwill amortization from FY27 onwards.

However, it's crucial to acknowledge potential risks, including a slowdown in domestic steel production and underperformance by subsidiaries, both of which could impact consolidated margins negatively.

While peer companies command higher valuations due to their multinational status and marginally better return ratios, we firmly believe that IFGL offers a margin of safety merited by its past and expected operational performance. Based on our estimations, a contraction in the 50% P/E multiple discount between IFGL and its peers (RHI Magnesita & Vesuvius) is likely, particularly if IFGL sustains its robust performance. IFGL is available at a PEG ratio of 0.9x which is reasonable in our opinion as compared to its peers which trade at PEG ratio in excess of 1.75x.

At its current market price of Rs 800, trading at 20.4x/18.3x FY25/FY26E, we value IFGL at 18x, representing a 40% discount compared to its peers. Considering the recent rally in the stock we inititate coverage on IFGL refractories with a recommendation of BUY on DIPS assigning a Target price of Rs 786 (18x FY26E).

Exhibit 10: Scenario Analysis

Our estimates	FY24E	FY25E	FY26E	Bull case	FY24E	FY25E	FY26E	Bear case	FY24E	FY25E	FY26E
Sales	17,301	19,258	21,640	Sales	17,301	19,723	22,485	Sales	17,301	19,031	20,935
EBITDA	2,307	2,504	2,813	EBITDA @ 14% OPM	2,428	2,761	3,148	EBITDA @12 % OPM	2,134	2,284	2,512
PAT	1,288	1,414	1,573	PAT	1,379	1,608	1,824	PAT	1,158	1,250	1,347
EPS	36	39	44	EPS	38	45	51	EPS	32	35	37
P/E Multiple @ 18x	**644**	**707**	**786**	**P/E Multiple @20x**	**766**	**893**	**1,013**	**P/E Multiple @18x**	**578**	**624**	**673**
2 year forward P/E multiple discount to peers (30x)			**-40%**	**2 year forward P/E multiple discount to peers (30x)**			**-33%**	**2 year forward P/E multiple discount to peers (30x)**			**-40%**
P/E	22	20	18	P/E	21	18	16	P/E	25	23	21

Source*:* Dalal & Broacha Research

In the Bull case scenario we have tweaked the revenue assuming 14% CAGR sales growth over FY24 and 14% operating margins which is in line with what the company has achieved in H1FY24. We have assigned a higher P/E multiple of 20x (still at 33% discount to peer on 2yr forward P/E multiple).

In the Bear case scenario, we have assumed that the company will be able to grow well in India however the foreign operations would remain under pressure thereby impacting the margins as well. We maintain our target multiple of 18x (40% discount to peers on 2yr fwd P/E multiple).

Peer Valuation Comparison

Company Name	CMP (Rs)	Mcap (Rs Mn)	Revenue (Rs Mn)			EBITDA (Rs Mn)			PAT (Rs Mn)			Adj EPS			P/E			Revenue CAGR (%) (FY23-26E)	EBITDA CAGR (%) (FY23-26E)	EPS CAGR (%) (FY23-26E)
			FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E			
*Vesuvius India	3,777	76,680	15,650	17,735	20,495	2,452	2,746	3,172	1,830	2,009	2,293	79	88	106	48	43	36	15.14	19.32	25.22
*RHI Magnesita India	700	1,44,630	42,828	49,075	54,358	6,394	7,722	8,325	3,322	4,494	5,046	16	21	26	45	34	27	39.57	28.38	23.33
IFGL Refractories	**800**	**29,000**	**17,301**	**19,258**	**21,640**	**2,307**	**2,504**	**2,813**	**1,288**	**1,414**	**1,573**	**36**	**39**	**44**	**22**	**20**	**18**	**16.00**	**22.53**	**25.69**

Source: Company, Dalal & Broacha Research

Why refractories market is poised to grow?

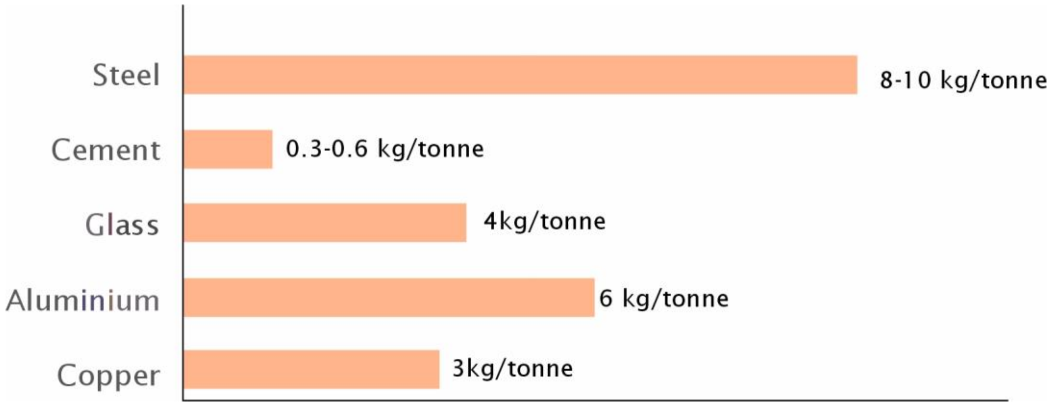
Strong push from Government to double steel capacity in India by FY30

The India government has set a target to increase crude steel production capacity from 160 MTPA in FY 2022-23 to 300 MTPA by FY 2030-31 under the National Steel Policy. India is the second-largest producer of crude steel in the world, with an output of 126.2 MnT in FY 2022-23 and its projected that the production will touch ~165 to 175 MnT by FY28, indicating a production CAGR of ~ 6 to 6.5%.

Refractory applications usually grows at 1.5x the steel production indicating a healthy growth rate for the refractory industry at ~9% CAGR atleast for the next 5 to 7 years.

Iron and steel industry accounts for ~70% of refractories usage.

Exhibit 11: Per ton consumption of refractory across use industries



Source: Company, Dalal & Broacha Research

❖ Steel Demand drivers:

I. **Construction** - This includes residential, commercial and industrial, and infrastructure projects like transport networks and utilities. The share of construction in steel demand is around 60%. There is a strong focus on logistics infrastructure like Sagarmala and Bharatmala, highway construction, freight corridors, affordable housing and power transmission projects from the government.

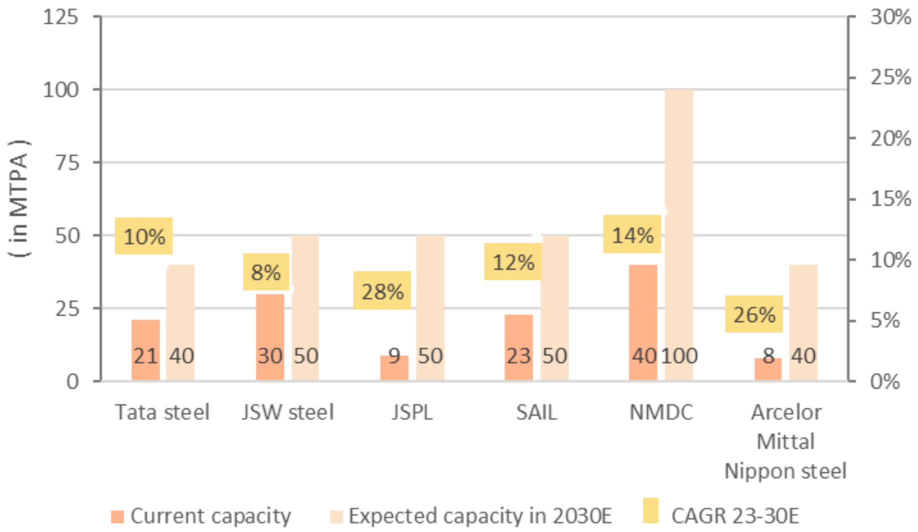
II. **Capital goods** - This sector accounts for about 15% of India's steel demand and steel is consumed in manufacturing rotating and electrical equipment including cables, transformers and electric motors among other products. Key demand drivers include aging equipment that require replacement, massive power capacity additions, the domestically Manufactured Iron & Steel Products Policy (DMI&SP), the aerospace and Defence sectors, and electrical equipment market.

III. **Automobiles** – This sector consumes around 10% of steel across vehicle categories. Under the Scrappage Policy 2022, the central and state governments offer a 25% tax rebate on road tax for vehicles purchased after scrapping older ones. Additionally, the government is actively working to establish scrapping facilities within 150km of every city in the country. As per the latest announcement, all central and state government vehicles over 15 years will be scrapped from April 1, 2023. This will benefit automotive replacement demand and, in turn, drive steel consumption. Many auto OEMs are trying to localise sourcing using India as an export base for auto parts.

IV. **Intermediate products** - This segment has around 6% share in steel consumption and includes manufacturing of products like gear boxes, bearings, pipes, drums and barrels.

V. **Railways**- Key demand is in the areas of wagons, coaches and track infrastructure. Recently in budget allocation of FY24, government has allocated Rs 2.4 trillion to redevelop railway stations and develop them into multi modal transit facility.

Exhibit 12: Steel capacity expansion plans announced in India



Source: Dalal & Broacha Research

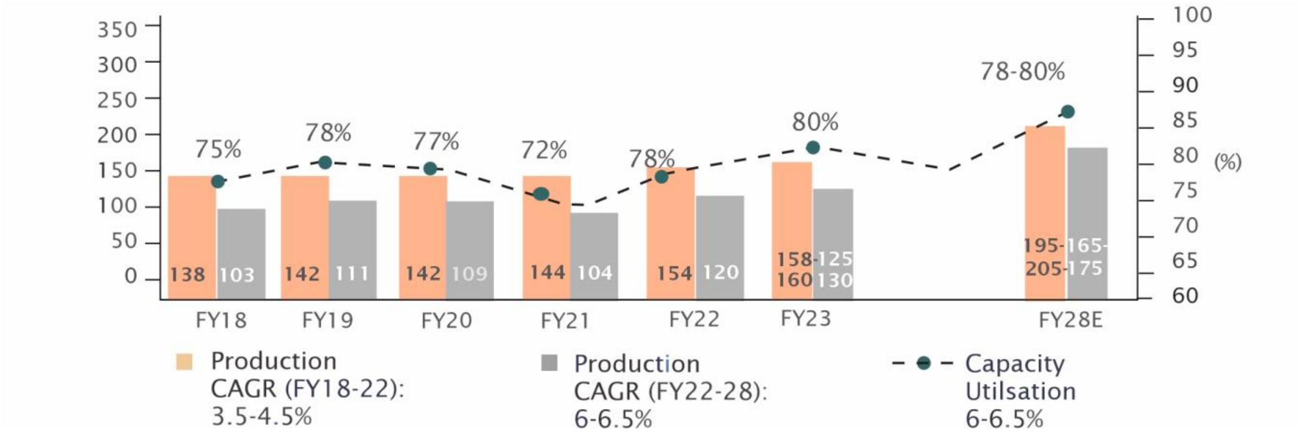
~ INTERESTING FACT ~

Per capita consumption of steel:

As on FY22, India's per capita consumption of steel is 81 kgs compared to 222 kgs for the world and 646 kgs for China

indicating strong headroom for growth in the steel industry

Exhibit 13: Crude Steel capacity and production forecast in India



Source: RHI Magnesita India Annual Report

Key Risks:

I. **Raw Material Price Fluctuation:** The company imports a large portion of its raw materials (like zirconia and aluminium oxide) from China. The company has established stable supply linkages any disruption in supply may result in an increase in raw material prices, going forward, impacting the profitability of the company

II. **Higher freight cost:** IFGL has imported RM cost from China. The last couple of quarters due to higher freight costs impacted its margin. Margin will impact if freight cost increases going forward

III. **Steel Industry Cyclicality:** The company is exposed to the cyclicality inherent in the steel industry as it derives most of its revenues from sales to the steel companies. Any impact in the demand and slowdown in production can impact the company's operations and revenues.

IV. **Foreign exchange fluctuation:** Exports contribute to ~45% of IFGL revenue and ~50% of RM import from China and other countries. So, fluctuation of currency may impact on its margins.

Company Overview:

IFGL is one of the fastest growing brands in the global refractory industry. We offer a wide range of specialised refractory products and operating systems for our products to our customers worldwide. With 10 strategically located manufacturing units across Asia, Europe and North America, IFGL serves over 50+ countries worldwide. We have a diverse workforce of close to 2,000 employees across geographies and cultures who understand the growing demand of refractories in the Iron & Steel industry, supporting Infrastructural development of the future. Their expertise lies in the Iron Making, Steelmaking and Continuous Casting areas with particular emphasis in Slide Gate Systems, Purging Systems, Ladle Lining & Ladle Refractories, Tundish Furniture's & Tundish Refractories, and others.

❖ Subsidiaries overview:

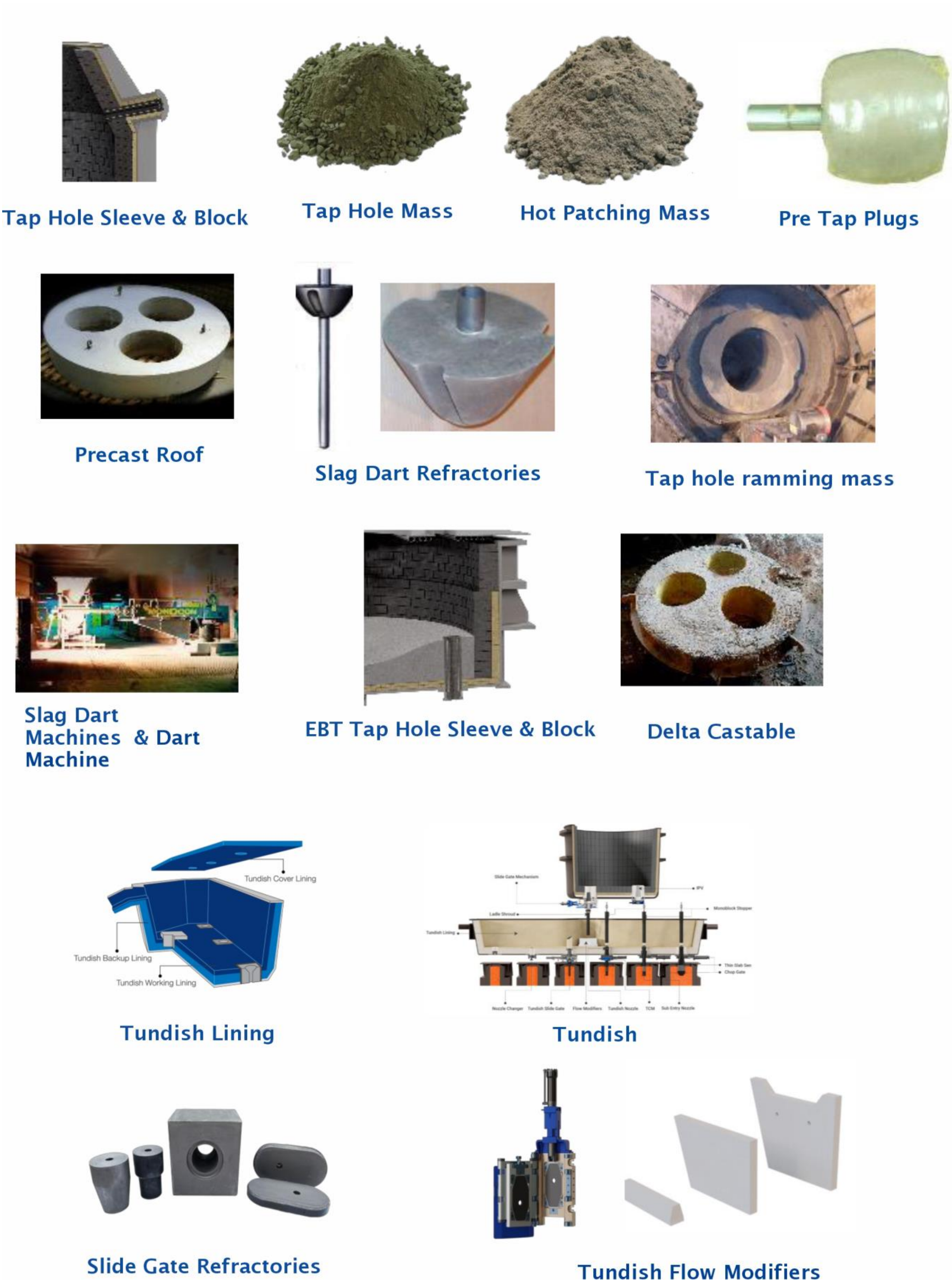
I. Founded in 1973, **Monocon International Refractories Ltd (MIRL)**, a subsidiary of IFGL Refractories, is a leading manufacturer of Monolithic Metallurgical Lances for Desulfurization, Argon Stirring in Steel Ladle, and Oxy-lances for steel pre-heating. The company also has Clay Graphite Stoppers and Nozzle for Iron and Steel Foundries. With research-backed refractory manufacturing capabilities.

II. **Hofmann CERAMiC GmbH** was founded in 1937. For over 9 decades, the company has been laying down the benchmark in high-quality ceramic manufacturing. Skilled workforce, latest technologies, and quality adherence to design, manufacturing & installation of products, as per the exact specifications of customers, the company proudly serves the European market through its facilities in Germany and Czech Republic. Continuous improvement and upgrading of quality is a key hallmark of Hofmann Ceramic. Hofmann was acquired by IFGL in 2008

III. **El Ceramics (EIC)** was established in 2002. The company specialises in the design, manufacture and supply of qualityoptimised continuous casting products and accessories. Based out of Ohio, United States, the company offers a full range of high-performance engineered ceramic solutions, including tundish nozzles, ladle shrouds, stopper rods, gaskets & more. The technical competence and infrastructural excellence of EIC help it in meeting precise buyer requirements. EIC was acquired by IFGL in 2010.

IV. **Sheffield Refractories Limited (SRL)** is a leading manufacturer and installer of advanced, high-quality monolithic refractory products. The company specialises in blast furnace casthouse products, shotcreting materials, and an extensive range of other specialist monolithic products, that are used in the Iron & Steel, Cement, Incineration, and Waste-to-Energy industries. SRL's manufacturing unit is located at Sheffield, UK and was acquired in 2023.

Key Product Portfolio



Source: Company

Key Product Portfolio


Coil Coating Mass


Neutral Ramming Mass


Tundish Covering Compound


Casting Flux


EBT Filling Mass


Tundish Metering Nozzle


Purging Refractories

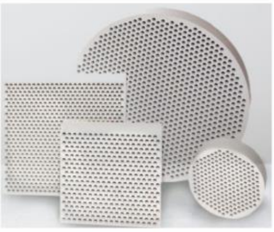

Sub Entry Nozzle / Shroud


Precast Hearth and Skid Blocks


Burner Blocks

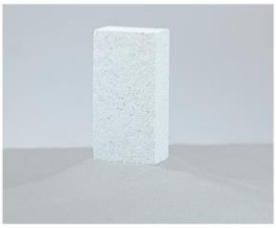

Ladle Well Filler


Precast Skid Pipe Cladding


Round Hole Filters


Hipercast


EXHOF feeder heads


SiC-DC casting

Source: Company

Clientele

FY23 Annual Report Observations:

❖ Key milestones achieved in the year.

Tundish

1) **Tundish**

   IFGL marked a key milestone with record-breaking performance in CSP Caster at JSW Bhushan Power & Steel Limited (JSW BPSL). IFGL helped JSW BPSL achieve a tundish sequence of L+45 heats and a casting duration of 27 hours and 26 minutes, with the specially designed Thin Slab Sub-Entry Nozzle (SEN), along with other tundish refractories. With the sequence, the total tonnage cast was ~4647 MT.

2) **Highest Open Casting Record**

   In January 2023, IFGL achieved a milestone for the highest open casting record for 6 strand billet tundish at SAIL IISCO Steel Plant, Caster – 1 with IFGL Nozzle Changer Mechanism. With the help of the SAIL IISCO team, the team achieved 53 heats casting over 42 hours and 53 minutes.

❖ Managerial Remuneration

- S K Bajoria (Chairman) – 26.57 Mn
- L McIntosh (Managing Director) – 20.68 Mn
- K Sarda (Director & CEO) – 15.8 Mn

❖ Auditors

- Auditor – S.R Batliboi & Co LLP
- Audit fees – 3.9 Mn
- In order to strengthen statutory compliance framework, Compliance Tool designed by M/s Price Waterhouse Coopers Pvt Ltd is in the process of being implemented.

Financials

P&L (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	10,220	12,595	13,865	17,301	19,258	21,640
Total Operating Expenses	4,740	6,146	7,228	8,651	9,629	10,820
Employee Cost	1,518	1,739	1,948	2,466	2,696	3,030
Other Expenses	2,408	3,284	3,160	3,878	4,429	4,977
Operating Profit	1,554	1,426	1,529	2,307	2,504	2,813
Depreciation	486	511	556	627	640	749
PBIT	1,068	915	974	1,679	1,863	2,064
Other income	205	159	132	132	132	132
Interest	31	34	48	94	109	99
PBT (Before exceptional)	1,242	1,039	1,057	1,717	1,886	2,097
PBT (post exceptional)	1,242	1,039	1,057	1,717	1,886	2,097
Provision for tax	586	265	265	429	471	524
Reported PAT	656	775	792	1,288	1,414	1,573

Balance Sheet (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Equity capital	360	360	360	360	360	360
Reserves	8,545	8,980	9,690	10,725	11,888	13,100
Net worth	**8,905**	**9,340**	**10,050**	**11,086**	**12,248**	**13,460**
Non Current Liabilites	677	666	1,119	1,556	1,744	1,619
Current Liabilites	2,258	2,854	3,090	2,608	2,888	3,226
TOTAL LIABILITIES	**11,830**	**12,861**	**14,259**	**15,250**	**16,879**	**18,305**
Non Current Assets	**4,555**	**4,809**	**5,898**	**5,853**	**6,363**	**6,672**
Fixed Assets	1,913	2,296	3,480	3,703	4,480	5,058
Goodwill	2,454	2,173	1,978	1,710	1,442	1,174
Non Current Investments	62	194	194	194	194	194
Deferred Tax Asset	-	-	-	-	-	-
Other Financial Assets	55	23	64	64	64	64
Other Non Current Assets	71	124	183	183	183	183
Current Assets	**7,275**	**8,052**	**8,361**	**9,397**	**10,517**	**11,633**
Current investments	1,217	1,155	1,130	1,130	1,130	1,130
Inventories	1,678	2,594	3,020	3,555	3,957	4,447
Trade Receivables	2,282	2,720	3,498	4,029	4,485	5,039
Cash and Bank Balances	1,908	1,279	580	545	800	866
Short Term Loans and Adva	39	90	15	15	15	15
Other Current Assets	151	214	118	124	130	136
TOTAL ASSETS	**11,830**	**12,861**	**14,259**	**15,250**	**16,879**	**18,305**

Cash flow statement (Rs in mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Cash flow from operating activities						
Profit before tax	1,242	1,039	1,057	1,717	1,886	2,097
Depreciation & Amortization	486	511	556	627	640	749
Interest expenses	31	34	48	94	109	99
Operating profit before working capital change	1,759	1,585	1,661	2,439	2,636	2,945
Working capital adjustment	(129)	(1,032)	(1,215)	(557)	(590)	(718)
Gross cash generated from operations	1,629	552	446	1,881	2,046	2,227
Direct taxes paid	586	265	265	429	471	524
Others	(351)	244	118	(698)	85	340
Cash generated from operations	1,394	44	63	754	1,659	2,044
Cash flow from investing activities						
Capex	(310)	(656)	(1,358)	(1,038)	(1,150)	(1,000)
Investment	(70)	25	-	-	-	-
Others	(684)	391	131	(268)	(268)	(268)
Cash generated from investment activities	(1,064)	(240)	(1,227)	(1,306)	(1,418)	(1,268)
Cash flow from financing activities						
Proceeds from issue of share	-	-	-	-	-	-
Borrowings/ (Repayments)	(28)	317	798	875	375	(250)
Interest paid	(31)	(34)	(48)	(94)	(109)	(99)
Dividend paid	-	(360)	(252)	(252)	(252)	(360)
Others	13	8	-	-	-	-
Cash generated from financing activities	(46)	(70)	498	528	13	(710)
Net cash increase/ (decrease)	379	(285)	(622)	(24)	255	66

Ratios	FY21	FY22	FY23E	FY24E	FY25E	FY26E
OPM	15.20%	11.32%	11.03%	13.33%	13.00%	13.00%
NPM	6.29%	6.08%	5.66%	7.39%	7.29%	7.22%
Tax Rate	47.20%	25.45%	25.06%	25.00%	25.00%	25.00%
Growth Ratios (%)						
Net Sales	11.40%	23.24%	10.08%	24.78%	11.31%	12.37%
Operating Profit	69.64%	-8.21%	7.25%	50.82%	8.54%	12.37%
PBIT	146.96%	-14.35%	6.48%	72.44%	10.95%	10.79%
PAT	237.11%	18.14%	2.22%	62.57%	9.84%	11.19%
Per Share (Rs.)						
Net Earnings (EPS)	18.2	21.5	22.0	35.7	39.2	43.6
Cash Earnings (CPS)	31.68	35.69	37.39	53.14	57.01	64.42
Dividend	10.0	7.0	7.0	7.0	7.0	10.0
Book Value	247.09	259.17	278.88	307.61	339.85	373.49
Free Cash Flow	34.9	30.1	(17.0)	(35.9)	(7.9)	14.1
Valuation Ratios						
P/E(x)	41.59	35.21	34.44	21.19	19.29	17.35
P/B(x)	3.06	2.92	2.71	2.46	2.23	2.03
EV/EBIDTA(x)	16.66	18.85	18.43	12.61	11.67	10.27
Div. Yield(%)	1.32	0.92	0.92	0.92	0.92	1.32
FCFF Yield(%)	4.61	3.97	(2.24)	(4.75)	(1.04)	1.87
Return Ratios (%)						
ROE	7.37%	8.30%	7.88%	11.62%	11.55%	11.68%
ROCE	13.51%	10.51%	9.58%	13.47%	13.32%	13.77%

Source: Dalal & Broacha Research

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