

On high growth path...

About the stock: Vesuvius India (VIL) is a subsidiary of the Vesuvius Group, UK. It is a leading metal flow engineering company. The company supplies high performance refractory material to the steel industry and other process industries used for lining vessels such as blast furnaces, ladles and tundishes to enable them to withstand high temperatures and/or corrosive attack.

- Manufactured goods account for ~55% of revenue in CY22 followed by services ~ 45%
- It holds ~11% market share in the Indian refractories industry

Q1CY23 Results: VIL reported a strong set of Q1CY23* numbers.

- Revenues came in at ₹ 368 crore, up 18% YoY, aided by better demand in steel, cement
- EBITDA in Q1CY23 came in at ₹ 55 crore, up 65% YoY with margins at 15%. Gross margin expanded 310 bps to ~41.5% YoY
- Consequently, PAT grew 83.5% YoY to ₹ 43.3 crore

What should investors do? We expect decent earnings in the long term led by operational efficiency, product innovation, R&D and a strong steel capex pipeline.

- We remain long term positive and retain our **BUY** rating on the stock

Target Price and Valuation: We value VIL at ₹ 2780 i.e. 32x on CY24E EPS

Key triggers for future price performance:

- Focused on capturing domestic market share through faster growth in the manufactured goods segment through localised manufacturing and new product launches. Currently, manufactured goods contribute 50-55%
- Focusing on margin accretive solution oriented services segment, which has grown at 34.4% CAGR in CY13-20 and now contributes 45% to revenue compared to 4% in CY13
- Higher steel production and technological advancement is expected to drive refractories demand. India's crude steel production is expected to grow from 150 MT to 300 MT by FY30 backed by higher infrastructure spend and strong steel capex pipeline

Alternate Stock Idea: We also like Grindwell Norton in our coverage.

- Ambition to maintain market share in abrasives and increase market share in ceramic & plastics with gradual penetration of new value added products
- BUY with a target price of ₹ 2475



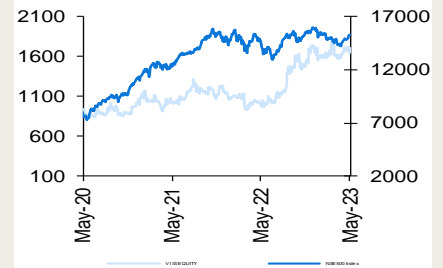
Particulars

Particular	Amount
Market Capitalization (₹crore)	4,606
Total Debt (CY22) (₹crore)	0
Cash and Inv (CY22) (₹crore)	599
EV (CY22) (₹crore)	4,007
52 week H/L (₹)	2268 / 966
Equity capital (₹crore)	20.3
Face value (₹)	10.0

Shareholding Pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promot	55.6	55.6	55.6	55.6
FII	0.6	0.8	0.9	0.8
DII	24.5	24.1	23.2	23.3
Others	19.4	19.5	20.4	20.3

Price Chart



Key risks

- i) Any slowdown in steel, cement capex to adversely affect sales ii) Overdependence on China for raw material site can disrupt supply chain

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Key Financial Summary

(₹Crore)	CY20	CY21	CY22	CY23E	CY24E	CAGR (CY22-24E)
Net Sales	791.5	1,047.2	1,342.6	1,541.5	1,802.6	15.9
EBITDA	76.8	99.2	163.9	232.9	281.0	31.0
EBITDA margin (%)	9.7	9.5	12.2	15.1	15.6	
Net Profit	53.1	68.1	116.8	142.2	176.3	22.9
EPS (₹)	26.1	33.5	57.5	70.0	86.9	
P/E (x)	86.8	67.7	39.4	32.4	26.1	
P/BV	5.5	5.2	4.6	4.1	3.6	
EV/EBITDA (x)	52.7	40.9	24.5	18.1	14.6	
RoCE (%)	7.9	9.5	14.5	15.9	17.4	
RoE (%)	6.3	7.6	11.8	12.7	13.8	

Key takeaways of recent quarter

Q1CY23 Results

- Vesuvius India (VIL) reported revenues of ₹ 368 crore, up 18% YoY, aided by better demand in steel, cement, up 5.6% QoQ
- EBITDA came in at ₹ 55 crore, up 65% YoY and grew 39.2% QoQ. EBITDA margins expanded 425 bps YoY to 15% and 361bps QoQ, gross margins expanded 310 bps to ~41.5% YoY and 210 bps on a QoQ basis
- VIL reported PAT at ₹ 43.4 crore, up 83.5% YoY, 56.8% on a QoQ basis partly supported by other income, which grew 102% YoY to ₹ 10.7 crore
- Vesuvius now owns mould flux powder. Mould flux powder is used on casters, where steel is transformed between liquid to solid. Metallurgica is transferring its know-how and knowledge for a green field plant in Vizag. VIL will be making the mould flux powder in India and will start the production by CY24, which are currently imported and will be supplying them from Vizag, which was not in VIL's product basket earlier but very much complementing their product range
- The total market size of refractories in India was about ₹ 8000 crore, VIL is interested to expand in sub-part of the refractory market where technological differentiation is possible i.e. 20% of the total market and in that VIL commands 55% market share
- Recently, its British parent - Vesuvius Group, has announced a minimum investment of ₹ 500 crore in various Indian manufacturing facilities in the coming three to five years, its current (CY22) gross block was at ₹ 351 crore vs. CY21 ₹ 253 crore, ~₹ 100 crore of gross block added during the year

Vesuvius - ESG Disclosure Score*

Score	CY19	CY20	CY21
Environmental	2.1	2.1	2.1
Social	20.5	20.5	20.5
Governance	78.6	78.6	78.6
Overall ESG Score	33.8	33.8	33.8

*Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures*

Exhibit 1: Variance analysis

Year	Q1CY23	Q1CY22	YoY (%)	Q4CY22	QoQ(%)	Comments
Income from Operation	367.9	311.7	18.0	348.4	5.6	Aided by better demand in steel, cement
Cost of materials consumed	146.5	129.1	13.5	134.7	8.8	
Purchase of stock-in-trade	71.3	74.3	-4.0	80.4	-11.3	
Change in inventories	(2.7)	(11.5)		(4.0)		
Employee cost	25.2	21.8	15.8	25.2	(0.0)	
Other expenses	72.6	64.7	12.2	72.6	0.0	
EBITDA	55.0	33.4	64.8	39.5	39.2	
EBITDA Margin (%)	15.0	10.7	425 bps	11.3	361 bps	Margin trajectory inched up towards 15%
Other Income	10.7	5.3	102.1	6.6	62.5	
Depreciation	7.6	7.0	9.2	8.8	(13.4)	
Interest	0.0	0.0	-	0.0	-	
PBT	58.1	31.7	83.3	37.3	55.7	
Taxes	14.8	8.1	82.8	9.7	52.4	
PAT	43.4	23.6	83.5	27.6	56.8	

Source: Company, ICICI Direct Research, * December Year End.

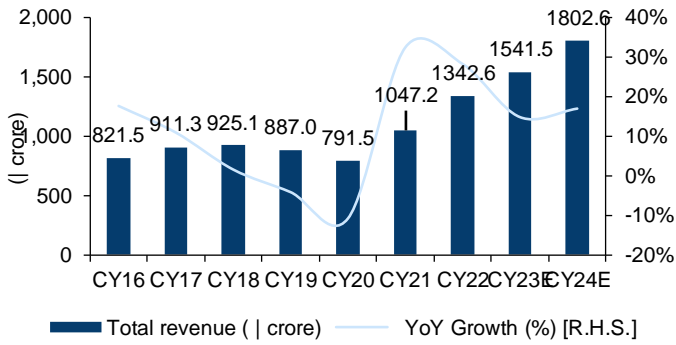
Exhibit 2: Change in estimates

₹crore	Actual			CY23E			CY24E		
	CY20	CY21	CY22	Old	New	Change	Old	New	Change
Revenue	792	1047	1343	1557	1542	(1.0)	1826	1803	(1.3)
EBITDA	77	99	164	203	233	14.7	246	281	14.2
EBITDA Margin (%)	9.7	9.5	12.2	13.0	15.1	211 bps	13.5	15.6	209 bps
PAT	53	68	117	137	142	3.8	165	176	6.9
EPS (₹)	26.1	33.5	57.5	67	70.0	3.9	81.4	86.9	6.7

Source: Company, ICICI Direct Research

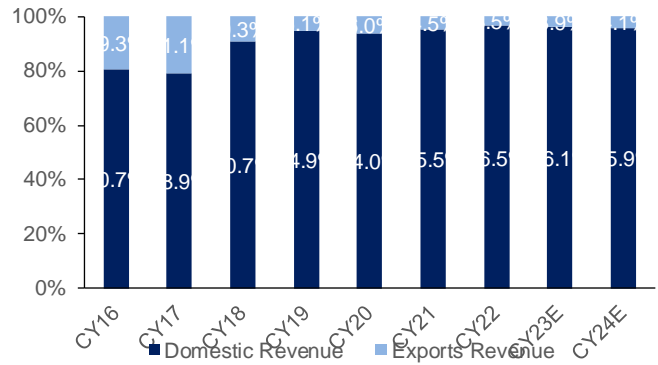
Financial story in charts:

Exhibit 4: Overall revenue CAGR trend over CY16-24E



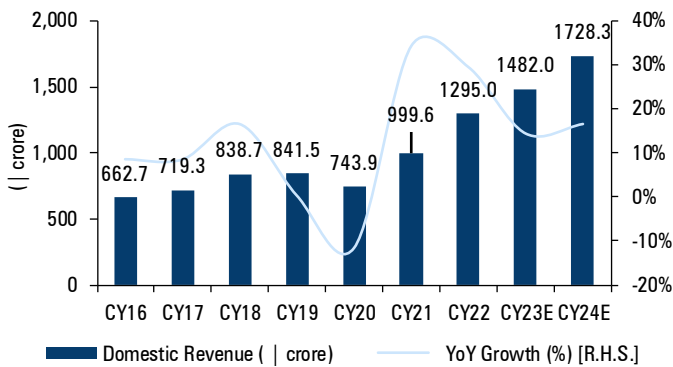
Source: Company, ICICI Direct Research

Exhibit 5: Domestic and export share...



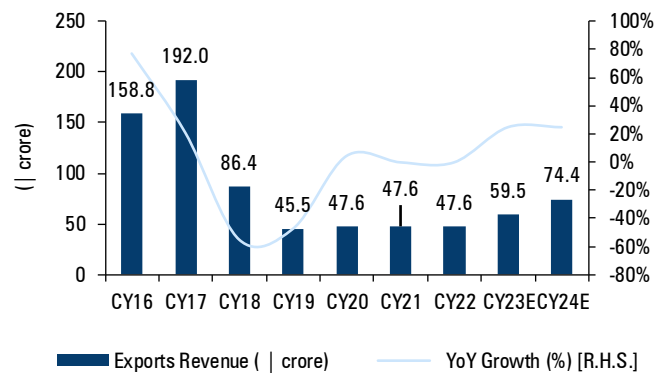
Source: Company, ICICI Direct Research

Exhibit 6: Domestic revenue growth trend over CY16-24E



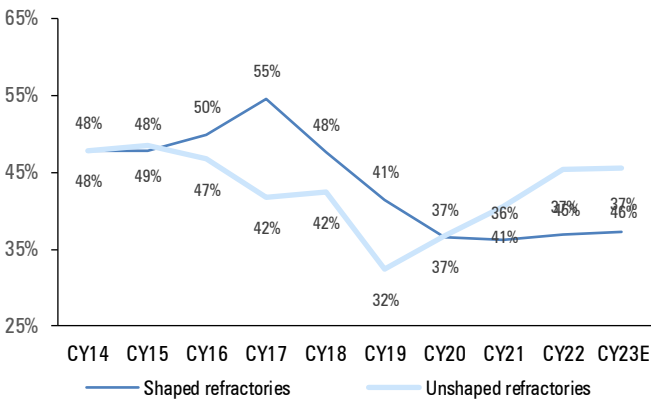
Source: Company, ICICI Direct Research

Exhibit 7: Exports revenue growth trend in CY16-24E



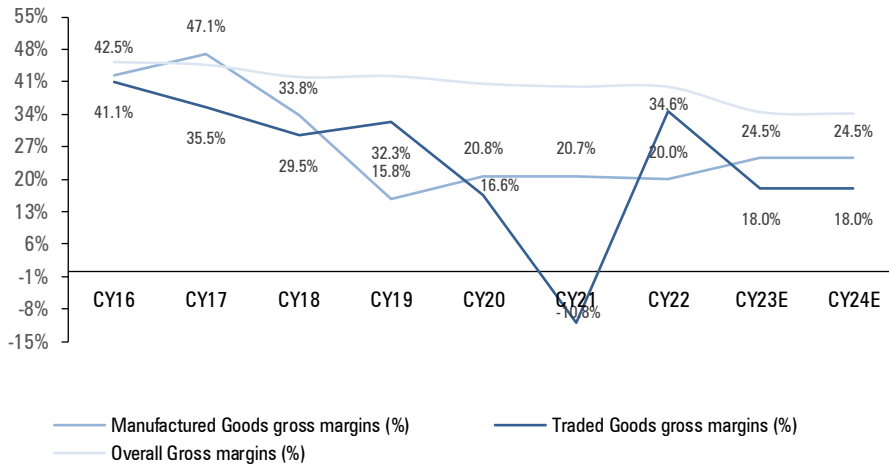
Source: Company, ICICI Direct Research

Exhibit 8: Revenue contribution by refractories type....



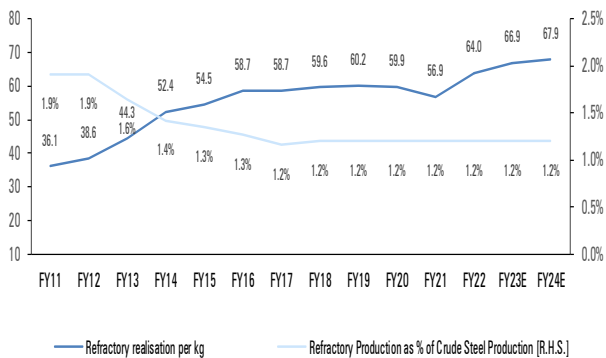
Source: Company, ICICI Direct Research

Exhibit 9: Type-wise gross margin trend....



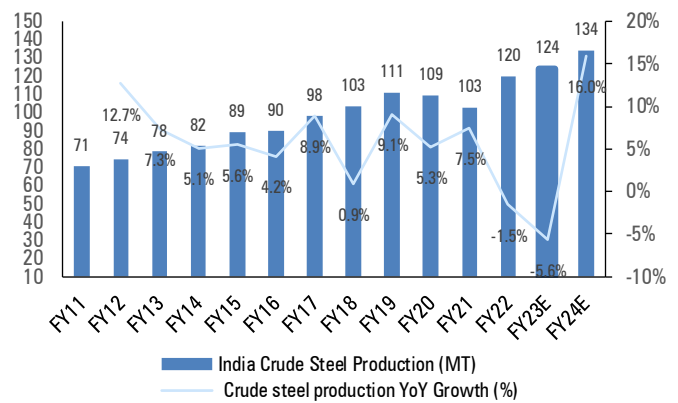
Source: Company, ICICI Direct Research

Exhibit 10: Refractory as percentage of steel production vs. realisation



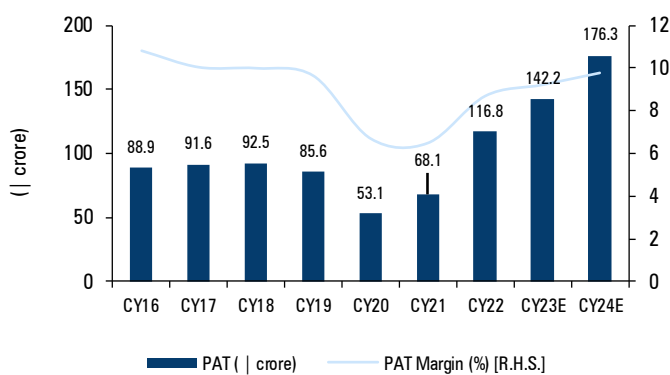
Source: Company, ICICI Direct Research

Exhibit 11: India crude steel production (MT) trend...



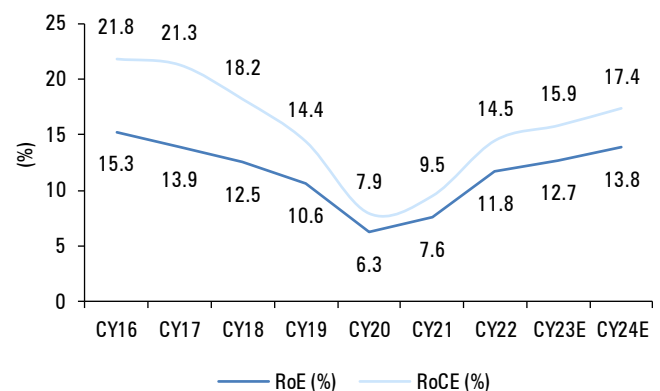
Source: Company, ICICI Direct Research

Exhibit 12: PAT, PAT margin (%) trend....



Source: Company, ICICI Direct Research

Exhibit 13: RoE & RoCE trend...



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 14: Profit & loss statement (₹ crore)				
(₹Crоре)	CY19	CY22	CY23E	CY24E
Net Sales	884	1,335	1,533	1,794
Total Operating Income	887	1,343	1,542	1,803
% Growth (Op. Income)		51.4	14.8	16.9
Other Income	29.2	22.9	25.7	28.9
Total Revenue	916	1,365	1,567	1,832
Cost of materials consumed	339	511	575	673
Purchase of stock-in-trade	171	306	308	352
Change in inventories	1	(12)	-	-
Employee cost	66	90	103	121
Other Expenses	190	283	322	377
Total expenditure	766	1,179	1,309	1,522
EBITDA	121	164	233	281
% Growth (EBITDA)		35.7	42.1	20.7
Interest	-	-	-	-
PBDT	150	187	259	310
Depreciation	27	30	68	73
PBT	123	157	191	237
Tax	38	40	49	60
PAT	86	117	142	176
% Growth (PAT)		36.5	21.7	24.0
EPS	42.1	57.5	70.0	86.9

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement (₹ crore)				
(₹Crоре)	CY19	CY22	CY23E	CY24E
Profit after Tax	85.6	116.8	142.2	176.3
Depreciation	26.6	29.9	67.6	73.1
Interest	-	-	-	-
Other income	(29.2)	(22.9)	(25.7)	(28.9)
Prov for Taxation	37.9	40.1	48.8	60.5
Change in Working Capital	(10.7)	(11.6)	(88.0)	(50.3)
Taxes Paid	(29.8)	(22.5)	(48.8)	(60.5)
Cashflow from Operating Activi	80.2	129.8	96.1	170.3
(Purchase)/Sale of Fixed Asset	(31.4)	(81.5)	(287.8)	(50.0)
(Purchase)/Sale of Investments	(10.1)	(4.2)	(22.6)	(15.9)
Other Income	29.2	22.9	25.7	28.9
Cashflow from Investing Activiti	(12.2)	(62.8)	(284.7)	(36.9)
Changes in Networth	(4.7)	-	-	0.0
Interest	-	-	-	-
Dividend paid	(14.2)	(16.7)	(18.3)	(20.3)
Cashflow from Financing Activi	(18.9)	(16.7)	(18.3)	(20.3)
Changes in Cash	49.1	50.3	(206.9)	113.0
Opening Cash/Cash Equivalent	419.3	548.6	598.9	392.0
Closing Cash/Cash Equivalent	468.5	598.9	392.0	505.1

Source: Company, ICICI Direct Research

Exhibit 16: Balance Sheet (₹ crore)				
(₹Crоре)	CY19	CY22	CY23E	CY24E
Share Capital	20.3	20.3	20.3	20.3
Reserves & Surplus	784.2	973.4	1,097.3	1,253.3
Total Shareholders fund	804.5	993.7	1,117.6	1,273.6
Goodwill	-	-	-	-
Total debt	-	-	-	-
Other liabilities	52.3	86.9	86.9	86.9
Total Liabilities	856.7	1,080.5	1,204.4	1,360.5
Gross Block	215.3	324.9	614.9	664.9
Acc: Depreciation	92.2	167.1	234.8	307.9
Net Block	123.1	157.8	380.2	357.0
Capital WIP	27.7	38.2	36.0	36.0
Investments	48.4	70.9	93.5	109.4
Inventory	107.5	204.1	231.1	270.3
Sundry debtors	187.7	209.4	245.3	287.0
Cash	468.5	598.9	392.0	505.1
Loans & Advances	0.3	0.4	0.7	0.8
Inv+Other current assets	17.1	45.7	42.7	49.1
CL& Prov.	124.4	246.2	218.5	255.5
Net Current Assets	656.7	812.3	693.4	856.7
Total Assets	856.7	1,080.5	1,204.4	1,360.5

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	CY19	CY22	CY23E	CY24E
EPS	42.1	57.5	70.0	86.9
Cash EPS	55.2	72.2	103.4	122.9
BV	396.3	489.5	550.5	627.4
DPS	7.0	8.3	9.0	10.0
Cash Per Share	45.4	82.3	115.6	151.7
EBITDA Margin	13.6	12.2	15.1	15.6
PBT / Net Sales	10.6	10.0	10.7	11.5
PAT Margin	9.6	8.7	9.2	9.8
Inventory days	44.2	55.5	54.7	54.7
Debtor days	77.2	56.9	58.1	58.1
Creditor days	51.2	66.9	51.7	51.7
RoE	10.6	11.8	12.7	13.8
RoCE	14.4	14.5	15.9	17.4
RoIC	32.0	41.2	25.9	31.5
P/E	38.4	28.1	23.1	18.6
EV / EBITDA	23.3	16.4	12.4	9.9
EV / Net Sales	3.2	2.0	1.9	1.5
Market Cap / Sales	3.7	2.4	2.1	1.8
Price to Book Value	4.1	3.3	2.9	2.6
Net Debt / Equity	-	-	-	-
Current Ratio	2.4	1.7	2.2	2.2
Quick Ratio	1.5	0.9	1.1	1.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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