

Kirloskar Ferrous Industries | BUY

Earnings trajectory intact; new projects to be commissioned soon

Kirloskar Ferrous reported 2Q consol. EBITDA of INR1.9bn, higher than JMfe of INR1.7bn. The out-performance in EBITDA was on account of growth in overall volumes (+6% QoQ). Key takeaways from the call are –1) on casting front, current run-rate stands at 13,000 tons per month and 150k tons per annum; company expects to ramp up going forward and has guided for 200k tons in FY25 2) tractor and automotive industries displaying decent demand but lower than expectations 3) company plans to install 10-15MW of wind power plant – capable to provide for ~85% power requirement 4) delay in projects commissioning due to extended rains and difficulty in land acquisition; Iron ore mine/ Coal injection plant to be commissioned by the end of Nov'24 5) Company plans to commission 70MW of solar power plant by end of Nov'24 and expects to commission up to 100MW by end of FY25 to save further on power and fuel costs. KFIL continues to remain well paced on margin expansion path amidst new projects underway to reduce RM cost, coupled with margin accretive product profile. Maintain BUY.

- Margins expand given growth in volumes and blended realisation:** Consolidated revenues came in at INR16.6bn, up ~7% QoQ driven by higher volumes and higher realizations. EBITDA came in at ~INR1.9bn up ~4% QoQ implying a blended EBITDA/t of INR8.6k, a sequential decline of ~INR200/t. Adj. PAT stood at INR776mn, up 11% QoQ. With a capacity to produce up to ~28k MT of castings per annum, company has commenced trial run operations at Oliver Engineering and plans to begin commercial production shortly. This will add to the existing casting capacity of ~180k MT per annum and allow KFIL for geographical expansion in the North Indian market.
- Cost optimization initiatives on track:** KFIL has proactively structured changes to reduce its costs and boost margins. The company has planned capex to save cost through backward integration by installing Bell-less top for blast furnaces and introducing pulverised coal injection and oxygen plant. Company plans to install 10-15MW of wind power plant – capable to provide for ~85% power requirement. Company plans to commission 70MW of solar power plant by end of Nov'24 and expects to commission up to 100MW by end of FY25 to save further on power and fuel costs. Company remains hopeful of operationalizing Iron ore mine in Nov'24 with potential cost saving of INR500mn.
- Outlook optimistic:** With the completion of KFIL's merger with ISMT, company seems optimistic to benefit from increased scale, expanded reach and higher cross-selling opportunities. On casting front, current run-rate stands at 13,000 tons per month and company expects to ramp up going forward for the rest of FY25. Revival in sales from tractor and automotive industries is expected to drive sales growth going forward.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	740
Upside/(Downside)	9.9%
Previous Price Target	760
Change	-2.6%

Key Data – KKF IN

Current Market Price	INR673
Market cap (bn)	INR110.6/US\$1.3
Free Float	46%
Shares in issue (mn)	164.6
Diluted share (mn)	164.6
3-mon avg daily val (mn)	INR56.5/US\$0.7
52-week range	830/468
Sensex/Nifty	79,542/24,199
INR/US\$	84.4

Price Performance

%	1M	6M	12M
Absolute	-0.9	18.3	40.9
Relative*	1.0	9.4	15.0

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	37,532	64,175	61,463	76,747	96,517
Sales Growth (%)	84.1	71.0	-4.2	24.9	25.8
EBITDA	6,478	8,357	8,568	9,591	15,145
EBITDA Margin (%)	17.3	13.0	13.9	12.5	15.7
Adjusted Net Profit	3,471	3,951	3,014	4,276	7,802
Diluted EPS (INR)	25.0	28.5	18.4	26.0	47.4
Diluted EPS Growth (%)	14.9	13.8	-35.6	41.6	82.5
ROIC (%)	13.2	12.8	10.4	12.0	19.6
ROE (%)	25.1	20.5	11.3	12.6	19.9
P/E (x)	26.7	23.4	36.3	25.7	14.1
P/B (x)	5.2	4.4	3.4	3.1	2.6
EV/EBITDA (x)	19.6	15.3	14.2	12.4	8.0
Dividend Yield (%)	0.4	0.8	0.9	0.8	0.8

Source: Company data, JM Financial. Note: Valuations as of 07/Nov/2024

JM Financial Institutional Securities Limited

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

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Exhibit 1. Quarterly performance (Consolidated)

Y/E March (INR mn)	2QFY25A	2QFY25E	% Var	2QFY24	YoY	1QFY25	QoQ
Net Sales	16,660	15,841	5.2	15,597	6.8	15,537	7.2
Volumes (kt)	225	228	-1.2	181	24.0	212	6.0
Realizations	74,103	69,592	6.5	86,024	-13.9	73,236	1.2
Raw material cost (Inc. change in invent.)	9,280	9,505	-2.4	8,216	13.0	8,805	5.4
RM costs/t	41,278	41,755	-1.1	45,313	-8.9	41,504	-0.5
Gross profit	7,380	6,337	16.5	7,381	0.0	6,732	9.6
Gross margin (%)	44.3	40.0	10.7	47.3	(6.4)	43.3	2.2
Gross margin/t	32,825	27,837	17.9	40,711		31,733	
Staff costs	933	871	7.1	857	8.8	877	6.4
Staff costs/t	4,149	3,828	8.4	4,729	-12.3	4,132	0.4
Other costs	4,506	3,802	18.5	4,001	12.6	3,990	13.0
Other costs/t	20,044	16,702	20.0	22,067	-9.2	18,806	6.6
Total expenditure	14,720	14,178	3.8	13,074	12.6	13,671	7.7
EBITDA	1,941	1,663	16.7	2,523	-23.1	1,866	4.0
EBITDA/ton (Rs/ton)	8,632	7,307		13,916		8,795	-1.9
EBITDA margin (%)	11.6	10.5		16.2		12.0	
Other income	137	50		43		60	
Depreciation	631	500	26.1	570	10.6	608	3.8
EBIT	1,447	1,213		1,996		1,318	
Interest	369	300	22.9	297	24.0	333	10.8
PBT	1,078	913		1,698		985	
Tax	302	274		514		288	
Eff. Tax rate (%)	28.0	30.0		30.3		29.2	
XO items	-	-		(367)		-	
Reported PAT	776	639	21.4	683		698	11.3
Adjusted PAT	776	639	21.4	1,050	-26.0	698	11.3
EPS (Rs)	4.7	3.9		6.4		4.2	

Source: Company, JM Financial

Exhibit 2. Segmental Performance – Consol. (INR mn)

Y/E March (INR mn)	2QFY25	2QFY24	YoY	1QFY25	QoQ
Revenue					
- Casting Segment	10,905	8,699	25.4	10,287	6.0
- Tube Segment	5,038	5,945	-15.3	4,541	11.0
- Steel Segment	4,585	4,268	7.4	4,274	7.3
EBIT					
- Casting Segment	980	999	-1.9	876	11.8
- Tube Segment	157	926	-83.1	275	-43.0
- Steel Segment	213	88	141.9	175	21.7
EBIT Margin (in %)					
- Casting	9.0	11.5	-21.8	8.5	5.5
- Tube Segment	3.1	15.6	-80.0	6.1	-48.7
- Steel Segment	4.6	2.1	125.2	4.1	13.4

Source: Company, JM Financial, *Note: Casting includes ISMT figures

Exhibit 3. Kirloskar Ferrous – Valuation (INR bn)

	FY26 EBITDA (INR bn)	Multiple	Value (INR bn)
Consol. EBITDA	15.1	8.5	129
Net debt			8
Target Mcap			121
No of share (bn)			0.2
Fair Value/sh			740

Source: JM Financial

Exhibit 4. Key Project updates

Sr. No	Project	Key Objective	Projected timeline for completion
1	O2 Plant	Oxygen Injection in blast furnaces	QIII 2024-25
2	Pig casting Machine	To convert the extra hot metal production after oxygen enrichment	QIV 2024-25
3	Machining capacity enhancement	Ramping up machine shop capacity	QIV 2024-25
4	New Foundry Line at Solapur - Phase II	High pressure module; for auto sector opportunity	QIV 2024-25
5	SOLAR PROJECT - JALNA -1	Power cost Reduction	QII 2024-25
6	SOLAR PROJECT - BEED -1	Power cost Reduction	QI 2025-26

Source: Company, JM Financial

Exhibit 5. Customer bifurcation



Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	37,532	64,175	61,463	76,747	96,517	
Sales Growth	84.1%	71.0%	-4.2%	24.9%	25.8%	
Other Operating Income	0	0	0	0	0	
Total Revenue	37,532	64,175	61,463	76,747	96,517	
Cost of Goods Sold/Op. Exp	22,667	36,980	33,746	42,568	52,683	
Personnel Cost	1,395	3,197	3,369	4,214	4,075	
Other Expenses	6,992	15,641	15,781	20,374	24,614	
EBITDA	6,478	8,357	8,568	9,591	15,145	
EBITDA Margin	17.3%	13.0%	13.9%	12.5%	15.7%	
EBITDA Growth	40.3%	29.0%	2.5%	11.9%	57.9%	
Depn. & Amort.	920	1,726	2,394	2,246	2,315	
EBIT	5,558	6,631	6,174	7,345	12,830	
Other Income	70	493	193	581	648	
Finance Cost	296	955	1,205	809	758	
PBT before Excep. & Forex	5,332	6,170	5,162	7,117	12,720	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	5,332	6,170	5,162	7,117	12,720	
Taxes	2,335	1,797	1,552	1,915	3,180	
Extraordinary Inc./Loss(-)	0	0	-633	0	0	
Assoc. Profit/Min. Int.(-)	-474	422	596	926	1,738	
Reported Net Profit	3,471	3,951	2,381	4,276	7,802	
Adjusted Net Profit	3,471	3,951	3,014	4,276	7,802	
Net Margin	9.2%	6.2%	4.9%	5.6%	8.1%	
Diluted Share Cap. (mn)	138.7	138.7	164.2	164.6	164.6	
Diluted EPS (INR)	25.0	28.5	18.4	26.0	47.4	
Diluted EPS Growth	14.9%	13.8%	-35.6%	41.6%	82.5%	
Total Dividend + Tax	347	764	975	836	836	
Dividend Per Share (INR)	2.5	5.5	5.9	5.1	5.1	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Profit before Tax	5,332	6,170	5,162	7,117	12,720	
Depn. & Amort.	920	1,726	2,394	2,246	2,315	
Net Interest Exp. / Inc. (-)	0	0	0	0	0	
Inc (-) / Dec in WCap.	-1,801	-2,662	-685	1,688	-3,400	
Others	0	0	-633	0	0	
Taxes Paid	-2,335	-1,797	-1,552	-1,915	-3,180	
Operating Cash Flow	2,117	3,437	4,685	9,136	8,455	
Capex	-4,308	-3,995	-6,801	-5,000	-7,000	
Free Cash Flow	-2,191	-558	-2,116	4,136	1,455	
Inc (-) / Dec in Investments	-38	33	-1	0	0	
Others	-2,879	413	-646	0	0	
Investing Cash Flow	-7,225	-3,549	-7,448	-5,000	-7,000	
Inc / Dec (-) in Capital	2	1	126	2	0	
Dividend + Tax thereon	-347	-764	0	-836	-836	
Inc / Dec (-) in Loans	8,567	-1,772	2,466	-2,700	-500	
Others	0	0	0	0	0	
Financing Cash Flow	8,222	-2,535	2,593	-3,534	-1,336	
Inc / Dec (-) in Cash	3,114	-2,648	-171	603	120	
Opening Cash Balance	160	3,275	627	456	1,059	
Closing Cash Balance	3,275	627	456	1,059	1,178	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	17,655	20,940	32,312	35,754	42,720	
Share Capital	694	695	821	823	823	
Reserves & Surplus	16,961	20,246	31,491	34,931	41,897	
Preference Share Capital	0	0	0	0	0	
Minority Interest	8,704	9,145	0	926	2,664	
Total Loans	11,484	9,712	12,219	9,478	8,978	
Def. Tax Liab. / Assets (-)	1,896	2,067	2,297	2,297	2,297	
Total - Equity & Liab.	39,739	41,864	46,828	48,456	56,660	
Net Fixed Assets	29,605	32,725	37,752	39,886	44,572	
Gross Fixed Assets	46,321	50,485	56,529	61,691	68,689	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	18,941	19,815	23,748	24,455	26,770	
Capital WIP	2,225	2,055	4,971	2,650	2,652	
Investments	43	10	11	11	11	
Current Assets	22,875	21,885	21,901	24,608	30,794	
Inventories	9,922	10,785	10,268	11,565	14,544	
Sundry Debtors	7,466	8,178	8,966	9,462	11,899	
Cash & Bank Balances	3,275	627	456	1,059	1,178	
Loans & Advances	2,213	2,296	2,211	2,523	3,173	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	12,784	12,757	12,836	16,050	18,717	
Current Liabilities	4,454	10,318	8,572	12,406	15,072	
Provisions & Others	8,330	2,439	4,264	3,645	3,645	
Net Current Assets	10,092	9,129	9,065	8,558	12,077	
Total - Assets	39,739	41,864	46,828	48,456	56,660	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Margin	9.2%	6.2%	4.9%	5.6%	8.1%	
Asset Turnover (x)	1.4	1.6	1.4	1.6	1.8	
Leverage Factor (x)	1.9	2.1	1.7	1.4	1.3	
RoE	25.1%	20.5%	11.3%	12.6%	19.9%	

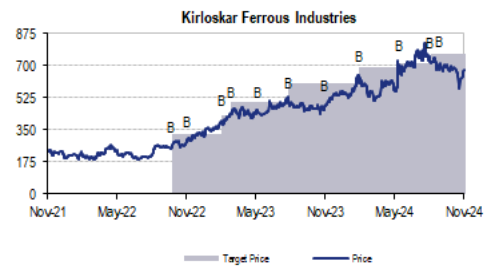
Key Ratios						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
BV/Share (INR)	127.3	151.0	196.8	217.3	259.6	
ROIC	13.2%	12.8%	10.4%	12.0%	19.6%	
ROE	25.1%	20.5%	11.3%	12.6%	19.9%	
Net Debt/Equity (x)	0.5	0.4	0.4	0.2	0.2	
P/E (x)	26.7	23.4	36.3	25.7	14.1	
P/B (x)	5.2	4.4	3.4	3.1	2.6	
EV/EBITDA (x)	19.6	15.3	14.2	12.4	8.0	
EV/Sales (x)	3.4	2.0	2.0	1.6	1.2	
Debtor days	73	47	53	45	45	
Inventory days	96	61	61	55	55	
Creditor days	52	67	59	67	68	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
24-Aug-22		UR	
29-Sep-22	Buy	325	
8-Nov-22	Buy	325	0.0
8-Feb-23	Buy	430	32.3
6-Mar-23	Buy	500	16.3
15-May-23	Buy	500	0.0
4-Aug-23	Buy	600	19.8
6-Nov-23	Buy	600	0.0
5-Feb-24	Buy	690	15.1
21-May-24	Buy	710	2.9
12-Aug-24	Buy	760	6.9
5-Sep-24	Buy	760	0.0

Recommendation History



APPENDIX I

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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* REITs refers to Real Estate Investment Trusts.

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