

Kirloskar Ferrous Industries | BUY



Focus on renewable power, ISMT turnaround key monitorable

Kirloskar Ferrous reported consol. EBITDA of INR2.3bn, lower than JMfe of INR2.8bn. The under-performance in EBITDA was primarily on account of weak set of numbers posted by subsidiary ISMT. Key takeaways from the call are –1) On casting front company expects flat YoY volume i.e. ~130kt for FY24 and remains optimistic about FY25. 2) Company has successfully upgraded all its BF's with current capacity at 165,000 tons of hot metal 3) Demand from auto and infra segment remained strong where as demand from tractor remained muted 4) PCI to start by Feb'24 end and Oxygen enrichment by July'24. 5) Company is expected to commission 70MW solar power plant by March'24 (out of total 210MW solar power plant to be executed in 3 phases) with benefits to accrue from Apr'24. Further company plans to install 10-15MW of wind power plant – capable to provide for ~85% power requirement for ISMT 6) Company remains hopeful of operationalizing Iron ore mine by FY24 end with potential cost saving of INR500mn. KFIL continues to remain well paced on margin expansion path amidst new projects underway to reduce RM cost, coupled with margin accretive product profile at ISMT. Stock currently trades at ~7x EV/EBITDA on FY26E. Maintain BUY.

- Higher volumes aided top line performance:** Kirloskar Ferrous standalone revenue increased 10% QoQ to INR9.7bn primarily on account of higher volumes (up 23.8% QoQ at 164.9kt). Volumes were largely driven by industrial and auto segment whereas tractors continues to remain subdued. EBITDA came in at ~INR1.3bn down 4.4% QoQ implying a blended EBITDA/t of INR7.7k, a sequential decrease of ~INR2.3k/t mainly on account of lower realisation (at ~INR58.7k/t, down ~INR7.4k/t QoQ). PAT stood at INR517mn down 9% QoQ.
- Muted performance on ISMT front dragging overall performance:** ISMT reported 14.2% QoQ decrease in revenues to INR6.4bn. EBITDA came at INR1bn down 14% QoQ driven by topline de-growth. Consequently, Adj. PAT came in at INR620mn down 6% QoQ. On consolidated basis company reported revenue of INR15.5bn flat QoQ. EBITDA came in at INR2.3bn down 8% QoQ. PAT came in at INR763mn.
- Triggers in place for cost optimizing:** Company is expected to commission pulverized coal injection plant by 4QFY24. Further Oxygen enrichment is expected to be commercialized by July'24. Company continues to remain on track for its various projects for capacity enhancement (refer exhibit 6) providing comfort for long term growth amidst increased operational efficiencies post ISMT merger and Oliver engineering limited acquisition.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	
Current Price Target (12M)	690
Upside/(Downside)	8.7%
Previous Price Target	600
Change	NA

Key Data – KKF IN

Current Market Price	INR635
Market cap (bn)	INR88.4/US\$1.1
Free Float	39%
Shares in issue (mn)	138.7
Diluted share (mn)	138.7
3-mon avg daily val (mn)	INR37.3/US\$0.4
52-week range	650/373
Sensex/Nifty	71,731/21,772
INR/US\$	83.1

Price Performance

%	1M	6M	12M
Absolute	17.4	29.3	61.0
Relative*	17.8	18.4	36.6

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	37,532	64,175	68,382	85,122	94,715
Sales Growth (%)	84.1	71.0	6.6	24.5	11.3
EBITDA	6,478	8,357	9,559	13,688	15,460
EBITDA Margin (%)	17.3	13.0	14.0	16.1	16.3
Adjusted Net Profit	3,471	3,951	4,264	7,155	8,129
Diluted EPS (INR)	25.0	28.5	30.7	51.6	58.6
Diluted EPS Growth (%)	14.9	13.8	7.9	67.8	13.6
ROIC (%)	13.2	12.8	13.8	19.2	18.8
ROE (%)	25.1	20.5	18.6	25.4	23.1
P/E (x)	25.4	22.3	20.7	12.3	10.8
P/B (x)	5.0	4.2	3.5	2.8	2.3
EV/EBITDA (x)	16.2	12.7	11.0	7.6	6.7
Dividend Yield (%)	0.4	0.9	0.4	0.7	0.8

Source: Company data, JM Financial. Note: Valuations as of 05/Feb/2024

JM Financial Institutional Securities Limited

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Exhibit 1. Quarterly performance (consolidated)**(INR mn)**

Y/E March (INR mn)	3QFY24	3QFY24E	% Var	3QFY23	YoY	2QFY24	QoQ
Net Sales	15,482	17,305	-10.5	16,005	-3.3	15,597	-0.7
EBITDA	2,320	2,769	-16.2	2,412	-3.8	2,523	-8.0
Reported PAT	763	1,121		1,166		683	
Adjusted PAT	763	1,121	-31.9	1,166	-34.5	1,050	-27.3

Source: Company, JM Financial

Exhibit 2. Quarterly performance (standalone)**(INR mn)**

Y/E March (INR mn)	3QFY24	3QFY24E	% Var	3QFY23	YoY	2QFY24	QoQ
Net Sales	9,680	9,445	2.5	10,751	-10.0	8,798	10.0
Volumes (kt)	164.9	145.5	13.3	171.7	-4.0	133.1	23.8
Realizations	58,715	64,909	-9.5	62,623	-6.2	66,084	-11.2
Raw material cost (Inc. change in invent.)	6,136	5,714	7.4	6,576	-6.7	5,151	19.1
RM costs/t	37,217	39,270	-5.2	38,304	-2.8	38,688	-3.8
Gross profit	3,544	3,731	-5.0	4,175	-15.1	3,647	-2.8
Gross margin (%)	36.6	39.5	-7.3	38.8	(5.7)	41.5	-11.7
Gross margin/t	21,498	25,639	-16.2	24,318		27,396	
Staff costs	417	378	10.3	361	15.3	388	7.3
Staff costs/t	2,527	2,596	-2.7	2,104	20.1	2,917	-13.4
Other costs	1,858	1,983	-6.3	1,976	-6.0	1,932	-3.8
Other costs/t	11,272	13,631	-17.3	11,511	-2.1	14,510	-22.3
Total expenditure	8,411	8,075	4.2	8,913	-5.6	7,471	12.6
EBITDA	1,269	1,369	-7.3	1,838	-30.9	1,327	-4.4
EBITDA/ton (Rs/ton)	7,700	9,412		10,703		9,970	-22.8
EBITDA margin (%)	13.1	14.5		17.1		15.1	
Other income	47	52		33		24	
Depreciation	343	282	21.5	265	29.6	322	6.3
EBIT	974	1,139		1,606		1,029	
Interest	274	212	29.2	220	24.3	270	1.5
PBT	700	927		1,385		759	
Tax	183	250		355		191	
Eff. Tax rate (%)	26.1	27.0		25.7		25.1	
XO items	-	-		-		-	
Reported PAT	517	677		1,030		569	
Adjusted PAT	517	677	-23.6	1,030	-49.8	569	-9.0
EPS (Rs)	3.7	4.9		7.4		4.1	

Source: Company, JM Financial

Exhibit 3. Segmental Performance – Consol. (INR mn)

Y/E March (INR mn)	3QFY24	3QFY23	YoY	2QFY24	QoQ
Revenue					
- Casting Segment	9,552	10,686	-10.6	8,699	9.8
- Tube Segment	5,458	4,870	12.1	5,945	-8.2
- Steel Segment	3,937	3,934	0.1	4,268	-7.8
EBIT					
- Casting Segment	916	1,582	-42.1	999	-8.3
- Tube Segment	760	459	65.6	926	-17.9
- Steel Segment	92	-4	-2244.2	88	4.9
EBIT Margin (in %)					
- Casting	9.6	14.8		11.5	
- Tube Segment	13.9	9.4		15.6	
- Steel Segment	2.3	(0.1)		2.1	

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

Exhibit 4. Quarterly performance – ISMT (INR mn)

Y/E March (INR mn)	3QFY24	3QFY24E	% Var	3QFY23	YoY	2QFY24	QoQ
Net Sales	6,423	7,861	-18.3	5,981	7.4	7,487	-14.2
Raw material cost (Inc. change in invent.)	2,978	3,618	-17.7	3,035	-1.9	3,742	-20.4
Gross profit	3,445	4,243	-18.8	2,946	16.9	3,745	-8.0
Gross margin (%)	53.6	54.0	-0.6	49.3	8.9	50.0	7.2
Staff costs	469	723	-35.2	448	4.7	469	0.0
Other costs	1,928	2,122	-9.1	1,922	0.4	2,058	-6.3
Total expenditure	5,375	6,464	-16.8	5,405	-0.5	6,269	-14.3
EBITDA	1,047	1,397	-25.1	577	81.6	1,218	-14.0
EBITDA margin (%)	16.3	17.8		9.6		16.3	
Other income	77	30		38		26	
Depreciation	233	225	3.7	137	69.8	223	4.7
EBIT	891	1,202		477		1,021	
Interest	22	30	-26.7	49	-55.2	27	-19.4
PBT	869	1,172		428		994	
Tax	249	340		139		333	
Eff. Tax rate (%)	28.7	29.0		32.4		33.5	
XO items	-	-		-		(147)	
Reported PAT	620	832		290		515	20
Adjusted PAT	620	832	-25.6	290	114.0	661	(6)

Source: Company, JM Financial;

Exhibit 5. Kirloskar Ferrous – Valuation (INR bn)

	FY26 EBITDA (INR bn)	Multiple	Value (INR bn)
KFIL+ISMT (proportional) EBITDA	13.1	7.5	98
Net debt			3
Target Mcap			95
No of share (bn)			0.1
Fair Value/sh			690

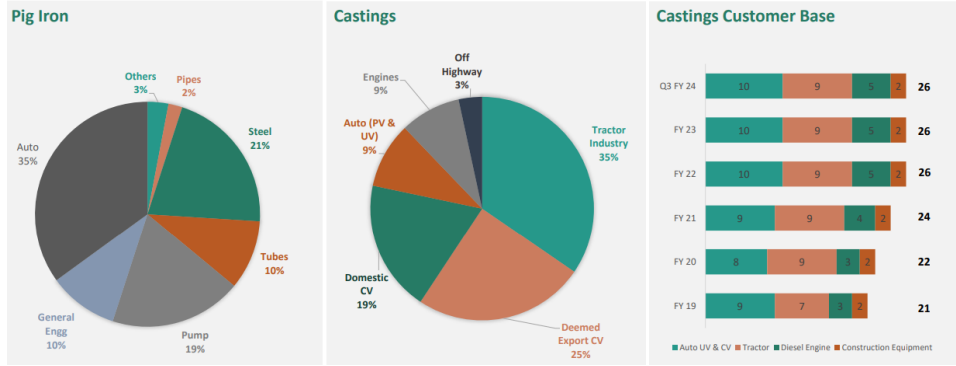
Source: JM Financial

Exhibit 6. Key Project updates

Sr. No	Project	Key Objective	Projected timeline for completion
1	Pulverized Coal Injection	Reduction in coke consumption	QIV 2023-24
2	Machining capacity enhancement	Ramping up machine shop capacity	QII 2024-25
3	New Foundry Line at Solapur - Phase II	High pressure module; for auto sector opportunity	QIV 2024-25

Source: Company, JM Financial

Exhibit 7. Customer bifurcation



Source: Company, JM Financial

Exhibit 8. Key assumptions**(INR mn)**

	FY24E	FY25E	FY26E
KFIL (Stndl.)			
Pig Iron			
Sales Volumes (ktpa)	481	650	715
Realisations (INR/t)	46,449	45,056	44,605
Revenue (INR mn)	22,356	29,268	31,873
Casting			
Sales Volumes (ktpa)	130	174	194
Realisations (INR/t)	125,804	122,659	123,640
Revenue (INR mn)	16,304	21,397	23,991
Blended Realisation (INR)	63,284	61,483	61,484
Blended EBITDA (INR mn)	5,711	9,281	10,605
Blended EBITDA/t (INR)	9,348	11,263	11,672
ISMT			
Alloy Steel			
Volumes (ktpa)	81	69	75
Realisations (INR/t)	65,000	66,000	66,000
Revenue (INR mn)	5,289	4,562	4,950
Tubes			
Volumes (ktpa)	217	277	314
Realisations (INR/t)	106,520	103,500	103,500
Revenue (INR mn)	23,156	28,636	32,516
Blended EBITDA (INR mn)	3,848	4,407	4,855
Blended EBITDA/t (INR)	12,881	12,746	12,476

Source: JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	37,532	64,175	68,382	85,122	94,715
Sales Growth	84.1%	71.0%	6.6%	24.5%	11.3%
Other Operating Income	0	0	0	0	0
Total Revenue	37,532	64,175	68,382	85,122	94,715
Cost of Goods Sold/Op. Exp	22,667	36,980	38,250	46,797	51,759
Personnel Cost	1,395	3,197	3,212	3,852	4,299
Other Expenses	6,992	15,641	17,362	20,785	23,197
EBITDA	6,478	8,357	9,559	13,688	15,460
EBITDA Margin	17.3%	13.0%	14.0%	16.1%	16.3%
EBITDA Growth	40.3%	29.0%	14.4%	43.2%	12.9%
Depn. & Amort.	920	1,726	1,884	2,098	2,549
EBIT	5,558	6,631	7,675	11,590	12,911
Other Income	70	493	530	563	605
Finance Cost	296	955	869	767	803
PBT before Excep. & Forex	5,332	6,170	7,336	11,386	12,713
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	5,332	6,170	7,336	11,386	12,713
Taxes	2,335	1,797	2,000	3,037	3,306
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-474	422	1,072	1,194	1,278
Reported Net Profit	3,471	3,951	4,264	7,155	8,129
Adjusted Net Profit	3,471	3,951	4,264	7,155	8,129
Net Margin	9.2%	6.2%	6.2%	8.4%	8.6%
Diluted Share Cap. (mn)	138.7	138.7	138.7	138.7	138.7
Diluted EPS (INR)	25.0	28.5	30.7	51.6	58.6
Diluted EPS Growth	14.9%	13.8%	7.9%	67.8%	13.6%
Total Dividend + Tax	347	764	314	591	680
Dividend Per Share (INR)	2.5	5.5	2.3	4.3	4.9

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	5,332	6,170	7,336	11,386	12,713
Depn. & Amort.	920	1,726	1,884	2,098	2,549
Net Interest Exp. / Inc. (-)	0	0	0	0	0
Inc (-) / Dec in WCap.	-1,801	-2,662	1,205	-2,431	-3,209
Others	0	0	0	0	0
Taxes Paid	-2,335	-1,797	-2,000	-3,037	-3,306
Operating Cash Flow	2,117	3,437	8,426	8,016	8,747
Capex	-4,308	-3,995	-5,500	-5,000	-7,000
Free Cash Flow	-2,191	-558	2,926	3,016	1,747
Inc (-) / Dec in Investments	-38	33	0	0	0
Others	-2,879	413	0	0	0
Investing Cash Flow	-7,225	-3,549	-5,500	-5,000	-7,000
Inc / Dec (-) in Capital	2	1	0	0	0
Dividend + Tax thereon	-347	-764	-314	-591	-680
Inc / Dec (-) in Loans	8,567	-1,772	-2,500	-2,700	-500
Others	0	0	0	0	0
Financing Cash Flow	8,222	-2,535	-2,814	-3,291	-1,180
Inc / Dec (-) in Cash	3,114	-2,648	112	-275	567
Opening Cash Balance	160	3,275	627	739	464
Closing Cash Balance	3,275	627	739	464	1,032

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	17,655	20,940	24,890	31,455	38,904
Share Capital	694	695	695	695	695
Reserves & Surplus	16,961	20,246	24,196	30,760	38,210
Preference Share Capital	0	0	0	0	0
Minority Interest	8,704	9,145	10,217	11,411	12,689
Total Loans	11,484	9,712	7,212	4,512	4,012
Def. Tax Liab. / Assets (-)	1,896	2,067	2,067	2,067	2,067
Total - Equity & Liab.	39,739	41,864	44,387	49,445	57,672
Net Fixed Assets	29,605	32,725	36,341	39,243	43,694
Gross Fixed Assets	46,321	50,485	54,890	60,390	67,388
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	18,941	19,815	21,699	23,797	26,346
Capital WIP	2,225	2,055	3,150	2,650	2,652
Investments	43	10	10	10	10
Current Assets	22,875	21,885	21,722	26,584	30,873
Inventories	9,922	10,785	10,304	12,827	14,532
Sundry Debtors	7,466	8,178	8,431	10,495	11,937
Cash & Bank Balances	3,275	627	739	464	1,032
Loans & Advances	2,213	2,296	2,248	2,799	3,373
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	12,784	12,757	13,687	16,392	16,905
Current Liabilities	4,454	10,318	11,054	13,759	14,272
Provisions & Others	8,330	2,439	2,633	2,633	2,633
Net Current Assets	10,092	9,129	8,036	10,191	13,968
Total - Assets	39,739	41,864	44,387	49,445	57,672

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
Net Margin		9.2%	6.2%	6.2%	8.4%	8.6%
Asset Turnover (x)		1.4	1.6	1.6	1.8	1.8
Leverage Factor (x)		1.9	2.1	1.9	1.7	1.5
RoE		25.1%	20.5%	18.6%	25.4%	23.1%

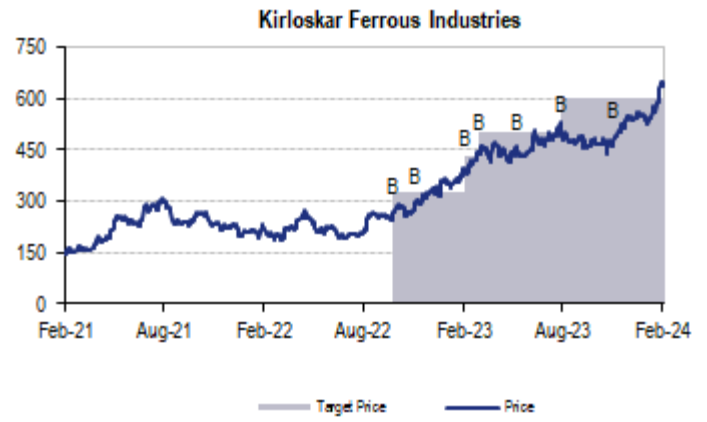
Key Ratios		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
BV/Share (INR)		127.3	151.0	179.4	226.7	280.5
ROIC		13.2%	12.8%	13.8%	19.2%	18.8%
ROE		25.1%	20.5%	18.6%	25.4%	23.1%
Net Debt/Equity (x)		0.5	0.4	0.3	0.1	0.1
P/E (x)		25.4	22.3	20.7	12.3	10.8
P/B (x)		5.0	4.2	3.5	2.8	2.3
EV/EBITDA (x)		16.2	12.7	11.0	7.6	6.7
EV/Sales (x)		2.8	1.7	1.5	1.2	1.1
Debtor days		73	47	45	45	46
Inventory days		96	61	55	55	56
Creditor days		52	67	69	70	66

Source: Company, JM Financial

History of Earnings Estimate 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

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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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.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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