

# Kirloskar Ferrous Industries | BUY



## Expansion on-track, ISMT to lead margin recovery

Kirloskar Ferrous reported consol. EBITDA of INR2.5bn, above JMfe of INR2.3bn. The out-performance in EBITDA was primarily on account of strong numbers posted by subsidiary ISMT. Key takeaways from the call are –1) Company expects to end FY24 with 3-5% YoY volume growth on casting front i.e 135kt for full year and remains optimistic about FY25. 2) Company has successfully upgraded all its BF's with current capacity at 165,000 tons of hot metal and expects volumes to improve marginally in 2H. 3) Demand from CV and infra segment remained strong where as sluggish demand on tractor front led to volume de-growth. 4) ISMT turnaround continues to be on track with '70 MW' solar power plant to be operational by March' 24 with resultant cost saving expected at INR700mn p.a. Further, company plans to have solar power plant with capacity of 175 MW with resultant cost saving of INR1.7bn 5) Machining capacity currently stands at 600mt/month and expects to increase it to 1,000mt/month by FY24. 6) During the quarter the company completed acquisition of Oliver Engineering Private Limited (on 29<sup>th</sup> Sep'23) and has commenced refurbishment activities with plant expected to be operational in 5-6 months with capacity of 28,000 tons. 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 6x EV/EBITDA on FY25E. Maintain BUY.

- Higher realizations lead to steady operational performance:** Kirloskar Ferrous standalone reported a revenue decrease of 5% QoQ to INR8.8bn primarily on account of lower volumes (down 6.7% QoQ at 133kt). Volumes were largely impacted due to (a) planned shut downs for installing bell less top (b) weaker demand tractor segment (contributing 35% of casting volumes) due to deficit monsoon. EBITDA came in at INR1.3bn up 5% QoQ implying a blended EBITDA/t of INR10.0k, a sequential increase of 12% mainly on account of lower RM cost. PAT stood at INR569mn up 5.8% QoQ.
- Healthy performance on ISMT front uplifting overall performance:** ISMT reported 13.9% QoQ increase in revenues to INR7.5bn. EBITDA came at INR1.2bn up 52.4% QoQ driven by topline growth. Consequently, PAT came in at INR513mn up 26.1% QoQ. On consolidated basis company reported revenue of INR15.6bn up 3.8% QoQ. EBITDA came in at INR2.5bn up 21.7% QoQ. PAT came in at INR683mn (including impairment loss of INR367mn for ISMT subsidiary).
- Triggers in place for cost optimizing and improving realizations:** KFIL during the quarter completed its planned maintenance of bell-less top for MBF-1 and 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.	BUY
Current Price Target (12M)	600
Upside/(Downside)	26.5%
Previous Price Target	600
Change	NA

### Key Data – KKF IN

Current Market Price	INR474
Market cap (bn)	INR66.0/US\$0.8
Free Float	39%
Shares in issue (mn)	138.7
Diluted share (mn)	138.7
3-mon avg daily val (mn)	INR60.1/US\$0.7
52-week range	534/278
Sensex/Nifty	64,959/19,412
INR/US\$	83.2

### Price Performance

%	1M	6M	12M
Absolute	1.3	7.7	71.7
Relative*	2.9	1.2	61.1

\* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	37,532	64,175	70,781	85,122	94,715
Sales Growth (%)	84.1	71.0	10.3	20.3	11.3
EBITDA	6,478	8,357	10,462	13,688	15,488
EBITDA Margin (%)	17.3	13.0	14.8	16.1	16.4
Adjusted Net Profit	3,471	3,951	4,995	7,155	8,140
Diluted EPS (INR)	25.0	28.5	36.0	51.6	58.7
Diluted EPS Growth (%)	14.9	13.8	26.4	43.2	13.8
ROIC (%)	13.2	12.8	15.5	19.0	18.7
ROE (%)	25.1	20.5	21.5	24.8	22.7
P/E (x)	18.9	16.6	13.2	9.2	8.1
P/B (x)	3.7	3.1	2.6	2.0	1.7
EV/EBITDA (x)	12.8	10.1	7.9	5.9	5.3
Dividend Yield (%)	0.5	1.2	0.6	0.9	1.0

Source: Company data, JM Financial. Note: Valuations as of 06/Nov/2023

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

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Quarterly performance (consolidated)							(INR mn)
Y/E March (INR mn)	2QFY24	2QFY24E	% Var	2QFY23	YoY	1QFY24	QoQ
Net Sales	15,596.9	16,860	-7.5	17,575	-11.3	15,025	3.8
EBITDA	2,523	2,297	9.9	1,997	26.4	2,074	21.7
Reported PAT	683	877		967		740	
Adjusted PAT	1,050	877	19.7	1,110	-5.4	740	41.8

Source: Company, JM Financial

Exhibit 2. Quarterly performance (standalone)							(INR mn)
Y/E March (INR mn)	2QFY24	2QFY24E	% Var	2QFY23	YoY	1QFY24	QoQ
Net Sales	8,798	9,761	-9.9	11,335	-22.4	9,265	-5.0
Volumes (kt)	133.1	155.5	-14.4	163.7	-18.7	142.6	-6.7
Realizations	66,084	62,778	5.3	69,245	-4.6	64,951	1.7
Raw material cost (Inc. change in invent.)	5,151	6,052	-14.9	7,694	-33.1	5,768	-10.7
RM costs/t	38,688	38,923	-0.6	47,004	-17.7	40,439	-4.3
Gross profit	3,647	3,709	-1.7	3,641	0.2	3,496	4.3
Gross margin (%)	41.5	38.0	9.1	32.1	29.1	37.7	9.9
Gross margin/t	27,396	23,856	14.8	22,242		24,512	
Staff costs	388	410	-5.3	363	7.1	374	3.7
Staff costs/t	2,917	2,637	10.6	2,216	31.6	2,624	11.1
Other costs	1,932	1,855	4.2	1,893	2.0	1,852	4.3
Other costs/t	14,510	11,928	21.6	11,566	25.4	12,983	11.8
Total expenditure	7,471	8,316	-10.2	9,950	-24.9	7,995	-6.6
EBITDA	1,327	1,445	-8.1	1,385	-4.1	1,270	4.5
EBITDA/ton (Rs/ton)	9,970	9,291		8,459		8,904	12.0
EBITDA margin (%)	15.1	14.8		12.2		13.7	
Other income	24	25		212		13	
Depreciation	322	325	-0.8	254	26.8	315	2.5
EBIT	1,029	1,145		1,343		969	
Interest	270	265	1.8	202	33.5	256	5.3
PBT	759	880		1,141		713	
Tax	191	228		321		175	
Eff. Tax rate (%)	25.1	25.9		28.1		24.6	
XO items	-	-		-		-	
Reported PAT	569	648		820		538	
Adjusted PAT	569	648	-12.3	820	-30.6	538	5.8
EPS (Rs)	4.1	4.7		5.9		3.9	

Source: Company, JM Financial

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

Y/E March (INR mn)	2QFY24	2QFY23	YoY	1QFY24	QoQ
<b>Revenue</b>					
- Casting*	8,699	11,274	-22.8	9,214	-5.6
- Tube Segment	5,945	5,630	5.6	5,315	11.8
- Steel Segment	4,268	4,998	-14.6	4,314	-1.0
<b>EBIT</b>					
- Casting	999	1,294	-22.8	974	2.6
- Tube Segment	926	454	104.0	588	57.5
- Steel Segment	88	67	31.4	89	-1.5
<b>EBIT Margin (in %)</b>					
- Casting	11.5	11.5		10.6	
- Tube Segment	15.6	8.1		11.1	
- Steel Segment	2.1	1.3		2.1	

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

**Exhibit 4. Quarterly performance – ISMT** (INR mn)

Y/E March (INR mn)	2QFY24	2QFY24E	% Var	2QFY23	YoY	1QFY24	QoQ
<b>Net Sales</b>	<b>7,487</b>	<b>7,099</b>	<b>5.5</b>	<b>7,091</b>	<b>5.6</b>	<b>6,574</b>	<b>13.9</b>
Raw material cost (Inc. change in invent.)	3,742	3,621	3.3	3,973	-5.8	3,319	12.7
<b>Gross profit</b>	<b>3,745</b>	<b>3,479</b>	<b>7.6</b>	<b>3,118</b>	<b>20.1</b>	<b>3,255</b>	<b>15.0</b>
Gross margin (%)	50.0	49.0	2.1	44.0	13.8	49.5	1.0
Staff costs	469	461	1.7	404	16.2	425	10.4
Other costs	2,058	2,165	-5.0	2,105	-2.2	2,031	1.3
<b>Total expenditure</b>	<b>6,269</b>	<b>6,248</b>	<b>0.3</b>	<b>6,482</b>	<b>-3.3</b>	<b>5,775</b>	<b>8.6</b>
<b>EBITDA</b>	<b>1,218</b>	<b>852</b>	<b>42.9</b>	<b>610</b>	<b>99.8</b>	<b>799</b>	<b>52.4</b>
EBITDA margin (%)	16.3	12.0		8.6		12.2	
Other income	26	35		32		31	
Depreciation	223	135	65.0	136	64.2	127	75.0
<b>EBIT</b>	<b>1,021</b>	<b>752</b>		<b>505</b>		<b>703</b>	
Interest	27	40	-31.8	88	-69.0	36	-24.6
<b>PBT</b>	<b>994</b>	<b>712</b>		<b>417</b>		<b>667</b>	
Tax	333	185		114		260	
Eff. Tax rate (%)	33.5	25.9		27.4		39.0	
XO items	(147)	-		-		-	
<b>Reported PAT</b>	<b>513</b>	<b>525</b>		<b>303</b>		<b>407</b>	
<b>Adjusted PAT</b>	<b>659</b>	<b>525</b>	<b>25.5</b>	<b>303</b>	<b>117.6</b>	<b>407</b>	<b>62.1</b>

Source: Company, JM Financial;

**Exhibit 5. Kirloskar Ferrous – Valuation** (INR bn)

	FY25 EBITDA (INR bn)	Multiple	Value (INR bn)
KFIL+ISMT (proportional) EBITDA	11.5	7.5	87
Net debt			4
<b>Target Mcap</b>			<b>83</b>
No of share (bn)			0.1
<b>Fair Value/sh</b>			<b>600</b>

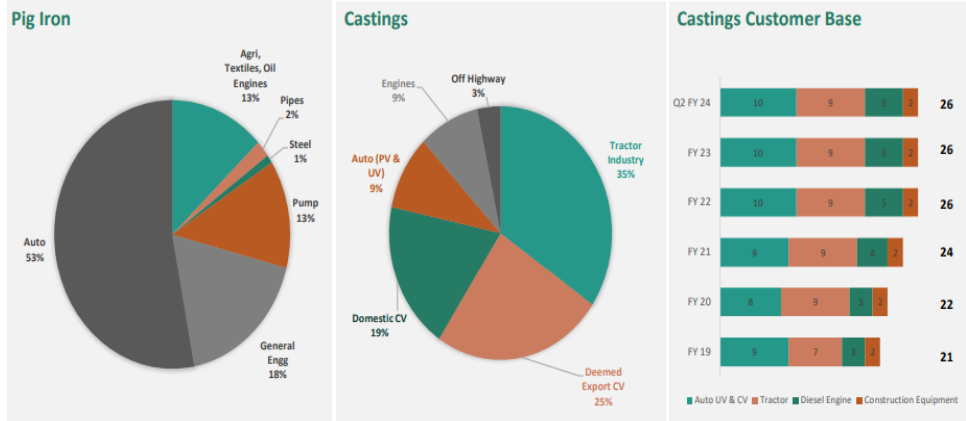
Source: JM Financial

**Exhibit 6. Key Project updates**

Sr. No	Project	Key Objective	Projected timeline for completion
1	Bell less top for MBF-1	Reduction in coal/coke consumption	Completed in Sep-23
2	Machining capacity enhancement	Ramping up machine shop capacity	FY 2023-24
3	Pulverized Coal Injection	Reduction in coke consumption	QIV 2023-24
4	New Foundry Line at Solapur - Phase II	High pressure module; for auto sector opportunity	QIV 2023-24

Source: Company, JM Financial

**Exhibit 7. Customer bifurcation**



Source: Company, JM Financial

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

	<b>FY24E</b>	<b>FY25E</b>
<b>KFIL (Stndl.)</b>		
<b>Pig Iron</b>		
Sales Volumes (ktpa)	501	650
Realisations (INR/t)	46,449	45,056
Revenue (INR mn)	23,270	29,268
<b>Casting</b>		
Sales Volumes (ktpa)	135	174
Realisations (INR/t)	1,25,804	1,22,659
Revenue (INR mn)	17,029	21,397
Blended Realisation (INR)	63,329	61,483
Blended EBITDA (INR mn)	6,757	9,281
Blended EBITDA/t (INR)	10,618	11,263
<b>ISMT</b>		
<b>Alloy Steel</b>		
Volumes (ktpa)	84	69
Realisations (INR/t)	66,000	66,000
Revenue (INR mn)	5,514	4,562
<b>Tubes</b>		
Volumes (ktpa)	219	277
Realisations (INR/t)	1,08,000	1,03,500
Revenue (INR mn)	23,691	28,636
Blended EBITDA (INR mn)	3,705	4,407
Blended EBITDA/t (INR)	12,232	12,746

Source: JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	37,532	64,175	70,781	85,122	94,715
Sales Growth	84.1%	71.0%	10.3%	20.3%	11.3%
Other Operating Income	0	0	0	0	0
<b>Total Revenue</b>	<b>37,532</b>	<b>64,175</b>	<b>70,781</b>	<b>85,122</b>	<b>94,715</b>
Cost of Goods Sold/Op. Exp	22,667	36,980	39,167	46,797	51,731
Personnel Cost	1,395	3,197	3,379	3,852	4,299
Other Expenses	6,992	15,641	17,773	20,785	23,197
<b>EBITDA</b>	<b>6,478</b>	<b>8,357</b>	<b>10,462</b>	<b>13,688</b>	<b>15,488</b>
EBITDA Margin	17.3%	13.0%	14.8%	16.1%	16.4%
EBITDA Growth	40.3%	29.0%	25.2%	30.8%	13.1%
Depn. & Amort.	920	1,726	1,884	2,098	2,549
EBIT	5,558	6,631	8,578	11,590	12,939
Other Income	70	493	530	563	605
Finance Cost	296	955	869	767	803
PBT before Excep. & Forex	5,332	6,170	8,239	11,386	12,741
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	5,332	6,170	8,239	11,386	12,741
Taxes	2,335	1,797	2,220	3,037	3,313
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-474	422	1,024	1,194	1,288
Reported Net Profit	3,471	3,951	4,995	7,155	8,140
<b>Adjusted Net Profit</b>	<b>3,471</b>	<b>3,951</b>	<b>4,995</b>	<b>7,155</b>	<b>8,140</b>
Net Margin	9.2%	6.2%	7.1%	8.4%	8.6%
Diluted Share Cap. (mn)	138.7	138.7	138.7	138.7	138.7
<b>Diluted EPS (INR)</b>	<b>25.0</b>	<b>28.5</b>	<b>36.0</b>	<b>51.6</b>	<b>58.7</b>
Diluted EPS Growth	14.9%	13.8%	26.4%	43.2%	13.8%
Total Dividend + Tax	347	764	393	591	680
Dividend Per Share (INR)	2.5	5.5	2.8	4.3	4.9

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	17,655	20,940	25,543	32,107	39,567
Share Capital	694	695	695	695	695
Reserves & Surplus	16,961	20,246	24,848	31,413	38,873
Preference Share Capital	0	0	0	0	0
Minority Interest	8,704	9,145	10,168	11,362	12,650
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
<b>Total - Equity &amp; Liab.</b>	<b>39,739</b>	<b>41,864</b>	<b>44,991</b>	<b>50,048</b>	<b>58,296</b>
Net Fixed Assets	29,605	32,725	36,341	39,743	44,194
Gross Fixed Assets	46,321	50,485	54,890	60,890	67,888
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	22,714	26,688	30,997
Inventories	9,922	10,785	10,666	12,827	14,532
Sundry Debtors	7,466	8,178	8,726	10,495	11,937
Cash & Bank Balances	3,275	627	994	568	1,155
Loans & Advances	2,213	2,296	2,327	2,799	3,373
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	12,784	12,757	14,074	16,392	16,905
Current Liabilities	4,454	10,318	11,441	13,759	14,272
Provisions & Others	8,330	2,439	2,633	2,633	2,633
Net Current Assets	10,092	9,129	8,639	10,295	14,092
<b>Total - Assets</b>	<b>39,739</b>	<b>41,864</b>	<b>44,991</b>	<b>50,049</b>	<b>58,296</b>

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	5,332	6,170	8,239	11,386	12,741
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	857	-2,082	-3,209
Others	0	0	0	0	0
Taxes Paid	-2,335	-1,797	-2,220	-3,037	-3,313
<b>Operating Cash Flow</b>	<b>2,117</b>	<b>3,437</b>	<b>8,760</b>	<b>8,365</b>	<b>8,767</b>
Capex	-4,308	-3,995	-5,500	-5,500	-7,000
Free Cash Flow	-2,191	-558	3,260	2,865	1,767
Inc (-) / Dec in Investments	-38	33	0	0	0
Others	-2,879	413	0	0	0
<b>Investing Cash Flow</b>	<b>-7,225</b>	<b>-3,549</b>	<b>-5,500</b>	<b>-5,500</b>	<b>-7,000</b>
Inc / Dec (-) in Capital	2	1	0	0	0
Dividend + Tax thereon	-347	-764	-393	-591	-680
Inc / Dec (-) in Loans	8,567	-1,772	-2,500	-2,700	-500
Others	0	0	0	0	0
<b>Financing Cash Flow</b>	<b>8,222</b>	<b>-2,535</b>	<b>-2,893</b>	<b>-3,291</b>	<b>-1,180</b>
<b>Inc / Dec (-) in Cash</b>	<b>3,114</b>	<b>-2,648</b>	<b>368</b>	<b>-426</b>	<b>587</b>
Opening Cash Balance	160	3,275	627	994	568
Closing Cash Balance	3,275	627	994	568	1,155

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
Net Margin		9.2%	6.2%	7.1%	8.4%	8.6%
Asset Turnover (x)		1.4	1.6	1.6	1.8	1.7
Leverage Factor (x)		1.9	2.1	1.9	1.6	1.5
RoE		25.1%	20.5%	21.5%	24.8%	22.7%

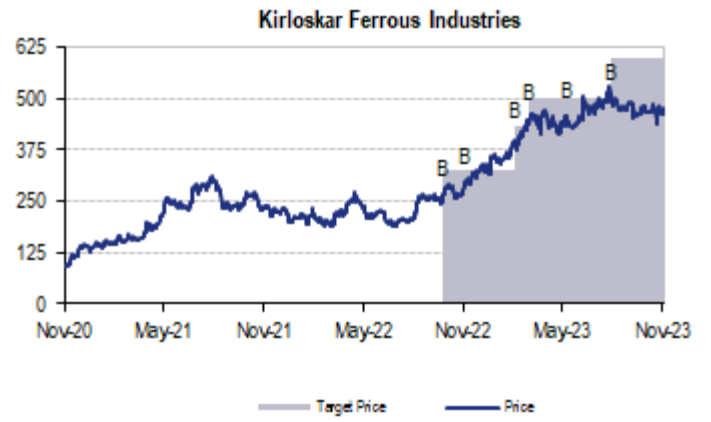
Key Ratios		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
BV/Share (INR)		127.3	151.0	184.1	231.5	285.2
ROIC		13.2%	12.8%	15.5%	19.0%	18.7%
ROE		25.1%	20.5%	21.5%	24.8%	22.7%
Net Debt/Equity (x)		0.5	0.4	0.2	0.1	0.1
P/E (x)		18.9	16.6	13.2	9.2	8.1
P/B (x)		3.7	3.1	2.6	2.0	1.7
EV/EBITDA (x)		12.8	10.1	7.9	5.9	5.3
EV/Sales (x)		2.2	1.3	1.2	1.0	0.9
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

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
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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