

4,122.36 cr	34.4%	30.1%	5	106	1.72%
MARKET CAP.	ROE	ROCE	FACE VALUE	BOOK VALUE	DIVIDEND YIELD



ABOUT THE COMPANY

Kirloskar Ferrous Industries Limited (KFIL) is a market leader in India for manufacturing critical and intricate grey iron castings and quality pig iron. They are the only company in Asia with an integrated business model of mines to machined castings. With three manufacturing facilities in Koppal, Hiriyur (in Karnataka) and Solapur (in Maharashtra), they are pioneering in manufacturing products that serve a discerning customer base. Their pig iron is used to create a wide range of cast iron products that are vital in a variety of sectors. Their technical capability in manufacturing positions them as category leaders in key products.

INVESTMENT THESIS

1. ISMT TURNAROUND

A forward integration opportunity: The ISMT acquisition will increase the value-added proportion of KFIL's product mix, giving it an entry into specialised tubes.

2. COST OPTIMISATION INITIATIVES TO BOOST MARGINS

The cost-saving initiatives like: Coke oven and WHRP – Phase 1, Solar power plant at Solapur, Railway siding, Coke oven and WHRP – Phase 2, Pulverised Coal Injection project, MBF 2 upgradation and installation of Bell-less tops. These cost-saving initiatives envisaged by the company are expected to improve the productivity of the blast furnace and reduce coke consumption.

3. DEBT EXPECTED TO REMAIN AT HEALTHY LEVELS DESPITE CAPACITY ADDITIONS

KFIL has maintained healthy debt levels over the years despite undertaking significant capacity expansion.

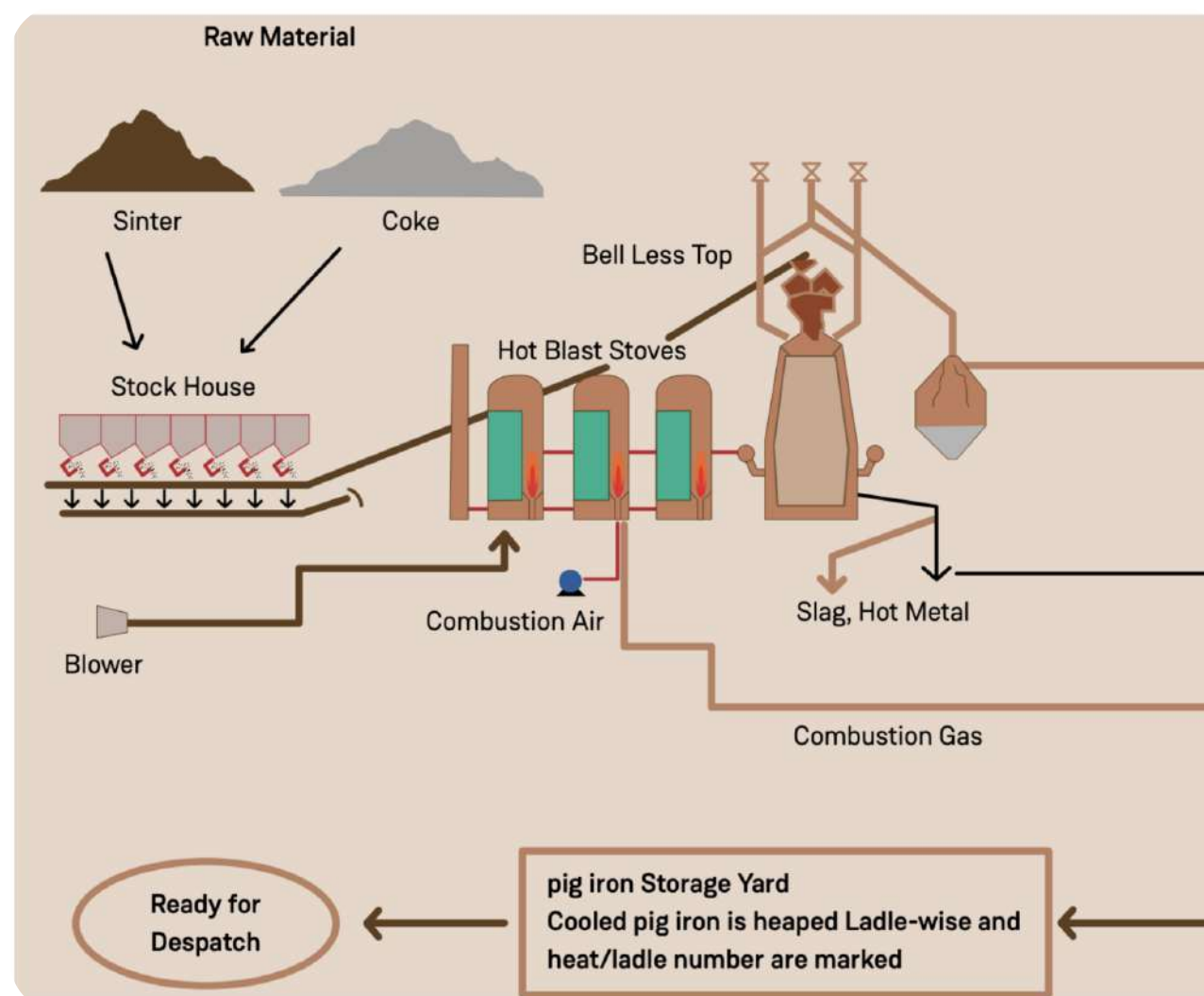
4. CAPACITY EXPANSION

Steady demand outlook across end users segments has set the company on course to increase its pig iron (foundry grade) capacity from 540 KTPA in FY22 to 700 KTPA, and castings capacity from 150 KTPA to 200 KTPA.

BUSINESS DIVISIONS

PIG IRON

The company has established a reputation as a prominent and quality producer of Pig Iron in India. Pig iron is created to customer specifications in terms of weight, size, and chemical composition, and the chemistry of each dispatch is delivered to customers, reducing redundant sampling and maximising resource use. Their product's distribution is just as vital as its production to deliver the product on time to its customers. As a result, the company adequately meets its customer's needs by stacking and loading material based on heat sensitivity. The process of pig iron flow raw material to finish pig iron is as follows:



IRON CASTINGS

The company offers its Grey Iron Castings to Original Equipment Manufacturers (OEM) and Tier-I suppliers. Castings are made to customisation, in accordance with design and specifications provided by their customers. The business development and new product development teams work in collaboration with customers to meet the requirement of faster development of new products and productionisation of the same. The Iron Casting segment is further divided into two businesses:

1. PROTO CASTING BUSINESS

The company has set up a 3D Core/Mold printing facility in Koppal plant for core and mould printing to meet client demand for making quick prototype castings.

2. MACHINING BUSINESS

The machining setup at Koppal & Solapur facilities with modern equipment equips the team to produce castings of varied dimensions for domestic and global customers.

MANUFACTURING FACILITIES

The Company has three manufacturing facilities, situated at Koppal district and Chitradurga district in Karnataka State and at Solapur district in Maharashtra State.

Steady demand outlook across end users segments has set the company on course to increase its pig iron (foundry grade) capacity from 540 KTPA in FY22 to 700 KTPA, and castings capacity from 150 KTPA to 200 KTPA. Further, KFIL has proactively structured changes to reduce its production cost. The company has planned capex to save cost through backward integration by setting up coke ovens (to reduce dependency on imported coke), installing Bell-less top for blast furnaces (to reduce coke consumption per ton) and introducing pulverised coal injection.

Segments	Pre - expansion	Post Expansion
KFIL (Stndl.)		
Pig Iron (ktpa)	541	700
Casting (ktpa)	150	200
ISMT		
Alloy Steel (ktpa)	350	350
Tubes (ktpa)	465	465

ACQUISITION – INDIAN SEAMLESS METAL TUBES

The company has acquired Indian Seamless Metal Tubes (ISMT), India's largest integrated specialist seamless tube producer, to consolidate and integrate the iron ore to seamless tubes. This empowers the company to diversify the current product portfolio across steel and seamless tubes too. ISMT is one of the world's most diverse makers of specialist seamless tubes, with tubes ranging in diameter from 6mm to 273 mm. The company has an alloy steel making facility in India that manufactures a wide range of alloy steels with diameters ranging from 20mm to 225 mm. Their industry-specific teams deliver end to-end solutions to their customers. The company is also looking forward to leverage its existing customer base while also adding ISMT's customers.

The Company has acquired 154,000,000 equity shares of Rs.5 each of ISMT Limited for an aggregate consideration of Rs.476.63 crores on 10 March 2022 by way of preferential allotment pursuant to terms of the Share Subscription Agreement dated 25 November 2021 executed between the Company, ISMT Limited and certain promoters forming the promoter group of ISMT Limited.

KIRLOSKAR FERROUS – AT A GLANCE



CASTING ON A STRONG FOOTING

KFIL began its casting operations with a capacity of 45 KTPA in Koppal and has now expanded its capacity to 150 KTPA across three foundries situated at Koppal (2 foundries) and Solapur (1 foundry). Casting capacity is expected to further increase to 200 KTPA post commissioning of the fourth foundry at Solapur, which is expected by Q3FY23.

KFIL offers grey iron castings to original equipment manufacturers (OEM) and Tier-I suppliers. Castings are made to customisation, in accordance with design and specifications provided by customers. The company enjoys a 19% share in castings. The Iron Casting segment is further divided into two businesses:

1. Proto Casting Business

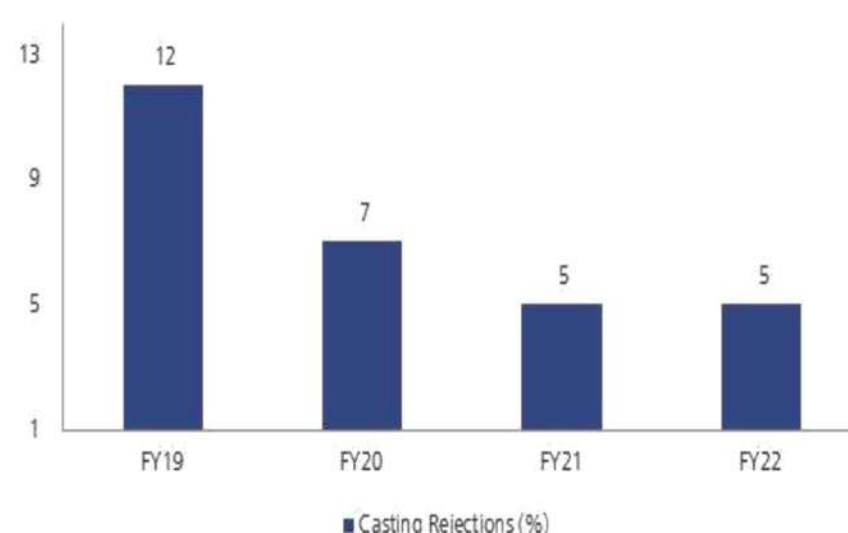
KFIL has set up a 3D Core / Mould printing facility in the Koppal plant for core and mould printing to meet client demand and ensure accelerated product development and reduced turnaround time.

2. Machining Business

The integrated business within proximity of plants and foundry gives KFIL an edge to expand its offerings to make critical and complicated products. The machining setup at its Koppal and Solapur facilities with modern equipment equips the team to produce castings of varied dimensions for domestic and global customers.

KFIL has been working on reducing cost (by reducing rejections) and developing new products (including value-added products) in a shorter time. The company has reduced its casting rejections from 12% to 5% over the last few years due to its constant efforts to improve process and achieve efficiencies in each and every part of the business.

Further, KFIL has been successful in reducing the new product development (NPD) time. The company has formed a project management team and critical chain project management (CCPM) system to oversee project progress, quality, delivery performance, and compliance with customer standards. This project management system and internal R&D capabilities have enabled the company to establish new benchmarks in new product development.



FINANCIAL SUMMARY

BALANCE SHEET:

Particulars	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Share Capital	69.00	69.00	69.00	69.00	69.00
Reserves	522.00	589.00	653.00	930.00	1,267.00
Borrowings	72.00	127.00	311.00	292.00	1,133.00
Other Liabilities	536.00	605.00	586.00	642.00	1,066.00
TOTAL LIABILITIES	1,199.00	1,390.00	1,619.00	1,933.00	3,535.00
Fixed Assets	561.00	608.00	854.00	1,012.00	1,160.00
CWIP	73.00	62.00	144.00	162.00	219.00
Investments	0.00	0.00	0.00	1.00	489.00
Other Assets	565.00	720.00	621.00	758.00	1,667.00
TOTAL ASSETS	1,199.00	1,390.00	1,619.00	1,933.00	3,535.00

**Figures in crs.*

PROFIT & LOSS STATEMENT:

Particulars	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Sales	1,765.00	2,159.00	1,850.00	2,038.00	3,615.00
Expenses	1,654.00	1,945.00	1,634.00	1,577.00	2,968.00
Other Income	4.00	3.00	15.00	3.00	11.00
Interest	11.00	16.00	17.00	25.00	28.00
Depreciation	50.00	54.00	58.00	76.00	88.00
Profit before Tax	54.00	147.00	156.00	363.00	543.00
Tax %	30%	33%	28%	17%	25%
Net Profit	38.00	98.00	112.00	302.00	406.00
EPS (in Rs.)	2.77	7.13	8.15	21.84	29.28

**Figures in crs.*

CASH FLOW STATEMENT:

Particulars	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Cash from Operating Activity	129.00	158.00	204.00	296.00	188.00
Cash from Investing Activity	-57.00	-161.00	-316.00	-223.00	-914.00
Cash from Financing Activity	-79.00	2.00	118.00	-70.00	740.00
Net Cash Flow	-7.00	-1.00	6.00	3.00	14.00

**Figures in crs.*

VALUATION

Kirloskar Ferrous Industries Limited was incorporated with the objective of manufacturing high quality foundry grade pig Iron and thin-walled quality grey iron castings to cater to the growing demand in industry sectors such as tractors, automotive and diesel engines. KFIL's acquisition of ISMT offers a forward integration opportunity to the company into customised seamless tubes. Successful turnaround of ISMT operations is likely to offer significant growth over the coming years. Commencement of iron ore mining operations (captive mines won in auction) post clearance of final stage forest clearances will boost margins further. Thus with the above triggers, we expect an upside of 36.36% from here on with a target price of Rs. 405.

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