

## Kirloskar Ferrous Industries Limited

### Basel II

Facility	Amount	Rating Action
Long Term – Term Loan	Rs. 11.00 crore	[ICRA]AA-(Stable) Reaffirmed
Long Term/ Short Term – Fund Based	Rs. 455.00 crore	[ICRA]AA-(Stable)/A1+ Reaffirmed
Long Term/ Short Term – Non Fund Based	Rs. 690.00 crore	[ICRA]AA-(Stable)/A1+ Reaffirmed
<b>Total</b>	<b>Rs. 1156.00 crore</b>	

### Debt

Facility	Amount	Rating Action
Commercial Paper	Rs. 75.00 crore	[ICRA]A1+ Reaffirmed

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced as ICRA double A minus) with Stable outlook for Rs. 11.00 crore<sup>1</sup> term loan facility of Kirloskar Ferrous Industries Limited (KFIL/the company)<sup>2†</sup>. ICRA has also reaffirmed the long-term rating of [ICRA]AA- with Stable outlook and short-term rating of [ICRA]A1+ (pronounced as ICRA A one plus) for Rs. 455.00 crore of long-term/short-term fund based facilities and Rs. 690.00 crore of long-term/short-term non fund based facilities of KFIL. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ for Rs. 75.00 crore Commercial Paper program of KFIL.

The ratings reaffirmation favourably takes into account status of the company as part of reputed Kirloskar group and one of the leading domestic players in foundry grade pig iron and ferrous castings manufacturing. The company had reported improved operating margins in FY2016 supported by improved operational efficiencies (primarily in foundry division), change in product mix with increased share of value added castings and favourable raw material price movement. The benefits are likely to continue in FY2017 as evidenced from further improvement in operating margins in Q1FY2017. KFIL has established relations with reputed OEMs such as M&M, Volvo-Eicher, KOEL, Escorts Limited (Escorts), Tractors and Farm Equipment Limited (TAFE) etc and has healthy share of business with them. Further, new customers added in the recent past such as Daimler and Hino Motors continue to provide incremental castings volumes which are higher value added and support the overall foundry division revenues. Moreover, the company's ability to cater to large and complex cylinder block casting complying with EURO VI requirements provides a competitive edge. Post installation of sinter plant and hot blast stoves, the company continues to enjoy competitive cost structure for pig iron manufacturing while Hospet foundry enjoys benefits of backward integration in form of ready availability of molten pig iron. The ratings also take into consideration strong capital structure characterized by low gearing of 0.2x as on Mar-16, healthy debt protection and coverage metrics and comfortable liquidity position with company generating positive free cash flows during last two fiscals. ICRA also takes note of enhancement in pig iron capacity from 360,000 TPA to 540,000 TPA with acquisition of VSL's pig iron plant providing healthy revenue growth prospects and plans to bid for iron ore mining lease which will ensure adequate availability of iron ore at competitive prices.

The ratings, however, remain constrained by general demand slowdown from key user industries and global demand supply scenario for commodities which had put pressure on realizations; though improved demand outlook for tractor and CV & UV segment provides healthy revenue growth prospects in the current fiscal. The company is exposed to high client concentration risk with M&M contributing to ~36% (FY2016) while top three customers accounting for ~65% (FY2016) of total casting sales. The risk is, however, mitigated to some extent by healthy share of business with top customers and addition of new clients in CV segment during past few years which has reduced revenue concentration on tractor segment. During Q1FY2017, the demand has picked up from both tractor and CV & UV segment and company is expected to register moderate to healthy volume growth in FY2017. The operating profitability of the company remains vulnerable to fluctuating raw material prices and currency movement given commoditized nature of business and sizeable imports. ICRA takes note of debt funded capex plans in current fiscal for acquisition of VSL's pig iron plant to enhance pig iron capacity and ensuring adequate capacity utilization of enhanced capacities will remain critical in near to medium term for maintaining improved operating margins and profitability levels.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2†</sup> For complete rating definition please refer to ICRA website [www.icra.in](http://www.icra.in) or any of the ICRA Rating Publications.

**Company Profile**

Kirloskar Ferrrous Industries Limited (KFIL), incorporated in 1991, is part of Pune based Kirloskar group. KFIL manufactures pig iron and ferrous castings such as cylinder blocks, housings, cylinder heads, and transmission parts. It majorly caters to casting requirements of Tractor, CV (commercial vehicle) and UV (utility vehicle) segment along with sales from group company KOEL (Kirloskar Oil Engines Limited).

KFIL's plants in Hospet (Karnataka) and Solapur (Maharashtra) have a combined casting capacity of 150,000 tonnes per annum (TPA) and pig iron capacity of 360,000 TPA in Hospet. The company also has three steam turbines with a total power cogeneration capacity of 11.5 MW.

**Recent Results**

During FY2016, KFIL has reported a net profit of Rs 57.7 crore on OI of Rs 1113.9 crore.

**August 2016**

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