

Kirloskar Ferrous Industries Limited

Instrument	Amount	Rating Action
Commercial Paper	Rs. 100.00 crore (enhanced from Rs. 75.00 crore)	[ICRA]A1+ assigned/outstanding

ICRA has assigned the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to Rs. 25.00 crore (Rs. 100.00 crore enhanced from Rs. 75.00 crore) commercial paper programme of Kirloskar Ferrous Industries Limited (KFIL).

With its release dated August 26, 2016, ICRA had reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus) with Stable outlook for Rs. 11.00 crore term loan facility of KFIL. ICRA had also reaffirmed the long-term rating of [ICRA]AA- with Stable outlook and short-term rating of [ICRA]A1+ 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 had 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 improvement in operating margins in H1FY2017. 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 H1FY2017, 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.

Company Profile

Kirloskar Ferrous 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 had reported a net profit of Rs 57.7 crore on operating income of Rs 1113.9 crore.

December 2016

For further details please contact:

Analyst Contacts:

Mr. Subrata Ray (Tel. No +91 22 6114 3408)
subrata@icraindia.com

Mr. Laxmikant Lokhande (Tel. No +91 20 2556 1194)
laxmikant.lokhande@icraindia.com

Mr. Gaurav Jain (Tel. No +91 20 2556 1194)
gaurav.jain@icraindia.com

Relationship Contacts:

Mr. L. Shivakumar (Tel. No +91 022 6114 3406)
shivakumar@icraindia.com

© Copyright, 2016, ICRA Limited. All Rights Reserved
Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500