

August 11, 2017

## Kirloskar Ferrous Industries Limited

Kirloskar Ferrous Industries Limited (KFIL) has announced its Q1 FY2018 results on August 03, 2017.

During Q1 FY2018, KFIL has reported a YoY growth of 12.1% in operating income and operating margins of 4.3% as compared to 20.1% in Q1 FY2017.

The results reveal pressure on operating margins in Q1 FY2018 on account of increase in coke prices (key raw material) and inability of the company to pass on cost increase to its customers. However, ICRA expects the operating margins to normalise in subsequent quarters given change in raw material sourcing and other measures undertaken by the company to minimise the impact of unfavourable raw material price movement. ICRA is in talks with the company to understand the changes in business and financial outlook in the near to medium term and would take an appropriate rating action, if required.

ICRA currently has outstanding ratings of [ICRA]AA- (pronounced ICRA double A minus) with a Stable outlook and [ICRA]A1+ (pronounced ICRA A one plus). The rating derives comfort from 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 and FY2017 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. KFIL has established relations with reputed OEMs such as Mahindra & Mahindra (M&M), Volvo-Eicher, Kirloskar Oil Engines Limited, Escorts Limited, 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 characterised by low gearing of 0.2x as on March 2017, healthy debt protection and coverage metrics and comfortable liquidity position with company generating positive free cash flows during last two fiscals.

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 realisations; though improved demand outlook for tractor and CV & UV segment provides healthy revenue growth prospects in the near to medium term. 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. The operating profitability of the company remains vulnerable to fluctuating raw material prices and currency movement given commoditised nature of business and sizeable imports.

**The previous rating rationale is available on the following link: [Click here](#)**

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