Kirloskar Ferrous Industries Limited

Instrument	Amount	Rating Action
Term Loan	Rs. 100.00 crore	Revised to [ICRA]AA- (Stable) from [ICRA]A+ (Stable)
Cash Credit	Rs. 295.00 crore	Revised to [ICRA]AA- (Stable) from [ICRA]A+ (Stable)
ST Fund based#	(Rs. 295.00 crore)	[ICRA]A1+ reaffirmed
Non fund based	Rs. 545.00 crore	[ICRA]A1+ reaffirmed
Commercial Paper	Rs. 50.00 crore	[ICRA]A1+ reaffirmed

#sublimit within Cash Credit facilities with total utilization not to exceed Rs. 295 crore

ICRA has revised the ratings to [ICRA]AA- (pronounced as ICRA double A minus) from [ICRA]A+ (pronounced ICRA A plus) for

Rs.100 crore[*] term loan facilities and Rs. 295 crore cash credit facilities of Kirloskar Ferrous Industries Limited (KFIL). The outlook on long term rating has been reaffirmed as stable. ICRA has also reaffirmed [ICRA]A1+ (pronounced ICRA A one plus) rating for Rs. 295 crore short term fund based facilities which are sublimit within cash credit facilities and Rs. 545 crore non fund based facilities of KFIL ICRA has also reaffirmed [ICRA]A1+ (pronounced as ICRA A one plus) rating for the Rs. 50 crore Commercial Paper programme of KFIL

The rating revision reflects healthy improvement in operating margins during FY15 on back of near full capacity utilization for pig iron unit and increased share of higher value add castings in foundry segment. Further the company has been able to register healthy casting volumes from new clients in CV segment compensating for the sharp fall in volumes from tractor segment in the last fiscal to a large extent. The ratings continue to derive comfort from the status of the company as part of Kirloskar group, one of the leading players in domestic foundry grade pig iron and ferrous casting manufacturing and comfortable financial profile characterized by low gearing and healthy debt protection indicators. The free cash flows for the company turned positive in FY15 on back of increased accruals and foundry capex getting over. KFIL shares long term relationship with OEMs like Mahindra & Mahindra (M&M), Escorts, Kirloskar Oil engines Ltd (KOEL), etc and has healthy share of business with the same. Further new customers from M&HCV segment like Daimler, Volvo-Eicher, and HINO Motors have provided incremental casting volumes. The rating also takes into account competitive cost structure of pig iron business on back of installation of shaft stoves and sinter plant along with direct availability of molten pig iron for Hospet foundry resulting in lower power costs.

The ratings, however, remain constrained by general slowdown in commodities given global demand-supply scenario which is expected to continue to put pressure on pig iron realizations. Further the company has recently completed sizeable capex to setup additional foundry line and ensuring adequate capacity utilization remain concern in near term given slow pace of demand recovery in key user segments. The company has added new clients over last two fiscal especially in M&HCV segment and the segment has shown signs of recovery over last few months after demand contraction over last three fiscals. Further company has sizeable dependence on tractor segment which is expected to register muted growth in current fiscal after decline in last fiscal. The company also remains exposed to client concentration risk for casting sales with M&M contributing ~35% in FY15 though company enjoys healthy share of business with its key clients. Diversified segment base for casting business has helped company in avoiding any deterioration in casting unit utilization during downturn over last few fiscals though pickup in automobile and tractor segment remain critical for future growth. The company is expected to register marginal decline from FY15 volumes for pig iron segment given scheduled MBF maintenance and modest growth for foundry volumes in current fiscal though given sizeable decline in realizations, value sales are expected to register de-growth in current fiscal. The operating profitability for the company remains vulnerable to raw material price volatility and currency fluctuations given limited vertical integration of operations and commoditized nature of business. The management is looking to bid for proposed iron ore mining lease auction in Karnataka as part of backward integration though timing and actual fund outgo for same remain to be seen.

[*] 100 lakh = 1 crore = 10 million

Ensuring adequate capacity utilization while maintaining competitive cost structure remain key sensitivity factors.

Company Profile

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.

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