

Company Report

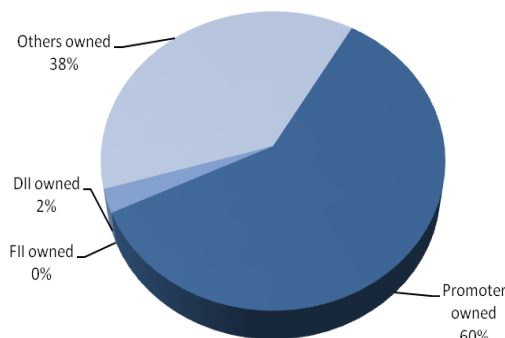
Kirloskar Ferrous Industries Ltd.

5th December, 2014**BUY****CMP** **Rs.65.40****Target Price** **Rs.85.00**

BSE Code	500245
Market Cap (Rs Cr.)	897.94
52 Week High/Low	72.20/17.95
Industry	Castings
Face Value	Rs.5.00
Shares O/S	13.73 Cr.

EPS(TTM)	3.92
Book Value	33.02
P/E	16.68
P/B	1.98

Shareholding Pattern



Research Analyst: Vineeta Mahnot
 research@hemonline.com

- Kirloskar Ferrous Industries Ltd. KFIL is determined to maintain its position as market leader in Pig Iron and Grey Iron Castings business.
- The company has registered excellent results for the quarter ending September 2014. The revenues from operations grew by about 20% to Rs.368.65 crores vs. Rs.307 cr. in the year ago quarter while it grew ~9% q-o-q. Operating profit climbed sharply by ~61% at Rs.46.43 crores as against Rs.28.86 crores in the previous year quarter. The adjusted net profit stood at Rs.20.23 crore for the quarter as against Rs.11.82 crore; registering a sharp growth of ~71%. On the margins front, operating margin climbed about 319bps at 12.59% as against 9.4% while net profit margin expanded 164bps at 5.49% from 3.85% y-o-y. EPS Stood at Rs.1.47.
- KFIL has long standing relationship with major OEMs like Mahindra and Mahindra, Tata Motors, Toyota Kirloskar Motors etc. It has become preferred supplier to major auto manufactures providing castings.
- Pig Iron sales of the company has witnessed sharp jump of about 29% in H1FY15 at 1,55,000 MT from 120000 MT in H1FY14. While Casting sales remained unchanged at 31,000 MT in H1FY15 vis-à-vis H1FY14. Similarly in value terms, Pig iron sales grew about 39% at Rs.426 crores as against Rs.306 crores in H1FY14. Casting sales grew marginally at Rs.254 crores vs Rs.234 crores in H1FY14.

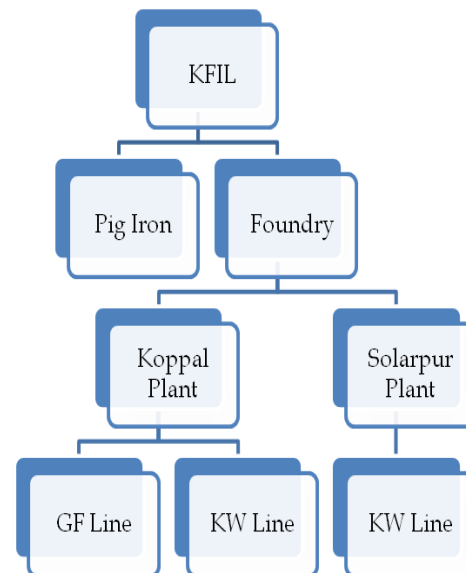
Valuation

With long standing relationship with OEMs; improving operational efficiency and strong fundamentals; Kirloskar Ferrous Industries Ltd. growth prospects and profitability looks promising. We believe the company is trading at an attractive valuation at 15.8x and 11.66x of FY15EPS of Rs.4.14 and FY16EPS of Rs.5.61. We initiate a 'BUY' on the stock with a target price of Rs.85 (appreciation of about 30%) with the medium to long term investment horizon.

Business Details

Kirloskar Ferrous Industries (KFIL) incorporated in 1991; is engaged in business of manufacturing pig iron and ferrous casting. KFIL was promoted by Kirloskar Oil Engines Limited (KOEL) and Shivaji Works Limited (SWL). And later in the year 2007, SWL was acquired by KFIL. KFIL is incorporated with the objective of catering to the requirement of high quality Pig Iron, Intricate thin walled grey iron castings to the emerging in Tractor, Auto, Engine and other related segments.

Business areas of the company encompass Grey Iron castings, S.G Iron castings, Steel Investment castings and Pig Iron. The product range includes Grey Iron castings: 1 kg - 500 kg single piece weight, S.G Iron castings: 1 Kg -70 Kg single piece weight, Investment castings: 1 gram-1 Kg single piece weight and Pig Iron: Foundry Grade, S.G. Iron Grade & Basic Grade. For the producing the all above, the company having two manufacturing units in Bevinahalli Village (Near Hospet) and Solapur. The company's manufacturing units has received various certifications such as TS 16949, ISO 14001 and ISO 9001:2000 for its quality management. The company:

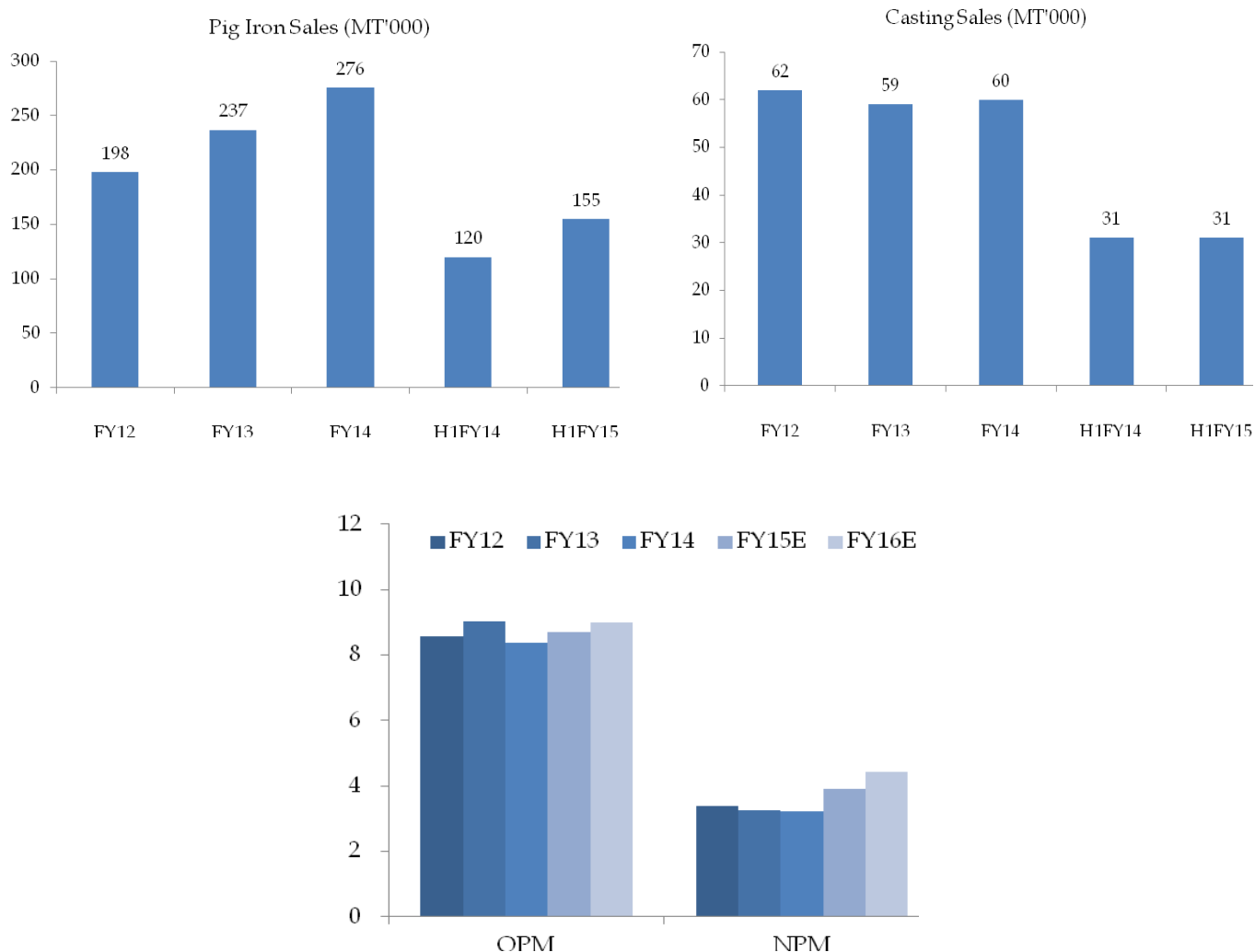


- Provides castings for tractors for agricultural operations and construction activities.
- Provides castings in multi-utility vehicles and trucks to facilitate transportation of people and goods.
- Provides castings in generating sets for power generation.
- Provides fuel efficient, thin walled, lightweight castings in tractors, automobiles and power generating sets resulting in maximum savings.

Company caters its products to sectors like automotive, tractor, diesel, engineering and many more. KFIL has clientele namely Mahindra & Mahindra, Tata motors, Toyota Kirloskar Auto Parts, Eicher motors, Escorts, TAFE, Carraro, Simpson & Company are among others.

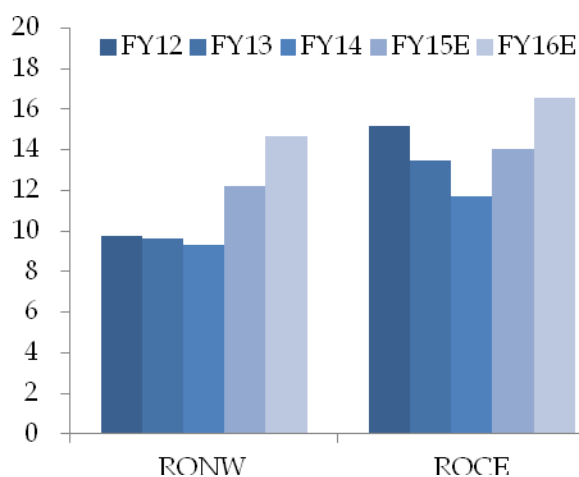
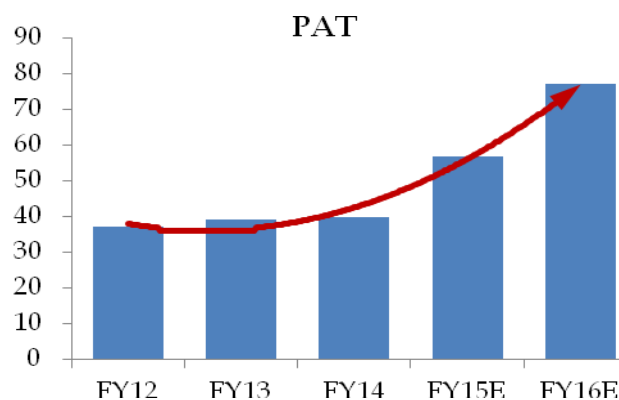
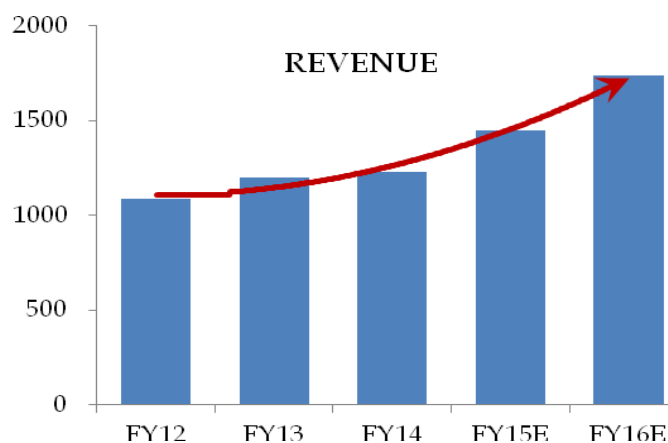
Backward integration reaping benefits

The backward integration of the pig iron manufacturing process by setting up a sinter plant has resulted in improved operating performance for the company. Sinter plant has been operational throughout the fiscal 2014. Commissioning of sinter plant helped the Company to consume iron ore fines instead of lump ore and get the benefit of price difference and reduction in coke consumption. The use of sinters in place of iron ore lumps in the Mini Blast Furnace has reduced the consumption of iron ore lumps substantially and consequently reduced the cost of pig iron manufacture. Further the company also utilizes its waste heat gas which is generated during the production of pig iron to generate power. The company sources its major power requirement through its own power production thereby reducing its operating expenditure. Integrated operation results in improving product efficiency along with cost savings.



Improving operational efficiency

The Company has been focused on improving operating efficiency in order to reduce rejection rate of its castings. The company has signed agreements for supply of castings with major OEMs. The company has been adopting new technology and has installed a new high pressure moulding line at Koppal plant, Karnataka to enhance the production capacity of castings by 48,000 MT per annum in phase-I. It is working on ramping up of volumes for this new moulding line to meet the demand of new OEMs. Further, to meet the logistics requirements, the company is intending to install railway siding at Koppal plant. The machining facilities are also getting enhanced at Solarpur plant to meet the needs of customers. The company is also in the process of installation of additional semi-finished machining facility at Solarpur plant.



Standalone Profit & Loss Account

Rs. Crore

Particulars	FY12	FY13	FY14	FY15E	FY16E
Net sales	1089.65	1198.11	1232.16	1450.25	1737.40
Growth		9.95%	2.84%	17.70%	19.80%
Expenditure	996.40	1089.80	1129.16	1324.08	1581.04
EBITDA	93.25	108.31	103.00	126.17	156.37
Growth		16.15%	-4.90%	22.50%	23.93%
EBITDA margin	8.56%	9.04%	8.36%	8.70%	9.00%
Other income	2.08	2.49	3.07	3.63	4.34
Depreciation & Amortisation	29.20	33.20	33.79	35.16	37.57
EBIT	66.13	77.60	72.28	94.64	123.14
EBIT margin	6.07%	6.48%	5.87%	6.53%	7.09%
Interest	10.47	15.18	14.30	13.47	13.03
PBT	55.66	62.42	57.98	81.17	110.11
Tax	18.58	23.33	18.15	24.35	33.03
Adjusted PAT	37.08	39.09	39.83	56.82	77.08
Growth		5.42	1.89	42.65	35.66
Net Profit margins	3.40	3.26	3.23	3.92	4.44
Exceptional item	0.01	0.00	0.00	0.00	0.00
Reported PAT	37.08	39.09	39.83	56.82	77.08
Equity Capital	68.65	68.65	68.65	68.65	68.65
Res. & Surplus	311.52	338.02	357.78	397.44	457.36
Equity Shares	13.73	13.73	13.73	13.73	13.73
Adjusted EPS	2.70	2.85	2.90	4.14	5.61

Ratios

Particulars	FY12	FY13	FY14	FY15E	FY16E
Return on Equity	9.75	9.61	9.34	12.19	14.65
Return on Capital employed	15.20	13.45	11.73	14.06	16.57
Debt/Equity	0.14	0.42	0.44	0.44	0.41
Asset turnover	1.44	1.35	1.24	1.32	1.41
Current Ratio	1.33	1.54	1.36	1.42	1.45
Book value per share	27.69	29.62	31.06	33.94	38.31
Interest coverage	6.32	5.11	5.05	7.03	9.45

Balance Sheet

Rs. Crore

Particulars	FY12	FY13	FY14	FY15E	FY16E
Share Capital	68.65	68.65	68.65	68.65	68.65
Reserves & Surplus	311.52	338.02	357.78	397.44	457.36
Shareholders funds	380.17	406.67	426.43	466.09	526.01
Borrowings	54.96	170.18	189.62	207.18	217.18
Deferred tax liability	42.06	51.48	64.17	64.17	64.17
Minority Interest	0.00	0.00	0.00	0.00	0.00
Sources of funds	477.19	628.33	680.22	737.44	807.36
Gross block	605.62	638.20	843.22	878.94	939.14
Accumulated Depreciation	241.83	269.84	296.85	332.01	369.58
Net block	363.79	368.36	546.37	546.93	569.56
Capital WIP	21.38	119.80	22.74	38.91	45.08
Investments	0.00	0.00	0.00	0.00	0.00
Deferred tax assets	0.00	0.00	0.00	0.00	0.00
Goodwill on consolidation	0.00	0.00	0.00	0.00	0.00
Inventories	130.41	154.78	162.28	189.64	229.77
Sundry debtors	159.77	153.17	190.28	220.39	267.03
Cash and bank balance	13.62	14.58	11.52	17.94	21.74
Other current assets	0.17	0.28	0.37	2.56	3.11
Loans and advances	65.32	77.33	58.00	82.01	99.36
Total current assets	369.29	400.14	422.45	512.55	621.01
Current liabilities & provisions	277.27	259.97	311.34	360.95	428.28
Net current assets	92.02	140.17	111.11	151.60	192.73
Misc exp	0.00	0.00	0.00	0.00	0.00
Uses of funds	477.19	628.33	680.22	737.44	807.36

Quarterly Financial Highlights

Rs. Crore

Particulars	Q2FY15	Q2FY14	Q1FY15	YoY%	QoQ%
Revenues	368.65	307.00	337.32	20.08	9.29
Expenditures	322.22	278.14	304.90	15.85	5.68
Operating Profit	46.43	28.86	32.42	60.88	43.21
Adjusted Net Profit	20.23	11.82	11.80	71.15	71.44
Exceptional item	----	----	----	----	----
Reported PAT	20.23	11.82	11.80	71.15	71.44
OPM%	12.59	9.40	9.61	33.94	31.00
NPM %	5.49	3.85	3.50	42.60	56.86
Adjusted EPS	1.47	0.86	0.86	70.93	70.93

Past Price movement of the stock



www.hemonline.com

research@hemonline.com

HEM SECURITIES LIMITED

MEMBER-BSE,CDSL, SEBI REGISTERED CATEGORY I MERCHANT BANKER

MUMBAI OFFICE: 14/15, KHATAU BLDG., IST FLOOR, 40, BANK STREET, FORT, MUMBAI-400001

PHONE- 0091 22 2267 1000

FAX- 0091 22 2262 5991

JAIPUR OFFICE: 203-204, JAIPUR TOWERS, M I ROAD, JAIPUR-302001

PHONE- 0091 141 405 1000

FAX- 0091 141 510 1757

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HEM FINLEASE PRIVATE LIMITED

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1. Analyst Ownership of the Stock	No
2. Hem & its Group Company Ownership of the Stock	Yes
3. Hem & its Group Companies' Director Ownership of the Stock	Yes
4. Broking relationship with company covered	No

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