December 27, 2024

Kirloskar Ferrous Industries Limited: Ratings reaffirmed and assigned for enhanced amount; Rating withdrawn for NCD

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based - Term Loan	670.69	968.51	[ICRA]AA(Stable); reaffirmed and assigned for enhanced amount
Long-term/short-term – Fund-based Limits	365.00	1115.00	[ICRA]AA(Stable)/[ICRA]A1+; reaffirmed and assigned for enhanced amount
Long-term/short-term - Non-fund Based Limits	1,762.13	2195.00	[ICRA]AA(Stable)/[ICRA]A1+; reaffirmed and assigned for enhanced amount
Commercial Paper	550.00	550.00	[ICRA]A1+; reaffirmed
Non-Convertible Debentures	250.00	0.00	[ICRA]AA(Stable); reaffirmed and withdrawn
Total	**3,597.82**	**4,828.51**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings favourably factor in the established position of Kirloskar Ferrous Industries Limited (KFIL) in the foundry-grade pig iron and ferrous castings businesses. The company is a part of the reputed Pune-based Kirloskar Group, which has a proven management track record. The ratings derive comfort from the backward integration achieved at KFIL's manufacturing plant through coke oven plant and captive power generation, which leads to substantial cost savings. The cost structure is expected to improve further, having commissioned the pulverized coal injection (PCI) plant and the oxygen plant, which will reduce the coke consumption rate and lower the overall manufacturing cost. In addition, regulatory approvals for operating the Bharath mine has been received recently and dispatch of iron ore has already started from December 2024, which will reduce dependence on external iron ore partially and aid in cost savings. The ratings factor in KFIL's established relationships with large original equipment manufacturers (OEMs). ICRA notes the high customer concentration in the castings segment, though it derives comfort from the fact that KFIL is the single source supplier in most of these cases, which leads to customer retention and repeat orders. The ratings also take into account the presence of the company in the value-added seamless pipes business (erstwhile ISMT Limited) which remains integrated as the company manufactures steel required for production of seamless tubes. The product profile in the tubes business is diversified as it produces seamless tubes in the range of 6 to 273 mm diameter and caters to customers across automobile, bearing, power, oil and gas, boiler, general engineering, and hydraulic segments among others. The seamless pipes business which was acquired through the IBC route has been turned around successfully and remains a credit positive. The ratings also derive comfort from the comfortable consolidated financial profile of KFIL, marked by healthy credit metrics.

The ratings are constrained by the vulnerability of the company's operating profit margin (OPM) to fluctuating raw material prices, given the commoditised nature of the pig iron business. The ratings are constrained by the casting division's exposure to the inherent demand cyclicality in the key end-user segments (both commercial vehicle and tractor segments). Besides, in the tubes business, the company remains exposed to the inherent cyclicality in the steel industry, which may lead to volatility in its profits and cash flows besides remaining vulnerable to any adverse changes in the demand-supply dynamics in the end-user industries such as automobile, bearing, oil and gas, among others. ICRA notes the company's exposure to foreign exchange (forex) movement, considering its sizeable imports of coking coal. However, the company adopts conservative hedging strategies to minimise the impact of the forex risk. ICRA also notes that KFIL has substantial capex plans of around Rs. 450-

500 crore per annum over the next three years towards setting up of alloy steel plant, debottlenecking, and other cost saving projects which includes increasing captive renewable energy capacities which will expose the company to project execution related risks. Besides, if the commissioning of the steel plant coincides with a cyclical downturn in the sector, the capacity ramp-up could potentially delayed thus affecting business return indicators. Any significant debt contracted to fund the capex, which weakens the coverage metrics, will be a credit negative.

The rating for the Rs.250 crore non-convertible debenture programme, which has been repaid in full, has been reaffirmed and withdrawn at the request of the company and in accordance with ICRA's policy on withdrawal of the credit rating.

The Stable outlook on the long-term rating reflects KFIL's established position in the addressable markets, which, along with its efficient cost structure, is expected to keep its credit metrics at a comfortable level going forward.

Key rating drivers and their description

Credit strengths

Status as one of the leading pig iron players in the domestic market and a healthy market share in castings segment; backward integrated operations – KFIL is one of the leading manufacturers of foundry grade pig iron and ferrous castings in the domestic market. As per the company's management, KFIL has a healthy market share of 22-25% in the foundry grade pig iron and 19-20% in the castings segment. The company is a part of the reputed Pune-based Kirloskar Group, which has presence across diversified business segments and a proven management track record. The company has also diversified its product offerings with the acquisition of the value-added seamless pipes business. The company has a competitive cost structure for pig iron manufacturing because of its sinter plant, coke oven plant, captive power plant and hot blast stoves, which support its margins. The cost structure is expected to improve further, having commissioned the pulverized coal injection (PCI) plant and the oxygen plant, which will reduce the coke consumption rate and lower the overall manufacturing cost. In addition, regulatory approvals for operating the Bharath mine has been received recently and dispatch of iron ore has already started from December 2024, which will reduce dependence on external iron ore partially and aid in cost savings.

Established relationships with OEMs – KFIL mainly caters to large casting requirements (more than 50 kg) of tractor, commercial vehicle (CV) and utility vehicle (UV) and diesel engine segment and has a market share of 19-20%, as per the management. It has a reputed customer base and a long experience of dealing with OEMs, resulting in repeat orders.

Entry into the value accretive seamless pipes business – KFIL entered the seamless pipes business in FY2022 through the IBC route (acquisition of erstwhile ISMT Limited). This segment remains integrated as the company manufactures steel required for production of seamless tubes. The product profile in the tubes business is diversified as it produces seamless tubes in the range of 6 to 273 mm diameter and caters to customers across automobile, bearing, power, oil and gas, boiler, general engineering, and hydraulic segments among others. The company has successfully turned around the operations of this business post-acquisition and presently contributes meaningfully to the overall profits of the company.

Comfortable financial profile – The consolidated financial profile of KFIL remains comfortable with a gearing of 0.4 times (FY2023 – 0.3 times) and Total debt-to-operating profit ratio of 1.4 times as on March 31, 2024 (FY2023 – 1.1 times), and an interest cover of 7.2 times in FY2024 (FY2023 – 9.0 times). Despite the large capex plans going forward, ICRA expects KFIL's comfortable credit metrics to sustain going forward given the healthy cash generation expected which will limit dependence on debt.

Credit challenges

Sizeable capex and associated risks – KFIL has substantial capex plans of around Rs. 450-500 crore per annum over the next three years towards setting up of alloy steel plant, debottlenecking, and other cost saving projects which includes increasing captive renewable energy capacities which will expose the company to project execution related risks. Besides, if the commissioning of the steel plant coincides with a cyclical downturn in the sector, the capacity ramp-up could potentially delayed thus affecting business return indicators. Any significant debt contracted to fund the capex, which weakens the coverage metrics, will be a credit negative.

Exposed to volatility in raw material prices – Raw materials account for the major part of the operational cost for pig iron players, including KFIL, and are thus important determinants of profitability. As the pig iron business is cyclical in nature, it is exposed to margin risks arising from the temporary mismatches in the prices of raw materials and pig iron, causing volatility in profitability and cash flows. Nonetheless, backward integration through coke and iron ore would mitigate the risk to some extent. ICRA also notes that given the sizeable coking coal imports, KFIL's profitability remains exposed to forex currency movements. The company, however, adopts conservative hedging strategies to minimise the impact of forex volatility.

Casting division's performance exposed to inherent cyclicality in key end-user segments – KFIL's casting division derives around 80% of its sales from CV and tractor segments, both of which are exposed to the inherent demand cyclicality. Any sustained demand weakness from its key end-user segments, as witnessed in the past, could adversely impact its revenues and earnings profiles.

Exposed to cyclicality inherent in the steel industry – The operations of the steel tubes segment are vulnerable to any adverse change in the demand-supply dynamics in the end-user industries such as automobile, bearing, oil and gas, among others. The cyclicality inherent in these sectors may lead to volatility in the company's profits and cash flows. Nevertheless, ICRA notes that revenue mix from this segment is well diversified across sectors such that dependence on a particular sector is limited.

Environmental and Social Risks

Environmental risks – The steel industry faces several environmental risks, especially related to carbon emissions. KFIL is making conscious efforts to minimise wastage in materials and processing requirements by initiatives such as yield improvement, casting weight reduction and waste elimination by implementing appropriate technologies. The company continuously monitors and tracks the usage of natural resources. Energy audits are conducted every year by the third party and appropriate actions are taken on audit findings to optimise energy consumption, considering conservation of natural resources.

Social risks – Social risks for ferrous entities arise from the health and safety aspects of employees involved in the mining and manufacturing activities. Casualties/accidents at the operating units due to gaps in safety practices could lead to production outages and invite penal action from regulatory bodies. On the social front, the company addresses the needs of associated communities by taking sustainable initiatives in the areas of health and hygiene, education, environment, infrastructure and rural development.

Liquidity position: Adequate

KFIL's liquidity position has been assessed as **adequate**, with unutilised fund-based limits of around Rs. 319 crore as on September end 2024 and healthy cash flow from operations expected over the near to medium term. Against these sources of cash, the company has a capex commitment of around Rs.450-500 crores and debt repayment obligations of around Rs.274 crore in FY2025. ICRA expects the company to be able to comfortably meet its capex commitment and service its debt obligations through internal as well as external sources of cash.

Rating sensitivities

Positive factors – ICRA could upgrade KFIL's long-term rating if there is a substantial growth in its revenues and profitability while maintaining healthy debt coverage indicators. Specific credit metric that could lead to a rating upgrade includes consolidated Total debt-to-operating profit ratio remaining below 0.5 times on a sustained basis.

Negative factors – Pressure on KFIL's ratings could arise if any sharp decline in KFIL's revenues and profits adversely impacts its debt coverage indicators and/or the liquidity position. Specific credit metric that could lead to ratings downgrade includes consolidated Total debt-to-operating profit ratio remaining above 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Iron & Steel Policy on withdrawal of Credit Ratings
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KFIL. As on September 30, 2024, KFIL had 10 subsidiaries, details of which are mentioned in Annexure II.

About the company

KFIL, incorporated in 1991, is a part of the Pune-based Kirloskar Group. KFIL manufactures pig iron and ferrous castings such as cylinder blocks, cylinder heads, transmission parts and different types of housings required by automobile, tractor, and diesel engine industries. KFIL's plants in Koppal (Karnataka), Solapur (Maharashtra) and Hiriyur (Karnataka) have a combined casting capacity of 1,70,000 MTPA and a combined pig iron capacity of ~6,09,000 MTPA. In March 2022, KFIL acquired a 51.25% stake in ISMT to facilitate forward integration into seamless tubes, which has now been merged into the company. In September 2023, KFIL acquired a 100% stake in Oliver Engineering Private Limited to increase its presence in the castings segment in North India.

Key financial indicators (Consolidated)

	FY2023 (Audited)	FY2024 (Audited)
Operating Income	6,418.2	6,146.8
PAT	437.3	297.7
OPBDIT/OI	13.4%	14.0%
PAT/OI	6.8%	4.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.8
Total Debt/OPBDIT (times)	1.1	1.4
Interest Coverage (times)	9.0	7.2

Source: Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation;
Amount in Rs crore; All ratios as per ICRA's calculations;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current Rating (FY2025)				Chronology of rating history for the past 3 years					
	FY2025				FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs Crore)**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Commercial Paper	Short-Term	550.00	Dec 27, 2024	[ICRA]A1+	Nov 02, 2023	[ICRA]A1+	Dec 15, 2022	[ICRA]A1+	Sep 13, 2021	[ICRA]A1+
					Dec 29, 2023	[ICRA]A1+			Dec 23, 2021	[ICRA]A1+
Term Laon	Long-Term	968.51	Dec 27, 2024	[ICRA]AA (Stable)	Nov 02, 2023	[ICRA]AA (Stable)	Dec 15, 2022	[ICRA]AA (Stable)	Sep 13, 2021	[ICRA]AA (Stable)
					Dec 29, 2023	[ICRA]AA (Stable)			Dec 23, 2021	[ICRA]AA (Negative)
Cash Credit/WCDL	Long-Term/Short-Term	1115.00	Dec 27, 2024	[ICRA]AA (Stable)/ [ICRA]A1+	Nov 02, 2023	[ICRA]AA (Stable)/ [ICRA]A1+	Dec 15, 2022	[ICRA]AA (Stable)/ [ICRA]A1+	Sep 13, 2021	[ICRA]AA (Stable)/ [ICRA]A1+
					Dec 29, 2023	[ICRA]AA (Stable)/ [ICRA]A1+			Dec 23, 2021	[ICRA]AA (Negative)/ [ICRA]A1+
Letter of Credit and Bank Guarantee	Long-Term/Short-Term	2195.00	Dec 27, 2024	[ICRA]AA (Stable)/ [ICRA]A1+	Nov 02, 2023	[ICRA]AA (Stable)/ [ICRA]A1+	Dec 15, 2022	[ICRA]AA (Stable)/ [ICRA]A1+	Sep 13, 2021	[ICRA]AA (Stable)/ [ICRA]A1+
					Dec 29, 2023	[ICRA]AA (Stable)/ [ICRA]A1+			Dec 23, 2021	[ICRA]AA (Negative)/ [ICRA]A1+
Non-Convertible Debenture	Long-Term	250.00	Dec 27, 2024	[ICRA]AA (Stable); Withdrawn	Nov 02, 2023	[ICRA]AA (Stable)	Dec 15, 2022	[ICRA]AA (Stable)	Sep 13, 2021	-
					Dec 29, 2023	[ICRA]AA (Stable)			Dec 23, 2021	[ICRA]AA (Negative)
Unallocated Limits	Long-Term/Short-Term	-	Dec 27, 2024	-	Nov 02, 2023	-	Dec 15, 2022	[ICRA]AA (Stable)/ [ICRA]A1+	Sep 13, 2021	-
					Dec 29, 2023	-			Dec 23, 2021	-

Amount in Rs. crore; LT – Long-term; ST – Short-term;

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund Based - Term Loan	Simple
Long-term/Short-term - Fund Based	Simple
Long-term/Short-term - Non-fund Based	Very Simple
Commercial Paper	Very Simple
Non-Convertible Debentures	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Cr.)	Current Rating and Outlook
NA	Long-term - Fund Based - Term Loan	FY2019	-	FY2029	968.51	[ICRA]AA(Stable)
NA	Long-term/Short-term - Fund Based	-	-	-	1115.00	[ICRA]AA(Stable)/[ICRA]A1+
NA	Long-term/Short-term - Non-fund Based	-	-	-	2195.00	[ICRA]AA(Stable)/[ICRA]A1+
INE884B14572	Commercial Paper	08-Oct-24	-	13-Mar-25	100.00	[ICRA]A1+
INE884B14580	Commercial Paper	13-Dec-24	-	03-Mar-25	100.00	[ICRA]A1+
INE884B14598	Commercial Paper	27-Dec-24	-	27-Mar-25	100.00	[ICRA]A1+
Not placed	Commercial Paper	-	-	-	250.00	[ICRA]A1+
INE884B08012	Non-Convertible Debentures	10-Mar-22	6.65%	10-Mar-24	125.00	[ICRA]AA(Stable); Withdrawn
INE884B08020	Non-Convertible Debentures	10-Mar-22	6.65%	10-Mar-25	125.00	[ICRA]AA(Stable); Withdrawn

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Sr.	Entity Name	Ownership	Consolidation Approach
1	Oliver Engineering Private Limited	100%	Full consolidation
2	ISMT Enterprises SA	99.62%	Full consolidation
3	Structo Hydraulics AB	99.98%	Full consolidation
4	ISMT Europe AB	99.98%	Full consolidation
5	Tridem Port and Power Company Private Limited	100%	Full consolidation
6	Nagapattinam Energy Private Limited	100%	Full consolidation
7	Best Exim Private Limited	100%	Full consolidation
8	Success Power and Infraprojects Private Limited	100%	Full consolidation
9	Marshall Microware Infrastructure Development Company Private Limited	100%	Full consolidation
10	Adicca Energy Solutions Private Limited	100%	Full consolidation

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