Kirloskar Ferrous Ind. | BUY | TP: Rs 525 | Upside: 16%

MONARCH NETWORTH CAPITAL

Company Update

Pricing power yet to fully reflect in spreads

Q4FY26 was a miss to our revenue & EBITDA estimates, due to lower than expected sales volumes and pricing across several products. This along with high operating expenses has led to miss on EBITDA estimates. We expect substantial part of price hikes in alloy steel, tubes and pig iron to add up in 1HFY27E which should elevate spreads in FY27E vs. FY26, despite the risk of high coking coal cost. Improved demand from tractor and CV along with offtake from newly started foundry at Oliver engg. and Solapur, is expected to considerably ramp up casting offtake sequentially. Going ahead, we expect significant EBITDA growth due to i) full year impact of price hikes; ii) Addition of (70+25) MW green captive power in FY27; iii) Ramp up of casting offtake along with start of 2-part foundry; iv) margin improvement in tubes on execution of ONGC order and v) higher production of pig iron post debottlenecking. On a longer term, projects like the steel plant in Koppal, debottlenecking and PCI/oxygen injection at Hiriyur and start of captive mines, are all factors that will structurally drive increase in profitability. We have downward revised our FY27E/ FY28E earnings by 11%/ 15% respectively to account for reduced spreads vs previous estimates, revised pricing and RM cost expectations. Remain positive on KFIL.

- **Sales volume and realizations - a mixed bag of surprises:** KFIL reported 4.6% yoy growth in consol. revenue at Rs 18.2bn, a miss to MNCL estimate. Despatches of pig iron (128kt; -6% yoy) and casting (38kt; +20% yoy) were lower than expected due to slow ramp up at Hiriyur blast furnace and Solapur foundry. Tubes (51.1kt; -1% yoy) and alloy steel (24.8kt; +20% yoy) were in-line with expectations. Realisation of pig iron, tubes and alloy steel missed our estimates and were lower than market pricing due to delayed price hikes and adverse product mix (for tubes); except castings where realization grew 3% yoy to Rs 1,31,790/tonne. For FY26, KFIL reported a 5% growth in revenue at Rs 68.9bn.
- **Partial impact of realization aids margins:** Partial price hikes in pig iron and castings uplifted the spreads for KFIL in Q4FY26, partly offset by adverse product mix of tubes and weak pricing of alloy steel. This resulted in 77 bps increase in margins at 12.4% and a 12% yoy jump in EBITDA at Rs 1.2bn. For FY26, spreads were largely compressed due to weak pricing across product lines. However, cost savings projects helped margins to improve by 70bps to 12.2%, resulting into 11% growth in EBITDA at Rs 8.4bn. Adj. PAT for FY26 grew 27% to Rs 3.7bn, supported by reduction in finance cost and high other income.
- **Looking forward to volume growth and improved spread:** After a year of weak pricing, the steel market has witnessed strong price hikes at the far end of FY26, which is expected to fully reflect in KFIL's spreads, especially for alloy steel and tubes starting 1QFY27E. Despite the risk of high coking coal cost, we expect the spreads to be higher in FY27E vs FY26. Further, both tractor and CV demand has improved meaningfully. This along with offtake from newly started foundry at Oliver engg. and Solapur, is expected to considerably ramp up casting offtake sequentially. Going ahead, we expect significant growth in EBITDA due to factors like i) full year impact of price hikes; ii) Addition of (70+25) MW green captive power in FY27; iii) Ramp up of casting offtake along with start of 2-part foundry; iv) margin improvement in tubes on execution of ONGC order and v) higher production of pig iron post debottlenecking. On a longer term, projects like the steel plant in Koppal, debottlenecking and PCI/oxygen injection at Hiriyur and start of captive mines, are all factors that will structurally drive increase in profitability. We have downward revised our FY27E/ FY28E earnings by 11%/ 15% respectively to account for reduced spreads vs previous estimates, revised pricing and RM cost expectations. Remain positive on KFIL.
- **Valuation and risks:** We ascribe 8x multiple (unchanged) on Mar'28E consol. EBITDA to arrive at TP of Rs 525/share (previously Rs 570/sh). We maintain BUY rating on stock due to the sharp correction in share price. The downward revision in TP is largely due to cut in earnings. At CMP – Rs 451/share, the stock trades at 8.1x/ 7x FY27E/FY28E consol. EV/EBITDA. Key risks: weak commodity spreads and delay in cost saving projects.

Target Price	**525**
CMP*	451
Upside	16%

Price Performance (%)	**1M**	**6M**	**1Yr**
KKF IN	12.8	-5.5	-8.1
NIFTY	1.7	-5.5	0.7

Key Data	
Bloomberg Code	KKF IN
Curr Shares O/S (mn)	164.9
Diluted Shares O/S(mn)	164.9
Mkt Cap (Rsbn/USDmn)	76.8/0.8
52 Wk H / L (Rs)	618/336
Daily Vol. (3M Avg.)	78660

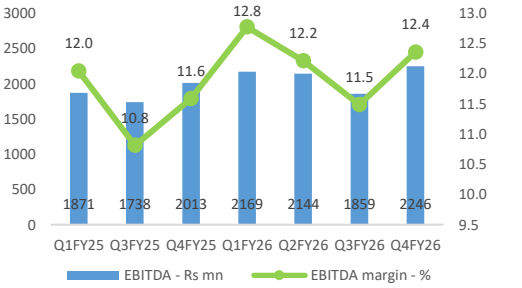
Source: ACE Equity, Bloomberg, MNCL Research

Shareholding pattern (%)

Particulars	Mar-26	Dec-25	Sep-25	Jun-25
Promoter	50.8	50.8	50.9	50.9
FPIs	1.8	1.8	1.9	1.9
DIIs	12.6	11.9	11.3	10.7
Others	34.8	35.5	35.9	36.5

Source: BSE

Consol. EBITDA margin expanded on improved spreads



Source: MNCL Research

Particulars (Rs mn)	FY27E			FY28E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	83,309	81,993	1.6	91,361	90,210	1.3
EBITDA	10,691	11,648	(8.2)	12,129	13,284	(8.7)
PAT	5,027	5,676	(11.4)	5,878	6,900	(14.8)

Source: MNCL Research Estimates

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Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA(%)	Adj. PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	PE (x)	EV/EBITDA(x)
FY23	64,175	71.2	8,357	13.0	4,373	13.8	28.4	18.9	12.1	10.2	5.9
FY24	61,463	(4.2)	8,568	13.9	3,610	(23.7)	18.4	9.3	8.9	31.8	12.6
FY25	65,642	6.8	7,562	11.5	2,940	(2.4)	17.9	8.6	8.0	35.6	15.5
FY26P	68,886	4.9	8,417	12.2	3,730	26.8	22.6	10.0	9.1	20.6	10.2
FY27E	83,309	20.9	10,691	12.8	5,027	34.8	30.5	12.2	10.5	14.8	8.1
FY28E	91,361	9.7	12,129	13.3	5,878	16.9	35.6	12.8	11.3	12.7	7.0

Exhibit 1: Actual vs Estimates

Rs mn	Q4FY26	Q4FY26E	Var (%)	Reason
Revenue	18,172	19,569	-7.1	Miss due to lower than expected realizations and volumes particularly in pig iron and tubes.
EBITDA	2,246	2,604	-13.8	Miss due to weak pricing and higher other expenses
EBITDA margin (%)	*12.4*	*13.3*	*-95 bps*	
Adj. PAT	1,231	1,216	1.2	Beat on higher than expected other income

Source: MNCL estimates

Exhibit 2: Revision in estimates

Particulars (Rs bn)	FY27E			FY28E		
	New	Old	*Chg (%)*	New	Old	*Chg (%)*
Sales	83,309	81,993	1.6	91,361	90,210	1.3
EBITDA	10,691	11,648	(8.2)	12,129	13,284	(8.7)
EBITDA margins - %	13%	14%		13%	15%	
PAT	5,027	5,676	(11.4)	5,878	6,900	(14.8)
EPS	30	35	(11.6)	36	42	(14.9)

Source: MNCL Research Estimates

For FY27E & FY28E, we broadly maintain the revenue estimate but have reduced the spreads vs previous estimates to account for the revised pricing and RM cost expectations, which along with increase in borrowings (finance cost) has led to downward revision in earnings.

Exhibit 3: Quarterly results comparison

Y/E Mar (Rs mn)	Q4FY26	Q4FY25	*YoY(%)*	Q3FY26	*QoQ(%)*
Net sales (incl op inc.)	**18,172**	**17,370**	***4.6***	**16,180**	***12.3***
Total RM consumed	10,368	10,297	*0.7*	8,958	*15.7*
Gross Margins - %	42.9	40.7	*222 bps*	44.6	*(169)bps*
Employee costs	910	792	*14.9*	947	*(4.0)*
Other expenses	4,648	4,268	*8.9*	4,416	*5.3*
EBITDA	**2,246**	**2,013**	***11.6***	**1,859**	***20.8***
EBITDA margin (%)	**12.4**	**11.6**	***77 bps***	**11.5**	***87bps***
Depreciation	692	666	*3.8*	673	*2.8*
Finance costs	299	354	*(15.4)*	288	*3.8*
Other income	444	244	*81.8*	51	*766.2*
Exceptional items	0	0	*NM*	-177	*NM*
PBT	1,698	1,237	*37.3*	772	*119.8*
Tax	467	313	*49.1*	239	*95.3*
-effective tax rate	*27.5*	*25.3*		*31.0*	
PAT	**1,231**	**923**	***33.3***	**710**	***73.4***

Source: MNCL Research Estimates

Earnings Concall – Key Takeaways

Industry:

1. International prices of pig iron have surged on the back of RM cost inflation and Middle East war disruptions. This proves very encouraging for domestic pig iron prices. However, coking coal prices have risen along with depreciation of rupee which has led to cost pressure.
2. KFIL expects hikes for alloy steel and tubes price in couple of months which should further elevate the spreads.

Operations:

1. Q4FY26 pig iron production: 158kt; KFIL lost 68kt of pig iron production in FY26 due to shutting down at the Hiriyur blast furnace for 3months. Pig iron sales were 6% lower in FY26 vs FY25.
2. Main reason for the weak performance in FY26 was the drop in sales realization across all the products, except some pickup in prices in Q4FY26.
3. Oliver engg: The production run-rate is 1700t/month in the last month of Q4FY26. The aim will be to achieve 2000t/month of production at Oliver engg. by end of FY27E. KFIL will commission the 2-part foundry in couple of months. The aim will be to reach 180-190kt of casting production in FY27E.
4. Three new customers were added in FY26 taking the total count to 29. One of these new customers is engine manufacturer. Other two customers are in the tractor and CV industry. These customers will cater to volume growth in exports. Over 3years, there is a growth path to reach 300ktpa of casting production. Casting prices should also breach Rs 130/kg due to price hikes.
5. KFIL will achieve machining revenue of Rs 1bn in FY27E and there are 22 new HMC, which have fully ramped up due to strong demand for machining.
6. The current rate of production at Solapur for two lines is 4200t/month and ambition is to achieve production run rate of 6000/month in FY27E. The complexity of the castings is the reason for slow ramp up at Solapur.

Growth projects:

1. Alloy Steel: BF2 at Koppal will be used for production of alloy steel, which will be transported to Baramati in form of blooms and will be eventually converted into tubes. Baramati capacity will be expanded by 150ktpa to take total capacity to 400ktpa.
2. 90MW of Wind & Solar CPP will be commissioned by Sept'27. This should result in savings of Rs 900mn on a full year basis. This power will be used to manufacture green steel. This will be backed up by battery storage systems to seek full advantage of green power. The benefit from Solar CPP was Rs 700mn in FY26.
3. Hiriyur blast furnace will be upgraded in medium term to 300ktpa capacity at a capex of Rs 1.25bn. This will also reduce the manufacturing costs at Hiriyur.
4. Expansion in tubes plant to enter large diameter will be completed in 18 months.
5. Once the Jambunatha captive mine is commissioned, KFIL will also set up a pellet and beneficiation plant.

Financials and Guidance:

1. KFIL is aiming to complete the merger of Oliver engg., post which the company will get listed on NSE.
2. The aim will be to achieve 15%/ 12%/ 10% sales volume growth for castings, tubes & pig iron resp. in FY27E.
3. Annual capex for KFIL is expected to be ~Rs 6bn each for FY27E & FY28E.

Valuations – BUY with a TP of Rs 525

We believe that the KFIL is in a business evolution phase where it is chasing strong growth along with several cost saving projects to substantially improve margins across all its product lines. It is also continuously entering products which are more value-add. Venturing into 2-part foundry large casting, ongoing integration of Oliver engineering from NCLT and capex for specialty steel plants are all efforts to reduce exposure to pure-play commodity business.

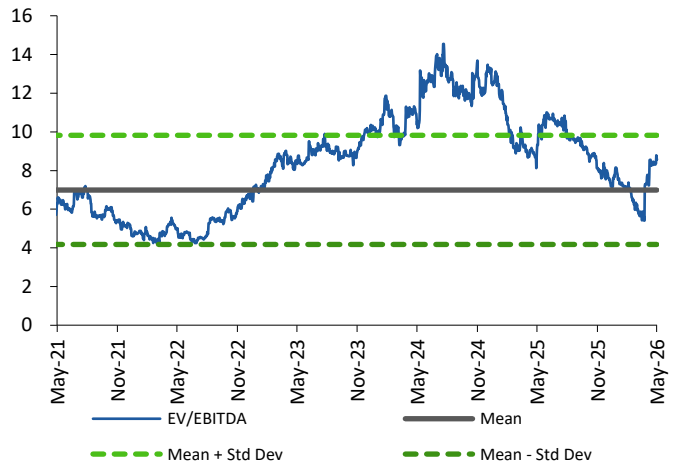
We value KFIL at 8x (unchanged) Mar'28E consol. EBITDA to arrive at TP of Rs 525/share (previously Rs 570/sh). We maintain BUY rating on stock due to the sharp correction in share price. The downward revision in TP is largely due to cut in earnings. At CMP – Rs451/share, the stock trades at 8.1x/ 7x FY27E/FY28E consol. EV/EBITDA.

Exhibit 3: EV/EBITDA Valuation

EV/EBITDA valuation - Rs mn	FY28E
EBITDA - KFIL	12,129
Ascribed 1-yr frwd EV/EBITDA (x)	8.0
EV	97,033
Sub: Net Debt	11,084
Fair value mkt cap	85,949
No. of shares (mn)	164
Fair Value/share (Rs)	**525**
CMP	451
Upside	**16%**

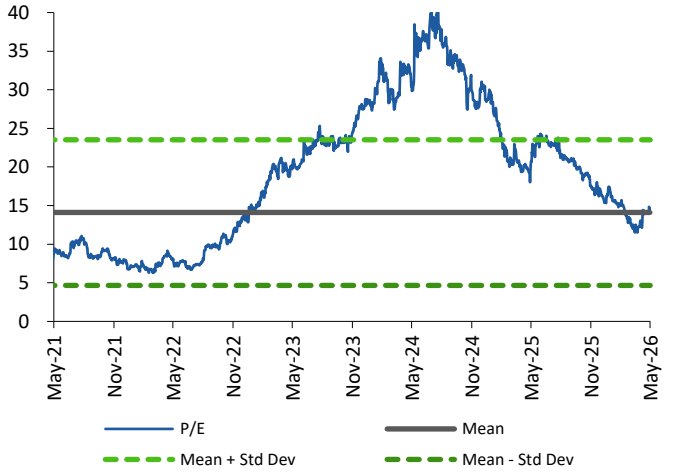
Source: Company, MNCL Research

Exhibit 4: 1-year forward EV/EBITDA chart



Source: Bloomberg, MNCL Research estimates

Exhibit 5: 1-year forward P/E chart



Source: Bloomberg, MNCL Research estimates

Key Performance Indicators

Exhibit 6: Key assumptions

	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Revenue (Rs mn)								
Pig Iron	10,673	22,018	23,742	20,932	20,779	19,513	26,544	27,640
Castings(includes Oliver engg)	8,744	12,897	16,733	15,083	16,536	18,881	22,853	27,280
Tubes	7,980	15,030	19,770	20,651	21,032	21,301	26,567	31,227
Alloy steel	4,200	6,205	5,560	5,345	5,409	6,048	8,148	6,000
Sales Volumes (kt)								
Pig Iron*	3,13,690	4,95,555	4,80,472	4,81,822	6,03,138	6,00,706	6,65,220	6,85,840
Castings	92,507	1,14,341	1,30,345	1,20,018	1,32,242	1,52,572	1,79,220	2,07,240
Tubes	95,458	1,39,058	1,57,143	1,56,487	1,68,804	1,88,704	2,14,600	2,49,750
Alloy steel	75,393	87,214	68,165	69,605	73,002	85,643	1,03,900	75,750
Specialty steel								0
Net Sales Realisations (Rs/t)								
Pig Iron	34,025	44,430	49,414	43,443	40,601	38,034	39,903	40,302
Castings	94,524	1,12,792	1,28,375	1,25,673	1,25,043	1,23,751	1,27,516	1,31,635
Tubes	83,597	1,08,084	1,25,809	1,31,969	1,24,594	1,12,880	1,23,797	1,25,035
Alloy steel	55,708	71,151	81,567	76,795	74,094	70,619	78,421	79,205

Source: Company, MNCL Research estimates, * pig iron sales volumes includes captive sale to ISMT.

Financials (KFIL consolidated nos)

Exhibit 7: Income Statement

P&L - Y/E March (Rs mn)	FY23	FY24	FY25	FY26P	FY27E	FY28E
Revenues	**64,175**	**61,463**	**65,642**	**68,886**	**83,309**	**91,361**
Materials cost	36,980	33,746	37,312	38,961	46,583	50,674
% of revenues	*57.6*	*54.9*	*56.8*	*56.6*	*55.9*	*55.5*
Employee cost	3,197	3,369	3,528	3,699	4,510	5,205
% of revenues	*5.0*	*5.5*	*5.4*	*5.4*	*5.4*	*5.7*
Others	15,641	15,781	17,241	17,809	21,524	23,353
% of revenues	*24.4*	*25.7*	*26.3*	*25.9*	*25.8*	*25.6*
EBITDA	**8,357**	**8,568**	**7,562**	**8,417**	**10,691**	**12,129**
EBITDA margin (%)	***13.0***	***13.9***	***11.5***	***12.2***	***12.8***	***13.3***
Depreciation & Amortisation	1,726	2,394	2,558	2,669	2,949	3,197
EBIT	6,631	6,174	5,004	5,748	7,742	8,933
Interest expenses	955	1,205	1,444	1,254	1,173	1,211
PBT from operations	5,677	4,969	3,559	4,494	6,570	7,722
Other income	493	193	526	624	224	222
Exceptional items	0	-633	0	-152	0	0
PBT	**6,170**	**4,529**	**4,085**	**4,967**	**6,793**	**7,944**
Taxes	1796.6	1,552	1,145	1,388	1,766	2,065
Effective tax rate (%)	*29.1%*	*34.3%*	*28.0%*	*28.0%*	*26.0%*	*26.0%*
Reported PAT	**4,373**	**2,977**	**2,940**	**3,578**	**5,027**	**5,878**
Adjusted PAT	**4,373**	**3,610**	**2,940**	**3,730**	**5,027**	**5,878**
Minority interest	422	596	0	0	0	0
Adj. PAT for shareholders of KFIL	**3951**	**3014**	**2940**	**3730**	**5027**	**5878**

Source: MNCL Research Estimates

Exhibit 8: Key Ratios

P&L - Y/E March (Rs mn)	FY23	FY24	FY25	FY26P	FY27E	FY28E
Growth Ratio (%)						
Revenue	*71.2*	*(4.2)*	*6.8*	*4.9*	*20.9*	*9.7*
EBITDA	*30.0*	*2.5*	*(11.7)*	*11.3*	*27.0*	*13.4*
Adjusted PAT	*13.8*	*(23.7)*	*(2.4)*	*26.8*	*34.8*	*16.9*
Margin Ratios (%)						
EBITDA	*13.0*	*13.9*	*11.5*	*12.2*	*12.8*	*13.3*
PBT from operations	*8.8*	*8.1*	*5.4*	*6.5*	*7.9*	*8.5*
Adjusted PAT	*6.8*	*5.9*	*4.5*	*5.4*	*6.0*	*6.4*
Return Ratios (%)						
ROE	18.9	9.3	8.6	10.0	12.2	12.8
ROCE	*12.1*	*8.9*	*8.0*	*9.1*	*10.5*	*11.3*
ROIC	*11.4*	*8.8*	*7.4*	*8.4*	*10.2*	*11.1*
Turnover Ratios (days)						
Gross block turnover ratio (x)	1.3	1.2	1.2	1.1	1.3	1.3
Debtors	47	53	58	60	60	60
Inventory	61	61	63	61	61	61
Creditors	59	51	60	60	60	60
Cash conversion cycle	49	63	61	61	61	61
Solvency Ratio (x)						
Net debt-equity	0.4	0.4	0.4	0.3	0.3	0.2
Debt-equity	0.5	0.4	0.4	0.3	0.3	0.2
Interest coverage ratio	6.9	5.1	3.5	4.6	6.6	7.4
Gross debt/EBITDA	1.2	1.4	1.7	1.2	1.1	0.9
Current Ratio	0.8	0.9	0.9	0.8	0.8	0.9
Per share Ratios (Rs)						
Adjusted EPS	28.4	18.4	17.9	22.6	30.5	35.6
BVPS	150.7	196.8	208.7	225.2	249.1	277.8
CEPS	43.9	32.7	33.4	37.9	48.4	55.0
DPS	5.5	4.7	5.5	6.0	6.5	7.0
Dividend payout %	*19.3*	*25.4*	*30.8*	*26.5*	*21.3*	*19.6*
Valuation (x)*						
P/E (adjusted)	10.2	31.8	35.6	20.6	14.8	12.7
P/BV	1.9	3.0	3.0	2.1	1.8	1.6
EV/EBITDA	5.9	12.6	15.4	10.2	8.1	7.0
Dividend yield %	1.9	0.8	0.9	1.3	1.4	1.6

Source: MNCL Research Estimates; P - Provisional

Exhibit 9: Balance Sheet

Y/E March (Rs mn)	FY23	FY24	FY25	FY26P	FY27E	FY28E
Sources of funds						
Equity Share Capital	695	821	823	825	825	825
Reserves & surplus	20,246	31,491	33,529	36,309	40,264	44,988
Shareholders' fund	20,940	32,312	34,352	37,134	41,089	45,813
Non-controlling interest	9,145	-0	-0	0	0	0
Total Debt (incl. pref shares if its thr)	9,639	12,178	12,759	10,343	12,243	11,143
Def tax liab. (net)	2,067	2,297	2,447	2,733	2,733	2,733
Total Liabilities	**41,791**	**46,788**	**49,557**	**50,210**	**56,065**	**59,689**
Gross Block	47,589	51,123	56,386	60,035	65,535	71,035
Acc. Depr	16,567	18,961	21,519	24,188	27,137	30,334
Net Block	31,022	32,162	34,867	35,847	38,398	40,701
Intangibles		400	283	457	457	457
Capital WIP	1,703	4,577	3,368	3,123	3,123	3,123
Net Fixed Assets	32,725	37,139	38,518	39,426	41,977	44,280
Investments	10	11	9	9	9	9
Inventories	10,785	10,268	11,267	10,733	13,923	15,269
Sundry debtors	8,178	8,966	10,441	10,900	13,695	15,018
Cash	558	357	427	870	84	59
Bank balance	68	99	262	349	349	349
Loans & Advances	29	24	24	33	33	33
Other assets	2,461	2,082	2,539	3,272	3,272	3,272
Total Current Asset	22,080	21,795	24,960	26,155	31,355	33,999
Trade payables	10,317	8,572	10,703	11,800	13,695	15,018
Other current Liab.	2,483	3,230	2,745	2,953	2,953	2,953
Provisions	224.3	356	482	628	628	628
Net Current Assets	9,055	9,638	11,030	10,774	14,078	15,399
Total Assets	**41,791**	**46,788**	**49,557**	**50,210**	**56,065**	**59,689**

Exhibit 10: Cash Flow

Y/E March (Rs mn)	FY23	FY24	FY25	FY26P	FY27E	FY28E
Operating profit bef working capital changes	9,029	8,704	7,817	8,766	10,691	12,129
Changes in working capital	600	-1,647	-347	756	-4,090	-1,346
Cash flow from operations	**7,977**	**5,621**	**6,544**	**9,420**	**4,835**	**8,718**
Net Capex	-4,813	-5,255	-4,789	-4,478	-5,500	-5,500
FCF	3,165	366	1,755	4,942	(665)	3,218
Cash flow from investing	**-3,991**	**-5,206**	**-4,746**	**-4,438**	**-5,276**	**-5,278**
Cash flow from financing	**-4,234**	**-616**	**-1,730**	**-4,535**	**-345**	**-3,465**
Net change in cash	**(248)**	**(201)**	**69**	**448**	**(786)**	**(25)**
End of year cash	**558**	**357**	**427**	**870**	**84**	**59**

Source: MNCL Research Estimates; P - Provisional

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