

Casting and tubes outperform, spreads spoil the show

We lower our TP to Rs620 (previously Rs690) and retain BUY rating for Kirloskar Ferrous Industries Ltd. (KFIL). The decrease in TP is mainly to account for weak commodity spreads and realization across end products. KFIL's 2QFY26 performance was best to MNCL revenue and estimates, supported by improved offtake for castings (especially Oliver engg.) and tubes. Weak pricing for pig iron and alloy steel limited the growth on revenue and full-fledged expansion of spreads. The over-supply scenario in the domestic steel market is expected to continue, weighing on margin expansion for rest of FY26, which is the reason for cut in valuation multiple. On a longer term, we expect margins to rebound once prices turn benign. Remain positive.

- **Beat on revenue due to high offtake on tubes and castings:** KFIL reported 5% yoy growth in consol. revenue at Rs17.6bn, beat to MNCL estimate of Rs16.9bn. Despatches of pig iron (132kt; +2% yoy), castings (36.7kt; -1% yoy) and tubes (49.6kt; +24% yoy) were main drivers of revenue growth. However, realisation corrected (yoy basis) for all products, due to weakness in domestic steel prices and adverse product mix in tubes, in turn impacting the revenue growth. Additionally, Rs460mn was the revenue from Oliver engg. at an offtake of ~5000tonnes resulting into a strong ramp up in casting segment.
- **Weak realization and adverse product mix dent margins:** Lower realization for alloy steel and pig iron compressed the spreads to weak levels despite some benefit on raw material due to captive iron ore and reduction in coking coal cost. Adverse product mix in tubes further led to weak gross margins. With some savings from captive power and low employee cost, KFIL reported margins at 12.2% (+60bps yoy; -60bps qoq) and consol. EBITDA of Rs2.1bn in Q2FY26.
- **Looking forward to volume growth and cost savings in FY26:** 2QFY26 was a quarter affected by weak commodity spreads and weak pricing for tubes. KFIL reported strong ~15% margins on castings but was barely breakeven on pig iron. Going ahead, improvement in steel prices will be a major trigger for expansion in margins. Further, tractor demand has improved meaningfully starting June. 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 captive iron ore leading to Rs400mn in savings ii) Addition of 35MW green captive power in FY26 iii) Ramp up of casting offtake and iv) margin improvement in tubes on winning the order from ONGC. These factors drive our outperform thesis in KFIL but an oversupply in pig iron and scrap market has led to elongated weakness in spreads leading to cut in earnings and multiple.
- **Valuation and risks:** We ascribe 9x multiple (previously 10x) on Sept'27E consol. EBITDA to arrive at TP of Rs620/share (previously Rs690/sh) and retain BUY rating. The decrease in TP is due to cut in realizations across products. At CMP – Rs477/share, the stock trades at 8.1x/ 6.4x FY27/ FY28E consol. EV/EBITDA. Key risks: weak commodity spreads and delay in cost saving projects.

Y/E Mar (Rs mn)	Q2FY26	Q2FY25	YoY(%)	Q1FY26	QoQ(%)
Net sales (incl op inc.)	17,553	16,660	5.4	16,981	3.4
Total RM consumed	9,692	9,280	4.4	9,943	(2.5)
Gross Margins - %	44.8	44.3	49 bps	41.4	334bps
Employee costs	971	933	4.1	871	11.5
Other expenses	4,746	4,506	5.3	3,999	18.7
EBITDA	2,144	1,941	10.5	2,169	(1.1)
EBITDA margin (%)	12.2	11.6	57 bps	12.8	(56)bps
Depreciation	664	631	5.2	641	3.6
Finance costs	326	369	(11.6)	340	(4.1)
Other income	44	137	(67.6)	85	(47.6)
Exceptional items	0	0		25	
PBT	1,199	1,078	11.2	1,297	(7.6)
Tax	336	302	11.4	346	(3.0)
-effective tax rate	28.0	28.0		26.7	
PAT	863	776	11.1	951	(9.3)

Source: Company, MNCL Research, KFIL consol. nos

Target Price	620	Key Data	
CMP*	477	Bloomberg Code	KKF IN
Upside	30%	Curr Shares O/S (mn)	164.9
Price Performance (%)		Diluted Shares O/S(mn)	164.9
		Mkt Cap (Rsbn/USDbn)	80.1/0.9
		52 Wk H / L (Rs)	830/423
		Daily Vol. (3M Avg.)	45925
KKF IN	-7.5	-10.4	-23.7
NIFTY	1.6	2.5	6.4

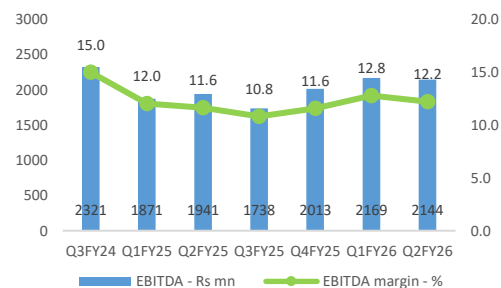
Source: ACE Equity, Bloomberg, MNCL Research

Shareholding pattern (%)

Particulars	Sep-25	Jun-25	Mar-25	Dec-24
Promoter	50.9	50.9	50.9	50.9
FPIs	1.9	1.9	1.9	1.8
DII	11.3	10.7	10.7	10.4
Others	35.9	36.5	36.5	36.9

Source: BSE

Consol. EBITDA margin remains compressed due to weak steel spreads



Source: MNCL Research

Particulars (Rs mn)	FY26E			FY27E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	73,152	76,175	(4.0)	84,064	87,903	(4.4)
EBITDA	8,995	10,026	(10.3)	11,215	11,807	(5.0)
PAT	3,758	4,416	(14.9)	5,245	5,625	(6.8)

Source: MNCL Research Estimates

Sahil Sanghvi

sahil.sanghvi@mnclgroup.com

NISM: 201900004744

Uvais Khatri

uvais.khatri@mnclgroup.com

NISM: 202300049054

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA(%)	Adj. PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	PE (x)	EV/EBITDA(x)
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	15.4
FY26E	73,152	11.4	8,995	12.3	3,758	27.8	22.8	10.1	9.1	20.9	10.1
FY27E	84,064	14.9	11,215	13.3	5,245	39.6	31.9	12.7	11.1	15.0	8.1
FY28E	98,183	16.8	13,847	14.1	7,234	37.9	43.9	15.3	13.5	10.9	6.4

Earnings Concall – Key Takeaways

Industry:

1. Pig iron prices have corrected 11% yoy due to weak demand. Margin pressure continues in pig iron. Market is supply surplus for pig iron which has led to weak prices. Supply surplus of scrap is another reason for low pig iron prices. Pig iron ebitda/tonne is barely breakeven. KFIL's contribution has reduced to Rs3000/t vs Rs10000/t before and the ebitda/tonne has reduced to a very small no. this is also due to many new capacities being commissioned. Forward integration project taken up by KFIL will be the right and permanent way to mitigate the risk of low spreads in pig iron.

Operations:

1. Casting sales: 36,673tonnes and demand from tractor is strong. High value added castings is the reason for the realization to remain at the same levels despite weakness in steel prices.
2. Tubes sales: 24% yoy growth. ONGC order will ensure optimum utilization for the next 2 quarters.
3. Oliver foundry sales was close to 5000tonnes in Q2FY26. Expectation is to manufacture another 15,000 tonnes of castings from Oliver in 2HFY26. The current production run rate @ Oliver is 2000tonnes/month.
4. Solapur foundry: Solapur phase 2 is fully commissioned and is currently producing 2000tonnes/month at line 2. this run rate will continue for 3months post which they will ramp up the production. Ramp up is delayed here due to teething issues.
5. High power & fuel costs this quarter was largely due to the increased production of tubes and alloy steel. KFIL will aim to reach 65% of power requirement from captive sources. Captive power allocation is largely distributed at ISMT based on production i.e. higher for alloy steel and then for tubes.
6. PCI injection is already at 165kg/ t of hot metal and there is scope to increase this to 200kg/t of hot metal but this will need further addition of oxygen plant capacity.

Growth projects:

1. Over the next 1 year, KFIL will spend Rs1bn for capacity expansion at Oliver from 28kt to 48kt subject to receiving the EC approval.
2. Once the spread improve for pig iron, KFIL will spend Rs1.25bn at Hiriyur to undertake PCI and oxygen plant projects which should result in lower coke consumption and increase the capacity.
3. On power savings, aim is to commission 20MW of wind power by end of this year (8 windmills) and another 4 windmills (8.4MW) in next year. This should entail a total capex of Rs2bn and lead to Rs200-300mn of additional power cost savings. Solar power capacity of 30MW will be commissioned in 3qFY27 which should lead to another Rs200-400mn savings. The change in plans for renewables is due to the new government policy on limiting solar power to 52%. Slowdown in solar power plants is due to challenges related to land acquisition and grid connections.
4. Tubes: the aim is to reach 2lakh tonnes of production in FY26 and then further ramp up production by 10% next year along with a capex for higher size tubes and debottlenecking capacity to 3lakh tonnes.

Financials:

1. Aim is to take EBITDA margins to 15-16% in pig iron and this will largely happen when spreads rebound. Both tubes and castings is operating at 15% ebitda margins.
2. Target is to reach 150-160kt of castings this year along with 2lakh tonnes of tube dispatches.
3. Mgmt. doesn't expect a material loss of sales in tubes and pig iron due to the maintenance shutdown. This is largely due to the existing inventory. However, there can be slight hit in the pig iron sales in Q3FY26 due to the Hiriyur shutdown.

Valuations – BUY with a TP of Rs620

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.

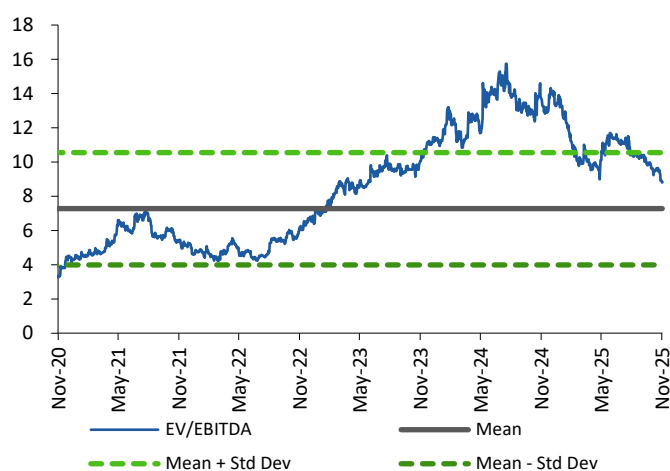
Therefore, we ascribe a multiple, higher than that ascribed to a commodity business - 9x (10x previously) on Sept'27E consol. EBITDA to arrive at TP of Rs620/share (previously Rs690/sh) and retain BUY rating. Decrease in TP is to account for elongated weakness in spreads. At CMP – Rs477/share, the stock trades at 8.1x/ 6.4x FY27/ FY28E consol. EV/EBITDA.

Exhibit 3: EV/EBITDA Valuation

EV/EBITDA valuation - Rs mn	Sep'27E
EBITDA - KFIL	12,531
Ascribed 1-yr frwd EV/EBITDA (x)	9.0
EV	1,12,782
Sub: Net Debt	10,975
Fair value mkt cap	1,01,807
No. of shares (mn)	164
Fair Value/share (Rs)	620
CMP	477
Upside	30%

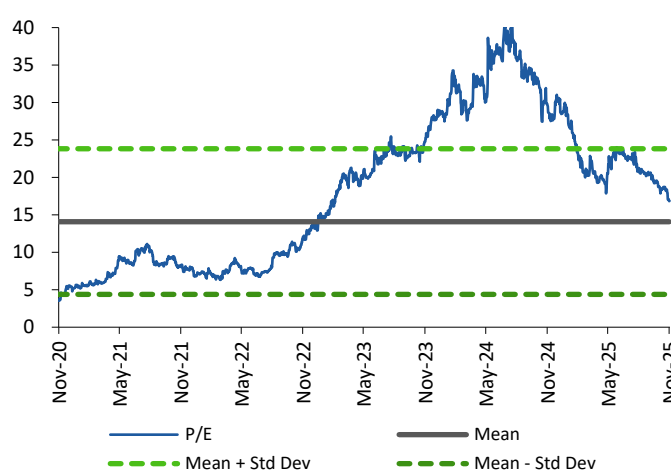
Source: Company, MNCL Research

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	FY26E	FY27E	FY28E
Revenue (Rs mn)								
Pig Iron	10,673	22,018	23,742	20,932	20,779	24,850	27,769	23,526
Castings	8,744	12,897	16,733	15,083	16,536	19,432	23,644	28,848
Tubes	7,980	15,030	19,770	20,651	21,032	23,649	26,319	30,156
Alloy steel	4,200	6,205	5,560	5,345	5,409	5,764	7,139	5,554
Sales Volumes (kt)								
Pig Iron*	3,13,690	4,95,555	4,80,472	4,81,822	6,03,138	6,44,280	6,98,976	5,80,568
Castings	92,507	1,14,341	1,30,345	1,20,018	1,32,242	1,55,400	1,86,960	2,19,120
Tubes	95,458	1,39,058	1,57,143	1,56,487	1,68,804	1,99,800	2,20,150	2,49,750
Alloy steel	75,393	87,214	68,165	69,605	73,002	80,200	98,350	75,750
Specialty steel								1,40,000
Net Sales Realisations (Rs/t)								
Pig Iron	34,025	44,430	49,414	43,443	40,601	38,571	39,728	40,523
Castings	94,524	1,12,792	1,28,375	1,25,673	1,25,043	1,25,043	1,26,467	1,31,655
Tubes	83,597	1,08,084	1,25,809	1,31,969	1,24,594	1,18,364	1,19,548	1,20,744
Alloy steel	55,708	71,151	81,567	76,795	74,094	71,871	72,590	73,316

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	FY26E	FY27E	FY28E
Revenues	64,175	61,463	65,642	73,152	84,064	98,183
Materials cost	36,980	33,746	37,312	40,765	46,481	52,606
% of revenues	57.6	54.9	56.8	55.7	55.3	53.6
Employee cost	3,197	3,369	3,528	4,063	4,590	5,415
% of revenues	5.0	5.5	5.4	5.6	5.5	5.5
Others	15,641	15,781	17,241	19,329	21,779	26,314
% of revenues	24.4	25.7	26.3	26.4	25.9	26.8
EBITDA	8,357	8,568	7,562	8,995	11,215	13,847
EBITDA margin (%)	13.0	13.9	11.5	12.3	13.3	14.1
Depreciation & Amortisation	1,726	2,394	2,558	2,762	2,987	3,167
EBIT	6,631	6,174	5,004	6,232	8,228	10,680
Interest expenses	955	1,205	1,444	1,423	1,350	1,126
PBT from operations	5,677	4,969	3,559	4,810	6,878	9,554
Other income	493	193	526	268	210	221
Exceptional items	0	-633	0	0	0	0
PBT	6,170	4,529	4,085	5,078	7,088	9,775
Taxes	1796.6	1,552	1,145	1,320	1,843	2,542
Effective tax rate (%)	29.1%	34.3%	28.0%	26.0%	26.0%	26.0%
Reported PAT	4,373	2,977	2,940	3,758	5,245	7,234
Adjusted PAT	4,373	3,610	2,940	3,758	5,245	7,234
Minority interest	422	596	0	0	0	0
Adj. PAT for shareholders of KFIL	3951	3014	2940	3758	5245	7234

Source: MNCL Research Estimates

Exhibit 8: Key Ratios

P&L - Y/E March (Rs mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Growth Ratio (%)						
Revenue	71.2	(4.2)	6.8	11.4	14.9	16.8
EBITDA	30.0	2.5	(11.7)	19.0	24.7	23.5
Adjusted PAT	13.8	(23.7)	(2.4)	27.8	39.6	37.9
Margin Ratios (%)						
EBITDA	13.0	13.9	11.5	12.3	13.3	14.1
PBT from operations	8.8	8.1	5.4	6.6	8.2	9.7
Adjusted PAT	6.8	5.9	4.5	5.1	6.2	7.4
Return Ratios (%)						
ROE	18.9	9.3	8.6	10.1	12.7	15.3
ROCE	12.1	8.9	8.0	9.1	11.1	13.5
ROIC	11.4	8.8	7.4	8.8	10.8	13.3
Turnover Ratios (days)						
Gross block turnover ratio (x)	1.3	1.2	1.2	1.2	1.3	1.4
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	0.4	0.3	0.2
Interest coverage ratio	6.9	5.1	3.5	4.4	6.1	9.5
Gross debt/EBITDA	1.2	1.4	1.7	1.5	1.1	0.7
Current Ratio	0.8	0.9	0.9	0.8	0.8	1.0
Per share Ratios (Rs)						
Adjusted EPS	28.4	18.4	17.9	22.8	31.9	43.9
BVPS	150.7	196.8	208.7	225.5	250.9	287.8
CEPS	43.9	32.7	33.4	39.6	50.0	63.2
DPS	5.5	4.7	5.5	6.0	6.5	7.0
Dividend payout %	19.3	25.4	30.8	26.3	20.4	15.9
Valuation (x)*						
P/E (adjusted)	10.2	31.8	35.6	20.9	15.0	10.9
P/BV	1.9	3.0	3.0	2.1	1.9	1.7
EV/EBITDA	5.9	12.6	15.4	10.1	8.1	6.4
Dividend yield %	1.9	0.8	0.9	1.3	1.4	1.5

Source: MNCL Research Estimates

Exhibit 9: Balance Sheet

Y/E March (Rs mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Sources of funds						
Equity Share Capital	695	821	823	823	823	823
Reserves & surplus	20,246	31,491	33,529	36,299	40,474	46,555
Shareholders' fund	20,940	32,312	34,352	37,122	41,297	47,378
Non-controlling interest	9,145	-0	-0	-0	-0	-0
Total Debt (incl. pref shares if its thr)	9,639	12,178	12,759	13,109	12,609	9,909
Def tax liab. (net)	2,067	2,297	2,447	2,447	2,447	2,447
Total Liabilities	41,791	46,788	49,557	52,677	56,353	59,734
Gross Block	47,589	51,123	56,386	61,386	66,386	70,386
Acc. Depr	16,567	18,961	21,519	24,282	27,269	30,436
Net Block	31,022	32,162	34,867	37,104	39,117	39,950
Intangibles		400	283	283	283	283
Capital WIP	1,703	4,577	3,368	3,368	3,368	3,368
Net Fixed Assets	32,725	37,139	38,518	40,756	42,768	43,601
Investments	10	11	9	9	9	9
Inventories	10,785	10,268	11,267	12,225	14,049	16,409
Sundry debtors	8,178	8,966	10,441	12,025	13,819	16,140
Cash	627	456	689	350	189	378
Loans & Advances	29	24	24	24	24	24
Other assets	2,461	2,082	2,539	2,539	2,539	2,539
Total Current Asset	22,080	21,795	24,960	27,163	30,620	35,489
Trade payables	10,317	8,572	10,703	12,025	13,819	16,140
Other current Liab.	2,483	3,230	2,745	2,745	2,745	2,745
Provisions	224.3	356	482	482	482	482
Net Current Assets	9,055	9,638	11,030	11,912	13,574	16,123
Total Assets	41,791	46,788	49,557	52,677	56,352	59,733

Exhibit 10: Cash Flow

Y/E March (Rs mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Operating profit bef working capital changes	9,029	8,704	7,817	8,995	11,215	13,847
Changes in working capital	600	-1,647	-347	-1,221	-1,824	-2,360
Cash flow from operations	7,977	5,621	6,544	6,454	7,549	8,946
Net Capex	-4,813	-5,255	-4,789	-5,000	-5,000	-4,000
FCF	3,165	366	1,755	1,454	2,549	4,946
Cash flow from investing	-3,991	-5,206	-4,746	-4,732	-4,790	-3,779
Cash flow from financing	-4,234	-616	-1,730	-2,060	-2,920	-4,978
Net change in cash	(248)	(201)	69	(338)	(161)	189

Source: MNCL Research Estimates

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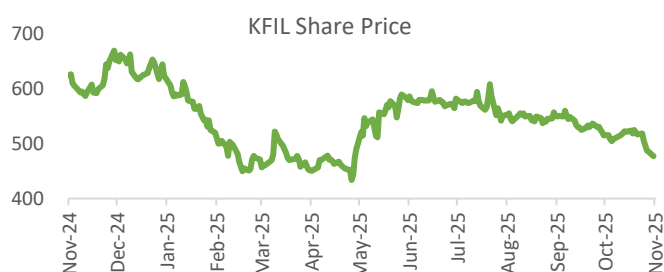
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022-30641600; Email ID: compliance@mnclgroup.com

Monarch Network Capital Limited (CIN: L64990GJ1993PLC120014)

Registered Office:

Unit No. 803-804A, 8th Floor, X-Change Plaza, Block No. 53,
Zone 5, Road- 5E, Gift City, Gandhinagar -382355, Gujarat