

Healthy growth prospects, inexpensive valuations...

About the stock: Ramkrishna Forgings (RKF) is a Kolkata based forging company, incorporated in 1981. It has six manufacturing plants in India concentrated around Jamshedpur and Kolkata with an installed capacity of 1,87,100 tonnes as on date.

- FY22 mix: Asia 56%, Europe 14%, North America 30%
- FY22 segment mix: auto ~81%; non-auto ~19%

Q3FY23: RKF reported a stable performance in Q3FY23.

- Consolidated sales were down 6% QoQ to ₹ 778 crore, with EBITDA at ₹ 173 crore, flat QoQ. EBITDA margins in Q3FY23 were at 22.3%, up 100 bps QoQ
- Sales volume in Q3FY23 came in at 33,390 tonnes up 4% QoQ with corresponding EBITDA/tonne at ₹ 51,824/tonne
- Consolidated PAT in Q3FY23 was down 9% QoQ to ₹ 61 crore

What should investors do? RKF's stock price has grown at ~9% CAGR in the past five years from ₹ 170 levels in January 2018, vastly outperforming Nifty Auto Index.

- We retain **BUY** amid strong order book in the export market, unchanged vision to grow sales at ~20% in next three years, sustainable margin profile of ~22% and RoCE accretive organic, inorganic expansion plans

Target Price and Valuation: Introducing FY25E, we now value RKF at ₹ 335 i.e. 14x P/E on FY24E-25E average EPS of ₹ 23.8 amid ~20% return ratio profile.

Key triggers for future price performance:

- With brownfield expansion under way, inorganic acquisitions on the anvil, strong demand across geographies, we build 23% sales CAGR for FY22-25E
- With healthy exports order wins, value added products in focus and internal efficiencies at play we see margins stabilising at ~20-22% mark
- Promoters infusing equity (via warrants) for growth capital in the recent past
- Focus on deleveraging b/s with target of being near net debt free by FY25E
- Healthy double digit return ratio profile amid stable 20%+ margin profile, increasing share of exports & greater machining in sales mix, going forward

Alternate Stock Idea: In our auto universe, we also like Mahindra & Mahindra.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,590



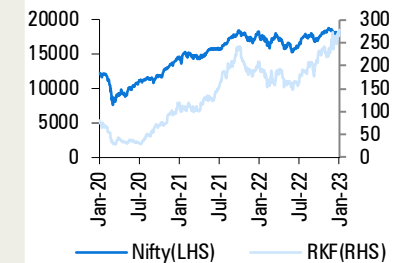
Particulars

Particulars	₹ crore
Market capitalisation	4,253
Total Debt (FY22)	1,591
Cash & Investment (FY22)	93
EV (₹ crore)	5,751
52 week H/L (₹)	285 / 146
Equity capital (₹ crore)	32.0
Face value (₹)	2.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	46.2	46.2	46.3	46.3
FII	13.5	13.6	14.5	14.0
DII	5.4	4.9	4.5	4.7
Other	34.9	35.3	34.7	35.0

Price Chart



Recent Event & Key risks

- Reports steady Q3FY23 results
- Key Risk:** (i) Slowdown in key export markets amid uncertain global growth outlook, (ii) Lower than anticipated margin trajectory & consequent return ratios profile

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	1,931.1	1,216.5	1,288.9	2,320.2	20.3%	3,085.7	3,619.2	4,294.3	22.8%
EBITDA	383.9	207.3	222.7	517.0	26.0%	672.7	790.8	901.8	20.4%
EBITDA Margins (%)	19.9	17.0	17.3	22.3		21.8	21.9	21.0	
Net Profit	120.1	9.7	20.7	198.0	78.3%	245.7	347.4	437.0	30.2%
EPS (₹)	7.4	0.6	1.3	12.4		14.9	21.1	26.6	
P/E	36.1	445.3	205.7	21.5		17.8	12.6	10.0	
RoNW (%)	13.8	1.1	2.3	18.4		17.5	20.0	20.3	
RoCE (%)	14.1	4.5	4.8	12.5		16.4	17.9	20.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results:

- Ramkrishna Forging reported a steady performance in Q3FY23. On a consolidated basis, net sales for the quarter were at ₹ 778 crore, down 6% QoQ. Total tonnage come in at 33,390 tonnes, up 3.8% QoQ
- EBITDA for Q3FY23 was at ₹ 173 crore with corresponding EBITDA margins at 22.2%, up 100 bps QoQ, primarily tracking gross margin expansion, which was up 240 bps QoQ
- EBITDA/tonne for the quarter came in at ~₹ 51,800/tonne in Q3FY23 vs. ~₹ 54500/tonne in Q2FY23
- PAT in Q3FY23 was at ₹ 61 crore, down 9% QoQ (lower tax rate - Q2FY23)

Q3FY23 Earnings Conference Call highlights:

- The management informed about strong domestic demand and healthy traction from the CV space and expects demand to remain healthy amid increased economic activity and government spending on infrastructure
- During Q3FY23, the company won three contracts worth ₹ 366 crore from the North America and the European region in the EV domain vs. five contracts won in H1FY23 worth ₹ 408 crore. The management expects exports to grow 15-20% YoY in CY23 amid robust order book
- To strengthen and expand the company's position in the EV space, which currently forms 2% of overall topline, it has acquired a 51% stake in TSUYO (start-up with product range that includes e-axles, differentials, motor shaft etc.). The company plans to invest ~₹ 100 crore over five years in TSUYO
- RKF informed about undergoing brownfield expansion for adding 56,300 tonnes capacity with peak revenue potential now pegged at ₹ 5,000 crore
- Exports remained strong on the back of past order wins as well as new orders now converting to revenue. The management informed about orders from Europe remaining strong and increasing market share and new geographies to boost export growth
- The company remains confident about maintaining margin at ~22%
- Cost of acquisition for JMT Auto is ~₹ 125 crore of which ~₹ 70 crore would be paid upfront and balance would be paid over the next four years (equally). The company will further deploy additional ₹ 50 crore on capex and working capital requirement. The company expects to achieve ~₹ 450-500 crore of topline from this investment in second year of full operations
- The management guided about railways as a segment to grow sequentially & Q4FY23 performance to be better than Q3FY23
- Within geography, a shift in mix was witnessed from North America to Asia but in absolute terms North America remained steady
- Net working capital days remained broadly unchanged/lower marginally by 7-9 days. Net debt on the company's books were at ~₹ 1,287 crore as of December 2022 end with plans to further repay ~₹ 50 crore by FY23 end
- The management said US Class 8 trucks demand is remaining strong and sales are expected to remain marginally higher than CY22
- Fall in ASP was largely due to fall in commodity prices, which were reduced by ~₹ 8-10/kg
- The managements expects the effective tax rate to be ~22% + surcharge starting FY24E vs. ~35% in FY23
- On the capex front the company plans to spend ~₹ 250 crore in FY23E and ~₹ 150-200 crore in FY24E (excluding inorganic acquisitions)

RKF - ESG Disclosure Score*

ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	0.4	16.5	16.8
Social	13.0	14.8	16.2
Governance	76.1	76.1	76.1
Overall ESG Score	29.9	35.8	36.4

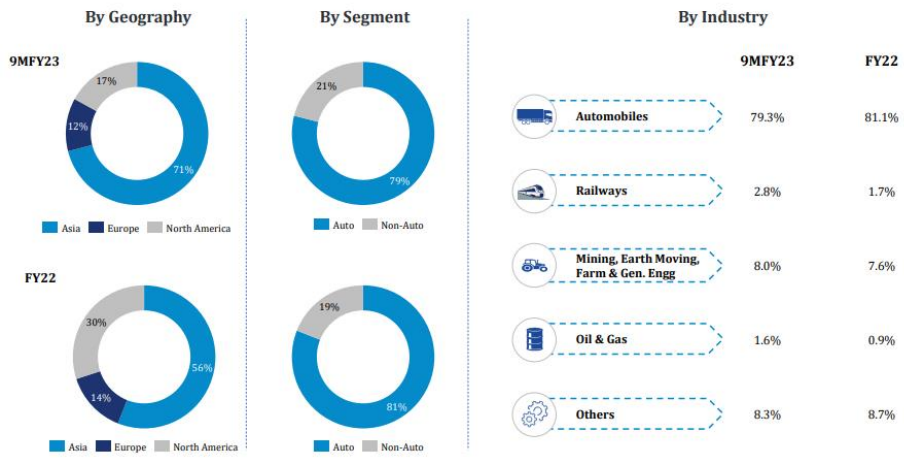
Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

FY25E Targets: Rev: ~₹5,000 crores; Margins: ~22%; Net Debt free by FY25E.

Key takeaways from recent presentation

Exhibit 1: Revenue mix (end user wise)

Diversified revenues across segments & geographies



The company is gradually diversifying its revenue stream

Source: Company, ICICI Direct Research

Exhibit 2: Debt repayment status

Disciplined capital allocation priorities



Particulars	₹ in Lakhs	
	Mar'22	Dec'22
Long Term Debt (incl. current Maturities of Long Term Debt)	99,185	91,756
Short Term Debt	58,554	36,933
Total Debt	1,57,740	1,28,689

- 01 The Company expect to achieve a revenue growth of 20% CAGR over a period of next 3 years
- 02 The repayment of debt and payment of dividend will be commensurate with increased cash flow in line with the above growth.

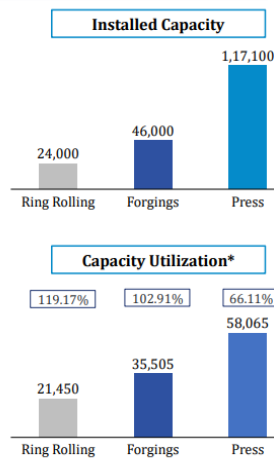
The company desires ~20% CAGR for topline in the coming three years. On the capital allocation front, it has strong debt reduction intent amid healthy cash flow generation

Source: Company, ICICI Direct Research

Exhibit 3: Brownfield expansion underway

Well positioned to capture future growth

- We are adding 56300 Tons capacity.
- Will be ready by the above new Capacities by September 2023 and with this capacities, we will be able to achieve a topline of Rs 5000 Crores (at current commodity price)
- Capacity sufficient for the next phase of growth.
- Capacity ramp-up along with operating leverage will result in faster improvement in profitability.

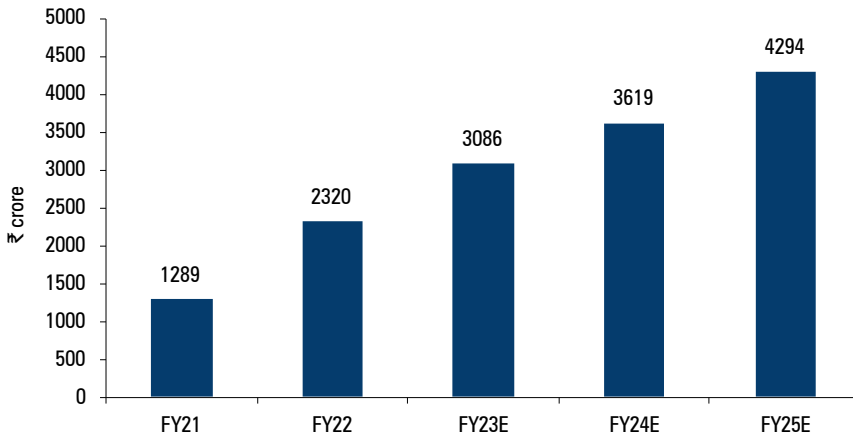


RKF is executing brownfield expansion amid new order wins, high existing capacity utilisation levels with potential revenue on expanded capacities pegged at ~₹ 5,000 crore

Source: Company, ICICI Direct Research

Key financial charts

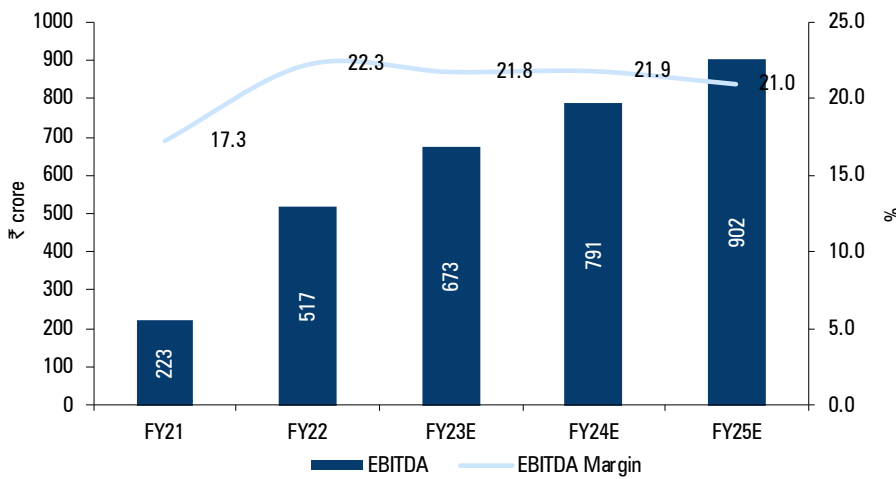
Exhibit 4: Topline trend



Net sales are expected to grow at 23% CAGR over FY22-25E at ₹ 4,294 crore as of FY25E

Source: Company, ICICI Direct Research

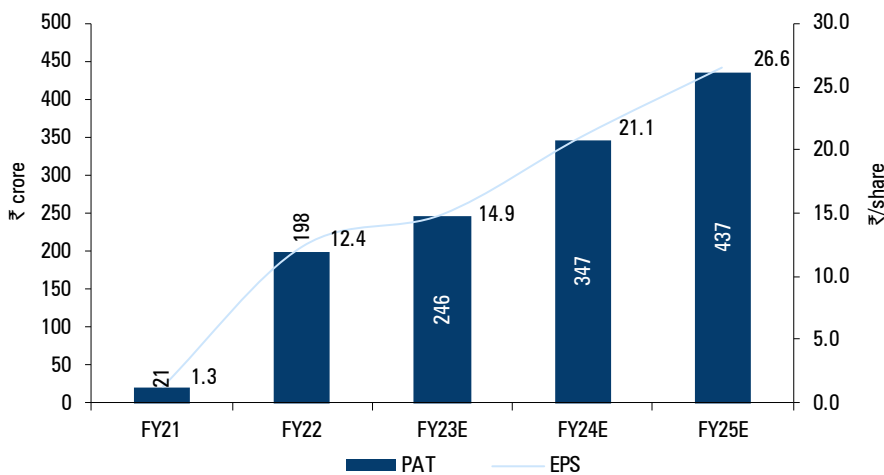
Exhibit 5: EBITDA & EBITDA margins trend



EBITDA is expected to grow at 20.4% CAGR over FY22-25E to ₹ 902 crore in FY25E with margins remaining in this 21-22% range over FY22-25E

Source: Company, ICICI Direct Research

Exhibit 6: PAT & EPS trend



PAT is expected to rise to ₹ 437 crore in FY25E with corresponding EPS seen at ₹ 26.6 in FY25E

Source: Company, ICICI Direct Research

Financial Summary (Consolidated)

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Net Sales	2320.2	3085.7	3619.2	4294.3
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	2,320.2	3,085.7	3,619.2	4,294.3
Growth (%)	80.0	33.0	17.3	18.7
Raw Material Expenses	1,160.7	1,527.4	1,809.6	2,190.1
Employee Expenses	127.2	151.2	173.7	201.8
Other Operating Expense	515.3	734.4	845.1	1,000.6
Total Operating Expenditure	1,803.3	2,413.0	2,828.4	3,392.5
EBITDA	517.0	672.7	790.8	901.8
Growth (%)	132.1	30.1	17.6	14.0
Depreciation	169.4	195.2	229.2	243.0
Interest	95.9	114.8	103.3	81.3
Other Income	1.5	4.1	4.8	5.2
PBT	253.2	366.8	463.2	582.7
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	55.2	121.0	115.8	145.7
PAT	198.0	245.7	347.4	437.0
Growth (%)	858.7	24.1	41.4	25.8
EPS (₹)	12.4	14.9	21.1	26.6

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	198.0	245.7	347.4	437.0
Add: Depreciation	169.4	195.2	229.2	243.0
(Inc)/dec in Current Assets	-613.7	-197.5	-323.1	-408.1
Inc/(dec) in CL and Provisions	194.2	113.5	140.9	178.2
Others	115.9	114.8	103.3	81.3
CF from operating activities	63.7	471.7	497.6	531.5
(Inc)/dec in Investments	-55.4	15.0	35.0	0.0
(Inc)/dec in Fixed Assets	-255.7	-250.0	-300.0	-150.0
Others	-27.2	0.0	0.0	0.0
CF from investing activities	-338.3	-235.0	-265.0	-150.0
Issue/(Buy back) of Equity	0.1	0.9	0.0	0.0
Inc/(dec) in loan funds	362.5	-200.0	-100.0	-275.0
Interest & Dividend paid	-103.9	-127.1	-119.7	-101.9
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-14.2	93.4	0.0	0.0
CF from financing activities	244.4	-232.8	-219.7	-376.9
Net Cash flow	-30.2	3.9	12.8	4.6
Opening Cash	68.5	38.4	42.3	55.1
Closing Cash	38.4	42.3	55.1	59.8

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	32.0	32.9	32.9	32.9
Reserve and Surplus	1,046.4	1,373.2	1,704.1	2,120.6
Total Shareholders funds	1,078.4	1,406.1	1,737.0	2,153.5
Total Debt	1,591.1	1,391.1	1,291.1	1,016.1
Deferred Tax Liability	74.4	74.4	74.4	74.4
Minority Interest / Others	38.5	38.5	38.5	38.5
Total Liabilities	2,782.4	2,910.1	3,141.0	3,282.5
Assets				
Gross Block	2,141.7	2,321.2	2,771.2	2,946.2
Less: Acc Depreciation	674.8	870.0	1,099.2	1,342.1
Net Block	1,466.9	1,451.2	1,672.0	1,604.0
Capital WIP	129.5	200.0	50.0	25.0
Total Fixed Assets	1,596.4	1,651.2	1,722.0	1,629.0
Investments	61.4	46.4	11.4	11.4
Inventory	709.2	845.4	991.6	1,176.5
Debtors	890.6	929.9	1,090.7	1,294.2
Loans and Advances	30.8	41.0	48.1	57.0
Other Current Assets	82.5	94.3	103.4	114.1
Cash	38.4	42.3	55.1	59.8
Total Current Assets	1,751.5	1,952.9	2,288.9	2,701.6
Current Liabilities	659.9	760.8	892.4	1,058.9
Provisions	6.5	7.5	8.8	10.4
Current Liabilities & Prov	701.3	814.8	955.6	1,133.9
Net Current Assets	1,050.2	1,138.2	1,333.2	1,567.7
Others Assets	74.4	74.4	74.4	74.4
Application of Funds	2,782.4	2,910.1	3,141.0	3,282.5

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	12.4	14.9	21.1	26.6
Cash EPS	23.0	26.8	35.0	41.3
BV	67.4	85.5	105.6	130.9
DPS	0.5	0.8	1.0	1.3
Cash Per Share	2.4	2.6	3.4	3.6
Operating Ratios (%)				
EBITDA Margin	22.3	21.8	21.9	21.0
PAT Margin	8.5	8.0	9.6	10.2
Inventory days	111.6	100.0	100.0	100.0
Debtor days	140.1	110.0	110.0	110.0
Creditor days	103.8	90.0	90.0	90.0
Return Ratios (%)				
RoE	18.4	17.5	20.0	20.3
RoCE	12.5	16.4	17.9	20.1
RoIC	13.6	18.2	18.5	20.6
Valuation Ratios (x)				
P/E	21.5	17.8	12.6	10.0
EV / EBITDA	11.1	8.3	6.9	5.8
EV / Net Sales	2.5	1.8	1.5	1.2
Market Cap / Sales	1.8	1.4	1.2	1.0
Price to Book Value	3.9	3.1	2.5	2.0
Solvency Ratios				
Debt/EBITDA	3.1	2.1	1.6	1.1
Debt / Equity	1.5	1.0	0.7	0.5
Current Ratio	2.6	2.5	2.5	2.5
Quick Ratio	1.5	1.4	1.4	1.4

Source: Company, ICICI Direct Research

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