

CMP: ₹ 325

Target: ₹ 400 (23%)

Target Period: 12 months

May 2, 2023

BUY

## Healthy performance, further accelerating growth pedal, railway order proves capabilities, provides longevity...

**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 installed capacity of 1,87,100 tonnes as on date.

- FY23 mix: Asia 60%, Europe 15%, North America 25%
- FY23 segment mix: auto ~79% (CV space); non-auto ~21%

**Q4FY23:** RKF reported a healthy performance in Q4FY23.

- Consolidated sales were up 14.7% QoQ to ₹ 892 crore, with EBITDA at ₹ 194 crore, up 12.1% QoQ. EBITDA margins came in at 21.8%, down 50 bps QoQ
- Sales volume in Q4FY23 came in at 38,588 tonnes, up 15.6% QoQ with corresponding EBITDA/tonne at ₹ 50,276/tonne
- Consolidated PAT in Q4FY23 was up 12.1% QoQ to ₹ 68.5 crore

**What should investors do?** RKF's stock price has grown at ~16% CAGR in the past five years from ₹ 160 in April 2018, vastly outperforming the Nifty Auto Index.

- We retain **BUY** rating amid strong new order wins, unchanged vision to grow in high double digit in coming years, sustainable margin profile of ~20%+ and RoCE accretive organic as well as inorganic expansion plans

**Target Price and Valuation:** Upgrading our estimates, we now value RKF at ₹ 400 i.e. 15x P/E on FY25E EPS of ₹ 26.6 (earlier target price of ₹ 335 per share).

**Key triggers for future price performance:**

- With brownfield expansion to add ~56,300 tons capacity in FY24 amid inorganic acquisitions on anvil, we build 15.6% sales CAGR in FY23-25E
- Order win in JV format (~₹ 12,500 crore over 20 years) for manufacturing forged wheels for Indian Railway to provide growth longevity
- With healthy exports order wins, value added products in focus and internal efficiencies at play, we see margins stabilising at the ~22% mark
- Persistent focus on diversifying into non-auto business including engineering as well as oil & gas space amid steady global CV outlook
- Focus on deleveraging b/s and moving up the value chain through increase in machining mix to lead to healthy double-digit return-ratio profile (~20%)

**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 ₹ 1,665

### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	FY23P	5 year CAGR (FY18-23P)	FY24E	FY25E	2 year CAGR (FY23P-25E)
Net Sales	1,931.1	1,216.5	1,288.9	2,320.2	3,192.9	16.5%	3,506.3	4,263.6	15.6%
EBITDA	383.9	207.3	222.7	517.0	692.3	19.2%	795.9	946.5	16.9%
EBITDA Margins (%)	19.9	17.0	17.3	22.3	21.7		22.7	22.2	
Net Profit	120.1	9.7	20.7	198.0	248.1	21.2%	337.9	437.5	32.8%
EPS (₹)	7.4	0.6	1.3	12.4	15.5		20.5	26.6	
P/E	44.1	544.1	251.3	26.2	20.9		15.8	12.2	
RoNW (%)	13.8	1.1	2.3	18.4	18.8		19.9	21.0	
RoCE (%)	14.1	4.5	4.8	12.5	17.5		18.1	19.8	

Source: Company, ICICI Direct Research



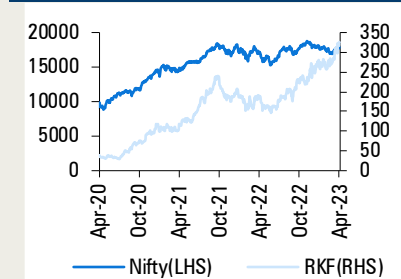
### Particulars

Particulars	₹ crore
Market capitalisation	5,197
Total Debt (FY23P)	1,307
Cash & Investment (FY23P)	47
EV (₹ crore)	6,457
52 week H/L (₹)	332 / 146
Equity capital (₹ crore)	32.0
Face value (₹)	2.0

### Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	46.2	46.3	46.3	46.3
FII	13.6	14.5	14.0	14.8
DII	4.9	4.5	4.7	4.8
Other	35.3	34.7	35.0	34.2

### Price Chart



### Recent Event & Key risks

- Reports healthy Q4FY23 results
- Key Risk:** (i) Lower than expected volume growth in FY23-25E, (ii) Any hit in export markets amid uncertain global growth outlook

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## Key takeaways of recent quarter & conference call highlights

### Q4FY23 Results:

- Ramkrishna Forging reported a healthy performance in Q4FY23. On a consolidated basis, net sales for the quarter were at ₹ 892 crore, up 14.7% QoQ. Total tonnage come in at 38,588 tons, up 15.6% QoQ
- EBITDA for Q4FY23 was at ₹ 194 crore with corresponding EBITDA margins at 21.8%, down 50 bps QoQ primarily tracking gross margin contraction, which was down 343 bps QoQ (amid adverse product mix)
- EBITDA/tonne for the quarter came in at ~₹ 50200/tonne in Q4FY23 vs. ~₹ 51800/tonne in Q3FY23
- PAT in Q4FY23 was at ₹ 68.5 crore, up 12.1% QoQ

### Q4FY23 Earnings Conference Call highlights:

- The management said the international CV market was strong and has not witness production cuts in the export market as on date
- The company during the year won ~₹ 775 crore of new order from different geographies (excluding recent order win from railways for forged wheels)
- The management informed about improvement in its long-term credit rating to "A+" with a stable outlook
- The management expects tonnage to grow ~15-20% in the coming year
- With respect to the big order win from Indian Railways (80,000 forged wheels/annum; total order value at ₹ 12,500 crore over 20 years) in a JV format (RKF to own 51% in JV), the management said total project capex was ~₹ 1,200 crore and will be funded by mix of debt, equity (RKF's share of equity at ~₹ 180 crore over two to three-years). Further, the management plans to start production by Q4FY26E with revenue to contribute meaningfully from FY27E onwards. It plans to establish 2 lakh wheel capacity building huge potential in domestic & export market with revenue potential of ~₹ 28,000 crore (over 20 years) with margins in double digit
- On JMT Auto & ACL acquisition, the management informed about capex plans (modernisation) of ~₹ 200 crore post regulatory approvals being received
- The management remained focused towards its capital allocation strategy with the target of reducing debt by ~₹ 100-150 crore. Further, the management expects debt at the standalone level to reduce gradually and to remain largely stable at consolidated level tracking newer acquisitions
- With the new warm forging facility, the company plans to target LCV players in the north America market and has won some contracts in this space. However, the management informed about Sona Comstar being the biggest player in this space
- With respect to warm forging facility, which started two quarters back the management expects full ramp up from Q2FY24 onwards with margins from this to be 100-150 bps higher than the traditional business. Further, RKF has sufficient orderbook for this facility
- The management expects working capital days to remain at ~100 days. Further, increase in creditors was due to increase in tonnage sales but debtors were lower leading to improvement in working capital
- The management continues to focus on doubling sales from railways from 3% to 5% and oil & gas from 2% to 3-4%
- Tax rate in FY24E to be ~25%
- The management informed about payment being received in ~25-30 days post-dispatch of order to railways

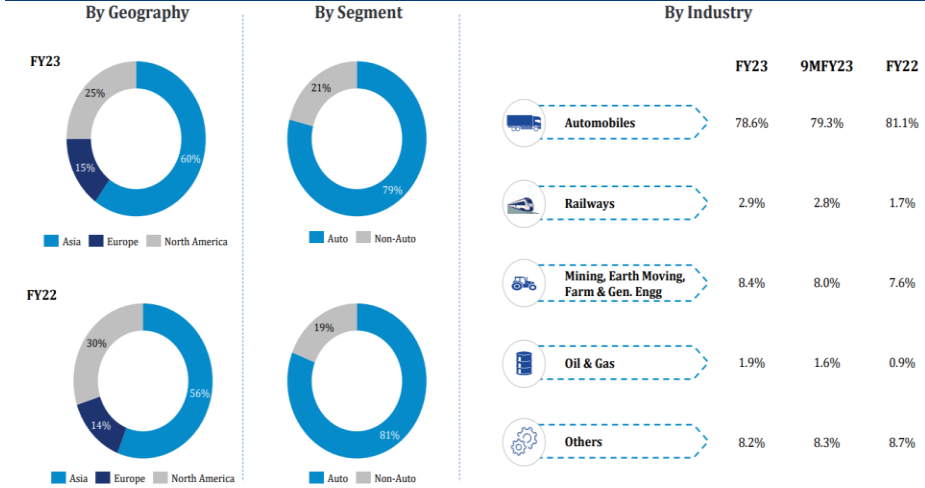
### RKF - ESG Disclosure Score\*

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
<b>Overall ESG Score</b>	<b>29.9</b>	<b>35.8</b>	<b>36.4</b>

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

## Key takeaways from recent presentation

Exhibit 1: Revenue mix (end user wise)



The company is gradually diversifying its revenue stream

Source: Company, ICICI Direct Research

Exhibit 2: New warm forging facility

- 5 Station, 2000T fully automated Warm Forging Press from Kurimoto, Japan, with walking beam concept - with capacity of 9,900T
- 2 Station, 630T fully automated screw press from Enomoto, Japan with capacity of 4,500T
- Product Families - Differential Gears & Differential Pinions, Spiders, UJ Cross

Product Family	Image
Passenger Car & SUV	
Commercial Vehicles	
Farm Equipment	
Tractor	
Off-Highway Equipment's	

Source: Company, ICICI Direct Research

Exhibit 3: Organic expansion under way

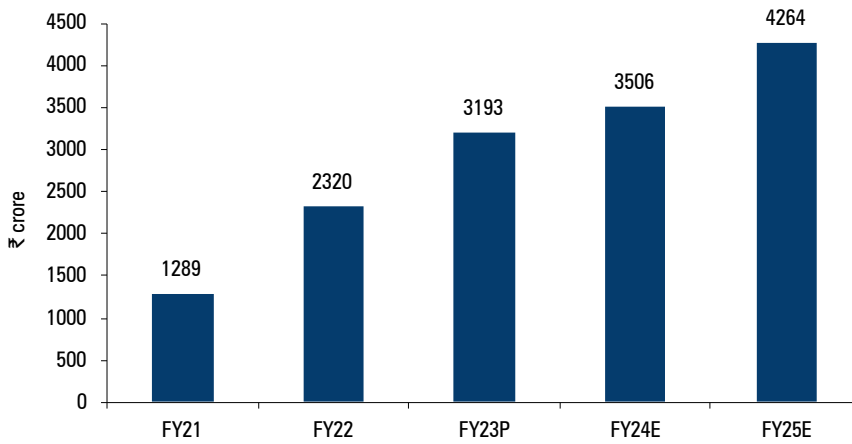
- The forging capacity of the company will be augmented by 56,300 Tons by addition of warm forging press, upset forgings, 6000T press line
- The capacities for the warm forgings and new technology totaling to 18,200T is expected to be commissioned by June 2023 and hot forging capacities of 38,100T shall be commissioned by September 2023
- The Company has sufficient capacity for the next phase of healthy & robust growth.
- Capacity ramp-up along with operating leverage will result in faster improvement in profitability

Category	Ring Rolling	Forgings	Press
Installed Capacity	24,000	46,000	1,17,100
Capacity Utilization*	123%	105%	73%
Utilized Capacity	29,497	48,160	85,725

Source: Company, ICICI Direct Research

## Key Financial charts

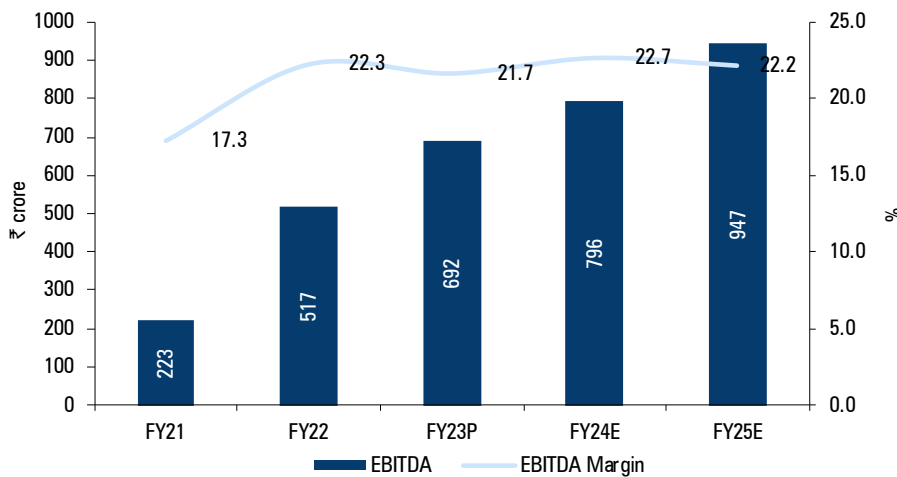
Exhibit 4: Topline trend



Net sales are expected to grow at 15.8% CAGR over FY23-25E at ₹ 4,264 crore as of FY25E

Source: Company, ICICI Direct Research

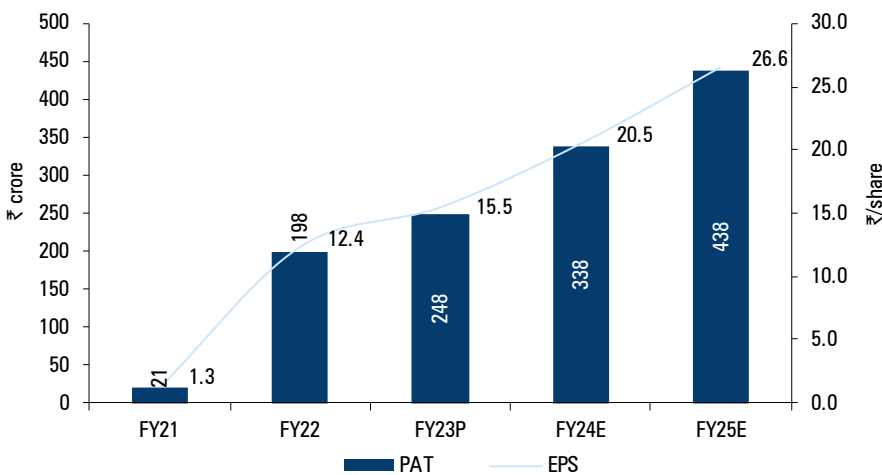
Exhibit 5: EBITDA & EBITDA margins trend



EBITDA is expected to grow at 16.9% CAGR over FY23-25E to ₹ 947 crore in FY25E with margins remaining at ~22% over FY23-25E

Source: Company, ICICI Direct Research

Exhibit 6: PAT & EPS trend



PAT is expected to rise to ₹ 438 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	FY23P	FY24E	FY25E
Net Sales	2320.2	3192.9	3506.3	4263.6
Other Operating Income	0.0	0.0	0.0	0.0
<b>Total Operating Income</b>	<b>2,320.2</b>	<b>3,192.9</b>	<b>3,506.3</b>	<b>4,263.6</b>
Growth (%)	80.0	37.6	9.8	21.6
Raw Material Expenses	1,160.7	1,610.5	1,753.2	2,174.4
Employee Expenses	127.2	157.7	175.3	202.5
Other Operating Expense	515.3	732.3	781.9	940.1
Total Operating Expenditure	1,803.3	2,500.5	2,710.4	3,317.1
<b>EBITDA</b>	<b>517.0</b>	<b>692.3</b>	<b>795.9</b>	<b>946.5</b>
Growth (%)	132.1	33.9	15.0	18.9
Depreciation	169.4	201.7	236.6	272.5
Interest	95.9	120.2	114.7	96.2
Other Income	1.5	4.0	7.0	7.2
<b>PBT</b>	<b>253.2</b>	<b>374.4</b>	<b>451.7</b>	<b>584.9</b>
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	55.2	126.4	113.8	147.4
<b>PAT</b>	<b>198.0</b>	<b>248.1</b>	<b>337.9</b>	<b>437.5</b>
Growth (%)	858.7	25.3	36.2	29.5
<b>EPS (₹)</b>	<b>12.4</b>	<b>15.5</b>	<b>20.5</b>	<b>26.6</b>

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Profit after Tax	198.0	248.1	337.9	437.5
Add: Depreciation	169.4	201.7	236.6	272.5
(Inc)/dec in Current Assets	-613.7	-90.0	-196.0	-423.2
Inc/(dec) in CL and Provisions	194.2	220.1	114.5	223.7
Others	115.9	120.2	114.7	96.2
<b>CF from operating activities</b>	<b>63.7</b>	<b>700.0</b>	<b>607.6</b>	<b>606.8</b>
(Inc)/dec in Investments	-55.4	55.2	0.0	0.0
(Inc)/dec in Fixed Assets	-255.7	-382.6	-400.0	-380.0
Others	-27.2	45.0	0.0	0.0
<b>CF from investing activities</b>	<b>-338.3</b>	<b>-282.4</b>	<b>-400.0</b>	<b>-380.0</b>
Issue/(Buy back) of Equity	0.1	0.0	0.9	0.0
Inc/(dec) in loan funds	362.5	-283.8	-100.0	-75.0
Interest & Dividend paid	-103.9	-144.2	-147.6	-145.6
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-14.2	19.3	70.0	0.0
<b>CF from financing activities</b>	<b>244.4</b>	<b>-408.7</b>	<b>-176.6</b>	<b>-220.6</b>
<b>Net Cash flow</b>	<b>-30.2</b>	<b>8.9</b>	<b>31.0</b>	<b>6.2</b>
Opening Cash	68.5	38.4	47.2	78.2
<b>Closing Cash</b>	<b>38.4</b>	<b>47.2</b>	<b>78.2</b>	<b>84.4</b>

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	32.0	32.0	32.9	32.9
Reserve and Surplus	1,046.4	1,289.8	1,664.8	2,052.9
<b>Total Shareholders funds</b>	<b>1,078.4</b>	<b>1,321.8</b>	<b>1,697.7</b>	<b>2,085.8</b>
Total Debt	1,591.1	1,307.3	1,207.3	1,132.3
Deferred Tax Liability	74.4	115.9	115.9	115.9
Minority Interest / Others	38.5	64.2	64.2	64.2
<b>Total Liabilities</b>	<b>2,782.4</b>	<b>2,809.1</b>	<b>3,085.0</b>	<b>3,398.2</b>
<b>Assets</b>				
Gross Block	2,141.7	2,563.1	3,003.8	3,408.8
Less: Acc Depreciation	674.8	876.4	1,113.0	1,385.5
Net Block	1,466.9	1,686.7	1,890.8	2,023.3
Capital WIP	129.5	90.7	50.0	25.0
<b>Total Fixed Assets</b>	<b>1,596.4</b>	<b>1,777.4</b>	<b>1,940.8</b>	<b>2,048.3</b>
Investments	61.4	6.2	6.2	6.2
Inventory	709.2	906.9	960.6	1,168.1
Debtors	890.6	775.2	912.6	1,109.7
Loans and Advances	30.8	9.3	10.2	12.4
Other Current Assets	82.5	111.7	115.6	132.0
<b>Cash</b>	<b>38.4</b>	<b>47.2</b>	<b>78.2</b>	<b>84.4</b>
Total Current Assets	1,751.5	1,850.3	2,077.3	2,506.7
Current Liabilities	659.9	853.1	960.6	1,168.1
Provisions	6.5	9.6	10.8	13.2
Current Liabilities & Prov	701.3	921.3	1,035.8	1,259.5
<b>Net Current Assets</b>	<b>1,050.2</b>	<b>929.0</b>	<b>1,041.5</b>	<b>1,247.2</b>
Others Assets	74.4	96.5	96.5	96.5
<b>Application of Funds</b>	<b>2,782.4</b>	<b>2,809.1</b>	<b>3,085.0</b>	<b>3,398.2</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY22	FY23P	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	12.4	15.5	20.5	26.6
Cash EPS	23.0	28.1	34.9	43.2
BV	67.4	82.7	103.2	126.8
DPS	0.7	1.5	2.0	3.0
Cash Per Share	2.4	3.0	4.8	5.1
<b>Operating Ratios (%)</b>				
EBITDA Margin	22.3	21.7	22.7	22.2
PAT Margin	8.5	7.8	9.6	10.3
Inventory days	111.6	103.7	100.0	100.0
Debtor days	140.1	88.6	95.0	95.0
Creditor days	103.8	97.5	100.0	100.0
<b>Return Ratios (%)</b>				
RoE	18.4	18.8	19.9	21.0
RoCE	12.5	17.5	18.1	19.8
RoIC	13.6	18.4	18.9	20.5
<b>Valuation Ratios (x)</b>				
P/E	26.2	20.9	15.8	12.2
EV / EBITDA	13.0	9.3	7.9	6.6
EV / Net Sales	2.9	2.0	1.8	1.5
Market Cap / Sales	2.2	1.6	1.5	1.2
Price to Book Value	4.8	3.9	3.1	2.6
<b>Solvency Ratios</b>				
Debt/EBITDA	3.1	1.9	1.5	1.2
Debt / Equity	1.5	1.0	0.7	0.5
Current Ratio	2.6	2.1	2.1	2.1
<b>Quick Ratio</b>	<b>1.5</b>	<b>1.0</b>	<b>1.1</b>	<b>1.1</b>

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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