

## New order wins to ensure industry leading growth...

**About the stock:** Ramkrishna Forgings (RFL) 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.

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

**Q4FY22:** RFL reported a healthy performance in Q4FY22.

- Consolidated sales rose 19.5% QoQ to ₹ 718.7 crore. Tonnage sold was at 32,038 tonnes, up 9% QoQ
- EBITDA was at ₹ 147.6 crore with EBITDA/tonne at ₹ 46,070/tonne.
- Consolidated PAT was up 85% QoQ to ₹ 84 crore (aided by reversal of DTL)
- The management guided for strong sales growth momentum in FY22-24E

**What should investors do?** RFL has grown at ~13.5% CAGR over the past five years from ₹ 98 levels in May 2017, vastly outperforming Nifty Auto Index.

- We retain **BUY** rating amid strong growth prospects and new order wins

**Target Price and Valuation:** We value RFL at ₹ 235 i.e. 14x P/E on FY23E-24E average EPS of ₹ 16.8 (implied PE ratio of ~12x on FY24E numbers).

### Key triggers for future price performance:

- Largely EV immune product portfolio (engine components <1%) along with rising EV presence, going forward, we build FY22-24E sales CAGR at 17.6%
- With real-time pass-through of raw material costs in the domestic space & quarterly lag in case of exports, we see margins stabilising at ~22% mark
- New order wins of ₹ 984 crore in FY22 with sales growth at 20-25% in FY23E
- Focus on deleveraging b/s with 50-60% of cash profit, going forward, to be used towards repayment of debt
- 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 ₹ 1,045



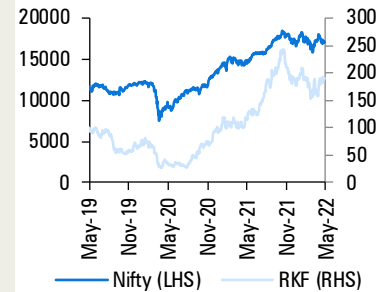
### Particulars

Particulars	₹ crore
Market capitalisation	2,958
Total Debt (FY22P)	1,611
Cash & Investment (FY22P)	93
EV (₹ crore)	4,476
52 week H/L (₹)	252 / 97
Equity capital (₹ crore)	32.0
Face value (₹)	2.0

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	46.0	46.0	46.0	46.2
FII	16.2	17.2	14.5	13.5
DII	6.9	5.4	6.9	5.4
Other	30.9	31.4	32.5	34.9

### Price Chart



### Recent Event & Key risks

- Reports healthy Q4FY22 results
- Key Risk:** (i) Client concentration risk with top two clients forming ~50% of sales, (ii) slower than expected sales growth prospects

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22P	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	1,931.1	1,216.5	1,288.9	2,320.2	20.3%	2,772.5	3,209.1	17.6%
EBITDA	383.9	207.3	222.7	517.0	26.0%	611.1	706.0	16.9%
EBITDA Margins (%)	19.9	17.0	17.3	22.3		22.0	22.0	
Net Profit	120.1	9.7	20.7	198.0	78.3%	221.8	316.8	26.5%
EPS (₹)	7.4	0.6	1.3	12.4		13.9	19.8	
P/E	25.1	309.7	143.0	14.9		13.3	9.3	
RoNW (%)	13.8	1.1	2.3	18.4		17.2	19.9	
RoCE (%)	14.1	4.5	4.8	12.4		14.9	17.5	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q4FY22 Results:

- Ramkrishna Forging reported a healthy performance in Q4FY22. On a consolidated basis, net sales for the quarter were at ₹ 719 crore, up 20% QoQ. Total tonnage come in at 32,038 tonnes up 9% QoQ
- EBITDA for Q4FY22 was at ₹ 147.6 crore with corresponding EBITDA margins at 20.3%, down 295 bps QoQ, primarily tracking higher RM costs (commodity led) as well as higher other expense. EBITDA/tonne, however, was steady at ~₹ 46,000/tonne in Q4FY22 vs. ~₹ 48,000/tonne in Q3FY22
- PAT for the quarter was ₹ 83.9 crore, up 83% QoQ, primarily supported by tax credits; reversal of deferred tax liabilities of ~₹ 25.3 crore

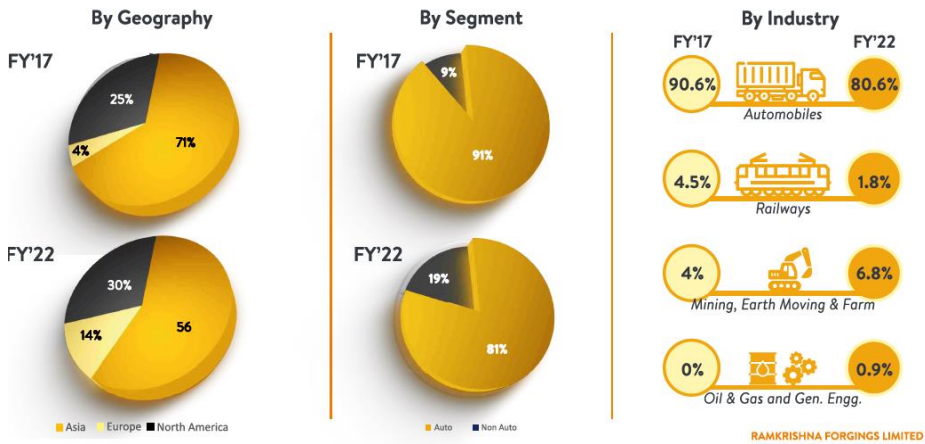
### Q4FY22 Earnings Conference Call highlights:

- During Q4FY22, the company won three contracts worth ₹ 144 crore with total contracts for FY22 at 18 contracts with new order value of ₹ 984 crore. FY23 is expected to remain strong amid cyclical upswing and strong order book. The management projects topline to grow 20-25%
- Export remained strong with ~95% increase YoY in FY22 with strong demand from the European region
- RFL's focus is to deleverage b/s through utilisation of ~60% of cash profit generated. Also, ~30% would be used towards capex and working capital requirement
- RFL aims to generate ~6% of topline through EV segment products, particularly in 3-W and PV space. Further content per vehicle has increased over years through making front axle along with rear axle over the years
- Raw material prices come with a monthly/quarterly lag and are a complete pass through
- Going forward, power & fuel prices are expected to decline amid shift from gasoline to electric. Freight charges remained high in the North American region where prices were at ~4-4.5x of normal prices. The management informed about ~₹ 60 crore recovery for freight cost
- The management expects EBITDA margins to gradually rise in the coming six to eight quarters
- There was no order cancellation in the North American region due to extended shipping period and contracts with customers remained strong
- Inventory rise was largely on account of a rise in shipping days from 45 days to 80-90 days to maintain JIT system with customers
- RFL remains unaffected amid geopolitical crisis as Russia was very small portion of topline. Further, the company is witnessing strong demand from the European region
- Contribution from the non-auto space is expected to increase from current ~19% of sales levels to 25% of sales in the next three to four years
- RFL is well positioned to reap the benefits of CV industry growth with existing capacity. Current capacity utilisation is at ~77% for FY22 with total revenue potential out of current gross block pegged at ~₹ 3,600-4,000 crore

Key takeaways from recent PPT

Exhibit 1: Revenue mix (end user wise)

REVENUE MIX ACROSS SEGMENT



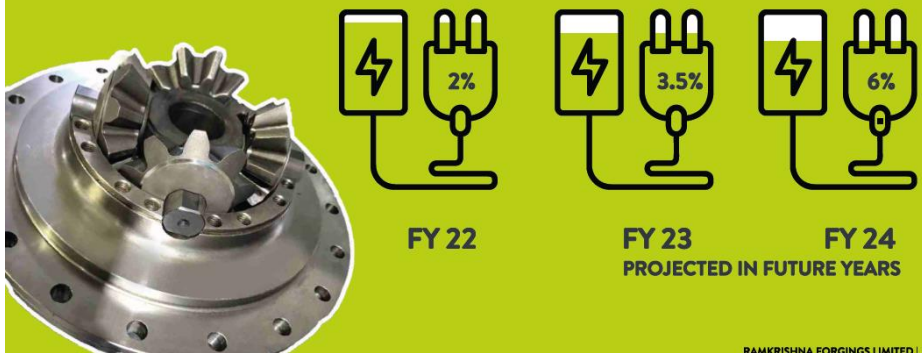
Source: Company, ICICI Direct Research

Dependence on auto has declined over the last five years. The trend is expected to continue, going forward, as well

Exhibit 2: Moving up EV value chain

PRESENCE IN EV

IN FY21-22, 2% OF TOTAL TURNOVER COMES FROM EV SEGMENT



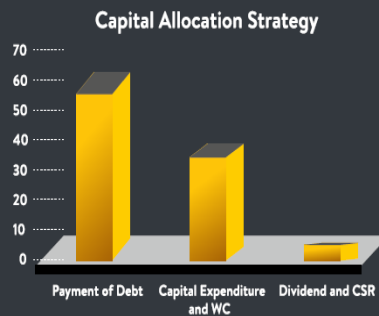
Source: Company, ICICI Direct Research

RFL is gearing up for technological transformation in auto space with EV segment sales seen at ~6% of topline in coming years

Exhibit 3: Well-crafted capital allocation strategy

CAPITAL ALLOCATION STRATEGY

- 50%-60% of the cash profit will be utilized for payment of Debt.
- 30%-40% of the cash profit will be utilized for Capital Expenditure and Working Capital requirements.
- 5% of the cash profit will be utilized for Dividend and CSR.

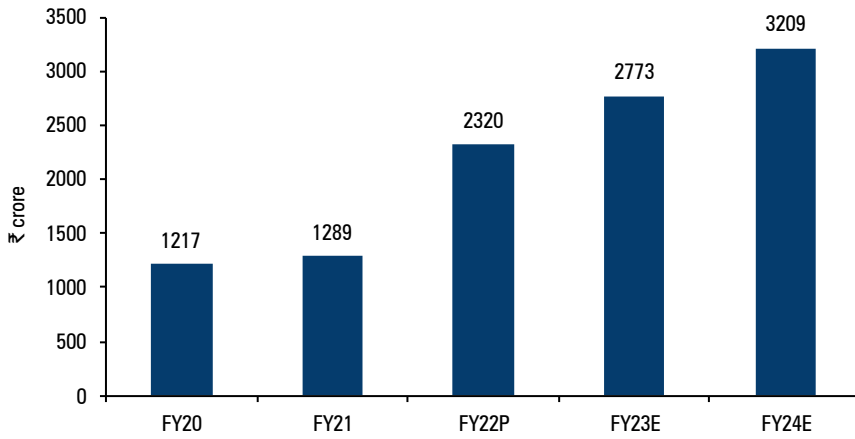


Source: Company, ICICI Direct Research

Sharpened focus to deleverage b/s with robust allocation towards debt reduction

## Key Financial charts

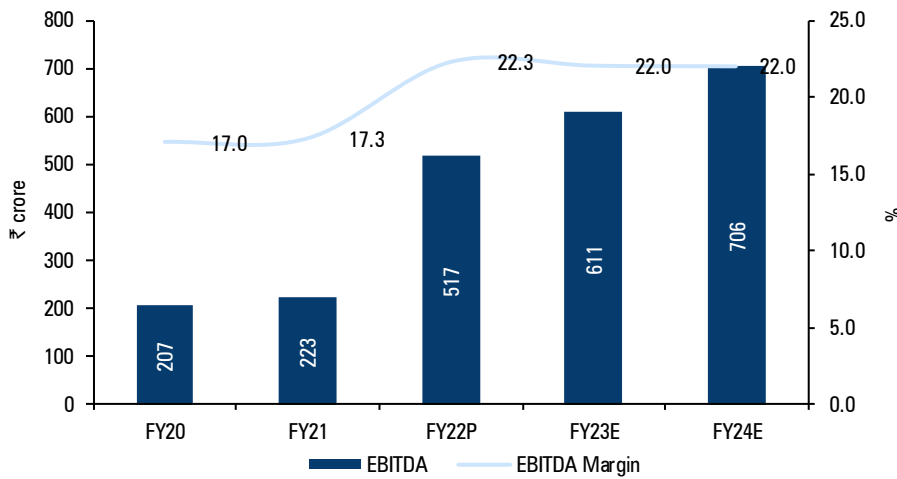
Exhibit 4: Topline trend



Net sales are expected to grow at 17.6% CAGR over FY22-24E to ₹ 3,209 crore as of FY24E

Source: Company, ICICI Direct Research

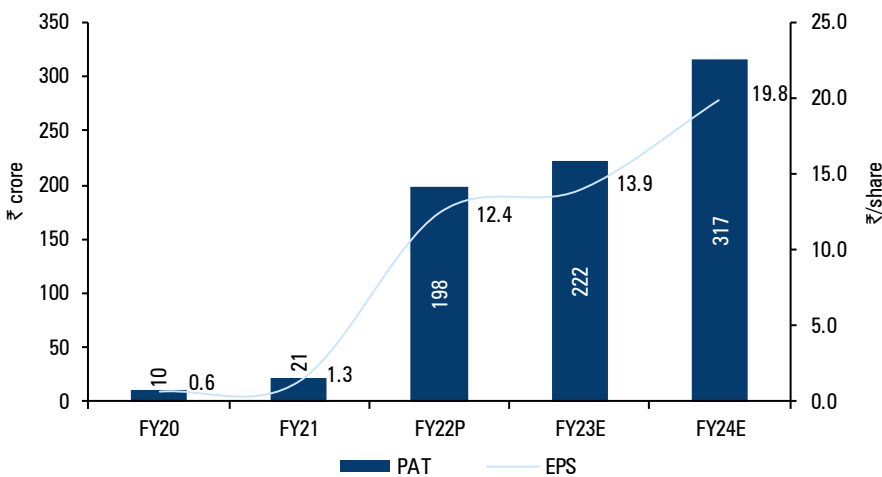
Exhibit 5: EBITDA & EBITDA margins trend



EBITDA is expected to grow at 16.9% CAGR over FY22-24E to ₹ 706 crore in FY24E with margins reaching 22% as at FY24E

Source: Company, ICICI Direct Research

Exhibit 6: PAT & EPS trend



PAT is expected to rise to ₹ 317 crore in FY24E with corresponding EPS seen at ₹ 19.8 in FY24E

Source: Company, ICICI Direct Research

## Financial Summary (Consolidated)

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E	
Net Sales	1288.9	2320.2	2772.5	3209.1	
Other Operating Income	0.0	0.0	0.0	0.0	
<b>Total Operating Income</b>	<b>1,288.9</b>	<b>2,320.2</b>	<b>2,772.5</b>	<b>3,209.1</b>	
Growth (%)	6.0	80.0	19.5	15.7	
Raw Material Expenses	643.5	1,160.7	1,441.7	1,652.7	
Employee Expenses	96.0	127.2	141.4	160.5	
Other Operating Expense	326.7	515.3	578.3	689.9	
Total Operating Expenditure	1,066.2	1,803.3	2,161.4	2,503.1	
<b>EBITDA</b>	<b>222.7</b>	<b>517.0</b>	<b>611.1</b>	<b>706.0</b>	
Growth (%)	-26.9	132.1	18.2	15.5	
Depreciation	116.7	169.4	191.9	199.4	
Interest	79.9	95.9	105.8	89.0	
Other Income	5.6	1.5	3.6	4.8	
<b>PBT</b>	<b>31.8</b>	<b>253.2</b>	<b>316.9</b>	<b>422.4</b>	
Exceptional Item	0.0	0.0	0.0	0.0	
Total Tax	11.1	55.2	95.1	105.6	
<b>PAT</b>	<b>20.7</b>	<b>198.0</b>	<b>221.8</b>	<b>316.8</b>	
Growth (%)	-80.7	858.7	12.0	42.8	
<b>EPS (₹)</b>	<b>1.3</b>	<b>12.4</b>	<b>13.9</b>	<b>19.8</b>	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E	
Profit after Tax	20.7	198.0	221.8	316.8	
Add: Depreciation	116.7	169.4	191.9	199.4	
(Inc)/dec in Current Assets	-293.3	-613.7	-307.4	-311.7	
Inc/(dec) in CL and Provisions	222.8	174.2	127.8	127.4	
Others	79.9	115.9	105.8	89.0	
<b>CF from operating activities</b>	<b>146.8</b>	<b>43.7</b>	<b>339.9</b>	<b>420.9</b>	
(Inc)/dec in Investments	0.1	-55.4	50.0	0.0	
(Inc)/dec in Fixed Assets	-239.2	-255.7	-75.0	-75.0	
Others	11.6	-27.2	0.0	0.0	
<b>CF from investing activities</b>	<b>-227.5</b>	<b>-338.3</b>	<b>-25.0</b>	<b>-75.0</b>	
Issue/(Buy back) of Equity	-0.7	0.1	0.0	0.0	
Inc/(dec) in loan funds	239.9	382.5	-200.0	-225.0	
Interest & Dividend paid	-79.9	-103.9	-113.8	-105.0	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	-13.3	-14.2	0.0	0.0	
<b>CF from financing activities</b>	<b>146.0</b>	<b>264.4</b>	<b>-313.8</b>	<b>-330.0</b>	
<b>Net Cash flow</b>	<b>65.3</b>	<b>-30.2</b>	<b>1.1</b>	<b>15.9</b>	
Opening Cash	3.3	68.5	38.4	39.4	
<b>Closing Cash</b>	<b>68.5</b>	<b>38.4</b>	<b>39.4</b>	<b>55.4</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E	
<b>Liabilities</b>					
Equity Capital	31.9	32.0	32.0	32.0	
Reserve and Surplus	850.7	1,046.4	1,260.2	1,561.1	
<b>Total Shareholders funds</b>	<b>882.6</b>	<b>1,078.4</b>	<b>1,292.2</b>	<b>1,593.1</b>	
Total Debt	1,228.6	1,611.1	1,411.1	1,186.1	
Deferred Tax Liability	65.4	74.4	74.4	74.4	
Minority Interest / Others	20.8	38.5	38.5	38.5	
<b>Total Liabilities</b>	<b>2197.5</b>	<b>2,802.4</b>	<b>2,816.2</b>	<b>2,892.1</b>	
<b>Assets</b>					
Gross Block	1,739.9	2,141.7	2,296.2	2,396.2	
Less: Acc Depreciation	505.4	674.8	866.7	1,066.1	
Net Block	1,234.5	1,466.9	1,429.5	1,330.0	
Capital WIP	275.6	129.5	50.0	25.0	
<b>Total Fixed Assets</b>	<b>1,510.1</b>	<b>1,596.4</b>	<b>1,479.5</b>	<b>1,355.0</b>	
Investments	6.0	61.4	11.4	11.4	
Inventory	432.2	709.2	835.6	967.1	
Debtors	568.8	890.6	1,063.4	1,230.9	
Loans and Advances	15.7	30.8	36.8	42.6	
Other Current Assets	82.6	82.5	84.8	91.7	
<b>Cash</b>	<b>68.5</b>	<b>38.4</b>	<b>39.4</b>	<b>55.4</b>	
Total Current Assets	1,167.9	1,751.5	2,060.0	2,387.6	
Current Liabilities	483.3	639.9	759.6	879.2	
Provisions	5.8	6.5	7.7	8.9	
Current Liabilities & Prov	507.0	681.3	809.0	936.4	
<b>Net Current Assets</b>	<b>660.9</b>	<b>1,070.2</b>	<b>1,251.0</b>	<b>1,451.3</b>	
Others Assets	20.5	74.4	74.4	74.4	
<b>Application of Funds</b>	<b>2,197.5</b>	<b>2,802.4</b>	<b>2,816.2</b>	<b>2,892.1</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY21	FY22P	FY23E	FY24E	
<b>Per share data (₹)</b>					
EPS	1.3	12.4	13.9	19.8	
Cash EPS	8.6	23.0	25.9	32.3	
BV	55.3	67.4	80.8	99.6	
DPS	0.0	0.5	0.5	1.0	
Cash Per Share	4.3	2.4	2.5	3.5	
<b>Operating Ratios (%)</b>					
EBITDA Margin	17.3	22.3	22.0	22.0	
PAT Margin	1.6	8.5	8.0	9.9	
Inventory days	122.4	111.6	110.0	110.0	
Debtor days	161.1	140.1	140.0	140.0	
Creditor days	136.9	100.7	100.0	100.0	
<b>Return Ratios (%)</b>					
RoE	2.3	18.4	17.2	19.9	
RoCE	4.8	12.4	14.9	17.5	
RoIC	5.7	13.5	15.4	18.0	
<b>Valuation Ratios (x)</b>					
P/E	143.0	14.9	13.3	9.3	
EV / EBITDA	18.5	8.7	7.1	5.8	
EV / Net Sales	3.2	1.9	1.6	1.3	
Market Cap / Sales	2.3	1.3	1.1	0.9	
Price to Book Value	3.3	2.7	2.3	1.9	
<b>Solvency Ratios</b>					
Debt/EBITDA	5.5	3.1	2.3	1.7	
Debt / Equity	1.4	1.5	1.1	0.7	
Current Ratio	2.2	2.7	2.6	2.6	
<b>Quick Ratio</b>	<b>1.4</b>	<b>1.6</b>	<b>1.5</b>	<b>1.5</b>	

Source: Company, ICICI Direct Research

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Sell: <-15%



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