

CMP: ₹ 225

Target: ₹ 280 (25%)

Target Period: 12 months

October 28, 2022

BUY

## New capex on anvil amid strong demand scenario...

**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.

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

**Q2FY23:** RKF reported a robust performance in Q2FY23.

- Consolidated sales rose 18% QoQ to ₹ 824 crore, with EBITDA at ₹ 175 crore
- Sales volume in Q2FY23 was at 32,180 tonnes, up 6% QoQ with corresponding EBITDA/tonne at ₹ 54,490/tonne (all-time high)
- Consolidated PAT in Q2FY23 was up 31% QoQ to ₹ 67 crore
- CFO generation remained strong in H1FY23 at ₹ 360 crore

**What should investors do?** RKF's stock price has grown at ~10% CAGR in the past five years from ₹ 141 in October 2017, vastly outperforming Nifty Auto Index.

- We retain **BUY** rating amid strong growth prospects and new order wins. RKF has announced further leg of growth capex with total potential turnover now pegged at ~₹ 5,000 crore with intent to be near net debt free by FY25E

**Target Price and Valuation:** Rolling over our valuations, we now value RKF at ₹ 280 i.e. 14x P/E on FY24E EPS of ₹ 20 amid 20%+ sales, PAT CAGR in FY22-24E

### Key triggers for future price performance:

- With new capacity addition under execution and strong demand across geographies, we build 23.5% sales CAGR for FY22-24E
- With stabilisation of raw material costs, healthy exports order wins and internal efficiencies at bay we see margins stabilising at ~20-22% mark
- Strong endeavour to grow revenues at 20% CAGR over FY22-25E
- 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



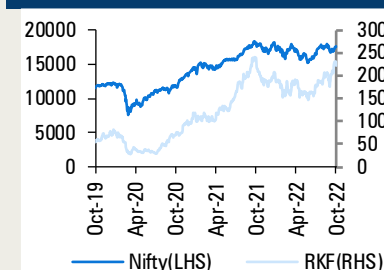
### Particulars

Particulars	₹ crore
Market capitalisation	3,598
Total Debt (FY22)	1,591
Cash & Investment (FY22)	93
EV (₹ crore)	5,096
52 week H/L (₹)	240 / 146
Equity capital (₹ crore)	32.0
Face value (₹)	2.0

### Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	46.0	46.2	46.2	46.3
FII	14.5	13.5	13.6	14.5
DII	6.9	5.4	4.9	4.5
Other	32.5	34.9	35.3	34.7

### Price Chart



### Recent Event & Key risks

- Reports healthy Q2FY23 results
- Key Risk:** (i) Total ~40% topline exposure to European & American economy amid uncertain global macro cues, (ii) Slower than expected sales growth prospects

### Research Analyst

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	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%	3,119.9	3,541.0	23.5%
EBITDA	383.9	207.3	222.7	517.0	26.0%	639.6	761.3	21.4%
EBITDA Margins (%)	19.9	17.0	17.3	22.3		20.5	21.5	
Net Profit	120.1	9.7	20.7	198.0	78.3%	232.6	329.5	29.0%
EPS (₹)	7.4	0.6	1.3	12.4		14.1	20.0	
P/E	30.6	376.7	174.0	18.2		15.9	11.2	
RoNW (%)	13.8	1.1	2.3	18.4		16.7	19.3	
RoCE (%)	14.1	4.5	4.8	12.5		14.7	17.3	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q2FY23 Results:

- Ramkrishna Forging reported a healthy performance in Q2FY23. On a consolidated basis, net sales for the quarter were at ₹ 824 crore, up 18% QoQ. Total tonnage come in at 32,180 tonnes up 6% QoQ
- EBITDA for Q2FY23 was at ₹ 175 crore with corresponding EBITDA margins at 21.3%, down 10 bps QoQ primarily tracking higher other expenses (ocean freight due to rise in exports). EBITDA/tonne came in all-time high at ~₹ 54500/tonne in Q2FY23 vs. ~₹ 49000/tonne in Q1FY23
- PAT for the quarter was at ₹ 67 crore, up 31% QoQ
- CFO generation remained strong in H1FY23 at ₹ 360 crore with utilisation of same towards capex (~₹ 150 crore) and gross debt reduction

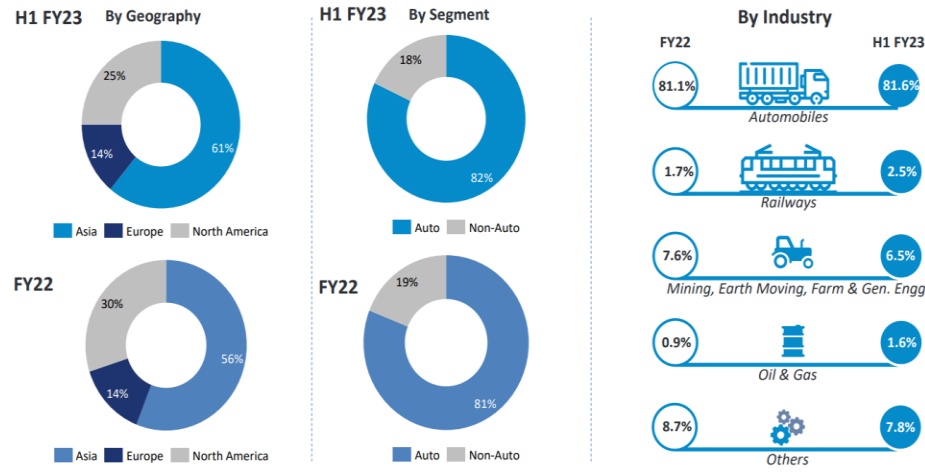
### Q2FY23 Earnings Conference Call highlights:

- During H1FY23, the company won five contracts worth ₹ 408 crore vs. 18 contracts won in FY22 worth ₹ 984 crore. The management guided for strong H2FY23 amid strong order wins across geographies
- The management guided about a strong recovery in domestic as well as global OEM volumes post Covid-19 led disruptions, strong OEM production targets & China+1 strategy benefiting the company
- Export remained strong on back of past order wins now converting to revenue & strong demand from North America. The management said orders from Europe remained strong and have not witnessed any cancellation or deferrals so far
- The management did not witness a fall in commodity prices. Hence, it saw a slight dip in gross margins. However, RKF remains confident about maintaining 22% margin mark and steadily improving it to ~23-24%
- RKF remained focus on deleveraging b/s and has reduced ~₹ 110 crore of net debt with further target of reducing by ₹ 100 crore net debt during H2FY23. Overall, it is focused on being near net debt free by FY25E
- Power & fuel expense was lower due to better utilisation levels whereas other expenses were high primarily tracking higher export tonnage growth
- The management expects to close ACIL acquisition this fiscal amounting to ~₹ 110 crore wherein ACIL has machining capacities in 2-W & tractor component space and remains confident over new customer wins. Further, details with respect to revenue would be disclosed in due course of time
- Contribution from non-auto space is expected to increase from current ~19% of sales levels to 25% of sales in the next three to four years. Further to diversify from M&HCV space RKF added North American off highway & tractor OEMs as clients. Revenue from M&HCV (including Class 8 trucks) was at 40% with balance 60% by <9 ton trucks (i.e. LCV, Class 5 trucks, etc)
- During FY23-24E, the company is planning to add ~56,000 tonne cold & warm forging press line, which is technologically advanced and different from its existing lines. Capex envisaged for this incremental capacity is pegged at ~₹ 300-320 crore, with the company already incurring ~₹ 153 crore on this in H1FY23. Further ~50% of this capacity would be ready for use by March 2023 & remaining by September 2023
- The management informed about a spike in energy cost in European region being beneficial for the company as some manufacturing could potentially shift from EU to Indian region
- Realisation per ton was better due to higher share of exports and machining

*Order book from railways was at ~₹ 100 crore and management plans to double it in FY24*

## Key takeaways from recent presentation

### Exhibit 1: Revenue mix (end user wise)



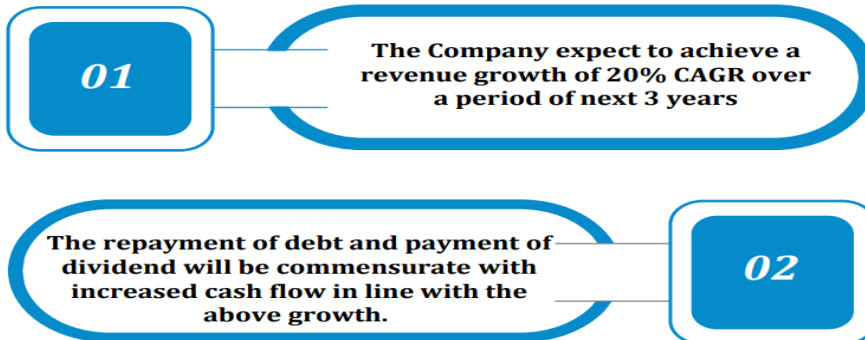
Source: Company, ICICI Direct Research

The company is gradually diversifying its revenue stream

### Exhibit 2: Debt repayment status

Particulars	₹ in LAKHS	
	Mar'22	Sep'22
Long Term Debt (incl. current Maturities of Long Term Debt)	99,185	93,536
Short Term Debt	58,554	38,389
<b>Total Debt</b>	<b>1,57,740</b>	<b>1,31,925</b>

The company desires ~20% CAGR for topline in coming three years amid strong debt reduction intent and healthy cash flow generation.



Source: Company, ICICI Direct Research

### Exhibit 3: Future growth plans

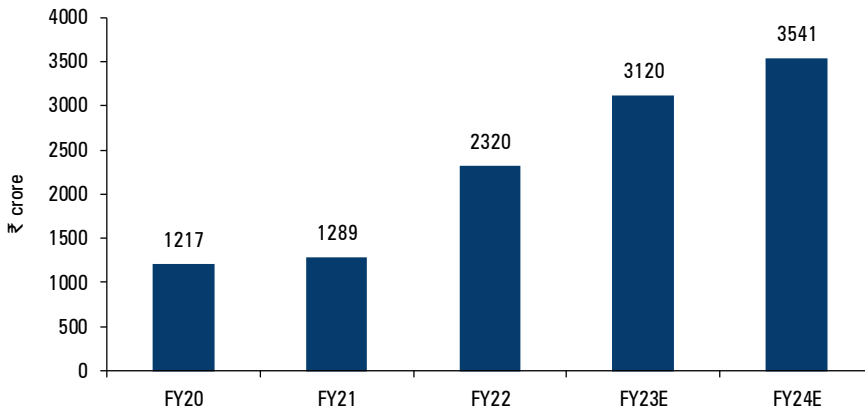
- We are adding the following Capacities - Enomoto 630T Press  
RA Shaft -Press line  
6000 T Press line  
Upsetter
- Will be ready by the above new Capacities by the Financial year 2023-24. With this capacities, we will be able to achieve a topline of Rs 5000 Crores (at current commodity price)
- For above CAPEX, we have already incurred Rs 153 Crores.
- Capacity sufficient for the next phase of growth.
- Capacity ramp-up along with operating leverage will result in faster improvement in profitability.

RKF has announced capex plans amid new order wins high existing capacity utilisation levels with potential revenue with expanded capacities now pegged at ~₹ 5000 crore

Source: Company, ICICI Direct Research

## Key Financial charts

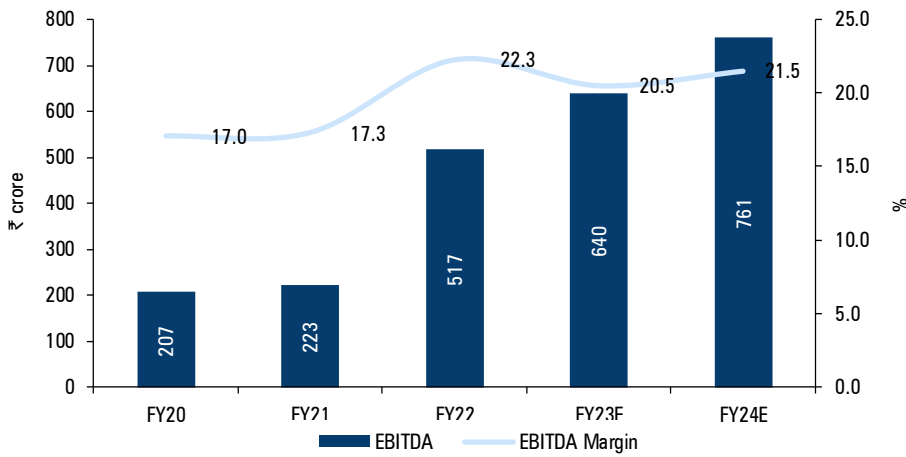
Exhibit 4: Topline trend



Net sales are expected to grow at 23.5% CAGR over FY22-24E at ₹ 3,541 crore as of FY24E

Source: Company, ICICI Direct Research

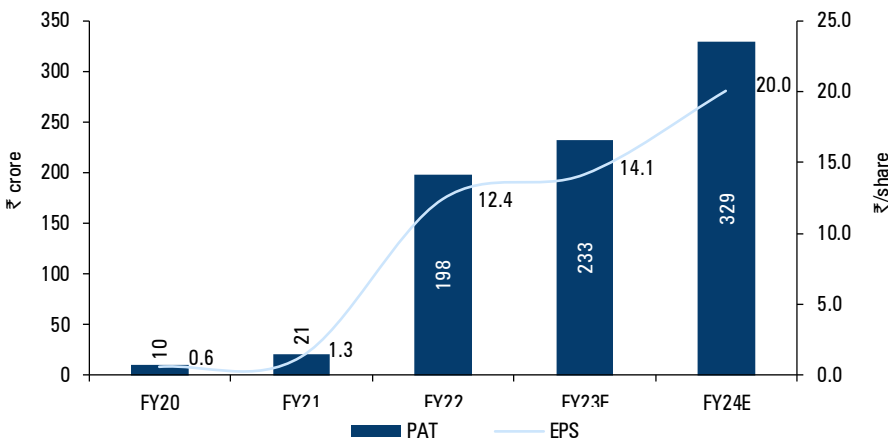
Exhibit 5: EBITDA & EBITDA margins trend



EBITDA is expected to grow at 21.4% CAGR over FY22-24E to ₹ 761 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 ₹ 329 crore in FY24E with corresponding EPS seen at ₹ 20 in FY24E

Source: Company, ICICI Direct Research

## Financial Summary (Consolidated)

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Net Sales	1288.9	2320.2	3119.9	3541.0	
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>3,119.9</b>	<b>3,541.0</b>	
Growth (%)	6.0	80.0	34.5	13.5	
Raw Material Expenses	643.5	1,160.7	1,591.1	1,788.2	
Employee Expenses	96.0	127.2	156.0	177.1	
Other Operating Expense	326.7	515.3	733.2	814.4	
Total Operating Expenditure	1,066.2	1,803.3	2,480.3	2,779.7	
<b>EBITDA</b>	<b>222.7</b>	<b>517.0</b>	<b>639.6</b>	<b>761.3</b>	
Growth (%)	-26.9	132.1	23.7	19.0	
Depreciation	116.7	169.4	203.1	228.0	
Interest	79.9	95.9	117.3	101.3	
Other Income	5.6	1.5	3.8	7.3	
<b>PBT</b>	<b>31.8</b>	<b>253.2</b>	<b>323.0</b>	<b>439.3</b>	
Exceptional Item	0.0	0.0	0.0	0.0	
Total Tax	11.1	55.2	90.5	109.8	
<b>PAT</b>	<b>20.7</b>	<b>198.0</b>	<b>232.6</b>	<b>329.5</b>	
Growth (%)	-80.7	858.7	17.5	41.6	
<b>EPS (₹)</b>	<b>1.3</b>	<b>12.4</b>	<b>14.1</b>	<b>20.0</b>	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit after Tax	20.7	198.0	232.6	329.5	
Add: Depreciation	116.7	169.4	203.1	228.0	
(Inc)/dec in Current Assets	-293.3	-613.7	-346.9	-271.0	
Inc/(dec) in CL and Provisions	222.8	194.2	208.9	122.9	
Others	79.9	115.9	117.3	101.3	
<b>CF from operating activities</b>	<b>146.8</b>	<b>63.7</b>	<b>414.9</b>	<b>510.6</b>	
(Inc)/dec in Investments	0.1	-55.4	50.0	0.0	
(Inc)/dec in Fixed Assets	-239.2	-255.7	-300.0	-150.0	
Others	11.6	-27.2	0.0	0.0	
<b>CF from investing activities</b>	<b>-227.5</b>	<b>-338.3</b>	<b>-250.0</b>	<b>-150.0</b>	
Issue/(Buy back) of Equity	-0.7	0.1	0.9	0.0	
Inc/(dec) in loan funds	239.9	362.5	-125.0	-200.0	
Interest & Dividend paid	-79.9	-103.9	-129.6	-117.7	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	-13.3	-14.2	93.4	0.0	
<b>CF from financing activities</b>	<b>146.0</b>	<b>244.4</b>	<b>-160.3</b>	<b>-317.7</b>	
<b>Net Cash flow</b>	<b>65.3</b>	<b>-30.2</b>	<b>4.6</b>	<b>42.9</b>	
Opening Cash	3.3	68.5	38.4	42.9	
<b>Closing Cash</b>	<b>68.5</b>	<b>38.4</b>	<b>42.9</b>	<b>85.8</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
<b>Liabilities</b>					
Equity Capital	31.9	32.0	32.9	32.9	
Reserve and Surplus	850.7	1,046.4	1,360.0	1,673.0	
<b>Total Shareholders funds</b>	<b>882.6</b>	<b>1,078.4</b>	<b>1,392.9</b>	<b>1,705.9</b>	
Total Debt	1,228.6	1,591.1	1,466.1	1,266.1	
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>2,782.4</b>	<b>2,971.9</b>	<b>3,084.9</b>	
<b>Assets</b>					
Gross Block	1,739.9	2,141.7	2,371.2	2,696.2	
Less: Acc Depreciation	505.4	674.8	877.8	1,105.9	
Net Block	1,234.5	1,466.9	1,493.3	1,590.3	
Capital WIP	275.6	129.5	200.0	25.0	
<b>Total Fixed Assets</b>	<b>1,510.1</b>	<b>1,596.4</b>	<b>1,693.3</b>	<b>1,615.3</b>	
Investments	6.0	61.4	11.4	11.4	
Inventory	432.2	709.2	854.8	970.1	
Debtors	568.8	890.6	1,068.5	1,212.7	
Loans and Advances	15.7	30.8	41.4	47.0	
Other Current Assets	82.6	82.5	95.4	101.2	
<b>Cash</b>	<b>68.5</b>	<b>38.4</b>	<b>42.9</b>	<b>85.8</b>	
Total Current Assets	1,167.9	1,751.5	2,103.0	2,416.8	
Current Liabilities	483.3	659.9	854.8	970.1	
Provisions	5.8	6.5	8.4	9.5	
Current Liabilities & Prov	507.0	701.3	910.1	1,033.0	
<b>Net Current Assets</b>	<b>660.9</b>	<b>1,050.2</b>	<b>1,192.9</b>	<b>1,383.9</b>	
Others Assets	20.5	74.4	74.4	74.4	
<b>Application of Funds</b>	<b>2,197.5</b>	<b>2,782.4</b>	<b>2,971.9</b>	<b>3,084.9</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	
<b>Per share data (₹)</b>					
EPS	1.3	12.4	14.1	20.0	
Cash EPS	8.6	23.0	26.5	33.9	
BV	55.3	67.4	84.7	103.7	
DPS	0.0	0.5	0.8	1.0	
Cash Per Share	4.3	2.4	2.6	5.2	
<b>Operating Ratios (%)</b>					
EBITDA Margin	17.3	22.3	20.5	21.5	
PAT Margin	1.6	8.5	7.5	9.3	
Inventory days	122.4	111.6	100.0	100.0	
Debtor days	161.1	140.1	125.0	125.0	
Creditor days	136.9	103.8	100.0	100.0	
<b>Return Ratios (%)</b>					
RoE	2.3	18.4	16.7	19.3	
RoCE	4.8	12.5	14.7	17.3	
RoIC	5.7	13.6	16.0	18.0	
<b>Valuation Ratios (x)</b>					
P/E	174.0	18.2	15.9	11.2	
EV / EBITDA	21.4	9.9	7.8	6.3	
EV / Net Sales	3.7	2.2	1.6	1.3	
Market Cap / Sales	2.8	1.6	1.2	1.0	
Price to Book Value	4.1	3.3	2.7	2.2	
<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	2.6	2.4	2.4	
<b>Quick Ratio</b>	<b>1.4</b>	<b>1.5</b>	<b>1.4</b>	<b>1.4</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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