

21 July 2022

## Ramkrishna Forgings

*Healthy order book, strong export performance; maintaining a Buy*

**RK Forgings continued to grow strong during the quarter. Growth was driven by volumes and value addition. Geographically, domestic sales and exports continued to outperform the industry and management expects similar momentum to prevail in the near term. The order book is still robust and the company continued to win orders from North America and Europe. The outlook for commercial vehicles is strong; accordingly, we maintain our Buy rating with a TP of Rs287 (14x FY24e)**

**Strong overall performance.** Q1 FY23 revenue grew 56% y/y, but declined sequentially 5% to Rs6.5bn. Domestic revenue grew 110% y/y to Rs4bn, while exports grew 13% y/y to Rs2.5bn. The company won orders of Rs3.9bn (four contracts) from America/Europe with an estimated execution period of 3/5 years. For EVs, it is aiming at business of ~3% of FY23 revenue, and 6% by FY24. For Railways, it expects revenues to double in FY23 to ~Rs1bn on recent tendering.

Domestic demand for CVs continues to grow strong. Volumes continue to be robust across M&HCVs and LCVs and has picked up consistently m/m, fuelled by demand in sectors like mining and cement almost back to pre-Covid levels. Also, it is diversifying into PVs in the near term, which augurs well for long-term growth. Hence, we expect 24% growth in FY23, and 12% in FY24.

**Margin pressure to ease.** During the quarter, the EBITDA margin was unchanged at 22% sequentially. We expect margins to improve in subsequent quarters as capacities are ramped up. Also, the company continues to have a strong order book, a better product-mix and rising content per vehicle. Accordingly, we expect margins of 23.7% in FY23, and 24.4% in FY24.

**Valuation.** We expect 18% revenue CAGR over FY22-24, and 26% growth in earnings, leading to Rs20.5 EPS. We maintain our Buy rating, with an unchanged TP of Rs.287 (14x FY24e).

**Risks.** More-than-expected revenue in FY24 and FY25.

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	11,118	12,884	22,854	28,369	31,893
Net profit (Rs m)	96	280	2,065	2,634	3,276
EPS (Rs)	0.6	1.7	12.9	16.5	20.5
PE (x)	293.7	101.0	13.4	10.5	8.5
EV / EBITDA (x)	18.2	16.5	8.1	6.1	4.8
PBV (x)	3.2	3.1	2.5	2.1	1.8
RoE (%)	1.1	3.2	20.8	22.1	22.8
RoCE (%)	3.3	4.1	11.8	12.3	14.6
Dividend yield (%)	0.2	-	0.2	1.1	1.4
Net debt / equity (x)	1.1	1.2	1.3	1.0	0.6

Source: Company, Anand Rathi Research

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Rating: Buy

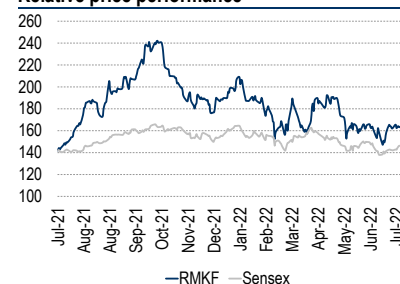
Target Price: Rs.287

Share Price: Rs.173

Key data	RMKF IN / RKFO.BO
52-week high / low	Rs.252 / 146
Sensex / Nifty	55682 / 16605
3-m average volume	\$0.8m
Market cap	Rs.28bn / \$346.4m
Shares outstanding	160m

Shareholding pattern (%)	Jun'22	Mar'22	Dec'21
Promoters	46.2	46.2	46.0
- of which, Pledged	2.8	2.9	2.1
Free float	53.8	53.8	54.0
- Foreign institutions	13.6	13.5	14.5
- Domestic institutions	4.9	5.4	6.9
- Public	35.3	34.9	32.5

### Relative price performance



Source: Bloomberg

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Research Analyst

**Akshay Karwa**  
Research Associate

## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (Rs m)**

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Net revenues	11,118	12,884	22,854	28,369	31,893
Growth (%)	-38.5	15.9	77.4	24.1	12.4
Raw material cost	5,067	6,455	10,339	12,993	14,384
Employee and other exp.	4,014	4,130	7,257	8,652	9,727
<b>EBITDA</b>	<b>2,037</b>	<b>2,299</b>	<b>5,257</b>	<b>6,723</b>	<b>7,782</b>
EBITDA margins (%)	18.3	17.8	23.0	23.7	24.4
- Depreciation	1,202	1,163	1,691	1,886	2,014
Other income	60	46	29	45	28
Interest expenses	752	768	933	1,009	978
Extraordinary items	-	-	-	-	-
PBT	144	415	2,662	3,874	4,818
Effective tax rates (%)	33	33	22	32	32
+ Associates / (Minorities)	-	-	-	-	-
Net income	96	280	2,065	2,634	3,276
Adjusted income	96	280	2,065	2,634	3,276
WANS	163	160	160	160	160
FDEPS (Rs / sh)	0.6	1.7	12.9	16.5	20.5

**Fig 2 – Balance sheet (Rs m)**

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	326	319	320	320	320
Net worth	8,764	8,900	10,941	12,919	15,802
Debt	9,511	11,126	15,774	13,474	10,974
Minority interest	-	-	-	-	-
DTL / (Assets)	594	659	793	793	793
<b>Capital employed</b>	<b>18,870</b>	<b>20,685</b>	<b>27,507</b>	<b>27,186</b>	<b>27,569</b>
Net tangible assets	11,573	12,218	14,339	14,475	13,461
Net intangible assets	8	8	11	11	11
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	2,164	2,720	1,251	480	480
Investments (strategic)	-	-	-	-	-
Investments (financial)	193	194	744	194	194
Current assets (excl. cash)	7,814	10,984	17,692	18,533	20,454
Cash	23	668	324	294	768
Current liabilities	2,906	6,108	6,854	6,802	7,799
Working capital	4,908	4,876	10,838	11,732	12,655
<b>Capital deployed</b>	<b>18,870</b>	<b>20,685</b>	<b>27,507</b>	<b>27,186</b>	<b>27,569</b>

**Fig 3 – Cash-flow statement (Rs m)**

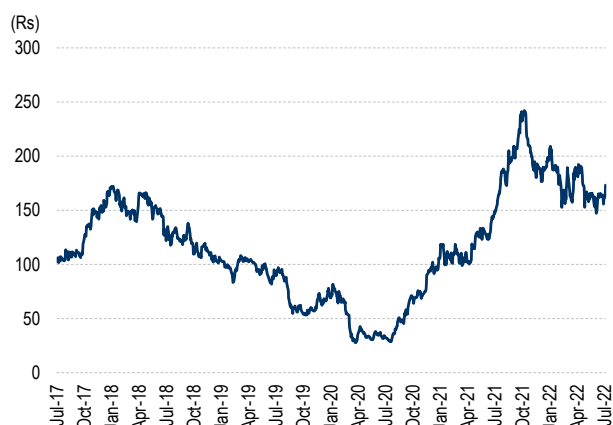
Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
PBT	144	415	2,662	3,874	4,818
+ Non-cash items	1,202	1,163	1,691	1,886	2,014
Oper. prof. before WC	1,346	1,578	4,352	5,759	6,832
- Incr. / (decr.) in WC	-631	-31	5,962	893	924
Others incl. taxes	24	73	482	1,240	1,542
Operating cash-flow	1,953	1,536	-2,092	3,626	4,367
- Capex (tang. + intang.)	2,588	2,364	2,346	1,250	1,000
Free cash-flow	-635	-827	-4,438	2,376	3,367
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	59	-	48	316	393
+ Equity raised	-	-400	-	-	-
+ Debt raised	696	1,615	4,648	-2,300	-2,500
- Fin investments	-	1	550	-550	-
- Misc. (CFI + CFF)	3	(258)	(44)	340	0
Net cash-flow	-1	645	-344	-29	473

Source: Company, Anand Rathi Research

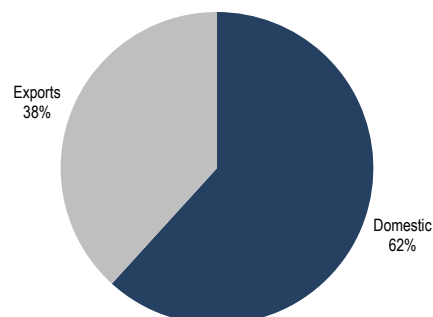
**Fig 4 – Ratio analysis**

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	293.7	101.0	13.4	10.5	8.5
EV / EBITDA (x)	18.2	16.5	8.1	6.1	4.8
EV / Sales (x)	3.3	2.9	1.9	1.4	1.2
P/B (x)	3.2	3.1	2.5	2.1	1.8
RoE (%)	1.1	3.2	20.8	22.1	22.8
RoCE (%) - after tax	3.3	4.1	11.8	12.3	14.6
RoIC (%) - after tax	3.3	4.2	12.0	12.5	14.9
DPS (Rs / sh)	0.4	-	0.3	2.0	2.5
Dividend yield (%)	0.2	-	0.2	1.1	1.4
Dividend payout (%) - incl. DDT	61.4	-	2.3	12.0	12.0
Net debt / equity (x)	1.1	1.2	1.3	1.0	0.6
Receivables (days)	99	159	140	120	120
Inventory (days)	257	240	241	200	200
Payables (days)	149	243	203	162	171
CFO : PAT %	2,031.3	549.6	-101.3	137.7	133.3

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**


Source: Bloomberg

**Fig 6 – Domestic vs. Exports (Q1 FY23)**


Source: Company

## Result highlights

Fig 7– Quarterly performance

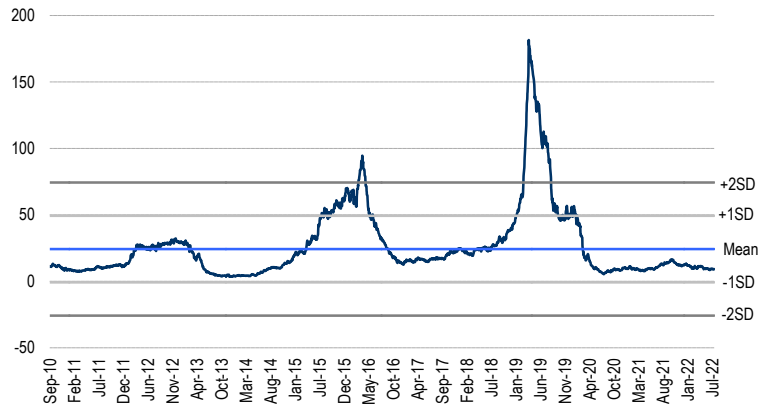
(Rs m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23
<b>Net sales</b>	<b>1,158</b>	<b>2,525</b>	<b>4,022</b>	<b>5,179</b>	<b>4,171</b>	<b>5,789</b>	<b>6,061</b>	<b>6,832</b>	<b>6,507</b>
Y/Y (%)	(69.5)	(3.1)	59.4	128.7	260.1	129.3	50.7	31.9	56.0
Q/Q (%)	(48.8)	117.9	59.3	28.8	(19.5)	38.8	4.7	12.7	(4.8)
<b>EXPENDITURE</b>									
(Incr.) / decr. in stock-in-trade	121	78	(32)	(93)	(998)	(623)	(252)	101	(704)
<b>Materials</b>	<b>430</b>	<b>1,151</b>	<b>2,068</b>	<b>2,730</b>	<b>2,619</b>	<b>3,235</b>	<b>3,055</b>	<b>3,203</b>	<b>3,634</b>
% of sales	48	49	51	50.9	38.9	45.1	46.2	48.4	45.0
Y/Y (%)	(70.8)	4.4	84.1	194.3	194.0	112.5	37.6	25.3	80.8
Q/Q (%)	(38.5)	122.9	65.7	29.5	(38.5)	61.1	7.3	17.9	(11.3)
<b>Gross margins (%)</b>	<b>52</b>	<b>51</b>	<b>49</b>	<b>49.1</b>	<b>61.1</b>	<b>54.9</b>	<b>53.8</b>	<b>51.6</b>	<b>55.0</b>
<b>Staff cost</b>	<b>212</b>	<b>217</b>	<b>237</b>	<b>238</b>	<b>315</b>	<b>276</b>	<b>290</b>	<b>322</b>	<b>356</b>
% of sales	18.3	8.6	5.9	4.6	7.6	4.8	4.8	4.7	5.5
Y/Y (%)	(12.1)	(14.7)	(0.7)	14.2	48.8	26.9	22.4	35.5	13.0
Q/Q (%)	1.6	2.7	8.8	0.6	32.4	(12.4)	4.9	11.3	10.5
<b>Power and Fuel</b>	<b>101</b>	<b>203</b>	<b>282</b>	<b>349</b>	<b>337</b>	<b>378</b>	<b>405</b>	<b>405</b>	<b>458</b>
% of sales	8.7	8.1	7.0	6.7	8.1	6.5	6.7	5.9	7.0
Y/Y (%)	(68.8)	(11.8)	34.3	68.0	233.8	86.0	43.5	15.9	36.2
Q/Q (%)	(51.5)	101.6	38.9	23.7	(3.6)	12.3	7.1	(0.1)	13.3
<b>Other expenditure</b>	<b>310</b>	<b>419</b>	<b>684</b>	<b>878</b>	<b>946</b>	<b>1,132</b>	<b>1,161</b>	<b>1,291</b>	<b>1,326</b>
% of sales	26.7	16.6	17.0	17.0	22.7	19.6	19.2	18.9	20.4
Y/Y (%)	(50.0)	(11.1)	39.0	61.0	205.5	170.1	69.7	47.1	40.2
Q/Q (%)	(43.2)	35.4	63.3	28.3	7.7	19.7	2.6	11.2	2.7
<b>Expenses</b>	<b>1,173</b>	<b>2,069</b>	<b>3,240</b>	<b>4,102</b>	<b>3,218</b>	<b>4,398</b>	<b>4,658</b>	<b>5,322</b>	<b>5,071</b>
<b>EBITDA</b>	<b>(15)</b>	<b>456</b>	<b>782</b>	<b>1,077</b>	<b>953</b>	<b>1,392</b>	<b>1,402</b>	<b>1,510</b>	<b>1,437</b>
Y/Y (%)	(102.1)	(3.6)	64.5	164.3	(6480.8)	205.4	79.4	40.3	50.8
Q/Q (%)	(103.7)	(3151.2)	71.5	37.7	(11.5)	46.0	0.7	7.7	(4.9)
OPM (%)	(1.3)	18.1	19.4	20.8	22.9	24.0	23.1	22.1	22.1
Other income	6	8	10	22	8	4	17	-	7
Interest	181	190	213	183	203	206	263	262	257
Depreciation	223	247	326	366	388	395	451	456	471
Profit before tax	(414)	27	252	549	370	794	705	792	716
Provision for taxation	(149)	6	86	192	124	293	254	(75)	243
Tax rate (%)	36.0	22.6	33.9	35.0	33.5	36.9	36.0	(9.4)	34.0
<b>Profit after tax</b>	<b>(265)</b>	<b>21</b>	<b>167</b>	<b>357</b>	<b>246</b>	<b>501</b>	<b>451</b>	<b>867</b>	<b>473</b>
PAT margins (%)	(22.9)	0.8	4.1	6.9	5.9	8.7	7.4	12.7	7.3
<b>EPS (Rs)</b>	<b>(8)</b>	<b>1</b>	<b>5</b>	<b>11</b>	<b>8</b>	<b>15</b>	<b>14</b>	<b>27</b>	<b>15</b>

Source: Company

## Valuations

We expect an 18% revenue CAGR over FY22-24, and 26% growth in earnings, leading to Rs20.5 EPS. We maintain our Buy rating, with an unchanged TP of Rs287 (14x FY24e).

**Fig 8 – Standard deviation of Forward PE**



Source: Bloomberg, Anand Rathi Research

### Risk

- More-than-expected revenue in FY24 and FY25.

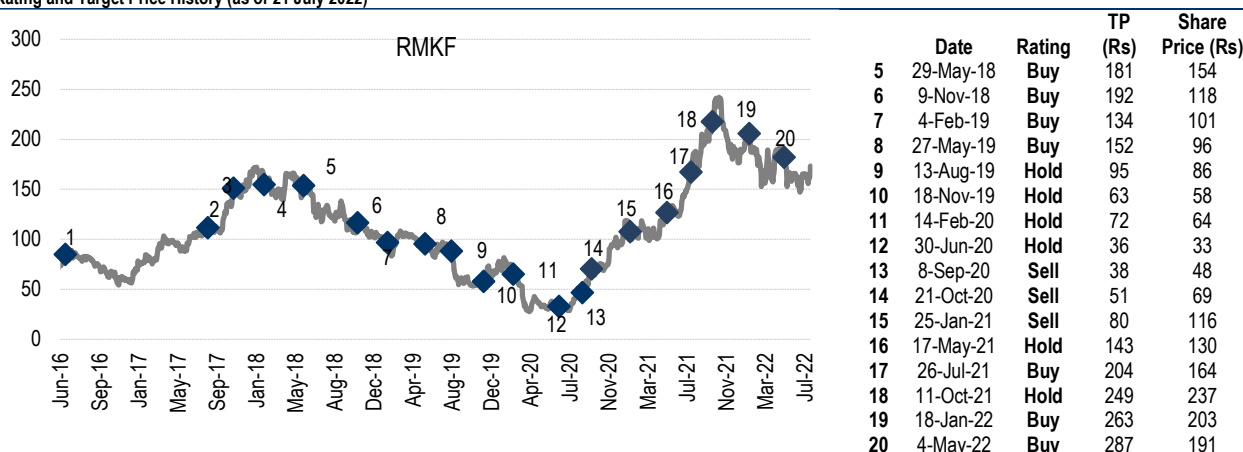
## Appendix

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