

# Ramkrishna Forgings

BUY

## Amidst uncertain times

Ramkrishna Forgings reported a weak 4Q as the slowdown in the domestic CV segment impacted volumes. The domestic tonnage was lower due to 1) the decline in M/HCV sales, which were down 5% YoY 2) the adverse impact of the change in product mix, due to higher sales of lower tonnage vehicles (post the change in axle load norms). We are lowering our earnings by ~12% over FY20/21E to factor in the above. Our revised TP is Rs 620 as we value the company at 14x PE on FY21 earnings. We have a BUY rating on the stock. The companies' initiative of expanding its export customer base (in Europe and USA) will partially offset the weakening demand from existing customers.

### HIGHLIGHTS OF THE QUARTER

- Financial highlights:** Ramkrishna Forging reported a weak 4Q as domestic tonnage shipments declined to 20,506T (-28% YoY) even though exports grew 32% to 9,915T. Thus total tonnage at 30,416T was down -15% YoY/-20% QoQ. The revenue was up +1% YoY on improved realizations while the EBITDA at Rs 893mn was down -3% YoY. Margins came in at 20.2% (-70bp YoY) due to the lower product mix. Higher depreciation

### Financial Summary: Standalone

YE March (Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	4,433	4,401	0.7	4,915	(9.8)	8,809	14,355	18,067	20,414	22,263
EBITDA	893	917	(2.6)	1,058	(15.6)	1,579	2,842	3,795	4,205	4,519
APAT	249	343	(27.4)	339	(26.5)	110	947	1,193	1,337	1,442
Diluted EPS (Rs)	7.6	10.5	(27.4)	10.4	(26.5)	3.8	29.0	36.6	41.0	44.2
APAT Growth (%)						(80.0)	763.4	26.0	12.0	7.9
P/E (x)						131.3	17.3	13.7	12.2	11.3
RoE (%)						2.4	15.4	14.6	14.3	13.5

Source: Company, HDFC sec Inst Research

and interest expenses led to a lower PAT of Rs 249mn (-27% YoY).

- The company expects tonnage volumes of 145K – 150,000 in FY20, implying a growth of ~8% YoY. The management highlighted that their market share has been maintained / increased over the quarter.
- The company is expanding its customer base with a pick up from European clients expected in 2HFY20. RK Forgings is also expanding into Class 5-7 trucks in the US and they are expanding into new segments including bearings and pistons.

### STANCE

**RK Forgings is in the midst of a volatile demand environment. The company is tiding over the same by expanding into new markets / segments with European clients expected to contribute towards incremental volumes. RK Forgings has improved its product mix post the commissioning of its 12,500T press. The balance sheet has strengthened post the capital raise, with gearing ratios now at ~1x. We have a BUY recommendation on the stock.**

INDUSTRY	AUTOS
<b>CMP (as on 30 May 2019)</b>	<b>Rs 502</b>
<b>Target Price</b>	<b>Rs 620</b>
Nifty	11,946
Sensex	39,832

### KEY STOCK DATA

Bloomberg	RMKF IN
No. of Shares (mn)	33
MCap (Rsbn) / (\$ mn)	16/234
6m avg traded value (Rsmn)	26

### STOCK PERFORMANCE (%)

52 Week high / low	Rs 797/412		
	3M	6M	12M
Absolute (%)	4.7	(8.6)	(35.1)
Relative (%)	(6.4)	(18.7)	(49.2)

### SHAREHOLDING PATTERN (%)

	Dec-18	Mar-19
Promoters	44.8	44.8
FIs & Local MFs	16.4	16.6
FPIs	11.0	13.7
Public & Others	27.9	24.9
Pledged Shares	0.0	0.0

Source : BSE

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### Other highlights

- The capex in FY19 was Rs 2.5bn (Rs 1bn towards the machining line, Rs 1bn towards capacity expansion).
- In FY20, capex guidance is Rs 1.5bn – they intend to expand capacity by 50,000T over the next two years.
- The outlook for Class 8 trucks in the US is mixed – while order inflow has slowed down sharply, the order books of the OEM's are full till Feb'20. The management believes that export volumes will be maintained.
- Non-auto revenue is 10% of sales.

*In 4QFY19, the overall tonnage declined- 15% YoY, due to a fall in domestic volumes (-27% YoY)*

*EBITDA margins declined - 70bps YoY to 20.2% due to the weaker tonnage mix*

### Quarterly Financials Snapshot: Standalone

Particulars	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY18	FY19	YoY (%)
Total Tonnage (in Tons)	30,416	35,812	(15.1)	37,301	(18.5)	121,667	135,791	11.6
Average realization (in Rs)	145,736	120,119	21.3	131,758	10.6	117,984	133,049	12.8
<b>Net sales (incl OOI)</b>	<b>4,433</b>	<b>4,401</b>	<b>0.7</b>	<b>4,915</b>	<b>(9.8)</b>	<b>14,355</b>	<b>18,067</b>	<b>25.9</b>
Material Expenses	2,310	2,329	(0.8)	2,596	(11.0)	7,138	9,265	29.8
Employee Expenses	248	190	30.9	246	1.0	874	968	10.8
Other Operating Expenses	981	966	1.5	1,014	(3.3)	3,501	4,039	15.4
<b>Total Expenditure</b>	<b>3,539</b>	<b>3,484</b>	<b>1.6</b>	<b>3,856</b>	<b>(8.2)</b>	<b>11,512</b>	<b>14,272</b>	<b>24.0</b>
<b>EBITDA</b>	<b>893</b>	<b>917</b>	<b>(2.6)</b>	<b>1,058</b>	<b>(15.6)</b>	<b>2,842</b>	<b>3,795</b>	<b>33.5</b>
Depreciation	332	246	34.9	329	0.9	844	1,208	43.2
EBIT	561	671	(16.3)	729	(23.1)	1,998	2,587	29.4
Other Income	8	8	0.3	10	(12.2)	42	30	(28.7)
Interest Cost	204	177	15.3	207	(1.5)	698	792	13.5
E/O items	-	-	-	-	-	-	-	-
PBT	366	502	(27.2)	532	(31.3)	1,342	1,824	35.9
Tax	116	159	(26.7)	193	(39.7)	396	631	59.6
<b>RPAT</b>	<b>249</b>	<b>343</b>	<b>(27.4)</b>	<b>339</b>	<b>(26.5)</b>	<b>947</b>	<b>1,193</b>	<b>26.0</b>
APAT	249	343	(27.4)	339	(26.5)	947	1,193	26.0
<b>Adj EPS</b>	<b>7.6</b>	<b>10.5</b>	<b>(27.4)</b>	<b>10.4</b>	<b>(26.5)</b>	<b>29.0</b>	<b>36.6</b>	<b>26.0</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis: Standalone

As % of sales	4QFY19	4QFY18	YoY (bps)	3QFY19	QoQ (bps)	FY18	FY19	YoY (bps)
Material Expenses	52.1	52.9	(79)	52.8	(71)	49.7	51.3	156
Employee Expenses	5.6	4.3	129	5.0	60	6.1	5.4	(73)
Other Operating Expenses	22.1	21.9	18	20.6	149	24.4	22.4	(203)
<b>Total Expenditure</b>	<b>79.8</b>	<b>79.2</b>	<b>68</b>	<b>78.5</b>	<b>138</b>	<b>80.2</b>	<b>79.0</b>	<b>(120)</b>
<b>EBITDA</b>	<b>20.2</b>	<b>20.8</b>	<b>(68)</b>	<b>21.5</b>	<b>(138)</b>	<b>19.8</b>	<b>21.0</b>	<b>120</b>
<b>APAT</b>	<b>5.6</b>	<b>7.8</b>	<b>(218)</b>	<b>6.9</b>	<b>(127)</b>	<b>6.6</b>	<b>6.6</b>	<b>1</b>
Tax as % of PBT	31.8	31.6	21	36.3	(446)	29.5	34.6	513

Source: Company, HDFC sec Inst Research

*The management has guided for FY20 volumes of between 145 – 150K Tons*

### Key Assumptions

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Domestic Sales (MT)	62,124	92,503	102,033	109,520	115,330
% YoY	28.8	48.9	10.3	7.3	5.3
Exports Sales (MT)	20,271	29,164	33,758	37,134	41,590
% YoY	(29.3)	43.9	15.8	10.0	12.0
<b>Total Volumes (MT)</b>	<b>82,395</b>	<b>121,667</b>	<b>135,791</b>	<b>146,654</b>	<b>156,920</b>
<b>% YoY</b>	<b>7.1</b>	<b>47.7</b>	<b>11.6</b>	<b>8.0</b>	<b>7.0</b>
Blended ASP (Rs/MT)	106,913	117,984	133,049	139,201	141,874
% YoY	(8.4)	10.4	12.8	4.6	1.9

Source: Company, HDFC sec Inst Research

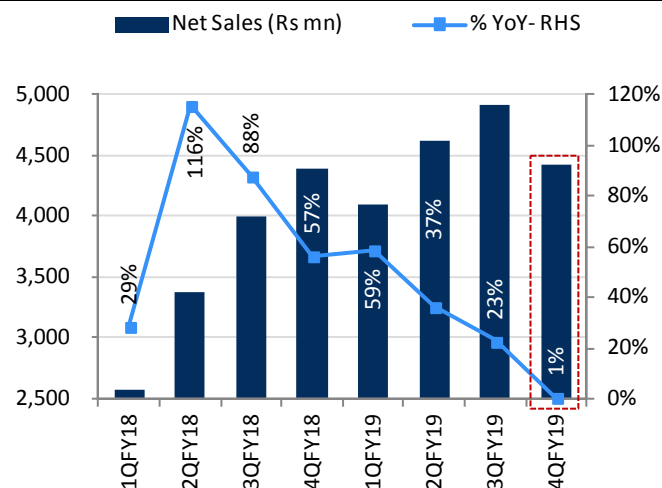
### Change in estimates

	NEW		OLD		% chng	
	FY20	FY21	FY20	FY21	FY20	FY21
Net Revenue	20,414	22,263	20,810	22,944	(1.9)	(3.0)
EBITDA	4,205	4,519	4,266	4,864	(1.4)	(7.1)
EBITDA margin (%)	20.6	20.3	20.5	21.2	10 bps	-90 bps
PAT	1,337	1,442	1,445	1,706	(7.5)	(15.5)
EPS	41.0	44.2	44.3	52.3	(7.5)	(15.5)

Source: Company, HDFC sec Inst Research

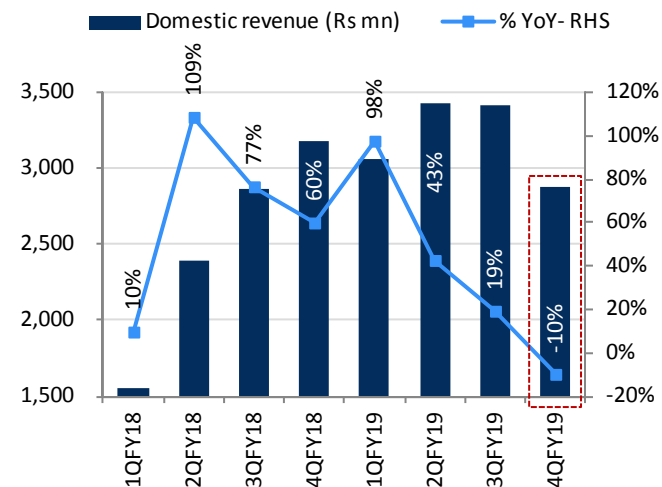
**Net sales were flat YoY (+1%) due to a -10% decline in the domestic revenues**

### Net sales remained flat YoY



Source: Company, HDFC sec Inst Research

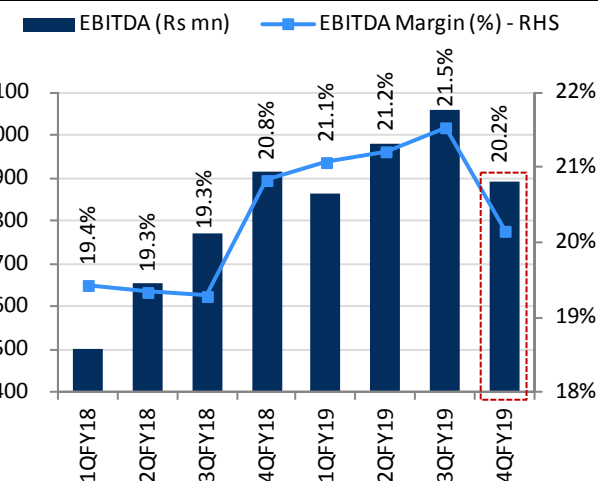
### Domestic Revenues were weak in 4Q



Source: Company, HDFC sec Inst Research

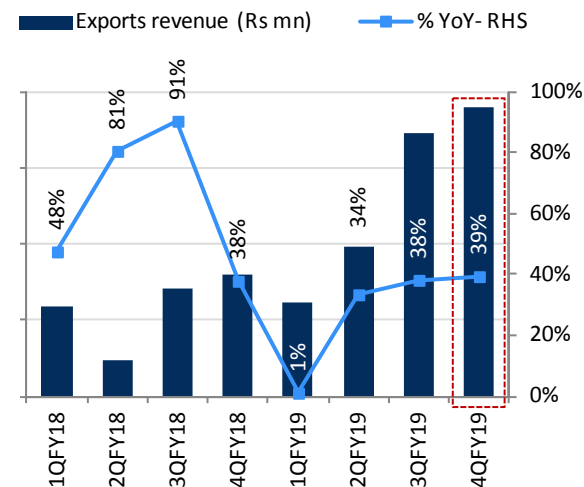
**Domestic sales were impacted due to change in product mix, owing to higher sales of lower tonnage vehicles (post the change in axle load norms)**

### EBITDA margin (%) declined -70bps YoY



Source: Company, HDFC sec Inst Research

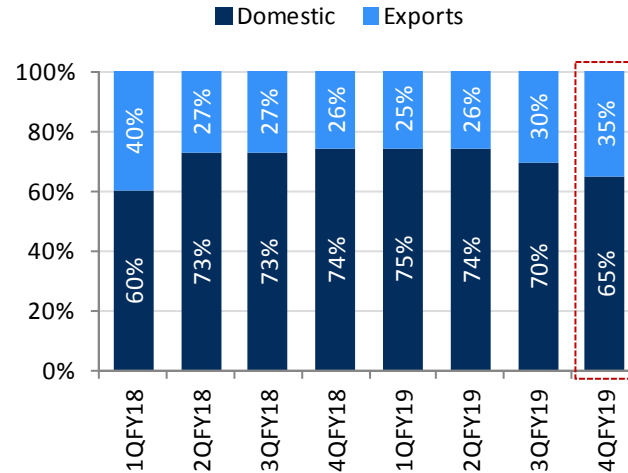
### Exports grew at a healthy pace



Source: Company, HDFC sec Inst Research

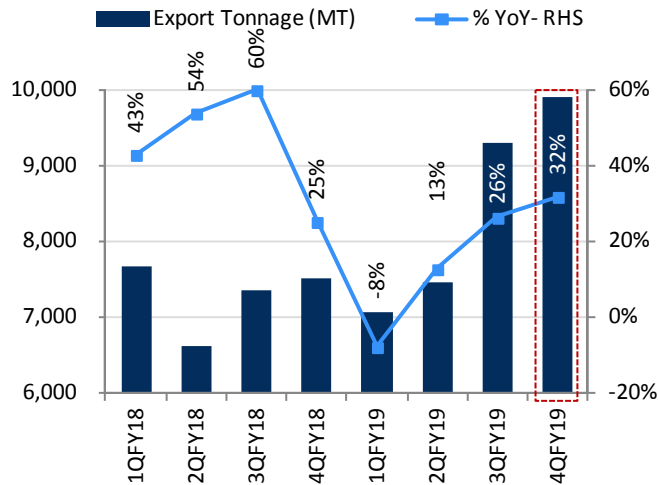
*RK Forgings continues to increase its presence in the overseas markets with Exports contributing 35% to revenues vs. 26% YoY*

### Segmental Mix (%)



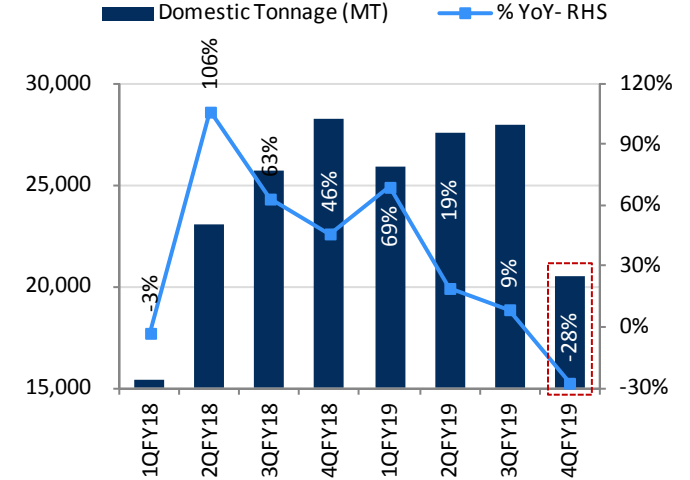
Source: Company, HDFC sec Inst Research

### Exports tonnage sales



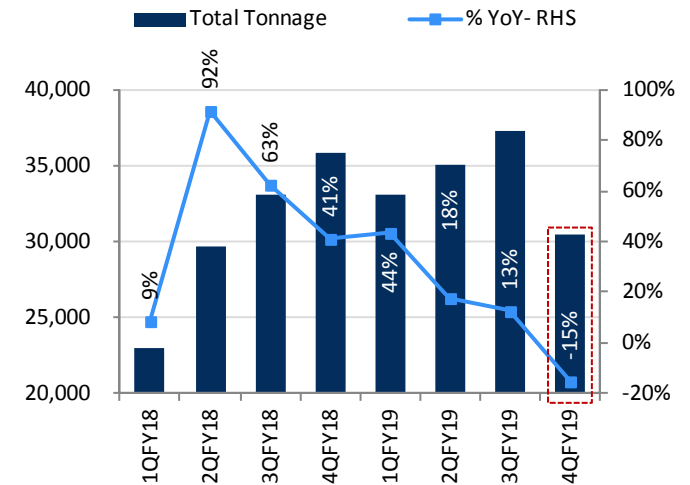
Source: Company, HDFC sec Inst Research

### Domestic tonnage declined on weaker product mix



Source: Company, HDFC sec Inst Research

### Total tonnage sales

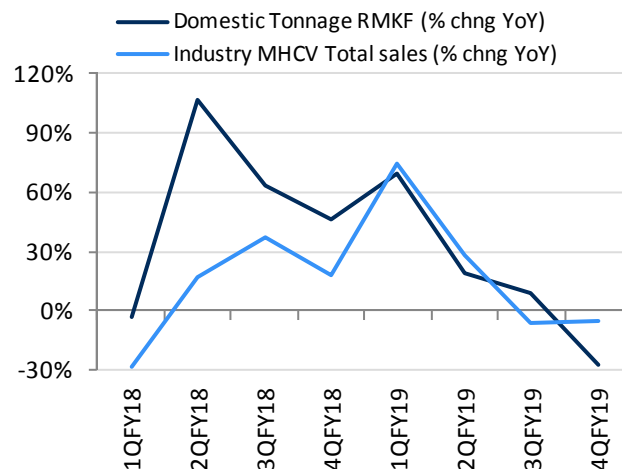


Source: Company, HDFC sec Inst Research

***RK Forgings domestic tonnage declined more than the MHCV sales due to the change in product mix (increased sales of lower tonnage vehicles)***

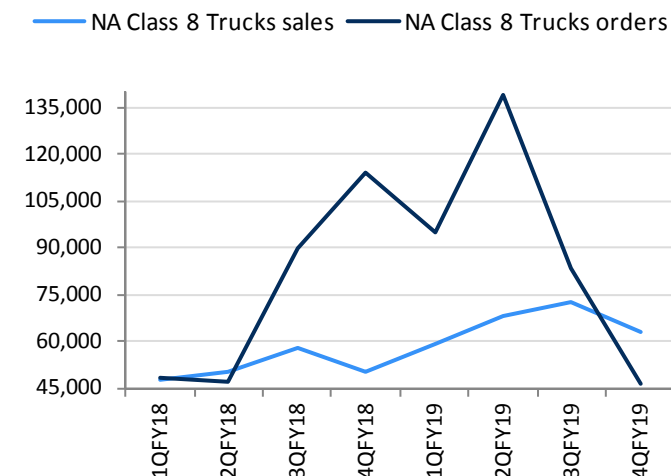
***US Class 8 monthly truck orders are weak even as new truck sales remain healthy***

### Industry M/HCV sales and RMKF's tonnage growth



Source: Company, HDFC sec Inst Research

### US Class 8 Truck Sales and Order Inflows



Source: Company, HDFC sec Inst Research

### Peer Set Comparison

	Mcap (Rsbn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Jamna Auto	22.7	57	BUY	75	3.5	4.4	4.7	16.3	13.1	12.0	9.9	8.4	8.0	30.6	30.5	27.5
NRB Bearings	16.3	168	NEU	217	9.5	11.5	12.3	17.8	14.6	13.6	9.1	8.3	7.5	25.1	23.3	21.3
<b>Ramkrishna Forgings</b>	<b>16.3</b>	<b>502</b>	<b>BUY</b>	<b>620</b>	<b>36.6</b>	<b>41.0</b>	<b>44.2</b>	<b>13.7</b>	<b>12.2</b>	<b>11.3</b>	<b>6.6</b>	<b>5.7</b>	<b>5.0</b>	<b>14.6</b>	<b>14.3</b>	<b>13.5</b>
Subros	17.7	271	BUY	310	12.2	15.3	18.2	22.2	17.7	14.9	8.2	7.0	6.4	14.7	13.8	14.5

Source: HDFC sec Inst Research

## Income Statement (Standalone)

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
<b>Net Revenues</b>	<b>8,809</b>	<b>14,355</b>	<b>18,067</b>	<b>20,414</b>	<b>22,263</b>
<b>Growth (%)</b>	<b>(1.8)</b>	<b>63.0</b>	<b>25.9</b>	<b>13.0</b>	<b>9.1</b>
Material Expenses	3,679	7,138	9,265	10,554	11,532
Employee Expenses	790	874	968	1,123	1,202
Other Operating Expenses	2,761	3,501	4,039	4,532	5,009
<b>Total Expenses</b>	<b>7,231</b>	<b>11,512</b>	<b>14,272</b>	<b>16,209</b>	<b>17,744</b>
<b>EBITDA</b>	<b>1,579</b>	<b>2,842</b>	<b>3,795</b>	<b>4,205</b>	<b>4,519</b>
<b>EBITDA Margin (%)</b>	<b>17.9</b>	<b>19.8</b>	<b>21.0</b>	<b>20.6</b>	<b>20.3</b>
<b>EBITDA Growth (%)</b>	<b>(10.7)</b>	<b>80.1</b>	<b>33.5</b>	<b>10.8</b>	<b>7.5</b>
Depreciation	747	844	1,208	1,373	1,457
<b>EBIT</b>	<b>831</b>	<b>1,998</b>	<b>2,587</b>	<b>2,833</b>	<b>3,063</b>
Other Income (Including EO Items)	82	42	30	42	45
Interest	750	698	792	880	955
Exceptional Income / Expenses	-	-	-	-	-
<b>PBT</b>	<b>163</b>	<b>1,342</b>	<b>1,824</b>	<b>1,995</b>	<b>2,152</b>
Tax (Incl Deferred)	54	396	631	658	710
Minority Interest	-	-	-	-	-
<b>RPAT</b>	<b>110</b>	<b>947</b>	<b>1,193</b>	<b>1,337</b>	<b>1,442</b>
<b>APAT</b>	<b>110</b>	<b>947</b>	<b>1,193</b>	<b>1,337</b>	<b>1,442</b>
<b>APAT Growth (%)</b>	<b>(80.0)</b>	<b>763.4</b>	<b>26.0</b>	<b>12.0</b>	<b>7.9</b>
<b>Adjusted EPS (Rs)</b>	<b>3.8</b>	<b>29.0</b>	<b>36.6</b>	<b>41.0</b>	<b>44.2</b>
<b>EPS Growth (%)</b>	<b>(80.0)</b>	<b>659.8</b>	<b>26.0</b>	<b>12.0</b>	<b>7.9</b>

Source: Company, HDFC sec Inst Research

## Balance Sheet (Standalone)

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	287	326	326	326	326
Reserves	4,409	7,266	8,400	9,657	11,012
<b>Total Shareholders Funds</b>	<b>4,696</b>	<b>7,592</b>	<b>8,726</b>	<b>9,983</b>	<b>11,338</b>
Long Term Debt	5,049	4,781	5,281	5,581	5,581
Short Term Debt	4,306	3,452	3,752	3,952	4,152
<b>Total Debt</b>	<b>9,355</b>	<b>8,232</b>	<b>9,032</b>	<b>9,532</b>	<b>9,732</b>
<b>Net Deferred Taxes</b>	<b>229</b>	<b>344</b>	<b>585</b>	<b>845</b>	<b>1,124</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>14,280</b>	<b>16,169</b>	<b>18,344</b>	<b>20,359</b>	<b>22,195</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	10,183	10,679	10,571	10,198	9,742
CWIP	504	436	1,436	1,536	1,436
Investments	193	193	193	193	193
<b>Total Non-current Assets</b>	<b>10,880</b>	<b>11,308</b>	<b>12,199</b>	<b>11,927</b>	<b>11,370</b>
<b>Cash &amp; Equivalents</b>	<b>11</b>	<b>4</b>	<b>501</b>	<b>2,011</b>	<b>3,643</b>
Inventories	2,286	2,994	3,762	4,474	4,880
Debtors	3,937	4,722	5,197	5,873	6,404
Other Current Assets	811	916	1,041	1,184	1,346
<b>Total Current Assets</b>	<b>7,044</b>	<b>8,636</b>	<b>10,501</b>	<b>13,542</b>	<b>16,273</b>
Creditors	2,758	2,831	3,465	4,139	4,514
Other Current Liabilities & Provns	887	945	892	970	935
<b>Total Current Liabilities</b>	<b>3,645</b>	<b>3,776</b>	<b>4,357</b>	<b>5,109</b>	<b>5,448</b>
<b>Net Current Assets</b>	<b>3,399</b>	<b>4,860</b>	<b>6,145</b>	<b>8,433</b>	<b>10,825</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>14,279</b>	<b>16,168</b>	<b>18,344</b>	<b>20,359</b>	<b>22,195</b>

Source: Company, HDFC sec Inst Research



## Cash Flow (Standalone)

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Reported PBT	163	1,342	1,824	1,995	2,152
Non-operating & EO Items	(82)	(42)	(30)	(42)	(45)
Interest Expenses	750	698	792	880	955
Depreciation	747	844	1,208	1,373	1,457
Working Capital Change	711	(1,468)	(787)	(778)	(760)
Tax Paid	(54)	(396)	(631)	(658)	(710)
<b>OPERATING CASH FLOW ( a )</b>	<b>2,236</b>	<b>979</b>	<b>2,376</b>	<b>2,769</b>	<b>3,049</b>
Capex	(1,741)	(1,272)	(2,100)	(1,100)	(900)
<i>Free Cash Flow (FCF)</i>	<i>495</i>	<i>(293)</i>	<i>276</i>	<i>1,669</i>	<i>2,149</i>
Investments	(125)	115	242	259	280
Non-operating Income	82	42	30	42	45
<b>INVESTING CASH FLOW ( b )</b>	<b>(1,784)</b>	<b>(1,114)</b>	<b>(1,828)</b>	<b>(799)</b>	<b>(575)</b>
Debt Issuance/(Repaid)	339	(1,123)	800	500	200
Interest Expenses	(750)	(698)	(792)	(880)	(955)
<i>FCFE</i>	<i>85</i>	<i>(2,114)</i>	<i>284</i>	<i>1,289</i>	<i>1,394</i>
Share Capital Issuance	-	39	-	-	-
Dividend	(69)	(39)	(59)	(80)	(87)
Others	24	1,950	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(455)</b>	<b>129</b>	<b>(51)</b>	<b>(460)</b>	<b>(842)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(3)</b>	<b>(7)</b>	<b>497</b>	<b>1,510</b>	<b>1,632</b>
Closing Cash & Equivalents	11	4	501	2,011	3,643

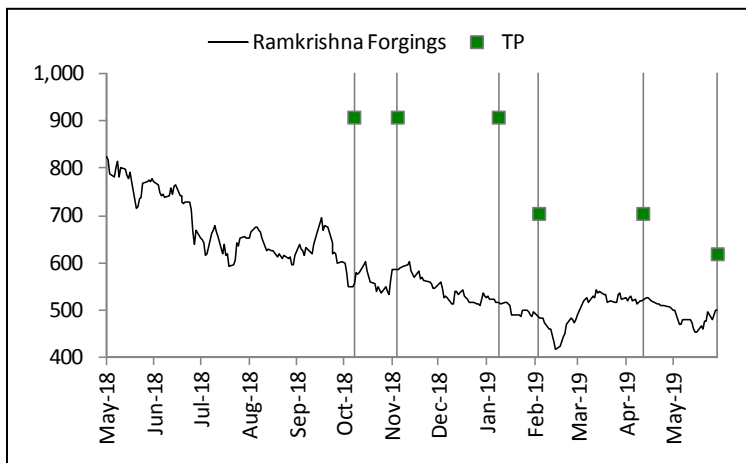
Source: Company, HDFC sec Inst Research

## Key Ratios (Standalone)

	FY17	FY18	FY19	FY20E	FY21E
<b>PROFITABILITY (%)</b>					
GPM	58.2	50.3	48.7	48.3	48.2
EBITDA Margin	17.9	19.8	21.0	20.6	20.3
EBIT Margin	9.4	13.9	14.3	13.9	13.8
APAT Margin	1.2	6.6	6.6	6.5	6.5
RoE	2.4	15.4	14.6	14.3	13.5
RoIC (or Core RoCE)	4.0	9.3	9.9	10.5	11.1
RoCE	4.0	9.3	9.8	9.8	9.6
<b>EFFICIENCY</b>					
Tax Rate (%)	32.8	29.5	34.6	33.0	33.0
Fixed Asset Turnover (x)	0.9	1.3	1.7	2.0	2.3
<i>Inventory (days)</i>	<i>95</i>	<i>76</i>	<i>76</i>	<i>80</i>	<i>80</i>
<i>Debtors (days)</i>	<i>163</i>	<i>120</i>	<i>105</i>	<i>105</i>	<i>105</i>
<i>Payables (days)</i>	<i>114</i>	<i>72</i>	<i>70</i>	<i>74</i>	<i>74</i>
Debt/EBITDA (x)	5.9	2.9	2.2	1.8	1.3
Net D/E (x)	2.0	1.1	1.0	0.8	0.5
Interest Coverage (x)	1.1	2.9	3.3	3.2	3.2
<b>PER SHARE DATA (Rs)</b>					
EPS	3.8	29.0	36.6	41.0	44.2
CEPS	29.9	54.9	73.6	83.1	88.9
Dividend	2.0	1.0	1.5	2.0	2.2
Book Value	164	233	268	306	348
<b>VALUATION</b>					
P/E (x)	131.3	17.3	13.7	12.2	11.3
P/BV (x)	3.1	2.2	1.9	1.6	1.4
EV/EBITDA (x)	15.0	8.7	6.6	5.7	5.0
EV/Revenues (x)	2.7	1.7	1.4	1.2	1.0
OCF/EV (%)	9.4	4.0	9.5	11.6	13.6
FCF/EV (%)	2.1	(1.2)	1.1	7.0	9.6
FCFE/Mkt Cap (%)	0.5	(12.9)	1.7	7.9	8.5
Dividend Yield (%)	0.4	0.2	0.3	0.4	0.4

Source: Company, HDFC sec Inst Research

## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
8-Oct-18	563	BUY	908
5-Nov-18	591	BUY	908
9-Jan-19	515	BUY	908
4-Feb-19	488	BUY	705
12-Apr-19	520	BUY	705
31-May-19	502	BUY	620

### Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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