

Accumulate

Cruising into growth trajectory

- Ramkrishna Forgings (RMKF) reported a strong set of numbers with Revenue/EBITDA growth of 60/65% YoY led by recovery in both, domestic and export revenue and cost control measures.
- Domestic business jumped 75% YoY at Rs 2.43bn led by recovery in M&HCV segment, increase in content per vehicle and incremental revenue from LCV division. Export too shot up by 45% to Rs 1.56bn, driven by recovery in the North America Class 8/Class 5 truck segment and incremental revenue from Europe and South America.
- Rise in steel prices from October'20 onwards to reflect from Q4 which will have some adverse impact on margin partially offset by price increase taken in the beginning of January and the next one is scheduled for April. Metals price rise has not entirely been passed on to the clients.
- The management stated that Exports are ramping up well led by recovery in class 8 trucks volume. RMKF is focusing on expanding business across different geographies and customers with new capacities in place to cater to Railways, LCV and PV segments.
- We expect recovery in domestic M&HCV, NA Class 8 trucks and incremental revenue from LCV business to be key growth drivers in the near to medium term. The management stated that gross debt has peaked out at Rs 10.5bn and plans to start reducing debt levels. We recommend Accumulate rating on the stock with a TP of Rs 650 (based on 15x FY23E EPS).

All round growth

The company is attempting to de-risk from the local CV cycle by diversifying business across segments, geographies and customers. In Q3, export geography mix for India was 62%, North America was 27%, Europe was 10% and South America was 1%. South America and Europe are new regions which will continue to add incremental revenue. RMKF started supplying axle components to a customer in the South American market from Sept' 20. In the non-auto space, the company is expanding its business in railways segments.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	4,022	2,507	60.4	2,525	59.3
Total Expense	3,240	2,032	59.5	2,069	56.6
EBITDA	782	475	64.6	456	71.5
Depreciation	326	291	12.2	247	32.2
EBIT	455	184	147.5	209	117.9
Other Income	10	13	(26.2)	8	18.0
Interest	213	180	18.4	190	11.8
EBT	252	17	NA	27	NA
Tax	86	1	NA	6	NA
RPAT	167	17	896.5	21	704.4
APAT	167	17	896.5	21	704.4
			(bps)		(bps)
Gross Margin (%)	49.4	55.9	(650)	51.3	(196)
EBITDA Margin (%)	19.4	18.9	49	18.1	138
NPM (%)	4.1	0.7	348	0.8	333
Tax Rate (%)	33.9	3.6	3030	22.6	1131
EBIT Margin (%)	11.3	7.3	398	8.3	305

CMP	Rs 579
Target / Upside	Rs 650 / 12%
NIFTY	14,372

Scrip Details

Equity / FV	Rs 319mn / Rs 10
Market Cap	Rs 18bn
	USD 253mn
52-week High/Low	Rs 610/ 133
Avg. Volume (no)	52,378
Bloom Code	RMKF IN

Price Performance	1M	3M	12M
Absolute (%)	26	66	51
Rel to NIFTY (%)	20	45	32

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	44.9	45.9	45.9
MF/Banks/FIs	13.2	13.0	15.4
FIIIs	10.1	10.3	10.1
Public / Others	31.8	30.8	28.7

Valuation (x)

	FY21E	FY22E	FY23E
P/E	(577.5)	24.5	13.4
EV/EBITDA	14.7	9.0	6.9
ROE (%)	(0.4)	8.4	13.9
RoACE (%)	4.4	8.1	11.0

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	11,455	16,162	19,960
EBITDA	1,959	3,135	3,992
PAT	(32)	754	1,382
EPS (Rs.)	(1.0)	23.6	43.3

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Exhibit 1: Actual vs DART estimates

Particulars (Rs mn)	Actual	Dart Est	Variance (%)	Comments
Revenue	4,022	2,875	40	Higher domestic and export revenue
EBIDTA	782	518	51	Cost saving measures
EBIDTA Margin (%)	19.4	18.0	144bps	
APAT	167	79	112	

Source: DART, Company

Exhibit 2: Change in Estimates

Particulars (Rs Mn)	FY22E			FY23E		
	New	Previous	% Cng	New	Previous	% Cng
Net sales	16,162	12,749	26.8	19,960	16,998	17.4
EBITDA	3,135	2,473	26.8	3,992	3,485	14.6
EBITDA margin(%)	19.4	19.4	-	20.0	20.5	(50)bps
APAT	754	249	202.3	1,382	982	40.8
EPS	23.6	7.8	202.3	43.3	30.8	40.8

Source: DART, Company

Exhibit 3: Key Assumptions Sheet

Particulars	FY18	FY19	FY20	FY21E	FY22E	FY23E
Domestic sales (MT)*	92,503	1,02,033	53,798	54,336	81,504	1,14,106
% YoY	48.9	10.3	(47.3)	1.0	50.0	40.0
Exports sales (MT)*	29,164	33,758	28,096	30,344	34,895	39,083
% YoY	43.9	15.8	(16.8)	8.0	15.0	12.0
Total volumes (MT)*	1,21,667	1,35,791	81,894	84,680	1,16,399	1,53,188
% YoY	47.7	11.6	(39.7)	3.4	37.5	31.6
Domestic ASP (Rs/MT)	1,08,049	1,25,205	1,23,982	1,20,263	1,27,479	1,21,105
% YoY	14.0	15.9	(1.0)	(3.0)	6.0	(5.0)
Exports ASP (Rs/MT)	1,41,493	1,56,769	1,55,930	1,62,167	1,65,410	1,57,140
% YoY	11.5	10.8	(0.5)	4.0	2.0	(5.0)

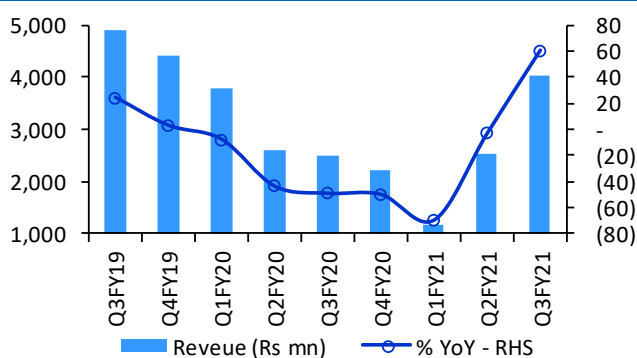
Source: DART, Company, *Gross sales tonnage numbers

Key Conference Call KTAs

- Revenue from domestic operations was Rs 2,430mn (+75% YoY) while Exports at Rs 1,558mn (+45% YoY).
- Total tonnage grew 72% YoY to 25,414 MT in Q3FY21, where domestic tonnage grew 83% YoY at 17,366 MT while export tonnage grew 53% YoY to 8,048MT.
- New order wins and client engagements in automotive segment across geographies have demonstrated traction with improving customer sentiments & lower interest rates in the domestic markets.
- CV OEMs are optimistic about the prospects of the vehicle scrappage policy which will be a boost for the Commercial vehicle sector.
- Volumes improved in terms of content per vehicle by 20-22% with all domestic clients which led to rise in domestic sales. Volume of 500-600 MT attributed to Passenger cars.
- In the non-auto space, the oil and gas and the railways segments continue to be sluggish. Expect oil and gas to show some recovery from Q1FY22 while railways likely to take some more time.

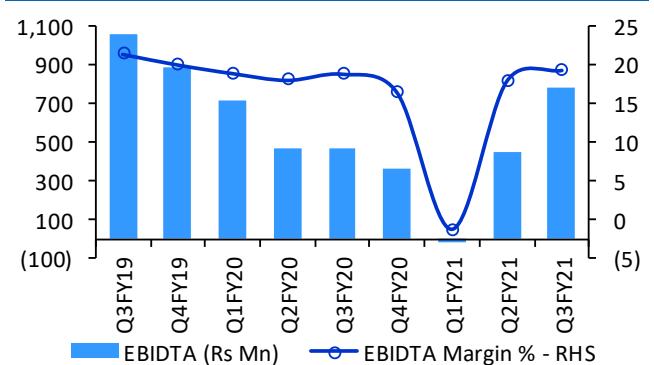
- Rise in steel price in October'20 to reflect from Q4 which will have some adverse impact on margin partially offset by price increase taken in beginning of January and the next one is scheduled for April. Metals price rise has not entirely been passed on to the clients.
- RMKF incurred extra freight costs of Rs 30mn due to unavailability of containers.
- With advent of electric vehicles, RMKF sees a huge opportunity in machine finished jobs and is already in talks with existing clientele in Europe and NA market for new products for EVs.
- The Company has commenced production from the Hollow Spindle Line during this quarter.
- Expected to commence production of 7,000 MT Pressline and New Railway Facilities by Q4FY21 end.
- RMKF has an installed capacity of 150,000 MT with utilization at 83% (vs 49% in Q2FY21). Current order book is full and company is operating at comfortable levels.
- Gross debt at 9MFY21 end is at Rs 10.5bn at similar level as 1HFY21 end. Debt has peaked out and co plans to reduce debt by approx. Rs 1bn every year.
- Capex for FY21 to be Rs 1.75bn. RMKF has already incurred capex of Rs 1.5bn in 9MFY21 and balance capex of Rs 200-250mn in Q4FY21.
- Exports incentives will not be impacted by withdrawal of the MEIS scheme.
- **Amtek Auto Update:** Company has approached NCLT for relaxation on certain provisions due to Covid impact and wants to renegotiate terms and conditions. Seeing some progress in the proceedings. Will take 6-8 months to get clarity.

Exhibit 1: Revenue grew sharply by 60% YoY



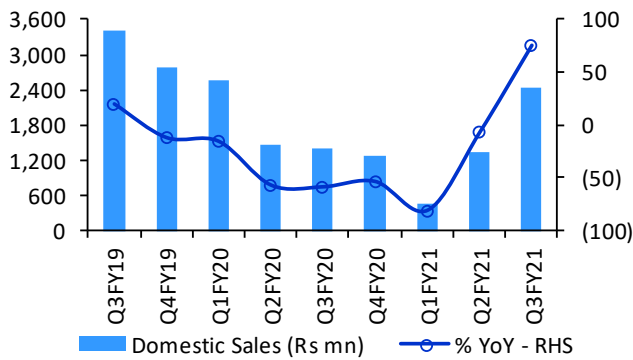
Source: DART, Company

Exhibit 2: EBITDA margin improved QoQ/YoY



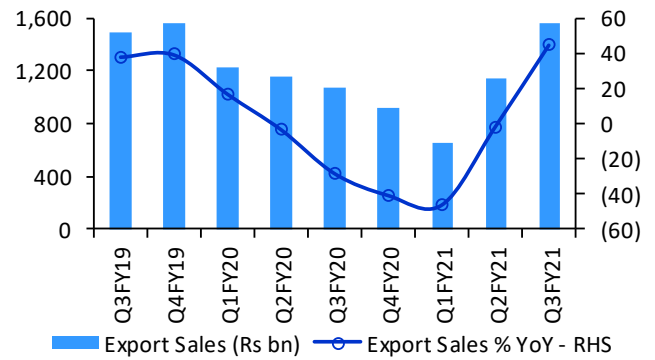
Source: DART, Company

Exhibit 3: Sharp uptick in domestic revenue



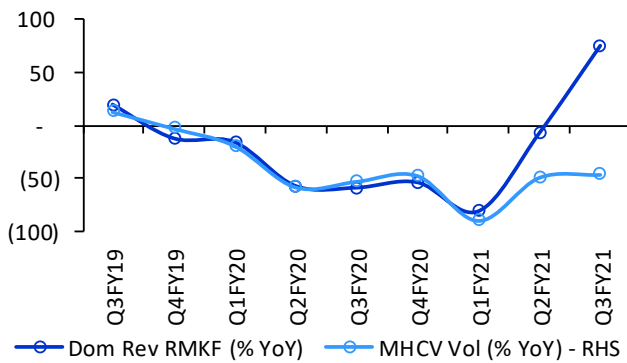
Source: DART, Company

Exhibit 4: Recovery in exports revenue



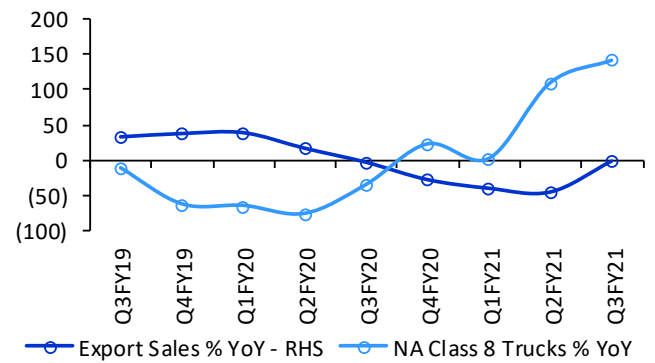
Source: DART, Company

Exhibit 5: Domestic Revenue vs MHCV Vol trend



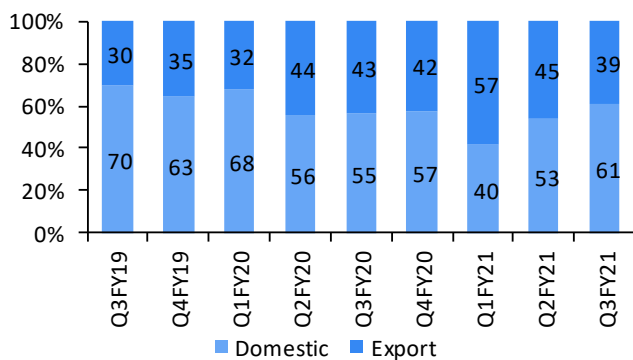
Source: DART, Company

Exhibit 6: Export Rev Growth Vs NA Class 8 Orders



Source: DART, Company

Exhibit 7: Domestic vs Exports Mix (%)



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	11,118	11,455	16,162	19,960
Total Expense	9,081	9,496	13,027	15,968
COGS	5,067	5,602	8,081	9,980
Employees Cost	942	916	1,164	1,297
Other expenses	3,071	2,978	3,782	4,691
EBIDTA	2,037	1,959	3,135	3,992
Depreciation	1,202	1,163	1,330	1,388
EBIT	836	796	1,805	2,604
Interest	752	889	861	819
Other Income	60	50	70	75
Exc. / E.O. items	0	0	0	0
EBT	144	(43)	1,015	1,860
Tax	48	(11)	261	478
RPAT	96	(32)	754	1,382
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	96	(32)	754	1,382

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	326	319	319	319
Minority Interest	0	0	0	0
Reserves & Surplus	8,438	8,261	8,976	10,301
Net Worth	8,764	8,580	9,296	10,620
Total Debt	9,511	11,011	10,011	9,011
Net Deferred Tax Liability	594	594	594	594
Total Capital Employed	18,870	20,186	19,901	20,226

Applications of Funds

Net Block	11,665	13,902	13,572	12,884
CWIP	2,164	500	600	700
Investments	193	193	193	193
Current Assets, Loans & Advances	7,684	8,505	9,758	11,498
Inventories	3,572	3,452	3,985	4,922
Receivables	3,026	3,138	4,162	5,140
Cash and Bank Balances	23	745	371	122
Loans and Advances	208	229	252	277
Other Current Assets	855	940	987	1,037
Less: Current Liabilities & Provisions	2,837	2,914	4,221	5,049
Payables	2,069	1,946	3,277	4,047
Other Current Liabilities	767	968	945	1,002
		<i>sub total</i>		
Net Current Assets	4,847	5,591	5,536	6,449
Total Assets	18,870	20,186	19,901	20,226

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	54.4	51.1	50.0	50.0
EBIDTA Margin	18.3	17.1	19.4	20.0
EBIT Margin	7.5	6.9	11.2	13.0
Tax rate	33.3	25.7	25.7	25.7
Net Profit Margin	0.9	(0.3)	4.7	6.9
(B) As Percentage of Net Sales (%)				
COGS	45.6	48.9	50.0	50.0
Employee	8.5	8.0	7.2	6.5
Other	27.6	26.0	23.4	23.5
(C) Measure of Financial Status				
Gross Debt / Equity	1.1	1.3	1.1	0.8
Interest Coverage	1.1	0.9	2.1	3.2
Inventory days	117	110	90	90
Debtors days	99	100	94	94
Average Cost of Debt	8.1	8.7	8.2	8.6
Payable days	68	62	74	74
Working Capital days	159	178	125	118
FA T/O	1.0	0.8	1.2	1.5
(D) Measures of Investment				
AEPS (Rs)	3.0	(1.0)	23.6	43.3
CEPS (Rs)	40.7	35.5	65.3	86.8
DPS (Rs)	1.0	0.0	1.0	1.5
Dividend Payout (%)	33.9	0.0	4.2	3.5
BVPS (Rs)	274.7	269.0	291.4	332.9
RoANW (%)	1.1	(0.4)	8.4	13.9
RoACE (%)	4.6	4.4	8.1	11.0
RoAIC (%)	4.5	4.2	9.3	13.1
(E) Valuation Ratios				
CMP (Rs)	579	579	579	579
P/E	192.1	(577.5)	24.5	13.4
Mcap (Rs Mn)	18,467	18,467	18,467	18,467
MCap/ Sales	1.7	1.6	1.1	0.9
EV	27,955	28,734	28,107	27,356
EV/Sales	2.5	2.5	1.7	1.4
EV/EBITDA	13.7	14.7	9.0	6.9
P/BV	2.1	2.2	2.0	1.7
Dividend Yield (%)	0.2	0.0	0.2	0.3
(F) Growth Rate (%)				
Revenue	(38.5)	3.0	41.1	23.5
EBITDA	(46.3)	(3.8)	60.1	27.3
EBIT	(67.7)	(4.8)	126.9	44.2
PBT	(92.1)	(129.9)	(2457.3)	83.4
APAT	(91.9)	(133.3)	(2457.3)	83.4
EPS	(91.9)	(133.3)	(2457.3)	83.4
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	2,536	1,998	2,626	2,427
CFI	(2,224)	(1,738)	(1,100)	(800)
CFF	(314)	481	(1,899)	(1,876)
FCFF	295	262	1,526	1,627
Opening Cash	25	23	745	371
Closing Cash	23	745	371	122

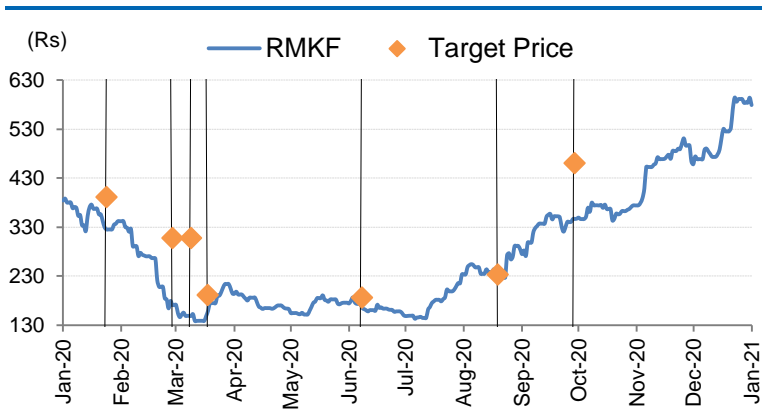
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-20	Accumulate	392	325
Mar-20	Buy	308	171
Mar-20	Buy	308	149
Apr-20	Buy	192	159
Jun-20	Reduce	186	165
Sep-20	Reduce	233	231
Oct-20	Buy	461	347

*Price as on recommendation date

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