

18 January 2022

Ramkrishna Forgings

Strong domestic, consistent export performance; upgrading to a Buy

Rating: **Buy**

Target Price: Rs.1,315

Share Price: Rs.1,013

For RK Forgings, contracts won from various regions and in business verticals are highlights for the quarter. Consistent domestic & export growth, and a rich product mix led to strong margins. With a new plant coming up for mining & earth-moving equipment and the recent MoU regarding patented EV-motor technology, we expect strong growth in the next two years. Accordingly, we upgrade our rating to a Buy with a TP of Rs.1,315 (14x FY24e).

New contracts won, strong export momentum. In the quarter, the company secured six contracts of Rs2.2bn from various regions. Since Mar'21 it secured contracts of ~Rs6bn. We continue to expect exports to accelerate in FY23 on its strong order book and recent contracts won from various regions. Domestic M&HCVs and LCVs have started to normalise, and we expect the company to grow ahead of the industry primarily since it has consistently improved its content per vehicle. For its non-auto business, its new fabrication plant at Jamshedpur commenced production; this would further help increase its operations in mining & earthmoving and Railways. Accordingly, we expect strong, 71%, growth in FY22, and 29% in FY23.

FY23 margin expansion. The Q3 FY22 EBITDA margin contracted 91bps sequentially to 23%. We expect FY22 margins to stabilise at 23.3% (23.4% for 9M FY22) as the order book is full and capacities are at ~75% utilization. Strong export momentum, a superior product mix and high capacity utilisation would aid margin expansion. Accordingly we expect 23.7% margins in FY23.

Introducing FY24e. We expect FY24 revenue to grow 12% y/y, margins to expand to 24%; and earnings to grow 21% y/y to Rs3bn.

Valuation. We expect a 35% CAGR in revenue over FY21-24, and earnings of Rs3bn, leading to an EPS of Rs93.9. Accordingly, we upgrade our rating to a Buy with a TP of Rs1,315 (14x FY24e).

Key financials (YE Mar)	FY20	FY21	FY22e	FY23e	FY24e
Sales (Rsm)	11,118	12,884	21,978	28,278	31,793
Net profit (Rsm)	96	280	1,683	2,538	3,062
EPS (Rs)	2.9	8.6	51.6	77.8	93.9
PE (x)	343.4	118.1	19.6	13.0	10.8
EV / EBITDA (x)	20.8	18.8	8.9	6.6	5.5
PBV (x)	3.8	3.7	3.3	2.7	2.2
RoE (%)	1.1	3.2	17.7	22.6	22.4
RoCE (%)	3.3	4.1	10.8	13.3	13.8
Dividend yield (%)	0.2	-	0.6	0.9	1.1
Net debt/equity (x)	1.1	1.2	1.3	0.9	0.6

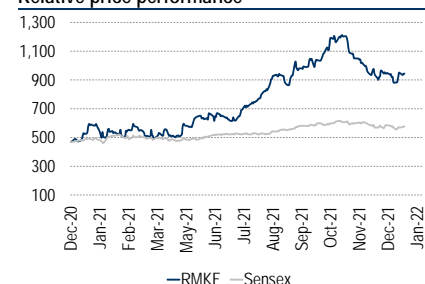
Source: Company, Anand Rathi Research

Key data	RMKF IN / RKFO.BO
52-week high / low	Rs1260 / 481
Sensex / Nifty	60755 / 18113
3-m average volume	\$1.8m
Market cap	Rs32bn / \$434.2m
Shares outstanding	32m

Shareholding pattern (%)	Dec'21	Jun'21	Mar'21
Promoters	46.0	45.9	45.9
- of which, Pledged	2.1	2.7	2.7
Free float	54.0	54.1	54.1
- Foreign institutions	14.5	13.8	13.1
- Domestic institutions	6.9	9.4	10.4
- Public	32.5	30.9	30.6

Estimates revision (%)	FY22	FY23
Revenue	9.3	9.9
EBITDA	8.4	10.8
PAT	-12.7	-12.6

Relative price performance



Source: Bloomberg

India Research Team

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rsm)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Net revenues	11,118	12,884	21,978	28,278	31,793
Growth (%)	-38.5	15.9	70.6	28.7	12.4
Raw material cost	5,067	6,455	10,154	12,951	14,561
Employee and other exp.	4,014	4,130	6,703	8,625	9,697
EBITDA	2,037	2,299	5,121	6,702	7,535
EBITDA margins (%)	18.3	17.8	23.3	23.7	23.7
- Depreciation	1,202	1,163	1,677	1,908	1,968
Other income	60	46	38	45	28
Interest expenses	752	768	1,006	1,106	1,092
Extraordinary items	-	-	-	-	-
PBT	144	415	2,475	3,732	4,503
Effective tax rate (%)	33	33	32	32	32
+ Associates / (Minorities)	-	-	-	-	-
Net income	96	280	1,683	2,538	3,062
Adjusted income	96	280	1,683	2,538	3,062
WANS	33	33	33	33	33
FDEPS (Rs/ sh)	2.9	8.6	51.6	77.8	93.9

Fig 2 – Balance sheet (Rsm)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Share capital	326	319	319	319	319
Net worth	8,764	8,900	10,112	12,345	15,040
Debt	9,511	11,126	13,126	13,526	13,776
Minority interest	-	-	-	-	-
DTL/(Assets)	594	659	659	659	659
Capital employed	18,870	20,685	23,897	26,530	29,475
Net tangible assets	11,573	12,218	15,281	14,073	12,805
Net intangible assets	8	8	8	8	8
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	2,164	2,720	480	480	480
Investments (strategic)	-	-	-	-	-
Investments (financial)	193	194	194	194	194
Current assets (ex cash)	7,814	10,984	13,347	17,131	19,118
Cash	23	668	157	1,841	5,093
Current liabilities	2,906	6,108	5,570	7,197	8,223
Working capital	4,908	4,876	7,777	9,934	10,895
Capital deployed	18,870	20,685	23,897	26,530	29,475

Fig 3 – Cash-flow statement (Rsm)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
PBT	144	415	2,475	3,732	4,503
+ Non-cash items	1,202	1,163	1,677	1,908	1,968
Oper. prof. before WC	1,346	1,578	4,152	5,641	6,471
- Incr./decr.) in WC	-631	-31	2,900	2,157	961
Others incl. taxes	24	73	792	1,194	1,441
Operating cash-flow	1,953	1,536	460	2,289	4,069
- Capex (tang. +intang.)	2,588	2,364	2,500	700	700
Free cash-flow	-635	-827	-2,040	1,589	3,369
Acquisitions	-	-	-	-	-
- Div. (incl. buyback&taxes)	59	-	202	305	367
+ Equity raised	-	-400	-	-	-
+ Debt raised	696	1,615	2,000	400	250
- Fin investments	-	1	-	-	-
- Misc. (CFI + CFF)	3	(258)	269	0	(0)
Net cash-flow	-1	645	-511	1,684	3,252

Source: Company, AnandRathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
P/E (x)	343.4	118.1	19.6	13.0	10.8
EV / EBITDA (x)	20.8	18.8	8.9	6.6	5.5
EV / Sales (x)	3.8	3.4	2.1	1.6	1.3
P/B (x)	3.8	3.7	3.3	2.7	2.2
RoE (%)	1.1	3.2	17.7	22.6	22.4
RoCE (%) - after tax	3.3	4.1	10.8	13.3	13.8
RoIC (%) - after tax	3.3	4.2	11.0	13.8	15.8
DPS (Rs / sh)	1.8	-	6.2	9.3	11.3
Dividend yield (%)	0.2	-	0.6	0.9	1.1
Dividend payout (%) - incl. DDT	61.4	-	12.0	12.0	12.0
Net debt / equity (x)	1.1	1.2	1.3	0.9	0.6
Receivables (days)	99	159	101	101	101
Inventory (days)	257	240	220	230	230
Payables (days)	149	243	135	152	161
CFO : PAT %	2,031.3	549.6	27.3	90.2	132.9

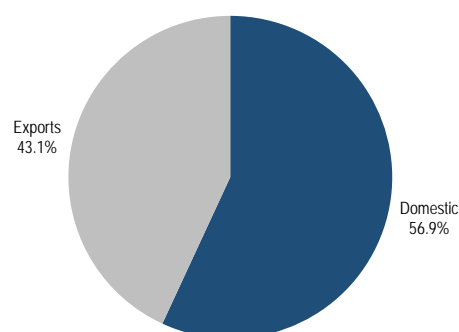
Source: Company, AnandRathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Domestic vs. Exports (Q3FY22)



Source: Company

Result highlights

Q3 FY22 conference-call highlights

- Received LoI for front-axles (new business).
- Semi-conductor and high commodity prices remain near-term headwinds.
- Making strong inroads in the LCV business.
- Targets to be debt free by FY25.
- Other segment comprises a) oil & gas, b) tractors, c) earth-moving equipment and d) Railways.

Fig 7– Quarterly performance

(Rsm)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22
Net sales	2,522	2,265	1,158	2,525	4,022	5,179	4,171	5,789	6,061
Y/Y (%)	(48.7)	(48.9)	(69.5)	(3.1)	59.4	128.7	260.1	129.3	50.7
Q/Q (%)	(3.2)	(10.2)	(48.8)	117.9	59.3	28.8	(19.5)	38.8	4.7
EXPENDITURE									
(Incr.)/decr. in stock-in-trade	(51)	(214)	121	78	(32)	(93)	(998)	(623)	(252)
Materials	1,158	1,110	430	1,151	2,068	2,730	2,619	3,235	3,055
% of sales	43.9	39.6	48	49	51	50.9	38.9	45.1	46.2
Y/Y (%)	(57.4)	(61.2)	(70.8)	4.4	84.1	194.3	194.0	112.5	37.6
Q/Q (%)	(6.0)	(19.0)	(38.5)	122.9	65.7	29.5	(38.5)	61.1	7.3
Gross margins (%)	56.1	60.4	52	51	49	49.1	61.1	54.9	53.8
Staff cost	238	208	212	217	237	238	315	276	290
% of sales	9.4	9.2	18.3	8.6	5.9	4.6	7.6	4.8	4.8
Y/Y (%)	(3.2)	(16.1)	(12.1)	(14.7)	(0.7)	14.2	48.8	26.9	22.4
Q/Q (%)	(6.5)	(12.5)	1.6	2.7	8.8	0.6	32.4	(12.4)	4.9
Power and Fuel	210	208	101	203	282	349	337	378	405
% of sales	8.3	9.2	8.7	8.1	7.0	6.7	8.1	6.5	6.7
Y/Y (%)	(46.7)	(35.1)	(68.8)	(11.8)	34.3	68.0	233.8	86.0	43.5
Q/Q (%)	(8.8)	(1.1)	(51.5)	101.6	38.9	23.7	(3.6)	12.3	7.1
Other expenditure	492	545	310	419	684	878	946	1,132	1,161
% of sales	19.5	24.1	26.7	16.6	17.0	17.0	22.7	19.6	19.2
Y/Y (%)	(20.6)	(17.5)	(50.0)	(11.1)	39.0	61.0	205.5	170.1	69.7
Q/Q (%)	4.5	10.7	(43.2)	35.4	63.3	28.3	7.7	19.7	2.6
Expenses	2,047	1,857	1,173	2,069	3,240	4,102	3,218	4,398	4,658
EBITDA	475	407	(15)	456	782	1,077	953	1,392	1,402
Y/Y (%)	(55.1)	(54.4)	(102.1)	(3.6)	64.5	164.3	(6480.8)	205.4	79.4
Q/Q (%)	0.5	(14.3)	(103.7)	(3151.2)	71.5	37.7	(11.5)	46.0	0.7
OPM (%)	18.8	18.0	(1.3)	18.1	19.4	20.8	22.9	24.0	23.1
Other income	13	40	6	8	10	22	8	4	17
Interest	180	192	181	190	213	183	203	206	263
Depreciation	291	301	223	247	326	366	388	395	451
Profit before tax	18	(46)	(414)	27	252	549	370	794	705
Provision for taxation	1	(23)	(149)	6	86	192	124	293	254
Tax rate (%)	3.5	50.1	36.0	22.6	33.9	35.0	33.5	36.9	36.0
Profit after tax	17	(23)	(265)	21	167	357	246	501	451
PAT margins (%)	0.7	(1.0)	(22.9)	0.8	4.1	6.9	5.9	8.7	7.4
EPS(Rs)	0.5	(0.7)	(8)	1	5	11	8	15	14

Source: Company

Valuations

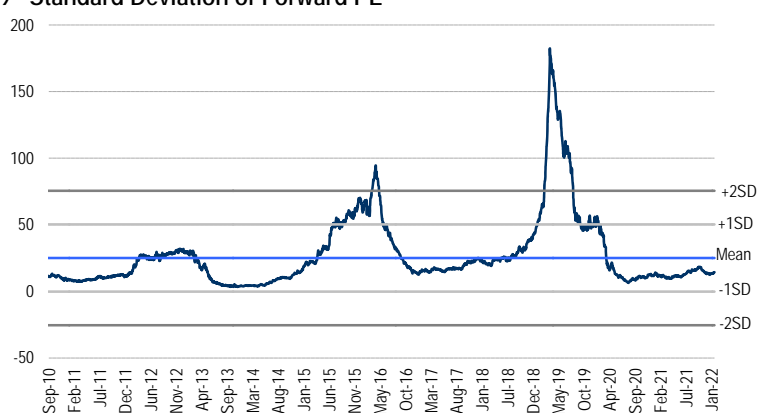
We expect a 35% CAGR in revenue over FY21-24, and earnings of Rs3bn, leading to an EPS of Rs93.9. Accordingly, we upgrade our rating to a Buy with a TP of Rs1,315 (14x FY24e).

Fig 8 – Change in estimates

(Rsm)	Old		Revised		Change %	
	FY22	FY23	FY22	FY23	FY22	FY23
Revenue	20,100	25,738	21,978	28,278	9.3	9.9
EBITDA	4,723	6,049	5,121	6,702	8.4	10.8
Adj. PAT	1,928	2,905	1,683	2,538	-12.7	-12.6
EPS (Rs)	59.1	89.1	51.6	77.8	-12.7	-12.6

Source: Anand Rath Research

Fig 9 – Standard Deviation of Forward PE



Source: Bloomberg, Anand Rath Research

Risk

- More-than-expected revenue in FY23 and FY24.

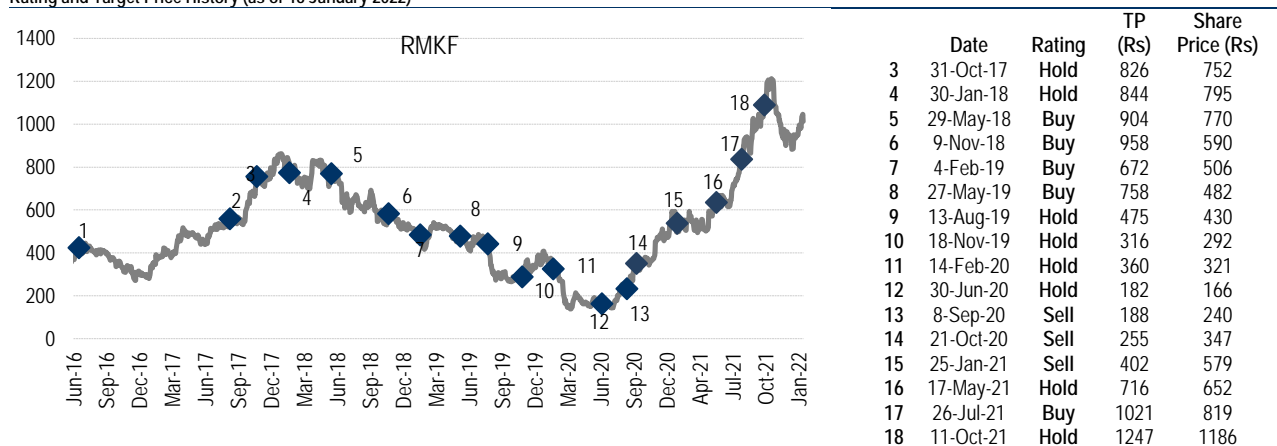
Appendix

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Rating and Target Price History (as of 18 January 2022)



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Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
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