

4 May 2022

Ramkrishna Forgings

Consistent order wins, improving export outlook; maintaining a Buy

For RK Forgings, new multi-year order wins across regions and segments and ~81% utilisation were the quarter's highlights. High commodity prices and freight costs continued to slash margins while the sharp jump in fuel prices further dented profitability. On the EV front, it's targeting new business from 3Ws and PVs in the near term, both domestic and global OEMs. Also, its continuous focus on increasing content per vehicle augurs well for long-term growth. Accordingly, we maintain our Buy rating at a revised TP of Rs287 (14x FY24e).

Orders won across regions. In Q4 FY22, the company won orders of Rs1.4bn vs. Rs2.2bn last quarter from three contracts. For FY22, it won orders of Rs9.8bn from 18 contracts. Revenue would arise in FY23 and FY24. In exports, it resumed sales to South America, while demand from Europe was strong, thereby diversifying its exposure from North America. Exports overall shot up 95% y/y to Rs10.3bn and we expect the strong growth momentum to persist on the back of its recent orders won.

Domestic M&HCV and LCV volumes have picked up consistently m/m, fuelled by demand in sectors like mining and cement almost back to pre-Covid levels. EVs contributed ~2% to the revenues and it expects it to grow to 6% in next two years aiming at OEMs from the 3Ws and PV segment. Accordingly, we expect 27% in FY23 and 12% in FY24

Margin expansion in FY23/FY24. High commodity, fuel and freight costs compressed the Q4 FY22 EBITDA margin 103bps sequentially to 22%. Freight costs rose by ~4x in FY22, and the company has recovered only Rs600m from OEMs. We expect margins to expand in coming years as capacities are ramped up due to its strong order book, superior product mix and rising content per vehicle. Accordingly, we expect margins of 23.7% in FY23 and 24.4% in FY24.

Debt and working capital. On the back of expected strong volume growth, we expect debt to come down to Rs11bn in FY24 (from Rs15bn in FY22). Similarly, we expect working capital to shrink as we expect domestic growth to be much higher than exports, leading to a shorter cash-conversion cycle.

Valuation. We expect 18% revenue CAGR over FY22-24, & Rs3.2bn earnings, leading to Rs20.5 EPS. We retain our Buy with a revised TP of Rs287 (14x FY24e).

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)	323.6	111.3	14.8	11.6	9.3
EV / EBITDA (x)	19.5	17.7	8.6	6.5	5.2
PBV (x)	3.5	3.4	2.8	2.4	1.9
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	1.0	1.3
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

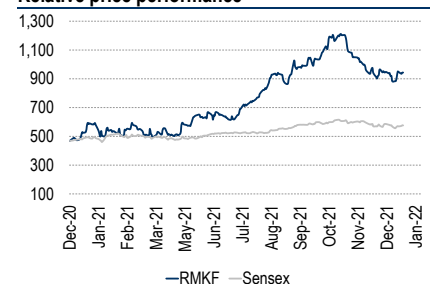
Share Price: Rs.191

Key data	RMKF IN / RKFO.BO
52-week high / low	Rs252 / 113
Sensex / Nifty	56976 / 17069
3-m average volume	\$1.5m
Market cap	Rs29bn / \$381.6m
Shares outstanding	160m

Shareholding pattern (%)	Mar'22	Jun'21	Mar'21
Promoters	46.2	45.9	45.9
- of which, Pledged	2.9	2.7	2.7
Free float	53.8	54.1	54.1
- Foreign institutions	13.5	13.8	13.1
- Domestic institutions	5.4	9.4	10.4
- Public	34.9	30.9	30.6

Estimates revision (%)	FY23	FY24
Revenue	0.3	0.3
EBITDA	0.3	3.3
PAT	8.8	11.9

Relative price performance



Source: Bloomberg

India Research Team

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
EBITDA	2,037	2,299	5,257	6,723	7,782
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 rate (%)	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	33	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
Capital employed	18,870	20,685	27,507	27,186	27,569
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 (ex 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
Capital deployed	18,870	20,685	27,507	27,186	27,569

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)	323.6	111.3	14.8	11.6	9.3
EV / EBITDA (x)	19.5	17.7	8.6	6.5	5.2
EV / Sales (x)	3.6	3.2	2.0	1.5	1.3
P/B (x)	3.5	3.4	2.8	2.4	1.9
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	1.0	1.3
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

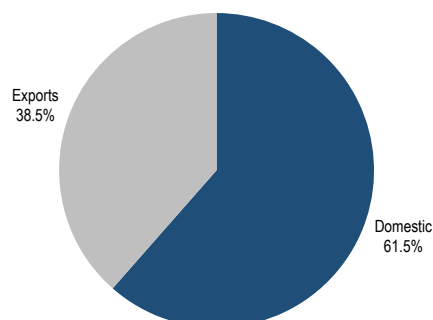
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Domestic vs. Exports (Q4 FY22)



Source: Company

Result highlights

Fig 7– Quarterly performance

(Rs m)	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Net sales	2,265	1,158	2,525	4,022	5,179	4,171	5,789	6,061	6,832
Y/Y (%)	(48.9)	(69.5)	(3.1)	59.4	128.7	260.1	129.3	50.7	31.9
Q/Q (%)	(10.2)	(48.8)	117.9	59.3	28.8	(19.5)	38.8	4.7	12.7
EXPENDITURE									
(Incr.) / decr. in stock-in-trade	(214)	121	78	(32)	(93)	(998)	(623)	(252)	101
Materials	1,110	430	1,151	2,068	2,730	2,619	3,235	3,055	3,203
% of sales	39.6	48	49	51	50.9	38.9	45.1	46.2	48.4
Y/Y (%)	(61.2)	(70.8)	4.4	84.1	194.3	194.0	112.5	37.6	25.3
Q/Q (%)	(19.0)	(38.5)	122.9	65.7	29.5	(38.5)	61.1	7.3	17.9
Gross margins (%)	60.4	52	51	49	49.1	61.1	54.9	53.8	51.6
Staff cost	208	212	217	237	238	315	276	290	322
% of sales	9.2	18.3	8.6	5.9	4.6	7.6	4.8	4.8	4.7
Y/Y (%)	(16.1)	(12.1)	(14.7)	(0.7)	14.2	48.8	26.9	22.4	35.5
Q/Q (%)	(12.5)	1.6	2.7	8.8	0.6	32.4	(12.4)	4.9	11.3
Power and Fuel	208	101	203	282	349	337	378	405	405
% of sales	9.2	8.7	8.1	7.0	6.7	8.1	6.5	6.7	5.9
Y/Y (%)	(35.1)	(68.8)	(11.8)	34.3	68.0	233.8	86.0	43.5	15.9
Q/Q (%)	(1.1)	(51.5)	101.6	38.9	23.7	(3.6)	12.3	7.1	(0.1)
Other expenditure	545	310	419	684	878	946	1,132	1,161	1,291
% of sales	24.1	26.7	16.6	17.0	17.0	22.7	19.6	19.2	18.9
Y/Y (%)	(17.5)	(50.0)	(11.1)	39.0	61.0	205.5	170.1	69.7	47.1
Q/Q (%)	10.7	(43.2)	35.4	63.3	28.3	7.7	19.7	2.6	11.2
Expenses	1,857	1,173	2,069	3,240	4,102	3,218	4,398	4,658	5,322
EBITDA	407	(15)	456	782	1,077	953	1,392	1,402	1,510
Y/Y (%)	(54.4)	(102.1)	(3.6)	64.5	164.3	(6480.8)	205.4	79.4	40.3
Q/Q (%)	(14.3)	(103.7)	(3151.2)	71.5	37.7	(11.5)	46.0	0.7	7.7
OPM (%)	18.0	(1.3)	18.1	19.4	20.8	22.9	24.0	23.1	22.1
Other income	40	6	8	10	22	8	4	17	-
Interest	192	181	190	213	183	203	206	263	262
Depreciation	301	223	247	326	366	388	395	451	456
Profit before tax	(46)	(414)	27	252	549	370	794	705	792
Provision for taxation	(23)	(149)	6	86	192	124	293	254	(75)
Tax rate (%)	50.1	36.0	22.6	33.9	35.0	33.5	36.9	36.0	(9.4)
Profit after tax	(23)	(265)	21	167	357	246	501	451	867
PAT margins (%)	(1.0)	(22.9)	0.8	4.1	6.9	5.9	8.7	7.4	12.7
EPS (Rs)	(0.7)	(8)	1	5	11	8	15	14	27

Source: Company

Valuations

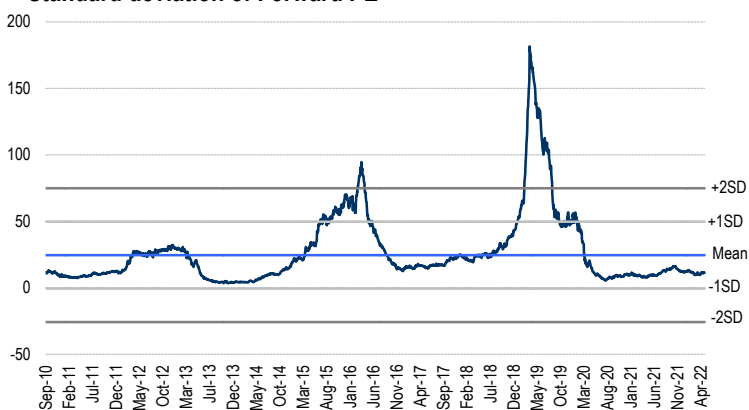
We expect an 18% revenue CAGR over FY22-24, and earnings of Rs3.2bn, leading to an EPS of Rs20.5. Accordingly, we maintain our Buy rating with a revised TP of Rs287 (14x FY24e).

Fig 8 – Change in estimates

(Rs m)	Old		Revised		Change %	
	FY23e	FY24e	FY23e	FY24e	FY23	FY24
Revenue	28,278	31,793	28,369	31,893	0.3	0.3
EBITDA	6,702	7,535	6,723	7,782	0.3	3.3
Adj. PAT	2,420	2,927	2,634	3,276	8.8	11.9
EPS (Rs)	15.1	18.3	16.5	20.5	8.8	11.9

Source: Anand Rathi Research

Fig 9 – Standard deviation of Forward PE



Source: Bloomberg, Anand Rathi Research

Risk

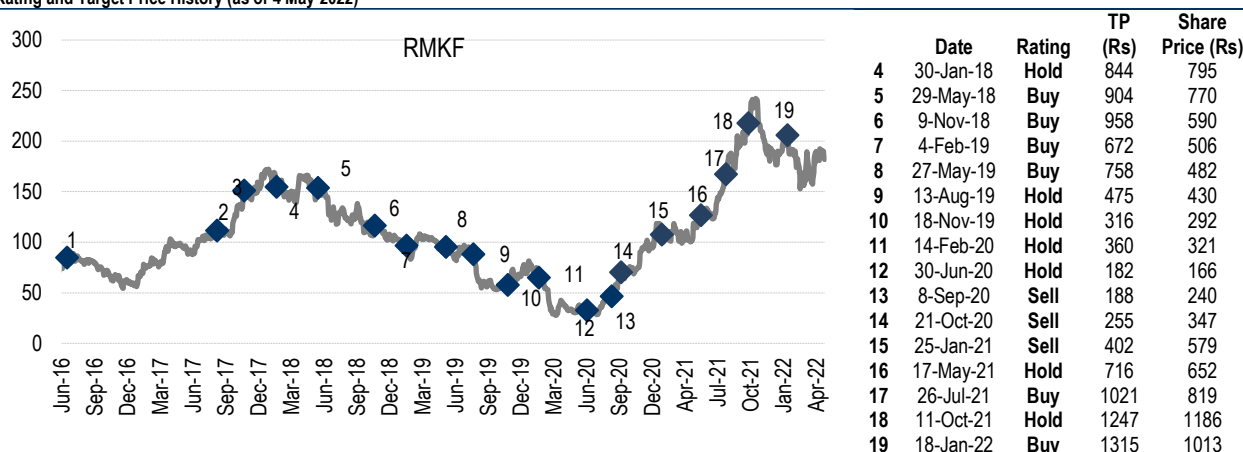
- More-than-expected revenue in FY23 and FY24.

Appendix

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