

March 04, 2024

**COMPANY UPDATE** | Sector: Automobile

# Ramkrishna Forgings Ltd

## Diversifying revenue base

### View & Valuation

In its investor day, Ramkrishna Forgings (RMKF), reemphasized its focus to diversify revenue base from CV to other segments of auto (2W, PV, OHT) and non-auto (Oil and gas, railways and mining). RMKF targets revenues of Rs45-48b by FY26E (v/s ~Rs26b in 9MFY24). This will be led by standalone business (~62% incremental contribution) and balance by recently acquired entities such as, 1) MACL-JMT revenues to be at Rs6-6.75b in FY26E (v/s Rs1.75-2.25b annualized in FY24E) and from ACIL at Rs2.2-2.75b in FY26E (v/s Rs50m annualized in FY24E). Some of the focus areas will be 1) supply of differential assemblies and expect ~10% of overall volumes to come from the segment ahead, 2) Railways both fabricated parts (already supplying to LHB) and forged wheel project which is an import substitute with take or pay arrangement with the railways for ~80k wheels per annum and ~20k wheels by the JV partner, 3) target to penetrate Oil and Gas segment through JMT Auto acquisition (~3.5% revenue contribution) and 4) ACIL (crankshaft) - RMKF to add 6 cylinder crankshaft capabilities to service HCV customers beyond existing ACIL customers from 2W, PV, tractor and LCV segment. Street builds in revenue/EBITDA/Adj.PAT CAGR of 14.2%/15.4%/28.4% on a standalone basis. Although execution remains key things to watch for, valuations at 29.3x/24.3x FY25/26 bloom S/A EPS is pricing in the positives, we believe. Not Rated.

### Management interaction key takeaways (PPT Link)

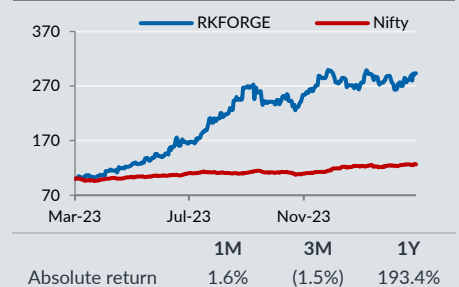
- Differential assemblies (case, case cover, gear and pinion) is new growth target segment** - Already supplying in non-assembled form and in nascent stage to supply in full assembly which will unfold in 6-9 months. Co target is to get in-to more assemblies ahead. Have started working on couple of platforms for domestic OEMs. Shift from components to assembly to value addition – moving towards assemblies (direct to vehicle). Expect ~10% of volumes from this assembly supply.
- Rail wheel project – an import substitute** – Overall capacity is ~228k forged wheels per annum. Take of pay contract with railways for ~80k wheel per annum for 20 years. Have take or pay commitment by the JV partner for ~20k wheels. Co will focus only on forge wheel business (for LHB, semi-high speed up to 200 kmph) and not cast wheels (for goods applications with speed up to 60 kmph). Project to commission by end of FY26.
- Underlying volumes and shift towards India a major growth driver** - NA class 8 outlook – seeing some decline in flatbed truck segment. However, backed by recent infrastructure bill and inflation stabilizing, seeing a pick-up in infra and freight liner (~44% of NA industry). Expect NA overall CV volumes to grow 1-3% CAGR from CY22-27E. Europe – Expect to receive large order from one of the leading truck OEM soon. Penetrating in across product lines. Along with China +1, there Europe +1 also playing out and India is at the forefront to meet Europe’s forging requirements. Expect Europe overall CV volumes to grow 1-3% CAGR from CY22-27E. Seeing India have potential to supply ~20% of world forging requirements.
- Capacity expansion, inorganic growth to drive revenue outperformance** – Expect RKFL’s revenue to grow to Rs45-48b by FY26E (v/s Rs26b in 9MFY24). Revenues from MACL-JMT to increase to Rs6-6.75b (v/s Rs1.75-2.25b annualized in FY24E) and from ACIL to increase to Rs2.2-2.75b (v/s Rs50m annualized in FY24E). Asset turns expect to improve to 3.5x in 3-5years vs 2.2x currently. Capex – expect standalone capex of Rs4.9b/Rs3.5b/Rs3.5b and subsidiary capex of Rs200m/Rs1.35b/Rs1.1b in FY24/FY25/FY26. Expect to improve WC (days) further from 101/91 days in FY23/1HFY24. Expect consolidated balance sheet to be net cash by FY26E (v/s Rs5.93b net debt as of 9MFY24).

|                  |   |                  |
|------------------|---|------------------|
| Reco             | : | <b>NOT RATED</b> |
| CMP              | : | Rs 781           |
| Target Price     | : | NA               |
| Potential Return | : | NA               |

### Stock data (as on Mar 02, 2024)

|                         |               |
|-------------------------|---------------|
| Nifty                   | 22,378        |
| 52 Week h/l (Rs)        | 815 / 245     |
| Market cap (Rs/USD mn)  | 139893 / 1689 |
| Outstanding Shares (mn) | 181           |
| 6m Avg t/o (Rs mn):     | 383           |
| Div yield (%):          | 0.2           |
| Bloomberg code:         | RMKF IN       |
| NSE code:               | RKFORGE       |

### Stock performance



### Shareholding pattern (As of Dec'23)

|          |       |
|----------|-------|
| Promoter | 43.1% |
| FII+DII  | 27.2% |
| Others   | 29.6% |

### Financial Summary

| Y/E DEC (Rs mn) | FY21   | FY22   | FY23   |
|-----------------|--------|--------|--------|
| Sales           | 12,889 | 23,202 | 31,929 |
| EBITDA          | 2,227  | 5,170  | 6,923  |
| Adj. PAT        | 207    | 1,980  | 2,481  |
| Adj. EPS (INR)  | 1.3    | 12.4   | 15.5   |
| EPS Gr. (%)     | 117.4  | 854.6  | 25.3   |
| BV/Sh. (INR)    | 55     | 67     | 83     |
| RoE (%)         | 2.4    | 20.2   | 20.7   |
| RoCE (%)        | 3.3    | 9.8    | 11.6   |
| Payout (%)      | 23.1   | 1.6    | 11.0   |
| P/E (x)         | 618.0  | 64.7   | 51.7   |
| P/BV (x)        | 14.5   | 11.9   | 9.7    |
| EV/EBITDA (x)   | 62.9   | 27.9   | 20.5   |
| Div. Yield (%)  | 0.0    | 0.0    | 0.2    |

### DEEP SHAH

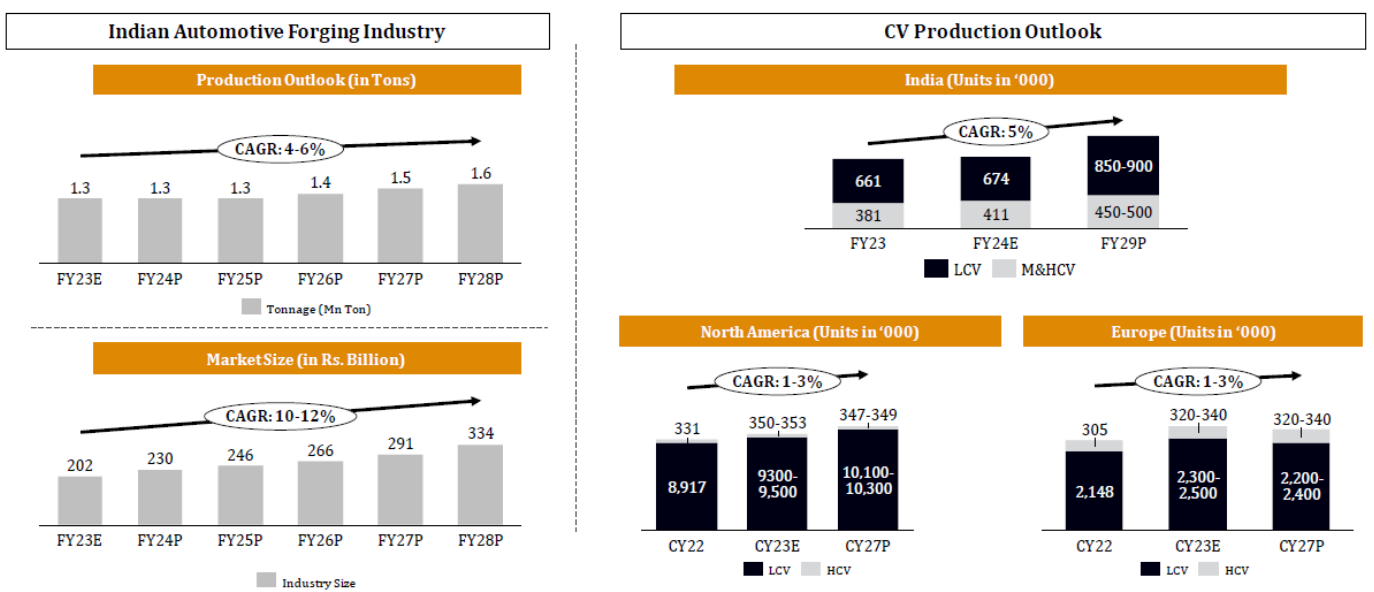
Lead Analyst

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- **To unfold large railways opportunities through fabrication capabilities** - RKFL started its supplies to railways segment and with fabrication capacities in place, expect the segment to grow ahead. Currently supplying locomotives, passenger and freight segment. Through fabrication, supplying to LHB coaches and currently talks are in advance stage for other advanced railway applications.
- **Multitech Auto acquisition (MAPL) - A casting wings of RKFL** - Have capability to cast parts up to 240kgs weight with overall capacity of ~22k tons and co will be adding ~23k tons of casting capacity at MSPL. In addition, JMT (other recent acquisition) also have casting capacity of ~12k tons to be added to overall casting capacity. MAPL manufactures machined cast parts for MHCV and railways segments. With MAPL, company have added new customers and product segment such as braking components.
- **Target to penetrate Oil and Gas segment through JMT Auto acquisition** - target is to penetrate more in oil and gas segment, which have high approval gestation. The segment requires specific machines for example, 9 axis machines required for critical steel etc. Co have added new customer like TAFE. Gear machining will also be growth area. JMT plant was shut for ~3 years and co is refurbishing equipment. Will take some time but be able to sell casting from Apr'24 and Forgings by May'24 as customers are ready to comeback. Expect optimal margins from JMT from FY26E. ~3.5% of the current business is from O&G segment. JMT will further expand. USD10-12m business will be done by JMT which will be high margin by end of FY26.
- **ACIL (Amtek Crankshafts) acquisition** - ACIL's has current manufacturing capacity of ~48 lacs units per annum of 2W crankshaft and ~2.4 lacs units per annum of 3/4 cylinder crankshaft. RKFL proposes to add a 6-cylinder crankshaft machining facility (for HCV) having capacity of 80,000 units per annum by FY26. It is a forward integration which will enable the company to supply machined crankshafts for tractors, PV, HCV, LCV as well as two wheelers.
- **Tsuyo - entry into EV vertical** with an agreement to acquire ~51% of the company. Co is currently making Mid-Drive BLDC, IPM and AC Induction based motor topologies. Tsuyo had decent presence in L3 and L5 segment of 3Ws. Post-acquisition, co have ventured into trucks segment under M1 category with supply of motors (15kw) for 9M buses.

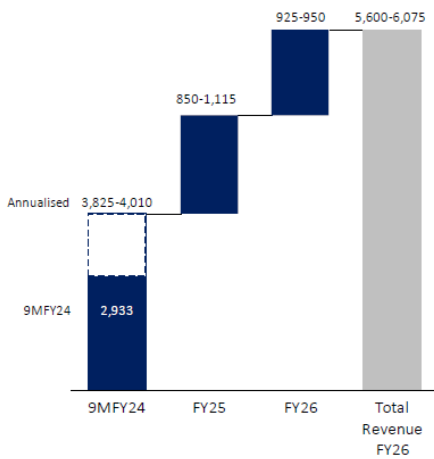
**Exhibit 1: RMKF target to outgrow the underlying industry led by organic and inorganic drivers**



Source- Company, YES Sec

## Exhibit 2: RMKF – consolidated revenue growth targets of Rs56-60b by FY26E

(₹ in Crores)



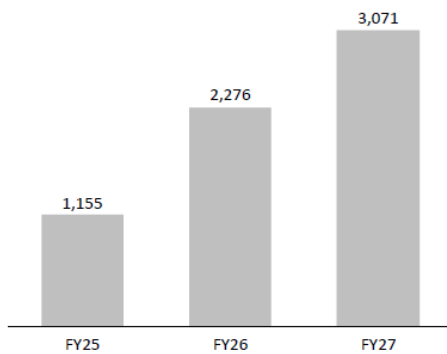
| Particulars                   | 9MFY24       | FY24 Annualised    | FY25               | FY26               |
|-------------------------------|--------------|--------------------|--------------------|--------------------|
| <b>Company</b>                |              |                    |                    |                    |
| - Ramkrishna Forgings Limited | 2,603        | 3,400-3,500        | 3,800-4,100        | 4,500-4,800        |
| <b>Subsidiaries</b>           |              |                    |                    |                    |
| - Multitech Auto / JMT Auto   | 129          | 175-225            | 525-575            | 600-675            |
| - ACIL Limited                | -            | 5                  | 100-150            | 225-275            |
| - Globe All India Services    | 201          | 250-280            | 250-300            | 275-325            |
| <b>Total</b>                  | <b>2,933</b> | <b>3,825-4,010</b> | <b>4,675-5,125</b> | <b>5,600-6,075</b> |

Source- Company, YES Sec

## Exhibit 3: Order book and capacity buildup to drive growth

### Recent Order Wins & Execution Period\*

(₹ in Crores)



### Summary on Capacity Expansion

(In Metric Tonnes)

| Particulars                  | Existing       | Planned Addition |                |                |
|------------------------------|----------------|------------------|----------------|----------------|
|                              |                | FY24             | H1FY25         | FY25           |
| <b>Capacity - Standalone</b> |                |                  |                |                |
| - Forging                    | 210,900        | 243,400          | 268,400        | 308,400        |
| <b>Capacity - Subsidiary</b> |                |                  |                |                |
| - Casting                    | 21,600         | 21,600           | 33,600         | 62,400         |
| - Forging (JMT Auto)         | -              | -                | 18,000         | 18,000         |
| <b>Total</b>                 | <b>232,500</b> | <b>265,000</b>   | <b>320,000</b> | <b>388,800</b> |

Source- Company, YES Sec

## Exhibit 4: RMKF targets capex and investments of Rs5.3-5.5b each for FY25E and FY26E

| Particulars                       | FY24       | FY25       | FY26       |
|-----------------------------------|------------|------------|------------|
| Capex Standalone                  | 485        | 350        | 350        |
| Capex Subsidiary                  | 20         | 135        | 110        |
| Acquisition Payout                | 278        | -          | -          |
| Equity commitment for Titagarh JV | 72         | 70         | 70         |
| <b>Total Capex + Investments</b>  | <b>855</b> | <b>555</b> | <b>530</b> |
| Consolidated Debt                 | 890        | 748        | 169        |

Source- Company, YES Sec

## FINANCIALS

### Exhibit 5: Balance Sheet

| Y/E March (Rs mn)               | FY20   | FY21   | FY22   | FY23   | 1HFY24 |
|---------------------------------|--------|--------|--------|--------|--------|
| Equity Share Capital            | 326    | 319    | 320    | 320    | 329    |
| Eq. Share Warrants & App. Money | 0      | 0      | 0      | 0      | 0      |
| Preference Capital              | 0      | 0      | 0      | 0      | 0      |
| Total Reserves                  | 8,434  | 8,507  | 10,464 | 12,898 | 15,117 |
| Net Worth                       | 8,760  | 8,826  | 10,784 | 13,218 | 15,446 |
| Minority Interest               | 0      | 0      | 0      | 0      | 0      |
| Total Loans                     | 9,019  | 12,497 | 16,339 | 13,770 | 16,029 |
| Deferred Tax Liabilities        | 594    | 654    | 744    | 1,159  | 1,343  |
| Capital Employed                | 18,373 | 21,977 | 27,867 | 28,147 | 32,817 |
| Gross Block                     | 11,696 | 17,423 | 21,396 | 25,505 | 29,649 |
| Less: Accum. Deprn.             | 0      | 5,069  | 6,714  | 8,628  | 10,485 |
| Net Fixed Assets                | 11,696 | 12,353 | 14,682 | 16,877 | 19,164 |
| Goodwill                        | 50     | 50     | 50     | 50     | 737    |
| Capital WIP                     | 2,190  | 2,756  | 1,295  | 907    | 1,814  |
| Total Investments               | 0      | 1      | 551    | 1      | 107    |
| Curr. Assets, Loans&Adv.        | 7,918  | 11,537 | 17,515 | 18,504 | 21,549 |
| Inventory                       | 3,587  | 4,381  | 7,091  | 9,069  | 10,240 |
| Account Receivables             | 3,427  | 5,729  | 8,906  | 7,752  | 9,007  |
| Cash and Bank Balance           | 33     | 685    | 384    | 473    | 648    |
| Loans and Advances              | 871    | 742    | 1,133  | 1,210  | 1,653  |
| Curr. Liability & Prov.         | 3,914  | 5,066  | 6,969  | 9,158  | 11,994 |
| Account Payables                | 2,140  | 4,330  | 6,082  | 7,915  | 9,714  |
| Other Current Liabilities       | 1,716  | 678    | 823    | 1,147  | 2,141  |
| Provisions                      | 59     | 58     | 65     | 96     | 139    |
| Net Current Assets              | 4,003  | 6,470  | 10,545 | 9,346  | 9,555  |
| Deferred Tax assets             | 3      | 26     | 29     | 7      | 1      |
| Other Non Current Assets        | 431    | 320    | 714    | 958    | 1,438  |
| Appl. of Funds                  | 18,374 | 21,977 | 27,866 | 28,147 | 32,817 |

Source: Company, YES Sec

## Exhibit 6: Income statement

| Y/E March (Rs mn)             | FY20   | FY21   | FY22   | FY23   | 9MFY24 |
|-------------------------------|--------|--------|--------|--------|--------|
| Total Income from Operations  | 12,165 | 12,889 | 23,202 | 31,929 | 29,316 |
| Change (%)                    | -37.0  | 6.0    | 80.0   | 37.6   | 27.4   |
| Raw Materials                 | 5,561  | 6,408  | 12,142 | 16,037 | 15,366 |
| Employees Cost                | 1,028  | 960    | 1,272  | 1,577  | 1,462  |
| Other Expenses                | 3,123  | 3,298  | 5,153  | 7,323  | 6,262  |
| Total Expenditure             | 10,092 | 10,662 | 18,032 | 25,006 | 23,090 |
| % of Sales                    | 83.0   | 82.7   | 77.7   | 78.3   | 78.8   |
| EBITDA                        | 2,073  | 2,227  | 5,170  | 6,923  | 6,226  |
| Margin (%)                    | 17.0   | 17.3   | 22.3   | 21.7   | 21.2   |
| Depreciation                  | 1,205  | 1,167  | 1,694  | 2,016  | 1,857  |
| EBIT                          | 868    | 1,060  | 3,477  | 4,907  | 4,369  |
| Intrest Charges               | 787    | 798    | 959    | 1,202  | 1,160  |
| Other Income                  | 68     | 56     | 15     | 40     | 104    |
| PBT before share of associate | 148    | 318    | 2,532  | 3,744  | 3,313  |
| Extraordinary Exp             | 0      | 0      | 0      | 0      | 5      |
| PBT after share of associate  | 148    | 318    | 2,532  | 3,744  | 3,308  |
| Total Tax                     | 51     | 111    | 552    | 1,263  | 832    |
| Tax Rate (%)                  | 34.3   | 34.8   | 21.8   | 33.7   | 25.2   |
| Minority Interest             | -      | -      | -      | -      | -      |
| Reported PAT                  | 97     | 207    | 1,980  | 2,481  | 2,476  |
| Adjusted PAT                  | 97     | 207    | 1,980  | 2,481  | 2,476  |
| Change (%)                    | -91.9  | 112.9  | 855.8  | 25.3   | 37.8   |
| Margin (%)                    | 0.8    | 1.6    | 8.5    | 7.8    | 8.4    |

Source: Company, YES Sec

## Exhibit 7: Cash Flow Statement

| Y/E March (Rs mn)          | FY20    | FY21    | FY22    | FY23    | 1HFY24  |
|----------------------------|---------|---------|---------|---------|---------|
| OP/(Loss) before Tax       | 148     | 317     | 2,532   | 3,744   | 2,138   |
| Depreciation               | 1,205   | 1,167   | 1,694   | 2,016   | 1,180   |
| Interest & Finance Charges | 771     | 774     | 958     | 1,189   | 734     |
| Direct Taxes Paid          | (71)    | (14)    | (475)   | (683)   | (704)   |
| (Inc)/Dec in WC            | 651     | (801)   | (4,096) | 1,592   | (164)   |
| CF from Operations         | 2,704   | 1,444   | 612     | 7,859   | 3,185   |
| Others                     | (162)   | (49)    | (181)   | (406)   | (197)   |
| CF from Operating incl EO  | 2,542   | 1,395   | 431     | 7,453   | 2,988   |
| (Inc)/Dec in FA            | (2,272) | (2,301) | (2,994) | (3,549) | (2,658) |
| Free Cash Flow             | 270     | (905)   | (2,563) | 3,903   | 330     |
| (Pur)/Sale of Investments  | 2       | (3)     | (561)   | 545     | 12      |
| Others                     | (43)    | 86      | 11      | 12      | (2,234) |
| CF from Investments        | (2,313) | (2,217) | (3,544) | (2,992) | (4,881) |
| Buyback of shares          | 0       | (156)   | 18      | 0       | 0       |
| Inc/(Dec) in Debt          | 600     | 2,403   | 3,807   | (2,967) | 2,490   |
| Interest Paid              | (765)   | (778)   | (975)   | (1,138) | (718)   |
| Dividend Paid              | (59)    | 0       | (48)    | (272)   | (80)    |
| Others                     | 0       | 0       | 0       | 0       | 0       |
| CF from Fin. Activity      | (224)   | 1,469   | 2,802   | (4,377) | 1,692   |
| Inc/Dec of Cash            | 5       | 647     | (311)   | 83      | (201)   |
| Opening Balance            | 21      | 26      | 673     | 362     | 445     |
| Bank Balance               | 7       | 11      | 22      | 28      | 0       |
| Closing Balance            | 33      | 684     | 384     | 473     | 245     |

Source- Company, YES Sec

## Exhibit 8: Growth and Ratio matrix

| Y/E March                     | FY20    | FY21  | FY22  | FY23 | 1HFY24 |
|-------------------------------|---------|-------|-------|------|--------|
| <b>Basic (INR)</b>            |         |       |       |      |        |
| EPS                           | 0.6     | 1.3   | 12.4  | 15.5 | 15.1   |
| Cash EPS                      | 8.0     | 8.6   | 23.0  | 28.1 | 26.3   |
| BV/Share                      | 53.7    | 55.3  | 67.5  | 82.7 | 93.9   |
| DPS                           | 0.0     | 0.3   | 0.2   | 1.7  | 0.5    |
| Payout (%)                    | 0.0     | 23.1  | 1.6   | 11.0 | 0.0    |
| <b>Valuation (x)</b>          |         |       |       |      |        |
| P/E                           | 1,283.2 | 590.2 | 61.8  | 49.4 | 50.9   |
| Cash P/E                      | 95.8    | 89.0  | 33.3  | 27.2 | 29.1   |
| P/BV                          | 14.3    | 13.9  | 11.4  | 9.3  | 8.2    |
| EV/Sales                      | 11.0    | 10.4  | 6.0   | 4.3  | 4.7    |
| EV/EBITDA                     | 64.6    | 60.3  | 26.8  | 19.6 | 22.2   |
| Dividend Yield (%)            | 0.0     | 0.0   | 0.0   | 0.2  | 0.1    |
| FCF per share                 | 1.7     | -5.7  | -16.0 | 24.4 | 2.0    |
| <b>Return Ratios (%)</b>      |         |       |       |      |        |
| RoE                           | 1.1     | 2.4   | 20.2  | 20.7 | 18.1   |
| RoCE (post-tax)               | 3.3     | 3.3   | 9.8   | 11.6 | 10.2   |
| RoIC                          | 3.5     | 3.7   | 10.6  | 12.1 | 10.8   |
| <b>Working Capital Ratios</b> |         |       |       |      |        |
| Fixed Asset Turnover (x)      | 1.0     | 0.7   | 1.1   | 1.3  | 1.0    |
| Asset Turnover (x)            | 0.7     | 0.6   | 0.8   | 1.1  | 0.9    |
| Inventory (Days)              | 108     | 124   | 112   | 104  | 127    |
| Debtor (Days)                 | 103     | 162   | 140   | 89   | 112    |
| Creditor (Days)               | 64      | 123   | 96    | 90   | 121    |
| <b>Leverage Ratio (x)</b>     |         |       |       |      |        |
| Current Ratio                 | 2.0     | 2.3   | 2.5   | 2.0  | 1.8    |
| Interest Cover Ratio          | 1.1     | 1.3   | 3.6   | 4.1  | 3.8    |
| Net Debt/Equity               | 1.0     | 1.3   | 1.4   | 1.0  | 1.0    |

Source: Company, YES Sec

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