Ramkrishna Forgings Limited

Shaping the future !!

Accumulate

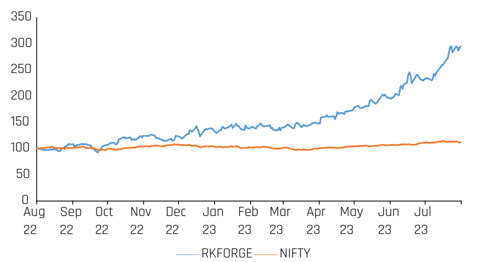
Key Data	
DATE	07.08.2023
Reco Price	560 - 570
Target	725
Upside	27.21%
Sector	Capital Goods - Castings & Forgings
Bloomberg Code	RMKF:IN
BSE Code	532527
NSE Code	RKFORGE
EPS (FY23)	42.7
Face Value (Rs.)	2.0
Market Cap (Mn)	90,009.8
Shares O/s (Mn)	160.0
Debt/Equity (x)	1.0
52-week High (Rs)	575.0
52-week Low (Rs)	175.5

Source : NSE, BSE

Shareholding pattern (June-2023)	%
Promoters	46.27
DIIs	4.20
FIIs	16.34
Public	33.19
Total	**100.00**

Source : NSE, BSE

Price Performance



Rebase to 100

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Ramkrishna Forgings Limited

Company Background

Ramkrishna Forgings Limited (RKFORGE) was incorporated in 1981, primarily engaged in the manufacturing and sale of forged components for automobiles, railway wagons & coaches, and engineering parts. Its products include rolled products, forged products, and machined products. RKFL is also a critical safety item supplier for screw coupling, bolster suspension, side frame keys, and draw gear assembly for railway coaches and wagons. The Company has manufacturing facilities in Gamaria, Adityapur industrial area, Baliguma, Dugni at Saraikela, Jamshedpur in Jharkhand, and Liluah in West Bengal. The Company's wholly-owned subsidiaries include Globe All India Services Limited, Ramkrishna Aeronautics Private Limited, and Ramkrishna Forgings LLC, USA.

RKFL manufactures forged and computer numerical control machined components for the automobile, railways, defense, oil & gas, and mining sectors. The company produces components for transmissions and axles, including shafts, gearboxes, crown wheels, pinions, spindles, and bearing rings for the automotive sector.

Outlook and Valuation

The company's growth will be driven by several factors: (1) robust management guidance, (2) organic and inorganic growth plans, and diversification strategies, (3) timely commissioning of new capacities, (4) management's focus on sustaining high operating margins, and (5) a widening product portfolio. We believe the company is well-positioned to capitalize on these opportunities. Looking ahead, **we expect the company's revenue to grow at a Compound Annual Growth Rate (CAGR) of 22% over FY23-FY26E.** Therefore, we recommend investing in Ramkrishna Forgings Limited, with a target price of Rs. 725 based on FY26E EPS of Rs. 42.7 and a forward PE valuation multiple of 17. **It appears to be a value buy with significant growth potential for medium to long-term investment. As a result, we recommend an ACCUMULATE rating for the long term.**

Financial Snapshot (Standalone)

Particulars (in Mn.)	FY23	FY24E	FY25E	FY26E	CAGR % (FY23 - FY26E)
Sales	30,010.00	36,545.10	44,434.10	54,455.40	22.0%
EBITDA	6,680.40	8,281.40	10,158.00	12,557.80	23.4%
EBITDA Margin %	22.30%	22.70%	22.90%	23.10%	
PAT	2,356.00	3,650.20	5,003.80	7,016.40	43.9%
PAT Margin %	7.90%	10.00%	11.30%	12.90%	
EPS	14.7	22.2	30.4	42.7	
D/E (x)	1.0	1.4	0.9	0.6	

Source: Company, ACMIIL Retail Research

Company at a glance

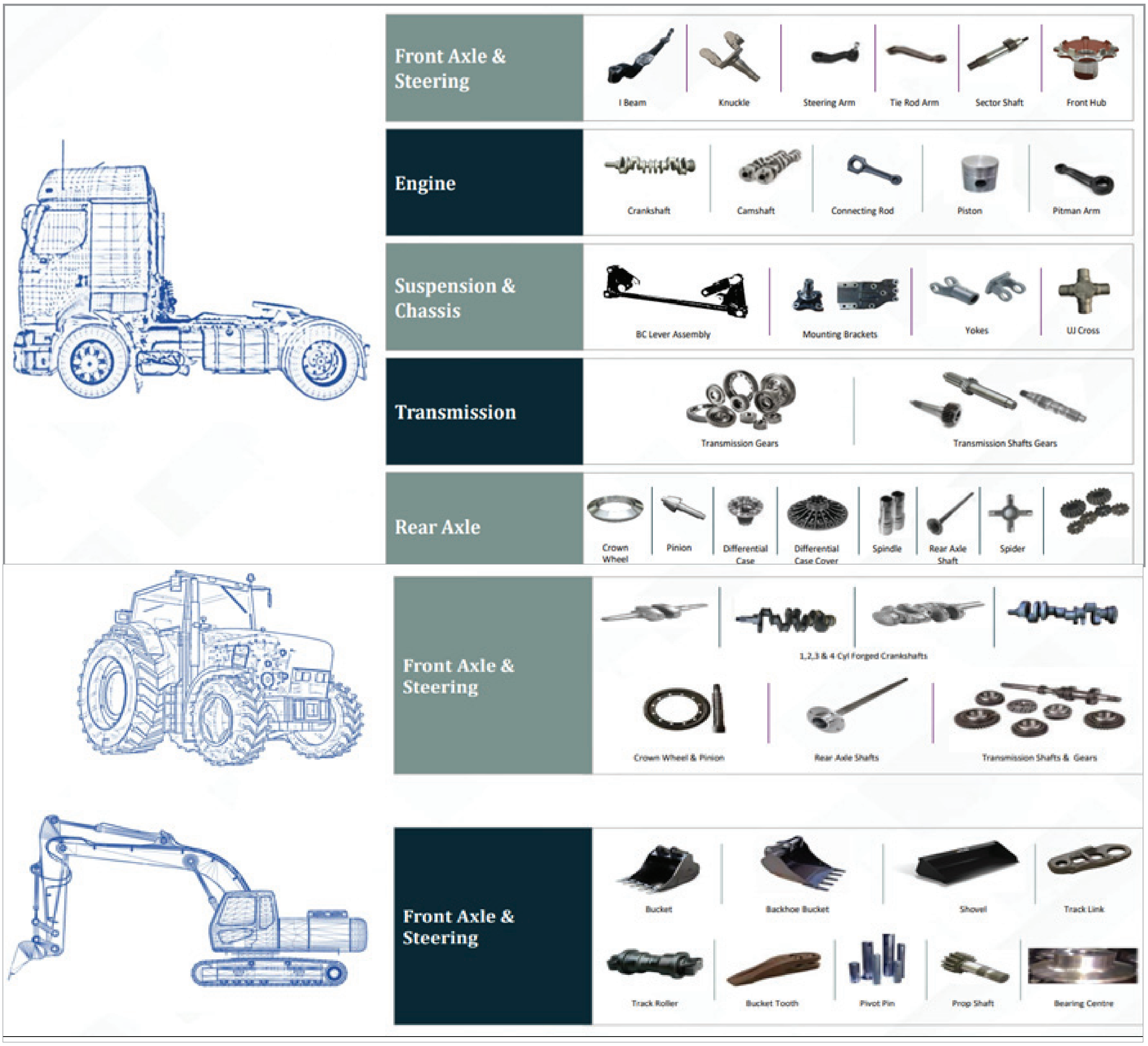
- Manufacturer and supplier of a variety of auto and non-auto components.
- Global presence with footprints in North America and Europe.
- 2nd largest forging player in India with over 40 years of experience.
- Longstanding relationship with marquee customers.
- Continued focus on diversification with a foray into EV components.
- Promoter possessing multi-decade forgings industry experience

Company Business and Products

The Company is primarily engaged in the manufacturing and sale of forged components of automobiles, railway wagons & coaches, and engineering parts.

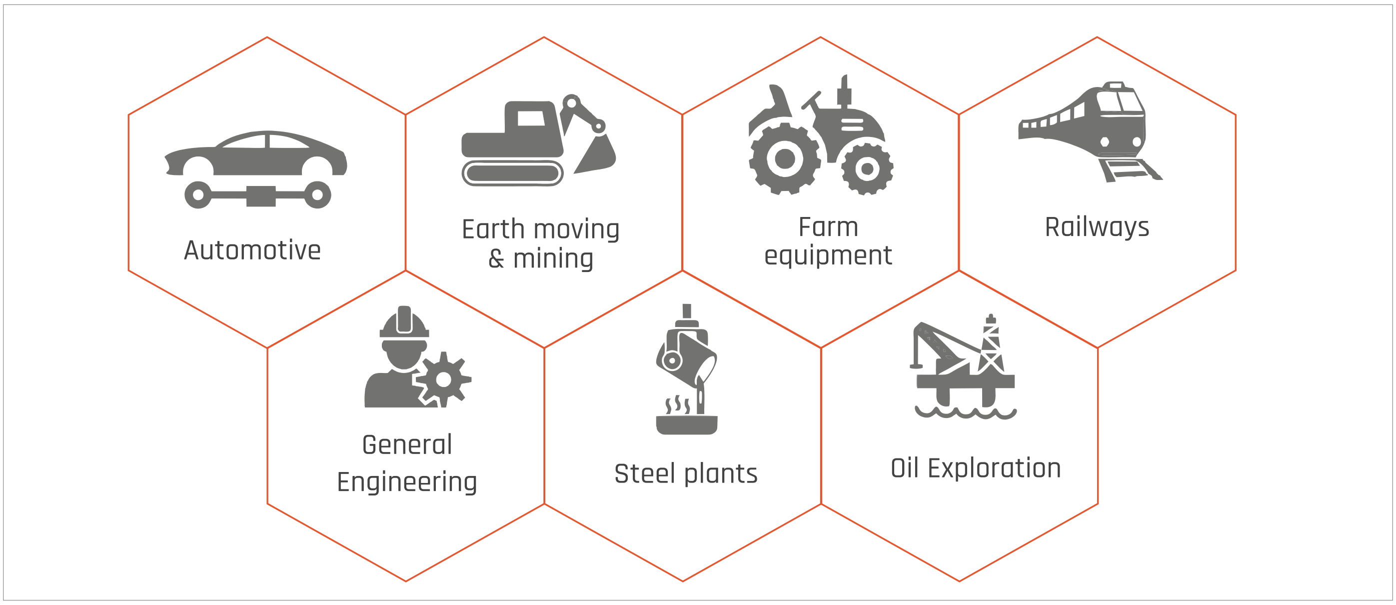
The product portfolio includes:

- **Forged Products:** This category includes products in the weight ranges of 2 kg to 200 kg, such as Crankshaft, I Beam, Knuckle, Diff Case, etc.
- **Rolled Products:** This category features a fully automated Ring Rolling Line, along with an ISO thermal Annealing line and CNC-controlled Vertical Machining Centers with Robo drills, providing full machining capabilities as per the customer's requirements.
- **Machined Products:** This category encompasses different types of Gear, Front hubs, Pitman arms, Prop Shafts, etc.



Industries Catered

Ramkrishna Forgings Limited has a rich experience of working across industries



Source: Company, ACMIIL Retail Research

Clientele

The company has a wide customer base including –

Source: Company, ACMIIL Retail Research

Investment Idea

Investment Rationale

Commercial Vehicle (CV) industry is on the path of a cyclical recovery.

We see strong underlying demand for CVs domestically. We also expect a strong improvement in M&HCV sales to continue, driven by a rise in e-commerce, agriculture, infrastructure, and mining activities. The demand remains stronger for both medium-duty and heavy-duty vehicles as most global OEMs and auto component suppliers maintain a positive outlook for the CV industry.

Beneficiary of strong demand and margin improvement with a better product mix.

We expect RKFL to benefit from the CV upcycle across geographies, led by improved prospects for CVs in India and globally. Global OEMs and tier-1 suppliers maintain a positive outlook for the CV segment. RKFL is committed to growing its business profitably and de-risking its business model by diversifying into new geographies and sectors and widening its product portfolio. The company's focus on increasing the share of value-added and critical components will help to improve realizations and EBITDA margins. The Company also targets to be net debt-free in the next three years with an improvement in operating performance.

Update on Contract with Railways.

In March 2023, the consortium of RKFL and Titagarh Rail Systems Limited (Titagarh) won a contract for supplying around 15,40,000 forged wheels to the Indian Railways annually for a period of 20 years. The investment is also likely to happen in a staggered manner. As per management, the Joint Venture (JV) with Indian Railways for forged wheels will require a capex of close to around 1,200 Crores, with a 51%-49% JV model (51% stake in JV of RK and balance 49% Titagarh rail systems) and share of finances, and expected business of close to around 28,000 Crores over the next 20 years. Production is set to start from the last quarter of FY 2026.

Diverse Customer Base with Global Penetration through Exports.

RKFL's largest customer, Tata Motors Limited (TML), has been the major contributor to revenue historically; however, the contribution from TML has reduced due to continuous diversification in the customer portfolio. Moreover, RKFL signs long-term contracts with export clients, which increases revenue visibility. RKFL also benefits from its preferred supplier status and maintains a high share of business with marquee clients both in domestic and export markets.

Expanding the EV Portfolio.

The Company is set to acquire up to 51% voting rights in TSUYO Manufacturing, which is a leading Mid-Drive BLDC, IPM, and AC Induction based motor topologies & a Make In-India start-up company engaged in powertrain solutions for electric vehicles. This will aid in expanding its facilities for the manufacturing of motors, controllers, E-axles, and differentials. The Company plans to invest around Rs. 100 Crores over the next 5 (five) years that will generate a turnover of around Rs. 500 Crores by the end of the fifth year.

Enhancing Product Portfolio.

The acquisition of JMT Auto by RKFL is poised to facilitate the company's expansion through diversification and enhanced market penetration. JMT Auto brings valuable prowess to the table within the automotive domain, boosting notable strengths in heat treatment, gear manufacturing, and the production of diverse components for the Oil and Gas industry.

Foraying into Newer Segments.

The company is in line with the focus that the acquisition with ACIL will help the company to foray into the Tractors and PV segments. It will be a forward integration that will enable the company to supply machined crankshafts, and camshafts for tractors, PV, HCV, LCV as well as two-wheelers. Besides, the company also manufactures various products that are used in Tractors and PV.

Acquisition with MAPL to give an edge.

RKFL is focusing on taking a 100% stake in Multitech Auto Pvt. Ltd. (MAPL), which is engaged in the business of manufacturing casting and bar draw facilities. The company offers a wide range of hi-tech, machined, heat-treated automobile components from bars, castings, primarily for brakes, gearboxes, axle, and suspension parts of commercial vehicles and railways. RKFL's strategic pursuit of acquiring casting was driven by the vision of evolving, within the coming two years, from a mere component supplier to a comprehensive assembly provider. This transition encompasses delving into product platforms, self-manufacturing castings, and seamless assembly integration with forging processes. It will also create opportunities of supplying castings to railways and other off-highway and other applications.

MAPL did the turnover of around INR 300 Crores in FY '23 & EBITDA margin of around 14% and RKFL paid around 205 crores for this acquisition. This acquisition marks significant step forward in the company's growth strategy. RKFL expecting additionally Rs. 500-600 crores to add on the consolidated topline and also improvement of EBITDA margin by 200 to 250 bps in next 2 years. It will also lead to expansion of its product line and fortifying its presence in the passenger vehicle, light commercial vehicle and heavy commercial vehicle segments.

Incremental Revenue growth from Non-Auto by FY26.

The Company's roadmap for getting into 30% non-auto business (Presently 21%) is intact in the next couple of years, and it will be able to achieve that on a stand-alone basis of RKFL. In terms of acquisition or investment, which they have made into this, this is basically getting into new platforms and new businesses or product lines rather than being a component supplier. The additional non-Auto Revenue will come from Railways 7% (Presently 3%), Oil & gas 3.5% (Presently 1.9%), Farm Equipment, mining or earth moving & Other Industries will contribute for Incremental 3.5% by FY26.

Additional Key Growth Drivers

- The company aims to capture 20% of the market share of trailer axle assembly in the next three years.
- RKFL has already commissioned a capacity of 23,800T, and the remaining 32,500T capacity would be commissioned by September 2023.
- The company has a scheduled capex of Rs. 300 crore-350 crore for FY2024, and RKFL targets to fund its future capex largely via internal accruals.
- With a capex of Rs. 125 crore, RKFL is adding a cold forging capacity of 25,000T. The cold forging capacity is expected to be commissioned by Q1FY2025. The cold forging capacity has been entirely booked by an OEM for the next seven years.
- Management is optimistic about outperforming the industry growth due to value addition and expansion of product bandwidth.
- With the acquisition of the casting facility, RKFL is aiming to become a system supplier from a component supplier.
- Management aims to outperform the underlying industry's growth and targets volume growth of 15-20% in the next three years.
- It secured an order of EUR 4.5 million from a European railway passenger coach manufacturer.
- The Company has signed the MOU with ePropelled (USA) to manufacture their patented Dynamic Torque SwitchingTM (eDTS) motor technology. This technology will provide the light EV manufacturers in India with an innovative energy-saving solution for the high-growth eMobility market.
- RKFL has successfully started dispatching warm forging processed parts to India's leading Axle manufacturer after commissioning its Warm Forging Plant. It expects to generate revenues of 75 crores from the same over the next 3 years.
- The government push towards Make in India to boost India's manufacturing capabilities for domestic consumption as well as export thrust will also drive growth for RKFL who is engaged in to casting & Forgings of components and also expanding product portfolios through organic & Inorganic growth strategies.
- The Major capex allocations by government of Rs 2 lakh crore on Railways in current budget of FY23/24 will be critical driver for growth in railway sector as a whole. Government will continue to spend on railways in coming years on locomotives, Vande Bharat trains etc. which will drive future growth of the company to enhance Revenue from Railway segments.
- There will be change in Tax rate of the company to 25% from earlier 30% from FY24 which will lead to significant jump in PAT margin in coming years.

Industry Overview

The Indian Automotive Industry, the fourth-largest sector in the country, is on the upswing, and all major producers are relocating their manufacturing to be near the upcoming biggest consumer markets. Currently, India is the world's third-largest casting producer. This will further open more opportunities for the casting and forging industries, both for domestic production and exports. The manufacturing processes of casting and forging are known to give intricate shapes to industrial components. The major difference between the two is that forging is extensively obtained with the usage of iron and steel metal. No industrial product can be considered complete without the processes of casting and forging. Both processes have been in existence since the beginning of the industrial revolution. However, forgings are preferred over casting because of better directional strength, high impact toughness, fatigue properties, and structural integrity.

Casting and forging are key engineering segments supplying various components to end-user industries such as Railways, Automobiles, Defense, Aerospace, Material handling, Construction equipment, and Mines. The Indian casting and forging sector has equipped itself to retain its prowess and accelerate revenue from the auto sector. Heavy expansion by way of organic and inorganic growth has been playing an important role in this industry.

The Indian automobile sector is currently moving towards growth in the new fiscal year with robust sales across all vehicle categories. The 'Make in India' program aims to raise the contribution of the manufacturing sector to 25% of the Gross Domestic Product by 2025. The Indian Automotive industry commands 22% of India's manufacturing GDP and 7% of India's overall GDP.

Investment Idea

The Automotive industry depends significantly on steel-forged metal components. Forged steel is used for demanding applications such as crankshafts, transmission gears, and bearings, and is essential in handling the torque and stress placed on these components. Intense competition among the key players is driving the demand for more attractive and lightweight vehicles in the country. The industry is looking at double growth rates spurred by imminent demand from emerging sectors, resulting in an increase in the set-up of foreign businesses in India, which will encourage export opportunities with a manufacturing hub in India.

Prospects for Indian Forging Sector:

The Indian forging industry is well recognized globally for its technical capabilities. With an installed capacity of about 40 lakh MT, the Indian forging industry has the capability to forge a variety of raw materials, as per the requirements of the user sector. The domestic forging industry comprises 85% of the MSME sector, employing over 3 lakh people directly and an equal number of people indirectly. Over the years, the Indian forging industry has evolved from being a labor-intensive industry to a capital-intensive manufacturing sector. Moreover, the introduction of Electric Vehicles will have a direct impact on the forging industry, reducing demand for movable parts used in vehicles.

As an essential de-risking strategy, the forging industry is focused on establishing its presence in the non-automotive domains such as infrastructure, defense, healthcare, and railways – some of these sectors are also high on the government's priority.

Prospects of the Small Commercial Vehicle (CV) Market:

Significant structural changes are transpiring in the domestic CV space currently. Moreover, it is expected that the sector will see a full play-out of these changes in the next 10 years. Some of the structural changes had started even before the pandemic, like axle load norms and the second was BS VI.

The CV industry will get into different segments more and more. With the government's sharpened focus on expressways (Delhi-Mumbai Expressway being the most recent among a host of others that are planned) and considerable private sector investment in multi-modal logistics parks across the country, demand for high-speed and heavy commercial vehicles is expected to increase. For intra-city distribution, medium or small trucks will come into the limelight. As a result, the hub-and-spoke model will become the new normal.

The Indian Small Commercial Vehicle Market in the year FY2021 stood at USD 1909.91 million. The market is anticipated to grow further with a CAGR of 15.14% in the forecast years FY2023-FY2027, to achieve a market value of USD 4256.93 million by FY2027. As such, this market is anticipated to grow on account of increasing logistic services in the local market. Government initiatives, financial support, and increasing investments by manufacturing companies are further driving the growth of the Indian Small Commercial Vehicle Market in the upcoming five years.

Rapidly growing road and highway infrastructures, growing online shopping and shipping networks are further supporting the growth of the Indian Small Commercial Vehicle Market in the next five years. Increasing urbanization, growing small and medium businesses, increasing the transportation of products between local and regional destinations are substantiating the growth of the Indian Small Commercial Vehicle Market in the future five years.

Industry Growth Drivers

- The Indian metal casting market is expected to grow at a CAGR of 6.7% during 2023-2028.
- The growing preference for electric vehicles (EVs) among individuals, on account of rising environmental concerns, is propelling the market growth.
- The Indian Railways will continue to unearth opportunities for RKFL to strengthen its infrastructure, improve its services, and utilize its assets better with the objective of making its revenue stream more robust.
- The government's plan to clean India's MHCV fleet through a two-pronged policy-led strategy: i) Successfully establishing BSVI emission norms. This policy is framed to ensure that new vehicles adhere to stringent emissions, and ii) The second phase of Corporate Average Fuel Efficiency (CAFE) norms is slated for an April 2022 rollout. This policy aims to lower the existing fleet's emissions by taking old and polluting vehicles off the road.
- The Scrappage Policy in India, 2022 aims to pull out more than 6,80,000 MHCVs from the road which have reached the end-of-life (i.e., greater than 15 years old). This will lead to further growth in the CV segments as a whole.
- With the objective of strengthening the 'Make in India' resolve, the Government has announced PLI schemes for promoting multiple sectors, namely pharma, textiles, automotive, and auto-components, among many others. This initiative has garnered significant interest with firm investment proposals. This augurs well for the logistics sector and the commercial vehicle demand.

Investment Idea

- The government has strengthened its focus on infrastructural development within the country. It is facilitating an investment of Rs100 trillion. under the PM Gati Shakti plan which focuses on seven engines of growth. The project is aimed at easier inter-connectivity between road, rail, air, and waterways to reduce travel time and enhance industrial productivity. It is considered to be the government's integrated approach to developing modern railways, roadways, waterways, and airways.

Story in Charts (Values in Mn.)

Exhibit 1: Sales Growth

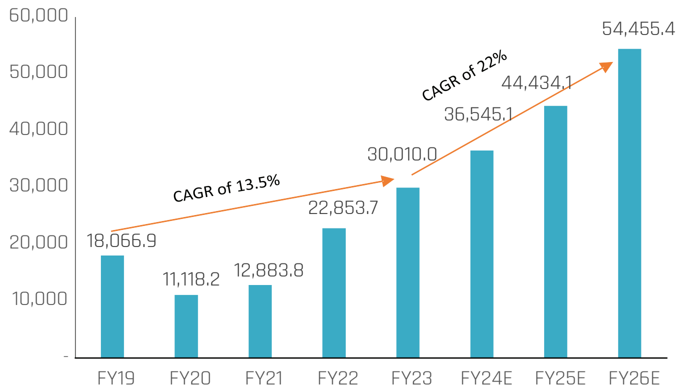


Exhibit 2: EBITDA & EBITDA Margin (%)

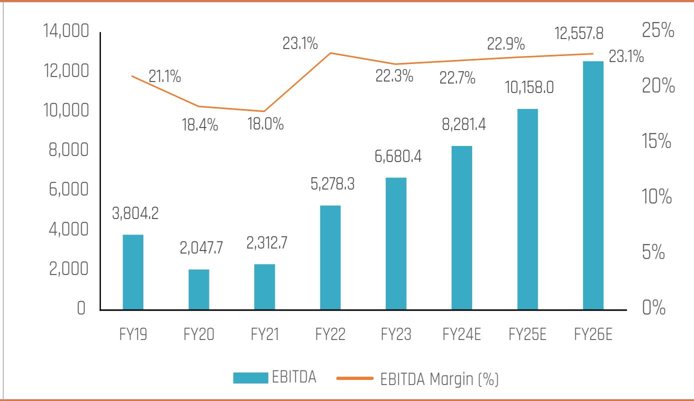


Exhibit 3: PAT & PAT Margin (%)

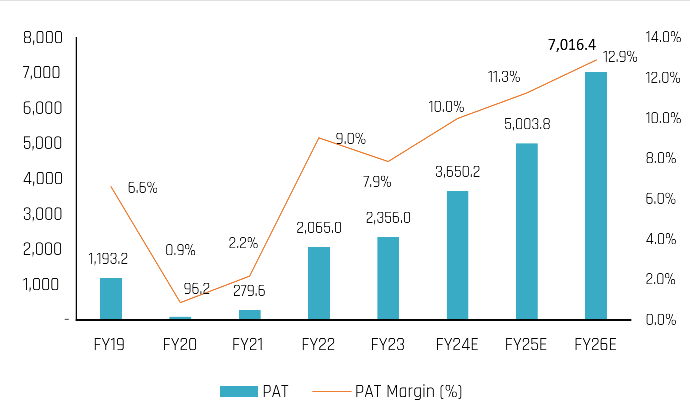


Exhibit 4: Segment Wise breakup

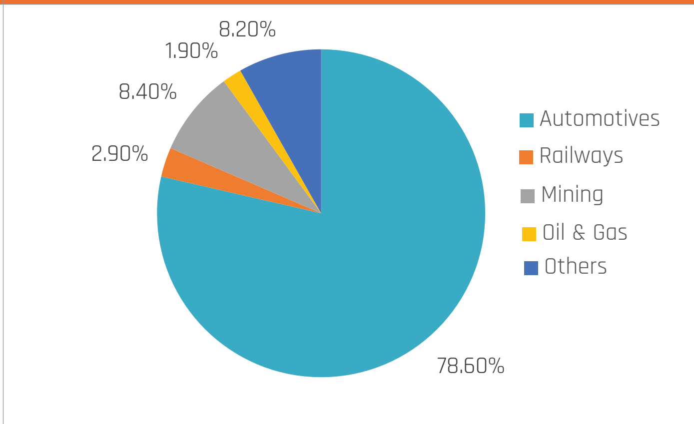
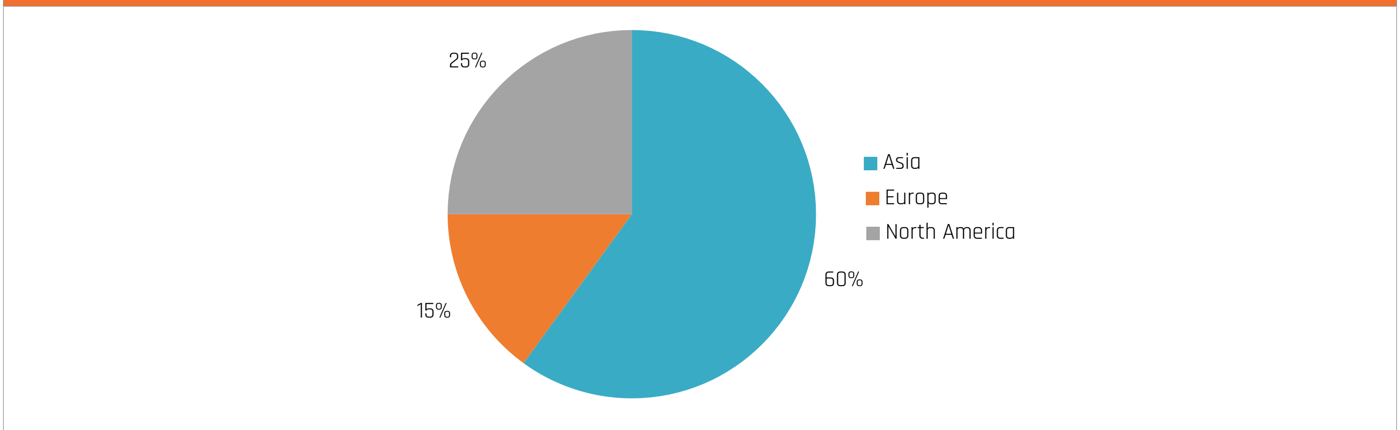


Exhibit 5: Location wise breakup



Source: Company, ACMIIL Retail Research

Financial Statements

Standalone Profit & Loss Statement:

Particulars (in Mn.)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales	18,066.9	11,118.2	12,883.8	22,853.7	30,010.0	36,545.1	44,434.1	54,455.4
Expenses	14,262.7	9,070.5	10,571.1	17,575.4	23,329.6	28,263.7	34,276.1	41,897.6
EBITDA	**3,804.2**	**2,047.7**	**2,312.7**	**5,278.3**	**6,680.4**	**8,281.4**	**10,158.0**	**12,557.8**
EBITDA Margin %	**21.1%**	**18.4%**	**18.0%**	**23.1%**	**22.3%**	**22.7%**	**22.9%**	**23.1%**
Other Income	28.5	57.0	38.3	16.1	37.7	85.0	11.0	15.0
Interest	800.0	758.9	773.4	942.1	1,149.6	1,080.9	893.4	720.8
Depreciation	1,208.3	1,201.6	1,162.8	1,690.6	2,013.5	2,418.6	2,603.9	2,496.9
Profit before tax	**1,824.4**	**144.2**	**414.8**	**2,661.7**	**3,556.5**	**4,866.9**	**6,671.7**	**9,355.1**
Tax	631.2	48.0	135.2	596.7	1,200.5	1,216.7	1,667.9	2,338.8
PAT	**1,193.20**	**96.20**	**279.60**	**2,065.00**	**2,356.00**	**3,650.16**	**5,003.81**	**7,016.35**
PAT Margin (%)	**6.6%**	**0.9%**	**2.2%**	**9.0%**	**7.9%**	**10.0%**	**11.3%**	**12.9%**
EPS ₹	**36.6**	**3.0**	**8.8**	**12.9**	**14.7**	**22.2**	**30.4**	**42.7**
D/E (x)	1.0	1.1	1.4	1.5	1.0	1.4	0.9	0.6

Source: Company, ACMIIL Retail Research

Risks and Concerns

- Economic slowdown due to external and internal factors can affect the overall GDP growth of the country.
- Any kind of unexpected change in government policies and regulations.
- Geopolitical tensions and supply chain disruptions lead to volatility in commodity prices and higher logistics costs. Such fluctuations in key raw material prices may impact the overall business and profitability of the company.
- Its major revenue source is the auto industry, and any kind of slowdown may affect the overall business of the company.

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