

# Ramkrishna Forgings

Sensex: 16070

CMP: INR 126

Target: INR 189



Auto Ancillary

**RKFL results were almost in-line with our estimates. It reported net sales of INR 1428 mn, up by 14.5% YoY and 10.9% QoQ & profit of INR 80 mn, up by 5.9% YoY and 43.1% QoQ. EBITDA margins at 16.01% contracted by 83 bps YoY, led by higher fuel expenses. We introduce FY14 estimates & roll-forward our valuations by 12 months and retain our BUY recommendation.**

## Results in-line with our estimates

In Q4FY12, RKFL has reported net sales of INR 1428 mn, up by 14.5% YoY & 10.9% QoQ. PAT at INR 80 mn was up by 5.9% YoY & 43.1% QoQ. Overall capacity utilization improved to 90.6% in FY12 vis-à-vis 77.3% in FY11. Its steel forging unit is operating at full capacity utilisation levels. Utilization in case of ring rolling (which is a high margin product) has improved to ~79% vis-à-vis ~69% in FY11. It has also taken a small price increase in Q4FY12 to offset increase in input costs.

## Contraction in EBITDA Margins

EBITDA margins at 16.01%, contracted by 83 bps YoY & were up by 40 bps QoQ. Foreign exchange losses of INR 15 mn on exports receivables reported in Q3FY12 has also been reversed in this quarter. Raw material to sales stood at 53.5%, up by 282 bps YoY & down by 367 bps QoQ. Power & fuel expenses increased to 9.2% of net sales increasing by 197 bps YoY & 37 bps QoQ.

## Capacity expansion plans

RKFL is looking to further enhance its product portfolio with plans to manufacture front axle beams & crankshafts used in CVs. Total investment in the project would be INR 5000 mn,

which would be financed through debt-equity ratio of 65:35. RKFL expects financial closure of the same to come by the end of June 2012 & expects the capacity to become operational by FY15.

## Exports

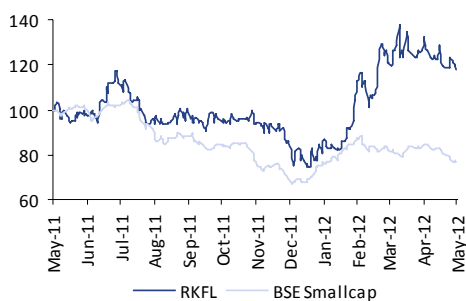
RKFL has tied up with two new players in Turkey & Mexico for exports in Q4FY12. This will lead to better utilization of its ring rolling capacity leading to improved realizations. We expect exports to contribute ~10% in FY13E & ~12.5% in FY14E vis-à-vis 9% in FY12.

## Outlook & Valuation

We expect growth in H2FY13 to be better than the 1st half. Given the expected slowdown in the CV segment, we expect the top-line growth to slow to ~10% in FY13E & 12.5% in FY14E. With current capacity almost getting exhausted, tepid outlook of the CV sector in the near term & 2 years time for new capacities to become operational, **we retain our BUY recommendation with a revised target of INR 189 in 18 months, implying a discount of 5.5x FY14E EV/EBITDA & 10x FY14E earnings.**

Shareholding (%)	Mar-12
Promoters	52.65
FIIIs	1.43
DIIIs	20.04
Others	25.88

## Relative Price Performance



Key Data	
BSE Code	532527
NSE symbol	RKFORGE
Bloomberg Code	RMKF IN
Reuters Code	RKFO.BO
Shares Outstanding (mn)	18.15
Face Value	10
Mcap (INR bn)	2.28
52 Week H/L	148.9/73.9
2W Avg. Vol, NSE	10849
Free Float (INR bn)	1.08
Beta	0.41

(INR mn)	FY11	FY12	FY13E	FY14E
Net Sales	4097	5013	5522	6210
Growth (%)	43.77%	22.35%	10.15%	12.47%
EBIDTAM (%)	17.23%	16.17%	16.04%	16.15%
Adj. PAT	221	243	282	343
Growth (%)	102.49%	9.99%	16.34%	21.54%
Adj. EPS (INR)	12.15	13.37	15.55	18.90
P/E (x)	8.28	9.88	8.11	6.67
EV/EBIDTA	5.13	5.10	4.65	4.31
Net Debt/Equity	1.28	0.98	0.87	0.83
RoACE (%)	14.87%	14.86%	15.66%	16.63%
RoAE (%)	15.75%	14.19%	14.17%	15.11%

**Quarterly Financials**

Particulars (INR mn)	Q4FY12	Q4FY11	YoY %	Q3FY12	QoQ %	FY12	FY11	Var%
Net Sales	1428	1248	14.47%	1287	10.97%	5013	4097	22.35%
Other Income	4	2	95.00%	0	5316.67%	7	15	-55.48%
<b>Total Income</b>	<b>1432</b>	<b>1250</b>	<b>14.59%</b>	<b>1287</b>	<b>11.27%</b>	<b>5019</b>	<b>4112</b>	<b>22.07%</b>
Stock Adjustment	55	96	-42.52%	-14	492.20%	-96	-100	-4.21%
Raw Material Consumed	764	632	20.84%	736	3.85%	2872	2391	20.13%
Employees Cost	71	60	19.46%	64	10.90%	268	219	22.15%
Operating & Mfg. Expenses	177	159	11.50%	187	-4.98%	693	538	28.81%
Power & fuel	132	90	45.63%	114	15.66%	465	355	30.82%
<b>Total Expenditure</b>	<b>1200</b>	<b>1038</b>	<b>15.61%</b>	<b>1086</b>	<b>10.45%</b>	<b>4202</b>	<b>3404</b>	<b>23.46%</b>
Operating Profit	233	212	9.61%	201	15.72%	817	708	15.41%
<b>EBIDTA</b>	<b>229</b>	<b>210</b>	<b>8.80%</b>	<b>201</b>	<b>13.82%</b>	<b>811</b>	<b>693</b>	<b>16.90%</b>
Interest	52	45	15.01%	44	18.41%	188	165	13.95%
Depreciation	71	57	23.86%	69	2.62%	271	210	29.03%
<b>PBT</b>	<b>110</b>	<b>110</b>	<b>0.00%</b>	<b>88</b>	<b>24.60%</b>	<b>358</b>	<b>333</b>	<b>7.56%</b>
Income Tax	30	34	-13.12%	32	-7.45%	116	113	2.58%
Exceptional Items	0	0		0		0	0	-
<b>PAT</b>	<b>80</b>	<b>76</b>	<b>5.95%</b>	<b>56</b>	<b>43.04%</b>	<b>243</b>	<b>221</b>	<b>10.11%</b>
Eq. Capital (INR Mn)	181	164	10.47%	181	0.00%	181	164	10.47%
<b>EPS (Adjusted)</b>	<b>4.41</b>	<b>4.17</b>	<b>5.95%</b>	<b>3.09</b>	<b>43.04%</b>	<b>13.38</b>	<b>12.16</b>	<b>10.11%</b>
OPM (%)	16.29%	17.01%		15.62%		16.30%	17.28%	
EBIDTAM (%)	16.01%	16.85%		15.61%		16.17%	16.92%	
PATM (%)	5.61%	6.06%		4.35%		4.85%	5.38%	

## Financials

### Income statement

Year End March (INR mn)	FY11	FY12	FY13E	FY14E
Net Sales	4097	5013	5522	6210
<i>Growth in Sales (%)</i>	<i>43.77%</i>	<i>22.35%</i>	<i>10.15%</i>	<i>12.47%</i>
Cost of goods sold	2291	2777	3082	3466
Employees Cost	196	268	301	338
Other Expenses	548	693	741	827
Total Expenditure	3391	4202	4636	5207
EBIDTA (without OI)	706	811	886	1003
<i>% Growth</i>	<i>56.42%</i>	<i>14.80%</i>	<i>9.29%</i>	<i>13.23%</i>
<i>EBITDA Margin %</i>	<i>17.23%</i>	<i>16.17%</i>	<i>16.04%</i>	<i>16.15%</i>
Depreciation/Amortization	210	271	285	301
EBIT	496	539	601	702
<i>EBIT Margin %</i>	<i>12.11%</i>	<i>10.76%</i>	<i>10.88%</i>	<i>11.31%</i>
Interest Expense	178	188	193	207
Other Income	15	7	16	18
Exceptionals	0	0	0	0
EBT	333	358	424	514
Tax Expenses	113	116	141	171
PAT	221	243	282	343
APAT	221	243	282	343
<i>% Growth</i>	<i>102.49%</i>	<i>9.99%</i>	<i>16.34%</i>	<i>21.54%</i>
<i>APAT Margin %</i>	<i>5.38%</i>	<i>4.84%</i>	<i>5.11%</i>	<i>5.52%</i>

### Key Ratios

Year End March	FY11	FY12	FY13E	FY14E
<b>Per Share Data (INR)</b>				
Reported EPS	13.43	13.37	15.55	18.90
Adj. EPS	12.15	13.37	15.55	18.90
Growth (%)	102.49%	9.99%	16.34%	21.54%
CEPS	23.71	28.32	31.25	35.47
DPS	2.00	2.00	2.00	2.00
BVPS	93.42	103.83	115.75	134.41
<b>Return Ratios (%)</b>				
RoACE	14.87%	14.86%	15.66%	16.63%
RoANW	15.75%	14.19%	14.17%	15.11%
RoIC	10.75%	10.41%	10.96%	11.59%
<b>Liquidity Ratios</b>				
Net Debt/Equity	1.28	0.98	0.87	0.83
Interest Coverage Ratio	2.79	2.87	3.11	3.40
Current Ratio	3.68	2.58	2.62	2.64
Quick Ratio	3.64	2.57	2.61	2.61
<b>Efficiency Ratios</b>				
Asset Turnover Ratio	1.23	1.38	1.44	1.47
Inventory Days	183	172	174	175
Debtor Days	51	51	51	51
Creditor Days	82	116	115	115
<b>Valuation Ratios</b>				
P/E (x)	8.28	9.88	8.11	6.67
P/BV (x)	1.08	1.27	1.09	0.94
P/CEPS (x)	4.24	4.67	4.03	3.56
Dividend Yield (%)	1.99%	1.51%	1.59%	1.59%
EV/Net Sales (x)	0.88	0.82	0.75	0.70
EV/EBIDTA (x)	5.13	5.10	4.65	4.31

### Balance Sheet

Year End March (INR mn)	FY11	FY12	FY13E	FY14E
<b>Sources of funds</b>				
Share capital	164	181	181	181
Reserves & Surplus	1174	1703	1919	2258
Total Networth	1535	1884	2101	2439
Secured Loan	1781	1678	1649	1855
Unsecured Loan	209	172	189	213
Total Debt	1990	1849	1838	2068
<b>Total Liabilities</b>	<b>3525</b>	<b>3734</b>	<b>3939</b>	<b>4507</b>

### Application of funds

Net Block	2038	2487	2372	2267
Capital Work-in-Progress	225	18	179	637
Investments	14	0	12	2
Current Assets	2049	2421	2700	3049
Current Liabilities	557	940	1031	1155
Net Current Assets	1492	1481	1669	1894
Misc. Exp not written off	0	0	0	0
Net Deferred Tax Asset	-244	-253	-293	-293
<b>Total Assets</b>	<b>3525</b>	<b>3733</b>	<b>3939</b>	<b>4507</b>

### Cash Flow

Year End March (INR mn)	FY11	FY12	FY13E	FY14E
EBT	333	358	424	514
Less: Other Income/Exceptionals	-15	-6	-15	-17
Add: Depreciation	210	271	285	301
Add: Interest paid	178	188	193	207
Direct taxes paid	-93	-102	-126	-154
Change in Working Capital	-180	-9	-180	-202
Others	0	0	0	0
<b>Cash Flow from operations (a)</b>	<b>433</b>	<b>701</b>	<b>581</b>	<b>648</b>
Change in Fixed Assets	-426	-721	-170	-196
Change in CWIP	35	207	-161	-457
Change in Investments	-14	14	-12	10
Others	4	4	5	5
<b>Cash Flow from Investing (b)</b>	<b>-402</b>	<b>-495</b>	<b>-339</b>	<b>-638</b>
Change in Equity	55	80	0	0
Debt Raised/(Repaid)	106	-140	-11	229
Dividend paid	-33	-49	-56	-69
Interest paid	-178	-188	-193	-207
Others	34	72	26	60
<b>Cash Flow from Financing (c)</b>	<b>-15</b>	<b>-225</b>	<b>-235</b>	<b>14</b>
<b>Net Change in Cash (a+b+c)</b>	<b>16</b>	<b>-20</b>	<b>8</b>	<b>24</b>
Opening Cash	6	23	3	11
Closing Cash	23	3	11	34

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