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UPSTREAM PICK

THINK DIFFERENT PROFIT MORE

Company Name	:	**Ramkrishna Forgings**
BSE Code	:	**532527**
Time Duration	:	**2 year**
CMP	:	**₹613 (as on 05 July, 2018)**
Target Price	:	**₹895**

Our Upstream Pick for the month of July is Ramkrishna Forgings Limited. It is one of the largest forging companies which caters to the OEMs and tier-I auto component suppliers in the commercial vehicle (CV) segment, railways and industrial markets. The company has presence in both domestic and international markets. It has five manufacturing facilities; four in Jharkhand and one in Kolkata. Its product portfolio includes machine-forged engines, steerings, gear boxes and axle components.

We see this company as an Upstream Pick as it saw a turnaround in its operations during FY18 due to capacity expansion of press lines and robust increase in volumes. The exports have increased prominently during the year due to the growing demand from the North American market. The company is gradually paying off its debts, which has led the debt-equity ratio to improve from 1.8x in FY16 to 0.96x in FY18. The sales of the CV segment in domestic and international markets are heading northwards which will bring in robust growth for the company in the upcoming 2-3 years.

Robust growth in volumes and realisations

The production levels over the quarters have increased significantly. During Q3 and Q4 of FY17 and Q1FY18, the production levels increased in lower double digits on a YoY basis. However, in the quarter ending March 2018, the company produced 35,812 tonnes as against 25,359 tonnes in March quarter of FY17, registering a growth of 41.2% YoY. During FY18, the production volumes rose by 47.6% YoY to 1,21,667 tonnes from 82,395 tonnes in FY17. Also, the hike in commodity prices led to improved realisations in FY18. The average sales realisation per kg was Rs 113 in FY17, which improved to Rs 119 in FY18.

Increasing capacity utilisation

The company's current installed capacity is 1.5 lakh tonnes, of which ring rolling is 24,000 tonnes, forging 45,000 tonnes and press lines 80,000 tonnes. In FY17, the company had expanded the press line capacity by 12,500 tonnes per annum, which led to growth in volumes in FY18. The overall utilisation of this capacity stood at 72%. The press lines capacity utilisation stood at 60%, out of which half is delivered to Tata Motors. On the back of robust demand from domestic CV market and rising demand for trucks from North America, the company plans to increase the capacity to 85% levels by FY20. We expect higher capacity utilisation will lead to higher revenues and improved margins in the next 2-3 years.

Development of new products

Over the last five years, the company has maintained its record of developing and launching new products every year. It develops 150 new products per year which has increased its market share in OEMs. During 2017, the company utilised its plant 5 for developing new products, leading to increase in content per vehicle and added up new customers to its base.

Higher contribution from North America

The North American market contributes 20% of the company's business. The demand for Class 8 trucks in North America is expected to increase by 25% in FY19 and FY20 due to increasing freight demand. Also, the growth in shale industry in North America will benefit the company's non-automotive segment in the upcoming 1-2 years. In the domestic market, the M&HCV demand is expected to grow in double digits in FY19 on the back of rising mining activities and scrapping of 15-year-old vehicles.

Debt levels and capex plans

The company management has planned capex of Rs 80-90 crore towards machining lines and de-bottlenecking. Of which, Rs 10-11 crore would be spent for maintenance purpose. It expects to pay off some part of the debt, i.e. Rs 90-92 crore, in FY19. In totality, there will be no deduction in debt and the same level would be maintained in FY19. In December 2018, ICRA reaffirmed the short term and long-term rating of term loans and the outlook is stable. By the end of FY18, the company's debt-equity ratio stood at 0.96x.

Management guidance for FY19

On the back of robust demand, the company expects 20% growth in volumes and the production levels to touch 1,40,000 tonnes in FY19. Thereby, it expects the revenue will grow by 25% YoY in FY19. The gradual shift towards BS-VI has started with tool making and sample submission, and as the changes are pertaining to crankshaft, the company will benefit from it. During FY18, 82% of company's sales came through the auto segment and the balance 18% through offshore and drilling. The machining segment contributes 60% of the total revenue, which the company intends to increase to 65-70% in the next couple of years. The ratio of domestic and export revenue mix is 60:40 and this ratio is expected to continue going forward.

Financial Performance

The company has achieved a total revenue of Rs 1,435 cr for FY18 as compared to Rs 881 cr for FY17, showing growth of ~63% YoY. It has achieved an EBITDA Rs 284.3 cr for FY18 as compared to Rs 157.8 cr for FY17, a whopping increase of 80%. The EBITDA margin stood at 19.8% for FY18 as compared to 18.06% in FY17. It achieved a PAT of Rs 94.66 cr for FY18 as against Rs 19.04 cr in FY17, a growth of 397.2% YoY. The PAT margin surged from 1.15% in FY17 to 6.5% in FY18.

Valuation

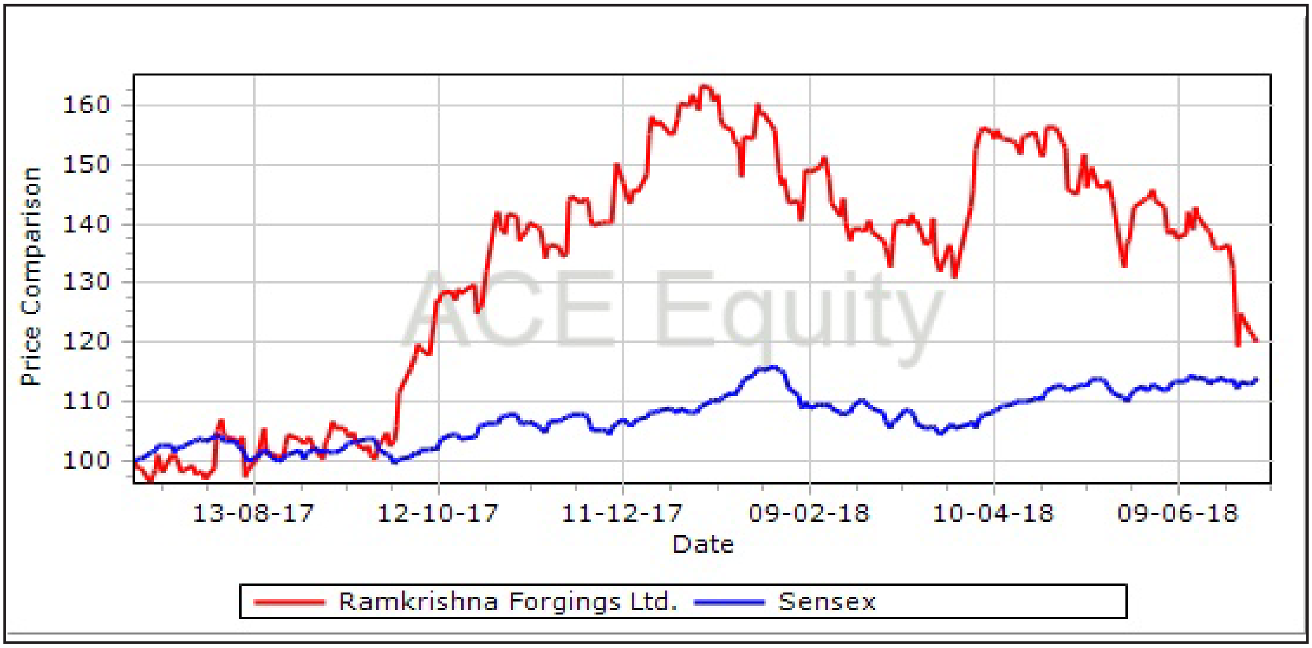
The company is trading at TTM P/E of 22.3x with TTM EPS of Rs 29.04. For FY18, it delivered ROE and ROCE of 12.5% and 17.8%, respectively. With higher capacity utilisation in FY19 and FY20, we expect the company's top-line to rise into high double digits and deliver higher margins. FY18 has delivered robust numbers and we expect the company will continue to deliver stellar performance on the back of growing demand and rising exports. Also, the company is trading at attractive valuations. We see a potential upside of 46% with a target price of Rs 895 over a period of two years.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	1453.33	875.51	897.15	740.76	429.53
Total Income	1457.52	878.89	900.58	746.91	433.37
Total Expenditure	1169.09	711.12	719.63	613.95	373.10
PBIDT	288.43	167.77	180.95	132.95	60.27
PAT	94.66	19.04	54.89	74.74	8.45
Dividend %	10.00	10.00	20.00	20.00	10.00
Adj. EPS(Rs)	29.04	6.64	19.15	27.21	3.24

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201803	201712	Q on Q Var%	201703	Y on Y Var%
Net Sales	440.11	400.07	10.01	305.41	44.10
Total Expenditure	348.46	322.95	7.90	258.85	34.61
PBIDT (Excl OI)	91.65	77.12	18.84	46.56	96.85
PAT	34.32	27.73	23.75	8.68	295.40
PBIDTM% (Excl OI)	20.83	19.28	8.04	15.24	36.68
PBIDTM%	21.02	19.44	8.13	17.30	21.50
PATM%	7.80	6.93	12.55	2.84	174.65
Adj. EPS(Rs)	10.53	8.51	23.74	3.03	247.52



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