



INDEPENDENT EQUITY RESEARCH

Ramkrishna Forgings Ltd

Initiating coverage

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Disclaimer:

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Ramkrishna Forgings Ltd

Rings of rolling profitability

Fundamental Grade	3/5 (Good fundamentals)
Valuation Grade	5/5 (CMP has strong upside)
Industry	Auto Components

Kolkata-based Ramkrishna Forgings Ltd (RKFL) primarily manufactures precision engineering components for automobile, railways and other sectors. CRISIL Equities expects the company to benefit from the expected growth in the automobile sector, which contributes ~84% to RKFL's revenues. We assign RKFL a fundamental grade of '3/5', indicating that its fundamentals are 'good' relative to other listed securities in India.

MHCVs to drive operating level of forging unit

RKFL supplies auto components to the medium and heavy commercial vehicles (MHCV) sector, which is growing full throttle keyed by sustained expansion in economic activity, rising consumption expenditure and availability of vehicle finance. CRISIL Research expects the MHCV sector to grow at a CAGR of 12-14% during FY10-15. Consequently, the utilisation rate of RKFL's forging and machining unit is expected to increase to 89% in FY12 from 78% in FY10.

Export demand to fuel ring rolling volumes

RKFL is witnessing increasing demand for crown wheels produced from rolling line due to their superior precision quality and lower cost of production. The company has already done trials for major players in Europe and the USA with positive response. We expect the division to log strong growth with utilisation rate doubling to 82% in FY12 from 40% in FY10.

Strong bargaining power of OEMs in a commoditised, cyclical segment

Original equipment manufacturers (OEMs) have a strong bargaining power with their suppliers and are known to squeeze them. This is expected to taper off in the short term as the demand for auto components is increasing at a faster pace than supply. Further, RKFL's high dependence on the automobile industry, which accounts for close to 84% of revenues, exposes it to changes in economic cycles and interest rates.

Expect two-year revenue CAGR of 24%

We expect revenues to register a two-year CAGR of 24% to Rs 4.4 bn in FY12 driven by growth in volumes and realisation. EBITDA margin is expected to expand to 18.3% in FY12 owing to increasing share of export sales and an increase in capacity utilisation rate. PAT is expected to increase at a two-year CAGR of 62% to Rs 287 mn.

Valuations – the current price has 'strong upside'

CRISIL Equities has used the price-to-earnings ratio (PER) method to value RKFL because of the cyclical nature of the industry. We have assigned a PER of 11x to RKFL's FY12 EPS of Rs 14.1 and arrived at fair value of Rs 155 per share. We initiate coverage on the company with a valuation grade of '5/5'.

KEY FORECAST

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	2,009	2,295	2,858	3,772	4,416
EBITDA	393	401	467	665	809
Adj Net income	130	41	114	201	287
EPS-Rs	8.5	2.7	6.9	12.2	14.1
EPS growth (%)	(7.3)	(68.3)	158.7	76.7	15.5
P/E (x)	13.2	41.8	16.2	9.2	7.9
P/BV (x)	1.9	1.8	1.5	1.3	1.2
RoCE (%)	15.2	10.9	11.1	14.1	16.0
RoE (%)	16.0	4.4	10.3	14.9	16.9
EV/EBITDA (x)	8.2	8.8	8.0	5.7	4.8

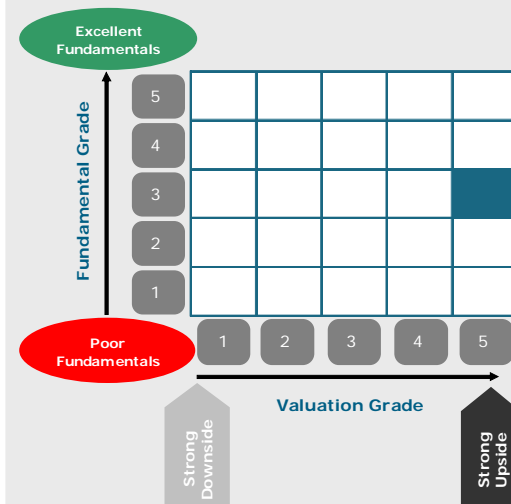
Source: Company, CRISIL Equities estimate

NM: Not meaningful; CMP: Current Market Price

December 31, 2010

Fair Value Rs 155
CMP Rs 112

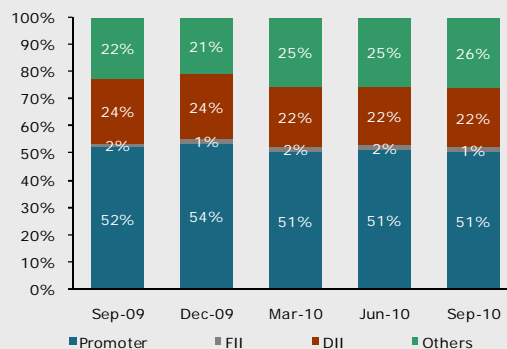
CFV MATRIX



KEY STOCK STATISTICS

NIFTY\SENSEX	6102/20389
NSE\BSE ticker	RKFORGE
Face value (Rs per share)	10
Shares outstanding (mn)	16.4
Market cap (Rs mn)/(US\$ mn)	1,840/40
Enterprise value (Rs mn)/(US\$ mn)	3,717/85
52-week range (Rs) (H/L)	185/92
Beta	0.95
Free float (%)	49.0%
Avg daily volumes (30-days)	1,984
Avg daily value (30-days) (Rs mn)	0.28

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
RKFORGE	-10%	-31%	-6%	19%
NIFTY	4%	1%	15%	18%

ANALYTICAL CONTACT

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Table: 1 Ramkrishna Forgings Ltd: Business environment

Product / Segment	Forging	Ring rolling
Revenue contribution (FY10)	Forging is the shaping of metal using localised compressive forces ~69% (Domestic – 98%, exports – 2%)	Ring rolling is a type of forging ~31% (Domestic – 84%, exports – 16%)
Revenue contribution (FY12)	~55% (Domestic – 95%, exports – 5%)	~45% (Domestic – 57%, exports – 43%)
Product / service offering	Parts for transmission and axles of commercial vehicles, critical safety items for railways	Crown wheels
Geographic presence	Manufacturing facility: Jamshedpur and Howrah, India	Manufacturing facility: Jamshedpur, India
Industry growth expectations	<ul style="list-style-type: none"> Robust growth in MHCV's goods segment at 13-15% of CAGR and in the passenger segment at a CAGR of 8-10% between 2009-10 and 2014-15 Rebound in global automotive sales to boost Indian exports 	
Sales growth (FY08-FY10 – 2-yr CAGR)	7.15%	73.60%
Sales forecast (FY10-FY12 – 2-yr CAGR)	11.53%	48.41%
Demand drivers	<ul style="list-style-type: none"> Strong growth in the MHCV industry India positioned as low-cost auto hub High demand for crown wheels produced from automated ring rolling in the international market because of lower cost of production and superior precision quality 	
Key competitors	MM Forgings, Ahmednagar Forgings, and Mahindra Forgings	
Key risks	<ul style="list-style-type: none"> Revenue concentration ~48% towards single customer, Tata Motors High dependence on the automobile industry, which is highly susceptible to economic cycles Currency risk on export revenues 	

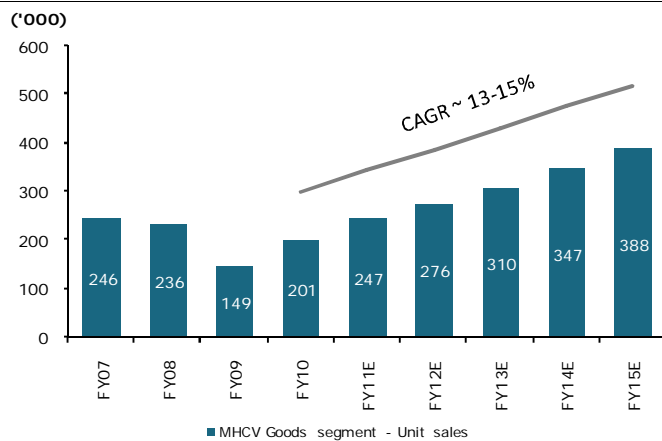
Source: Company, CRISIL Equities

Grading Rationale

Growth in MHCV sector to drive RKFL's forging unit

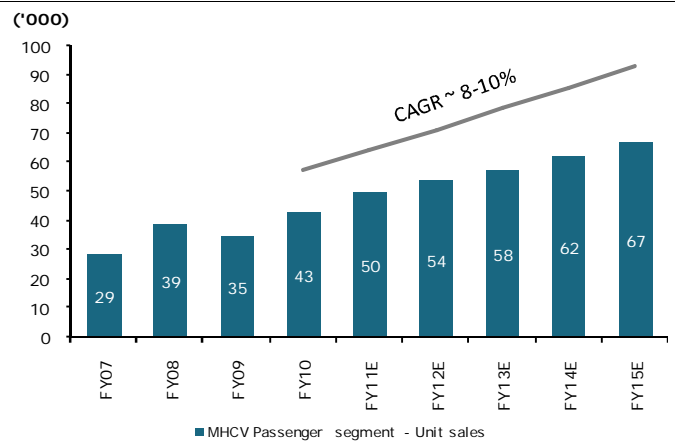
RKFL supplies auto components to OEMs of MHCVs. The MHCV sector, which consists of goods and passenger segments, is growing full throttle keyed by sustained expansion in economic activity, rising consumption expenditure and availability of vehicle finance. CRISIL Research expects the goods segment of the MHCV sector to grow at a CAGR of 13-15% between 2009-10 and 2014-15 and the passenger segment to grow at a CAGR of 8-10% over the same period.

Figure 1: MHCV goods sales to grow at 14% CAGR



Source: CRISIL Research

Figure 2: Passenger segment to grow at 9% CAGR



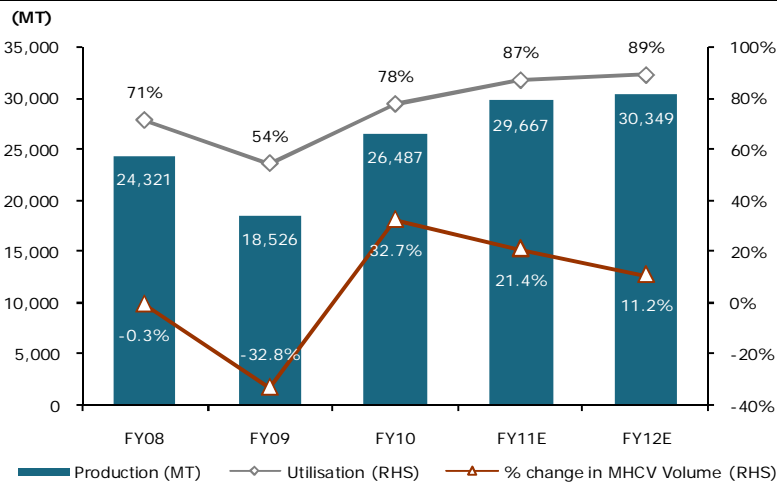
Source: CRISIL Research

Utilisation levels of forging and machining to increase

With the revival in domestic auto sales, we believe the demand for various auto components manufactured by RKFL – such as gears, axels and crown wheels - will increase significantly. Historically, the company's utilisation rate has been linked to the sales of MHCVs. RKFL's capacity utilisation for forging declined to ~54% in FY09 from 71% in FY08 as MHCV sales volume decreased by 33%. With the expected high growth in MHCV sales and no announcements of capacity addition by major forging players, the utilisation for RKFL's forging plant is bound to go up. Higher operating rates will help the company increase its profitability.

Higher operating rates to increase profitability

Figure 3: Plant utilisation level to increase



Source: Company, CRISIL Equities, CRISIL Research

Low-cost structure positions India as an auto hub

During the past one decade, India's auto component exports have grown manifold. Although, the share of exports as a percentage of the total domestic auto component industry has doubled from 8% in FY00 to 16% in FY09, the country's share in the global auto component export market is less than 1%. India is well positioned in the global auto industry because: a) labour costs are low, b) it is a potential global hub for research and development (R&D), and c) its capability to manufacture components in adherence with the stringent quality standards of international OEMs. In recent times, a lot of interest has been shown by global auto majors to promote Indian suppliers in the global auto value chain.

Indian manufacturers are also moving up the value chain in the auto component industry – in FY09, close to 80% of auto component exports went directly to OEMs compared to about 35% in FY2000. CRISIL Research expects the export market to grow at a 20% CAGR until 2014-15 to Rs 369 bn in 2015.

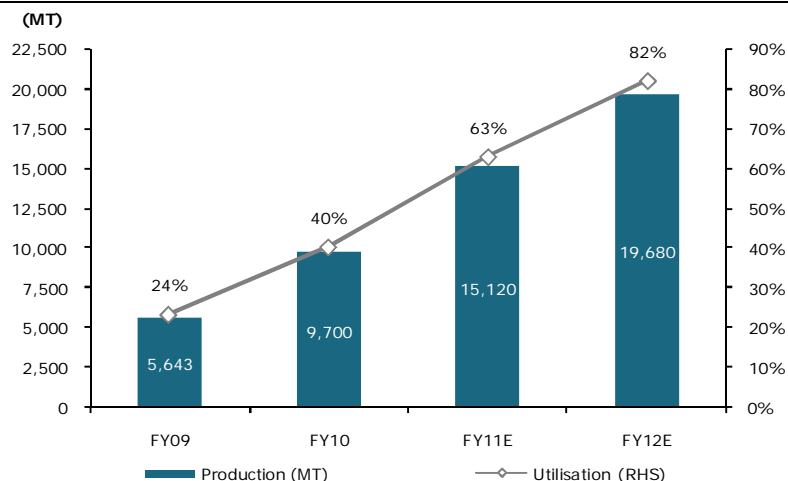
Exports to perk up utilisation level of ring rolling

In FY07, RKFL installed a completely automated 24,000 MT ring rolling unit at a capex of Rs 620 mn to cater to the export market of crown wheels. Operational issues surfaced in the first year. The plant got stabilised in FY08 but due to the global auto industry slowdown, RKFL could not harness growth from the ring rolling plant. With the recovery in global auto production and an increasing emphasis on the component sourcing strategy of global OEMs, exports demand is showing signs of improvement. The crown wheels produced from the automated ring-rolling line have high demand in the international market because of lower cost of production and superior precision quality.

Share of exports doubled to 16% in FY09 for the Indian auto component industry

Utilisation level to increase to 82% in FY12 from 40% in FY10

Figure 4: Utilisation level of ring rolling to increase

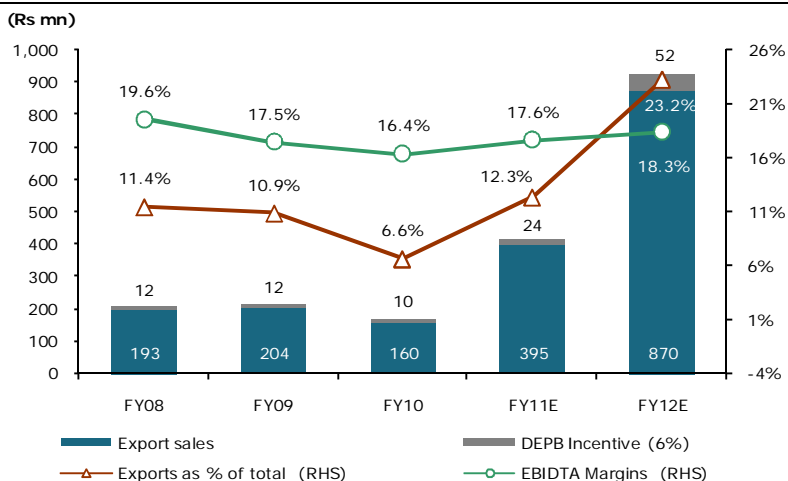


Source: Company, CRISIL Equities

With the revival in global auto sales, we believe the demand for crown wheels - an essential component of the automobile differential - to increase and RKFL is well placed to capture this growth. RKFL has tied up with Arvin Meritor, a global provider of automotive systems, for the supply of crown wheels to its plants in Brazil and Italy. The company has already received firm orders from Sypris Industries of the US which will help it enter the US market and it is in talks with other international players including EGE in Egypt to expand its global customer base. Expected increase in the export of crown wheels will likely expand margins on account of export incentives.

Adding new customers in the export market to harness growth

Figure 5: Higher contribution from exports to expand margins



Source: Company, CRISIL Equities

With increasing order flow, RKFL is now focusing on getting orders of higher-weight products, which helps in increasing the manufacturing capacity on a tonnage basis. As the cycle time to produce one unit does not increase proportionally with an increase in tonnage of the product, higher average weight of the job increases the capacity of a forging facility. This will help the company maximise production of its ring rolling plant, thus improving the return on capital employed.

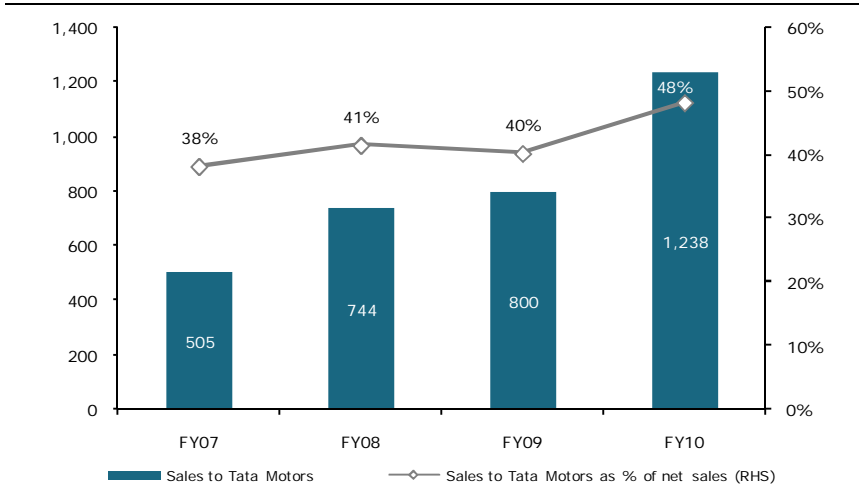
Concentration on heavier products to increase production capacity

A key cog in Tata Motors' supply chain wheel

RKFL has become an integral part of Tata Motors' supply chain. It generated close to 48% of FY10 revenues from sales to Tata Motors. RKFL supplies various forged/machined automotive parts to Tata Motors and in certain products - including crown wheel, saddle bracket, ring gear and front wheel hub - it enjoys ~70-100% share in Tata Motors' total component purchase for commercial vehicles.

Tata Motors contributed 48% of net sales in FY10

Figure 6: Increasing share of sales to Tata Motors

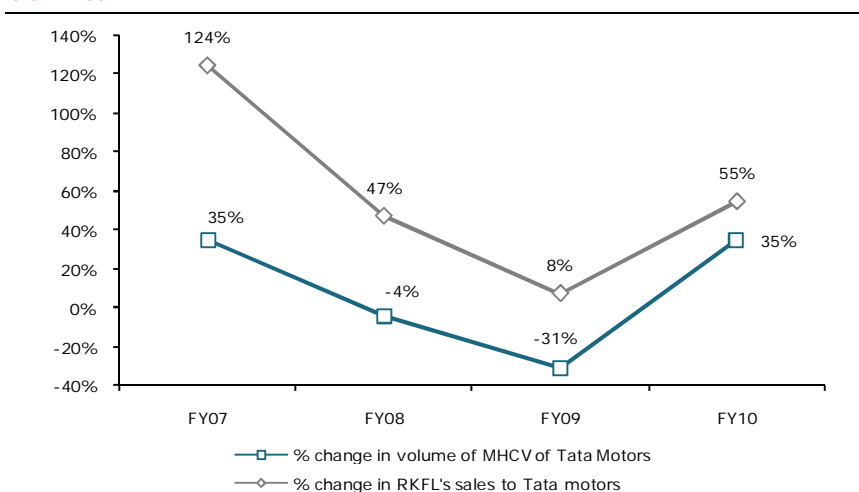


Source: Company, CRISIL Equities

During the global downturn (FY08 and FY09), RKFL increased the number of products and made a conscious effort to enhance product value by adding new machines in the machining centre. This has been a key in increasing RKFL's share of Tata Motors' auto component purchase. Even though Tata Motors' sales volume of MHCVs decreased by 31% in FY09, RKFL's sales to Tata Motors increased by 8%.

Even though Tata Motor's sales volume of MHCV decreased by 31% in FY09, RKFL's sales to Tata Motors increased by 8%

Figure 7: New products boosted sales to Tata Motors in downturn



Source: Company, CRISIL Equities

Ramkrishna Forgings Ltd

The company has three manufacturing facilities; the two catering to the automobile segment are located in Jamshedpur, in close proximity to Tata Motors (distance ~20km) and its key raw material supplier Usha Martin. This helps it reduce freight cost and transit time. This has also helped Tata Motors implement just-in-time approach for all the components supplied by RKFL.

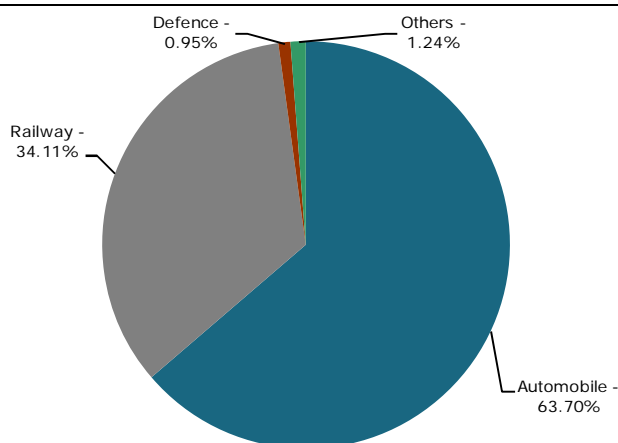
Non-auto segment growing at a slow pace

RKFL has the capability to manufacture products for various industries including automobile, railways and defence, but it has not been able to gain traction in any of the sectors apart from auto. Indian Railways has been the primary customer of the company after auto but the growth in the railways business has been very slow. RKFL's total sales grew at a CAGR of 34% during FY05 to FY10 but the sale from railways grew only 11%. This has reduced the contribution of sales from the railways to about 13% from 34%. With an expected increase in sales from the ring rolling facility for the automobile sector, we expect contribution from the non-auto sector to decline further to less than 10%. Hence, we believe the company's fortunes would remain highly dependent on the growth prospects of the automotive industry.

Manufacturing facilities located less than 10 km away from Tata Motors

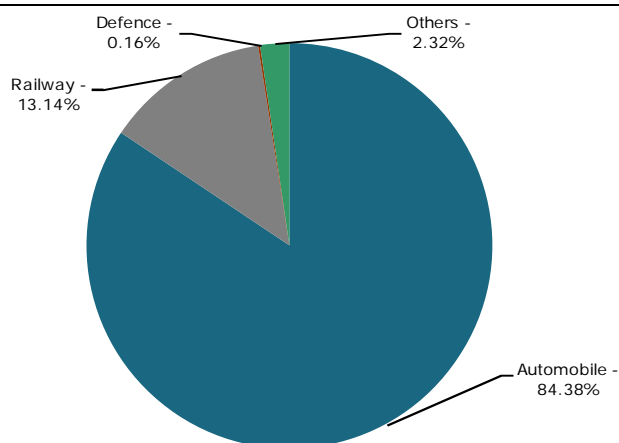
Sales highly concentrated to auto manufacturers

Figure 8: Sales split in FY05



Source: Company

Figure 9: Sales split in FY10



Source: Company

Operates in a commoditised segment

In the auto forging industry, product design is primarily driven by OEMs and forging companies concentrate on efficient manufacturing of the same. This significantly lowers the bargaining power of the companies operating in this space.

RKFL is no different from its peers in this regard. The company does not have an in-house product design team to initiate product development for OEMs. The company is supplied with a prototype of the product to be manufactured and the design team at RKFL ensures that the product is built with minimal scrap generation, reducing raw material costs.

Strong bargaining power of OEMs may taper off in short term

OEMs enjoy strong bargaining power with their suppliers and are known to squeeze them. The demand for auto components has gone up in line with higher auto sales. However, because of bad times witnessed by the component manufacturers during the downturn there have been no major announcements of capacity addition by major players in the industry. In recent times, the auto industry has also complained about short supply of auto components. Strong demand for auto has resulted in RKFL operating at capacity utilisation levels of 85-88%. With the increase in utilisation levels and strong order flows, the company along with the industry is enjoying better bargaining power with OEMs. This is also displayed by the price hikes received by RKFL from its key customer. However, we believe this is a short-term phenomenon as the players expand capacity to cater to increasing demand.

Strong demand from auto sector resulted in higher utilisation - 86% in H1FY11 in the forging plant

Key risks

Customer concentration risk

RKFL derives close to 48% of revenues from sales to Tata Motors which exposes it to customer concentration risk. Any adverse impact on the sales of Tata Motors' commercial vehicles will pose a significant downside to the company's sales. RKFL is focusing on expanding its revenues from exports which should reduce the exposure to Tata Motors, but will still remain considerably high.

Cyclical nature of end-user industry

RKFL is highly dependent on the automobile industry, which accounts for close to 84% of revenues. In the second half of FY09, sales of RKFL declined by ~28% on y-o-y basis on account of 51% y-o-y drop in commercial vehicle volumes. The auto industry is highly susceptible to economic cycles, changes in interest rate and fuel cost, and varying demand patterns. Change in economic cycles and interest rate can hamper the consumers' ability to spend or result in postponement of consumption. Increase in fuel costs might lead to lower profitability of the transporters which will hamper the sales of commercial vehicles. These factors will have a negative impact on the sales of auto manufacturers and will lead to lower demand for auto components.

RKFL generates close to 48% of its revenues from Tata Motors

Automotive industry accounted for 84% of total sales in FY10

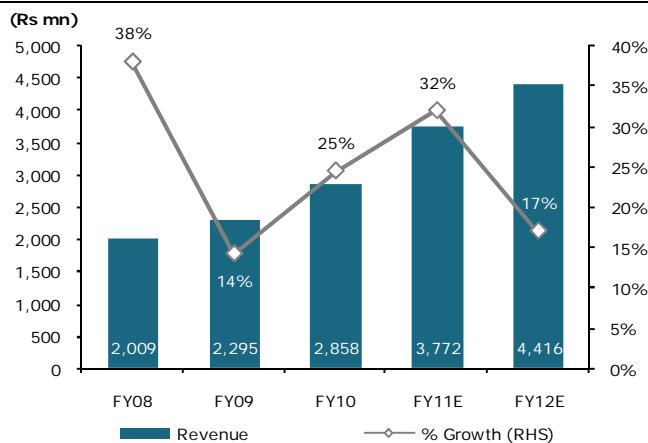
Financial Outlook

Revenues to grow at two-year CAGR of 24%

Consolidated revenues are expected to increase at a two-year CAGR of 24% to Rs 4.4 bn by FY12. The growth is expected to be driven primarily by growth in the ring rolling segment (FY10-FY12 CAGR of 48%). The ring rolling segment contributed ~31% of total revenues in FY10, which is expected to increase to about 45% in FY12. The growth in the ring rolling segment would be fuelled by increase in exports with the revival of global automotive sales and addition of new customers including Cyprus Industries of the US and EGI of Egypt.

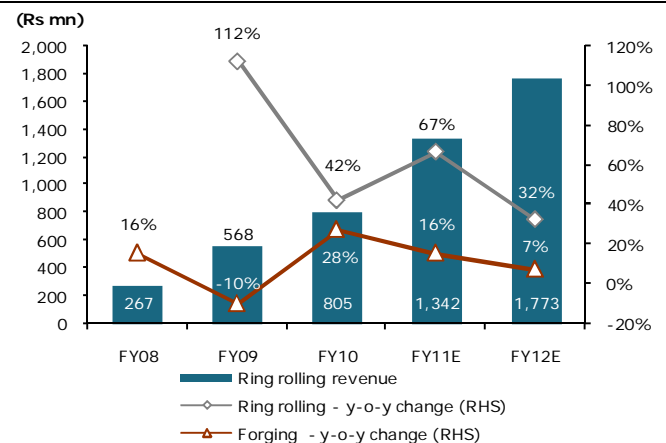
Revenues likely to grow at a two-year CAGR of 24% to Rs 4.4 bn in FY12

Figure 10: Sales to grow at two-year CAGR of 24%...



Source: Company, CRISIL Equities

Figure 11: ... fuelled by growth in ring rolling facility



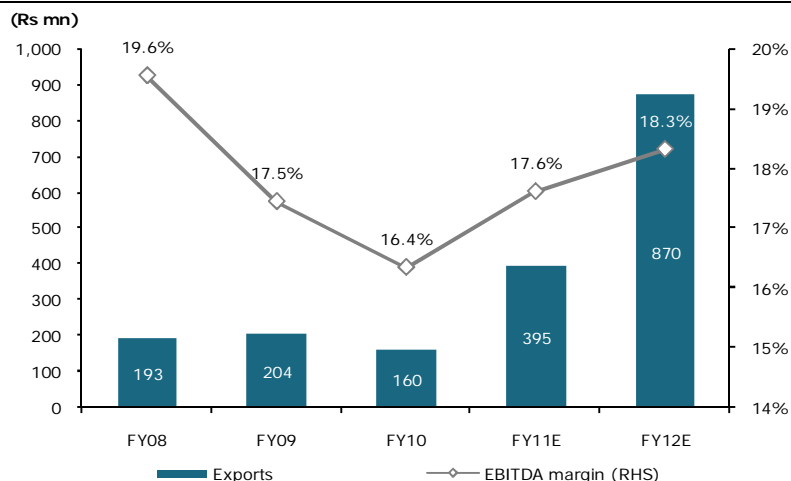
Source: Company, CRISIL Equities

Higher exports to expand EBITDA margins

RKFL enjoyed EBITDA margins of ~20% in FY08 but it declined on account of the increase in operating costs. In case of RKFL, any increase in raw material cost is passed on but increase in other costs is borne by the company. Considering RKFL's low bargaining power with its customers we believe the company will not be in a situation to pass on higher costs to them. However, an increase in exports will boost the margins as the company gets incentive of about 6% on its exports. We expect exports to grow at a two-year CAGR of 133% fuelled by the revival in global auto sales and an increase in the number of customers.

EBITDA margin to expand by ~126 bps in FY11

Figure 12: EBITDA margins to expand on account of exports



Source: Company, CRISIL Equities

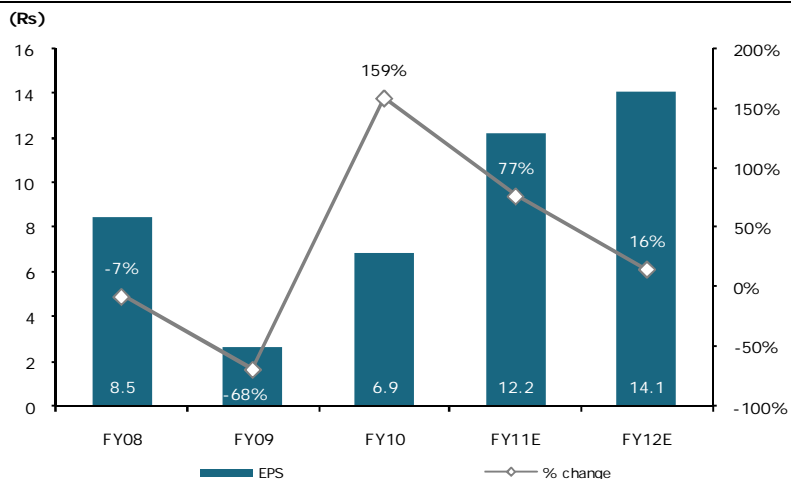
PAT to grow at a two-year CAGR of 62%, EPS to increase to Rs 14.1

RKFL's adjusted PAT is expected to grow to Rs 287 mn in FY12 from Rs 109 mn in FY10, driven by strong growth in revenues and improvement in margins. EPS is expected to increase to Rs 14.1 in FY12 from Rs 6.9 in FY10. Although, PAT is growing at a two year CAGR of 62%, EPS growth will taper off on account of expected conversion of 3.9 mn warrants at a price of Rs 107.5 per share.

EPS is expected to increase to Rs 14.1 in FY12

Strong bottom-line growth led by focus on exports from ring rolling plant

Figure 13: Sales growth and margin expansion to increase EPS

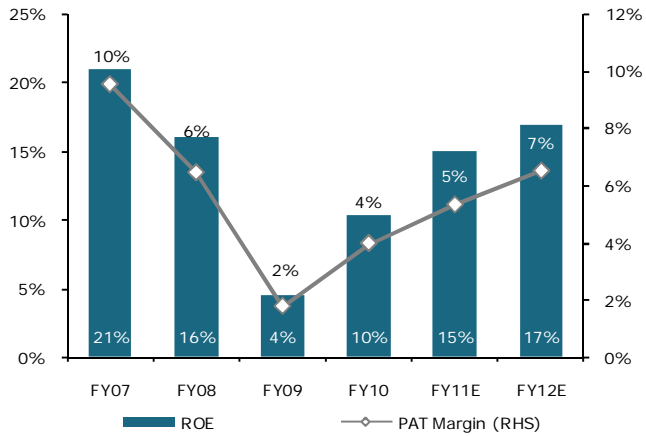


Source: Company, CRISIL Equities

RKFL's RoE has declined from 21% in FY07 to 10% in FY10 on account of lower PAT margin and total asset turnover. We believe the company's RoE will increase to 15% in FY11 and 17% in FY12 on the back of an increase in total asset turnover on account of strong growth in revenues and better margins arising from higher exports.

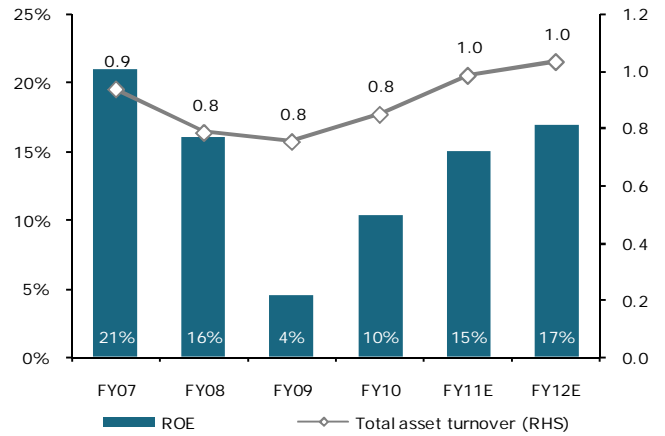
Better utilisation of assets to result in higher RoE

Figure 14: RoE to increase due to higher margin...



Source: Company, CRISIL Equities

Figure 15: ... and higher total asset turnover



Source: Company, CRISIL Equities

Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance.

Experienced management

RKFL has a highly experienced management headed by Mr Mahabir Prasad Jalan, chairman. He is a technocrat with more than two decades of experience in forgings and has been the driving force behind the company's success. Starting his career from the shop floor, he eventually set up his own forging company. The succession plan for Mr Mahabir Prasad Jalan is well in place as he is supported by his son Mr Naresh Jalan, managing director, who has been working with the company for the past 15 years. He has been instrumental in transforming RKFL's relationship with Tata Motors from being a tier-2 vendor to a direct supplier.

Installed India's first automated ring rolling plant

RKFL's management has been quick in identifying new opportunities and does not fear from investing in new technology. This plant has given the company a competitive edge in the manufacturing of crown wheels which are used in the differential of commercial vehicles.

Professional set-up and strong second line

RKFL's promoters have adopted a professional approach towards managing the company. The company has inducted various professionals from the industry at the senior and mid-management levels to prepare for the next level of growth. The promoters have also introduced an employee stock option plan (ESOP) for the key management personnel to ensure their interest match with that of the company. The management has been delivering results on a continuous basis, which resulted in RKFL in receiving the "best supplier" status by Tata Motors for 2010.

**An experienced
management at
the helm**

Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Equities analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, corporate governance at RKFL meets the regulatory requirement supported by reasonably good board practices and an independent board.

Board composition

RKFL's board consists of nine members, of whom six are non-executive and five are independent directors, which is more than the requirement under Clause 49 of SEBI's listing guidelines. The board is chaired by Mr Mahabir Prasad Jalan, who is also a promoter of the company. The directors have strong industry experience and are highly qualified. Given the background of directors, we believe the board is experienced. The independent directors have a fairly good understanding of the company's business and its processes. The independent directors on the board include:

- Mr Satish Kumar Mehta, who has over 36 years of industrial experience in forgings, machined crankshafts and non-traditional machine tools industry. He has been the chairman of Technical Committee of Association of the Indian Forging Industry for the past 20 years
- Mr Surendra Mohan Lakhotia, a CA with diversified work experience in companies including Hindalco and other Aditya Birla Group companies
- Mr Padam Kumar Khaitan, an attorney of law with more than 37 years of experience in legal matters
- Mr Ramprasad Saraf, who has 11 years of experience in the steel industry
- Mr Laxminarayan Jhavar, who has been associated with numerous companies including Hindustan Motors Ltd and Jayaswal NECO Ltd.

Board's processes

The company's quality of disclosure can be considered good judged by the level of information and details furnished in the annual report, websites and other publicly available data. The company has all the necessary committees – audit, remuneration, nomination, and investor grievance - in place to support corporate governance practices. The audit committee consists of four non-executive members and is chaired by an independent director, Mr Surendra Mohan Lakhotia.

Corporate governance practices meet the regulatory requirement

Ramkrishna Forgings Ltd

Valuation

Grade: 5/5

Considering the cyclical nature of the industry, we have used the price-to-earnings ratio (PER) method to value RKFL. We have assigned a PER of 11x to the company due to strong growth mainly in the ring rolling segment. Based on the FY12 EPS of Rs 14.1, our fair value estimate for the business is Rs 155 per share.

The stock is currently trading at Rs 112 per share (30th December 2010). Consequently, we initiate coverage on RKFL with a valuation grade of '5/5', indicating that the current market price has 'strong upside'.

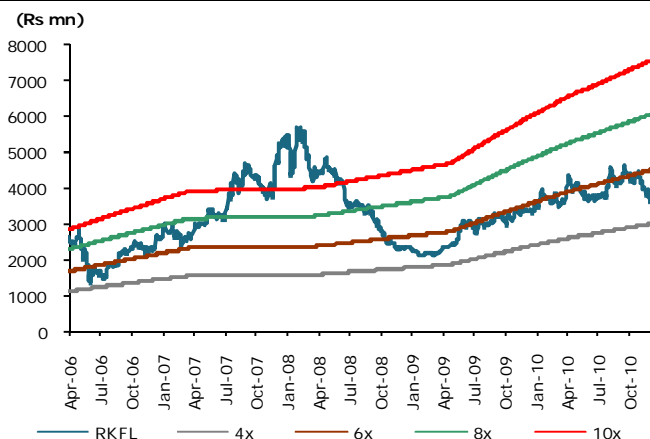
We assign a fair value of Rs 155 per share to RKFL and initiate coverage with a valuation grade of "5/5"

One-year forward P/E band



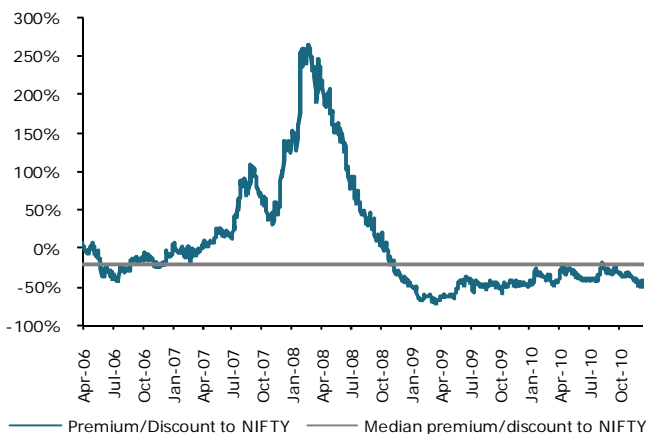
Source: Company, CRISIL Equities

One-year forward EV/EBITDA band



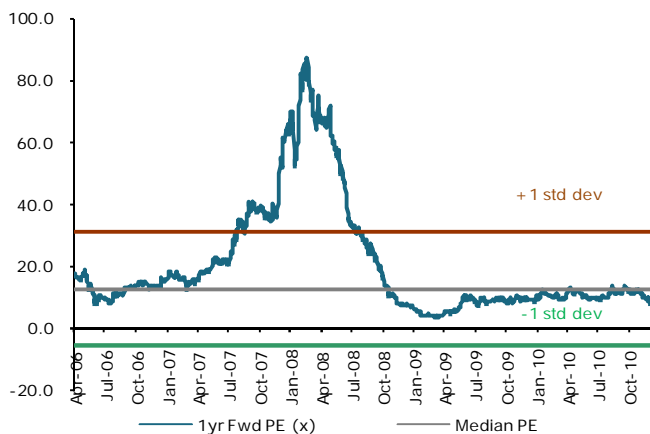
Source: Company, CRISIL Equities

P/E – premium / discount to NIFTY



Source: Company, CRISIL Equities

P/E movement



Source: Company, CRISIL Equities

Peer comparison

Companies	M.cap (Rs mn)	EBITDA Margin (%)			Price/Earnings (x)			Price/Book (x)			RoE (%)		
		FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10
RK Forgings Ltd	1,840	19.6	17.5	16.4	13.2	41.8	16.2	1.9	1.8	1.5	16.0	4.4	10.3
M.M. Forgings Ltd	1,533	22.6	18.9	18.3	5.5	14.5	14.2	0.9	0.5	1.4	18.4	11.7	10.7
Mahindra Forgings Ltd	7,785	16.2	4.2	15.9	nm	nm	nm	0.8	0.9	0.9	(4.0)	(4.9)	(12.9)
Kalyani Forge Ltd	626	13.8	5.6	11.0	6.1	22.2	26.4	0.9	0.9	1.2	13.5	(3.1)	2.3
Ahmednagar Forgings Ltd	5,763	19.5	21.4	22.9	4.9	4.8	6.1	1.3	1.2	1.2	17.8	7.9	nm
JMT Auto	1,310	16.9	22.3	21.9	7.7	8.5	24.0	0.3	0.3	0.9	9.4	3.3	1.4

Source: CRISIL Equities

Ramkrishna Forgings Ltd

Company Overview

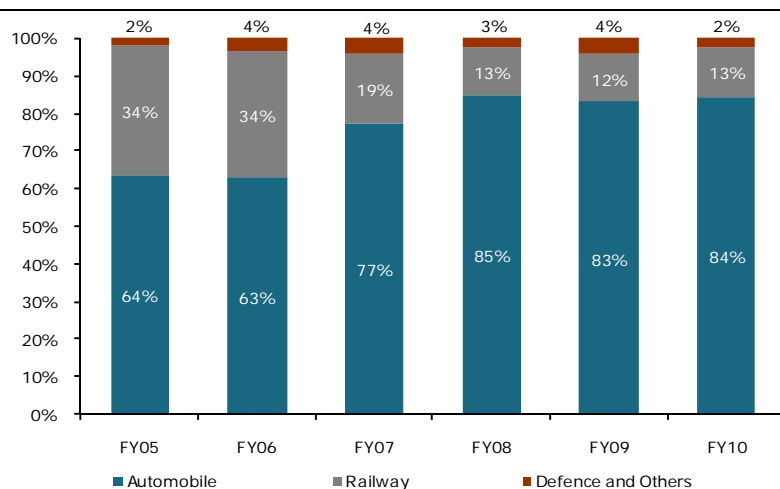
Kolkata-based Ramkrishna Forgings Ltd (RKFL) primarily manufactures precision engineering components for automobile, railways and other sectors. The company was founded in 1981 and got listed on the NSE and the BSE in 2004. It has three manufacturing units - two in Jamshedpur, Jharkhand and one in Howrah, West Bengal. RKFL's facilities are integrated with in-house die making capabilities.

The company has a large product portfolio catering to the demand of various sectors including automobiles, railways, mining, general engineering and defence.

Table 2: Product snapshot

End-user industry	Products
Automobiles	Gears, shafts, wheel mount, tripods, forged arms, connection rods, levers
Railways	Screw couplings, draw gear assembly, snubber assembly, hanger, block hanger, side frame key, lower spring seats and various other forgings items of railway coaches and wagon
Defence	Defence equipment

Figure 16 : End-user-wise revenue contribution



Source: Company, CRISIL Equities

Business segments

Forging, machining and heat treatment - Under forging, steel billets are used as a raw material and through hammers and upsetters, the company manufactures products of different shape and sizes depending on the end use. Forged products are then processed in the machining capacity, which makes the product suitable for use as a finished component in the automobile industry. Some products are further processed in the heat treatment facility to improve the mechanical and physical properties.

Ring rolling – It is a cost-effective and efficient production process for the production of ring-shaped components like crown wheels and bearing rings. Through its ring rolling facility, the company caters to the demand for crown wheels, a critical component for automobile's transmission system. RKFL's ring rolling facility is fully automated ensuring consistent quality of the end products.

Table 3: Details of installed capacities and utilisation rate

Segment	Installed capacity (MT)		Capacity utilisation rate	
	2009	2010	2009	2010
Hammer forging	34,100	34,100	54%	78%
Ring rolling	24,000	24,000	24%	40%

Key customers

In the domestic market, RKFL supplies auto components to all major commercial vehicle manufacturers such as Tata Motors, Hindustan Motors, Ashok Leyland and Eicher Motors. Internationally, the company's key client is Arvin Meritor.

The company is in the approved panel of Research Design and Standards Organisation (RDSO) for supplies to the Indian Railways, which accounted for close to 13% of RKFL's total sales in FY10.

Key milestones

Year	Milestones
1981	Ramkrishna Forgings was founded
1995	Became a limited company
2000	Became an ISO 9002 approved unit
2006	Successful extension from forging to machining
2007	Heat treatment facility commissioned
2008	Commencement of ring rolling facility
2010	Best supplier award from Tata Motors

Annexure: Financials

Income statement

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	2,009	2,295	2,858	3,772	4,416
EBITDA	393	401	467	665	809
EBITDA margin	19.6%	17.5%	16.4%	17.6%	18.3%
Depreciation	96	111	131	187	195
EBIT	296	290	336	477	614
Interest	107	236	177	188	197
Operating PBT	189	54	159	289	416
Other income	10	15	9	12	14
Exceptional inc/(exp)	(0)	4	(5)	-	-
PBT	200	73	163	301	430
Tax provision	70	28	54	100	143
Minority interest	-	-	-	-	-
PAT (Reported)	130	45	109	201	287
Less: Exceptionals	(0)	4	(5)	-	-
Adjusted PAT	130	41	114	201	287

Ratios

	FY08	FY09	FY10	FY11E	FY12E
Growth					
Operating income (%)	38.0	14.3	24.5	32.0	17.1
EBITDA (%)	38.3	2.0	16.7	42.2	21.8
Adj PAT (%)	(6.5)	(68.3)	177.2	76.7	43.0
Adj EPS (%)	(7.3)	(68.3)	158.7	76.7	15.5
Profitability					
EBITDA margin (%)	19.6	17.5	16.4	17.6	18.3
Adj PAT Margin (%)	6.5	1.8	4.0	5.3	6.5
RoE (%)	16.0	4.4	10.3	14.9	16.9
RoCE (%)	15.2	10.9	11.1	14.1	16.0
RoIC (%)	13.1	11.4	10.1	12.2	14.2
Valuations					
Price-earnings (x)	13.2	41.8	16.2	9.2	7.9
Price-book (x)	1.9	1.8	1.5	1.3	1.2
EV/EBITDA (x)	8.2	8.8	8.0	5.7	4.8
EV/Sales (x)	1.8	1.8	1.4	1.1	1.0
Dividend payout ratio (%)	13.8	-	17.6	16.7	16.7
Dividend yield (%)	1.0	-	1.0	1.8	2.1
B/S ratios					
Inventory days	204	169	159	144	145
Creditors days	128	83	62	62	62
Debtor days	62	69	59	66	67
Working capital days	131	143	146	142	147
Gross asset turnover (x)	1.5	1.2	1.3	1.6	1.8
Net asset turnover (x)	1.7	1.4	1.6	2.1	2.6
Sales/operating assets (x)	1.6	1.3	1.4	1.9	2.3
Current ratio (x)	2.4	3.6	4.0	4.4	4.8
Debt-equity (x)	1.7	2.0	1.5	1.5	1.1
Net debt/equity (x)	1.7	1.9	1.5	1.4	0.8
Interest coverage	2.8	1.2	1.9	2.5	3.1

Per share

	FY08	FY09	FY10	FY11E	FY12E
Adj EPS (Rs)	8.5	2.7	6.9	12.2	14.1
CEPS	14.7	9.9	14.9	23.6	23.8
Book value	58.9	61.8	77.1	86.9	97.1
Dividend (Rs)	1.2	-	1.2	2.0	2.4
Actual o/s shares (mn)	15.3	15.3	16.4	16.4	20.3

Balance Sheet

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Liabilities					
Equity share capital	153	153	164	164	203
Reserves	749	794	1,102	1,264	1,770
Minorities	-	-	-	-	-
Net worth	902	948	1,266	1,428	1,974
Convertible debt	-	-	-	-	-
Other debt	1,518	1,934	1,883	2,183	2,083
Total debt	1,518	1,934	1,883	2,183	2,083
Deferred tax liability (net)	145	172	225	225	225
Total liabilities	2,565	3,054	3,374	3,836	4,282
Assets					
Net fixed assets	1,589	1,724	1,819	1,731	1,636
Capital WIP	85	216	260	260	260
Total fixed assets	1,673	1,941	2,079	1,991	1,896
Investments	58	3	0	0	0
Current assets					
Inventory	855	830	995	1,173	1,373
Sundry debtors	352	422	453	672	786
Loans and advances	187	171	268	339	397
Cash & bank balance	12	98	6	205	462
Marketable securities	13	23	-	-	-
Total current assets	1,420	1,544	1,723	2,390	3,019
Total current liabilities	587	434	427	545	632
Net current assets	833	1,110	1,296	1,845	2,386
Intangibles/Misc. expendit	-	-	-	-	-
Total assets	2,565	3,054	3,374	3,836	4,282

Cash flow

(Rs Mn)	FY08	FY09	FY10	FY11E	FY12E
Pre-tax profit	200	69	168	301	430
Total tax paid	(1)	(1)	(1)	(100)	(143)
Depreciation	96	111	131	187	195
Working capital changes	(175)	(181)	(300)	(350)	(285)
Net cash from operations	120	(3)	(2)	38	198
Cash from investments					
Capital expenditure	(891)	(378)	(269)	(100)	(100)
Investments and others	(70)	46	25	-	-
Net cash from investments	(962)	(332)	(244)	(100)	(100)
Cash from financing					
Equity raised/(repaid)	15	-	118	-	419
Debt raised/(repaid)	759	417	(51)	300	(100)
Dividend (incl. tax)	(18)	-	(19)	(34)	(48)
Others (incl extraordinary)	54	4	106	(6)	(113)
Net cash from financing	810	421	154	261	158
Change in cash position	(31)	86	(92)	199	256
Closing cash	12	98	6	205	462

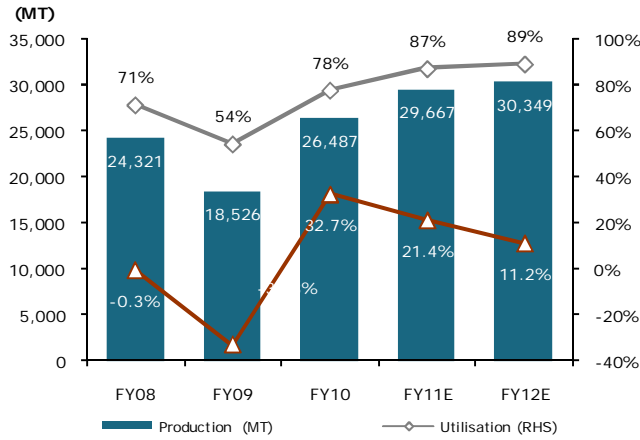
Quarterly financials

(Rs mn)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Net sales	709	804	831	772	1,002
Change (q-o-q)	NA	13%	3%	-7%	30%
EBITDA	106	127	124	124	176
Change (q-o-q)	NA	19%	-3%	0%	42%
EBITDA margin	15.0%	15.8%	14.9%	16.1%	17.5%
PAT	25	38	38	32	52
Adj PAT	25	38	38	32	52
Change (q-o-q)	NA	50%	1%	-17%	63%
Adj PAT margin	3.6%	4.7%	4.6%	4.1%	5.2%
Adj EPS	1.7	2.5	2.3	1.9	3.2

Source: CRISIL Equities

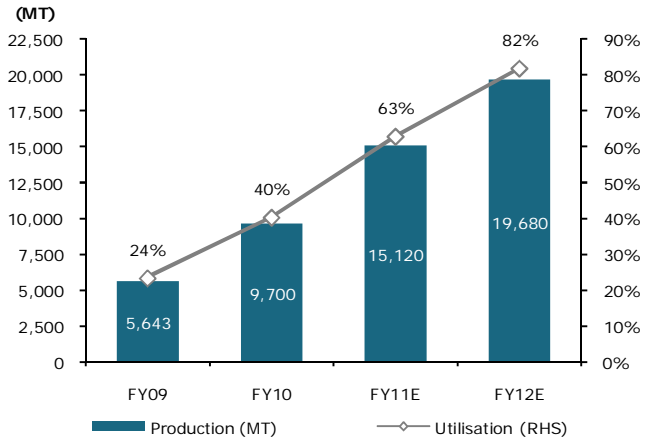
Focus Charts

Forging – capacity utilisation to increase on the back of growth in MHCV sales



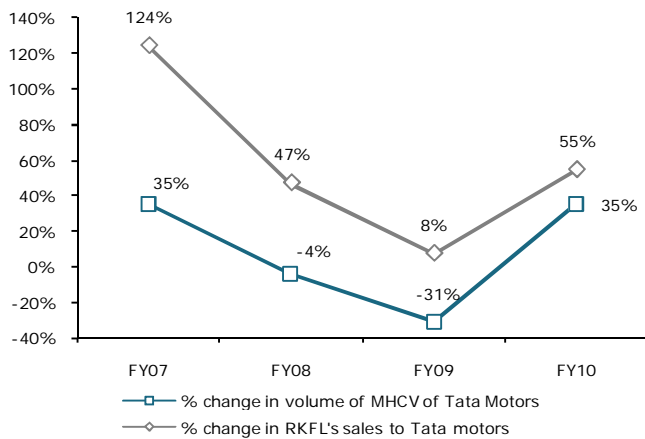
Source: Company, CRISIL Equities

Ring rolling– capacity utilisation to increase on back of export sales



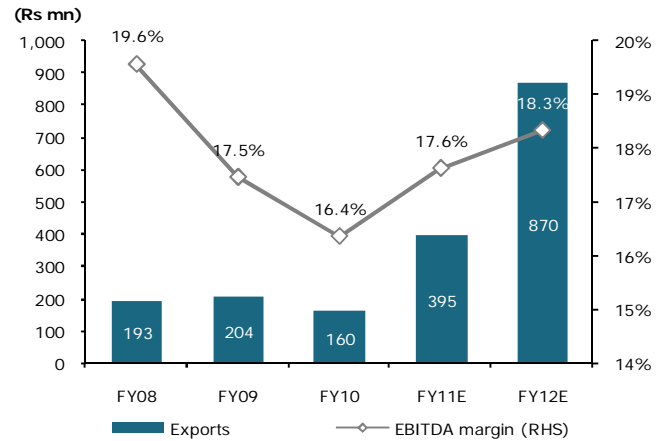
Source: Company, CRISIL Equities

Sales to Tata Motors increased even in downturn



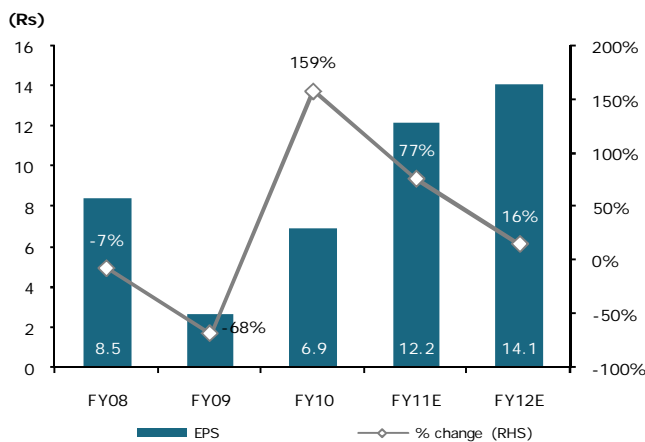
Source: Company, CRISIL Equities

Contribution from exports to increase margins



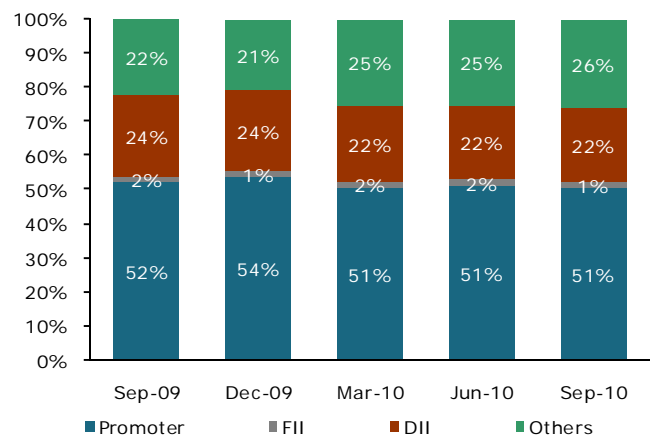
Source: Company, CRISIL Equities

EPS and EPS growth



Source: Company, CRISIL Equities

Shareholding pattern over the quarters



Source: Company, CRISIL Equities

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