January 8, 2024(Revised)

Ramkrishna Forgings Limited: Ratings reaffirmed; Outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	490.05	490.05	[ICRA]A+ reaffirmed; Outlook revised to Positive from Stable
Working capital facilities	655.00	655.00	[ICRA]A+ reaffirmed; Outlook revised to Positive from Stable
Fund-based limits	55.00	55.00	[ICRA]A+/[ICRA]A1 reaffirmed; Outlook revised to Positive from Stable
Non-fund based limits	330.00	330.00	[ICRA]A1; reaffirmed
Total	**1530.05**	**1530.05**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook on the long-term rating of Ramkrishna Forgings Limited (RKFL or the company) considers an expected improvement in its credit metrics following the fund-raising worth ~Rs. 1,000 crore by the company via Qualified Institutional Placement (QIP) in November 2023 towards deleveraging and part-funding its growth plans. Notwithstanding the large capital expenditure/inorganic growth in FY2024, the fund infusion is expected to reduce the leverage significantly in FY2024 and FY2025 compared to ~1.9 times reported in FY2023.

The ratings also consider the healthy financial performance of RKFL expected in FY2024, supported by strong growth in revenues and continued healthy operating margins. In H1 FY2024, RKFL had recorded revenues of ~Rs. 1,784 crore at an operating margin of ~21.2%, which is expected to sustain owing to a healthy order book position and increasing capacities. ICRA also notes that the company has acquired various new businesses in the recent past and revenues from these subsidiaries are expected to support scale and absolute profits as well as strengthen the operating profile from FY2025. Turnaround and stabilisation of the newly acquired units, however, will remain key credit challenges and would be monitored. RKFL's overall liquidity position is comfortable with fresh equity infusion, recent enhancement of working capital limits and sufficient unutilised working capital facilities as on date. In addition, the working capital intensity of operations also improved with NWC/OI of ~24% in H1 FY2024 from 46% in FY2022. The ratings continue to factor in RKFL's established position in the automotive forgings industry, especially in the medium and heavy commercial vehicle (M&HCV) segment, in both the domestic and the export markets. The ratings also consider the company's increasing scale of operations, strong customer base as well as the expanding proportion of value-added products in the overall portfolio.

The ratings are, however, impacted by the company's sales concentration in the domestic commercial vehicle (CV) segment, particularly M&HCV, which is more prone to the economic cycles. In addition, RKFL remains exposed to the client concentration risk as the major part of its sales is made to a single customer. However, such risk is partially offset by the established market position of the customers in the industry and a gradual decline in the share of overall revenues from its top customers Going forward, addition of new business at its subsidiaries and recent diversification of revenues across industries and geographies are likely to mitigate this risk to an extent. ICRA notes that the company is increasing sales to the non-auto industries (~21% in H1 FY2024 compared to ~9% in FY2017) in the domestic market, which would further reduce concentration risks. Nonetheless, any further large debt-funded capex exerting pressure on the liquidity position would remain a key monitorable.

Key rating drivers and their description

Credit strengths

Expected deleveraging may improve debt protection metrics – RKFL has raised ~Rs. 1,000 crore fresh equity through QIP in November 2023. These funds will be used for debt reduction and for funding its capital expenditure plans. ICRA notes that the company has already prepaid a part of its debt in the current year, and further reduction is expected by the end of the year. Consequently, TD/OPBDITA is expected to substantially improve in FY2024 and FY2025 compared to ~1.9 times in FY2023. Lower finance costs are also likely to result in an improvement in the debt protection metrics.

Healthy financial performance likely to sustain in FY2024 – RKFL's financial performance continues to remain healthy in the current fiscal, aided by order execution and increasing capacities. In H1 FY2024, RKFL reported revenues of ~Rs. 1,784 crore, which is likely to sustain for the full year. The operating margins continue to remain healthy at ~21% at the consolidated level. ICRA notes that in the current year, RKFL has acquired various businesses, the benefit of which is expected to accrue from FY2025, further supporting the scale. These new businesses are likely to further strengthen its product profile and expand its customer base.

Increasing scale and high proportion of value-added products – During the last 2-3 years, RKFL is undergoing a large capex to increase its capacities. At present, the total capacity available with RKFL is ~2,10,900 MTPA, which is expected to increase to ~2,43,000 MTPA by the end of FY2024. Besides, RKFL is adding a new forging process by setting-up ~25,000-MTPA cold forging capacities, expected to be available from FY2025, which is likely to add new markets for RKFL. Enhanced capacities, along with higher capacity utilisation levels, will lead to higher sales volumes. In addition, RKFL has continuously expanded its product portfolio and introduced more value-added products. The ramp-up of operations at the recently acquired new businesses will further strengthen RKFL's product profile, resulting in higher share of business with the OEMs in the medium-to-long term.

Established supplier of forged components to the automobile industry – RKFL is an established auto-components supplier, operating in the industry for ~38 years. The acceptance of the company's products is established by the long relationship that the company has with some of the leading auto manufacturers in the country and overseas. RKFL's sales are concentrated in the CV segment, particularly in the M&HCV segment. In addition, RKFL remains exposed to the client concentration risk with the major portion of its sales made to a single customer. Such risk is partially offset by the established market position of the customers in the auto-ancillary industry, thus reducing the counterparty credit risk. ICRA also positively factors in the importance of RKFL as a supplier to these counterparties, given the criticality of the components supplied.

Credit challenges

Exposed to the cyclicality inherent in CV and steel industries – RKFL's cash flows remain exposed to the cyclicality inherent in the domestic commercial vehicle industry. Slowdown in the domestic CV industry had impacted sales in FY2020 and H1 FY2021. However, with a turnaround in demand conditions, the company's sales have recovered since Q3 FY2021, and have continued to improve since then. Moreover, RKFL's sales were superior than the market trend, which indicates that the company was able to beat the industry downturn to an extent by adding new customers and products. Moreover, ICRA notes that the company is increasing sales to the non-auto industries (~21% in H1 FY2024 compared to ~9% in FY2017) in the domestic market, as well as increasing share of exports, which would reduce concentration risks.

High working capital intensity – The company's working capital intensity remained high at over 45% during FY2020-FY2022. Higher stocking requirement for various products and an increase in the export business, having higher receivable cycle, contributed to the same. However, in FY2023 and in the current year, owing to better inventory management, increasing share of domestic business and export discounting facilities to reduce debtor days, NWC/OI is expected to sustain at a reduced level.

Liquidity position: Adequate

RKFL's liquidity is adequate on account of its healthy cash flow from operations, large cash balances owing to the recent equity infusion and unutilised working capital lines. ICRA notes that while the debt repayment obligations of RKFL remain high in the near term, RKFL has prepaid a part of its long-term debt in H2 FY2024 and significantly reduced its working capital borrowings.

Additionally, the company has substantial capex/acquisition plans during FY2024-FY2026, which will be partly funded by debt and equity. The recent Rs. 1,000-crore equity infusion via QIP and enhancement of working capital limits to Rs. 900 crore from Rs. 750 crore provides comfort to the liquidity position. ICRA expects RKFL to generate adequate cash flows vis-a-vis its debt repayment liabilities.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company witnesses a considerable increase in scale, while maintaining healthy profitability along with deleveraging and improving its working capital intensity, resulting in significant improvement in debt coverage indicators. Specific trigger for ratings upgrade would be an interest cover of more than 10 times on a sustained basis.

Negative factors – Pressure on RKFL's ratings may arise in case of a significant decline in its profitability and cash accruals. Any stretch in the working capital cycle, or large debt-funded capex exerting pressure on the liquidity position, may also trigger ratings downgrade. Specific trigger for ratings downgrade would be an interest cover below 5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. As on March 31, 2023, the company had four subsidiaries enlisted in Annexure 2.

About the company

Incorporated in 1981, RKFL commenced operations in 1984 primarily as a forging manufacturer for the Indian Railways. Manufacturing from its two facilities located in and around Jamshedpur and another small unit near Kolkata, the company's existing annualised installed capacity is ~1,87,100 MTPA, including forgings, ring rolling, press line and fabrication capacities. RKFL's forging capacity will be augmented by ~56,300 MT following addition of press lines and upsetters, including warm forging press, expected to be commissioned in the current year. Another ~25,000 MT of cold forging facilities are expected to be operationalised by FY2025.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	H1FY2024
Operating income	2320.2	3192.9	1873.8
PAT	198.0	248.1	161.1
OPBDIT/OI	22.3%	22.1%	21.2%
PAT/OI	8.5%	7.8%	8.6%
Total outside liabilities/Tangible net worth (times)	2.2	1.8	1.9
Total debt/OPBDIT (times)	3.1	1.9	2.0
Interest coverage (times)	5.3	5.8	5.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024) Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Chronology of rating history for the past 3 years: Date & rating in FY2023			Date & rating in FY2022		Date & rating in FY2021	
					Jan 8, 2024	May 09, 2023	Mar 01, 2023	Dec 12, 2022	Jun 30, 2022	Sep 06, 2021	Jun 28, 2021	Mar 30, 2021	Jun 1, 2020
1	**Term Loan**	Long Term	490.05	490.05	**[ICRA]A+(Positive)**	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Negative)
2	**Working Capital Facilities**	Long Term	655.00	-	**[ICRA]A+(Positive)**	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Negative)
3	**Fund-based limits**	Long Term/Short Term	55.00	-	**[ICRA]A+ (Positive)/ [ICRA]A1**	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Positive)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Negative)/ [ICRA]A2+
4	**Non-fund based limits**	Short Term	330.00	-	**[ICRA]A1**	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Working capital facilities	Simple
Fund-based limits	Simple
Non-fund based limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	2022-23	NA	2030	490.05	[ICRA]A+(Positive)
NA	**Working Capital Facilities**	NA	NA	NA	655.00	[ICRA]A+(Positive)
NA	**Fund-based limits**	NA	NA	NA	55.00	[ICRA]A+(Positive)/[ICRA]A1
NA	**Non-fund based limits**	NA	NA	-	330.00	[ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Globe All India Services Limited (Formerly Globe Forex & Travels Limited)	100%	Full Consolidation
Ramkrishna Aeronautics Pvt. Ltd.	100%	Full Consolidation
Ramkrishna Forgings LLC	100%	Full Consolidation
RKFL Engineering Industry Private Limited	100%	Full Consolidation

Source: RKFL

Note: ICRA has taken a consolidated view of the parent (RKFL), its subsidiaries and associates while assigning the ratings.

Corrigendum:

Document dated January 8, 2024 has been corrected with revisions as detailed below:

- In the Rationale section in Pg 1, a gradual decline in the share of overall revenues from its top customers has been added.
- In Pg 2 in credit strengths section, few additional details about the new cold forging capacity have been added.
- In Pg 2 in the Credit Challenges section, details about increasing share of non-auto segment and exports have been added and expected % of NWC/OI has been removed.

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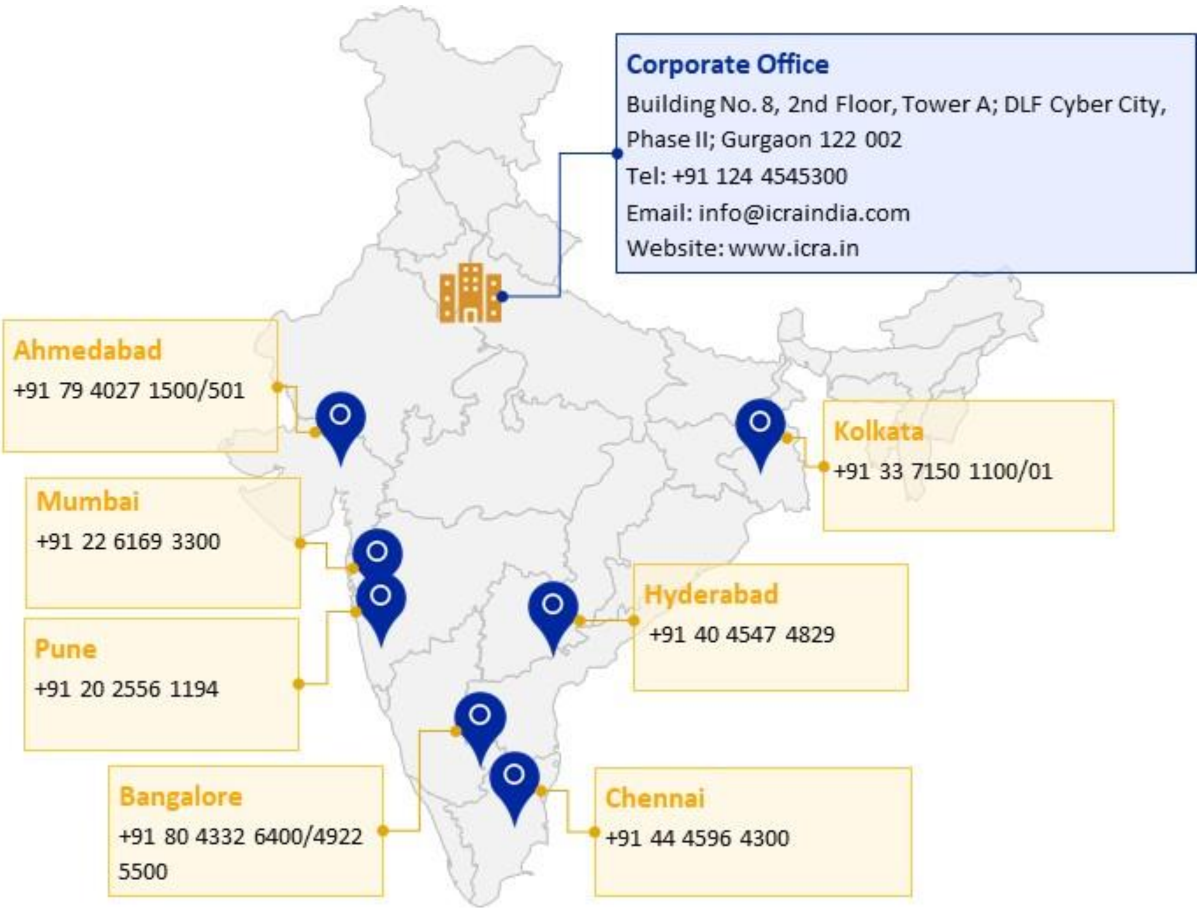

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