July 12, 2024

Ramkrishna Forgings Limited: Ratings upgraded to [ICRA]AA- (Stable)/[ICRA]A1+; Outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Term loans	490.05	490.05	[ICRA]AA- (Stable); upgraded from [ICRA]A+; Outlook revised from Positive
Long term – Fund-based working capital	655.00	655.00	[ICRA]AA- (Stable); upgraded from [ICRA]A+; Outlook revised from Positive
Long term/ Short term – Fund-based working capital	55.00	55.00	[ICRA]AA- (Stable)/[ICRA]A1+; upgraded from [ICRA]A+/[ICRA]A1; Outlook revised from Positive
Short term - Non-fund based limits	330.00	330.00	[ICRA]A1+; upgraded from [ICRA]A1
Total	**1530.05**	**1530.05**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade considers the improved capital structure and liquidity position of Ramkrishna Forgings Limited (RKFL), post the fund raising worth Rs. 1,000 crore by the company via Qualified Institutional Placement (QIP) in November 2023, which has been utilised mainly for capex/acquisition and debt reduction. The company's additional borrowings for business growth are likely to remain limited, going forward, which coupled with its increasing profits and cash accruals are likely to strengthen the capital structure and debt coverage metrics. Besides, RKFL's increasing scale of operations, rising share of relatively value-added products and diversification into new segments are likely to strengthen its overall operating profile. Recent and planned capacity additions and acquisitions of new businesses in FY2024, which have products for various end-user industries, are likely to provide operational synergy and scope for product line expansion, supporting RKFL's planned revenue diversification and future growth. However, timely turnaround and stabilisation of the newly acquired units will remain critical from the credit perspective. The ratings continue to consider RKFL's established position in the automotive forgings industry, as a supplier to prominent automobile players, especially in the medium and heavy commercial vehicle (M&HCV) segment, in both the domestic and the export markets. The company recorded a robust revenue growth over the last three years, supported by industry tailwind coupled with product line extension and capacity expansion undertaken by it. In FY2024, the consolidated revenue and cash accrual grew by 24% and 33%, respectively. In FY2025, demand from the domestic M&HCV segment is likely to remain muted, however, RKFL is likely to achieve a high double-digit growth in its revenue and cash accrual, supported by improving order flow from the export market and other segments and a significant capacity expansion.

The ratings are, however, constrained by the company's sales concentration in the domestic commercial vehicle (CV) segment, particularly M&HCV, which is vulnerable to the economic cycles. In addition, RKFL remains exposed to the client concentration risk as the top two customers accounted for 43% and 35% of the domestic and export sales, respectively, in FY2024. However, such risk is partially offset by the established market position of the customers in the industry and improving diversification of revenues across industries, clientele and geographies. ICRA positively factors in the company's increasing sales from the non-auto segment (~23% in FY2024 compared to ~16% in FY2019,), reducing concentration risks. The company's working capital intensity of operations remains high, notwithstanding a reduction in the same over the last two fiscals with a significant improvement in the receivable days. This coupled with high debt service obligations and a substantial capex encumber liquidity to an extent. The quantum of debt-funded capex/acquisitions would remain a key monitorable, going forward.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company's revenue growth in the medium term is likely to remain above the industry average, driven by its recent acquisitions, planned capacity expansion and demonstrated ability to diversify into non-auto segments. While the company's healthy earnings and improved capital structure (after the sizeable equity infusion in FY2024) are likely to keep the debt coverage metrics comfortable, its liquidity is likely to remain adequate despite a significant capex, going forward.

Key rating drivers and their description

Credit strengths

Improved capital structure and liquidity post significant equity infusion through QIP; limited fresh borrowings for business growth to strengthen the overall financial profile – RKFL raised equity worth ~Rs. 1,000 crore via QIP in November 2023, which has been utilised mainly for capex/acquisition and debt reduction. Notwithstanding the large capital expenditure/ inorganic expansion in FY2024, which was partly funded by fresh long-term loans, the consolidated total debt relative to tangible net worth and total outside liabilities relative to tangible net worth declined to 0.4 times and 1.0 times, respectively as on March 31, 2024 from 1.0 times and 1.8 times, respectively as on March 31, 2023. The consolidated total debt relative to OPBDITA stood at 1.4 times in FY2024, down from 1.9 times in FY2023, and is expected to gradually reduce to ~1 times in FY2026 with scheduled repayment of long-term loans and improvement in profits. Other coverage indicators of the company are also likely to improve with its increasing profits and limited fresh borrowings expected for business growth, going forward. The consolidated interest coverage is likely to improve to above 7 times by FY2026 from 5.5 times in FY2024.

Increasing scale, higher proportion of value-added products and sectoral diversification to strengthen operating profile – The company has increased its capacity at regular intervals to expand its product portfolio and client base. RKFL's overall capacity stood at 2,10,900 tonnes per annum (tpa) as on March 31, 2024, increasing by 23,800 tpa (13%) than the previous year. It added a capacity of 18,250 tpa in April 2024 and plans to increase it further by 79,250 tpa by Q1 FY2026, which will be ~46% higher than March 2024 level. The planned capacity addition in RKFL and acquisition of new businesses in FY2024 are likely to enhance the overall scale of operations and product diversity significantly, going forward. An increasing proportion of value-added products, as evident from a rise in the machining mix, and diversification into non-auto segments, which contributed ~23% to RKFL's sales in FY2024 vis-à-vis ~16% in FY2019, are likely to strengthen the operating profile.

Established supplier of forged components to the automobile industry – RKFL is an established auto-components supplier, operating in the industry for around four decades. 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, particularly in the M&HCV segment. ICRA positively factors in the importance of RKFL as a supplier to the customers, given the criticality of the components supplied.

Healthy revenue growth and cash accruals to sustain in FY2025, despite a moderation in demand from the M&HCV segment – The company recorded an above-average revenue growth over the last three fiscals, supported by industry tailwind coupled with product line extension and capacity expansion undertaken by it. In FY2024, the consolidated revenue and cash accrual grew by 24% and 33%, respectively. In FY2025, the demand from the domestic M&HCV segment is likely to remain muted, however, RKFL is likely to achieve a high double-digit growth in its revenue and cash accrual, supported by improving order flow from the export market and non-auto segments as well as significant capacity expansion/ acquisitions, augmenting operational capabilities.

Credit challenges

Exposed to the cyclicality inherent in the automobile industry – RKFL's revenues and cash flows remain exposed to the cyclicality inherent in the domestic commercial vehicle industry, particularly the M&HCV segment, which contributes a major portion to RKFL's revenues. However, RKFL's sales were superior to the market trend in the past years, which indicates that the company was able to beat the industry downturn to an extent by adding new customers and products. RKFL also remains exposed to client concentration risk. Its top two customers accounted for 43% and 35% of the domestic and export sales, respectively, in FY2024. However, such risk is partially offset by the established market position of the customers in the auto industry, reducing the counterparty risk, and improving diversification of revenues across industries, clientele and geographies. ICRA notes that the company is increasing sales to the non-auto industries in the domestic market, and is also raising the share of exports, which would reduce concentration risk.

High working capital intensity and significant capex – The company's working capital intensity remains high with significant stocking requirements for various products and higher receivable cycle for export sales, despite considerable credit available from raw material suppliers. Its net working capital relative to the operating income (NWC/OI) shot up to 44-48% during FY2020-FY2022, induced by the pandemic to some extent. The same declined to 26-29% over the last two fiscals mainly with a significant reduction in debtor days and some moderation in inventory days but was still at a high level. While discounting of export bills aided the receivables reduction, the same led to higher interest expenses. High working capital intensity and sizeable capex at regular intervals to expand capacity and product portfolio would continue to have a bearing on RKFL's cash flows, notwithstanding its healthy earnings.

Environmental and Social Risks

Environmental considerations: RKFL, like other auto ancillaries, face physical climate risks indirectly due to partial dependence/ supplies to automobile OEMs that lean on rural demand. Adverse climatic conditions such as droughts and floods may impact farm incomes and consequently the demand for automobile for temporary periods. Consequently, it would have a ripple effect on the demand for auto components. Certain product segments like engine and transmission parts also face climate transition risks as customer demand progressively shifts from fossil fuel-based powertrains, and the emission standards further tighten. Besides, innovations in energy technology and higher penetration of electric vehicles may result in product obsolescence in certain cases, while proving advantageous for some others. The company is focusing on increasing its presence in the electric vehicle segment to mitigate the product obsolescence risk and improve its product diversity. RKFL is also exposed to the risks arising from the tightening regulations on the environment front, particularly in the export market, wherein the OEMs are increasingly emphasising on a sustainable supply chain. However, such risks are likely to be mitigated by initiatives being taken by RKFL to meet the evolving regulatory standards relating to environment.

Social considerations: Social considerations for auto ancillaries relate primarily to maintaining healthy industrial relations as well as product safety. Further, attracting and nurturing skilled manpower are critical for ancillaries as they seek to keep pace with innovation and technological changes in the automotive industry. On the product front, vehicle recalls by OEMs because of defective auto parts could create additional cost burden and liabilities for the associated supplier(s). Auto ancillaries also have exposure to changing consumer preferences, including but not restricted to increasing awareness of the potential environmental damage from emissions, shift towards electric vehicles, usage of sustainable materials, besides societal trends like preference for sharing rides.

Liquidity position: Adequate

RKFL's liquidity is adequate. Its consolidated cash flow from operations remained healthy at ~Rs. 473 crore in FY2024, and is likely to remain at a similar level in FY2025. There was a cash outlay of ~Rs. 1,000 crore in FY2024 towards capex (excluding leased assets) and acquisitions. However, substantial equity infusion of Rs. 1,000 crore via QIP and ~Rs. 71 crore through conversion of warrants into equity shares along with enhancement of working capital limits to Rs. 900 crore from Rs. 750 crore supported the liquidity position. RKFL prepaid a part of its long-term debt and reduced its working capital borrowings after the QIP. However, fresh acquisition and capex debts and term loans in the acquired entities have led to an increase in the overall long-term borrowings in FY2024. The company has sizeable debt repayment obligations of Rs. 200-230 crore per annum till FY2026. Historically, RKFL's capex remained high, and is likely to remain high, going forward. It has substantial capex plan of ~Rs. 525 crore in FY2025, to be funded by fresh term loans (already tied up and partially disbursed) of ~Rs. 315 crore and the balance by internal accruals. Additionally, RKFL's investment in a joint venture (~Rs. 64 core as on March 31, 2024) and a start-up (Rs. 10 core as on March 31, 2024) would increase by ~Rs. 300 crore in the medium term. However, the company's healthy cash flow from operations, sizeable undrawn working capital limits of Rs. 761 crore and free cash/liquid investments of ~Rs. 229 crore as on March 31, 2024 would keep the liquidity adequate.

Rating sensitivities

Positive factors – ICRA could upgrade the long-term rating if the company witnesses a meaningful increase in scale, while maintaining healthy profitability and capital structure, resulting in a significant improvement in debt coverage indicators. Specific trigger for rating upgrade would be a total debt/OPBDITA of lower than 1.0 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 unanticipated debt-funded capex/acquisition, exerting pressure on the liquidity position, may also trigger ratings downgrade. Specific trigger for ratings downgrade would be a total debt/OPBDITA of more than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto components
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of the company along with its subsidiaries and a joint venture (as mentioned in Annexure-II)

About the company

Incorporated in 1981, RKFL commenced operations in 1984 primarily as a forging manufacturer for the Indian Railways. Over the years, the company has evolved into one of the largest players in the auto component industry, mainly catering to the M&HCV segment. The company has two facilities located in and around Jamshedpur and another small unit near Kolkata. Its existing forging facility comprises hammer forge and up-setter forge with a total capacity of 56,100 tpa, a ring-rolling unit with a capacity of 24,000 tpa and press lines of 1,49,050 tpa as of April 2024. RKFL also has fabrication and machining facilities. The company has announced plans to increase the overall capacity to 3,08,400 tpa by Q1 FY2026. The planned expansion includes a cold forging facility of ~25,000 tpa.

In FY2024, RKFL acquired Multitech Auto Private Limited and its subsidiary Mal Metalliks Private Limited, JMT Auto Limited (acquired through NCLT) and ACIL Limited (acquired through NCLT). The acquired entities have facilities for manufacturing various automotive and engineering parts, which would augment RKFL's product portfolio and client base. Besides, RKFL's existing subsidiary, Globe All India Services Limited, is involved in providing travel related services. The foreign subsidiary, Ramkrishna Forgings LLC, USA facilitates overseas sales. Ramkrishna Titagarh Rail Wheels Limited, a 51:49 joint venture between RKFL and Titagarh Rail Systems Limited, has been formed to manufacture railway wheels. The erstwhile subsidiaries, Ramkrishna Aeronautics Private Limited and RKFL Engineering Industry Private Limited, were merged with ACIL Limited and JMT Auto Limited, respectively, in FY2024.

Key financial indicators (audited)

RKFL Consolidated	FY2023	FY2024
Operating income	3192.9	3954.9
PAT	247.4	342.2
OPBDIT/OI	22.1%	21.3%
PAT/OI	7.7%	8.7%
Total outside liabilities/Tangible net worth (times)	1.8	1.0
Total debt/OPBDIT (times)	1.9	1.4
Interest coverage (times)	5.8	5.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years						
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023			Date & rating in FY2022	
				Jul 12, 2024	Jan 08, 2024	May 09, 2023	Mar 01, 2023	Dec 12, 2022	Jun 30, 2022	Sep 06, 2021	Jun 28, 2021
1	**Term loans**	Long term	490.05	**[ICRA]AA- (Stable)**	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)
2	**Fund-based working capital**	Long term	655.00	**[ICRA]AA- (Stable)**	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)
3	**Fund-based working capital**	Long term/ short term	55.00	**[ICRA]AA- (Stable)/ [ICRA]A1+**	[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+
4	**Non-fund based limits**	Short term	330.00	**[ICRA]A1+**	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Term loans	Simple
Long term – Fund-based working capital	Simple
Long term/ Short term – Fund-based working capital	Simple
Short term - 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	Long term – Term loan -1	10-Jul-23	NA	30-Jun-30	55.56	[ICRA]AA- (Stable)
NA	Long term – Term loan -2	12-Jul-19	NA	01-Jul-30	54.40	[ICRA]AA- (Stable)
NA	Long term – Term loan -3	06-Mar-23	NA	31-Aug-29	153.93	[ICRA]AA- (Stable)
NA	Long term – Term loan -4	24-Dec-18	NA	30-Jun-27	70.00	[ICRA]AA- (Stable)
NA	Long term – Term loan -5	24-Feb-23	NA	31-Dec-27	62.50	[ICRA]AA- (Stable)
NA	Long term – Term loan -6	21-Jan-23	NA	30-Jun-31	35.56	[ICRA]AA- (Stable)
NA	Long term – Term loan -7	21-Sep-22	NA	31-Dec-28	58.10	[ICRA]AA- (Stable)
NA	Long term – Fund-based working capital	NA	NA	NA	655.00	[ICRA]AA- (Stable)
NA	Long term/ Short term – Fund-based working capital	NA	NA	NA	55.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Short term - Non-fund based limits	NA	NA	NA	330.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	RKFL's ownership	Consolidation Approach
Globe All India Services Limited (Formerly Globe Forex & Travels Limited)	100%	Full consolidation
Ramkrishna Forgings LLC, USA	100%	Full consolidation
Multitech Auto Private Limited	100%	Full consolidation
Mal Metalliks Private Limited^	100%	Full consolidation
JMT Auto Limited	100%	Full consolidation
ACIL Limited	100%	Full consolidation
Ramkrishna Titagarh Rail Wheels Limited*	51%	Equity method

Source: Company's annual report for FY2024

Note: The erstwhile subsidiaries Ramkrishna Aeronautics Private Limited and RKFL Engineering Industry Private Limited were merged with ACIL Limited and JMT Auto Limited, respectively, in FY2024

^RKFL's stepdown subsidiary (100% subsidiary of Multitech Auto Private Limited)

**51:49 joint venture with Titagarh Rail Systems Limited*

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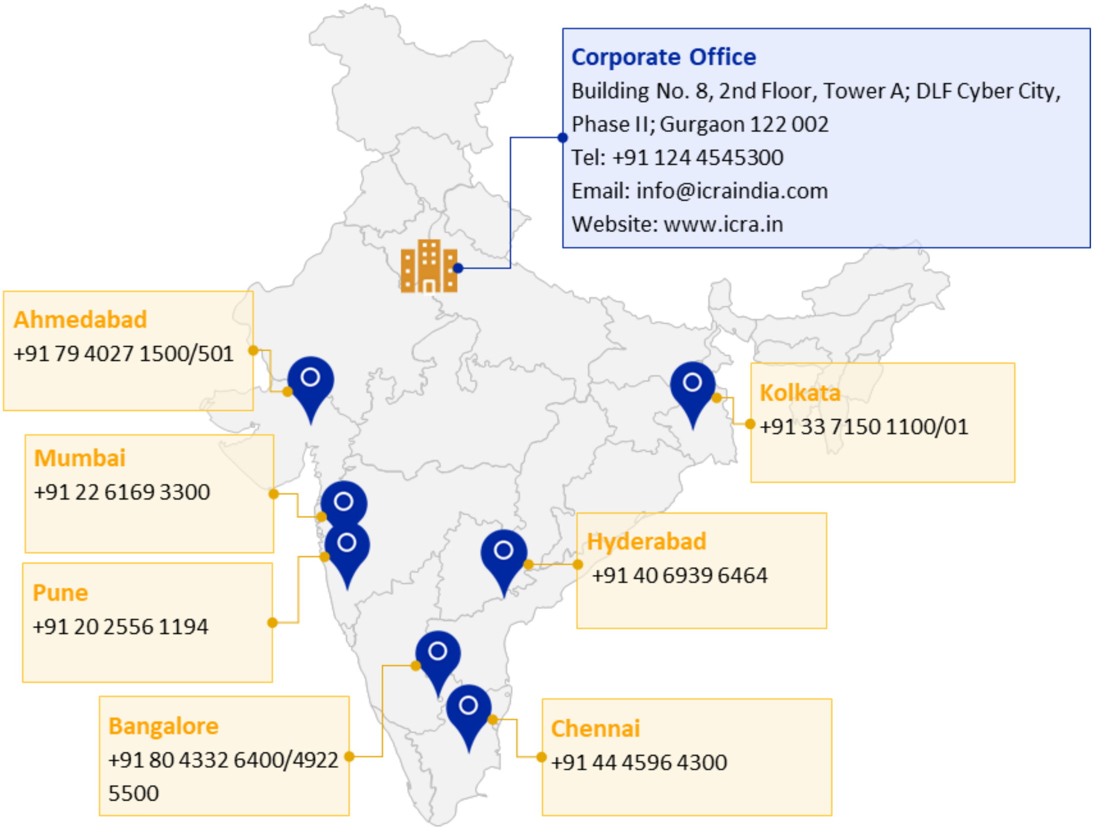

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