June 30, 2022

Ramkrishna Forgings Limited: Ratings reaffirmed at [ICRA]A(Stable)/[ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	490.05	490.05	Reaffirmed at [ICRA]A(Stable)
Working capital facilities	655	655	Reaffirmed at [ICRA]A(Stable)
Fund-based limits	55	55	Reaffirmed at [ICRA]A(Stable)/[ICRA]A1
Non-fund based limits	330	330	Reaffirmed at [ICRA]A1
Total	**1530.05**	**1530.05**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings factors in Ramkrishna Forgings Limited's (RKFL or the company) established position in the automotive forgings industry, especially in the medium & heavy commercial vehicle (M&HCV) segment in both the domestic and the export markets. The ratings favourably consider the healthy performance of RKFL in FY2022 owing to a strong revenue growth in the domestic M&HCV segment as well as a significant increase in its exports business by venturing into new geographies. In addition, the expanded capacity and higher capacity utilisation resulted in a significant increase in the sales volumes. Consequently, the consolidated revenue grew by ~80% in FY2022, while the operating profit margin (OPM) improved to 22.3% (~490 bps). The debt coverage indicators remained comfortable with an interest cover of ~5.4 times in FY2022 against ~2.8 times in FY2021. However, net debt/OPBDITA, notwithstanding the improvement, remained high at ~2.9 times as on March 31, 2022 owing to the higher working capital requirement in the export business having elongated receivables cycle. Going forward, while the company has healthy order book visibility in both domestic and export businesses, the durability of improvement in performance remains to be seen owing to the uncertainty over the operating environment because of high inflationary pressure and monetary tightening across the globe.

The ratings also consider the company's increasing scale of operations, strong customer base as well as expanding proportion of value-added products in the overall portfolio. Besides, the location-specific advantages derived from its proximity to raw-material sources helps in controlling the freight costs. The company's ability to pass on the rise in raw material prices to most of its customers resulted in a steady contribution levels over the years.

However, the ratings are constrained by the high working capital intensity with net working capital to operating income (NWC/OI) of 44% in FY2022 owing to elongated receivables position and higher inventory requirements in the export business. This led to a high reliance on working capital borrowings. Besides, sizeable debt-funded capex undertaken in the past, resulted in an increase in the overall debt levels. Nevertheless, RKFL's overall liquidity position is comfortable with sufficient unutilised working capital facilities as on date. The ratings are also impacted by the company's sales concentration in the domestic commercial vehicle (CV) segment, particularly in the M&HCV, which is more prone to the economic cycles. In addition, with the CV division of Tata Motors Limited (TML) and its wholly-owned subsidiaries accounting for a significant portion of domestic revenues and a single client accounting for the major portion of the company's export orders, RKFL remains exposed to client concentration risks. Such risks are partially offset by the established market position of the export customer in the global auto-ancillary industry as well as the established market position of TML (rated at [ICRA]AA-/Stable & [ICRA]A1+), which has the largest market share in the domestic CV 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. Moreover, RKFL's recent efforts in acquiring new customers, particularly in Europe, have helped the company in diversifying its customer base to an extent. ICRA expects the company to diversify its exports base further, going forward, and thus reduce its dependence on the US market. In addition, the company is planning to increase sales to the non-auto industries (~19% in FY2022 compared to ~9% in FY2017) in the domestic market, which would further reduce concentration risks.

ICRA also takes cognisance of RKFL's proposed acquisition of ACIL Limited. While the acquisition is likely to provide the company with an opportunity to further diversify its sectoral and customer base going forward, debt for the acquisition would impact the capital structure of the consolidated entity over the short-to-medium term. Moreover, the quality of the assets being taken over, time required to turn around the performance of the company, along with any additional investments required would be the key factors in determining the returns from the acquisition.

The Stable outlook on the long-term rating reflects ICRA's expectation that RKFL will continue to benefit from its established position in the industry, while expanding its geographical reach and more focus on high value-added products.

Key rating drivers and their description

Credit strengths

Substantial improvement in financial performance in FY2022 – RKFL has reported healthy operating and financial performances in FY2022, driven by strong revenue growth in the domestic as well as export markets. The revenue growth was supported by expanded capacities and higher capacity utilisation levels. As a result, the consolidated revenues increased by ~80% in FY2022 compared to FY2021 with an OPM of ~22.3%, (~490 bps). RKFL primarily caters to the M&HCV segment. RKFL's enhanced capacities to cater to the demand augurs well for the company, going forward. While the company has healthy order book visibility, with the uncertainty over the operating environment owing to high inflationary pressure and monetary tightening across the globe, the durability of improvement in performance remains to be seen.

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.

Increasing scale and high proportion of value-added products – During the last 2-3 years, RKFL was undergoing a large capex to increase its press lines capacities. The project was completed in FY2022 and the entire ~1,87,100 MTPA capacity is now available with the company. 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. RKFL's presence in the forging content per vehicle has increased from ~24% in FY2017 to ~66% in FY2022. The company's capability to manufacture such products has enhanced its operating profile and resulted in better margins.

Low counterparty risks, however, sales and customer concentration risks remain – RKFL's sales are concentrated in the domestic CV segment, particularly in the M&HCV, which is more prone to the economic cycles. In addition, with the CV division of Tata Motors Limited (TML) and its wholly-owned subsidiaries accounting for a significant portion of domestic revenues and a single client accounting for the major portion of the company's export orders, RKFL remains exposed to client concentration risks. Such risks are partially offset by the established market position of the export customer in the global auto-ancillary industry as well as the established market position of TML, which has the largest market share in the domestic CV 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 components supplied. Moreover, RKFL's recent efforts in acquiring new customers, particularly in Europe, have helped the company in diversifying its customer base to an extent. ICRA expects the company to diversify its exports base further, going forward, and thus reduce its dependence on the US market. In addition, the company is planning to increase sales to the non-auto industries (~19% in FY2022 compared to ~9% in FY2017) in the domestic market, which would further reduce concentration risks.

Credit challenges

High working capital intensity of the export business resulted in higher debt levels – The working capital (WC) intensity was high in FY2022 with NWC/OI of ~44% because of the elongated receivable cycle and higher inventory requirements in the exports business. This led to a high reliance on working capital borrowings. Besides, sizeable debt-funded capex undertaken in the past, resulted in an increase in the overall debt levels. Nevertheless, RKFL's overall liquidity position is comfortable with sufficient unutilised working capital facilities as on date. The debt coverage indicators also remain comfortable with an interest cover of ~5.4 times in FY2022 compared to ~2.8 times in FY2021.

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 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 in its portfolio.

Moderate level of return on capital employed – Historically, RKFL's overall return on capital employed remain at a moderate level. While the RoCE declined to ~4.3% and 6.3% in FY2020 and FY2021, respectively, favourable demand and increased capacity utilisation led to an improvement in RoCE to ~15.6% in FY2022.

Liquidity position: Adequate

RKFL's liquidity is adequate on account of its healthy cash flow from operations. The company has annual debt repayment liabilities of ~Rs. 150-200 crore in the next few financial years. While elongated export receivables impacts liquidity, the overall liquidity position receives support from the unutilised working capital facilities of ~Rs. 300 crore as on date. In addition, ICRA notes that the lead banker has assessed the total fund based limits at Rs. 750 crore as compared to Rs. 600 crore at present. The enhanced limits once sanctioned, will further support RKFL's liquidity position. ICRA expects RKFL to generate adequate cash flows vis-a-vis its debt repayment liabilities.

Rating sensitivities

Positive factors – RKFL's long-term rating can be upgraded if the company achieves a healthy increase in scale and can sustain healthy margins along with diversification in its customer base. Specific trigger for ratings upgrade would be an interest cover of over 6 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 triggers for the downgrade would be TOL/TNW remaining above 1.4 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 rating is based on the consolidated financial profile of the company. As on March 31, 2022, the company had 3 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 forging facility comprises hammer forge and up-setter forge with a total capacity of 46,000 mtpa and a ring-rolling unit with a capacity of 24,000 mtpa. Additionally, RKFL has four press lines having a cumulative capacity of 80,000 mtpa. The press lines were commissioned between FY2015 and FY2016 and helped the company expand its product portfolio. RKFL has a 100% subsidiary, Globe Forex & Travels Limited (GFTL). Incorporated in 1994, GFTL, is involved in the travel and ticketing business and organises corporate leisure trips, conferences and others.

Key financial indicators (Audited, Consolidated)

RKFL – Standalone	FY2021	FY2022
Operating Income (Rs. crore)	1288.9	2320.2
PAT (Rs. crore)	20.7	199.7
OPBDIT/OI (%)	17.4%	22.3%
PAT/OI (%)	1.6%	8.6%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	2.2
Total Debt/OPBDIT (times)	5.5	3.1
Interest Coverage (times)	2.8	5.4

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 (FY2023)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)		Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020	
					Jun 30, 2022	Sep 06, 2021	Jun 28, 2021	Mar 30, 2021	Jun 1, 2020	Dec 20, 2019	Oct 4, 2019 Nov 22, 2019
1	Term Loan	Long Term	490.05	490.05	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)
2	Working Capital Facilities	Long Term	655	300	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)
3	Fund-based limits	Long Term/Short Term	55	-	[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+	[ICRA]A (Negative)/ [ICRA]A1	-
4	Non-fund based limits	Short Term	330	-	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1

Complexity level of the rated instrument

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	2015-2018	NA	2025	490.05	[ICRA]A(Stable)
NA	Working Capital Facilities	NA	NA	NA	655	[ICRA]A(Stable)
NA	Fund-based limits	NA	NA	NA	55	[ICRA]A(Stable)/[ICRA]A1
NA	Non-fund based limits	NA	NA	-	330	[ICRA]A1

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis:

Company Name	RKFL Ownership	Consolidation Approach
Globe All India Services Limited (Formerly Globe Forex & Travels Limited)	100.00%	Full Consolidation
Ramkrishna Aeronautics Pvt. Ltd.	100.00%	Full Consolidation
Ramkrishna Forgings LLC	100.00%	Full Consolidation

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 104
kaushikd@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
Priyesh.ruparelia@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

Maitri Vira
+91 79 4027 538
maitri.vira@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches