RAMKRISHNA FORGINGS LIMITED

Date: 2 March, 2023

To
The Listing Department
BSE Limited
1st Floor, P.J. Towers, Dalal Street
Mumbai 400 001

Scrip Code: 532527

To
The Listing Department
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1
Bandra Kurla Complex
Bandra East, Mumbai 400051
Scrip Symbol: RKFORGE

Sub: Intimation of Revision (Upgradation) of Credit Rating of Ramkrishna Forgings Limited ("the Company") by ICRA Limited

Dear Sir/Madam,

Pursuant to Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, we wish to inform you that ICRA Limited has revised (upgraded) the following ratings of the Company for its Bank facilities aggregating Rs. 1530.05 Crore:

Instrument	Rated Amount (Rs. Crore)	Rating Action
Term Loan	490.05	Upgraded to [ICRA]A+ from [ICRA]A; Outlook revised to Stable from Positive
Working capital facilities	655	Upgraded to [ICRA]A+ from [ICRA]A; Outlook revised to Stable from Positive
Fund-based limits	55	Long term rating upgraded to [ICRA]A+ from [ICRA]A; Outlook revised to Stable from Positive and short-term rating reaffirmed at [ICRA]A1
Non-fund based limits	330	Reaffirmed at [ICRA]A1
Total	**1530.05**	

The rating rationale is enclosed.

We request you to take the afore-mentioned information in record and oblige.

Thanking you.

Yours truly,
For Ramkrishna Forgings Limited

RAJESH MUNDHRA
Digitally signed by RAJESH MUNDHRA
Date: 2023.03.02 10:22:17 +05'30'

Rajesh Mundhra
Company Secretary : ACS12991

Encl.: Stated as above

THE ECONOMIC TIMES INDIA'S GROWTH CHAMPIONS 2020 statista

March 01, 2023

Ramkrishna Forgings Limited: Long-term rating upgraded to [ICRA]A+ and short-term rating reaffirmed; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	490.05	490.05	Upgraded to [ICRA]A+ from [ICRA]A; Outlook revised to Stable from Positive
Working capital facilities	655	655	Upgraded to [ICRA]A+ from [ICRA]A; Outlook revised to Stable from Positive
Fund-based limits	55	55	Long term rating upgraded to [ICRA]A+ from [ICRA]A; Outlook revised to Stable from Positive and short term rating reaffirmed at [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 upward revision in long-term rating factors in the healthy financial performance of Ramkrishna Forgings Limited (RKFL or the company) expected in FY2023 and the likely sustenance of the same in FY2024, supported by strong growth in revenues and continued healthy operating margins. The domestic commercial vehicle (CV) demand outlook remains favourable to support the improvement in scale. During 9M FY2023, RKFL had achieved revenues of ~Rs. 2300 crore at an operating margin of ~22%. Steady cash accruals from business resulted in an improvement in debt coverage metrics of the entity. In addition, the working capital intensity of operations witnessed significant improvement in the current year with net working capital to operating income (NWC/OI) expected to reduce to ~36-37% in FY2023 compared to ~44% in FY2022 and ICRA's expectation is that it is likely to sustain, going forward. As a result, total debt levels have reduced by ~Rs. 150-200 crore from March 2022 levels. RKFL's overall liquidity position is comfortable with recent enhancement of working capital limits and sufficient unutilised working capital facilities as on date.

The ratings continue to factor in RKFL's 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 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.

The ratings are, however, 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, RKFL also remains exposed to client concentration risks with majority of its sales to a single customer in domestic as well as export markets. However, such risks are partially offset by the established market position of the customers in the industry. Moreover, RKFL's recent efforts in acquiring new customers in different geographies, have helped the company in diversifying its customer base to an extent. Consequently, share of a major OEM has substantially reduced over the years and export concentration in North America has reduced with increase in sale to Europe. In addition, the company is planning to increase sales to the non-auto industries (~21% in H1 FY2023 compared to ~9% in FY2017) in the domestic market, which would further reduce concentration risks.

ICRA also takes cognisance of RKFL's recent announcement to acquire JMT Auto Limited at a total consideration of Rs 125 crore, out of which upfront payment would be around Rs 70 crore and balance in four years. In addition, there would be additional investments required to ramp up the production. While the asset is likely to provide an opportunity to diversify in other sectors and increase proportion of value-added products, the actual benefits are likely to be achieved in the medium to long term. RKFL is likely to take additional debt to fund the acquisitions, thereby impacting capital structure in the near term at least. In addition to this, the proposed acquisition of ACIL Limited still remains inconclusive. 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

Healthy financial performance expected to sustain in FY2023 and FY2024 – RKFL continues to perform well in the current year, on the back of favourable CV demand in India and abroad. During 9M FY2023, RKFL generated ~Rs. 2301 crore of revenues, along with an operating margin of ~22%. For the full year, the performance is likely to remain healthy. Along with revenues and margins, the working capital intensity is also expected to significantly reduce to ~36% in FY2023 from ~44% in FY2022, due to a reduction in receivable days amid increasing share of domestic sales. As a result, debt has reduced by ~Rs. 150-200 crore from March 2022 levels. Going forward, despite an increase in scale, working capital intensity as well as debt levels are expected to sustain at current levels.

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. In addition, RKFL is adding another ~56300 MTPA capacity, which is expected to be available from FY2024. 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. Additionally, RKFL's proposed acquisition of JMT Auto is also expected to further deepen their value-added capacities 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.

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, RKFL remains exposed to client concentration risks with majority of sales to a single customer in domestic as well as export markets. Such risks are 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. Moreover, RKFL's recent efforts in acquiring new customers, has helped it diversify its customer base to an extent. Export concentration to North America has reduced with increasing sales to Europe. In addition, the company is planning to increase sales to the non-auto industries (~21% in 9MFY2023 compared to ~9% in FY2017), which would further reduce concentration risks.

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 to 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.

High working capital intensity – The company's working capital intensity remain high at over ~45% during FY2020-FY2022. The higher stocking requirement for various product mix as well as increase in export business, having higher receivable cycle contributed to the same. However, in the current year, owing to better inventory management practices, increasing share of domestic business and export discounting facilities to reduce debtor days and NWC/OI is expected to reduce to ~35-36%, which is expected to sustain in the near term.

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. However, there will be a regular capex requirement of Rs 150-200 crore in FY2024, apart from funding the above-mentioned acquisitions, which would be partly funded through debt and balance through internal accruals. The overall liquidity position is supported from the recent enhancement of its working capital limits and sufficient unutilised portion of the same. ICRA expects RKFL to generate adequate cash flows vis-a-vis its debt repayment liabilities.

Rating sensitivities

Positive factors – RKFL's ratings can be upgraded in case of a significant increase in scale while maintaining a healthy profitability margins, improvement in working capital intensity along with diversification in its customer base. Specific triggers for a rating upgrade would be interest cover of over 10 times on a sustained basis.

Negative factors – Pressure on RKFL's rating may arise in case of 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 a rating downgrade. Specific triggers for the downgrade would be interest cover remaining 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 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 with 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 – Consolidated	FY2021	FY2022	9M FY2023
Operating income	1288.9	2320.2	2301.3
PAT	20.7	199.7	179.0
OPBIT/OI	17.4%	22.3%	21.7%
PAT/OI	1.6%	8.6%	7.8%
Total outside liabilities/Tangible net worth (times)	2.1	2.2	
Total debt/OPBDIT (times)	5.5	3.1	
Interest coverage (times)	2.8	5.3	5.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Amount in Rs. Crores

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	
					Mar 01, 2023	Dec 12, 2022	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 (Positive)	[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 (Positive)	[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 (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+	[ICRA]A (Negative)/ [ICRA]A1	-
4	**Non-fund based limits**	Short Term	330	-	**[ICRA]A1**	[ICRA]A1	[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: Click Here

Annexure - I: 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 - II: List of entities considered for consolidated analysis:

Company Name	RKFL 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

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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

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