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Reinventing

ourselves in a changing world

Ramkrishna Forgings Limited
Annual Report 2005-06

Forward-looking statement: In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.



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Sustained automobile industry boom. Global forging industry restructuring.

These developments represent two of the biggest opportunities addressing India's forging industry.

RKFL expects to ride this industry inflection point with a simple two-word action-driven agenda.

'Operation Transformation'.

Our visiting card

>> Ramkrishna Forgings is one of the most exciting players in a **globally competitive** Indian forging industry.

Business

Ramkrishna Forgings Limited was established on 11th November 1981 and was converted into a limited Company on 25th May 1995. Engaged in the manufacture of blank forgings, machined forgings as well as dies for captive consumption. The Company also provides machining services for the manufacture of assembled housing assemblies used by OEMs.

Manufacturing capacity of
26,900 MTPA

94 products introduced in 2005-06

Products

Forgings for railways, automobiles, Defence, mining and earthmoving industries.

Drop forgings from 1 kg to 135 kgs

Upper forgings from 50 mm to 125 mm in diameter

Customers

The Company's principal customers comprise Tata Motors and other leading OEMs in India, Indian Railways, the Indian Defence sector and BEML. The Company also exports products to USA and Mexico.

Exports accounted for
8.29% of gross sales in 2005-06

Market capitalisation of
Rs. 2204.04 mn as on 31st March 2006

Presence
Two of the Company's manufacturing units are located in Jamshedpur (Jharkhand) and one in Liluah (West Bengal). The registered office is located in Kolkata. Its shares are listed on the National Stock Exchange and Bombay Stock Exchange.

Topline growth 25%, bottomline growth 28% in 2005-06

Track record
46.95% CAGR in revenues for four years leading to 2005-06.
67.70% CAGR in EBITDA for four years leading to 2005-06.
77% CAGR in PAT for four years leading to 2005-06.

Promoters held 42.54% equity as on 31st March 2006

Parentage
Mahabir Prasad Jalan, a mechanical engineer from BITS (Pilani), founded the Company and is presently Chairman while Naresh Jalan is Managing Director.

Reject rate of 0.85% in 2005-06

Quality
TS 16949 certification, affirming a global quality system approach
ISO 9001:2000 and QS 9000:1998 certifications from BVQI
Railway Design and Safety Organisation (RDSO)-approval for the supply of safety-enhancing products for the Indian Railways



>> What we **achieved** in the year 2005-06

Performance

24.92% increase in net sales from Rs. 74.30 cr in 2004-05 to Rs. 92.81 cr in 2005-06

55.19% increase in EBIDTA from Rs. 12.32 cr in 2004-05 to Rs. 19.13 cr in 2005-06

28.35% increase in net profit from Rs. 6.63 cr in 2004-05 to Rs. 8.51 cr in 2005-06

30.98% increase in cash profit from Rs. 9.78 cr in 2004-05 to Rs. 12.81 cr in 2005-06

Operations

23.90% increase in production in 2005-06

18.75% increase in per person productivity

New products

94 new products were commercialised by the Company, of which 50 products were directed at the automobile industry

13 new products launched from the gear section

35 new products rolled out from the CNC section

Project management

Successful installation of a facility for machining different types of gears

Commissioning of a Horizontal Machining Centre (HMC) facility for the production of assembled housing assembly

Installation of a heat treatment facility in the Adityapur plant (Jamshedpur)

Market presence

78.40% growth in exports from Rs. 5 cr in 2004-05 to Rs. 8.92 cr in 2005-06

21.06% increase in net domestic revenues from Rs. 69.30 cr in 2004-05 to Rs. 83.89 cr in 2005-06

Addition of three brand

enhancing customers to the existing client portfolio

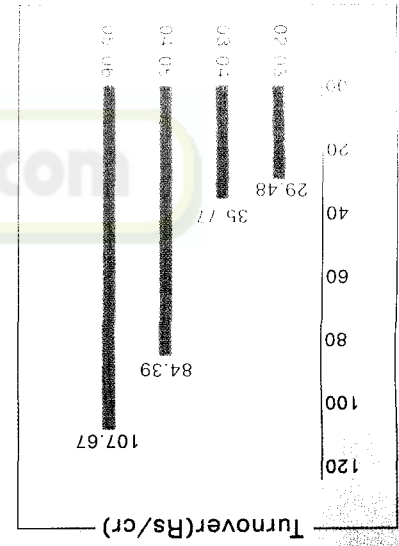
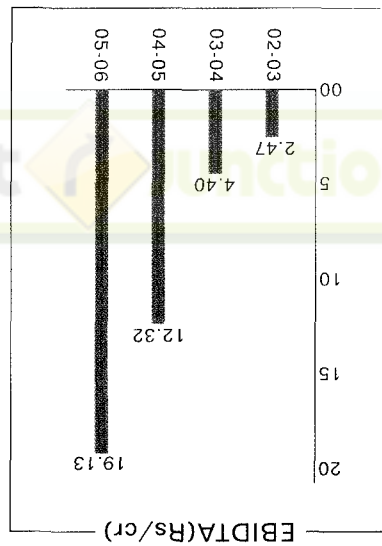
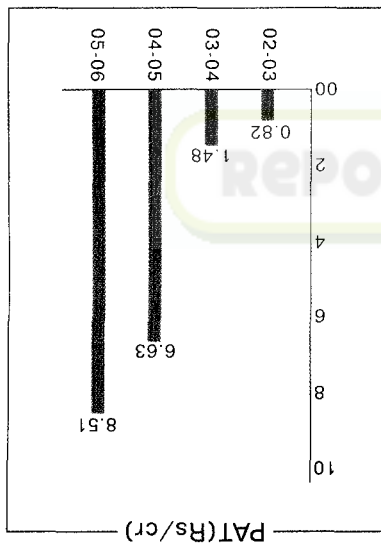
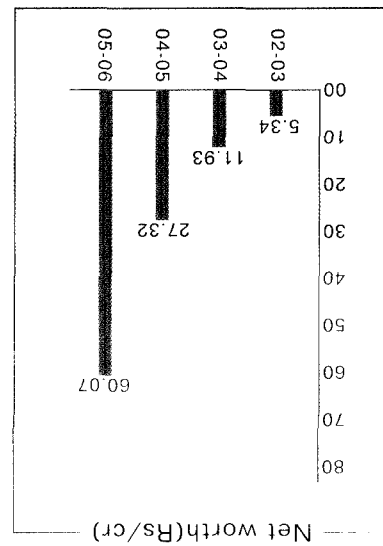
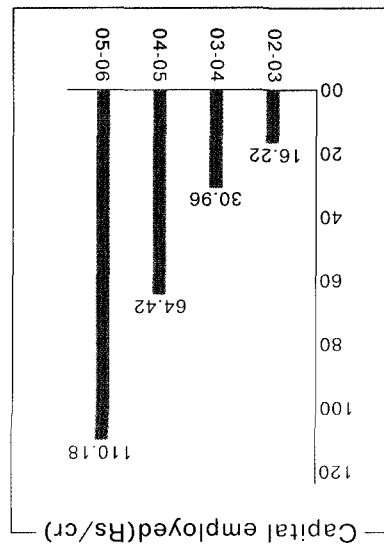
Board and Shareholder

Increase in the authorised share capital from Rs. 14 cr to Rs. 16 cr

Approval of a preferential issue and allotment of 22,52,520 equity shares at Rs. 98 each (face value Rs. 10 each) to Unit Trust of India Advisory Limited under section 81 (1A) of the Companies Act, 1956

Preferential allotment of 1,72,410 equity shares of Rs. 10 each at a price of Rs. 116 per share (face value Rs. 10 each) to Foreign Institutional Investors

Preferential allotment of 1,29,310 warrants with an option to subscribe up to 1,29,310 equity shares of Rs. 10 each at Rs. 116 per share to M/s Basuki Portfolio Pvt. Ltd (Promoter group)



Vision from the top

>> “We are working towards our goal of spanning the entire value chain in the auto-component sector...”

Mahabir Prasad Jalan, *Chairman*, Ramkrishna Forgings Limited, shares his optimism about the future of the auto-component industry



Dear Shareholders

I take great pride in reporting the financial performance of the Company. The year 2005-06 has been among the finest in our 24-year history, not just from the perspective of the numbers that we achieved but also with respect to the initiatives we took to scale the value chain and migrate from a forgings producing Company into a critical auto-component manufacturing organisation.

Firstly, I must take the opportunity to highlight our achievements in 2005-06:

- Revenue growth by 25%
- EBIDTA growth by 55%
- Net profit growth by 29%
- EBIDTA margin increased by 400 basis points
- ROCE jump by 78 basis points

While this improved performance is the result of the modernisation and expansion programme undertaken during the year 2005, I am optimistic that this is just the beginning of a period of attractive and sustainable growth for the Company, unleashing significant value for our shareholders over the coming years.

Industry potential

International: There are credible reasons for my optimism.

Consider this: A joint study by ACMA and McKinsey covering the potential of the Asian auto-component industry indicates a huge global outsourcing opportunity. According to McKinsey, global automotive components offtake is expected to grow from USD 1.2 trillion in 2003 to USD 1.65 trillion by 2015; auto-components producers from India and other low-cost countries can potentially address ~42% of this market (USD 700 bn)

Interestingly, global auto majors are accelerating their outsourcing of auto-components from low-cost Asian countries to

cut costs and protect margins - for their survival. Though China is the biggest auto-component exporter among Asian countries, India has emerged as an island of quality with strong redesigning capabilities. Indian component producers are expected to carve out a own niche with a 3-4% share of the potential export market by 2015, a USD 700bn opportunity (30% 10-year CAGR). With this, exports of Indian auto-component players are likely to burgeon at 40% CAGR over 2005-07.

Domestic: The domestic demand for auto-components is expected to grow exponentially. This optimism is based on the credible assumptions and



expansion plans announced by leading Indian OEMs.

The passenger car segment is expected to grow at 21% upto 2015, while the commercial vehicle segment is expected to witness a 17% growth over the same period.

The commercial vehicle industry could nearly double its output by 2008, considering the expansion plans announced by CV makers. The industry, which produced around 3.5 lakh commercial vehicles in 2005-06, will roll out an additional 2.35 lakh CVs by 2008, entailing an investment of Rs. 3,500 cr

Now the question is whether

Ramkrishna Forgings is ready to capitalise on this explosive opportunity. I take pride in reporting that we have achieved considerable ground in relation to what we set out to achieve at the beginning of the year under review.

■ We achieved the TS-16949 certification in December 2005, an international watermark that will enable us to strengthen our presence among Tier I and OEM companies in the quality conscious markets of Europe and the US.

■ We invested Rs. 8.90 cr in our Plant & Machinery to increase capacity, absorbed state-art-technology, increased our product profile and more importantly, scaled the value

chain from a forging blanks Company to a manufacturer of critical machined components.

■ We de-bottlenecked processes to increase capacity and stabilised operations at our CNC unit and commissioned the gear cutting section and HMC unit, thereby adding more than 35 new high-value products to our existing product basket. We emerged as among the largest HMC player in Eastern India.

■ We enlisted demanding domestic OEMs in South and Central India, which will enable us to showcase our capabilities to global customers.

Looking ahead

The Company now intends to