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Ramkrishna Forgings Limited

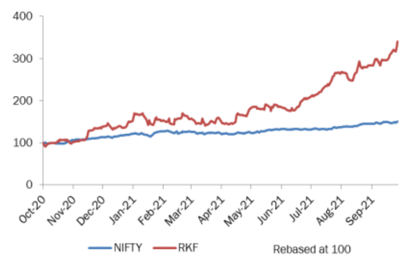
18 October 2021

Elevated Margins and order pipeline to improve visibility

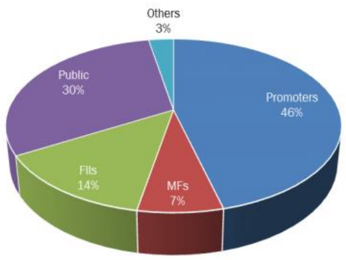
BUY

Sector	: Auto Ancillary
Target Price	: ₹ 1419
Current Market Price	: ₹ 1200
Market Cap	: ₹ 3837 crore
52-week High/Low	: ₹ 1259.6/ 320.2
Daily Avg Vol (12M)	: 1,29,307
Face Value	: ₹10
Beta	: 1.25
Pledged Shares	: 2.7%
Year End	: March
BSE Scrip Code	: 532527
NSE Scrip Code	: RKFORGE
Bloomberg Code	: RMKF IN
Reuters Code	: RKFO.NS
Nifty	: 18,477
BSE Sensex	: 61,766
Analyst	: Research Team

Price Performance



Shareholding Pattern



Q2FY22 – Result Update

Result Analysis

Ramkrishna Forgings Ltd (RKF) has reported strong set of numbers for the quarter with a top-line growth of 130% y-o-y. The Operating Revenue stood at ₹ 57,882 lakhs for the 2Q FY22 as compared to ₹25,202 in the same quarter last year. The EBITDA has seen a 188% jump on a y-o-y basis at ₹13,107 lakh for quarter ended September 2021. Sequentially the Operating Revenue and EBITDA have seen a growth of 37% each signalling relatively stable operating costs for the company. The EBITDA Margins have improved by 457 bps y-o-y and a marginal decline of 10 bps Q-o-Q. The Net Profit has witnessed a significant growth in the quarter. The PAT stood at ₹4,406 lakhs and ₹145 lakhs for 2Q FY22 and 2QFY21 respectively. The PAT margins jumped by 700 bps to 7.6% during the 3 months ended September 21. The company has achieved an Export turnover of ₹ 28,673 lakh in 2Q FY22 as compared to ₹11,390 lakh in 2Q FY21 registering a growth of ~152%.

Outlook & Valuation

RKF's 2QFY21 result gives a better business visibility going ahead backed by robust order intakes across all business segments. The company has received 8 contracts worth ~₹ 62,000 lakhs during the quarter from various geographies and business verticals. The first ever order in EV segment from a Foreign Multinational Tier 1 OEM in India marks the beginning of a new segment for the Company having possibilities for global expansion. The total installed capacity stands at 1,87,100 tons per annum after the recent commissioning of 2000 ton warm forging press in September 2021.

The stringent global benchmarks followed for its business operations coupled with a strong order book and expansion in new segments and geographies will be instrumental for the growth and improved performance of the company going ahead. The RKF stock currently trades at an attractive forward P/E level of 13x FY24E EPS. Assigning a target multiple of 16.0x FY24E EPS, our valuation generates a price target of ₹ 1,419, informing a BUY rating with an upside potential of 18% from the current levels.

Key Financial Metrics (Consolidated)

₹ lakh	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Operating Revenue	1,93,108	1,21,647	1,28,893	1,90,762	2,47,991	3,09,988
Growth		*-37.0%*	*6.0%*	*48.0%*	*30.0%*	*25.0%*
EBITDA	38,386	20,729	22,271	41,968	54,558	68,197
EBITDA margin	*19.9%*	*17.0%*	*17.3%*	*22.0%*	*22.0%*	*22.0%*
PAT	12,011	970	2,067	13,035	21,229	28,347
PAT margin	*6.2%*	*0.8%*	*1.6%*	*6.8%*	*8.6%*	*9.1%*
Diluted EPS (₹)	36.75	2.97	6.44	40.77	66.40	88.67

Source: Company data; Khambatta Research

Financial Performance (Consolidated)

₹ lakh	2QFY21	1QFY22	2QFY22	Y-o-Y	Q-o-Q
Operating Revenue	25,202	42,139	57,882	130%	37%
EBITDA	4,545	9,578	13,107	188%	37%
EBITDA Margin	18.03%	22.73%	22.64%	457 bps	(10) bps
PAT	145	2,469	4,406	2935%	78%
PAT Margin	0.58%	5.9%	7.6%	700 bps	170 bps
EPS	0.45	7.72	13.78	2962%	78%

Source: Company data; Khambatta Research

Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

Stock ratings

Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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