Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Ramkrishna Forgings Ltd

Strong Q2; eyeing wider growth horizons

Auto Ancillary	Sharekhan code: RKFORGE	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 1,186**	
Price Target: **Rs. 1,480**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

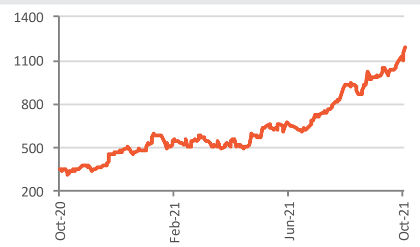
Company details

Market cap:	Rs. 3,793 cr
52-week high/low:	Rs. 1,260 / 315
NSE volume: (No of shares)	1.53 lakh
BSE code:	532527
NSE code:	RKFORGE
Free float: (No of shares)	1.7 cr

Shareholding (%)

Promoters	46.0
FII	16.2
DII	6.9
Others	30.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	21.9	65.2	128.3	240.8
Relative to Sensex	18.9	52.0	107.0	186.7

Sharekhan Research, Bloomberg

Summary

- Results beat estimates, with revenue, EBITDA and PAT growing 40.2% q-o-q, 46% q-o-q, and 103.6% q-o-q.
- Over FY21-23E, earnings are likely to clock a strong 190.7% CAGR, driven by a 35.5% CAGR in domestic revenue, a 45.7% CAGR in export revenue and a 310 bps rise in EBITDA margins.
- Stock trades below historical average multiples at a P/E of 16x and EV/EBITDA of 8.2x on its FY2023E estimates.
- We maintain a Buy on Ramkrishna Forgings Limited (RKFL) with a revised PT of Rs. 1,480, led by a continued growth momentum for commercial vehicles in India, Europe and North America and an upgrade in earnings estimates.

Ramakrishna Forgings Limited (RKFL) reported better than expected revenue and operational profit in Q2FY20222, with revenue, EBITDA and PAT growing 40.2% q-o-q, 46% q-o-q, and 103.6% q-o-q. The company witnessing demand across geographies, product portfolio and clients, driven by strengthening business with existing clients, acquisition of new clients and foray into new segments. During the quarter the company received new orders of worth Rs 620 crore, which is expected to contribute from FY2023E onwards. Recovery in domestic business, new order wins, improvement in content per vehicle and foray into passenger vehicle segment will be the key growth drivers for the company going forward. We retain our Buy rating on the stock with a revised PT of Rs1,480.

Key positives

- Revenue grew 129.3% y-o-y and 40.2% q-o-q to Rs587.9 crore, exceeding by 15.9% by our estimates for Q2FY2022. The robust performance was led by 28.9% q-o-q growth in exports and 51.6% q-o-q in domestic sales.
- The company received contracts of Rs 620 crore from 8 contracts during Q2FY2022 from various geographies and business verticals.
- EBITDA margin improved 100 bps q-o-q to 24% in Q1FY2022, led largely operating leverage benefits.

Key negatives

- The gross margins declined 590 bps q-o-q to 54.9% margin.

Management Commentary

- The management is witnessing strong demand across geographies and business verticals.
- RKFL has added customers during Q2FY2022 and expects to increase and diversify its customer base going forward. During the quarter, the company bagged cumulative new orders of Rs 620 crore.
- The management is positive on its foray into new segments such as oil & gas, electric vehicles and railways to drive growth going forwards.
- The company expects to sustain its EBITDA margin around 24% going forward, led by value added products and moving towards machining and assembling, which are high margin businesses.

Revision in estimates: Given therobust business outlook and improved sustainable operating margins, we have increased our earnings estimates for FY22E and FY23E by 5.7% and 9.2%, respectively.

Our Call

Valuation - Maintain Buy with a revised PT of Rs.1,480: We are expecting the CV demand to pick in India as the economy normalises. The outlook of North America and Europe remains positive. The positive CV demand in India, North America and Europe is highly beneficial for the company such as RKFL, which has a strong domestic and export revenue mix of 55:45 in niche markets. Also, the timing is favourable, as global automakers and tier-1 suppliers are scouting for alternative sourcing hubs outside China. The Indian government is offering various incentives such as PLI scheme, make-in-India and Atmanirbhar Bharat Mission, which will provide a strong platform for automobile suppliers such as RKFL. We believe that RKFL has a strong global footprint and is serving to leading OEMs, not only in the automotive segment but other sectors as well. We expect RKFL to gain market share internationally, as it has completed its major capex. We have increased our earnings estimates for FY22E and FY23E by 5.7% and 9.2%, driven by new order wins and margin expansion. The company's earnings to clock strong 190.7% CAGR over FY21-23E, driven by a 35.5% CAGR in domestic revenue, 45.7% CAGR in export revenue and a 310 bps rise in EBITDA margin over FY2021-FY2023E. The stock is also available below its historical average multiples at P/E of 16x and EV/EBITDA of 8.2x on its FY2023E estimates. We reiterate a Buy rating on the stock with revised PT of Rs1,480.

Key Risks

RKFL is exposed to the cyclicality inherent in CV and steel industries. Also, geographically diversified business pose forex fluctuation risks. RKFL is well hedged to cover forex movement in any direction from -5% to +5%.

Valuation (Standalone) Rs cr

Particulars	FY2021	FY2022E	FY2023E	FY2024E
Revenues	1,288	1,882	2,531	3,157
Growth (%)	15.9	46.1	34.5	24.7
EBIDTA	230	369	529	694
OPM (%)	17.8	19.6	20.9	22.0
Net Profit	28	125	236	358
Growth (%)	190.3	347.6	88.8	51.5
EPS	8.8	39.2	74.0	112.1
P/E	135.5	30.3	16.0	10.6
P/BV	4.3	3.7	3.1	2.4
EV/EBIDTA	18.8	11.7	8.2	6.2
ROE (%)	3.2	13.2	21.0	25.3
ROCE (%)	4.7	8.6	13.0	16.7

Source: Company; Sharekhan estimates

Q2FY2022 results exceeds expectations on revenues and operating performance: RKFL reported better than expected revenue and operational profit in Q2FY20222. The company witnessed strong growth momentum in both domestic as well as export revenue. Revenue grew 129.3% y-o-y and 40.2% q-o-q to Rs587.9 crore, exceeding by 15.9% by our estimates for Q2FY2022. The robust performance was led by 28.9% q-o-q growth in exports and 51.6% q-o-q in domestic sales. The domestic sales were on back of recovery in automobile volumes, while exports were driven by new orders and strong CV outlook in US and UK markets. The average realisation improved 8.6% q-o-q, led by improved value-added products and price hikes taken by the company. RKFL received contracts of Rs 620 crore from 8 contracts during Q2FY2022 from various geographies and business verticals. EBITDA margin improved 100 bps q-o-q to 24% in Q1FY2022, led largely operating leverage benefits. It should be noted the gross margins declined 590 bps q-o-q to 54.9% margin. During the quarter, the company commenced its commercial production of fabrication facility and 2000T forging press in September 2021. The overall capacity utilization was 78.8% (on enhanced capacity) for Q2FY22 as compared to 80% in Q1FY22

Domestic business: The domestic revenue for Q2FY2022 stood at Rs 288 crore, reporting an increase of 51.6% q-o-q growth, led by a 39.9% growth in volumes and 8.3% growth in average realisations. The demand recovery is strong across the geographies. The domestic demand scenario is much better than Q1FY22. The company is witnessing demand across its product portfolio and clients. The growth is driven by strengthening business with existing clients, acquisition of new clients and foray into new segments. At present, the company is receiving robust orders. The company has recently bagged LOIs for its warm forging business of ~Rs12 crore per annum from a major global axle manufacturer located in India. This is a recurring order on annual basis and has potential to grow in coming years.

North America market: The existing business is performing strongly in the North America markets. The business is robust with light commercial vehicle (LCV) clients. The oil and gas business are picking up well. The company expects revenues from oil and gas segment to be ~Rs40-50 crore in FY22E and ~Rs 100 crore in FY23E. The company is also focusing to develop its piston businesses.

Europe market: The company continues to receive strong order book flow from the European markets, driven by increasing business from existing clients and acquisition of new clients. The company targets to achieve revenue of ~Rs500 crore from European markets by FY24E. The company has received PPAP (Parts Product Approval Process) clearance and confirmation to launch Euro 15 million (Rs 132 crore) from a European OEM. The order is to be implemented over the next three years, starting from July 2021, distributed equally. The company expects incremental revenue to come from FY23E, as the approval and other processes would take some time. The company has been able to create significant in inroads in the European CV market, strengthening company's exports order book further. The company has made significant foray in roads in Mining & Excavator segments in the domestic market. The company has restarted its sales to South America Markets s (S.A.) as S.A. shows rebound in economy

Exports: In Q2FY22, the company's exports stood at Rs287 crore, which is a 31.4% q-o-q growth, led by 11.8% q-o-q growth in average realisation and 16.7% growth in volumes. The company has given its guidance to achieve export revenue of Rs950 crore in FY22E and targets to achieve ~Rs1,500 crore over the next couple of years.

EBITDA margin of 23-24% sustainable: The company expects its EBITDA margin to be sustainable at 23%, driven by robust incremental sales from high margin products, operating leverage benefits and positive price negotiation with its clients. The company's business from oil and gas segment is expected to increase going forward, which is a high margin business.

Fund raising: The company's board has approved raising up to Rs 500 crore via issuance of equity shares or bonds or any other securities. The company is currently focussed on the growing business and has sufficient capacity in place. The company has undergone major capex cycle in FY21 and has enough room for grow with the existing investment. The company has installed capacity of 1,87,000 MTPA and railway business capacity. With the minimal capex investment, the company can achieve top line of Rs4,300-Rs4,500 crore. The fund-raising approval is an enabling resolution for future. The company has no concrete plan for the fund raise in the near term. The company may look into reducing its debt, which currently stands at Rs1,100 crore, or acquire a company in related business. The company expects debt-to-equity ratio to bring down to 1:1 by FY23E and debt-free by FY24E.

Chips shortage: RKFL continues to see robust export order, despite chips shortage globally. The company's clients have continued to maintain their production schedule. Also, the company has exposure to M&HCVs, where chips/semi-conductor usage are low as compared to passenger vehicles. The company has forayed into passenger vehicle segments, which is likely to contribute from next year.

Capex update: RKFL maintains its capex plan and has increased its installed capacity to 1,87,000 MTPA. The peak annual revenue post the planned capex would ~Rs 2,800 crore, which is about 2.2x of FY2021 revenues. The company has added 7000T press line. With the commissioning of Hollow Spindle Line, 7000T Press Line along with Fabrication facilities for coach shells for LHB coaches and has commissioned additional press line of 2000T (warm forging) which has enhanced the forging capacity by 9900 Tons in Q2FY22. With this addition the total capacity of the company will be 1,87,100 tons per annum and will mark an end to the company's current capex cycle. The overall capacity utilization was 78.8% (on enhanced capacity) for Q2FY22 as compared to 80% in Q1FY22.

Railways division: RKFL is expected to show substantial growth from railways from FY2023E onwards. The quarterly run-rate is expected to maintained in-line with Q4FY21 over the next few quarters.

Focus on product development and new markets: The key focus areas of the company are new product development and higher geographical penetration. RKFL expects export contribution to 55-60% over the next 3-4 years from 45% in FY21. The company is open to grow inorganically by acquiring companies which has aligned product portfolio to its current portfolio.

Revision in estimates: Given the robust business outlook and improved sustainable operating margins, we have increased our earnings estimates for FY22E and FY23E by 5.7% and 9.2%, respectively.

Change in estimates Rs cr

Particulars	Revised		Earlier		% Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	1,882	2,531	1,861	2,485	1.1	1.8
EBITDA	369	529	360	502	2.5	5.3
EBITDA margin (%)	19.6	20.9	19.4	20.2	20 bps	60 bps
PAT	125	236	118	216	5.7	9.2
EPS	39.2	74.0	37.1	67.8	5.7	9.2

Source: Company; Sharekhan estimates

Q2FY22 results (Standalone) Rs cr

Particulars	Q2FY22	Q2FY21	Y-o-Y %	Q1FY21	Q-o-Q %
Revenues	578.9	252.5	129.3	412.9	40.2
Total operating expenses	439.8	206.9	112.6	317.5	38.5
EBITDA	139.2	45.6	205.4	95.3	46.0
Depreciation	39.5	24.7	60.1	38.8	1.7
Interest	20.6	19.0	8.3	20.3	1.8
Other income	0.4	0.8	(54.0)	0.8	-52.6
PBT	79.4	2.7	2863.6	37.0	114.5
Tax	29.3	0.6	4785.6	12.4	136.2
Reported PAT	50.1	2.1	2309.2	24.6	103.6
Adjusted PAT	50.1	2.1	2309.2	24.6	103.6
Adjusted EPS	15.7	0.7	2305.6	7.7	103.4

Source: Company; Sharekhan estimates

Key ratios (Standalone) Rs cr

Particulars	Q2FY22	Q2FY21	Y-o-Y %	Q1FY21	Q-o-Q %
Gross margin (%)	54.9	51.3	360	60.7	-590
EBIDTA margin (%)	24.0	18.1	600	23.1	100
EBIT margin (%)	17.2	8.3	890	13.7	350
Net profit margin (%)	8.7	0.8	780	6.0	270
Effective tax rate (%)	36.9	22.4	1,450	33.5	340

Source: Company; Sharekhan estimates

Outlook and Valuation

■ Sector Outlook – Strong underline demand for CV in India, North America and Europe

We see a strong underlying demand commercial vehicle domestically. We expect a strong improvement in M&HCV sales to continue, driven by rise in e-Commerce, agriculture, infrastructure, and mining activities post normalization of COVID. Global demand for trucks is buoyant, aided by increasing traction in class 8 truck order books. The freight economy continues to enjoy broad-based strength, evident in freight rates that have remained at or near record levels for months. While the demand remains stronger for both medium- and heavy-duty vehicles, the industry's ability to tackle that backlog has been affected by a series of issues such as chip shortages, steel output and plastic resin availability. Most of the global OEMs and auto components suppliers maintain positive outlook for commercial vehicle industry.

■ Company outlook – Beneficiary of strong demand and margin improvement

We expect RKFL to benefit from the CV upcycle across geographies – India, North America and Europe, led by improved prospects of commercial vehicles globally. Global OEMs and tier-1 suppliers maintain positive outlook for the commercial vehicle segment. RKFL is committed to grow its business profitably and de-risk its business model through diversifying into new geographies, sectors and widening its product portfolio. Counterparty risks are low due to established business position of RKFL's customers from the domestic and export markets, and criticality of the components manufactured. We expect RKFL to be a beneficiary of improving demand. The company's focus on increasing share of value-added and critical components will help improving realisations and EBITDA margins.

■ Valuation – Maintain Buy with a revised PT of Rs.1,408:

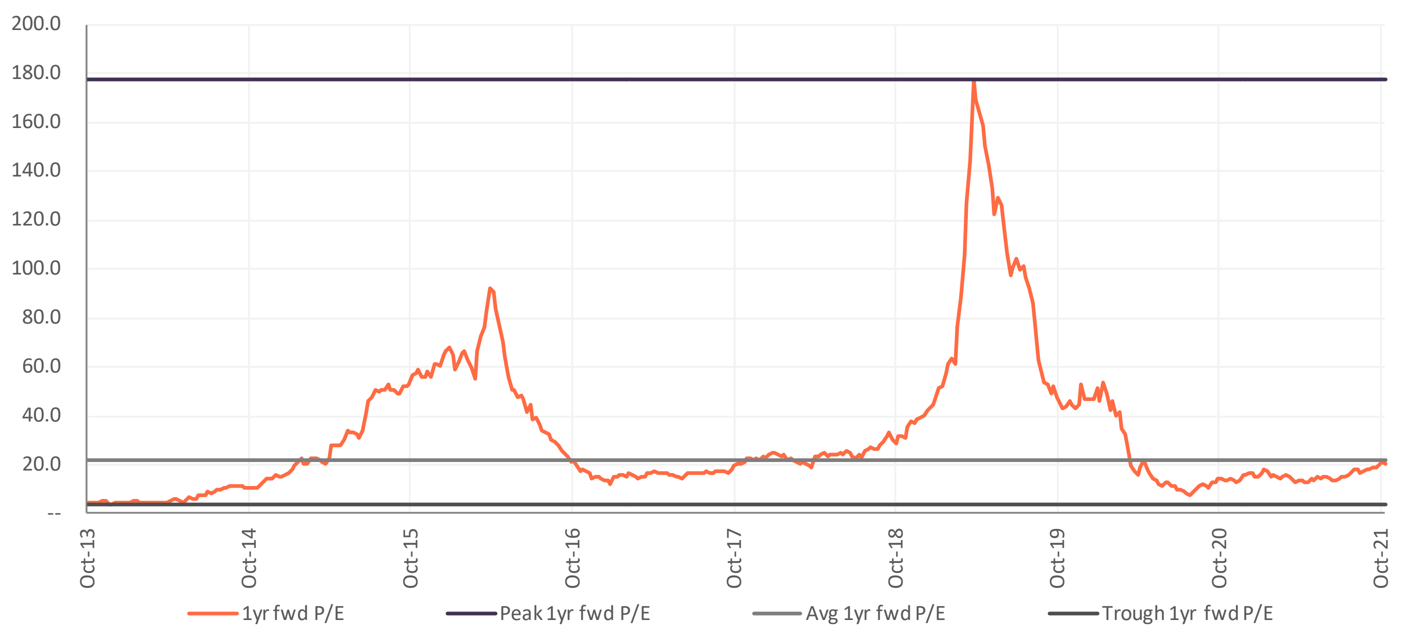
We are expecting the CV demand to pick in India as the economy normalises. The outlook of North America and Europe remains positive. The positive CV demand in India, North America and Europe is highly beneficial for the company such as RKFL, which has a strong domestic and export revenue mix of 55:45 in niche markets. Also, the timing is favourable, as global automakers and tier-1 suppliers are scouting for alternative sourcing hubs outside China. The Indian government is offering various incentives such as PLI scheme, make-in-India and Atmanirbhar Bharat Mission, which will provide a strong platform for automobile suppliers such as RKFL. We believe that RKFL has a strong global footprint and is serving to leading OEMs, not only in the automotive segment but other sectors as well. We expect RKFL to gain market share internationally, as it has completed its major capex. We have increased our earnings estimates for FY22E and FY23E by 5.7% and 9.2%, driven by new order wins and margin expansion. The company's earnings to clock strong 190.7% CAGR over FY21-23E, driven by a 35.5% CAGR in domestic revenue, 45.7% CAGR in export revenue and a 310 bps rise in EBITDA margin over FY2021-FY2023E.   The stock is also available below its historical average multiples at P/E of 16x and EV/EBITDA of 8.2x on its FY2023E estimates. We reiterate buy rating on the stock with revised PT of Rs1,480.

Price target calculation

Particulars	Rs/Share
FY23E EPS	74.0
Target multiple	20.0
Target Price	1,480
Upside (%)	25

Source: Company; Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	Rs/Share	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Ramkrishna Forgings Limited	1186	135.5	30.3	16.0	18.8	11.7	8.2	4.7	8.6	13.0
Bharat Forge Limited	794	NA	64.8	37.5	41.7	26.8	18.3	4.2	9.0	14.6
GNA Axles	1043	31.7	21.7	16.5	16.5	12.2	9.6	15.3	19.2	22.1

Source: Company, Sharekhan Research

About company

Ramkrishna Forgings Limited (RKFL), head-quartered in Kolkata, is one of the leading forging companies in India catering requirements of OEMs and tier-1 auto-component suppliers worldwide. RKFL, incorporated in 1981, commenced operation in 1984 primarily as a forging manufacturer for the Indian Railways. Started manufacturing from two facilities located in and around Jamshedpur and another small unit near Kolkata, the company has now scaled up its capacity to ~1,87,000 MTPA . The company has five facilities of which four is located in Jamshedpur and one in Liluah. RKFL'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. In addition to the, the company has four press lines having a cumulative capacity of ~80,000 MTPA. The company has a marquee global customer base of 17 OEMS including Tata Motors, Ashok Leyland, VE Commercials and Tier I companies.

Investment theme

RKFL is a proxy play for CV upcycle in India and internationally. We are expecting CV upcycle in India to coincide with that of in North America and Europe. This point of conjunction would be highly beneficial for the company such as RKFL, which has strong domestic and export revenue mix of 55:45, operating in niche markets. Also, the timing becomes impeccable, as global auto makers and tier-1 suppliers are scouting for alternative sourcing hubs outside China. The Indian government is offering various incentives such as PLI scheme, make-in-India and Atmanirbhar Bharat mission, which will provide strong platform for automobile suppliers such as RKFL. We believe RKFL has a strong credential global footprint and is serving to leading OEMs, not only in the automotive segment but also other sectors. We expect RKFL to gain market share internationally, as it has completed its major capex.

Key Risks

- RKFL is exposed to the cyclicality inherent in CV and steel industries. Also, geographically diversified business pose forex fluctuation risks. RKFL is well hedged to cover forex movement in any direction from -5% to +5% .
- RKFL's export sales are highly working capital intensive because of the large receivable cycle particularly for the export sales.

Additional Data

Key management personnel

Mahabir Prasad Jalan	Chairman
Naresh Jalan	Managing Director & CEO
L K Khetan	Chief Financial Officer
Rajest Mundhra	Company Affairs

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Riddhi Portfolio	23.5
2	Eastern Credit Capital	13.5
3	Aditya Birla Sun Life	5.7
4	Ramkrishna Rail And Infrastructure Private Limited	4.1
5	Massachusetts Institute Of Technology	3.8
6	Pacific Horizon Investment	3.3
7	Lata Bhanshali	3.3
8	Akash Bhanshali	2.5
9	International Finance Corporation	2.4
10	Blue Daimond Properties Pvt Ltd	2.3

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;