Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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		↔	

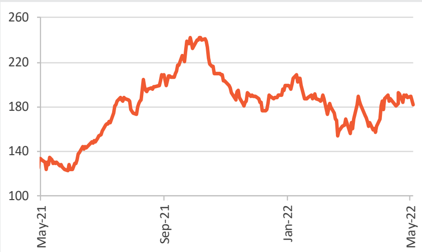
Company details

Market cap:	Rs. 2,910 cr
52-week high/low:	Rs. 252 / 113
NSE volume: (No of shares)	2.36 lakh
BSE code:	532527
NSE code:	RKFORGE
Free float: (No of shares)	8.6 cr

Shareholding (%)

Promoters	46.2
FII	13.5
DII	5.4
Others	34.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.4	-2.9	-24.1	54.0
Relative to Sensex	18.5	0.0	-15.7	42.0

Sharekhan Research, Bloomberg

Ramkrishna Forgings Ltd

Another strong quarter

Auto Ancillary		Sharekhan code: RKFORGE	
Reco/View: Buy	↔	CMP: **Rs. 182**	Price Target: **Rs. 238** ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain a Buy on Ramakrishna Forgings Limited (RKFL) with a revised PT of Rs.238, led by strong revenue growth, improved margin profile and attractive valuation.
- Q4FY22 results beat expectations on all fronts with revenue, EBITDA and PAT growing by 31.9% y-o-y, 40.3% y-o-y and 142.9% y-o-y.
- Over FY22-24E, earnings are likely to clock a strong 29.3% CAGR, driven by a 14.7% CAGR in domestic revenue, a 27% CAGR in export revenue and a 15.9% growth in EBITDA.
- Stock trades at attractive valuation of P/E of 8.4x and EV/EBITDA of 4.9x on its FY2024E estimates.

Ramkrishna Forgings Limited (RKFL) beat expectations on all fronts in Q4FY22 with revenue, EBITDA and PAT that grew by 31.9% y-o-y, 40.3% y-o-y and 142.9% y-o-y. Revenues were ahead of expectations, led by higher sales, while PAT increased estimates, driven by deferred tax adjustments. The management maintained its guidance to improve revenues by 20-25% in FY23E, driven by RKFL's diversified revenue streams and increasing contribution from value added products. The company is witnessing demand across geographies, product portfolio and clients, driven by strengthening business with existing clients, acquisition of new clients and foray into new segments. Recovery in the 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 Rs238.

Key positives

- Revenue grew 31.9% y-o-y and 12.7% q-o-q to Rs683.2 crore, led by 3.7% y-o-y growth in volume, 18.3% y-o-y growth in domestic realization and 18.5% y-o-y growth in export realization.
- RKFL received contracts of Rs 144 crore from 3 contracts during Q4FY2022 from various geographies and business verticals.
- RKFL's EBITDA margin profile has improvement significantly over the last few years, sustaining over 20% EBITDA margin.

Key negatives

- Gross margin for Q4FY22 declined 210bps q-o-q to 51.6%.

Management Commentary

- The management is witnessing strong demand across geographies and business verticals.
- RKFL has added customers during Q34Y2022 and expects to increase and diversify its customer base going forward. During the quarter, the company received contracts worth ~Rs. 144 Crores from 3 contracts, while for FY22 contracts worth ~Rs. 984 Crores from over 18 contracts.
- 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 above 20% going forward, led by value added products and moving towards machining and assembling, which are high margin businesses.

Revision in estimates – We have fine-tuned our estimates for FY23E and FY24E. Over FY22-24E, earnings are likely to clock a strong 29.3% CAGR, driven by a 14.7% CAGR in domestic revenue, a 27% CAGR in export revenue and a 15.9% growth in EBITDA.

Our Call

Valuation – Maintain Buy with a revised PT of Rs238: We are expecting the CV demand to remain buoyant, led by the recovery economy. The outlook of North America and Europe remains positive, as the CY22E is expected to do well as compared to CY21, led by increased demand and the easing of chips shortage situation going forward. 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. 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. The company's earnings are likely to clock a strong 29.3% CAGR, driven by a 14.7% CAGR in domestic revenue, a 27% CAGR in export revenue and a 15.9% growth in EBITDA. The stock is also available below its historical average multiples at P P/E of 8.4x and EV/EBITDA of 4.9x on its FY2024E estimates. We reiterate a Buy rating on the stock with a revised PT of Rs238.

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%. If the chips shortage situation further aggravates, this may impact our estimates adversely.

Valuation (Standalone) Rs cr

Particulars	FY2021	FY2022	FY2023E	FY2024E
Revenues	1,288	2,281	2,775	3,291
Growth (%)	15.9	77.1	21.7	18.6
EBIDTA	230	526	570	706
OPM (%)	17.8	23.0	20.5	21.5
Net Profit	28	207	246	345
Growth (%)	190.3	638.7	19.0	40.5
EPS	1.8	12.9	15.4	21.6
P/E	103.9	14.1	11.8	8.4
P/BV	3.3	2.7	2.3	1.8
EV/EBIDTA	15.0	6.6	6.0	4.9
ROE (%)	3.2	21.0	20.8	23.9
ROCE (%)	4.7	13.2	13.1	16.0

Source: Company; Sharekhan estimates

Beat expectation in Q4FY22: RKFL reported strong Q4FY22 numbers with revenue, operating profit and PAT growing by 31.9% y-o-y, 40.3% y-o-y and 142.9% y-o-y respectively. Revenues were ahead of expectations. Led by higher sales, while PAT increased estimates due to deferred tax. Revenue grew 31.9% y-o-y and 12.7% q-o-q to Rs 683.2 crore, led by 3.7% y-o-y growth in volume, 18.3% y-o-y growth in domestic realisation and 18.5% y-o-y growth in export realisation. The revenue from North America were impacted in Q4, due to supply constraints in the industry, while Asia business helped to regain overall revenue.

RKFL received contracts of Rs 144 crore from 3 contracts during Q4FY2022 from various geographies and business verticals. EBITDA margin improved 130 bps y-o-y, while contracted 100bps q-o-q to 22.1% in Q4FY2022. The EBITDA margin was down by 20bps from our expectations during the quarter due to product mix and increase in raw material costs.

Domestic business: The domestic revenue for Q4FY2022 stood at Rs 417 crore, reporting an increase of 29.04% q-o-q growth, led by a 11.9% growth in volumes and a 3.2% growth in average realisations. The domestic demand scenario is expected to remain strong going forward. 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 a foray into new segments. At present, the company is receiving robust orders.

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 and contributed ~10% of non-automotive revenues. The company expects revenues from oil and gas segment to be ~Rs 100 crore in FY23E. The company is also focusing to develop its piston businesses.

Fund raising: 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 1,87,100 MTPA and railway business capacity. With the minimal capex investment, the company can achieve a top line of Rs3,600 crore. 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 to bring down its debt-to-equity ratio to to 1:1 by FY23E and be debt-free by FY25E.

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 1,87,100 MTPA. The peak annual revenue post the planned capex would ~Rs 3,600 crore. The company has added 7000T press line in the previous quarter. 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 tonnes per annum and will mark an end to the company's current capex cycle.

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.

Maintained estimates: We have fine-tuned our estimates for FY22E – FY24.

Q4FY22 results (Standalone) Rs cr

Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
Revenues	683.2	517.9	31.9	606.1	12.7
Total operating expenses	532.2	410.2	29.7	465.8	14.2
EBITDA	151.0	107.7	40.3	140.2	7.7
Depreciation	45.6	36.7	24.5	45.1	1.2
Interest	26.2	18.3	43.2	26.3	-0.3
Other income	-	2.2	(100.0)	1.7	-100.0
PBT	79.2	54.9	44.2	70.5	12.3
Tax	(7.5)	19.3	(138.7)	25.4	-129.3
Reported PAT	86.7	35.7	142.9	45.1	92.0
Adjusted PAT	86.7	35.7	142.9	45.1	92.0
Adjusted EPS	5.4	2.2	142.5	2.8	92.0

Source: Company; Sharekhan Research

Key ratios (Standalone) Rs cr

Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
Gross margin (%)	51.6	49.1	260	53.8	-210
EBIDTA margin (%)	22.1	20.8	130	23.1	-100
EBIT margin (%)	15.4	13.7	170	15.7	-30
Net profit margin (%)	12.7	6.9	580	7.4	520
Effective tax rate (%)	(9.4)	35.0	NA	36.0	NA
Adjusted EPS	5.4	2.2	142.5	2.8	92.0

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector outlook – Strong underline demand for CV in India,

We see strong underlying demand for commercial vehicle domestically. We expect a strong improvement in M&HCV sales to continue, driven by a rise in e-Commerce, agriculture, infrastructure, and mining activities post normalization of COVID. Global demand for trucks is buoyant, though the order book in the few months got impacted, led by chips shortage issue. 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 a positive outlook for the commercial vehicle industry. CY22 is expected to remain strong as compared to CY21, as the easing of the chips shortage situation will help to regain volumes in the CV industry.

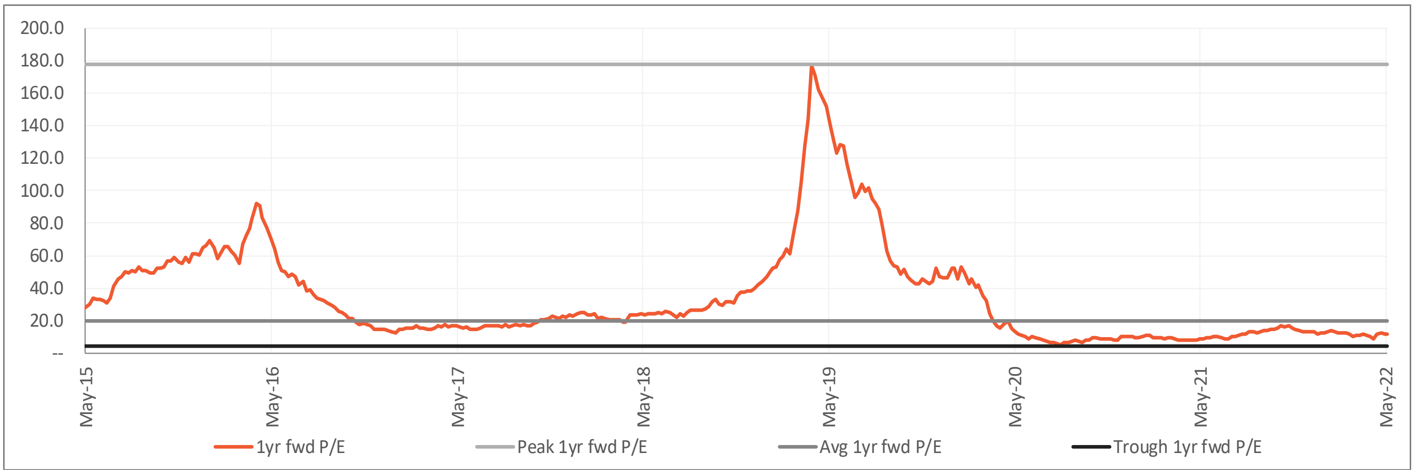
■ Company outlook – Beneficiary of strong demand and margin improvement

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

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

We are expecting the CV demand to remain buoyant, led by a recovery economy. The outlook of North America and Europe remains positive, as the CY22E is expected to do well as compared to CY21, led by increased demand and the easing of the chips shortage situation going forward. The positive CV demand in India, North America and Europe are highly beneficial for the company such as RKFL, which has a strong domestic and export revenue mix of 55:45 in niche markets. The Indian government is offering various incentives such as the 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 lead OEMs, not only in the automotive segment but in other sectors as well. We expect RKFL to gain market share internationally, as it has completed its major capex. The company's earnings are likely to clock a strong 29.3% CAGR, driven by a 14.7% CAGR in domestic revenue, a 27% CAGR in export revenue and a 15.9% growth in EBITDA. The stock is also available below its historical average multiples at P P/E of 8.4x and EV/EBITDA of 4.9x on its FY2024E estimates. We reiterate a Buy rating on the stock with a revised PT of Rs238.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	Rs/Share	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Ramkrishna Forgings Limited	182	103.9	14.1	11.8	15.0	6.6	6.0	4.7	13.2	13.1
Bharat Forge Limited	672	NA	29.7	24.7	41.0	17.6	14.4	13.0	9.5	11.7
GNA Axles	490	14.9	11.9	9.1	8.2	6.7	5.3	15.3	17.4	19.9

Source: Company, Sharekhan estimates

About company

Ramkrishna Forgings Limited (RKFL), headquartered 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 ~1,87,100 MTPA. The company has five facilities, of which four are located in Jamshedpur and one in Liluah. RKFL's existing forging facility comprises a 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 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.
- If the chips shortage situation further aggravates, this may impact our estimates adversely.

Additional Data

Key management personnel

Ms. Anjali Singh	Executive Chairperson
Mr. Manoj Kolhatkar	Managing Director
Mr. Jagdish Kumar	Group President & Group CFO
Mr. Rishi Luharuka	Chief Financial Officer

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

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by BNP PARIBAS

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