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		↔	

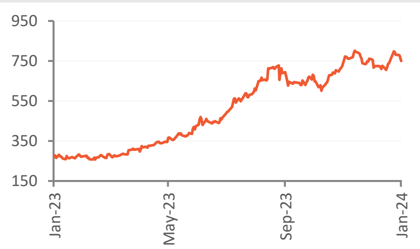
Company details

Market cap:	Rs. 13,558 cr
52-week high/low:	Rs. 815/ 245
NSE volume: (No of shares)	6.1 lakh
BSE code:	532527
NSE code:	RKFORGE
Free float: (No of shares)	10.3 cr

Shareholding (%)

Promoters	43.1
FII	23.7
DII	4.3
Others	28.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.0	14.2	68.9	190.5
Relative to Sensex	-0.8	6.6	60.5	172.1

Sharekhan Research, Bloomberg

Stock Update

Result Update

Ramkrishna Forgings Ltd

Sustaining margins

Auto Ancillary		Sharekhan code: RKFORGE	
Reco/View: Buy	↔	CMP: **Rs. 750**	Price Target: **Rs. 888** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Reported slightly better than expected operating performance in Q3FY24 based on a strong show in domestic business.
- Aiming to outperform the market despite challenging business situation.
- We reiterate our Buy rating on Ramakrishna Forgings Limited with a revised PT of Rs. 888 because of its inorganic growth plan, diversification strategies, and sustainable operating performance.
- Stock trades at P/E multiple of 23.6x and EV/ EBITDA multiple of 11.9x its FY26E estimates.

Ramkrishna Forgings (RKFL) has reported slightly better than expected operating performance on the back of higher-than-expected revenue growth as it performed well in the domestic market. While domestic revenue increased by 17.7% q-o-q, the export revenue has declined by 11.4% q-o- q. With a domestic-export revenue mix of 61: 38 (vs 54: 44 in Q2Fy24), Revenue has increased by 4.4% q-o-q to Rs 903 cr (against an estimate of Rs 869 cr). The sequential decline in export revenue is attributed to seasonality, as the management has indicated that export volumes would come on traction from Q4FY24. Though gross margin contracted by 40 bps q-o- q but owing to operating leverage, the EBITDA grew by 4.8% q-o-q to Rs 208 cr (against tenan estimate of Rs 195 cr), and accordingly EBITDA margin expanded by ten bps q-o-q to 23.0% (against an estimate of 22.4%). With this operating performance, APAT has increased by 3.4% q-o- q to Rs 82 cr (against an estimate of Rs 76 cr). RKFL has raised Rs 1000 cr via QIP. It has also completed the acquisition of JMT Auto and received NCLT's approval for an acquisition of ACIL.

Key positives

- Higher than expected revenue performance on account of strong performance in the domestic market
- EBITDA margin expanded by ten bps despite 40 bps contraction in gross margin on account of operating leverage.
- Capacity utilisation has increased from 88% in Q2FY24 to 96% in Q3FY24.

Key negatives

- Export revenue declined by 11.4% q-o-q due to seasonality and contributed 38% to the topline compared to 44% in Q2FY24.
- Gross margin contracted by 40 bps q-o- q to 49.8%
- Depreciation has increased by 6.0% q-o-q

Management Commentary

- EBITDA margin would continue to sustain at higher levels and aspire for an over 25% EBITDA margin in the medium to long term.
- Though the external environment has been challenging, the management is looking to outperform the market backed by its order book.
- The management foresees a huge opportunity to grow in the non-auto segment, including railways, as the non-auto segment offers better profitability.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 888: Post reporting slightly better operating performance, the management has shared an optimistic outlook for its business in the near term, though indicated that the business environment is getting challenging. The management aims to outperform the market on the back of its diversified revenue stream, introduction of new components, expansion of customer bandwidth and increase market share. Further, the management is guiding to sustain the current high margin and aspiring for an EBITDA margin at 25% in the medium to long term. Along with its standalone business, the management is optimistic about its latest acquisitions. With the acquisition of MAPL, RKFL aims to become a system supplier by combining forging and casting assemblies. Similarly, it is looking to enhance its revenue potential in the oil & gas segment via JMT Auto. Considering RKFL's robust growth plans via the organic as inorganic route and continuous focus on high margins with an aim to outperform the underlying industry's growth, we remain positive for the company. We maintain our Buy rating on the stock with an upward revised PT of Rs. 888 on its inorganic growth plan, diversification strategies, and management's focus on sustaining high operating margins.

Key Risks

RKFL is exposed to the cyclicality inherent in the CV and steel industries. Moreover, geographically diversified businesses pose geopolitical risks.

Valuation Rs cr

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenues	2,285	3,001	3,512	4,128	4,682
Growth (%)	77.4	31.3	17.0	17.5	13.4
EBIDTA	527	668	811	964	1,113
OPM (%)	23.1	22.3	23.1	23.4	23.8
Net Profit	207	236	349	481	574
Growth (%)	-	14.1	47.9	38.1	19.1
EPS	11.4	13.0	19.3	26.6	31.7
P/E	65.7	57.5	38.9	28.2	23.6
P/BV	12.4	10.2	5.0	4.3	3.7
EV/EBIDTA	28.5	22.1	16.8	14.0	11.9
ROE (%)	20.8	19.5	17.3	16.4	16.8
ROCE (%)	11.9	11.9	14.7	14.7	15.6

Source: Company; Sharekhan estimates

Q3FY24 performance

- Strong performance in the domestic business in Q3FY24 was driven by wallet share gain with the customers on the back of new business in the automotive business, along with healthy revenue from railway and highway business has boosted domestic revenue.
- The company has started witnessing some impact on freight rates on European dispatches due to the ongoing Red Sea issue, while no major impact has been seen on dispatch to the US region. While there are no clauses with the customers to pass on the higher freight cost, however in the past, customers have supported due to a sudden jump in freight cost, though with a lag.

MAPL : an opportunity in the casting segment

- MAPL (which RKFL has acquired recently) has been engaged in the business of manufacturing casting. The company offers a wide range of hi-tech, machined, heat-treated automobile components from bars, and castings, primarily for brakes, gearboxes, axle and suspension parts of commercial vehicles and railways.
- With the acquisition of MAPL, RKFL could supply the entire differential assembly andtrailer axle assembly consisting of casting and forgings. It will further strengthen the presence of RKFL in the PV and CV space.
- MAPL can manufacture 21,600 MT p.a. of machined SG & CI castings and bar draw facility of 6000MT p.a.
- MAPL is currently delivering an EBITDA margin at 16% and aiming for an EBITDA margin of 18% by FY26.

JMT Auto: Caters for auto as well as oil & gas segment

- RKFL has completed the acquisition of JMT Auto.
- JMT Auto has expertise in the auto sector with capabilities in heat treatment and gear . It also caters to oil and gas industry.
- RKFL aims to achieve a turnover of Rs 400-500 crores in JMT Auto business by FY26 and aspires for an EBITDA margin of 25%.

ACIL: will enhance opportunity in tractor and PV segment

- NCLT has approved the RKFL's resolution plan to acquire ACIL.
- ACIL Limited is engaged in the manufacturing of high-precision engineering automotive components. It majorly manufactures crankshafts for tractors, HCVs, LCVs as well and two-wheelers. Besides, the company also manufactures connecting rods, steering knuckles and hubs.
- ACIL's acquisition will help RKFL to foray into tractors and PV segments. It will be a forward integration which will enable the company to supply machined crankshafts for tractors, PV, HCV, LCV, two wheelers, and two-wheelers.
- ACIL have a carry forward tax loss of more than Rs 700 Crores, which will have a positive impact on the cashflows of RKFL once it gets merged with RKFL.
- ACIL would expand the customer bandwidth for RKFL as RKFL caters to different set of customers.

JV project for forged wheels would be commissioned by FY2026

- In a consortium, RKFL has received an LOA to supply forged wheels from Indian Railways.
- RKFL holds a 51% stake in the JV company. The JV company is expected to set up a plant to produce 228,000 forged wheels per annum.
- RKFL has invested Rs 57.18 cr in JV company till Q3FY24.
- The plant is expected to be commissioned by FY2026.

Raised Rs 1000 cr via QIP

- RKFL has raised Rs 1000 cr via QIP and already utilised Rs 638.11 cr from the fund raised via QIP.
- The company has repaid debt of Rs 544.2 cr and invested Rs 93.91 cr for general corporate purposes.

Outlook

- Business environment has been challenging, but RKFL would continue to do well, backed by new order wins .
- Not foresee any downturn in business and would have better capacity utilization in coming period.
- Continue to outperform the market and look for long-term sustainable growth.
- Over the period RKFL would simplify its overall group structure.

Results (Standalone) — Rs cr

Particulars	Q3FY24	Q2FY23	YoY%	Q2FY24	QoQ%
Revenues	903	752	20.0	865	4.4
Total operating expenses	695	586	18.7	667	4.3
EBITDA	208	166	24.8	198	4.8
Depreciation	63	49	28.3	59	6.0
Interest	36	30	22.2	37	-1.1
Other income	2	1	99.1	3	-51.9
PBT	110	89	24.4	105	4.4
Tax	28	31	(9.9)	26	7.5
Reported PAT	82	58	42.9	80	3.4
Adjusted PAT	82	58	42.9	80	3.4

Source: Company; Sharekhan Research

Key Ratios (Standalone) — Rs cr

Particulars	Q3FY24	Q2FY23	YoY (bps)	Q2FY24	QoQ (bps)
Gross margin (%)	49.8	51.7	-190	50.2	-40
EBIDTA margin (%)	23.0	22.1	90	22.9	10
Net profit margin (%)	9.1	7.7	150	9.2	-10
Effective tax rate (%)	25.3	35.0	-960	24.6	70

Source: Company; Sharekhan Research

Outlook and Valuation

Sector View – The CV industry is on the path of cyclical recovery

We see a strong underlying demand for CVs domestically. We expect strong improvement in M&HCV sales to continue, driven by increased e-commerce, agriculture, infrastructure, and mining activities. Global demand for trucks is buoyant, though the order book in the past few months was impacted, led by the chips shortage issue. While demand remains stronger for both medium-duty and heavy-duty vehicles, the industry's ability to tackle that backlog has been affected by a series of issues such as chip shortage, steel output, and plastic resin availability. Most global OEMs and auto component suppliers maintain a positive outlook for the CV industry.

Company Outlook – Beneficiary of strong demand and margin improvement

We expect RKFL to benefit from the CV upcycle across geographies, led by improved prospects for CVs in India and globally. Global OEMs and tier-1 suppliers maintain a positive outlook for the CV segment. RKFL is committed to growing its business profitably and de-risking its business model by 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 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. 888

Post reporting slightly better operating performance, the management has shared an optimistic outlook for its business in the near term, though indicated that the business environment is getting challenging. The management aims to outperform the market on the back of its diversified revenue stream, introduction of new components, expansion of customer bandwidth and increase in market share. Further, the management is guiding to sustain the current high margin and aspiring for an EBITDA margin at 25% in the medium to long term. Along with its standalone business the management is optimistic on its latest acquisitions. With the acquisition of MAPL, RKFL aims to become a system supplier by combining forging and casting assemblies. Similarly, it is looking to enhance its revenue potential in the oil & gas segment via JMT Auto. Considering RKFL's robust growth plans via the organic and inorganic route and continuous focus on high margins to outperform the underline industry's growth, we remain positive on the company. We maintain our Buy rating on the stock with an upward revised PT of Rs. 888 on its inorganic growth plan, diversification strategies, and management's focus on sustaining a high level of operating margins.

Change in estimates — Rs cr

	New		Earlier		% change		Introduction
Particulars	**FY24E**	**FY25E**	**FY24E**	**FY25E**	**FY24E**	**FY25E**	**FY26E**
Revenue	3,512	4,128	3,511	4,127	0.0	0.0	4,682
EBITDA	811	964	786	948	3.2	1.8	1,113
EBITDA margin (%)	23.1	23.4	22.4	23.0			23.8
PAT	349	481	349	463	(0.1)	3.9	574

Source: Company; Sharekhan Research

About company

RKFL, headquartered in Kolkata, is one of the leading forging companies in India, catering to the requirements of OEMs and tier-1 auto-component suppliers worldwide. RKFL, incorporated in 1981, commenced operations in 1984, primarily as a forging manufacturer for the Indian Railways. The company started manufacturing from two facilities in and around Jamshedpur and another small unit near Kolkata. The company generates 79% of its revenue from the Auto segment and 21% of its revenue from the non-auto segment.Further, its revenue is well diversified on geography wise as Europe, North America and Asia accounts for 15%, 25% and 60% of its revenue, respectively (in FY23)

Investment theme

RKFL is a proxy play for CV upcycle in India and internationally. We expect the CV upcycle in India to coincide with that in North America and Europe. This point of conjunction would benefit a company such as RKFL, which has a strong domestic and export revenue mix, operating in niche markets. Moreover, the timing becomes impeccable, as global automakers and Tier-1 suppliers scout for alternative sourcing hubs outside China. The Indian government offers 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 RKFL has a strong credential global footprint and is serving leading OEMs in the automotive segment and 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. Moreover, geographically diversified businesses pose forex fluctuation/ volatile freight rate risks.
- RKFL's export sales are highly working capital intensive because of the large receivable cycle, particularly for export sales.

Additional Data

Key management personnel

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

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Riddhi Portfolio Pvt Ltd	20.95%
2	Eastern Credit Capital Pvt Ltd	12.51%
3	Ramkrishna Rail & Infra Pvt Ltd	3.60%
4	Naresh Jalan	3.24%
5	Bhanshali Lata	2.92%
6	Smallcap World Fund	2.81%
7	Nomura India Investment Fund	2.29%
8	Bhanshali Akash	2.24%
9	Massachusetts Institute of Technology	2.18%
10	Blue Diamond Properties Pvt Ltd	2.13%

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

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of 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.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022-41523200 / 022-69920600.