



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	✗	↔	✓

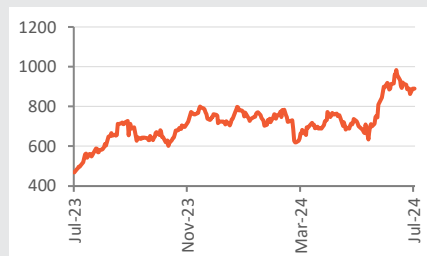
Company details

Market cap:	Rs. 16,089 cr
52-week high/low:	Rs. 998 / 530
NSE volume: (No of shares)	6.9 lakh
BSE code:	532527
NSE code:	RKFORGE
Free float: (No of shares)	10.3 cr

Shareholding (%)

Promoters	43.2
FII	23.8
DII	4.3
Others	28.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.8	19.1	12.0	90.5
Relative to Sensex	-4.6	10.2	0.3	69.2

Sharekhan Research, Bloomberg

Ramkrishna Forgings Ltd

Inline performance, maintained guidance

Auto Ancillary	Sharekhan code: RKFORGE		
Reco/View: Buy	↔	CMP: Rs. 890	Price Target: Rs. 1,029
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Despite a 5.8% miss in revenue APAT came in line at Rs 91 crore on in line adj. EBITDA margin at 23.1%.
- It received orders of Rs 1679 crore in Q1FY25 and hence it maintained 15%-20% volume growth guidance for FY25.
- We maintain a Buy on the stock with an revised PT of Rs. 1029 on its diversification strategies, robust guidance, a firm business plan and management's focus on sustaining high OPM.
- Stock trades at P/E multiple of 28.1x and EV/ EBITDA multiple of 14.4x its FY26E estimates.

Ramkrishna Forgings Ltd (RKFL) missed revenue estimates by 5.8% but due to in-line adjusted margin on a healthy rise in gross margins, APAT too met estimates. While export performance continues to be impacted by the Red Sea issue, the execution of new orders is supporting the ASPs in the export market. RKFL continues to gain healthy orders and hence maintains its 15-20% volume growth guidance for FY25. During the quarter, RKFL saw new order inflows of Rs 1679 crore across the geographies. Revenue declined by 2.0% q-o-q to Rs 868 crore (as against the estimate of Rs 922 crore) on the back of 1.9% q-o-q decline in domestic revenues and a 2.0% q-o-q decline in export revenue. Total volumes declined by 3.5% on q-o-q basis on a 0.8% q-o-q decline in domestic volumes and 7.3% q-o-q decline in overseas volumes. Adjusted to a one-off item of Rs 17.5 crore (election trust related item), the Adjusted EBITDA came flat on q-o-q at Rs 201 crore (against estimate of Rs 213 crore). Gross margin expanded on account of a healthy uptick in average selling prices (ASPs) in overseas markets. With 190 bps q-o-q expansion in gross margin Adjusted EBITDA rose by 40 bps q-o-q to 23.1% (against estimate of 23.1%). With this operating performance, APAT grew by 3.8% q-o-q to Rs 91 crore (against estimate of Rs. 92 crore).

Key positives

- Gross margins expanded by 190 bps q-o-q.
- Export market ASPs rose by 5.7% q-o-q.
- With an order from metro cars in the railway segment its order book is further diversifying into non-auto space.

Key negatives

- Other expenses as percentage of sales expanded by 110 bps q-o-q.
- ASPs in the domestic market declined by 1.1% q-o-q on reduction in RM cost and slow offtake by customers.
- Overall volumes have declined by 3.5% q-o-q.

Management Commentary

- With a strong order book in hand, the company continues to eye a 15-20% volume growth in FY25.
- It continues to seek diversification in its order book.
- While nothing is in the pipeline currently, but company continues to look for suitable inorganic growth opportunities.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 1029: After reporting in-line adjusted PAT the management has maintained its guidance of 15-20% volume growth in FY25 backed by healthy order book in hand. Despite the Red Sea issue, RKFL has sustaining its EBITDA margin in high trajectory backed by execution of new orders. It has been continuously gaining healthy orders across the segments. In Q1FY25, the company has received orders of Rs 1679 crore. The company is in the process of adding a capacity of 14,250-tonne consisting of up setter forgings by Q2FY25. It has also planned to set up cold forging line and 8,000-tonne hot forging Press line along with some small press lines which will further enhance the capacity of the company by 65,000 tonnes. With these new capacities, its total capacity would increase from 229,150 tonnes currently to 308,400 tonnes by FY25-end. The management appeared to be optimistic on its export business. RKFL aims to become a system supplier by combining forging and casting assemblies. We maintain a Buy on the stock with a revised PT of Rs. 1029 on its diversification strategies, robust guidance, firm business plan and management's focus on sustaining high operating margins.

Key Risks

RKFL is exposed to the cyclicity inherent in the CV industries. Moreover, geographically diversified businesses pose geopolitical risk.

Valuation (Standalone)

Particulars	FY22	FY23	FY24	FY25E	FY26E
Revenue	2,285	3,001	3,490	4,018	4,682
Growth (%)	77.4	31.3	16.3	15.1	16.5
EBIDTA	527	668	794	939	1,113
OPM (%)	23.1	22.3	22.7	23.4	23.8
Net Profit	207	236	326	455	573
Growth (%)	-	14.1	38.4	39.6	25.8
EPS	11.4	13.0	18.0	25.2	31.7
P/E	77.9	68.3	49.3	35.3	28.1
P/BV	14.7	12.1	6.0	5.2	4.5
EV/EBIDTA	33.3	25.8	20.6	17.3	14.4
ROE (%)	20.8	19.5	16.3	15.8	17.1
ROCE (%)	11.9	11.9	14.2	13.8	15.4

Source: Company; Sharekhan estimates

Domestic market

- ◆ Domestic revenues declined by 1.9% q-o-q to Rs 467.5 crore on the back of 0.8% q-o-q fall in volumes and 1.1% decline in ASPs
- ◆ Decline in ASPs is attributed to correction in RM cost and slow offtake by its customers.
- ◆ Company noted that steel prices in India are not in sync with the global market and are instead driven by supply and demand equation

Exports

- ◆ Export revenues declined by 2.0% q-o-q to Rs 392.7 crore on account of 7.3% q-o-q decline .
- ◆ Export market ASPs increased by 5.7% q-o-q on account of execution of new orders.
- ◆ Red Sea issue has impacted its export revenue by Rs 20-25 crore in Q1FY25. The management assumes similar kind of impact will remain in coming quarters also till the geopolitical issues would not be sorted out.
- ◆ The company is not targeting any specific territory overseas, but marketing its product across the geographies and receiving orders on the back of its technical expertise.
- ◆ Raw material costs in exports are not India-centric, but linked to North American and European indices.

New order inflow

- ◆ During the quarter, RKFL has witnessed a new order inflow of Rs 1679 crore across the geographies and segments.
- ◆ New orders received in the quarter are not yet reflected in the current business and will be visible in the coming quarters.
- ◆ It has received orders of Rs 526 crore from North America. Break up of Rs 526 crore order from North America : (1) CVs : Rs 201 crore, (2) Light vehicles : Rs 109 crore , (3) EVs: Rs 16 crore and (4) Non-automotive : Rs 200 crore.
- ◆ From Europe it got orders of Rs 287 crore. Break up of Rs 287 crore order from Europe : (1) CVs: Rs 284 crore and (2) EVs: Rs 3 crore.
- ◆ RKFL has received orders of Rs 140 crore from rest of the world and largely from CV segment.
- ◆ In India, it has received orders of Rs 442 crore. Break up of Rs 442 crore order from India is : (1) CVs :Rs 362 crore and (2) Non-automotive segment : Rs 80 crore
- ◆ Beyond that also has a order of Rs 284 crore from Railway segment

Subsidiaries' performance

- ◆ Company expects continuous improvement in the subsidiaries in terms of margin improvements going forward.
- ◆ Multitech Auto is currently operating at around 16% plus EBITDA margin, with expected further improvement of 100-200 basis points going forward.
- ◆ Multitech has reported revenues of Rs 86 crore and ACIL has reported revenue of Rs 17 crore in Q1FY25.

Railways

- ◆ Company has received a private sector order (Vande Bharat), which will open up new opportunities for them directly with Indian Railways after validation and design approval.
- ◆ JV project will begin production (for validation) from Q4FY26.

Capex

- For FY25, the management has guided for a capex of Rs 500 crore in standalone business and Rs 135 crore in subsidiaries.
- It has also guided for an investment of over Rs 100 crore in its JV projects in the railway segment

Outlook

- With a strong order book and visibility for execution the management maintains its 15-20% volume growth guidance for FY25.
- Subsidiaries' performance would improve going forward on volume ramp-up.

Change in earning estimates

Particulars	New		Earlier		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	4,018	4,682	4,018	4,682	-	-
EBITDA	939	1,113	939	1,113	-	-
EBITDA margin (%)	23.4	23.8	23.4	23.8		
PAT	455	573	455	573	-	-
EPS	25.2	31.7	25.2	31.7	-	-

Source: Company; Sharekhan Research

Results (Standalone)

Particulars	Rs cr				
	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
Revenues	868	836	3.9	886	-2.0
Total operating expenses	668	648	3.0	685	-2.6
AEBITDA	201	188	7.0	201	-0.1
Depreciation	56	57	(2.2)	65	-14.5
Interest	30	34	(11.9)	29	2.7
Other income	7.2	5	52.2	13.6	-47.1
PBT	105	101	3.5	120	-12.8
Tax	31	24	30.8	33	-3.5
Reported PAT	73	77	(5.0)	87	-16.3
Adjusted PAT	91	77	17.7	87	3.8

Source: Company; Sharekhan Research

Key Ratios (Standalone)

Particulars	Q1FY25	Q1FY24	YoY (bps)	Q4FY24	QoQ (bps)
Gross margin (%)	56.3	48.8	750	54.3	190
AEBITDA margin (%)	23.1	22.4	70	22.7	40
Net profit margin (%)	10.4	9.2	120	9.9	60
Effective tax rate (%)	30.1	23.8	630	27.2	290

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – CV industry is on path of steady growth

We see strong underlying demand for CV domestically. We expect strong improvement in M&HCV sales to continue, driven by rise in e-commerce, agriculture, infrastructure, and mining activities. Global demand for trucks is buoyant, though order book in the few months was impacted, led by the semiconductor chip 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 of the 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-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 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 the share of value-added and critical components will help improve realisations and EBITDA margins.

■ Valuation – Maintain Buy with a revised PT of Rs.1029

After reporting in-line adjusted PAT the management has maintained its guidance of 15-20% volume growth in FY25 backed by healthy order book in hand. Despite the Red Sea issue, RKFL has sustaining its EBITDA margin in high trajectory backed by execution of new orders. It has been continuously gaining healthy orders across the segments. In Q1FY25, the company has received orders of Rs 1679 crore. The company is in the process of adding a capacity of 14,250-tonne consisting of up setter forgings by Q2FY25. It has also planned to set up cold forging line and 8,000-tonne hot forging Press line along with some small press lines which will further enhance the capacity of the company by 65,000 tonnes. With these new capacities, its total capacity would increase from 229,150 tonnes currently to 308,400 tonnes by FY25-end. The management appeared to be optimistic on its export business. RKFL aims to become a system supplier by combining forging and casting assemblies. We maintain a Buy on the stock with a revised PT of Rs. 1029 on its diversification strategies, robust guidance, firm business plan and management's focus on sustaining high operating margins.

About company

RKFL, headquartered in Kolkata, is one of the leading forging companies in India catering to 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 located in and around Jamshedpur and another small unit near Kolkata. The company generates 79% of its revenue from Auto segment and 21% of its revenue from 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 are expecting the CV upcycle in India to coincide with that in North America and Europe. This point of conjunction would be highly beneficial for 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 are scouting for alternative sourcing hubs outside China. 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 RKFL has a strong credential global footprint and is serving leading OEMs, not only in the automotive segment but also in other sectors. We expect RKFL to gain market share internationally, as it has completed its major capex.

Key Risks

- ♦ RKFL is exposed to the cyclicity 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

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	RIDDHI PORTFOLIO PVT LTD	33.49
2	Capital Group Cos Inc/The	4.01
3	SMALLCAP World Fund Inc/Fund Paren	3.62
4	RAMKRISHNA RAIL & INFRA PVT LTD	3.6
5	Nomura India Investment Fund Mothe	2.31
6	Vanguard Group Inc/The	1.88
7	Bank of America Corp	1.79
8	Massachusetts Institute of Technol	1.70
9	Aditya Birla Sun Life Asset Manage	1.33
10	BLUE LOTUS INV FUND	1.18

Source: Bloomberg

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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 deteriorating 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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