



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	✗	↔	✓

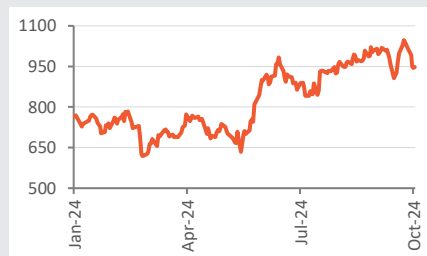
Company details

Market cap:	Rs. 17,174 cr
52-week high/low:	Rs. 1,064 / 583
NSE volume: (No of shares)	7.5 lakh
BSE code:	532527
NSE code:	RKFORGE
Free float: (No of shares)	10.3 cr

Shareholding (%)

Promoters	43.2
FII	24.3
DII	5.1
Others	27.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.1	0.4	9.8	23.8
Relative to Sensex	-1.3	0.4	10.0	11.6

Sharekhan Research, Bloomberg

Ramkrishna Forgings Ltd

Maintained guidance on robust order book

Auto Ancillary

Sharekhan code: RKFORGE

Reco/View: Buy



CMP: Rs. 950

Price Target: Rs. 1,111



Upgrade



Maintain



Downgrade

Summary

- Adjusted PBT at Rs 126.3 crore was in line estimates, but APAT missed estimates on higher tax provisions.
- Company continued to guide for a 15-20% volume growth guidance in near term.
- We maintain a Buy rating with a revised PT of Rs. 1111 on diversification strategies, robust guidance, firm business plan and management's focus on sustaining high OPM.
- Stock trades at P/E multiple of 25.7x and EV/EBITDA multiple of 13.3x its FY27E estimates.

Despite muted performance in the MHCV segment, the company has reported healthy topline performance on the back of supply of value-added products and assemblies and an increase in share of business from customers. Company continues to expect a 15-20% growth in volumes in the near term. Adjusted PBT came in line with estimates on account of a 6.1% beat in revenue and inline EBITDA. APAT miss the estimates on account of higher-than-expected tax provisioning. Revenues rose by 10.1% y-o-y to Rs 952 crore (versus an estimate of Rs 898 crore) EBITDA rose by 7.0% y-o-y to Rs 212 crore (versus estimate of Rs 212 crore). Despite 570 bps y-o-y expansion in gross margin EBITDA margin contracted by 70 bps y-o-y to 22.2% (versus estimate of 23.1%) on 530 bps y-o-y expansion in other expenses (as % of sales) and 110 bps y-o-y expansion in employee cost as a percentage of sales. The company has recorded an exceptional income of Rs 102.9 crore due to disinvestment of 100% equity stake held in Globe All India Services Limited. Excluding one-time income the adjusted PBT came at Rs 126.3 crore (versus estimate of Rs 129.7 crore). However, on higher-than-expected tax provision of Rs 46.3 crore (as against an estimate of Rs 35 crore) APAT came at Rs 79.9 crore (against estimate of Rs 95 crore).

Key positives

- Gross margins rose by 570 bps y-o-y.
- Domestic revenues rose by 14.1% y-o-y on 14.7% y-o-y increase in volumes.
- RKFL has received an order inflow of Rs. 1,522 crore in Q2FY25 to be executed over a period of four years across various geographies and segments.

Key negatives

- Other expenses (as % of sales) increased by 530 bps y-o-y as the export carriage cost has increased due to Red Sea issue.
- Blended ASPs fell by 2.0% y-o-y due to decline in raw material costs.
- Employee cost as percentage of sales has expanded by 110 bps y-o-y to 5.7%.

Management Commentary

- While the domestic CV segment is facing growth headwinds the management continue to guide for a 15-20% volume growth in near term.
- EVs (including hybrid) to contribute 15 -20% to topline by FY27.
- Company has been in the process of integrating the newly-acquired businesses and it aims to develop its Mexican operation as a hub for nearby countries.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 1111: After reporting in-line adjusted PBT the management has reiterated its 15 -20% volume growth guidance for near term backed by an increase in revenue share with customers and introduction of new components. Assembly sales contributed 3.6% to the domestic revenues in Q2FY25 as compared to 1.7% in Q1FY25. RKFL has received an order inflow of Rs. 1,522 crore in Q2FY25 to be executed over a period of four years across various geographies and segment. We believe that 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. The management appeared to be optimistic on its export business. RKFL aims to become a system supplier by combining forging and castings assemblies. After factoring Q2FY25 performance, we maintain a Buy on the stock with a revised PT of Rs. 1111 on its diversification strategies, robust guidance, firm business plan and the management's focus on sustaining high OPM.

Key Risks

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

Valuation (Standalone)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	3,001	3,490	3,931	4,566	5,303
Growth (%)	31.3	16.3	12.6	16.2	16.2
EBIDTA	668	794	918	1,085	1,276
OPM (%)	22.3	22.7	23.4	23.8	24.1
Net Profit	236	326	414	540	670
Growth (%)	14.1	38.4	26.9	30.6	24.0
EPS	13.0	18.0	22.9	29.9	37.0
P/E	72.9	52.7	41.5	31.8	25.7
P/BV	13.0	6.4	5.6	4.9	4.1
EV/EBIDTA	27.5	22.0	18.9	15.8	13.3
ROE (%)	19.5	16.3	14.5	16.4	17.4
ROCE (%)	11.9	14.2	13.2	14.6	15.9

Source: Company; Sharekhan estimates

Q2FY25

- ◆ Company has divested its stake in Globe All India Services Limited for an all cash consideration of Rs. 128 crore.
- ◆ RKFL has approved investment of Rs. 57.5 crore towards setting up of Aluminium forging capacity at Jamshedpur, which will cater primarily to EV segment. Customer wants a large capacity but RKFL has initiated plans with caution as it has never been in nonferrous segment. Much bigger nonferrous activity would begin going forward.
- ◆ EBITDA margin for nonferrous business is lower than ferrous capacity but ASPs would be higher than existing business. The capacity is backed by order visibility and capacity is setting up for overseas customer.
- ◆ Other expenses (as a percentage of sales) has increased by 530 bps y-o-y as the export carriage cost has increased due to Red Sea issue

Domestic market

- ◆ Domestic revenues increased by 14.1% y-o-y to Rs 537.6 crore on the back of 14.7% y-o-y growth in volumes and 0.5% y-o-y decline in ASPs.
- ◆ Decline in ASPs is attributed to correction in RM cost.
- ◆ Despite muted performance in CV volumes, the company has reported healthy performance in domestic market owing to increase in assemblies and rise in share with customers on introduction of new components.
- ◆ Assembly sales contributed 3.6% to the domestic revenue in Q2FY25 compared to 1.7% in Q1FY25.
- ◆ The company expects that its performance in domestic market would improve in coming periods.

Order wins

- ◆ RKFL has received an order inflow of Rs. 1,522 crore to be executed over a period of four years across various geographies and segments.
- ◆ Out of the new orders of Rs. 1522 crore it has received order of Rs 1475 crore from North America.
- ◆ Out of the orders of Rs 1475 crore from North America Rs 1312 crore is for auto segment and Rs 163 crore is for non automobile business.
- ◆ It has received orders of Rs 47 crore from domestic customers (39 crore from non-auto segment and Rs. 8 crore from Railways segment).

Railway

- ◆ RKFL has not been in wagon manufacturing.
- ◆ The management has not observed any slowdown in passenger segment as government has been focussing on passenger segment
- ◆ Its business has not been impacted in railway segment as it has strong order book from railway segment.
- ◆ Vande Bharat-related orders would be executed by FY26-FY27.
- ◆ Wheel project in consortium is on track and it expects the deliveries to begin from Q4FY26.
- ◆ Outlook

- ♦ Management reiterates its guidance of 15- 20% volume growth on sustainable basis in near term. RKFL's volume guidance is backed by introduction of new components, addition of new customers and entry into new geographies.
- ♦ Total capacity after addition of new lines will increase to 311,400T by end of Q1FY26. Installed Capacity as on H1FY25, was 229,150 tonnes.
- ♦ Company has been in process of integrating the newly acquired businesses.
- ♦ It aims to develop its Mexican operations as a hub for nearby countries.

Results (Standalone)

					Rs cr
Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Revenues	952	865	10.1	868	9.7
Total operating expenses	741	667	11.1	668	10.9
EBITDA	212	198	7.0	201	5.5
Depreciation	53	59	(9.7)	56	-4.2
Interest	32	37	(12.1)	30	6.7
Other income	0.1	3	(96.9)	7.2	-98.6
PBT	229	105	117.2	105	119.3
Tax	46	26	78.6	31	47.4
Reported PAT	183	80	129.8	73	150.1
Adjusted PAT	80	80	0.5	91	-11.8

Source: Company; Sharekhan Research

Key Ratios (Standalone)

Particulars	Q2FY25	Q2FY24	Y-o-Y (BPS)	Q1FY25	Q-o-Q (BPS)
Gross margin (%)	55.9	50.2	570	56.3	-40
EBIDTA margin (%)	22.2	22.9	-70	23.1	-90
Net profit margin (%)	8.4	9.2	-80	10.4	-200

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 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 the criticality of components manufactured. We expect RKFL to benefit from improving demand. 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. 1111

After reporting in-line adjusted PBT the management has reiterated its 15 -20% volume growth guidance for near term backed by an increase in revenue share with customers and introduction of new components. Assembly sales contributed 3.6% to the domestic revenues in Q2FY25 as compared to 1.7% in Q1FY25. RKFL has received an order inflow of Rs. 1,522 crore in Q2FY25 to be executed over a period of four years across various geographies and segment. We believe that 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. The management appeared to be optimistic on its export business. RKFL aims to become a system supplier by combining forging and castings assemblies. After factoring Q2FY25 performance, we maintain a Buy on the stock with a revised PT of Rs. 1111 on its diversification strategies, robust guidance, firm business plan and the management's focus on sustaining high OPM.

Change in earning estimates

Particulars	New		Earlier		% change		Introduction
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY27E
Revenue	3,931	4,566	4,018	4,682	(2.2)	(2.5)	5,303
EBITDA	918	1,085	939	1,113	(2.2)	(2.5)	1,276
EBITDA margin (%)	23.4	23.8	23.4	23.8			24.1
PAT	414	540	455	573	(9.1)	(5.7)	670
EPS	22.9	29.9	25.2	31.7	(9.1)	(5.7)	37.0

Source: Company; Sharekhan Research

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	SMALLCAP World Fund Inc/Fund Paren	6.73
3	Capital Group Cos Inc/The	6.73
4	RAMKRISHNA RAIL & INFRA PVT LTD	3.6
5	Naresh Jalan	3.24
6	Lata Bhansali	2.92
7	Akash Bhansali	2.24
8	Nomura India Investment Fund Mothe	2.01
9	Vanguard Group Inc/The	1.95
10	Societe Generale	1.73

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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