



Farsight

MORNING FARSIGHT

Wednesday, October 03, 2018

RAMKRISHNA FORGINGS

CMP:RS 604

TRGT:RS 700

TIME HORIZON: 1 YEAR

Ramkrishna Forgings, India's second largest forging company after Bharat Forge, with an installed capacity of 160,000 MTPA, across 5 plants in Jamshedpur and Kolkata, is looking a good buy post another month of stellar CV sales seen from OEMs, led by Ashok Leyland, with sales growth 26% YoY, while Volvo Eicher CV sales were up 10%YoY. RK Forgings is set to benefit from strong traction in CVs sales, as company is highly concentrated on heavy forged components, will gain traction from recent changes in axle load capacity (requiring bigger and heavier axles). Management plans to reduce its concentration on HCV (95% to automotive segment currently) to 70% over the next 3 years, by entering into PV and LCV segments, which will provide scalability and diversification. Company had posted good earnings for Q1FY19, with Net Revenue from Operations growing by over 59% YoY to Rs 411 cr, EBITDA growing by over 73% YoY to Rs 87 cr (EBITDA margin 21.1%) and stupendous PAT growth of 205% YoY to Rs 27.7 cr against Rs 9.1 cr. It must be noted that Q4 is always the best quarter for CV Players and CV OEM serving ancillaries hence YoY comparison is done to present robust performance of the company. Management has categorically stated that company is targeting doubling of revenues over the next 3-4 years Richer product mix and economies of scale will drive EBITDA margins higher by 200-300 bps, with margin in the range of 22-24% over the next three years Further, to balance out the cyclical nature of domestic M&HCV segment, company has increased its focus into export markets. Currently, North America accounts for —80% of export revenue and given NA Class 8 truck orders have been hitting fresh all time high for past 3 months, there is good visibility of healthy earnings from this front On conservatively estimated EPS of Rs 38 for FY19 and EBITDA of Rs 360 cr, stock is trading at PE of 16x and EV/EBITDA of 7.5x, which are seen attractive and at discount to industry peers Bharat Forgings and MM Forgings. Share ruling at Rs 604 can move to Rs 700 in 1 year. Buy as an investor only in this volatility and pessimism now seen prevailing.

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Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.