



Farsight

## MORNING FARSIGHT

Tuesday, June 19, 2018

**RAMKRISHNA FORGINGS**

**CMP:RS 742**

**TRGT:RS 850**

**TIME HORIZON: 1 YEAR**

Ramkrishna Forgings, India's second largest forging company after Bharat Forge, with an installed capacity of 160,000MT, through 5 well-integrated manufacturing facilities in Jamshedpur and Kolkata, is the only forging company in India, making both front axle and rear axle for CV. With auto sector (mainly CVs) accounting for 82% of Ramkrishna's FY18 revenue pie of Rs. 1,450 crore, expected double digit growth in domestic CV market and 25% growth in Class 8 trucks in North America in the current fiscal are likely to provide the positive push to company's FY19 topline. Management has guided 15%YoY volume growth for FY19 to 1, 40,000MT. To strengthen its automobile offerings, company plans capex for passenger cars and electric vehicles over the next 18 months, while it has also diversified presence in oil and gas (off-shore and drilling), serving US shale gas sector. Company's Q4FY18 earnings remained strong, with shipment of 35,812 MT, up 41% YoY and 8% QoQ, and revenue rising by 57% YoY and by 10% QoQ to Rs. 440 cr. Q4FY18 EBITDA came in at Rs. 92 cr, with an EBITDA margin strengthening to 21.0% from 18.9% in Q4FY17 and from 19.4% in Q3FY18. With operating leverage coming into play, company expects to better its Q4FY18 margins in FY19. Fourth quarter FY18 PAT stood at Rs. 34 cr, up from Rs. 9 cr in Q4FY17 as well, up from Rs. 28 cr in 03FY18, leading to an EPS of Rs. 10.48 for Q4FY18 alone and full year FY18 EPS of Rs. 30. As of 31-3-18, company's net worth stands at Rs. 760 cr, with promoter holding of 44.38% and a high and diversified institutional holding of 35.25%, comprising 45 institutions. While debt to equity ratio is currently high at 0.96:1, it is likely to ease to 0.8:1 over the next 12 months, as cash flows improve. Company's current market cap is Rs. 2,430 cr, while EV at Rs. 3,200 cr. Share is trading at single digit EV/EBITDA multiple of just 8.9x on an estimated FY19 EBITDA of Rs. 360 crore and PE multiple of 17.6x on an estimated FY19 PAT of Rs.135 cr. These valuation multiples are not only lower than industry leader Bharat Forge (EV/EBITDA multiple of 26x and PE of 32x) but also less than smaller peer MM Forgings, half its size (75,000 MT capacity), lower sales (Rs. 620 cr), EV Rs. 1,950 cr, trading at an EV/EBITDA multiple of 11x and PE of 21x. based on FY19E earnings. Share ruling at Rs. 742 can move to Rs. 850 in 1 year. Buy as an investor.

**DISCLAIMER:** This is solely for information of clients of Farsight Securities Ltd. and does not construe to be an investment advice. It is also not intended as an offer or solicitation for the purchase and sale of any financial instruments. Any action taken by you on the basis of the information contained herein is your responsibility alone and Farsight Securities Ltd. its subsidiaries or its employees or associates will not be liable in any manner for the consequences of such action taken by you. We have exercised due diligence in checking the correctness and authenticity of the information contained in this recommendation, but Farsight Securities Ltd. or any of its subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this recommendation or any action taken on basis of this information. Technical analysis studies market psychology, price patterns and volume levels is used to forecast future price and market movements. Technical analysis is complementary to fundamental analysis and news sources. The recommendations issued herewith might be contrary to recommendations issued by Farsight Securities Ltd. in the company research undertaken as the recommendations stated in this report is derived purely from technical analysis. Farsight Securities Ltd. has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; Farsight Securities Ltd. makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. The opinions contained within the report are based upon publicly available information at the time of publication and are subject to change without notice. The information and any disclosures provided herein are in summary form and have been prepared for informational purposes. The recommendations and suggested price levels are intended purely for trading purposes. The recommendations are valid for the day of the report however trading trends and volumes might vary substantially on an intraday basis and the recommendations may be subject to change. The information and any disclosures provided herein may be considered confidential. Any use, distribution, modification, copying, forwarding or disclosure by any person is strictly prohibited. The information and any disclosures provided herein do not constitute a solicitation or offer to purchase or sell any security or other financial product or instrument. The current performance may be unaudited. Past performance does not guarantee future returns. There can be no assurance that investments will achieve any targeted rates of return, and there is no guarantee against the loss of your entire investment.

POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

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