

Ratnamani Metals & Tubes Ltd.

4th August 2022

Prominent player with strong industry tailwind, but fairly priced

Ratnamani Metals & Tubes Limited (RMTL) is a manufacturer of Carbon Steel (CS) & Stainless Steel (SS) Pipes & Tubes. They are the largest manufacturers of SS Pipes in India with a market share of approximately 30% and a reputable player in CS pipes. They have grown to become a multi-location, multi-product company, providing critical tubing solutions to a diverse range of industries & niche markets in core sectors. We initiate coverage on Ratnamani Metals & Tubes with a NEUTRAL rating and a target price of Rs. 1,824 (32x FY23e earnings)

Superior Product Portfolio

SS pipes contribute 30% of total turnover for RMTL. Operating margin in SS pipes is around 23-25%, due to this, blended operating margins of RMTL stands higher at 16-18% compared to its peers 8-13% margins. Currently, RMTL has approximately 30% market share in this product. RMTL has planned to further increase its SS pipes capacity and spend Rs. 1.8Bn. It will take 18-24 months to commercialize this unit.

Tailwind in gas industry

The government plans to raise the share of natural gas in the country's energy basket to 15% from the current 6.3% by 2030 and city gas expansion is a part of the roadmap. The overall authorized length of natural gas pipelines as of December 2021 is 33,816Km of which 14,417Km is under construction. Electrical Resistance Welded (ERW) Pipes (a type of CS Pipe) finds large application in gas industry.

Diminishing imports of Stainless-Steel (SS) pipes from China

India imports 50%+ of its total SS Pipes & Tubes from China. During FY16-21, imports declined considerably by 45%+ (8% CAGR) in volume terms. In FY21, the imports fell sharply and settled at 55,500 MT (Rs. 14.6Bn) due to removal of Chinese export incentives. Tighter norms like BIS certification, Import Duty (10% on SS products), and reduction in export benefits from China by 10-13% and an additional 10% export duty are becoming a reason for relying more on domestic SS pipes manufacturers.

Rising Competition

City Gas Distribution (CGD) is opening up opportunities for steel pipe manufacturers to install or expand their facilities to manufacture ERW pipes which are used for last mile connectivity. Competition is intensifying as other players are also planning for capacity expansion in ERW pipes.

View & Valuation

We initiate coverage on Ratnamani Metals & Tubes Ltd with a NEUTRAL rating and a target price of Rs. 1,824 (32x FY23e earnings), giving it a 15% premium to median multiples based on strong balance sheet & historical track record. We expect that company would be able to grow its topline by 15%+ for FY23 based on sectoral tailwind, strong order book & execution track record of management.

NEUTRAL

CMP Rs. 1,779

TARGET Rs. 1,824(+2.5%)

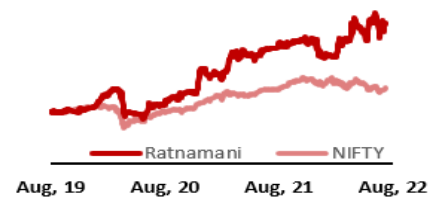
Company Data

MCAP (Rs. Mn)	124,708
O/S Shares (Mn)	70
52w High/Low	1,920 / 1,237
Face Value (Rs.)	2
Liquidity (3M) (Rs. Mn)	48.2

Shareholding Pattern %

	Jul 22	Mar 22	Dec 21
Promoters	60.16	60.16	60.16
FIs	12.28	12.13	12.01
DIs	16.36	16.26	16.02
Non-Institutional	11.2	11.45	11.81

Ratnamani vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

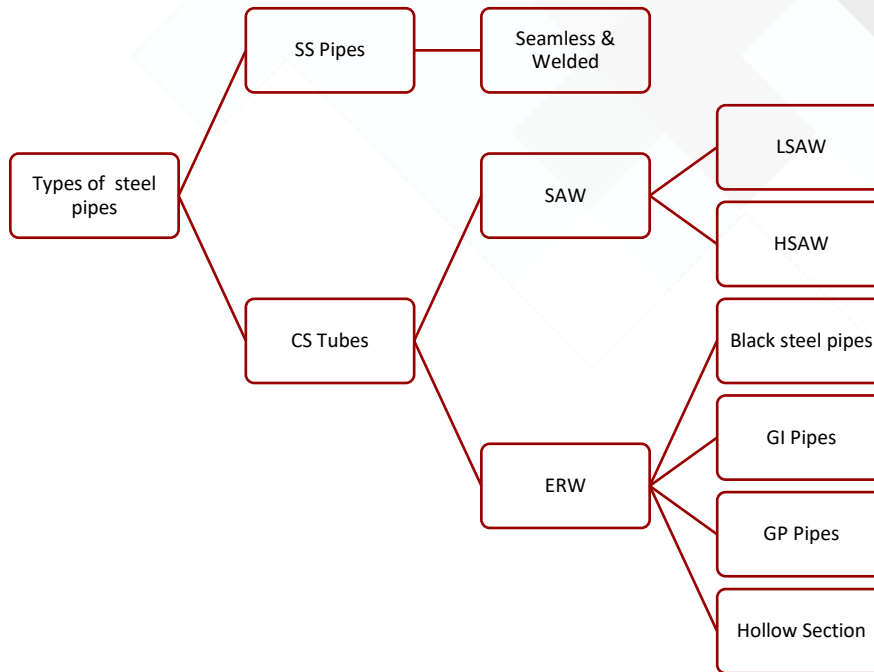
(Rs. Mn)	FY22	FY23E	FY24E
Revenue	31,388	36,881	42,413
EBITDA	4,947	6,085	6,998
Net Profit	3,226	3,853	4,503
Total Assets	29,625	32,912	37,308
ROCE (%)	14%	16%	17%
ROE (%)	15%	16%	16%

Source: Company, Keynote Capitals Ltd. estimates

Chirag Maroo, Research Analyst
Chirag@keynotecapitals.net

Industry Background

Types of Steel Pipes



RMTL manufactures SS pipes, SAW Pipes & ERW pipes

Source: Industry, Keynote Capitals Ltd.

* SAW stand for Submerged Arc-Welding, LSAW Pipe stand for Longitudinal Submerged Arc-Welding, HSAW pipes stand for Helical submerged arc welding (spiral), ERW stand for Electrical Resistance Welded, GI pipes stand for Galvanized Iron Pipe, GP pipes stand for Galvanized Pipes

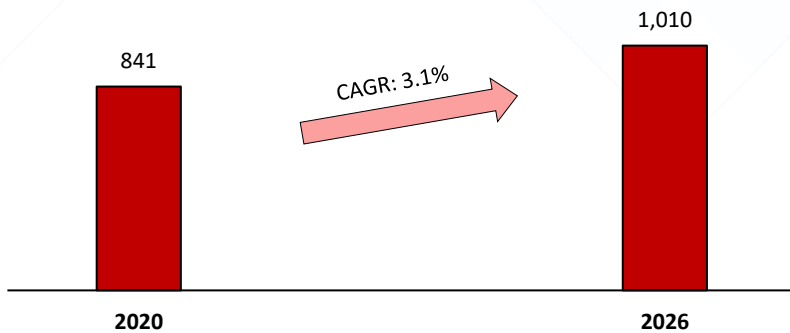
Types of Pipes	Size of Pipes	Manufacturing Process	Key Applications
Seamless	0.5" -14"	Piercing ingots/billets of steel at a high temperature	High-pressure conditions like oil & gas exploration & drilling, boiler, automobiles, pipelines, refineries
Spiral HSAW	18" -100"	Spirally welding HR coils	Low-pressure application cross-country line pipes for oil & gas and water transportation
LSAW	16" -50"	Longitudinally submerged arc-welding of steel plates	High-pressure application, cross-country line pipes for oil & gas transportation
ERW	0.5" -20"	Hot rolled steel coils using an electrical resistance welding process	Low/medium pressure application, application in urban and rural infrastructure, industrial application in engineering, automobile, and process industry
Black steel Pipe	Diameter: 0.5"-20" Thickness: 1mm-12.7mm	Are forged and threaded	Water, gas, air, steam, sewage, water wells, mechanical hot water circulation in a boiler system, general engineering purpose
Galvanized Iron Pipe	15mm-200mm	Coated with zinc layers. Generally screwed & socketed plain beveled cut ends in the pipe are used	Carrying water in homes and commercial buildings, structural application
Ductile Iron Pipe	100mm-300mm+	Manufactured in multiple grades to achieve high ductility and tensile strength	Transporting water for drinking water application, sewage treatment, and industrial water supply

Source: Venus Pipes Tubes Ltd RHP, Keynote Capitals Ltd.

Global Steel Pipes & Tubes Industry

Globally, Steel Pipes & Tubes industry was worth \$841Bn in 2020. It is anticipated to grow to \$1010Bn by 2026 at a CAGR of 3.1%. Higher demand in various sectors due to increase in economic activities and consumer confidence will lead to growth in the steel pipes market.

Global Steel Pipes & Tubes Industry Size (USD Bn)



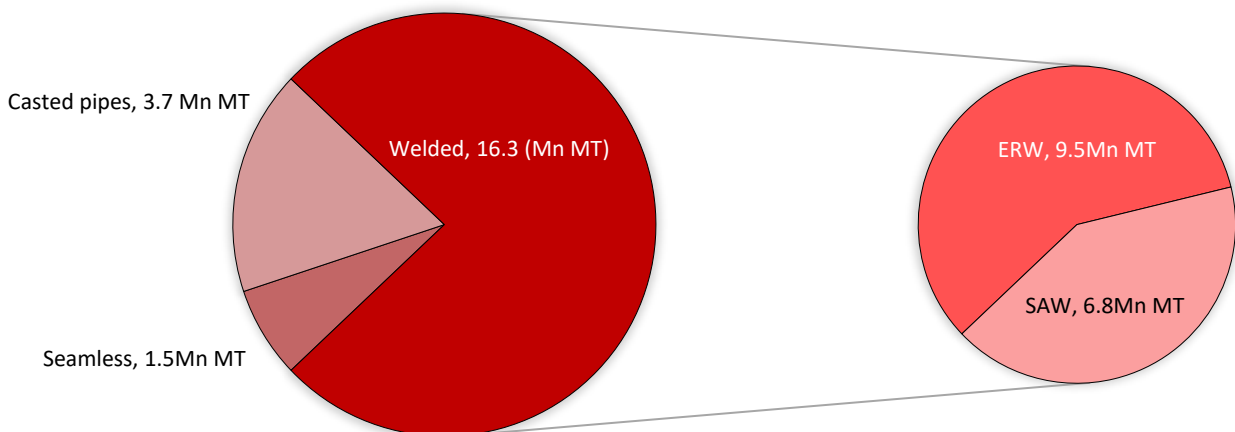
Source: Company, Keynote Capitals Ltd.

The oil & gas industry is among the major end user industry. Steel Pipes & Tubes are used in all streams of processing crude oil for transportation of gas & liquid. It is expected that demand from the oil & gas sector will resume quickly; however, due to the Russia-Ukraine conflict, the demand-supply dynamics could change in the coming years.

Indian Steel Pipes & Tubes Industry

As per industry sources, India’s current manufacturing capacity of Steel Pipes & Tubes stands around 21.5Mn MT which is further split into 16.3Mn MT of Welded Pipes (9.5Mn tonnes of ERW Pipes & 6.8Mn MT of SAW pipes), 1.5Mn MT of seamless pipes & 3.7Mn MT of casted pipes.

Steel Pipes Capacity in India (Mn Tonnes)



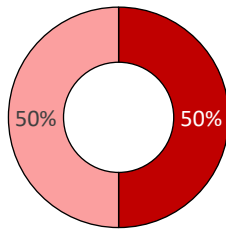
Source: Venus Pipes Tubes Ltd RHP, Keynote Capitals Ltd.

Ratnamani Metals & Tubes Ltd. | Initiating Coverage Report

Due to diversified applications in several industries, Steel Pipes & Tubes industry is a critical segment of the Indian steel sector. This segment accounts for an 8% share in the overall steel consumption basket which translates into Rs. 550-600Bn market size in value terms and 6.7-8Mn MT in volume terms. The industry has shown a steady CAGR of 8.2% over the last 10 years.

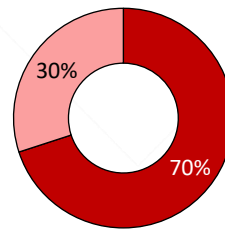
Industry Capacity Utilization is 31-37% approximately (based on total installed capacity)

Indian Steel Pipes & Tubes (Value Terms)



■ ERW Pipes ■ SAW & SS Pipes

Indian Steel Pipes & Tubes (Volume Terms)



■ ERW Pipes ■ SAW & SS Pipes

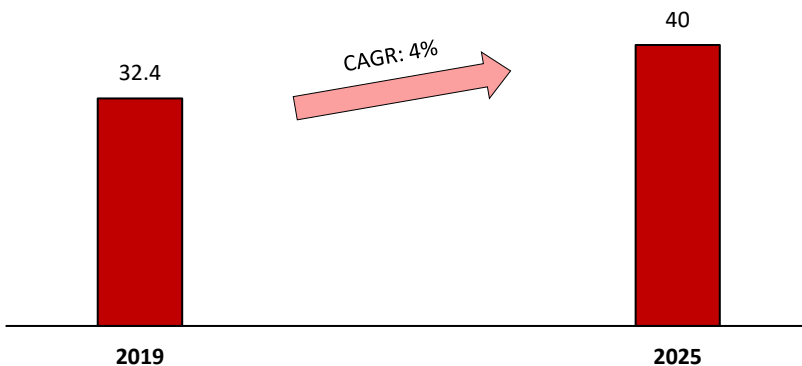
Source: Venus Pipes Tubes Ltd RHP, Keynote Capitals Ltd.

With nearly 10kg per capita consumption, Steel Pipes & Tubes consumption in India is less than half of the global average of 21-22kg per capita and about 16-18% of China's per capita consumption (55-60kg) which indicates enormous opportunities for growing penetration in the Indian market.

Global Stainless Steel Pipes & Tubes

Globally, SS Pipes & Tubes industry is estimated to be \$32.4Bn in 2019. It is expected to have a stable growth of 4% CAGR till 2025 and reach \$40Bn.

Global SS Pipes & Tubes Industry (USD Bn)

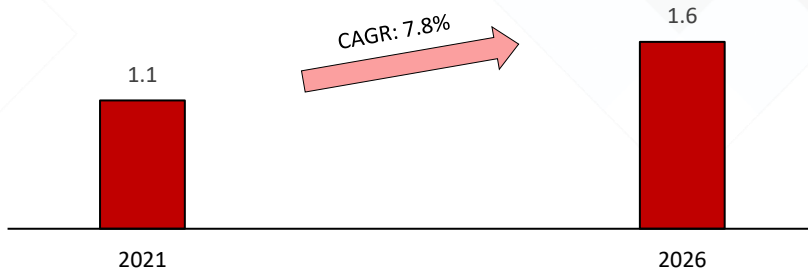


Source: Venus Pipes Tubes Ltd RHP, Keynote Capitals Ltd.

Indian Stainless Steel Pipes & Tubes

Indian SS Pipes & Tubes market consists of more than 100 players, but the market is dominated by 5-6 organized players who enjoys most of the market share. It is expected that domestic SS pipes demand will grow at 7.8% till 2026.

Indian SS Pipes Market Size in Volume Terms (Mn MT)



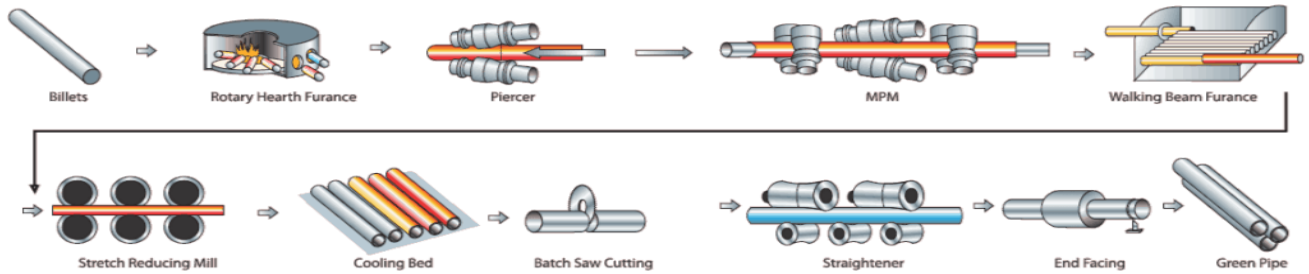
Source: Venus Pipes Tubes Ltd RHP, Keynote Capitals Ltd.

India is a net importer of SS Pipes & Tubes. During FY16-21, imports considerably declined by 45%+ (8% CAGR) in volume terms. In FY21, the imports fell sharply and settled at 55,000 T (Rs. 14.6Bn) due to removal of Chinese export incentives. Still, India imports 50%+ of its total SS Pipes & Tubes from China.

Process of Manufacturing Seamless Pipes

Seamless Pipes find their application in multiple industries like oil & gas, power, fertilizers and many more. Maharashtra Seamless Ltd. is the most significant player in the industry, with a capacity of 650,000 MT.

Maharashtra Seamless is a major player in Seamless Pipes

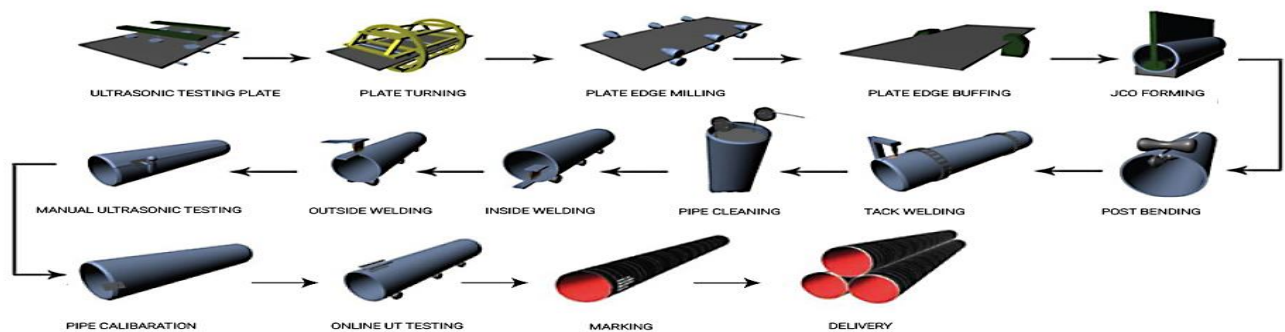


Source: Industry, Keynote Capitals Ltd.

Process of Manufacturing LSAW Pipes

LSAW pipes are widely used in oil & gas and petrochemicals. In India, Jindal Saw is the largest player in LSAW pipes, with a capacity of 850,000 MT.

Jindal Saw is a major player in LSAW Pipes

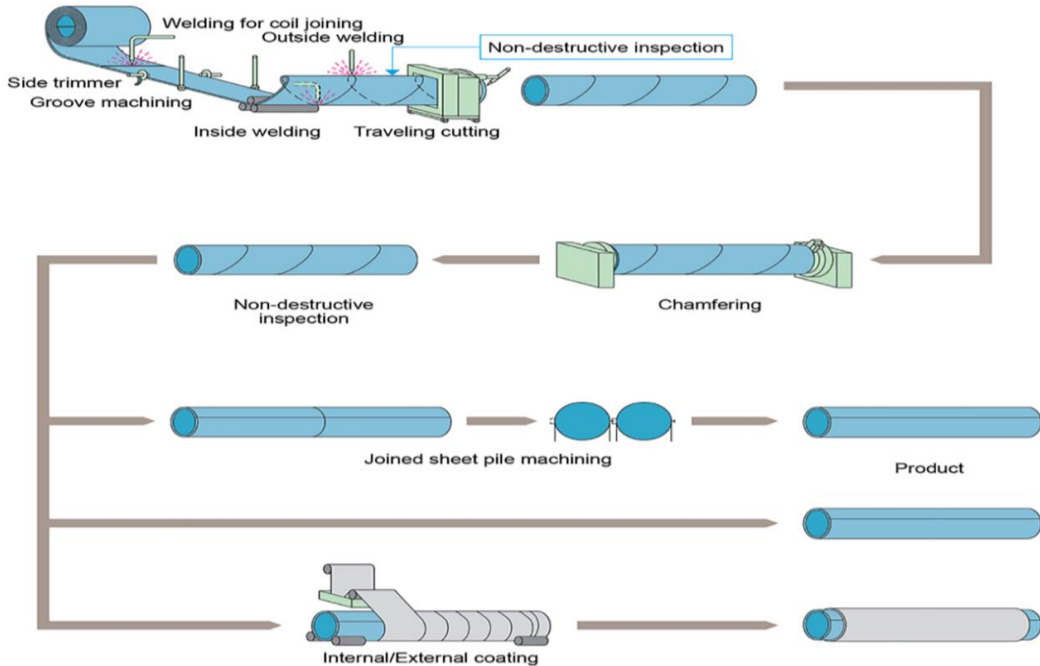


Source: Industry, Keynote Capitals Ltd.

Process of Manufacturing HSAW Pipes

HSAW pipes find their application in water transport projects (inter-connection of rivers), sewage treatment, oil & gas, and construction structure. In India, Jindal Saw is the largest player in HSAW pipes, with a capacity of 790,000 MT.

Jindal Saw is a major player in HSAW Pipes

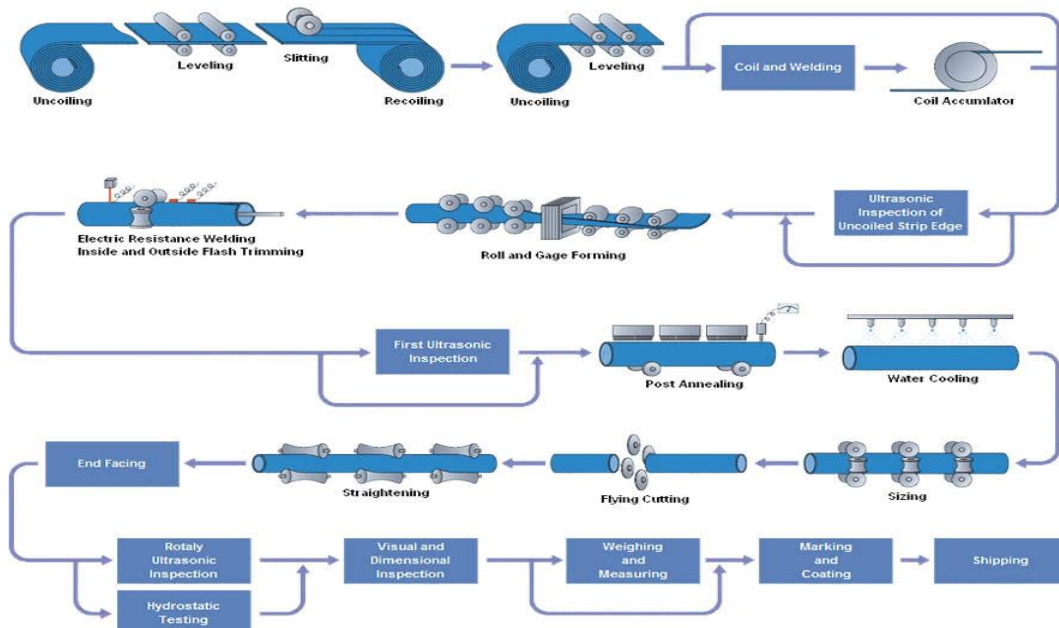


Source: Industry, Keynote Capitals Ltd.

Process of Manufacturing ERW Pipes

ERW pipes find their application in construction, oil & gas, agriculture & irrigation industries. They are widely used in manufacturing natural gas pipelines, LPG pipelines and other non-toxic gas pipelines. APL Apollo is the most significant player in India in construction pipes (ERW), with a capacity of 2.5+Mn MT.

APL Apollo is a major player in ERW Pipes



Source: Industry, Keynote Capitals Ltd.

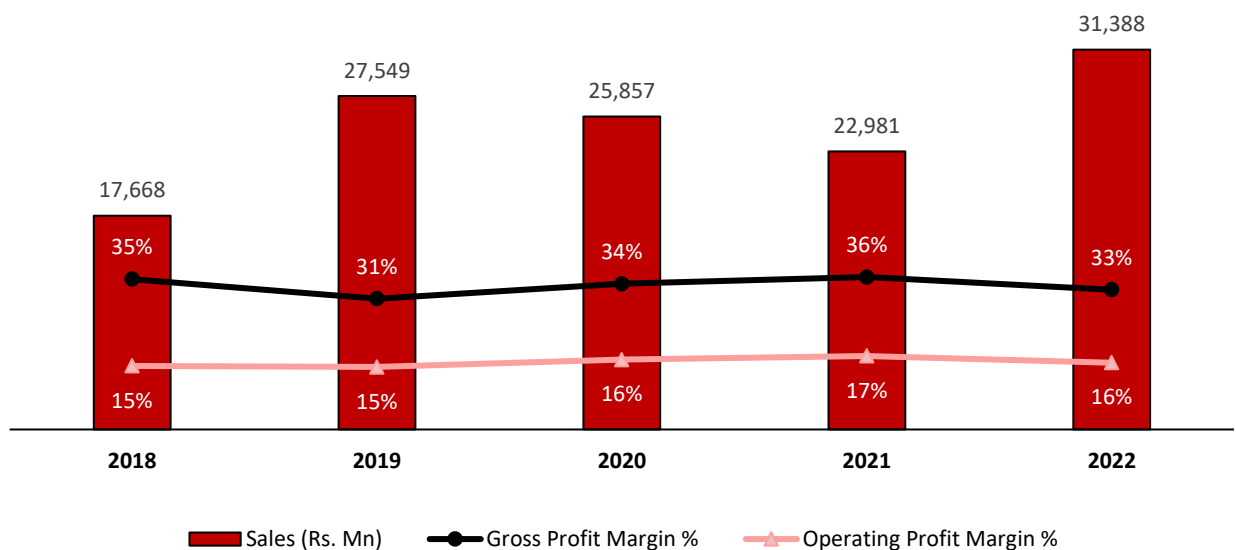
Company Background

The company was incorporated in 1983 as Ratnamani Metals & Tubes Limited (RMTL). Earlier, RMTL was only engaged in manufacturing Stainless-Steel (SS) Pipes. Post-1995, RMTL started manufacturing Carbon Steel (CS) Pipes. RMTL serves 22 industries and has a presence in 35+ countries worldwide. They are an approved supplier of SS pipes by Saudi Aramco.

RMTL is India's largest manufacturer of Stainless Steel seamless pipes with approximately 30% market share. They are India's largest manufacturer of nickel alloy and titanium welded pipes & tubes and also a preferred supplier of exotic steel alloy products. The Company has created an edge by providing critical piping & tubing solutions across a varied range of industries and niche markets.

RMTL works on build-to-order basis, which means they work on fixed-cost orders and book 80% of the raw material only when the order is confirmed. This helps them to have a stable operating margin. Post-covid, there was a sudden spike in raw material prices; RMTL re-negotiated prices with customers, which helped them to keep their margins intact. As per the management, if there had been a significant drop in raw material prices, they would have similarly passed on the benefits.

Even with fluctuating sales, RMTL has stable Operating Profit Margin %



Source: Company, Keynote Capitals Ltd.

Products

RMTL acts like a one-stop shop where they manufacture the smallest diameter Stainless Steel (SS) seamless tubes to the largest diameter Carbon Steel (CS) pipes. The pipes & tubes are supplied in accordance with the appropriate international standards as well as customer specifications in a large variety of grades and dimensions.

RMTL has necessary approvals from the Aerospace industries to supply critical tubes. Additionally, in 2020, the Company received an approval from Atomic Energy Corporation for supplying SS tubes to the power industry.

Stainless Steel Pipes & Tubes (28-30% of Revenue)

Primarily, SS Pipes are used for transporting gases or fluids. RMTL manufactures 2 types of SS pipes, namely, welded & seamless. The raw material used in making SS pipes are iron ore, nickel, and molybdenum, which gives it corrosion-resistant properties. SS pipes resist oxidation, making it a low-maintenance solution suitable for high temperature & chemical application.

STAINLESS STEEL DIVISION <-----

PRODUCTS

Heat Exchanger Tubes

- Stainless Steel Seamless Tubes
- Stainless Steel Welded Tubes
- Titanium Welded Tubes
- Seamless Nickel Alloy Tubes

Stainless Steel Seamless Instrumentation Tubes

Stainless Steel Pipes

- Stainless Steel Seamless Pipes
- Stainless Steel Welded Pipes
- Stainless Steel 3LPE (3-Layer Polyethylene) / 3LPP (3-Layer Polypropylene) Coated Pipes

END-USER INDUSTRIES

- Oil & Gas
- Refineries & Petrochemicals
- Chemicals & Fertilizers
- Pulp & Paper
- De-salination
- Nuclear, Thermal & Solar Power Plants
- Defence
- Atomic Energy
- Aerospace

Source: Company, Keynote Capitals Ltd.

Carbon Steel Pipes & Tubes (70-72% of Revenue)

The primary use for CS pipes is to transport liquid and gas. It is not recommended for corrosive services but may be used in caustic services. Generally, to prevent corrosion, companies provide additional coating services (RMTL is one of them). CS pipes are made of steel ingots or solid round steels through the perforation into capillary tubes, which are then hot-rolled, cold-rolled, or cold drawn. CS pipes have high strength, ductility, and toughness at a low cost. CS pipes consist of Longitudinal Submerged Arc-Welding (LSAW) Pipes, Helical Submerged Arc Welding (HSAW) Pipes, Electrical Resistance Welded (ERW) Pipes, and Circumference pipes.

CARBON STEEL DIVISION <-----

PRODUCTS

High Frequency Electric Resistance Welded (HFW-ERW) Pipes

END-USER INDUSTRIES

- Oil & Gas
- Pipelines
- City Gas Distribution
- General Purpose Applications
- Water Supply
- Structural Pipes Systems

PRODUCTS

Submerged Arc Welded (SAW) Pipes: H-SAW & L-SAW and Mobile Plant

END-USER INDUSTRIES

- Oil & Gas Pipelines
- Spur Lines
- Pipes for Potable Water

- Refineries & Petrochemicals
- Power Plant – Cooling Water, Auxiliary Cooling Water Line & Ash Handling Line
- Water & Sewerage
- Structural – Piling & Casing Pipes and Structural Columns
- Distribution Lines for Irrigation Systems
- Other industrial uses – Pipes for Fertilizer Plants, Mining, Dredging Pipes, Air Ducts, etc.

PRODUCTS

Pipe Coating Solutions

EXTERNAL:

- Carbon Steel 3LPE (3-Layer Polyethylene) / 3LPP (3-Layer Polypropylene) / DFBE (Dual Layer Fusion Bonded Epoxy) / FBE (Fusion Bonded Epoxy) and all other prevalent Coatings

INTERNAL:

- Food Grade Epoxy / Polyurethane / Coal Tar Epoxy / Cement Lining and other prevalent Coatings

END-USER INDUSTRIES

- Oil & Gas Pipelines
- Water Pipelines
- Effluent Lines

PRODUCTS

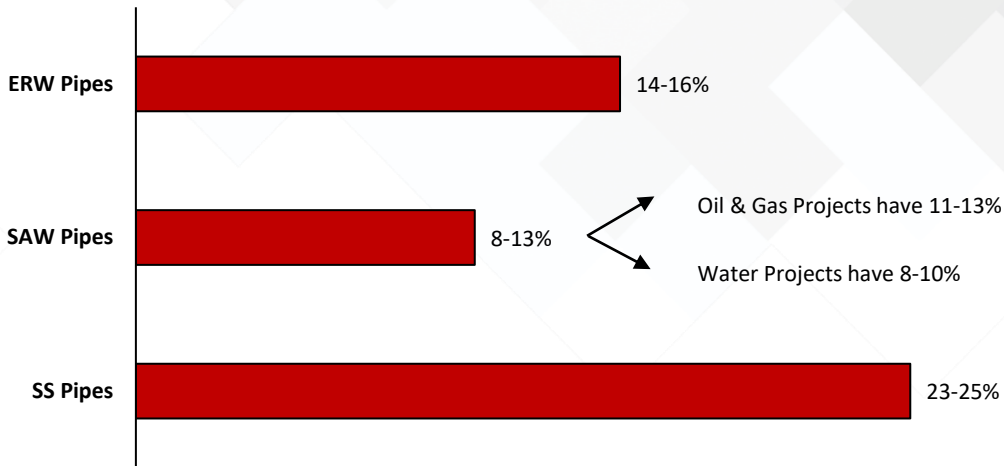
Induction Bends

END-USER INDUSTRIES

- Refineries
- Power Plants
- Structural Pipes
- Oil & Gas Pipelines
- Other Industries

Source: Company, Keynote Capitals Ltd.

Operating Profit Margin % across Product Portfolio



Source: Company, Peer Companies, Keynote Capitals Ltd. estimates

Differentiating types of CS pipes based on appearance

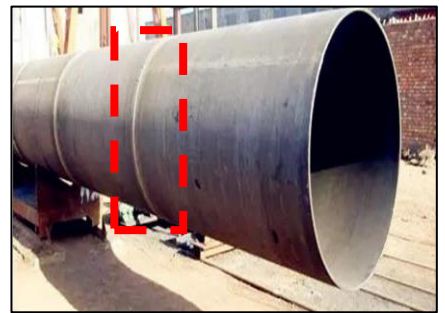
LSAW Pipes



HSAW Pipes



Circumference Pipes



ERW pipes (these can be seamless or longitudinal welded through electrical resistant welding and these are smaller diameter pipes)



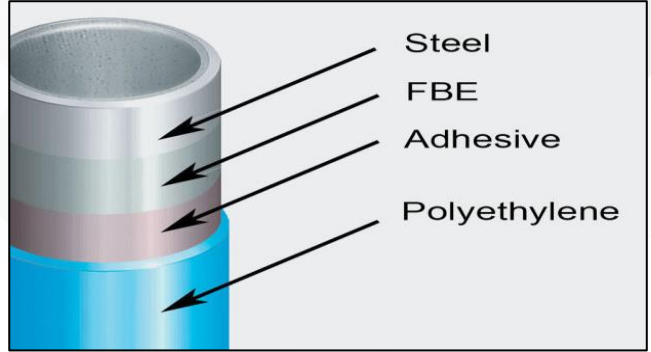
Source: Industry, Keynote Capitals Ltd.

Besides manufacturing pipes, RMTL does induction bending and pipe coatings as per customers' requirements.

Induction bends (bending through heating)



3 layered PE & FBE pipe coating



Source: Industry, Keynote Capitals Ltd.

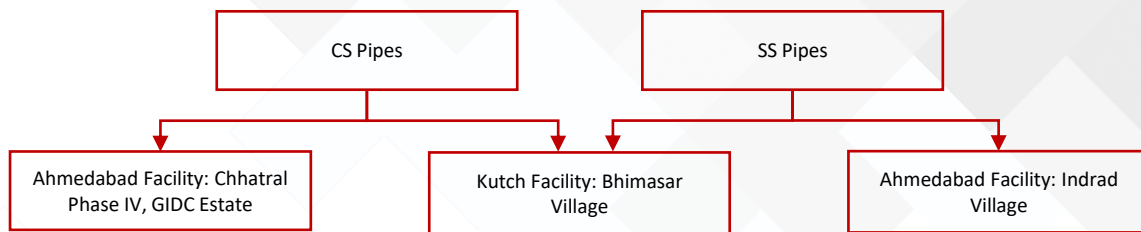
Customers

RMTL enjoys a marquee customer base that relies on them for high-quality and reasonably priced steel pipes. RMTL ensures a high degree of flexibility in production planning to meet customers' urgent delivery requirements. The Company's unflinching commitment to quality and services ensured client's loyalty. A few of the names are listed below:



Source: Company, Keynote Capitals Ltd.

Manufacturing Facilities



Source: Company, Keynote Capitals Ltd.

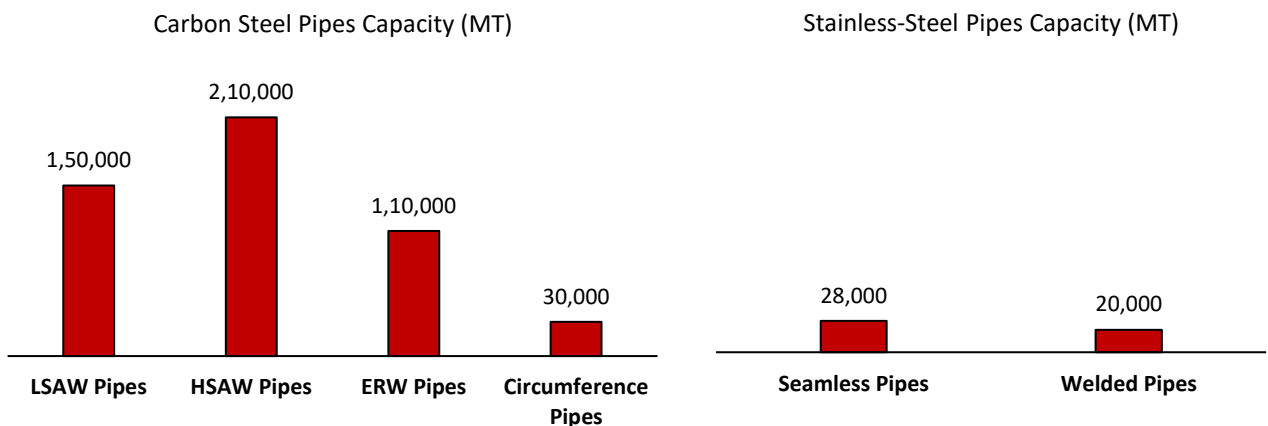
Besides this, RMTL has 3 testing facilities & 18 units of installed wind power with a capacity of 27MW. Captive power meets ~30% of operational electricity power requirements.

RMTL believes in advertising through quality of product (focusing on demand-pull strategy rather than sales-push). All the units of the Company are certified by covering

- ISO 9001: 2008 by TUV Nord (Quality Management system) which means their product is consistent & meets customers satisfaction.
- ISO 3834-2 (comprehensive quality for fusion welding metallic materials).
- API 5L, API5LC by American Petroleum Institute (API defines standard for dimension, physical, mechanical & chemical properties of pipe. Globally, oil & gas generally requires API 5L and API5LC tells that its corrosion resistant).
- PED & ADW0 Certification by TUV Nord, NORSOK & "Well known Pipe / Tube Maker" status by Central Boilers Board, India (basically its for pressure handling) and many more.

Manufacturing Capacities

In FY21, RMTL added 20,000 MT capacity in SS pipes (Extrusion pipes) and 150,000 MT capacity (40,000 MT of older capacity got replaced & 110,000 MT of new capacity) in LSAW pipes. Keeping these 2 capacities aside, the Company achieved an average capacity utilization of 70-80% in FY22.



Source: Company, Keynote Capitals Ltd. estimates

Besides this, RMTL does three-layer PE & FBE coating on pipes, and they have a capacity of 2.5Mn square meters and 2 machines for bending different-sized pipes.

At optimum utilization levels, the current manufacturing capacity can achieve a turnover of Rs. 50Bn, based on stable raw material prices.

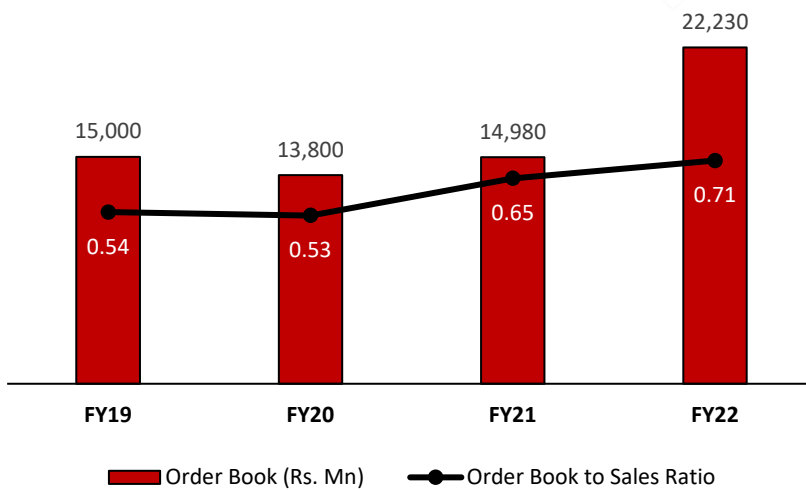
Capacity Expansion (CAPEX) Plan

RMTL has embarked on an expansion to increase capacity in SS pipes & HSAW pipes at a cost of Rs. 1.8 Bn & 1.7 Bn respectively. HSAW pipes will be a greenfield expansion (preferably outside Gujarat). It will take them 18-24 months to commence these capacities. The total capex of Rs. 3.5bn will help them to generate a revenue of Rs. 7 Bn at full capacity utilization.

Order book

As on FY22, RMTL has an order book of Rs. 22,230Mn. Based on announcements filed by the company and management commentary, most orders will get executed over the next 12 months.

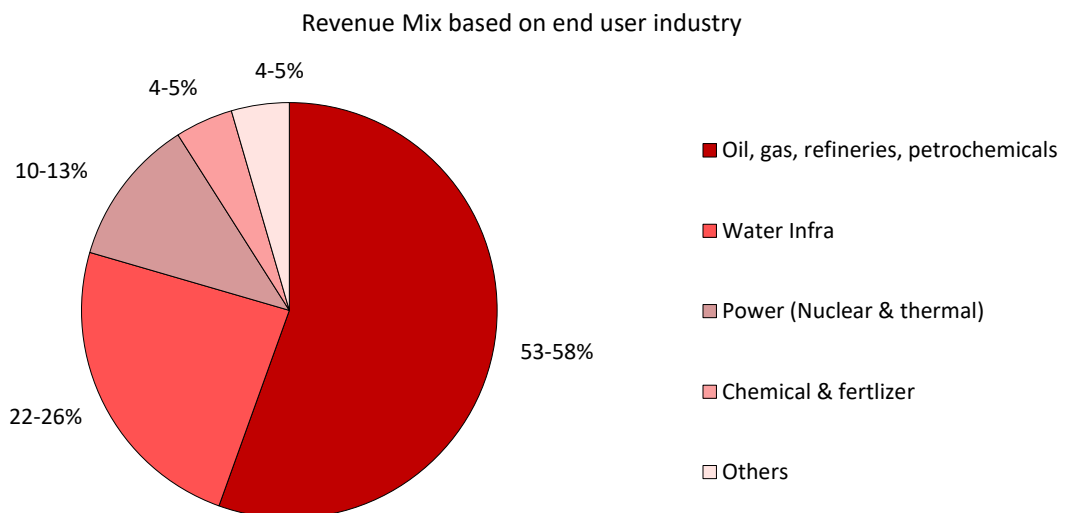
RMTL is continuously improving its Order Book to Sales Ratio



Source: Company, Keynote Capitals Ltd.

Revenue Mix (by end user industry)

Most of the Company's revenue comes from oil & gas and petrochemicals because almost 100% of LSAW pipes revenue comes from oil & gas, and 100% of ERW pipes revenue comes from city gas distribution.

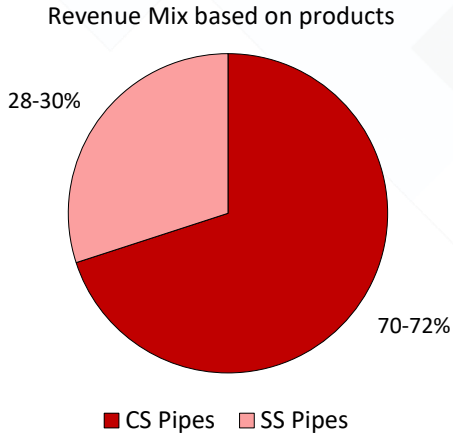


Source: Company, Keynote Capitals Ltd. estimates

Ratnamani Metals & Tubes Ltd. | Initiating Coverage Report

Revenue Mix (based on Products)

Over the years, more than 65-70% of revenue came from CS pipes. In FY22, revenue from CS pipes was 70%+. Going forward, revenue mix is expected to remain akin, operating margins will also stay in similar range of 16-18% .



Source: Company, Keynote Capitals Ltd. estimates

Peer Analysis

Major domestic Steel Tubes & Pipes players include RMTL, Jindal Saw, Maharashtra Seamless, Welspun Corp, and Man Industries. All these companies have a comprehensive product portfolio offering. The chart below represents types of pipes manufactured:

Company Name	SAW Pipes	ERW Pipes	Seamless & Stainless Pipes	DI pipes
Ratnamani Metals & Tubes	X	X	X	
Jindal Saw	X		X	X
Maharashtra Seamless		X	X	
Welspun Corp**	X	X	X	X**
Man Industries*	X	X*	X*	

Source: Industry, Keynote Capitals Ltd.

*Man Industries: Foraying in ERW pipes: 125,000 MT & SS pipes: 20,000 MT

** Welspun Corp: Foraying in DI pipes: 400,000 MT & capacity mentioned in above data is India based capacity only

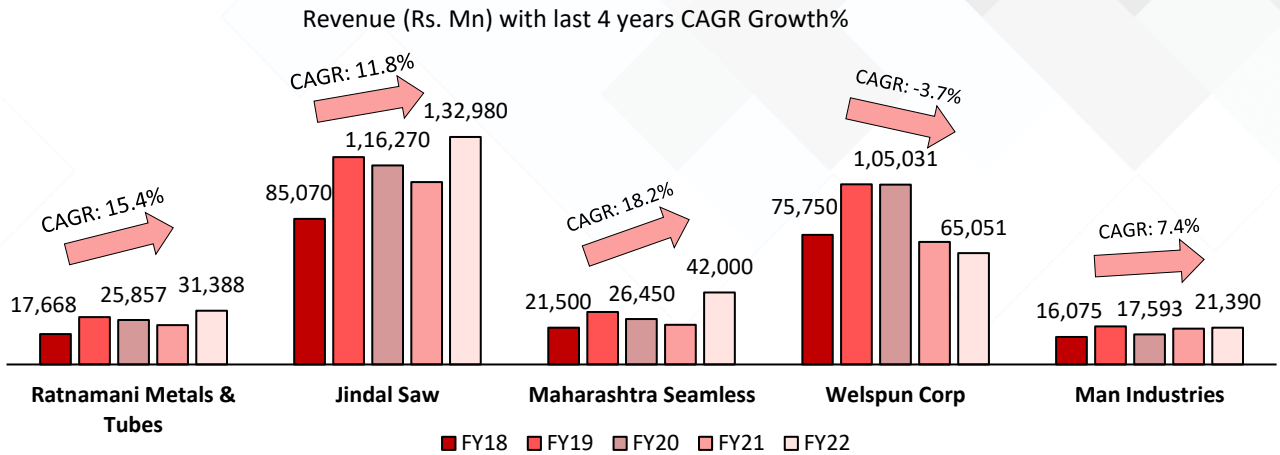
Capacity Size (MT)

Company Name	RMTL	Jindal Saw	Maharashtra Seamless	Welspun Corp	MAN Industries
SAW Pipes	390,000	1,640,000		1,455,000	1,000,000
ERW Pipes	110,000		125,000	200,000	
Seamless & Stainless Pipes	48,000	350,000	650,000	18,000	
DI Pipes		500,000			

Source: Company, Keynote Capitals Ltd.

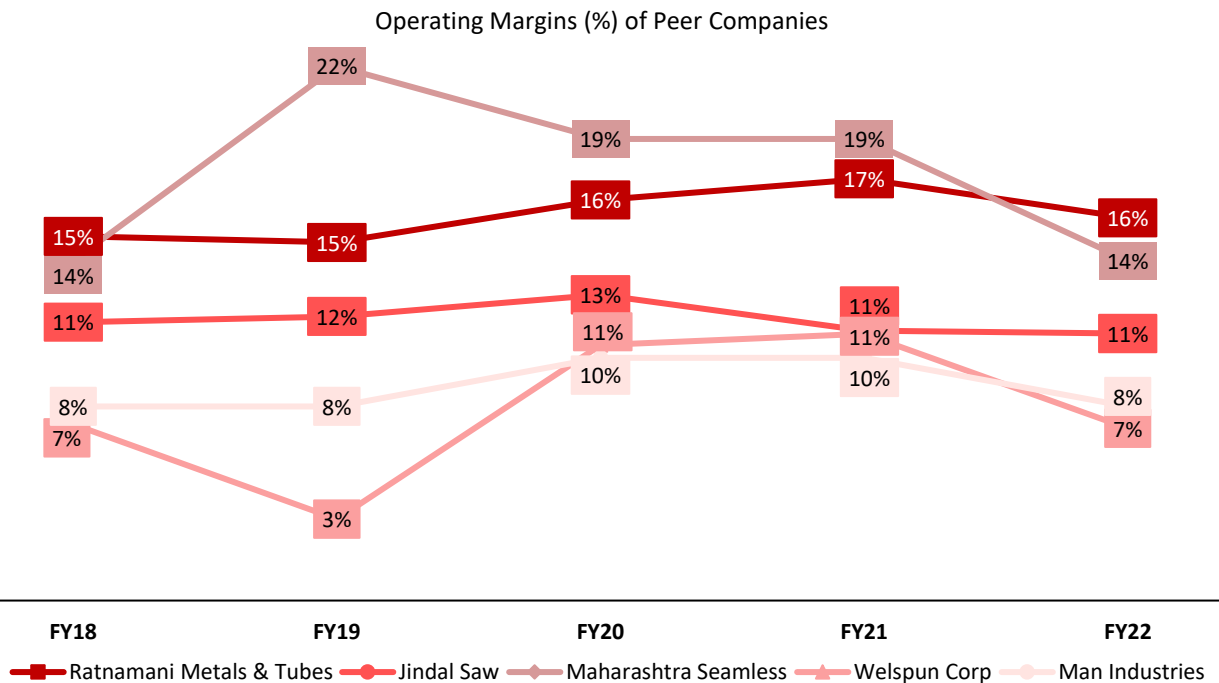
Ratnamani Metals & Tubes Ltd. | Initiating Coverage Report

Due to its capacity, Jindal Saw has the highest revenue in industry. Maharashtra Seamless saw 18%+ sales growth% in last 4 years. However, RMTL has the best capacity utilization (70-80% pre-expansion).



Source: Company, Peer Companies, Keynote Capitals Ltd.
 *Welspun Corp: Discontinued operations are included in revenue.

Product mix plays a vital role for margins. Comparatively, Stainless & Seamless pipes have better margins than ERW pipes and SAW pipes. This is a pre-eminent reason for RMTL & Maharashtra Seamless to have better operating margins than industry peers.

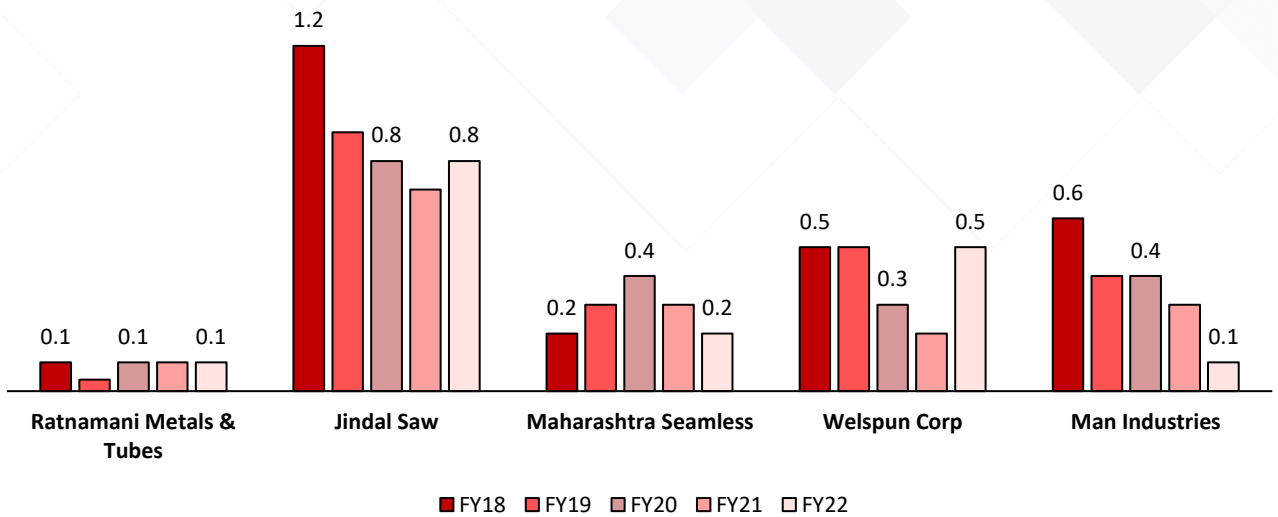


Source: Company, Peer Companies, Keynote Capitals Ltd.
 *Welspun Corp: Discontinued operations are impacting FY19 operating margins.

Ratnamani Metals & Tubes Ltd. | Initiating Coverage Report

In last 5 years, all the players have either reduced their Debt to Equity (D/E) or have remained stable. On this front, RMTL has always been the best in industry.

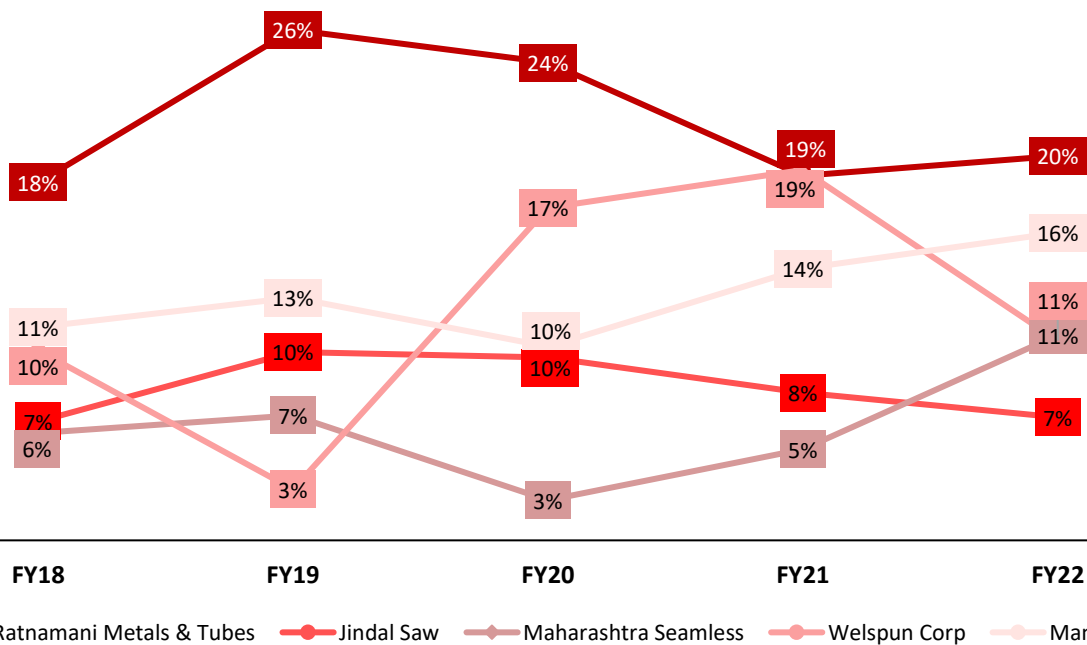
Debt/Equity of Peer Companies



Source: Company, Peer Companies, Keynote Capitals Ltd.

Though Maharashtra Seamless has high operating margins, but inferior total asset turns led to mediocre Return on Capital Employed (ROCE). RMTL has the best ROCE compared to its peer companies.

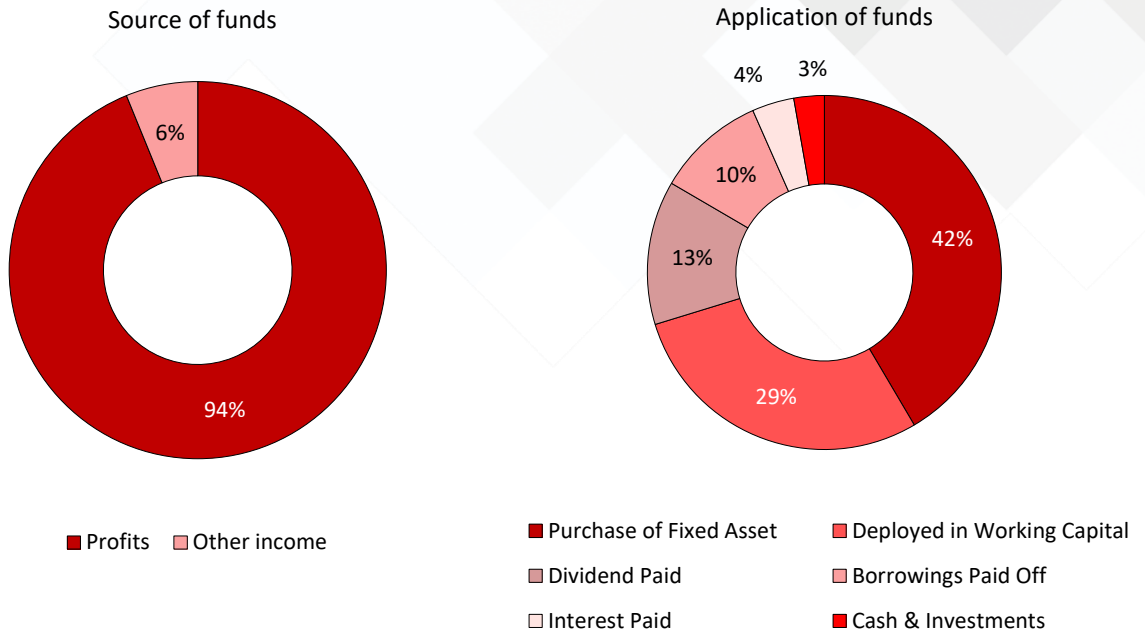
Return on Capital Employed (%) of Peer Companies



Source: Company, Peer Companies, Keynote Capitals Ltd.

*Welspun Corp: Discontinued operations are impacting FY19 operating margins.

Historical Capital Allocation – Complete reliance on Internal Accruals



Source: Company, Keynote Capitals Ltd.

A decade of cash flow history of RMTL portrays that almost all the cash they generated came from operating activities.

On the deployment front, 40%+ cash is used in enhancing & expanding production capabilities. In a last few years, RMTL has focused on modification of machineries and automating a part of manufacturing process (automation made in cutting tube machine in SS plant, automated marking robot in ERW plant & hydro tester leading to capacity and efficiency improvement in ERW plant).

Almost 30% of the cash is used for working capital requirements. RMTL works on build-to-order scenarios, due to which money gets deployed in inventories (Average inventory days: 150+). As the order book keeps growing on an absolute basis, the working capital requirement will continue to increase.

Nearly 15% is paid back to shareholders as dividends, and the rest is used to repay borrowings, interest costs, and investment in liquid assets.

Based on the above breakup of cash flows, we believe that RMTL’s capital generation and allocation activities looks are sound & prudent.

Board of Directors

Name	Designation	Years with RMTL	Total Relevant Experience	Qualification
Mr. Prakash Sanghvi	Chairman & Managing Director	39	46	
Mr. Jayanti Sanghvi	Joint Managing Director	39	43	
Mrs. Shanti Sanghvi	Whole Time Director	39	41	
Mr. Pravinchandra Mehta	Ind. Director	18		
Mrs. Divyabhash Anjaria	Ind. Director	27	29	MBA
Mr. Vinod kumar Agrawal	Ind. Director	21	46+	MBBS
Mrs. Nidhi Gadhecha	Ind. Director	7		CA

Source: Company, Keynote Capitals Ltd.

RMTL is run by Sanghvi Family. Currently, the 3 leaders are first generation Promoters who has been a part of the Company since inception.

One important fact to note, 3 out of 4 Independent Directors (ID) are on the Board for more than 10 years. Generally, ID should change after 10 years. This creates a question on independency of taking decision by IDs.

Name	Designation	Years with RMTL	Total Relevant Experience	Qualification
Mr. Manoj Sanghvi	Business head (CS pipes)	18	18	MBA
Mr. Prashant Sanghvi	Business head (LSAW pipes)	18	18	Master of Science in Mechanical & Manufacturing
Mr. Nilesh Sanghvi	Chief Executive (Strategic Business Development)	17	17	BE in Manufacturing Engineering
Mr. Jigar Sanghvi	Executive (marketing)	10	10	MBA
Mr. Yash Sanghvi	Executive (marketing)	8	8	Masters of Science in Marketing Strategy and Innovation from City University of London

Source: Company, Keynote Capitals Ltd.

Second generation is led by 5 brothers who are heading different segments of business. They are suitably qualified with sufficient years of experience.

Promoter's shareholding pattern & Compensation

Particulars	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
% Promoter Holding	60.1%	60.1%	60.2%	60.2%	60.2%
Promoter Salary (Rs. Mn)	210	294	360	322	357
% of PAT	14%	12%	12%	12%	11%

Source: Company, Keynote Capitals Ltd.

Promoter's shareholding in the Company has stayed above 60% for the past five years. Combined salary of Top 3 Key Managerial Personnel (KMP) is significant percentage of profit after tax.

Top Shareholders %

Particulars	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Nalanda India Fund Ltd.	10.8%	9.2%	9.2%	9.2%	9.2%
Kotak Emerging Equity Fund		3%	3.3%	4.2%	5.00%
L&T Mutual Fund Trustee	2.5%	3%	5.5%	5.2%	4.1%
DSP Small Cap Fund	2.4%	2.4%	2.4%	2.7%	3.5%
Chunilal Fojaji Sanghvi	3.3%	3.3%	3.3%	3.3%	3.3%
SBI Small Cap Fund					1.4%
Divya Vaghela	3.2%	3.2%	3%	2.7%	
Saif India V FII Holdings Ltd.	1.7%	1.7%			

Source: Company, Keynote Capitals Ltd.

Opportunities

Diminishing imports of SS pipes from China

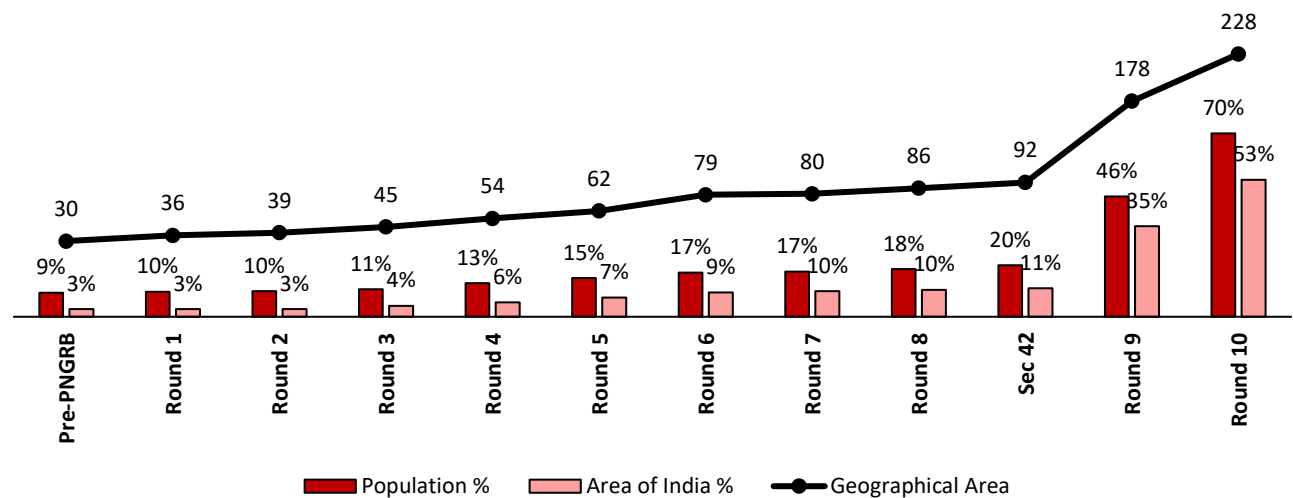
India imports 50%+ of its total SS Pipes & Tubes from China. During FY16-21, imports continuously declined at 8% CAGR in volume terms. In FY21, the imports fell sharply and settled at 55,500 MT (Rs. 14.6Bn) due to removal of Chinese export incentives. Tighter norms like BIS certification, Import Duty (10% on stainless-steel products), and reduction in export benefits from China by 10-13% and an additional 10% export duty are becoming a reason for relying on domestic SS pipes manufacturers.

Tailwind in gas industry

The government plans to raise the share of natural gas in the country's energy basket to 15% from the current 6.3% by 2030 and city gas expansion is a part of the roadmap. The overall authorized length of natural gas pipelines as of December 2021 is 33,816Km of which 14,417Km is under construction.

Petroleum & Natural Gas Regulatory Board (PNGRB) up to the 10th CGD bidding round had authorized 228 geographical areas, comprising 407 districts in 27 States/ETs covering almost 53% of the Gas & 70%+ of the population, for the development of CGD networks. In September 2021, PNGRB came with 11th CGD bidding round and received 439 bids from 26 entities against 61 geographical areas.

Growth in CGD Network



Source: PNGRB, Keynote Capitals Ltd.

Capacity Expansion

Recently, RMTL did a capacity expansion in FY21. The Company has announced another expansion plan of Rs. 3.5 Bn (1.8Bn in SS pipes & 1.7Bn in HSAW pipes) which will generate a turnover of Rs. 7 Bn. It will take 18-24 months to commence production.

Challenges

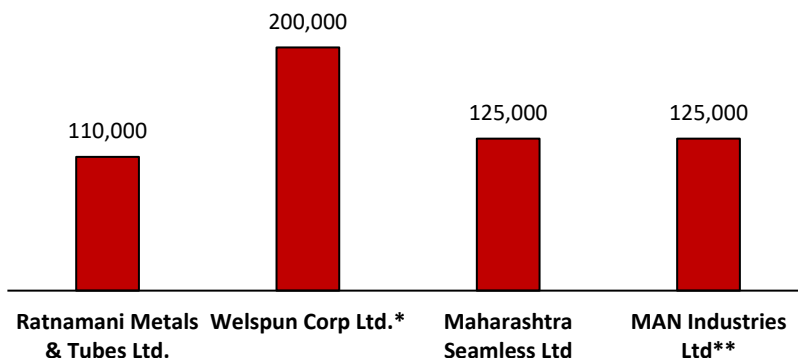
Project Delay & Economic Downturn

Demand for Steel Pipes & Tubes is dependent on development projects undertaken by government entities or agencies (e.g., Covid-19 disrupted industry demand and caused a delay for various projects). The government has disbursed a minimal amount of water infrastructure projects in the last few years. Delays in new project announcements, clearances, required approval, project implementation, and funding issues in industrial and infrastructure projects pose a potential risk to pipes demand.

Competition

CGD is attracting various players steel pipe manufacturers to install or expand their facilities to manufacture ERW pipes which are used for last mile connectivity. Multiple players are increasing their capacity in ERW pipes like MAN industries has planned a CAPEX worth 1.5-1.7Bn for 125,000 MT capacity to start manufacturing ERW pipes by FY24.

ERW Capacity (MT)



Source: Company, Peer Companies, Keynote Capitals Ltd.

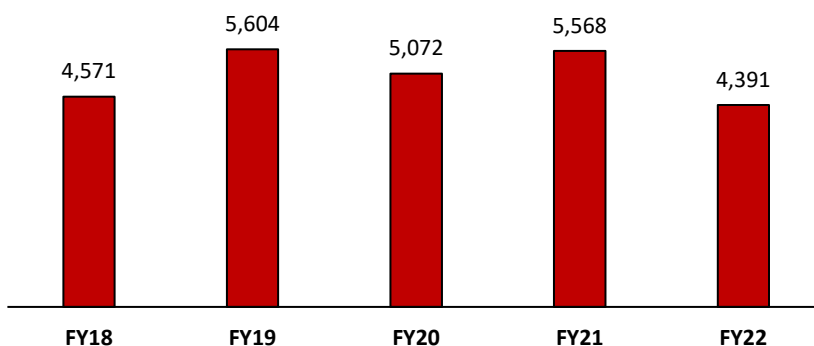
*Welspun Corp: India based ERW capacity only

**MAN Industries: New CAPEX announced by the company. ERW facility will start in FY24

Unable to increase export revenue

Management is continuously focusing on increasing their revenue from international markets, but historical number says it's been difficult for them to grow their export sales. CAGR in the last 4 years is -0.8%.

Revenue from Exports (Rs. Mn)



Source: Company, Keynote Capitals Ltd.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	22,981	31,388	36,881	42,413	48,775
Growth %		37%	18%	15%	15%
Raw Material Expenses	14,714	21,039	24,341	27,992	32,191
Employee Expenses	1,418	1,591	1,844	2,121	2,439
Other Expenses	2,859	3,811	4,426	5,090	5,853
EBITDA	3,990	4,947	6,270	7,210	8,292
Growth %		24%	27%	15%	15%
Margin%	17%	16%	17%	17%	17%
Depreciation	569	802	978	1,118	1,205
EBIT	3,422	4,145	5,292	6,093	7,087
Growth %		21%	28%	15%	16%
Margin%	15%	13%	14%	14%	15%
Interest Paid	229	214	176	176	176
Other Income & exceptional	442	378	210	315	460
PBT	3,635	4,309	5,326	6,232	7,371
Tax	875	1,083	1,332	1,558	1,843
PAT	2,760	3,226	3,995	4,674	5,528
Others (Minorities, Associates)	0	0	0	0	0
Net Profit	2,760	3,226	3,995	4,674	5,528
Margin%	12%	10%	11%	11%	11%
Shares (Mn)	70.1	70.1	70.1	70.1	70.1
Adj. EPS	39	46	57	67	79

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash, Cash equivalents & Bank	550	438	2,964	4,067	6,888
Current Investments	6,365	1,085	1,085	1,085	1,085
Debtors	4,026	6,008	6,270	7,210	8,292
Inventory	5,369	11,120	10,710	12,317	14,164
Short Term Loans & Advances	2	2	2	2	2
Other Current Assets	233	995	995	995	995
Total Current Assets	16,545	19,647	22,026	25,676	31,426
Net Block & CWIP	9,414	9,814	10,837	11,719	11,014
Long Term Investments	0	0	0	0	0
Other Non-current Assets	206	163	163	163	163
Total Assets	26,166	29,625	33,026	37,559	42,603
Creditors	2,423	3,145	3,350	4,144	4,765
Provision	239	103	103	103	103
Short Term Borrowings	8	0	0	0	0
Other Current Liabilities	1,598	2,410	2,410	2,410	2,410
Total Current Liabilities	4,268	5,657	5,863	6,656	7,278
Long Term Debt	1,456	963	963	963	963
Deferred Tax Liabilities	393	420	420	420	420
Other Long Term Liabilities	173	102	102	102	102
Total Non Current Liabilities	2,022	1,485	1,485	1,485	1,485
Paid-up Capital	93	93	140	140	140
Reserves & Surplus	19,782	22,390	25,539	29,278	33,701
Shareholders' Equity	19,876	22,483	25,679	29,418	33,841
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	26,166	29,625	33,026	37,559	42,603

Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	3,635	4,309	5,326	6,232	7,371
Adjustments	484	725	943	978	921
Change in Working Capital	1,907	-6,645	353	-1,754	-2,307
Total Tax Paid	-570	-1,220	-1,332	-1,558	-1,843
Cash flow from operating Activities	5,455	-2,830	5,291	3,899	4,142
Net Capital Expenditure	-1,290	-1,437	-2,000	-2,000	-500
Change in investments	-3,755	5,394	0	0	0
Other investing activities	345	221	210	315	460
Cash flow from investing activities	-4,700	4,178	-1,790	-1,685	-40
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-589	-508	0	0	0
Dividend (incl. tax)	0	-654	-799	-935	-1,106
Other financing activities	-199	-184	-176	-176	-176
Cash flow from financing activities	-788	-1,345	-975	-1,110	-1,281
Net Change in cash	-32	2	2,526	1,103	2,820

Valuation Ratios

	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data					
EPS	39	46	57	67	79
Growth %		17%	24%	17%	18%
Book Value Per Share	284	321	366	420	483
Return Ratios					
Return on Assets (%)	11%	12%	13%	13%	14%
Return on Equity (%)	15%	15%	17%	17%	17%
Return on Capital Employed (%)	16%	14%	16%	17%	18%
Turnover Ratios					
Asset Turnover (x)	0.9	1.1	1.2	1.2	1.2
Sales / Gross Block (x)	2.3	2.5	2.6	2.7	2.8
Working Capital / Sales (%)	49%	42%	41%	41%	44%
Receivable Days	61	58	61	58	58
Inventory Days	173	143	164	150	150
Payable Days	80	38	50	46	48
Working Capital Days	154	163	175	162	160
Liquidity Ratios					
Current Ratio (x)	3.9	3.5	3.8	3.9	4.3
Interest Coverage Ratio (x)	16.9	21.2	31.3	36.5	43.0
Total Debt to Equity	0.1	0.1	0.0	0.0	0.0
Net Debt to Equity	0.1	0.0	-0.1	-0.1	-0.2
Valuation					
PE (x)	32.2	37.6	31.2	26.7	22.6
Earnings Yield (%)	3%	3%	3%	4%	4%
Price to Sales (x)	3.9	3.9	3.4	2.9	2.6
Price to Book (x)	4.5	5.4	4.9	4.2	3.7
EV/EBITDA (x)	22.6	24.7	20.1	17.4	15.2
EV/Sales (x)	3.9	3.9	3.4	3.0	2.6

Source: Company, Keynote Capitals Ltd. estimates

Valuations & Estimates

Valuation	FY22		FY23E	
	Current	Bear	Base	Bull
Revenue (Rs. mn)	31,388	35,154	36,881	41,306
PAT %	10%	9%	10%	12%
PAT (Rs. mn)	3,226	3,243	3,853	4,831
EPS (Rs.)	46	46	57	69
PE	-	28	32	32
Target Price (Rs.)	-	1,288	1,824	2,208
CMP (Rs.)	-	1,779	1,779	1,779
% Upside/Downside	-	(28%)	3%	24%

Source: Company, Keynote Capitals Ltd. estimates

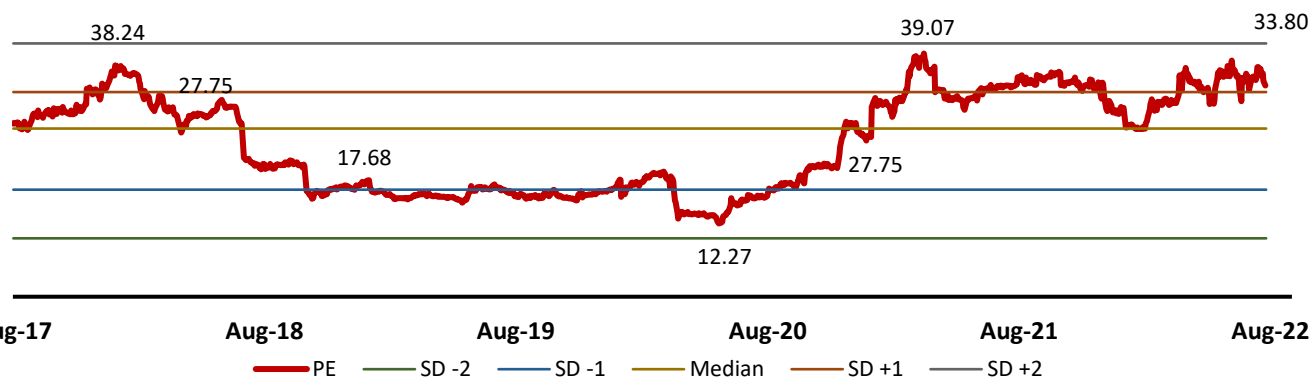
Based on strong tailwind in industry, order book and execution track record of management, we expect that RMTL to do a revenue growth of 15-20% and would be able to maintain its operating margins in a range of 16-18%.

Base Case - We have built a 17.5% revenue growth assumption for FY23. Expecting that RMTL would be able to deliver the growth based on Rs. 22,230 Mn order book. We are giving a 32x multiples (a 15% premium to its median PE) based on a solid balance sheet and the ability to maintain operating margins.

Bull Case – We have assumed that the company would be able to grow its revenue by 20%, expecting a robust order book to resurge in water infrastructure projects & increasing SS pipes projects as imports from China are reducing due to the reduction in export benefits on SS items by the Chinese government. This will lead to improved profitability and due to higher sales operating leverage will kick in.

Bear Case – We have assumed that the company's turnover will only grow in the low double-digit (12%) due to poor orders disbursement in the oil & gas industry. This will lead to valuations reverting to their median levels of 27.7x of earnings.

5 Year Trailing PE – RMTL is trading at +1 Standard Deviation of its historical range



Source: Company, Keynote Capitals Ltd.

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

Disclosures and Disclaimers

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Keynote Capitals Ltd. (KCL) is a SEBI Registered Research Analyst having registration no. INH000007997. KCL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. Details of associate entities of Keynote Capitals Limited are available on the website at <https://www.keynotecapitals.com/associate-entities/>

KCL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.

KCL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that KCL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Details of pending Enquiry Proceedings of KCL are available on the website at <https://www.keynotecapitals.com/pending-enquiry-proceedings/>

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of KCL or its associates maintains arm's length distance with Research Team as all the activities are segregated from KCL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KCL & its group companies to registration or licensing requirements within such jurisdictions. 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.

Specific Disclosure of Interest statement for subjected Scrip in this document:

Financial Interest of Research Entity [KCL] and its associates; Research Analyst and its Relatives	NO
Any other material conflict of interest at the time of publishing the research report by Research Entity [KCL] and its associates; Research Analyst and its Relatives	NO
Receipt of compensation by KCL or its Associate Companies from the subject company covered for in the last twelve months; Managing/co-managing public offering of securities in the last twelve months; Receipt of compensation towards Investment banking/merchant banking/brokerage services in the last twelve months; Products or services other than those above in connection with research report in the last twelve months; Compensation or other benefits from the subject company or third party in connection with the research report in the last twelve months.	NO
Whether covering analyst has served as an officer, director or employee of the subject company covered	NO
Whether the KCL and its associates has been engaged in market making activity of the Subject Company	NO
Whether the Research Entity [KCL] and its associates; Research Analyst and its Relatives, have actual/beneficial ownership of 1% or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance.	NO

The associates of KCL may have:

- financial interest in the subject company
- actual/beneficial ownership of 1% or more securities in the subject company
- received compensation/other benefits from the subject company in the past 12 months
- other potential conflict of interests with respect to any recommendation and other related information and opinions.; however, the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies)
- received compensation from the subject company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.

The associates of KCL has not received any compensation or other benefits from third party in connection with the research report.

Above disclosures includes beneficial holdings lying in demat account of KCL which are opened for proprietary investments only. While calculating beneficial holdings, it does not consider demat accounts which are opened in name of KCL for other purposes (i.e. holding client securities, collaterals, error trades etc.). KCL also earns DP income from clients which are not considered in above disclosures.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Terms & Conditions:

This report has been prepared by KCL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KCL. The report is based on the facts, figures and information that are believed to be true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KCL will not treat recipients as customers by virtue of their receiving this report

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. 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. Certain transactions -including those involving futures, options, another derivative product as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. KCL, its associates, their directors and the employees may from time to time, effect or have affected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. KCL, its associates, their directors and the employees may from time to time invest in any discretionary PMS/AIF Fund and those respective PMS/AIF Funds may affect or have effected any transaction in for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of KCL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This 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 KCL 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. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt KCL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold KCL or any of its affiliates or employees responsible for any such misuse and further agrees to hold KCL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Keynote Capitals Limited (CIN: U67120MH1995PLC088172)

Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD): INZ000241530; DP: CDSL- IN-DP-238-2016; Research Analyst: INH000007997

For any complaints email at kcl@keynoteindia.net

General Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.keynotecapitals.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.