

Ratnamani Metals & Tubes Ltd.

11th Nov 2022

Strong growth in order book to fructify in topline growth

In Q2 FY23, Ratnamani Metals & Tubes Limited (RMTL) posted a strong YoY growth of 26% while maintaining its operating margins at ~16%. Based on a strong order book of Rs. 32,440 Mn as of Q2 FY23, RMTL could do a topline of Rs. 38,000-40,000 Mn with an operating margin of ~15-17% in FY23E. We maintain our view on RMTL with a NEUTRAL rating and a target price of Rs. 2,081 (30.6x FY24E earnings).

Strong surge in the order book

As of Q2 FY23, RMTL has an order book worth Rs. 32,440 Mn (up by ~38% on QoQ basis), which includes Rs. 5,510 Mn export orders (up by ~21% on QoQ basis) & Rs. 26,930 Mn domestic orders (up by ~42% on QoQ basis). In SS pipes and CS pipes, the order book stands at Rs. 7,650 Mn (up by ~5% on QoQ basis) and Rs. 24,790 Mn (up by ~53% on QoQ basis), respectively.

Active bidding to fuel order book growth

In water infrastructure projects, RMTL is bidding in areas that are in closer proximity to its plants. In volume terms, the cumulative prospective order book for Gujarat (250,000 MT), Rajasthan (110,000 MT) & Madhya Pradesh (200,000-300,000 MT) is 560,000-660,000 MT. Apart from this, RMTL has already tendered for 100,000 MT in the oil & gas industry.

Capacity expansion (Capex)

Management will be spending Rs. 3,000-3,500 Mn for capacity expansion in SS pipes (brownfield) & Helical Submerged Arc Welding (HSAW) pipes (greenfield). SS pipes expansion is progressing as per expectations and will be completed by the end of FY24. As HSAW pipes expansion is a greenfield project, management requires another six months to give clarity on development progress.

Update on Acquisition

On October 5, 2022, RMTL announced its plan to acquire Ravi Technoforge Private Limited (RTL). In Q2 FY23, RMTL acquired the 1st tranche of 26% (out of a total 53%) through a share subscription. RMTL has planned to pay Rs. 979 Mn for a 53% stake in RTL.

RTL is engaged in the manufacturing of high-precision forged and turned bearing rings, gear blanks, and other similar bearing components. RTL did a topline of ~Rs. 2,800 Mn and with an operating margin of ~13% in FY22. RTL has a strong clientele which includes companies like Schaeffler, Timken, SKF, NBC bearings, etc.

View & Valuation

We maintain our view on Ratnamani Metals & Tubes Ltd with a NEUTRAL rating and a target price of Rs. 2,081 (30.6x FY24E earnings), giving it a 10% premium to median multiples based on a strong order book and execution track record of the management.

NEUTRAL

CMP Rs. 1,919

TARGET Rs. 2,081(+8.4%)

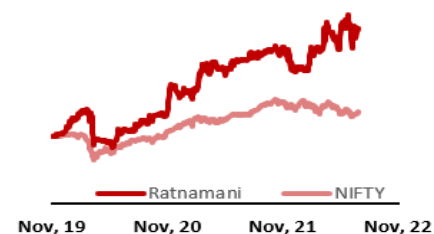
Company Data

MCAP (Rs. Mn)	134,514
O/S Shares (Mn)	70
52w High/Low	2,137 / 1,237
Face Value (Rs.)	2
Liquidity (3M) (Rs. Mn)	60.1

Shareholding Pattern %

	Sept 22	Jun 22	Mar 21
Promoters	60.10	60.16	60.16
FIIIs	12.51	12.28	12.13
DIIIs	16.25	16.36	16.26
Non-Institutional	11.14	11.20	11.45

Ratnamani vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Mn)	FY22	FY23E	FY24E
Revenue	31,388	37,665	43,315
EBITDA	4,947	6,026	7,364
Net Profit	3,226	3,812	4,789
Total Assets	29,625	33,061	37,570
ROCE (%)	14%	16%	17%
ROE (%)	15%	16%	17%

Source: Company, Keynote Capitals Ltd. estimates

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Ratnamani Metals & Tubes Ltd. | Quarterly Update

Result Highlights (Rs. Mn)

Particulars	Q2 FY23	Q2 FY22	Change % (Y-o-Y)	Q1 FY23	Change % (Q-o-Q)	H1 FY23	H1 FY22	Change % (Y-o-Y)	FY22
Revenue from Operations	8,998	7,117	26%	9,768	-8%	18,766	12,377	52%	31,387
Gross Profit	3,082	2,448	26%	2,936	5%	6,019	4,410	36%	10,348
Gross Profit %	34%	34%	-14 bps	30%	420 bps	32%	36%	-356 bps	33%
Employee Cost	469	440	7%	450	4%	919	773	19%	1,591
Other Expenses	1,164	894	30%	1,178	-1%	2,342	1,676	40%	3,809
EBITDA	1,449	1,114	30%	1,308	11%	2,758	1,961	41%	4,948
EBITDA %	16%	16%	45 bps	13%	271 bps	15%	16%	-115 bps	16%
EBIT	1,262	925	36%	1,118	13%	2,381	1,580	51%	4,146
EBIT %	14%	13%	103 bps	11%	258 bps	13%	13%	-8 bps	13%
PBT	1,316	963	37%	1,156	14%	2,473	1,643	51%	4,309
PBT %	15%	14%	109 bps	12%	279 bps	13%	13%	-10 bps	14%
Tax Expenses	328	248	32%	288	14%	617	424	46%	1,083
PAT	988	715	38%	868	14%	1,856	1,219	52%	3,226
EPS	14.09	10.21	38%	12.40	14%	26.49	17.40	52%	46.04

Source: Company, Keynote Capitals Ltd.

Q2 FY23 Conference Call Takeaways

General Highlights

- Due to stable steel prices, RMTL witnessed a restart in stalled projects in CS & SS pipes.
- Management is witnessing increase in inflow of export orders at a gradual pace.
- Europe became an additional international market for RMTL, due to issues in Ukraine. Management expects to receive few orders from Europe.

Management Guidance

- In the long term, they will have stable operating margins in the range of 16-18%, but for FY23 as guided in Q1 FY23 they will have an operating margin of 15-17%.
- In FY24E, the company will do a volume growth of ~10-15%.
- Management has given a revenue guidance of Rs. 38,000-40,000 Mn for FY23.

CAPEX

- CAPEX for FY23 and FY24E will be Rs 1,250 Mn and Rs. 1,500-1,750 Mn, respectively. This asset block can do an asset turnover of 1.5-2x at optimum utilization.
- SS pipes (brownfield) expansion is progressing as per expectation. The Company is going to spend Rs. 1,800 Mn on this project and it will complete by the end of FY24.
- HSAW pipes (greenfield) expansion can be delayed. More clarity is expected to emerge in a couple of quarters. The Company is going to spend Rs. 1,500 Mn on this project.

Q2 FY23 Conference Call Takeaways

Order Book

- Currently, RMTL has an order book worth Rs. 32,440 Mn (up by ~38% on QoQ basis), which includes Rs. 5,510 Mn (up by ~21% on QoQ basis) export orders & 26,930 Mn (up by ~42% on QoQ basis) domestic orders.
- RMTL has a prospective order book worth Rs. 40,000-45,000 Mn in which water infrastructure projects and oil & gas industry projects are worth Rs. 30,000 Mn and Rs. 10,000-15,000 Mn, respectively.

Acquisition of Ravi Technoforge Private Limited

- 1st tranche of 26% acquisition completed in Q2 FY23.
- With current capacity, RTL can do a turnover of Rs.5,000 Mn.
- 75% of total revenue comes from the top 3-4 bearing manufacturers.
- They supply to all big MNCs like SKF, Timken, Schaeffler, etc.
- They will be adding more products to their product portfolio.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	22,981	31,388	37,665	43,315	49,812
Growth %		37%	20%	15%	15%
Raw Material Expenses	14,714	21,039	25,236	28,588	32,876
Employee Expenses	1,418	1,591	1,883	2,166	2,491
Other Expenses	2,859	3,811	4,520	5,198	5,977
EBITDA	3,990	4,947	6,026	7,364	8,468
Growth %		24%	22%	22%	15%
Margin%	17%	16%	16%	17%	17%
Depreciation	569	802	978	1,118	1,205
EBIT	3,422	4,145	5,049	6,246	7,263
Growth %		21%	22%	24%	16%
Margin%	15%	13%	13%	14%	15%
Interest Paid	229	214	176	176	176
Other Income & exceptional	442	378	210	315	460
PBT	3,635	4,309	5,083	6,385	7,547
Tax	875	1,083	1,271	1,596	1,887
PAT	2,760	3,226	3,812	4,789	5,661
Others (Minorities, Associates)	0	0	0	0	0
Net Profit	2,760	3,226	3,812	4,789	5,661
Shares (Mn)	70.1	70.1	70.1	70.1	70.1
Adj. EPS	39	46	54	68	81

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash, Cash equivalents & Bank	550	438	2,472	3,663	6,563
Current Investments	6,365	1,085	1,085	1,085	1,085
Debtors	4,026	6,008	6,403	7,364	8,468
Inventory	5,369	11,120	11,104	12,579	14,466
Short Term Loans & Advances	2	2	2	2	2
Other Current Assets	233	995	995	995	995
Total Current Assets	16,545	19,647	22,061	25,687	31,579
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	33,061	37,570	42,756
Creditors	2,423	3,145	3,531	4,209	4,867
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	6,043	6,721	7,379
Long Term Debt	1,456	963	963	963	963
Deffered 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	25,393	29,224	33,753
Shareholders' Equity	19,876	22,483	25,533	29,364	33,893
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	26,166	29,625	33,061	37,570	42,756

Source: Company, Keynote Capitals Ltd.

Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	3,635	4,309	5,083	6,385	7,547
Adjustments	484	725	943	978	921
Change in Working Capital	1,907	-6,645	6	-1,757	-2,333
Total Tax Paid	-570	-1,220	-1,271	-1,596	-1,887
Cash flow from operating Activities	5,455	-2,830	4,762	4,010	4,248
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	-762	-958	-1,132
Other financing activities	-199	-184	-176	-176	-176
Cash flow from financing activities	-788	-1,345	-938	-1,133	-1,308
Net Change in cash	-32	2	2,034	1,191	2,900

Valuation Ratios

	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data					
EPS	39	46	54	68	81
Growth %		17%	18%	26%	18%
Book Value Per Share	284	321	364	419	484
Return Ratios					
Return on Assets (%)	11%	12%	12%	14%	14%
Return on Equity (%)	15%	15%	16%	17%	18%
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	2.7	2.7	2.9
Working Capital / Sales (%)	49%	42%	40%	40%	43%
Receivable Days	61	58	60	58	58
Inventory Days	173	143	161	151	150
Payable Days	80	38	48	47	48
Working Capital Days	154	163	173	162	160
Liquidity Ratios					
Current Ratio (x)	3.9	3.5	3.7	3.8	4.3
Interest Coverage Ratio (x)	16.9	21.2	29.9	37.4	44.0
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	31.8	25.3	21.4
Earnings Yield (%)	3%	3%	3%	4%	5%
Price to Sales (x)	3.9	3.9	3.2	2.8	2.4
Price to Book (x)	4.5	5.4	4.8	4.1	3.6
EV/EBITDA (x)	22.6	24.7	20.3	16.6	14.4
EV/Sales (x)	3.9	3.9	3.2	2.8	2.5

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
4 th August 2022	NEUTRAL	1,779	+2.5%
12 th August 2022	NEUTRAL	1,730	+5.4%
11 th November 2022	NEUTRAL	1,919	+8.4%

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

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