

Ratnamani Metals & Tubes Ltd.

15th August 2022

Strong growth in turnover, but product mix dented margins

On a lower base, Ratnamani Metals & Tubes Limited (RMTL) posted a strong YoY growth of 86% and a flat growth on a QoQ basis. Due to changes in product mix and higher raw material costs, operating margins were down by 3% & 4% on YoY & QoQ basis, respectively. RMTL would deliver a top-line growth of 15-20% in FY23 based on a strong order book of Rs. 23,450 Mn as on Q1FY23, which is expected to be executed by the end of FY23.

Changes in product mix dented operating margins

Carbon Steel (CS) pipes are lower-margin products than stainless steel (SS) pipes. An increase in revenue proportion of CS pipes & lower value-added SS pipes lead to a decrease in operating margins.

Active bidding to fuel order book growth

In water infrastructure projects, RMTL is bidding in areas that are in closer proximity to its operating plants. In volume terms, cumulative prospectus 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)

In earlier quarters, management indicated that they will be spending Rs. 3.5 Bn for capacity expansion in SS pipes (brownfield) & Helical Submerged Arc Welding (HSAW) pipes (greenfield). SS pipes expansion is progressing as per expectations. As HSAW pipes expansion is a greenfield project, management requires another six months to give a clarity on development progress.

View & Valuation

We maintain our views 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 a strong order book and execution track record of the management.

Result Highlights (Rs. Mn)

Particulars	FY23 Q1	FY22 Q1	Change % (Y-o-Y)	FY22 Q4	Change % (Q-o-Q)
Revenue from Operations	9,768	5,260	86%	9,741	0%
Gross Profit	2,936	1,962	50%	3,282	-11%
Gross Profit %	30%	37%	-724 bps	34%	-364 bps
Employee Cost	450	332	36%	399	13%
Other Expenses	1,178	782	51%	1,198	-2%
EBITDA	1,308	848	54%	1,685	-22%
EBITDA %	13.39%	16.12%	-273 bps	17.30%	-391 bps
EBIT	1,118	656	70%	1,454	-23%
EBIT %	11.45%	12.47%	-103 bps	14.93%	-348 bps
PBT	1,156	680	70%	1,489	-22%
PBT %	11.83%	12.93%	-109 bps	15.29%	-345 bps
Tax Expenses	288	176	64%	373	-23%
PAT	868	504	72%	1,116	-22%
EPS	12.40	7.20	72%	15.94	-22%

Source: Company, Keynote Capitals Ltd.

NEUTRAL

CMP Rs. 1,730

TARGET Rs. 1,824(+5.4%)

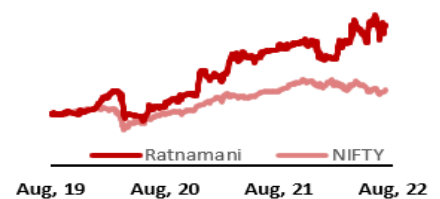
Company Data

MCAP (Rs. Mn)	121,610
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
FIIs	12.28	12.13	12.01
DIIIs	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	37,665	42,413
EBITDA	4,947	6,026	6,998
Net Profit	3,226	3,812	4,503
Total Assets	29,625	33,061	37,308
ROCE (%)	14%	16%	17%
ROE (%)	15%	16%	16%

Source: Company, Keynote Capitals Ltd. estimates

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Q1FY23 Conference Call Takeaways

General Highlights

- Change in product mix and higher inventory cost had put some pressure on operating margins.
- As of June'2022, liquid cash on books & fixed investments are worth Rs. 2,200 Mn+ & debt is worth Rs. 1,500-1,600 Mn.

CS pipes

- Electrical Resistance Welding (ERW) pipes capacity is fully booked till November'2022. For future projects, RMTL has already bid for a few tenders.
- Management expects a strong pipeline in CS pipes: Longitudinal Submerged Arc Welding (LSAW) pipes for the oil & gas industry & HSAW pipes for water infrastructure projects.

SS pipes

- In the last few quarters, RMTL has not delivered a growth in SS pipes (volume terms).
- Management indicated that their focus is to increase the value-added proportion in SS pipes. This will help them to differentiate themselves from the competition.

Management Guidance

- In the short term, RMTL can see blips in operating margins, but in the long term, they will have stable operating margins in the range of 16-18%.
- In FY23, RMTL will see top-line growth of 15-20%.

CAPEX

- Annual maintenance expense is Rs. 400 Mn.
- SS pipes (brownfield) expansion is progressing as per expectation.
- For any development in HSAW pipes (greenfield) expansion, management requires six months for a clear guidance.

Order Book

- Currently, RMTL has an order book worth Rs. 23,450 Mn, which includes Rs. 4,550 Mn export orders & 18,900 Mn domestic orders.
- In Water infrastructure projects, RMTL has a prospectus order book of 560,000-660,000 MT, which are close to its manufacturing plants.
- RMTL has already made a bid for 100,000 MT in the oil & gas industry.

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
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	25,393	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

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

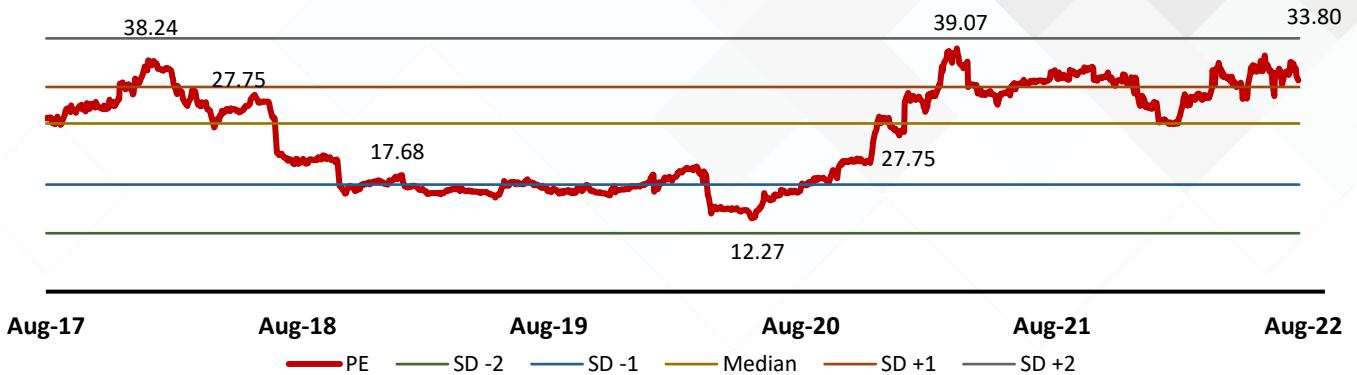
Valuation Ratios

	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

Source: Company, Keynote Capitals Ltd.

Valuation

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



Source: Company, Keynote Capitals Ltd.

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%

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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