

## Ratnamani Metals &amp; Tubes Ltd.

12<sup>th</sup> May 2023

Results exceeded expectations, but sustaining it would be challenging

In Q4 FY23, Ratnamani Metals & Tubes Limited (RMTL) posted strong revenue growth of ~54%/36% on YoY/QoQ basis, with improving EBITDA margin to ~20%, up by 275 bps/193 bps on YoY/QoQ basis based on better product mix and operating efficiency. However, based on our estimates and management guidance, we anticipate that RMTL will face challenges in sustaining its current revenue growth rate, which we expect to normalize back to mid-teens and EBITDA margins to revert back to its historical mean level of ~16-18%.

## Order Book Mix

As of Q4 FY23, RMTL has an order book worth Rs. 24,400 Mn (down by ~21% on QoQ and up by ~10% on YoY basis), which includes Rs. 5,570 Mn worth of export orders and Rs. 18,830 Mn worth of domestic orders. In SS pipes and CS pipes, the order book stands at Rs. 7,370 Mn and Rs. 17,030 Mn, respectively.

## Capacity Expansion

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 the expectations and will be completed by the beginning of Q4 FY24. On HSAW pipes greenfield project, management has indicated that the project is expected to be completed by Q1 FY25.

## View &amp; Valuation

We have revised our estimates and maintain our view on Ratnamani Metals & Tubes Ltd with a NEUTRAL rating and a target price of Rs. 2,522 (30.6x FY24E earnings), giving it a 10% premium to median multiples based on a strong active bid book and execution track record of the management.

## NEUTRAL

CMP Rs. 2,356

TARGET Rs. 2,522(+7%)

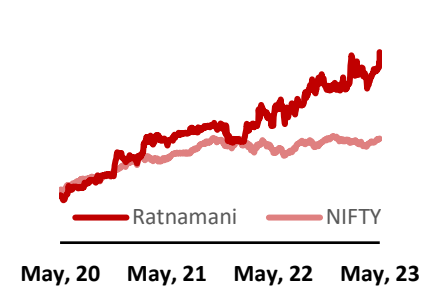
## Company Data

MCAP (Rs. Mn)	167,155
O/S Shares (Mn)	70
52w High/Low	2,511 / 1,433
Face Value (Rs.)	2
Liquidity (3M) (Rs. Mn)	55.1

## Shareholding Pattern %

	Mar 23	Dec 22	Sep 22
Promoters	60.06	60.10	60.10
FIIIs	12.77	12.51	12.51
DIIIs	16.39	16.34	16.25
Non-Institutional	10.76	11.03	11.14

## Ratnamani vs Nifty



Source: Keynote Capitals Ltd.

## Key Financial Data

(Rs. Bn)	FY22	FY23	FY24E
Revenue	31	45	52
EBITDA	5	8	9
Net Profit	3	5	6
Total Assets	30	38	41
ROCE (%)	14%	22%	20%
ROE (%)	15%	21%	21%

Source: Company, Keynote Capitals Ltd.

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## Result Highlights (Rs. Mn)

Particulars	Q4 FY23	Q4 FY22	Change % (Y-o-Y)	Q3 FY23	Change % (Q-o-Q)	FY23	FY22	Change % (Y-o-Y)
Revenue from Operation	14,991	9,741	54%	10,987	36%	44,744	31,387	43%
Gross Profit	5,344	3,282	63%	3,925	36%	15,287	10,348	48%
<b>Gross Profit %</b>	<b>36%</b>	<b>34%</b>	<b>195 bps</b>	<b>36%</b>	<b>-8 bps</b>	<b>34%</b>	<b>33%</b>	<b>120 bps</b>
Employee Cost	607	399	52%	566	7%	2,092	1,591	32%
Other Expenses	1,731	1,198	45%	1,368	27%	5,441	3,809	43%
EBITDA	3,006	1,685	78%	1,991	51%	7,754	4,948	57%
<b>EBITDA %</b>	<b>20%</b>	<b>17%</b>	<b>275 bps</b>	<b>18%</b>	<b>193 bps</b>	<b>17%</b>	<b>16%</b>	<b>156 bps</b>
Depreciation	253	231	9%	204	24%	833	802	4%
EBIT	2,753	1,454	89%	1,787	54%	6,920	4,146	67%
<b>EBIT %</b>	<b>18%</b>	<b>15%</b>	<b>343 bps</b>	<b>16%</b>	<b>210 bps</b>	<b>15%</b>	<b>13%</b>	<b>226 bps</b>
Interest	139	64	117%	77	80%	312	214	46%
OI	66	99	-34%	74	-11%	327	377	-13%
PBT	2,679	1,489	80%	1,784	50%	6,935	4,309	61%
<b>PBT %</b>	<b>18%</b>	<b>15%</b>	<b>258 bps</b>	<b>16%</b>	<b>164 bps</b>	<b>16%</b>	<b>14%</b>	<b>177 bps</b>
Tax Expenses	753	373	102%	443	70%	1,813	1,083	67%
Minority Interest	10	0		8	33%	18	0	
PAT	1,915	1,116	72%	1,333	44%	5,105	3,226	58%
EPS	27.47	15.93	72%	19.13	44%	73.09	46.04	59%

Source: Company, Keynote Capitals Ltd.

## Q4 FY23 Conference Call Takeaways

### General Highlights

- The Company saw an expansion in EBITDA margin due to change in product mix and better operating efficiency.
- The Company has commenced 18MW power project to reduce carbon emission and save power cost.
- Average capacity utilization is 60-80%, but new capacity (SS extrusion pipes and LSAW pipes) is currently at a utilization level of 30%.
- Acceptance of SS pipes in international market is increasing.

### Management Guidance

- The Company is expected to do a topline of ~Rs. 50 Bn for FY24 on standalone basis and about ~Rs. 3 Bn in recently acquired firm Ravi Technoforge.
- In FY24E, the company will do a volume growth of ~10-15%.
- Sustainable EBITDA margin for the Company is 16-18%.
- Management has guided to pay off Rs. 150-200 Mn debt in Ravi Technoforge every year. Currently, Ravi Technoforge has a debt of Rs. 750-800 Mn.
- Management is focused on the strategy to invest more in specialized product and technology.

**Order Book**

- Currently, RMTL has an order book worth Rs. 24,400 Mn (down by ~21% on QoQ basis), which includes Rs. 5,570 Mn (up by ~12% on QoQ basis) export orders & 18,830 Mn (down by ~28% on QoQ basis) domestic orders.

**CAPEX**

- The capacity expansion in SS pipes (brownfield) is expected to be completed by the beginning of Q4 FY24. The Company is going to spend Rs 1,800 Mn on this project.
- The capacity expansion in HSAW pipes (greenfield) is expected to be completed in Q1 FY25. The Company is going to spend Rs. 1,500 Mn on this project.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
<b>Net Sales</b>	<b>22,981</b>	<b>31,388</b>	<b>44,744</b>	<b>51,590</b>	<b>59,483</b>
Growth %		37%	43%	15%	15%
Raw Material Expenses	14,714	21,039	29,457	34,565	39,854
Employee Expenses	1,418	1,591	2,092	2,218	2,558
Other Expenses	2,859	3,811	5,441	5,933	6,841
<b>EBITDA</b>	<b>3,990</b>	<b>4,947</b>	<b>7,754</b>	<b>8,873</b>	<b>10,231</b>
Growth %		24%	57%	14%	15%
Margin%	17%	16%	17%	17%	17%
Depreciation	569	802	833	1,078	1,165
<b>EBIT</b>	<b>3,422</b>	<b>4,145</b>	<b>6,920</b>	<b>7,795</b>	<b>9,066</b>
Growth %		21%	67%	13%	16%
Margin%	15%	13%	15%	15%	15%
Interest Paid	229	214	312	379	379
Other Income & exceptional	442	378	327	315	460
<b>PBT</b>	<b>3,635</b>	<b>4,309</b>	<b>6,935</b>	<b>7,731</b>	<b>9,146</b>
Tax	875	1,083	1,812	1,933	2,287
<b>PAT</b>	<b>2,760</b>	<b>3,226</b>	<b>5,123</b>	<b>5,798</b>	<b>6,860</b>
Others (Minorities, Associates)	0	0	-18	-21	-24
<b>Net Profit</b>	<b>2,760</b>	<b>3,226</b>	<b>5,105</b>	<b>5,778</b>	<b>6,836</b>
Shares (Mn)	70.1	70.1	70.1	70.1	70.1
<b>Adj. EPS</b>	<b>39</b>	<b>46</b>	<b>73</b>	<b>82</b>	<b>98</b>

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Cash, Cash equivalents & Bank	550	438	341	1,939	4,791
Current Investments	6,365	1,085	1,351	1,351	1,351
Debtors	4,026	6,008	10,092	10,318	11,897
Inventory	5,369	11,120	12,592	15,209	17,536
Short Term Loans & Advances	2	2	2	2	2
Other Current Assets	233	995	951	951	951
<b>Total Current Assets</b>	<b>16,545</b>	<b>19,647</b>	<b>25,329</b>	<b>29,770</b>	<b>36,527</b>
Net Block & CWIP	9,414	9,814	12,229	11,279	10,614
Long Term Investments	0	0	0	0	0
Other Non-current Assets	206	163	244	244	244
<b>Total Assets</b>	<b>26,166</b>	<b>29,625</b>	<b>37,802</b>	<b>41,293</b>	<b>47,385</b>
Creditors	2,423	3,145	3,742	4,462	5,062
Provision	239	103	28	28	28
Short Term Borrowings	8	0	1,669	1,669	1,669
Other Current Liabilities	1,598	2,410	3,168	3,168	3,168
<b>Total Current Liabilities</b>	<b>4,268</b>	<b>5,657</b>	<b>8,607</b>	<b>9,327</b>	<b>9,927</b>
Long Term Debt	1,456	963	572	572	572
Deffered Tax Liabilities	393	420	700	700	700
Other Long Term Liabilities	173	102	1,163	1,163	1,163
<b>Total Non Current Liabilities</b>	<b>2,022</b>	<b>1,485</b>	<b>2,435</b>	<b>2,435</b>	<b>2,435</b>
Paid-up Capital	93	93	140	140	140
Reserves & Surplus	19,782	22,390	25,899	28,649	34,118
Shareholders' Equity	19,876	22,483	26,039	28,789	34,258
Non Controlling Interest	0	0	721	741	765
<b>Total Equity &amp; Liabilities</b>	<b>26,166</b>	<b>29,625</b>	<b>37,802</b>	<b>41,293</b>	<b>47,385</b>

Source: Company, Keynote Capitals Ltd.

Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	3,635	4,309	6,935	7,731	9,146
Adjustments	484	725	991	1,142	1,085
Change in Working Capital	1,907	-6,645	-3,326	-2,123	-3,306
Total Tax Paid	-570	-1,220	-1,496	-1,933	-2,287
<b>Cash flow from operating Activities</b>	<b>5,455</b>	<b>-2,830</b>	<b>3,105</b>	<b>4,818</b>	<b>4,639</b>
Net Capital Expenditure	-1,290	-1,437	-1,377	-2,000	-500
Change in investments	-3,755	5,394	-803	0	0
Other investing activities	345	221	103	315	460
<b>Cash flow from investing activities</b>	<b>-4,700</b>	<b>4,178</b>	<b>-2,077</b>	<b>-1,685</b>	<b>-40</b>
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-589	-508	-284	0	0
Dividend (incl. tax)	0	-654	-654	-1,156	-1,367
Other financing activities	-199	-184	-222	-379	-379
<b>Cash flow from financing activities</b>	<b>-788</b>	<b>-1,345</b>	<b>-1,160</b>	<b>-1,535</b>	<b>-1,746</b>
<b>Net Change in cash</b>	<b>-32</b>	<b>2</b>	<b>-132</b>	<b>1,598</b>	<b>2,852</b>

Valuation Ratios

	FY21	FY22	FY23	FY24E	FY25E
<b>Per Share Data</b>					
EPS	39	46	73	82	98
Growth %		17%	58%	13%	18%
Book Value Per Share	284	321	382	421	500
<b>Return Ratios</b>					
Return on Assets (%)	11%	12%	15%	15%	15%
Return on Equity (%)	15%	15%	21%	21%	21%
Return on Capital Employed (%)	16%	14%	22%	20%	21%
<b>Turnover Ratios</b>					
Asset Turnover (x)	0.9	1.1	1.3	1.3	1.3
Sales / Gross Block (x)	2.3	2.5	3.3	3.4	3.6
Working Capital / Sales (%)	49%	42%	34%	36%	40%
Receivable Days	61	58	66	72	68
Inventory Days	173	143	147	147	150
Payable Days	80	38	41	40	41
Working Capital Days	154	163	172	179	177
<b>Liquidity Ratios</b>					
Current Ratio (x)	3.9	3.5	2.9	3.2	3.7
Interest Coverage Ratio (x)	16.9	21.2	23.2	21.4	25.1
Total Debt to Equity	0.1	0.1	0.1	0.1	0.0
Net Debt to Equity	0.1	0.0	0.1	0.0	-0.1
<b>Valuation</b>					
PE (x)	32.2	37.6	32.8	29.0	24.5
Earnings Yield (%)	3%	3%	3%	3%	4%
Price to Sales (x)	3.9	3.9	3.7	3.2	2.8
Price to Book (x)	4.5	5.4	6.4	5.8	4.9
EV/EBITDA (x)	22.6	24.7	21.7	19.0	16.5
EV/Sales (x)	3.9	3.9	3.8	3.3	2.8

## KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
4 <sup>th</sup> August 2022	NEUTRAL	1,779	+2.5%
12 <sup>th</sup> August 2022	NEUTRAL	1,730	+5.4%
11 <sup>th</sup> November 2022	NEUTRAL	1,919	+8.4%
13 <sup>th</sup> February 2023	NEUTRAL	2,098	+5.9%
12 <sup>th</sup> May 2023	NEUTRAL	2,389	+7%

## 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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