

Ratnamani Metals & Tubes Ltd.

6th November 2023

Results exceeded expectations

In Q2 FY24, Ratnamani Metals & Tubes Limited (RMTL) posted a strong revenue growth of ~26% on a YoY basis. This growth can be attributed to the inclusion of subsidiary sales, which they acquired in October 2022, and few specialized projects, particularly those involving high alloy grades of stainless steel. Additionally, the Company's EBITDA margin improved by ~554 Bps on a YoY basis due on a better product mix. ~30% of the current order book is attributed to water projects, we expect that the H2 FY24 EBITDA margin will be relatively lower than H1 FY24. We hold the perspective that RMTL has the capability to maintain its EBITDA margin in the range of ~17-18% for FY24, given that 70% or the order book is oil and gas and related fields, power sector and continuous process industry.

Order book mix

As of Q2 FY24, RMTL has an order book worth Rs. 29,750 Mn (up by ~2% on a QoQ and down by ~8% on a YoY basis), which includes Rs. 6,070 Mn worth of export orders and Rs. 23,680 Mn worth of domestic orders. In SS pipes and CS pipes, the order book stands at Rs. 6,900 Mn and Rs. 22,850 Mn, respectively.

Joint Venture with Technoenergy, Switzerland

The Company has entered into the pipe spooling and auxiliary products business through a JV with Technoenergy, a Swiss-based group with over a century of experience in the manufacturing of pipe spools, hangers, support systems, and related auxiliary products. As disclosed through official exchanges, RMTL holds a majority stake of 51% in this JV, while Technoenergy possesses 49%. The JV entity will serve the needs of oil and gas, thermal, nuclear power plants, and other associated industries, thereby creating new opportunities for RMTL.

View & Valuation

We have revised our estimates and changed our view on Ratnamani Metals & Tubes Ltd from BUY to a NEUTRAL rating and a target price of Rs. 3,113 (30.6x FY25E earnings), giving it a 10% premium to median multiples based on the strong order book and execution track record of the management. However, we believe that it would be difficult for the Company to maintain current growth of greater than 20% and EBITDA margins of ~20%+.

NEUTRAL

CMP Rs. 2,892

TARGET Rs. 3,113(+7.6%)

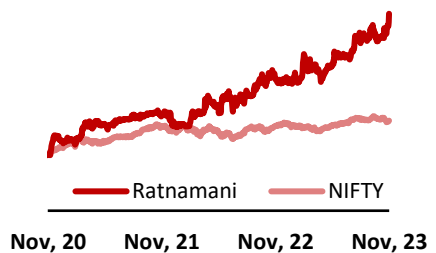
Company Data

| | |
|-------------------------|---------------|
| Bloomberg Code | RMT IN |
| MCAP (Rs. Mn) | 202,720 |
| O/S Shares (Mn) | 70 |
| 52w High/Low | 3,017 / 1,867 |
| Face Value (Rs.) | 2 |
| Liquidity (3M) (Rs. Mn) | 96 |

Shareholding Pattern %

| | Sep 23 | Jun 23 | Mar 23 |
|-------------------|--------|--------|--------|
| Promoters | 59.77 | 59.77 | 60.06 |
| FII's | 12.87 | 12.79 | 12.77 |
| DII's | 16.47 | 16.45 | 16.39 |
| Non-Institutional | 10.87 | 10.99 | 10.76 |

Ratnamani vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

| (Rs. Bn) | FY23 | FY24E | FY25E |
|--------------|------|-------|-------|
| Revenue | 45 | 53 | 61 |
| EBITDA | 8 | 10 | 11 |
| Net Profit | 5 | 7 | 7 |
| Total Assets | 38 | 44 | 51 |
| ROCE (%) | 22% | 23% | 20% |
| ROE (%) | 21% | 22% | 20% |

Source: Company, Keynote Capitals Ltd.

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Q2 FY24 Result Update

Result Highlights (Rs. Mn)

| Particulars | Q2 FY24 | Q2 FY23 | Change % (Y-o-Y) | Q1 FY24 | Change % (Q-o-Q) | H1 FY24 | H1 FY23 | Change % (Y-o-Y) | FY23 |
|------------------------|--------------|--------------|---------------------|--------------|---------------------|--------------|--------------|---------------------|--------------|
| Revenue from Operation | 11,312 | 8,998 | 26% | 11,749 | -4% | 23,061 | 18,766 | 23% | 44,744 |
| Gross Profit | 4,372 | 3,082 | 42% | 4,009 | 9% | 8,382 | 6,019 | 39% | 15,287 |
| Gross Profit % | 39% | 34% | 440 Bps | 34% | 453 Bps | 36% | 32% | -356 bps | 34% |
| Employee Cost | 605 | 469 | 29% | 669 | -10% | 1,275 | 919 | 39% | 2,092 |
| Other Expenses | 1,318 | 1,164 | 13% | 1,277 | 3% | 2,596 | 2,342 | 11% | 5,441 |
| EBITDA | 2,449 | 1,449 | 69% | 2,063 | 19% | 4,511 | 2,758 | 64% | 7,754 |
| EBITDA % | 22% | 16% | 554 Bps | 18% | 409 Bps | 20% | 15% | -115 bps | 17% |
| Depreciation | 236 | 187 | 26% | 243 | -3% | 479 | 377 | 27% | 833 |
| EBIT | 2,213 | 1,262 | 75% | 1,820 | 22% | 4,032 | 2,381 | 69% | 6,920 |
| EBIT % | 20% | 14% | 554 Bps | 15% | 407 Bps | 17% | 13% | -8 bps | 15% |
| Interest | 108 | 47 | 130% | 99 | 10% | 207 | 95 | 118% | 312 |
| OI | 107 | 101 | 6% | 85 | 26% | 192 | 187 | 3% | 327 |
| PBT | 2,211 | 1,316 | 68% | 1,806 | 22% | 4,017 | 2,473 | 62% | 6,935 |
| Tax Expenses | 568 | 328 | 73% | 458 | 24% | 1,026 | 617 | 66% | 1,813 |
| Minority Interest | 4 | - | - | 10 | -56% | 14 | - | - | 18 |
| PAT | 1,639 | 988 | 66% | 1,339 | 22% | 2,978 | 1,856 | 60% | 5,105 |
| EPS | 23.45 | 14.09 | - | 19.24 | - | 42.69 | 26.49 | - | 73.09 |

Source: Company, Keynote Capitals Ltd.

Segmental Highlights (Rs. Mn)

| Particulars | Q2 FY24 | Q2 FY23 | Change % (Y-o-Y) | Q1 FY24 | Change % (Q-o-Q) | H1 FY24 | H1 FY23 | Change % (Y-o-Y) | FY23 |
|---------------------------|---------|---------|---------------------|---------|---------------------|---------|---------|---------------------|--------|
| Revenue | | | | | | | | | |
| Steel Tubes & Pipes | 10,716 | 8,998 | 19% | 11,117 | -4% | 21,832 | 18,766 | 16% | 43,700 |
| Bearing Rings | 596 | - | - | 633 | -6% | 1,229 | - | - | 1,044 |
| Operating Profit | | | | | | | | | |
| Steel Tubes & Pipes | 2,231 | 1,330 | 68% | 1,805 | 24% | 4,036 | 2,509 | 61% | 7,087 |
| Bearing Rings | 26 | - | - | 53 | -51% | 79 | - | - | 61 |
| Operating Profit % | | | | | | | | | |
| Steel Tubes & Pipes | 21% | 15% | 603 Bps | 16% | 458 Bps | 18% | 13% | 512 Bps | 16% |
| Bearing Rings | 4% | - | - | 8% | -408 Bps | 6% | - | - | 6% |

Source: Company, Keynote Capitals Ltd.

*Note: RMTL acquired a controlling stake in its subsidiary, Ravi Technoforge Private Limited (RTL), on October 2022. Accordingly, the results for the Q2 FY23 does not include RTL and are not comparable to Q2 FY24.

Q2 FY24 Conference Call Takeaways

General Highlights

- The reason for the expansion in EBITDA margin on a YoY basis can be attributed to a favorable product mix and a few numbers of specialized projects, particularly those involving high alloy grades of stainless steel.
- Generally, margins in water projects tend to be inferior to those in the oil and gas sector. However, on occasion, the Company may need to relocate the entire setup to a project site, potentially resulting in margins exceeding the standard course of business.
- The Company's current capacity utilization levels are ~60%.

Management Guidance

- Given the blend of water and oil & gas projects in the order book, the management anticipates EBITDA margins to be in the range of 16-18% for FY24, under standard operational circumstances.
- The Company has secured approval from Saudi Aramco for LSAW. Although no projects have been executed for them presently, it anticipates receiving orders in the future.
- The Company is seeing a lesser number of tenders coming in from carbon steel pipes for oil & gas projects. In stainless steel, on average, the Company is receiving an order book worth Rs. 1.25-1.5 Bn per month. Additionally, there is a surge in demand within the water projects sector.
- Management has given a sales guidance of Rs. 45-50 Bn for FY24.

Ravi Technoforge

- Management wants to scale up sales of Ravi Technoforge to Rs. 5 Bn+ in next 2-3 years.
- The decrease in EBITDA growth is attributable to a reduced proportion of revenue derived from exports. During H1 FY24, exports constituted 30% of the total revenue, in contrast to ~38-40% in H1 FY23.

Capacity Expansion

- On going capex in RMTL is Rs. 2.5-3 Bn (1 project in Carbon Steel - expect to be completed by Sept-24 & 1 in Stainless Steel - expected to be completed by June - 24).
- On going capex in Ravi Technoforge is Rs. 400-500 Mn.

Financial Statement Analysis

Income Statement

| Y/E Mar, Rs. Mn | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 31,388 | 44,744 | 52,775 | 60,691 | 69,795 |
| Growth % | | 43% | 18% | 15% | 15% |
| Raw Material Expenses | 21,039 | 29,457 | 34,304 | 40,056 | 46,065 |
| Employee Expenses | 1,591 | 2,092 | 2,797 | 3,217 | 3,699 |
| Other Expenses | 3,811 | 5,441 | 5,700 | 6,676 | 7,677 |
| EBITDA | 4,947 | 7,754 | 9,974 | 10,742 | 12,354 |
| Growth % | | 57% | 29% | 8% | 15% |
| Margin% | 16% | 17% | 19% | 18% | 18% |
| Depreciation | 802 | 833 | 1,031 | 1,106 | 1,136 |
| EBIT | 4,145 | 6,920 | 8,943 | 9,636 | 11,217 |
| Growth % | | 67% | 29% | 8% | 16% |
| Margin% | 13% | 15% | 17% | 16% | 16% |
| Interest Paid | 214 | 312 | 417 | 417 | 417 |
| Other Income & exceptional | 378 | 327 | 350 | 350 | 350 |
| PBT | 4,309 | 6,935 | 8,876 | 9,569 | 11,151 |
| Tax | 1,083 | 1,813 | 2,219 | 2,392 | 2,788 |
| PAT | 3,226 | 5,123 | 6,657 | 7,177 | 8,363 |
| Others (Minorities, Associates) | 0 | -18 | -40 | -46 | -53 |
| Net Profit | 3,226 | 5,105 | 6,617 | 7,131 | 8,310 |
| Shares (Mn) | 70.1 | 70.1 | 70.1 | 70.1 | 70.1 |
| Adj. EPS | 46 | 73 | 94 | 102 | 119 |

Balance Sheet

| Y/E Mar, Rs. Mn | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash, Cash equivalents & Bank | 438 | 341 | 2,359 | 5,646 | 9,608 |
| Current Investments | 1,085 | 1,351 | 1,351 | 1,351 | 1,351 |
| Debtors | 6,008 | 10,092 | 11,611 | 13,352 | 15,355 |
| Inventory | 11,120 | 12,592 | 14,751 | 17,224 | 19,808 |
| Short Term Loans & Advances | 2 | 814 | 814 | 814 | 814 |
| Other Current Assets | 995 | 139 | 139 | 139 | 139 |
| Total Current Assets | 19,647 | 25,330 | 31,024 | 38,527 | 47,075 |
| Net Block & CWIP | 9,814 | 12,229 | 13,198 | 12,592 | 11,955 |
| Long Term Investments | 0 | 0 | 0 | 0 | 0 |
| Other Non-current Assets | 163 | 244 | 244 | 244 | 244 |
| Total Assets | 29,625 | 37,803 | 44,466 | 51,362 | 59,274 |
| Creditors | 3,145 | 3,742 | 4,740 | 5,529 | 6,324 |
| Provision | 103 | 367 | 367 | 367 | 367 |
| Short Term Borrowings | 0 | 958 | 958 | 958 | 958 |
| Other Current Liabilities | 2,410 | 3,540 | 3,540 | 3,540 | 3,540 |
| Total Current Liabilities | 5,657 | 8,608 | 9,606 | 10,395 | 11,190 |
| Long Term Debt | 963 | 572 | 572 | 572 | 572 |
| Deffered Tax Liabilities | 420 | 700 | 700 | 700 | 700 |
| Other Long Term Liabilities | 102 | 1,163 | 1,163 | 1,163 | 1,163 |
| Total Non Current Liabilities | 1,485 | 2,435 | 2,435 | 2,435 | 2,435 |
| Paid-up Capital | 93 | 140 | 140 | 140 | 140 |
| Reserves & Surplus | 22,390 | 25,899 | 31,524 | 37,585 | 44,649 |
| Shareholders' Equity | 22,483 | 26,039 | 31,664 | 37,725 | 44,789 |
| Non Controlling Interest | 0 | 721 | 761 | 807 | 860 |
| Total Equity & Liabilities | 29,625 | 37,803 | 44,466 | 51,362 | 59,274 |

Cash Flow

| Y/E Mar, Rs. Mn | FY22 | FY23 | FY24E | FY25E | FY26E |
|--|---------------|---------------|---------------|---------------|---------------|
| Pre-tax profit | 4,309 | 6,917 | 8,876 | 9,569 | 11,151 |
| Adjustments | 725 | 991 | 1,098 | 1,173 | 1,203 |
| Change in Working Capital | -6,645 | -3,326 | -2,679 | -3,426 | -3,791 |
| Total Tax Paid | -1,220 | -1,496 | -2,219 | -2,392 | -2,788 |
| Cash flow from operating Activities | -2,830 | 3,087 | 5,076 | 4,924 | 5,775 |
| Net Capital Expenditure | -1,437 | -1,377 | -2,000 | -500 | -500 |
| Change in investments | 5,394 | -803 | 0 | 0 | 0 |
| Other investing activities | 221 | 103 | 350 | 350 | 350 |
| Cash flow from investing activities | 4,178 | -2,077 | -1,650 | -150 | -150 |
| Equity raised / (repaid) | 0 | 0 | 0 | 0 | 0 |
| Debt raised / (repaid) | -508 | -284 | 0 | 0 | 0 |
| Dividend (incl. tax) | -654 | -654 | -993 | -1,070 | -1,247 |
| Other financing activities | -184 | -222 | -417 | -417 | -417 |
| Cash flow from financing activities | -1,345 | -1,161 | -1,409 | -1,486 | -1,663 |
| Net Change in cash | 2 | -151 | 2,017 | 3,287 | 3,962 |

Valuation Ratios

| | FY22 | FY23 | FY24E | FY25E | FY26E |
|--------------------------------|------|------|-------|-------|-------|
| Per Share Data | | | | | |
| EPS | 46 | 73 | 94 | 102 | 119 |
| Growth % | | 58% | 30% | 8% | 17% |
| Book Value Per Share | 321 | 382 | 463 | 550 | 651 |
| Return Ratios | | | | | |
| Return on Assets (%) | 12% | 15% | 16% | 15% | 15% |
| Return on Equity (%) | 15% | 21% | 22% | 20% | 20% |
| Return on Capital Employed (%) | 14% | 22% | 23% | 20% | 20% |
| Turnover Ratios | | | | | |
| Asset Turnover (x) | 1.1 | 1.3 | 1.3 | 1.3 | 1.3 |
| Sales / Gross Block (x) | 2.5 | 3.1 | 3.1 | 3.3 | 3.7 |
| Working Capital / Sales (%) | 42% | 34% | 36% | 41% | 46% |
| Receivable Days | 58 | 66 | 75 | 75 | 75 |
| Inventory Days | 143 | 147 | 145 | 146 | 147 |
| Payable Days | 38 | 41 | 42 | 44 | 44 |
| Working Capital Days | 163 | 172 | 178 | 177 | 177 |
| Liquidity Ratios | | | | | |
| Current Ratio (x) | 3.5 | 2.9 | 3.2 | 3.7 | 4.2 |
| Interest Coverage Ratio (x) | 21.2 | 23.2 | 22.3 | 24.0 | 27.8 |
| Total Debt to Equity | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| Net Debt to Equity | 0.0 | 0.0 | 0.0 | -0.1 | -0.2 |
| Valuation | | | | | |
| PE (x) | 37.6 | 40.6 | 31.3 | 29.1 | 25.0 |
| Earnings Yield (%) | 3% | 2% | 3% | 3% | 4% |
| Price to Sales (x) | 3.9 | 4.6 | 3.9 | 3.4 | 3.0 |
| Price to Book (x) | 5.4 | 8.0 | 6.5 | 5.5 | 4.6 |
| EV/EBITDA (x) | 24.7 | 26.9 | 20.9 | 19.4 | 16.9 |
| EV/Sales (x) | 3.9 | 4.7 | 3.9 | 3.4 | 3.0 |

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% |
| 11 th November 2022 | NEUTRAL | 1,919 | +8.4% |
| 13 th February 2023 | NEUTRAL | 2,098 | +5.9% |
| 12 th May 2023 | NEUTRAL | 2,389 | +7% |
| 9 th August 2023 | BUY | 2,575 | +15.1% |
| 6 th November 2023 | NEUTRAL | 2,892 | +7.6% |

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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