

## Ratnamani Metals &amp; Tubes Ltd.

16<sup>th</sup> August 2024

Change in product mix will lead to decrease in operating margin

In Q1 FY25, Ratnamani Metals & Tubes Limited (RMTL) posted flat revenue growth on a YoY basis due to a change in product mix and a slowdown in sales due to general elections. The Company's EBITDA margin declined by 370 Bps on a YoY due to a change in product mix towards water projects and higher other expenses. We believe that on the consolidated levels, the Company will do a topline of ~Rs. 56 Bn. Due to a higher mix of SS pipes and water projects, we believe the Company wouldn't see higher EBITDA margins for FY25 but would be able to maintain ~16-17%.

## Order book mix

As of Q1 FY25, RMTL has an order book worth Rs. 29,460 Mn (up by 1% on a QoQ and 22% on a YoY basis), which includes Rs. 11,460 Mn worth of export orders and Rs. 18,000 Mn worth of domestic orders. In SS pipes and CS pipes, the order book stands at Rs. 9,220 Mn and Rs. 20,240 Mn, respectively. As guided by the management, the international orders book saw a growth of 40% on a YoY basis.

## Segmental performance

Steel tubes and pipes experienced a 10% growth in volume terms on a YoY basis, but growth in value terms remained flat. This was due to a change in the product mix, which led to a 23% decrease in operating profit on a YoY basis. Consequently, the operating margin declined by 368 Bps on a YoY basis.

Bearing Rings segment saw a growth of 11% on a YoY basis. However, the operating profits degrew by 14% on a YoY basis. Operating margin shrunk by 187 Bps on a YoY basis.

## View &amp; Valuation

We have revised our estimates and changed our rating on Ratnamani Metals & Tubes Ltd. from NEUTRAL to REDUCE, with a target price of Rs. 3,230 (~35x FY25E earnings). With the change in product mix towards water-based projects, we anticipate that the Company's EBITDA margin would shrink to 16-17% from 18% in FY24. This adjustment is expected to lead to a stable growth trajectory in the Company's bottom line for FY25E. While we foresee a promising long-term future for the Company, we believe that the current stock price accurately reflects its value.

## REDUCE

CMP Rs. 3,481

TARGET Rs. 3,230 (-7.2%)

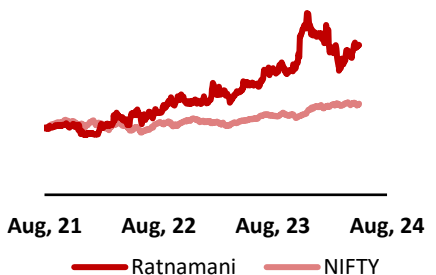
## Company Data

Bloomberg Code	RMT IN
MCAP (Rs. Mn)	245,728
O/S Shares (Mn)	70
52w High/Low	3,924 / 2,515
Face Value (Rs.)	2
Liquidity (3M) (Rs. Mn)	187

## Shareholding Pattern %

	Jun 24	Mar 24	Dec 23
Promoters	59.77	59.77	59.77
FII's	12.61	12.86	12.77
DII's	16.59	16.14	16.28
Non-Institutional	11.03	11.22	11.17

## Ratnamani vs Nifty



Source: Keynote Capitals Ltd.

## Key Financial Data

(Rs. Bn)	FY24	FY25E	FY26E
Revenue	51	56	64
EBITDA	9	10	11
Net Profit	6	6	8
Total Assets	40	47	54
ROCE (%)	21%	19%	19%
ROE (%)	22%	19%	19%

Source: Company, Keynote Capitals Ltd.

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Q1 FY25 Result Update

Result Highlights (Rs. Mn)

Particulars	Q1 FY25	Q1 FY24	Change % (Y-o-Y)	Q4 FY24	Change % (Q-o-Q)	FY24
Revenue from Operation	11,837	11,749	1%	14,957	-21%	50,591
Gross Profit	3,870	4,009	-3%	4,708	-18%	17,295
<b>Gross Profit %</b>	<b>33%</b>	<b>34%</b>	<b>-143 Bps</b>	<b>31%</b>	<b>122 Bps</b>	<b>34%</b>
Employee Cost	717	669	7%	652	10%	2,578
Other Expenses	1,513	1,277	18%	1,599	-5%	5,746
EBITDA	1,640	2,063	-20%	2,457	-33%	8,971
<b>EBITDA %</b>	<b>14%</b>	<b>18%</b>	<b>-370 Bps</b>	<b>16%</b>	<b>-257 Bps</b>	<b>18%</b>
Depreciation	262	243	8%	250	5%	975
EBIT	1,378	1,820	-24%	2,207	-38%	7,996
<b>EBIT %</b>	<b>12%</b>	<b>15%</b>	<b>-385 Bps</b>	<b>15%</b>	<b>-312 Bps</b>	<b>16%</b>
Interest	97	99	-1%	117	-17%	451
OI	123	85	44%	388	-68%	732
PBT	1,404	1,806	-22%	2,478	-43%	8,277
Tax Expenses	345	458	-25%	547	-37%	2,026
Minority Interest	7	10		10	-22%	23
PAT	1,051	1,339	-21%	1,922	-45%	6,228
EPS	<b>15.11</b>	<b>19.24</b>		<b>27.55</b>	<b>-45%</b>	<b>89.18</b>

Source: Company, Keynote Capitals Ltd.

Segmental Highlights (Rs. Mn)

Particulars	Q1 FY25	Q1 FY24	Change % (Y-o-Y)	Q4 FY24	Change % (Q-o-Q)	FY24
<b>Revenue</b>						
Steel Tubes & Pipes	11,102	11,117	0%	14,222	-22%	48,040
Bearing Rings	701	633	11%	734	-5%	2,550
Pipe Spools & Auxillary Support Systems	34			1		1
<b>Operating Profit</b>						
Steel Tubes & Pipes	1,394	1,805	-23%	2,231	-37%	8,066
Bearing Rings	46	53	-14%	62	-26%	186
Pipe Spools & Auxillary Support Systems	2			-21		-21
<b>Operating Profit %</b>						
Steel Tubes & Pipes	13%	16%	-368 Bps	16%	-313 Bps	17%
Bearing Rings	7%	8%	-187 Bps	8%	-186 Bps	7%
Pipe Spools & Auxillary Support Systems	6%	-	-	-1485%	-	-1485%

Source: Company, Keynote Capitals Ltd.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
<b>Net Sales</b>	<b>44,744</b>	<b>50,591</b>	<b>55,956</b>	<b>64,343</b>	<b>73,964</b>
Growth %		13%	11%	15%	15%
Raw Material Expenses	29,457	33,296	37,211	42,788	48,816
Employee Expenses	2,092	2,578	2,910	3,410	3,920
Other Expenses	5,441	5,746	6,323	7,078	8,136
<b>EBITDA</b>	<b>7,754</b>	<b>8,971</b>	<b>9,513</b>	<b>11,067</b>	<b>13,092</b>
Growth %		16%	6%	16%	18%
Margin%	17%	18%	17%	17%	18%
Depreciation	833	975	1,210	1,238	1,303
<b>EBIT</b>	<b>6,920</b>	<b>7,996</b>	<b>8,303</b>	<b>9,828</b>	<b>11,788</b>
Growth %		16%	4%	18%	20%
Margin%	15%	16%	15%	15%	16%
Interest Paid	312	451	244	244	244
Other Income & exceptional	327	732	600	600	600
<b>PBT</b>	<b>6,935</b>	<b>8,277</b>	<b>8,659</b>	<b>10,184</b>	<b>12,144</b>
Tax	1,813	2,026	2,165	2,546	3,036
<b>PAT</b>	<b>5,123</b>	<b>6,251</b>	<b>6,494</b>	<b>7,638</b>	<b>9,108</b>
Others (Minorities, Associates)	-18	-23	-27	-31	-35
<b>Net Profit</b>	<b>5,105</b>	<b>6,228</b>	<b>6,467</b>	<b>7,607</b>	<b>9,073</b>
Shares (Mn)	70.1	70.1	70.1	70.1	70.1
<b>Adj. EPS</b>	<b>73</b>	<b>89</b>	<b>92</b>	<b>109</b>	<b>129</b>

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	341	2,069	3,762	8,034	12,315
Current Investments	1,351	887	887	887	887
Debtors	10,092	9,415	11,751	12,869	14,793
Inventory	12,592	13,487	16,001	18,399	20,991
Short Term Loans & Advances	814	594	594	594	594
Other Current Assets	139	205	205	205	205
Total Current Assets	25,330	26,657	33,200	40,988	49,785
Net Block & CWIP	12,229	13,304	13,095	12,856	12,553
Long Term Investments	0	0	0	0	0
Other Non-current Assets	244	237	237	237	237
<b>Total Assets</b>	<b>37,803</b>	<b>40,198</b>	<b>46,532</b>	<b>54,082</b>	<b>62,575</b>
Creditors	3,742	3,560	4,370	5,422	6,169
Provision	367	124	124	124	124
Short Term Borrowings	958	657	657	657	657
Other Current Liabilities	3,540	1,660	1,660	1,660	1,660
Total Current Liabilities	8,608	6,000	6,810	7,863	8,610
Long Term Debt	572	211	211	211	211
Deffered Tax Liabilities	700	741	741	741	741
Other Long Term Liabilities	1,163	1,085	1,085	1,085	1,085
Total Non Current Liabilities	2,435	2,036	2,036	2,036	2,036
Paid-up Capital	140	140	140	140	140
Reserves & Surplus	25,899	31,265	36,762	43,229	50,940
Shareholders' Equity	26,039	31,405	36,903	43,369	51,081
Non Controlling Interest	721	757	783	814	849
<b>Total Equity &amp; Liabilities</b>	<b>37,803</b>	<b>40,198</b>	<b>46,532</b>	<b>54,082</b>	<b>62,575</b>

Cash Flow

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	6,917	8,254	8,659	10,184	12,144
Adjustments	991	826	854	883	948
Change in Working Capital	-3,326	-1,752	-4,040	-2,463	-3,770
Total Tax Paid	-1,496	-2,239	-2,165	-2,546	-3,036
<b>Cash flow from operating Activities</b>	<b>3,087</b>	<b>5,089</b>	<b>3,308</b>	<b>6,058</b>	<b>6,286</b>
Net Capital Expenditure	-1,377	-2,090	-1,000	-1,000	-1,000
Change in investments	-803	445	0	0	0
Other investing activities	103	193	600	600	600
<b>Cash flow from investing activities</b>	<b>-2,077</b>	<b>-1,453</b>	<b>-400</b>	<b>-400</b>	<b>-400</b>
Equity raised / (repaid)	0	27	0	0	0
Debt raised / (repaid)	-284	-765	0	0	0
Dividend (incl. tax)	-654	-841	-970	-1,141	-1,361
Other financing activities	-222	-350	-244	-244	-244
<b>Cash flow from financing activities</b>	<b>-1,161</b>	<b>-1,929</b>	<b>-1,214</b>	<b>-1,385</b>	<b>-1,605</b>
<b>Net Change in cash</b>	<b>-151</b>	<b>1,707</b>	<b>1,693</b>	<b>4,272</b>	<b>4,281</b>

Valuation Ratios

	FY23	FY24	FY25E	FY26E	FY27E
<b>Per Share Data</b>					
EPS	73	89	92	109	129
Growth %		22%	4%	18%	19%
Book Value Per Share	372	448	538	630	741
<b>Return Ratios</b>					
Return on Assets (%)	15%	16%	15%	15%	16%
Return on Equity (%)	21%	22%	19%	19%	19%
Return on Capital Employed (%)	22%	21%	19%	19%	19%
<b>Turnover Ratios</b>					
Asset Turnover (x)	1.3	1.3	1.3	1.3	1.3
Sales / Gross Block (x)	3.1	3.0	3.1	3.4	3.7
Working Capital / Sales (%)	34%	37%	42%	46%	50%
Receivable Days	66	70	69	70	68
Inventory Days	147	143	145	147	147
Payable Days	41	39	36	40	41
Working Capital Days	172	174	177	177	174
<b>Liquidity Ratios</b>					
Current Ratio (x)	2.9	4.4	4.9	5.2	5.8
Interest Coverage Ratio (x)	23.2	19.3	36.4	42.7	50.7
Total Debt to Equity	0.1	0.0	0.0	0.0	0.0
Net Debt to Equity	0.1	0.0	-0.1	-0.2	-0.2
<b>Valuation</b>					
PE (x)	27.2	31.7	38.0	32.3	27.1
Earnings Yield (%)	4%	3%	3%	3%	4%
Price to Sales (x)	3.1	3.9	4.4	3.8	3.3
Price to Book (x)	5.3	6.3	6.7	5.7	4.8
EV/EBITDA (x)	18.2	21.9	26.0	22.3	18.9
EV/Sales (x)	3.1	3.9	4.4	3.8	3.3

Source: Company, Keynote Capitals Ltd.

## 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	+7.0%
9 <sup>th</sup> August 2023	BUY	2,575	+15.1%
6 <sup>th</sup> November 2023	NEUTRAL	2,892	+7.6%
14 <sup>th</sup> February 2024	NEUTRAL	3,020	+3.8%
21 <sup>st</sup> May 2024	NEUTRAL	3,276	+3.3%
16 <sup>th</sup> August 2024	REDUCE	3,481	-7.2%

## 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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