

On a strong growth path, retain Hold

We remain structurally positive on Ratnamani Metals & Tubes (RMTL) but retain our Hold rating with a revised TP of Rs940 (vs Rs970 earlier) on the back of limited upside potential with strong growth outlook fully factored in at current valuations. Q1 performance was on expected lines with strong EBITDA growth but margin remaining under check led by higher share of CS segment. We continue to believe in RMTL's long-term growth story, with expected strong domestic capex over FY19-22E and completion of expansion in the high-margin SS business by Q4FY19E.

- Strong growth but margins subdued due to higher share of CS segment:** Net sales were in line with our expectations at Rs6.1bn, up 107% YoY. CS segment revenues stood at Rs4.6bn, up 208% YoY led by 142% increase in volumes and 28% increase in realizations. Realisations increased by 21% QoQ and were supported by increase in steel prices, higher coated product sales and higher share of LSAW which has premium realizations. SS revenues stood at Rs1.4bn, up 11% YoY. Realisations were higher YoY by 25% while volumes were lower by 11% YoY. CS/SS revenue share stood at 72%/23%. EBITDA stood at Rs905mn, higher by 105% YoY and was below our expectations by 4.5%. Margins stayed subdued at 14.9% led by lower gross margins of 32% due to higher CS share.
- Order book remains robust, SS picks up finally:** RMTL's order inflow remains strong and total order book stood at Rs17.4bn as at Aug'18 with SS/CS split of Rs4.7bn/Rs12.7bn. Export order book stood at Rs3.6bn. Recent sharp pick up in SS order book from Rs3-3.5bn range to current level of Rs4.7bn is encouraging sign and would help in SS revenue pick up going ahead. This was led by new orders from nuclear, power & refinery sectors. Order visibility remains bright led by i) pick up in orders from oil & gas segment led by buoyancy in crude prices and ii) strong outlook for line pipe orders from both water and oil & gas sectors.
- Earnings outlook:** RMTL remains on track for executing its new projects in LSAW & SS segments and guided towards commissioning of new SS capacity by Q4FY19E. Strong order inflow and bright outlook has improved revenue visibility materially for FY19E/20E. We tweak our earnings estimates for FY19E/20E marginally and continue to factor in the higher execution from CS division based on current order book. Recovery in demand for the SS segment and expansion of seamless SS tube capacity from 8ktpa to 28ktpa would remain key growth triggers.
- Valuation and Risks:** We continue to value RMTL on DCF and model the company's earnings and cash flows to FY22E to factor in the contribution from the expansion in SS' seamless business. We assume 8% linear growth from FY22-27E, terminal growth of 4% and WACC of 10.9% to arrive at a revised DCF-based revised fair value of Rs940. Maintain Hold. Key downside risks include higher steel prices leading to increased RM volatility and lower margins while upside risk is greater traction in SS segment.

Y/E Mar (Rs mn)	Q1FY19	Q1FY18	YoY%	Q4FY18	QoQ%	Q1FY19E	Var %
Net sales (inc op inc)	6,094	2,945	106.9	6,191	(1.6)	6085	0.1
Raw material	4,141	1,865	122.0	4,027	2.8	3925	5.5
Employee costs	325	234	38.8	315	3.3	300	8.4
Other Expenses	722	405	78.2	921	(21.6)	913	(20.9)
EBITDA	905	441	105.4	928	(2.5)	947	(4.5)
EBITDA margin (%)	14.9	15.0		15.0		15.6	
Depreciation	159	152	4.4	153	3.8	155	2.6
Other income	167	60	176.5	131	27.2	100	67.0
PBT	866	334	159.1	866	(0.1)	857	0.9
Provision for tax	289	103	179.5	304	(5.0)	292	(1.0)
-effective tax rate (%)	33.4	30.9		35.1		34.0	
PAT	577	231	150.0	562	2.6	566	1.9

Source: Company, Centrum Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	PE (x)	EV/EBITDA(x)
FY16	17,177	1.8	2,856	16.6	1,652	(4.2)	35.4	17.0	15.4	16.1	9.1
FY17	14,117	(17.8)	2,572	18.2	1,443	(12.7)	30.9	13.0	12.0	19.0	10.4
FY18	17,668	25.2	2,659	15.1	1,518	5.2	32.5	12.2	11.1	27.3	15.7
FY19E	21,426	21.3	3,542	16.5	1,973	30.0	42.2	14.2	12.5	20.7	11.7
FY20E	25,121	17.2	4,360	17.4	2,394	21.3	51.2	15.3	13.4	17.1	9.6

Source: Company, Centrum Research Estimates

In the interest of timeliness, this document is not edited

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

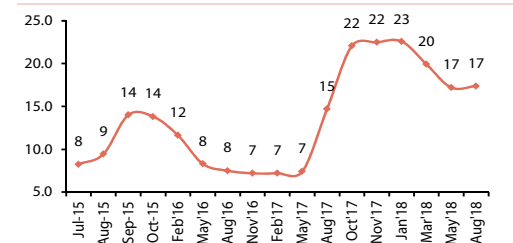
Target Price	Rs940	Key Data	
CMP*	Rs875	Bloomberg Code	RMTL IN
Upside	7.4%	Curr Shares O/S (mn)	46.7
Previous Target	Rs970	Diluted Shares O/S(mn)	46.7
Previous Rating	Hold	Mkt Cap (Rsbn/USDmn)	40.9/595.3
Price Performance (%)*		52 Wk H / L (Rs)	1217/791.7
		5 Year H / L (Rs)	1217/116.1
RMTL IN	(3.7)	(8.9)	4.8
NIFTY	5.7	9.7	15.8
		Daily Vol. (3M NSE Avg.)	5820

*as on 9 August 2018; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*	Jun-18	Mar-18	Dec-17	Sep-17
Promoter	60.1	60.1	60.1	60.1
FIs	13.5	13.6	14.2	14.4
DIs	6.6	6.2	5.4	4.7
Others	19.9	20.1	20.3	20.9

Source: BSE, *as on 9 August 2018

Order book trend (Rs bn)



Source: Company, Centrum Research

Operational performance

	Q1FY19	Q1FY18	YoY%	Q4FY18	QoQ%
SS Pipes & Tubes					
Volumes (tonne)	3,983	4,493	(11.4)	5,334	(25.3)
Sales (Rs mn)	1,439	1,297	10.9	1,692	(14.9)
Realization (Rs/t)	3,61,338	2,88,785	25.1	3,17,209	13.9
CS Pipes & Tubes					
Volumes (tonne)	71,128	29,417	141.8	74,804	(4.9)
Sales (Rs mn)	4,564	1,480	208.4	3,956	15.4
Realization (Rs/t)	64,167	50,307	27.6	52,888	21.3

Source: Company, Centrum Research Estimates

Earnings Revision

Particulars (Rs mn)	FY19E			FY20E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	21,426	21,234	0.9	25,121	25,081	0.2
EBITDA	3,542	3,470	2.1	4,360	4,411	(1.2)
EBITDA Margin (%)	16.5	16.3		17.4	17.6	
PAT	1,973	1,891	4.4	2,394	2,444	(2.0)

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rsmn)	FY19E			FY20E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Net Sales	21,426	20,492	4.6	25,121	22,684	10.7
EBITDA	3,542	3,462	2.3	4,360	4,145	5.2
PAT	1,973	1,900	3.8	2,394	2,322	3.1

Bloomberg Consensus				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
4	0	3	1,056	940	(11.0)

*as on 9 August 2018; Source: Bloomberg, Centrum Research Estimates

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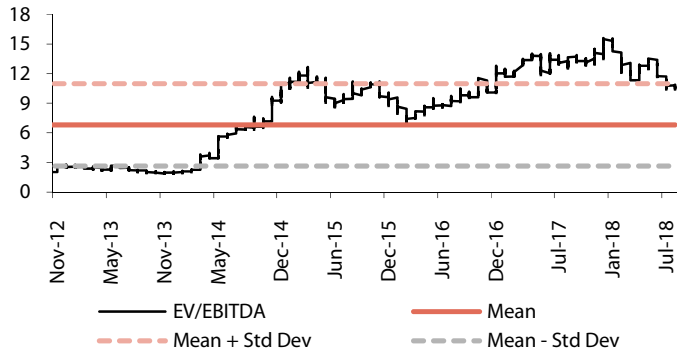
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Exhibit 1: Sensitivity Analysis (FY19E)

Sensitivity to key variables	% change	% impact on EBITDA	% impact on EPS
Sales volume	1	0.6	0.4
Realization	1	0.7	0.5

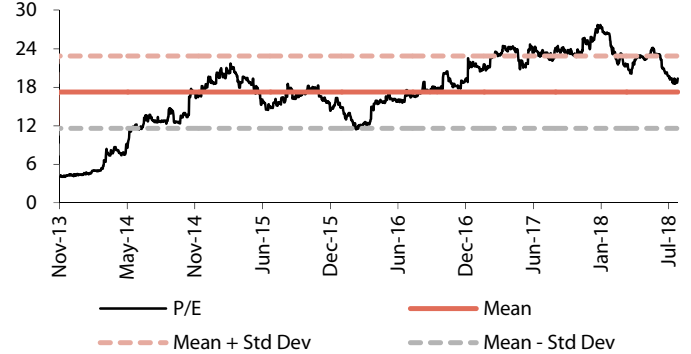
Source: Company, Centrum Research Estimates

Exhibit 2: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 3: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 4: Valuation– Peer comparison

Company	Mkt. Cap (US\$ mn)	CAGR FY18-FY20E (%)			EBITDA Margin (%)			P/E (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
RMTL#	595	19.2	28.0	25.6	15.1	16.5	17.4	27.3	20.7	17.1	15.7	11.7	9.6	12.2	14.2	15.3	0.7	0.7	0.9
Global Peers*																			
Tubacex SA	509	18.2	76.3	NM	5.3	10.8	11.8	(21.4)	19.4	13.8	23.1	9.4	9.0	(7.2)	8.5	11.7	0.0	0.7	2.2
Sandvik AB	22,476	6.1	2.3	2.1	25.3	24.0	23.5	13.5	15.4	14.6	8.2	8.8	9.2	30.0	25.0	22.1	2.5	2.6	2.8

Source: Bloomberg Estimates, #Centrum Research Estimates, *FY18=CY17 and so on for global peers, NM = Not meaningful

Exhibit 5: DCF Valuation of RMTL

	Stage 1 (FY18-22E) - Forecasted	Stage 2 (FY23-27E) - Assumed	Terminal Stage - Assumed
CAGR - %			
Revenue	11.0	8.0	NA
EBITDA	13.6	8.0	NA
FCFF	(14.7)	16.3	4.0
WACC - %	10.9		
DCF Value (Rs)	940		

Source: Company, Centrum Research Estimate; NA= Not applicable

Quarterly financials, operating metrics and key performance indicators

Exhibit 6: Quarterly Financials

Particulars (Rs mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Net sales	3,132	3,629	3,884	2,945	3,176	5,356	6,191	6,094
Other Operating Income	87	-	-	-	-	-	-	-
Total Income	3,219	3,629	3,884	2,945	3,176	5,356	6,191	6,094
Accretion to Stocks in trade & work in progress	74	(126)	(65)	(178)	56	(418)	(407)	(202)
Cost of Raw materials consumed	1,982	2,289	2,444	2,043	1,976	3,901	4,434	4,343
Purchase of traded goods	-	-	45	-	-	-	-	-
Staff cost	247	252	234	234	251	292	315	325
Other operational expenses	398	449	541	405	382	780	921	722
Operating Profit (Core EBITDA)	518	765	685	441	512	801	928	905
Depreciation	143	151	153	152	146	155	153	159
EBIT	375	614	532	288	366	646	775	746
Interest	13	11	15	15	10	34	40	47
Other Revenue/Income	45	30	34	60	32	79	131	167
Profit Before Tax	407	634	551	334	388	691	866	866
Tax	121	186	153	103	120	234	304	289
Profit After Tax	285	448	398	231	268	458	562	577
Growth (%)								
Revenue	(22.4)	4.6	(23.4)	(13.0)	1.4	47.6	59.4	106.9
EBITDA	(11.1)	40.8	(18.9)	(27.2)	(1.3)	4.6	35.5	105.4
PAT	(13.8)	28.6	(15.0)	(26.0)	(6.2)	2.2	41.2	150.0
Margin (%)								
EBITDA	16.1	21.1	17.6	15.0	16.1	14.9	15.0	14.9
EBIT	11.7	16.9	13.7	9.8	11.5	12.1	12.5	12.2
PAT	8.9	12.3	10.3	7.8	8.4	8.5	9.1	9.5

Key Performance Indicators

Revenue (Rs mn)								
Stainless steel pipes	1,371	1,508	1,679	1,297	1,749	1,574	1,692	1,439
Carbon Steel pipes	1,725	2,004	2,084	1,480	1,314	3,532	3,956	4,564
Volumes (tonne)								
Stainless steel pipes	4,499	4,441	5,655	4,493	5,800	5,427	5,334	3,983
Carbon steel pipes	41,767	45,475	43,525	29,417	24,548	70,034	74,804	71,128
Realizations (Rs/tonne)								
Stainless steel pipes	3,04,606	3,39,639	2,96,801	2,88,785	3,01,460	2,90,034	3,17,209	3,61,338
Carbon steel pipes	41,294	44,075	47,874	50,307	53,508	50,435	52,888	64,167

Source: Company, Centrum Research

Exhibit 7: Key Performance Indicators

	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue (Rs mn)						
Stainless Steel Pipes & Tubes	7744	6704	5677	6312	6905	9608
Carbon Steel Pipes & Tubes	8574	10009	7963	10282	13278	14291
Volumes (incl scrap) - tonne						
Stainless Steel Pipes & Tubes	22,680	20,831	18,228	21,054	21,470	29,290
Carbon Steel Pipes & Tubes	1,56,932	2,04,718	1,79,655	1,98,802	2,32,960	2,55,840
Volume growth - %						
Stainless Steel Pipes & Tubes	19.9	(8.2)	(12.5)	15.5	2.0	36.4
Carbon Steel Pipes & Tubes	34.7	30.4	912.2)	10.7	17.2	9.8

Source: Company, Centrum Research Estimates

Financials

Exhibit 8: Income Statement

Y/E Mar(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	17,177	14,117	17,668	21,426	25,121
Materials cost	11,304	8,805	11,407	13,921	16,114
% of revenues	65.8	62.4	64.6	65.0	64.1
Employee cost	1,000	978	1,092	1,286	1,507
% of revenues	5.8	6.9	6.2	6.0	6.0
Others	2,017	1,761	2,510	2,678	3,140
% of revenues	11.7	12.5	14.2	12.5	12.5
EBITDA	2,856	2,572	2,659	3,542	4,360
EBITDA margin (%)	16.6	18.2	15.1	16.5	17.4
Depreciation & Amortisation	568	597	606	680	859
EBIT	2,288	1,975	2,053	2,862	3,501
Interest expenses	60	61	99	117	138
PBT from operations	2,228	1,915	1,955	2,745	3,363
Other income	175	140	324	200	210
Exceptional items	-	-	-	-	-
PBT	2,403	2,055	2,279	2,945	3,573
Taxes	751	612	761	972	1,179
Effective tax rate (%)	31.2	29.8	33.4	33.0	33.0
Adjusted PAT	1,652	1,443	1,518	1,973	2,394

Source: Company, Centrum Research Estimates

Exhibit 9: Key Ratios

Y/E Mar	FY16	FY17	FY18	FY19E	FY20E
Growth Ratio (%)					
Revenue	1.8	(17.8)	25.2	21.3	17.2
EBITDA	(4.6)	(9.9)	3.4	33.2	23.1
Adjusted PAT	(4.2)	(12.7)	5.2	30.0	21.3
Margin Ratios (%)					
EBITDA	16.6	18.2	15.1	16.5	17.4
PBT from operations	13.0	13.6	11.1	12.8	13.4
Adjusted PAT	9.6	10.2	8.6	9.2	9.5
Return Ratios (%)					
ROE	17.0	13.0	12.2	14.2	15.3
ROCE	15.4	12.0	11.1	12.5	13.4
ROIC	15.2	11.9	9.9	12.3	13.0
Turnover Ratios (days)					
Gross block turnover ratio (x)	2.1	2.0	3.0	3.0	2.8
Debtors	80	110	115	95	95
Inventory	63	88	119	100	90
Creditors	26	30	40	30	30
Cash conversion cycle	116	168	194	165	155
Solvency Ratio (x)					
Net debt-equity	(0.0)	(0.1)	0.0	0.0	0.1
Debt-equity	0.0	-	0.1	0.1	0.1
Interest coverage ratio	0.0	0.0	0.0	0.0	0.0
Gross debt/EBITDA	0.0	-	0.3	0.4	0.3
Current Ratio	3.9	5.1	3.9	4.2	4.0
Per share Ratios (Rs)					
Adjusted EPS	35.4	30.9	32.5	42.2	51.2
BVPS	222.6	254.0	279.9	314.7	357.0
CEPS	47.5	43.7	45.5	56.8	69.6
DPS	5.5	5.5	6.0	6.3	7.7
Dividend Payout (%)	15.6	17.8	18.5	15.0	15.0
Valuation (X)* Avg M.Cap					
P/E (adjusted)	16.1	19.0	27.3	20.7	17.1
P/BV	2.6	2.3	3.2	2.8	2.5
EV/EBITDA	9.1	10.4	15.7	11.7	9.6
Dividend Yield %	1.0	0.9	0.7	0.7	0.9
5 Yr Avg AOCF/EV yield %	4.9	5.3	1.9	2.3	2.7

Source: Company, Centrum Research Estimates

Exhibit 10: Balance Sheet

Y/E Mar(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	93	93	93	93	93
Reserves & surplus	10,308	11,776	12,987	14,614	16,587
Shareholders' fund	10,402	11,869	13,080	14,707	16,681
Total Debt	89	-	789	1,289	1,389
Def tax liab. (net)	480	473	429	429	429
Total Liabilities	10,971	12,342	14,298	16,425	18,500
Gross Block	8,577	5,598	6,165	8,145	9,945
Less: Acc. Depreciation	4,116	1,117	1,711	2,391	3,250
Net Block	4,461	4,481	4,454	5,754	6,695
Capital WIP	477	383	469	689	889
Net Fixed Assets	4,937	4,864	4,923	6,443	7,584
Investments	201	738	1	1	1
Inventories	2,947	3,391	5,740	5,870	6,194
Sundry debtors	3,756	4,252	5,582	5,577	6,538
Cash	108	147	46	350	504
Loans & Advances	1,036	70	54	117	138
Other assets	7	667	1,119	1,119	1,119
Total Current Asset	7,855	8,526	12,541	13,034	14,493
Trade payables	1,225	1,164	1,928	1,761	2,065
Other current Liab.	580	558	1,202	1,174	1,377
Provisions	217	65	37	117	138
Net Current Assets	5,833	6,740	9,375	9,981	10,914
Total Assets	10,971	12,342	14,298	16,425	18,500

Source: Company, Centrum Research Estimates

Exhibit 11: Cash Flow

Y/E Mar(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Operating profit bef WC	2,841	2,589	2,779	3,542	4,360
Changes in working capital	(1,410)	(496)	(2,786)	(302)	(780)
Cash flow from operations	773	1,352	(729)	2,268	2,401
Adj. OCF (OCF - Interest)	713	1,291	(828)	2,151	2,263
Net Capex	613	656	696	2,200	2,000
Adj. FCF	100	636	(1,524)	(49)	263
Cash flow from investments	(150)	(1,025)	212	(2,000)	(1,790)
Cash flow from financing	(956)	(276)	416	37	(458)
Net change in cash	(333)	51	(101)	305	153

Source: Company, Centrum Research Estimates

Appendix A

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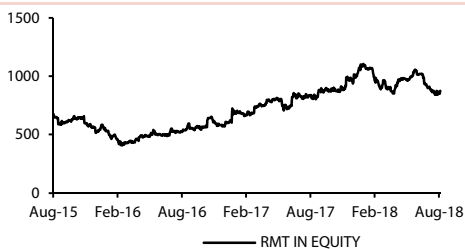
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Ratnamani Metals & Tubes price chart



Source: Bloomberg, Centrum Research

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		Ratnamani Metals & Tubes
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Hold	Upside between -20% to +20%	Upside between -15% to +15%	Upside between -10% to +10%
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