

## Healthy traction seen in stainless steel order book position

Ratnamani Metals & Tubes (RMTL) reported a steady set of Q2FY20 numbers wherein EBITDA margins were at 19.1% (up 160 bps QoQ, 320 bps YoY). Stainless steel (SS) sales volumes were at 5813 tonnes (up 27% QoQ, 3% YoY) while carbon steel (CS) sales volumes were at 50791 tonnes (down 13% QoQ, 34% YoY). Topline for Q2FY20 was at ₹ 610.3 crore (up 4% QoQ, down 16% YoY). EBITDA came in at ₹ 116.5 crore (up 13% QoQ, flattish YoY). Other income for Q2FY20 came in notably higher at ₹ 21.5 crore (up 103% YoY, 95% QoQ). The ensuing PAT was at ₹ 76.4 crore (up 22% QoQ, 10% YoY).

## Firm stainless steel order augurs well for company

Over the last few quarters, RMTL has witnessed a steady increase in its order book position of its higher margin stainless steel segment. Ratnamani's order book as on October 1, 2019 was at ₹ 1926 crore (₹ 1916 crore as on August 1, 2019, split between higher margin SS order of ₹ 536 crore (₹ 502 crore as on August 1, 2019) and CS orders of ₹ 1390 crore (₹ 1414 crore as on August 1, 2019), providing healthy revenue visibility. In terms of domestic and exports mix, domestic orders were at ₹ 1549 crore while export orders were at ₹ 377 crore. This is the second consecutive quarter wherein higher margin SS orders have stayed above ₹ 500 crore mark, auguring well for RMTL.

## Capex revival in key user industries to provide demand push

The Indian oil & gas sector is at the cusp of a capex revival on the back of a) enhancement of domestic refining capacity and b) upgradation of refineries to meet the BS VI standard by 2020. Furthermore, in the medium to longer term horizon, notable capex is planned in power (both thermal and nuclear), city gas distribution (CGD), etc. This is expected to enhance the overall demand for pipes.

## Valuation & Outlook

Going forward, the firm order book in both carbon steel as well as stainless steel augurs well for the company. We value the stock on 10x FY21E EV/EBITDA and arrive at a target price of ₹ 1150. We maintain our **BUY** rating on the stock. We remain positive on the overall demand prospects given significant investments planned by the government in the oil & gas sector and city gas distribution and water transportation boosting overall pipes demand (both stainless steel and carbon steel).



### Particulars

Particulars	
Market Capitalisation (₹ crore)	4,495
Total Debt (FY19) (₹ crore)	65
Cash & Cash Eq (FY19) (₹ crore)	345
EV (₹ crore)	4,216
52 week H/L (₹)	1030 / 780
Equity Capital (₹ crore)	9
Face Value	₹ 2

### Key Highlights

- The stainless steel division reported sales of 5813 tonnes (up 27% QoQ). The carbon steel division sales came in at 50791 tonnes (down 13% QoQ)
- Ratnamani's order book as on October 1, 2019 was at ₹ 1926 crore wherein stainless steel orders were at ₹ 536 crore and carbon steel stood at ₹1390.
- We maintain our BUY rating with a target of ₹1150

### Research Analyst

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## Key Financial Summary

(Year-end March)	FY17	FY18	FY19	FY20E	FY21E	CAGR (19-21E)
Total Operating Income (₹ crore)	1,411.7	1,766.8	2,754.9	2,628.3	2,999.3	4.3
EBITDA (₹ crore)	257.4	265.9	406.5	452.2	517.4	12.8
EBITDA Margin	18.2%	15.1%	14.8%	17.2%	17.3%	
Net Profit (₹ crore)	144.3	151.8	252.9	331.0	369.8	20.9
EPS (₹)	30.9	32.5	54.1	70.8	79.1	
EV/EBITDA (x)	17.4	17.2	10.9	10.1	8.6	
RoCE (%)	17.8	17.1	24.3	22.9	23.4	
RoE (%)	12.2	11.6	16.6	18.4	17.5	

Exhibit 1: Variance Analysis

	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Comments
<b>Total Operating Income</b>	610.3	730.3	-16%	587.7	4%	
Other Income	21.5	10.6	103%	11.1	95%	
Raw Material Expense	378.9	483.4	-22%	387.1	-2%	
Employee Expense	39.4	38.1	3%	35.5	11%	
Other Expenses	75.5	92.8	-19%	62.1	22%	
Total Operating Expenses	493.8	614.3	-20%	484.7	2%	
<b>EBITDA</b>	116.5	116.0	0%	103.0	13%	
EBITDA Margin (%)	19.1	15.9	320 bps	17.5	160 bps	Higher order book share of SS segment aids improvement in EBITDA margins
Depreciation	14.4	15.9	-9%	14.3	1%	
Interest	5.7	4.2	35%	3.8	50%	
Exceptional Items	0.0	-	NA	-	NA	
PBT	117.9	106.5	11%	95.9	23%	
Tax Outgo	41.5	37.2	11%	33.2	25%	
<b>PAT</b>	76.4	69.3	10%	62.7	22%	
<b>Key Metrics (Volume in tonne)</b>						
Stainless Steel (SS)	5,813	5,651	3%	4,576	27%	SS volumes were supported by healthy demand from Oil and gas segment
Carbon Steel (CS)	50,791	76,653	-34%	58,232	-13%	Carbon steel volume lower due to change in raw material supplier

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

( <b>₹</b> Crore)	FY20E			FY21E			Comments
	New	Old	% Change	New	Old	% Change	
Revenue	2,628.3	2,817.3	-6.7	2,999.3	3,117.3	-3.8	Topline estimate revised downwards primarily on the back of downward revision of CS volume
EBITDA	452.2	440.3	2.7	517.4	491.0	5.4	Broadly maintain EBITDA estimates
EBITDA Margin (%)	17.2	15.6	158 bps	17.3	15.8	150 bps	Upwards revise EBITDA margin estimate on back of healthy H1 margins
PAT	331.0	275.9	20.0	369.8	312.8	18.2	PAT estimate revised higher aided by incorporation of new corporatetax rate
EPS (₹)	70.8	59.0	20.0	79.1	66.9	18.2	

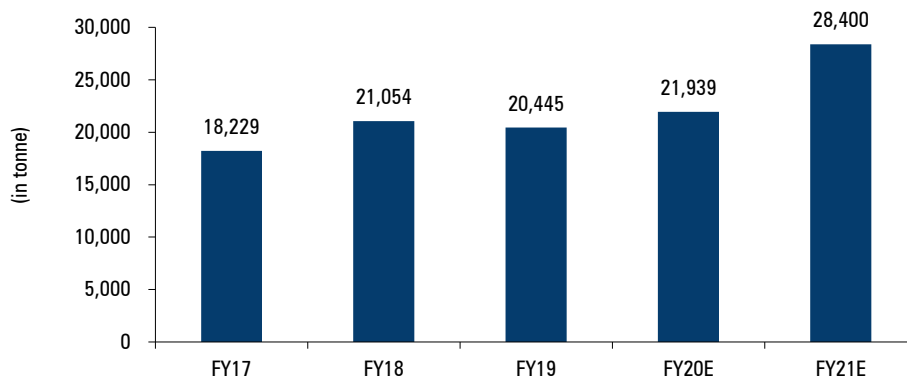
Source: Company, ICICI Direct Research

## Conference Call highlights

- For current fiscal year, the topline is expected to be flattish YoY. Going forward, from the next fiscal year, the management expects ~10-15% growth in both topline and bottomline in the next couple of years, driven by current capacity additions both in the LSAW, SS segments
- The management has guided at EBITDA margins staying in the range of 16-18% for the current fiscal.
- As on November 2019, total order book is at ~₹ 1830-1850 crore. Of this, ~₹ 575 crore order book is for SS segment, ~₹ 1032 crore is for carbon steel while ~₹ 240 crore is for the LSAW segment
- New LSAW capacity is likely to start trial runs in Q4FY20. The management is targeting capacity utilisation to the tune of ~25-30% in FY21. Ramping up to full utilisation level would take two to three years. The management would be focusing on project piping segment for the new LSAW capacity. Later, if any spare capacity is available, it would be utilised for catering to the line piping demand
- For the new SS segment, the management is targeting capacity utilisation of ~30-40% during FY21
- As long term debt to the tune of ~₹ 150 crore was raised, interest costs were higher during Q2FY20 both on a QoQ as well as YoY basis
- Last year, the company reported PBT to the tune of ₹ 370 crore. In case of similar profitability in the current fiscal, ~10% lower tax would entail a reduction in tax liability of ~₹ 35-37 crore. The management is currently in discussion with tax experts with regard to moving towards the new lower corporate tax rate regime. The final decision on the same would be finalised in the next month or two

## Financial story in charts

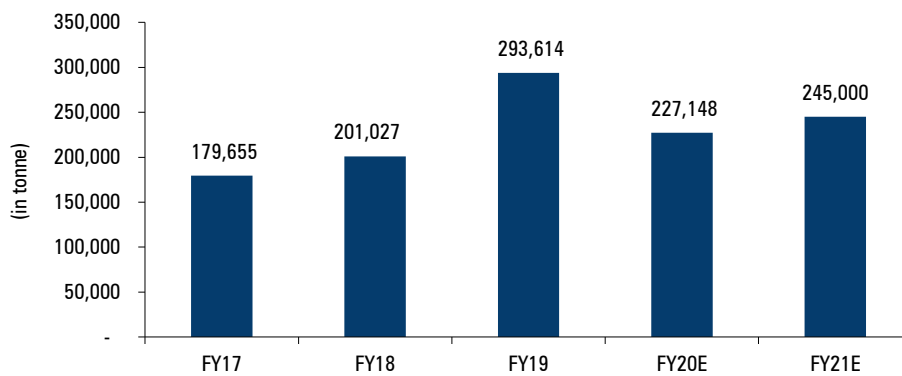
Exhibit 3: Trend in stainless steel volumes



For the stainless steel segment, we model sales volume of 21939 tonnes for FY20E and 28400 tonnes for FY21E

Source: Company, ICICI Direct Research

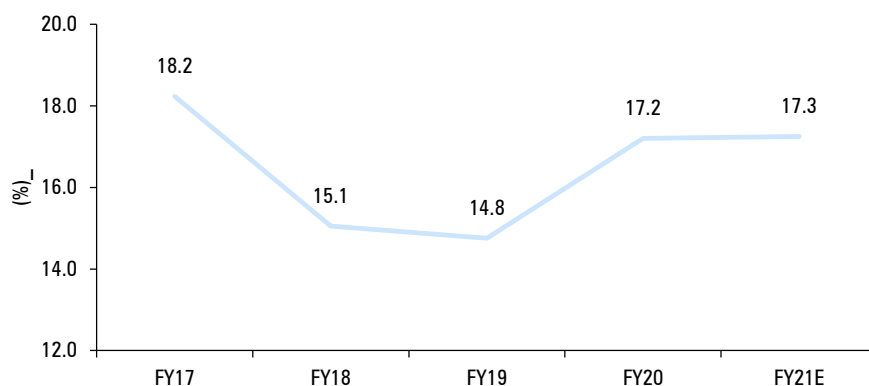
Exhibit 4: Trend in carbon steel volumes



For the carbon steel segment, we model sales volume of 227148 tonnes for FY20E and 245000 tonnes for FY21E

Source: Company, ICICI Direct Research

Exhibit 5: Trend in EBITDA margin (in %)



Over the next couple of years, we expect EBITDA margin to hover at ~17.2-17.3% range

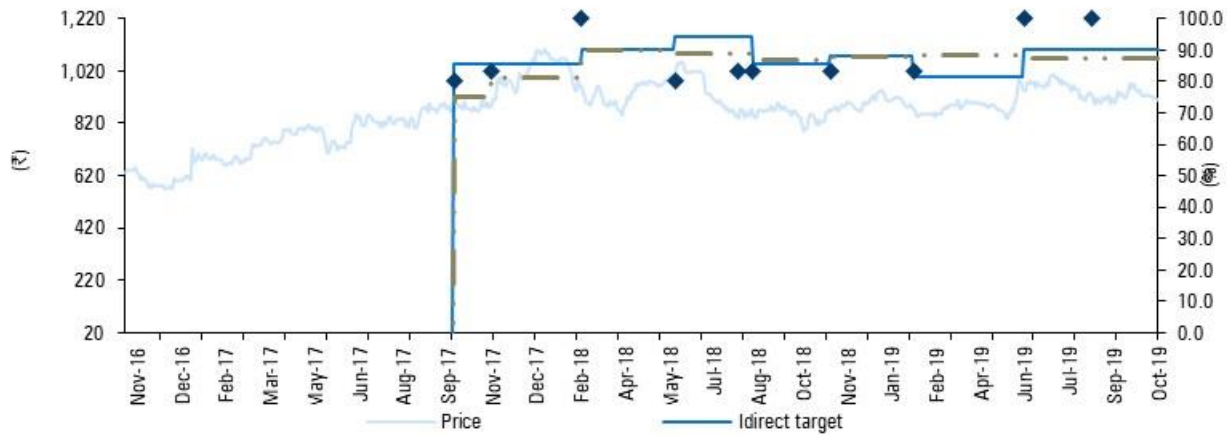
Source: Company, ICICI Direct Research

Exhibit 6: Valuation

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	P/BV (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	1,411.7	(17.8)	30.9	(12.0)	32.1	3.9	17.9	12.2	17.8
FY18	1,766.8	25.2	32.5	5.2	30.5	3.5	17.7	11.6	17.1
FY19	2,754.9	55.9	54.1	66.6	18.3	3.0	11.2	16.6	24.3
FY20E	2,628.3	(4.6)	70.8	30.9	14.0	2.6	10.4	18.4	22.9
FY21E	2,999.3	14.1	79.1	11.7	12.5	2.2	8.9	17.5	23.4

Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Latest Filing D % O/S	Position	Change	
1	Sanghvi (Prakash Mishrimal)	30-Sep-19	15%	7.19M	0
2	Nalanda Capital Pte Ltd	30-Sep-19	9%	4.31M	0
3	Sanghvi (Jayantilal Mishrimal)	30-Sep-19	8%	3.91M	0
4	Kotak Mahindra Asset Management Company Ltd.	30-Sep-19	4%	1.97M	-0.03M
5	Sanghvi (Shantilal Mishrimal)	30-Sep-19	4%	1.82M	0
6	L&T Investment Management Limited	30-Sep-19	3%	1.61M	0.01M
7	Sanghvi (Reshmidevi Prakash)	30-Sep-19	3%	1.56M	0
8	Sanghvi (Chunilal Fojaji)	30-Sep-19	3%	1.54M	0
9	Sanghvi (Vimla Pavankumar)	30-Sep-19	3%	1.42M	0
10	Vaghela (Divya)	30-Sep-19	3%	1.39M	-0.01M

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys		Sells			
Investor name	Value (M)	Shares (M)	Investor name	Value (M)	Shares (M)
Edelweiss Asset Management Ltd.	0.23	0.02	Kotak Mahindra Asset Management Company Ltd.	-0.34	-0.03
Mackenzie Financial Corporation	0.17	0.01	Invesco Asset Management (India) Private Limited	-0.13	-0.01
L&T Investment Management Limited	0.11	0.01	Vaghela (Divya)	-0.11	-0.01
Connor, Clark & Lunn Investment Management Ltd.	0.09	0.01	ICICI Prudential Asset Management Co. Ltd.	-0.07	-0.01
Taurus Asset Management Co. Ltd.	0.07	0.01	Essel Finance AMC Limited	-0.00	-0.00

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19
Promoter	60.1	60.1	60.1
Others	39.9	39.9	39.9
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20	FY21E
<b>Total Operating Income</b>	<b>1,766.8</b>	<b>2,754.9</b>	<b>2,628.3</b>	<b>2,999.3</b>
Growth (%)	25.2%	55.9%	-4.6%	14.1%
Total Operating Expenditure	1,500.8	2,348.4	2,176.1	2,482.0
<b>EBITDA</b>	<b>265.9</b>	<b>406.5</b>	<b>452.2</b>	<b>517.4</b>
Growth (%)	3.3%	52.9%	11.2%	14.4%
Interest & Finance Cost	9.9	14.8	17.8	13.3
Depreciation	60.6	62.4	67.8	84.8
Other Income	32.4	41.2	75.7	75.0
PBT before Exceptional Items	227.9	370.6	442.3	494.2
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT	227.9	370.6	442.3	494.2
Total Tax	76.1	117.6	111.3	124.4
<b>PAT</b>	<b>151.8</b>	<b>252.9</b>	<b>331.0</b>	<b>369.8</b>
Growth (%)	5.2%	66.6%	30.9%	11.7%
<b>EPS</b>	<b>32.5</b>	<b>54.1</b>	<b>70.8</b>	<b>79.1</b>

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20	FY21E
<b>Profit/(Loss) after taxation</b>	<b>151.8</b>	<b>252.9</b>	<b>331.0</b>	<b>369.8</b>
Add: Depreciation & Amortization	60.6	62.4	67.8	84.8
Net (Inc) / dec in Current Assets	(411.5)	160.7	(98.8)	(175.2)
Net Inc / (dec) in Current Liabilities	137.8	105.2	19.8	85.4
<b>CF from operating activities</b>	<b>(61.3)</b>	<b>581.2</b>	<b>319.7</b>	<b>364.9</b>
(Inc)/dec in Investments	73.8	(203.1)	200.0	(100.0)
(Inc)/dec in Fixed Assets	(66.5)	(188.8)	(600.0)	(100.0)
Others	-	-	-	-
<b>CF from investing activities</b>	<b>7.4</b>	<b>(391.9)</b>	<b>(400.0)</b>	<b>(200.0)</b>
Inc / (Dec) in Equity Capital	-	-	-	-
Inc / (Dec) in Loans	78.9	(13.5)	150.0	(160.4)
Dividend & Dividend Tax	(32.8)	(39.1)	(54.7)	(54.7)
Others	(2.3)	0.3	(7.6)	(0.3)
<b>CF from financing activities</b>	<b>43.8</b>	<b>(52.3)</b>	<b>87.8</b>	<b>(215.3)</b>
Net Cash flow	(10.1)	137.0	7.5	(50.4)
Opening Cash	14.7	4.6	141.6	149.1
<b>Closing Cash</b>	<b>4.6</b>	<b>141.6</b>	<b>149.1</b>	<b>98.7</b>

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20	FY21E
<b>Equity Capital</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>
Reserve and Surplus	1,299	1,513	1,789	2,104
Total Shareholders funds	1,308	1,522	1,798	2,113
Total Debt	79	65	215	55
Deferred Tax Liability	43	36	36	35
Other Non Current Liabilities	-	7	-	-
<b>Source of Funds</b>	<b>1,430</b>	<b>1,630</b>	<b>2,049</b>	<b>2,204</b>
Gross Block - Fixed Assets	977	1,034	1,734	1,884
Accumulated Depreciation	532	594	662	747
Net Block	445	440	1,072	1,137
Capital WIP	47	179	79	29
Net Fixed Assets	492	619	1,151	1,166
Investments	0	203	3	103
Inventory	574	590	720	822
Cash	5	142	149	99
Debtors	558	462	432	493
Loans & Advances & Other CA	117	37	35	48
Total Current Assets	1,254	1,230	1,337	1,461
Creditors	193	292	288	345
Provisions & Other CL	124	130	153	182
Total Current Liabilities	317	422	442	527
Net Current Assets	937	809	895	934
Other Assets	-	-	-	-
<b>Application of Funds</b>	<b>1,430</b>	<b>1,630</b>	<b>2,049</b>	<b>2,204</b>

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20	FY21E
<b>Per share data (₹)</b>				
EPS	32.5	54.1	70.8	79.1
Cash EPS	45.5	67.5	85.3	97.3
BV	279.9	325.7	384.8	452.3
DPS	6.0	9.0	10.0	10.0
Cash Per Share	113.8	127.2	141.7	159.8
<b>Operating Ratios (%)</b>				
EBITDA margins	15.1	14.8	17.2	17.3
PBT margins	12.9	13.5	16.8	16.5
Net Profit margins	8.6	9.2	12.6	12.3
Inventory days	119	78	100	100
Debtor days	115	61	60	60
Creditor days	40	39	40	42
<b>Return Ratios (%)</b>				
RoE	11.6	16.6	18.4	17.5
RoCE	17.1	24.3	22.9	23.4
RoIC	14.9	26.3	21.1	20.8
<b>Valuation Ratios (x)</b>				
P/E	29.6	17.8	13.6	12.2
EV / EBITDA	17.2	10.9	10.1	8.6
EV / Revenues	2.6	1.6	1.7	1.5
Market Cap / Revenues	2.5	1.6	1.7	1.5
Price to Book Value	3.4	3.0	2.5	2.1
<b>Solvency Ratios</b>				
Debt / Equity	0.1	0.0	0.1	0.0
Debt/EBITDA	0.3	0.2	0.5	0.1
Current Ratio	3.9	2.6	2.7	2.6
Quick Ratio	2.1	1.2	1.1	1.0

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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