

Steady performance...

Ratnamani Metals and Tubes (RMTL) reported a steady performance in Q1FY21 wherein the topline came in higher than our estimate while EBITDA came in marginally lower than our estimate. Ensuing PAT came in broadly in line with our estimate. For Q1FY21, net income from operations was at ₹ 578 crore (down 2% YoY, 8% QoQ), higher than our estimate of ₹ 517 crore. Carbon steel (CS) sales volume was at 58546 tonnes (up 25% YoY), higher than our estimate of 50750 tonnes. Stainless steel (SS) sales volume was at 4024 tonnes (down 12% YoY), lower than our estimate of 4550 tonnes. On account of higher sales volume of carbon steel business (relatively a lower margin business compared to stainless steel business), EBITDA margin came in lower than our estimate. EBITDA margin was at 12.7% (15.3% in Q4FY20, 17.5% in Q1FY20), lower than our estimate of 15.0%. EBITDA came in at ₹ 74 crore (down 29% YoY) vs. our estimate of ₹ 78 crore. PAT came in at ₹ 50 crore (down 21% YoY), broadly in line with our estimate of ₹ 52 crore.

Post decline in Q1FY21; order book to increase, going forward

RMTL's order book as on August 1, 2020 was at ₹ 860 crore (₹ 1380 crore as on June 1, 2020). Higher margin SS order book was at ₹ 483 crore (₹ 660 crore as on June 1, 2020) with CS orders of ₹ 377 crore (₹ 720 crore as on June 1, 2020). In terms of domestic and exports mix, domestic orders were at ₹ 533 crore while export orders were at ₹ 327 crore. Of the ₹ 533 crore domestic order book, ₹ 373 crore is in the SS segment while balance ₹ 160 crore is in the CS segment. Of the ₹ 327 crore export order book: ₹ 110 crore is in the SS segment while the balance ₹ 217 crore is in the CS segment. While in Q1FY21 Ratnamani's order book declined sequentially on account of Covid-19 related shutdowns, the same is likely to gain traction on account of gradual opening up of the economy. Going forward, we expect order book position to increase from Q1FY21 levels.

For FY21E, EBITDA margins expected in ~16-18% range...

For FY21E, the management has given a topline guidance in the range of ₹ 2000-2400 crore. Furthermore, EBITDA margins (inclusive of other income) are likely to hover between 16% and 18%.

Valuation & Outlook

Ratnamani reported a steady performance for Q1FY21. While in Q1FY21, company's order book declined sequentially on account of Covid-19 related shutdowns, the same is likely to gain traction on account of gradual opening up of economy. We value the stock on 20x FY22E PE and arrive at a target price of ₹ 1320. We maintain our BUY rating on the stock.



Particulars

Particulars	
Market Capitalisation (₹ crore)	5,252
Total Debt (FY20) (₹ crore)	220
Cash & Cash Eq (FY20) (₹ crore)	328
EV (₹ crore)	5,144
52 week H/L (₹)	1390 / 719
Equity Capital (₹ crore)	9.3
Face Value	₹ 2

Key Highlights

- Stainless steel division reported sales of 4024 tonnes (down 12% YoY). Carbon steel division sales at 58546 tonnes (up 25% YoY)
- Order book as on August 1, 2020 was at ₹ 860 crore with stainless steel orders at ₹ 483 crore and carbon steel at ₹ 377 crore
- Maintain BUY on stock with revised target price of ₹ 1320

Research Analyst

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Key Financial Summary

			'19	FY20E	FY21E	FY22E
Net Sales	1,412	1,767	2,755	2,583	2,258	2,856
EBITDA	257	266	407	424	333	435
EBITDA Margin (%)	18.2	15.1	14.8	16.4	14.8	15.3
PAT	144	152	253	307	231	309
EPS (₹)	30.9	32.5	54.1	65.8	49.5	66.0
EV/EBITDA (x)	20.4	20.0	12.7	12.5	16.0	11.4
RoCE (%)	17.8	17.1	24.3	22.2	14.8	19.8
RoE (%)	12.2	11.6	16.6	18.0	12.3	14.4

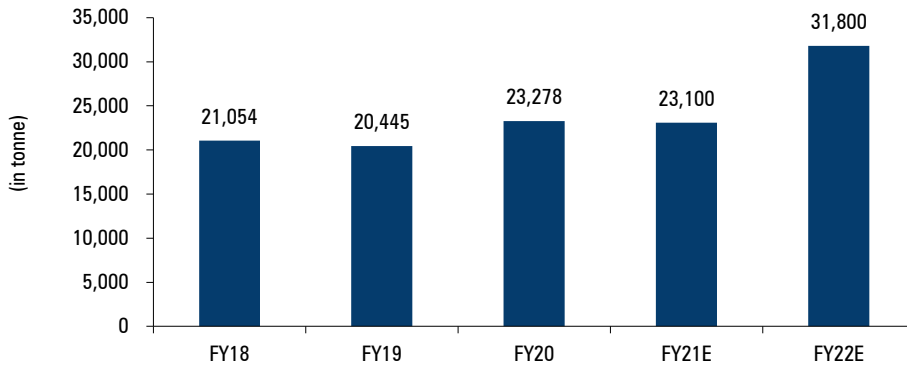
Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Operating Income	578.1	517.0	587.7	-1.6%	629.1	-8.1%	Topline came in higher than our estimate
Other Income	12.7	12.0	11.1	14.4%	14.3	-11.2%	
Raw Material Expense	414.7	341.0	387.1	7.1%	419.4	-1.1%	
Employee Expense	32.9	36.0	35.5	-7.3%	33.1	-0.6%	
Other Expenses	56.8	62.0	62.1	-8.5%	80.5	-29.4%	
Total Operating Expenses	504.4	439.0	484.7	4.1%	533.1	-5.4%	
EBITDA	73.6	78.0	103.0	-28.5%	96.0	-23.3%	EBITDA came in lower than our estimate
EBITDA Margin (%)	12.7	15.0	17.5	-479 bps	15.3	-257 bps	EBITDA margin came in lower than our estimate
Depreciation	14.3	15.0	14.3	0.0%	14.6	-2.1%	
Interest	5.3	3.0	3.8	39.5%	5.6	-5.4%	
Exceptional Items	0.0	0.0	-	NA	0.0	NA	
PBT	66.7	72.0	95.9	-30.4%	90.1	-26.0%	
Tax Outgo	17.0	19.0	33.2	-48.8%	22.8	-25.4%	
PAT	49.7	52.0	62.7	-20.7%	67.3	-26.2%	PAT came broadly in line with our estimate
Key Metrics (Volume in tonne)							
Stainless Steel (SS)	4,024	4,550	4,576	-12.1%	6,643	-39.4%	Stainless steel volume came in lower than our estimate
Carbon Steel (CS)	58,546	50,750	46,879	24.9%	60,663	-3.5%	Carbon steel volume came in higher than our estimate

Source: Company, ICICI Direct Research

Financial story in charts

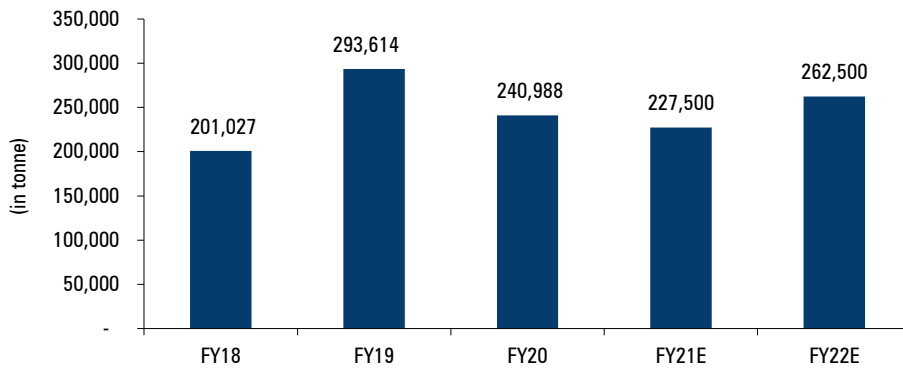
Exhibit 2: Trend in stainless steel volumes (in tonnes)



For the stainless steel segment, we model sales volume of 23100 tonnes for FY21E to 31800 tonnes for FY22E

Source: Company, ICICI Direct Research

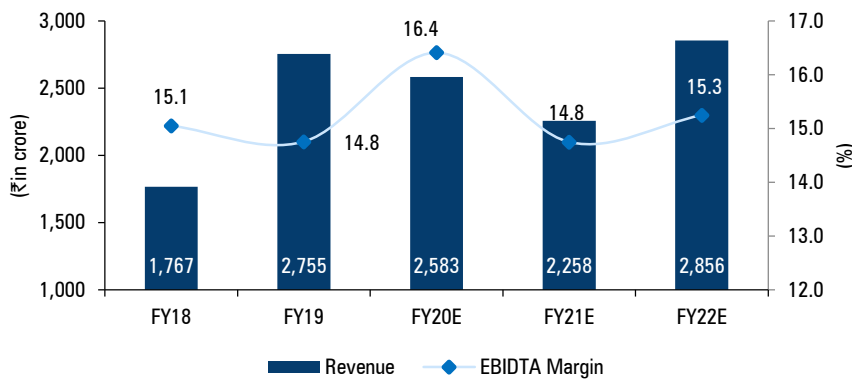
Exhibit 3: Trend in carbon steel volumes (in tonnes)



For the carbon steel segment, we model sales volume of 240988 tonnes for FY21E and 262500 tonnes for FY22E

Source: Company, ICICI Direct Research

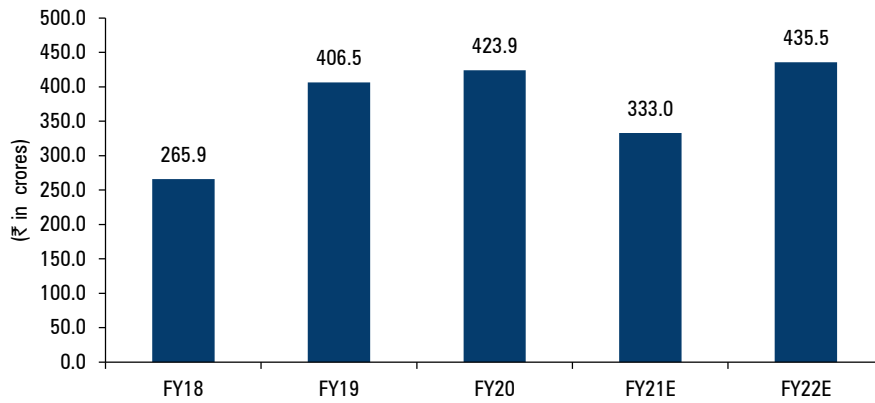
Exhibit 4: Trend in revenue & EBITDA margin (in %)



Over the next two years, we expect EBITDA margin to hover in ~15% range

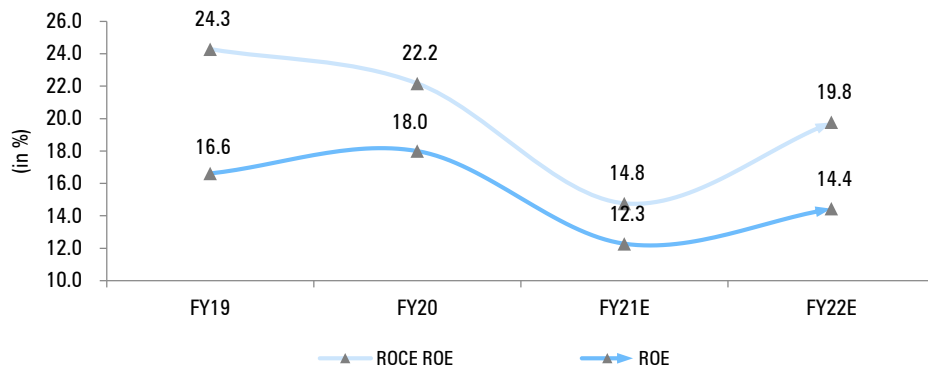
Source: Company, ICICI Direct Research

Exhibit 5: Trend in EBITDA (in crore)



Source: Company, ICICI Direct Research

Exhibit 6: Trend in RoE & RoCE (in %)



Source: Company, ICICI Direct Research

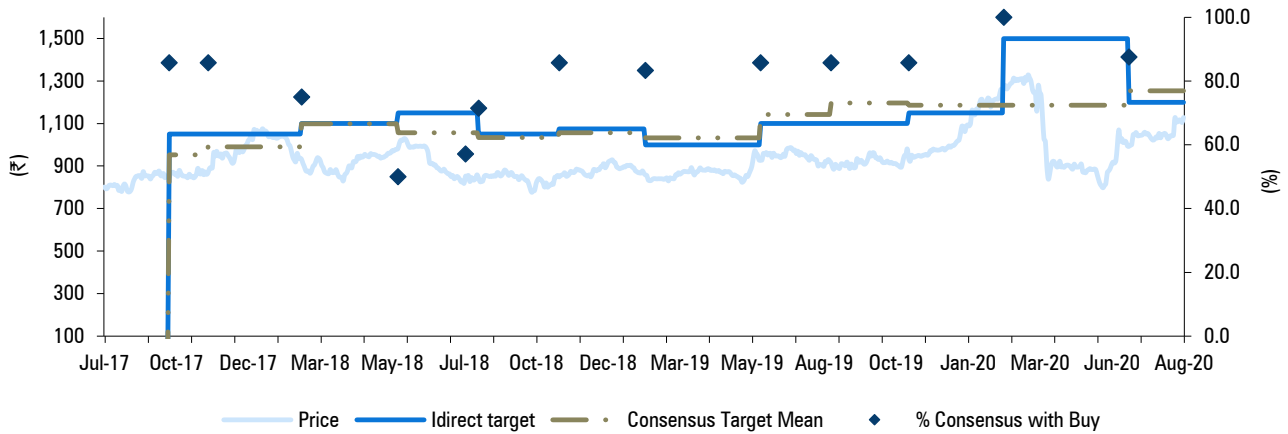
Exhibit 7: Valuation Matrix

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	P/BV (x)	EV/EBIT DA (x)	RoNW (%)	RoCE (%)
FY18	1,766.8	25.2	32.5	5.2	34.6	4.0	20.0	11.6	17.1
FY19	2,754.9	55.9	54.1	66.6	20.8	3.5	12.7	16.6	24.3
FY20	2,583.1	(6.2)	65.8	21.6	17.1	3.1	12.5	18.0	22.2
FY21E	2,257.9	(12.6)	49.5	(24.8)	22.7	2.8	16.0	12.3	14.8
FY22E	2,855.6	26.5	66.0	33.4	17.0	2.5	11.4	14.4	19.8

Source: ICICI Direct Research, Company



Exhibit 8: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 9: Top 10 Shareholders

Rank	Name	Latest Filing	% O/S	Position (m)	Change (m)
1	Sanghvi Prakash Mish	31-03-2020	15.5	7.2	0.0
2	Sanghvi Jayanti M	31-03-2020	9.4	4.4	0.0
3	SANGHVI JAYANTILAL M	11-03-2019	8.4	3.9	0.0
4	NALANDA INDIA FUND L	31-03-2020	6.1	2.9	0.0
5	L&T MUTUAL FUND	30-06-2020	5.5	2.6	0.0
6	L&T INVESTMENT MANAG	31-03-2020	5.5	2.6	0.3
7	SANGHVI SHANTILAL M	31-03-2020	4.9	2.3	0.0
8	SANGHVI CHUNILAL M	31-03-2020	3.6	1.7	0.0
9	KOTAK MAHINDRA ASSET	31-07-2020	3.5	1.6	0.0
10	SANGHVI RESHMIDEVI P	31-03-2020	3.4	1.6	0.0

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20
Promoter	60.1	60.2	60.2
Others	39.9	39.8	39.8
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	2,754.9	2,583.1	2,257.9	2,855.6
Growth (%)	55.9%	-6.2%	-12.6%	26.5%
Total Operating Expenditure	2,348.4	2,159.2	1,924.9	2,420.1
EBITDA	406.5	423.9	333.0	435.5
Growth (%)	52.9%	4.3%	-21.4%	30.8%
Interest & Finance Cost	14.8	21.0	13.3	10.0
Depreciation	62.4	58.5	58.6	73.0
Other Income	41.2	61.8	48.0	60.0
PBT before Exceptional Items	370.6	406.3	309.1	412.4
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT	370.6	406.3	309.1	412.4
Total Tax	117.6	98.8	77.8	103.8
PAT	252.9	307.5	231.3	308.6
Growth (%)	66.6%	21.6%	-24.8%	33.4%
EPS	54.1	65.8	49.5	66.0

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Equity Capital	9.3	9.3	9.3	9.3
Reserve and Surplus	1,512.5	1,698.8	1,874.5	2,127.5
Total Shareholders funds	1,521.9	1,708.2	1,883.8	2,136.9
Total Debt	65.4	220.0	299.6	0.0
Deferred Tax Liability	35.9	30.7	30.4	30.2
Other Non Current Liabilities	7.3	10.8	0.0	0.0
Source of Funds	1,630.5	1,969.6	2,213.8	2,167.0
Gross Block - Fixed Assets	1,034.4	1,152.7	1,302.7	1,622.7
Accumulated Depreciation	594.3	652.8	711.4	784.5
Net Block	440.1	499.9	591.3	838.3
Capital WIP	178.6	371.5	321.5	51.5
Net Fixed Assets	618.7	871.4	912.7	889.7
Investments	203.2	154.9	204.9	104.9
Inventory	590.0	859.2	866.1	977.9
Cash	141.6	173.3	209.6	276.3
Debtors	462.1	370.2	433.0	469.4
Loans & Advances & Other C/	36.7	114.9	151.6	163.7
Total Current Assets	1,230.4	1,517.5	1,660.3	1,887.3
Creditors	291.9	264.2	198.0	273.8
Provisions & Other CL	129.9	310.0	366.1	441.1
Total Current Liabilities	421.7	574.2	564.1	714.9
Net Current Assets	808.6	943.3	1,096.2	1,172.4
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	1,630.5	1,969.6	2,213.8	2,167.0

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/(Loss) after taxation	252.9	307.5	231.3	308.6
Add: Depreciation & Amortization	62.4	58.5	58.6	73.0
Net (Inc) / dec in Current Assets	160.7	(255.5)	(106.5)	(160.4)
Net Inc / (dec) in Current Liabilities	105.2	152.5	(10.1)	150.8
CF from operating activities	581.2	263.0	173.3	372.1
(Inc)/dec in Investments	(203.1)	48.3	(50.0)	100.0
(Inc)/dec in Fixed Assets	(188.8)	(311.2)	(100.0)	(50.0)
Others	-	-	-	-
CF from investing activities	(391.9)	(262.9)	(150.0)	50.0
Inc / (Dec) in Equity Capital	-	-	-	-
Inc / (Dec) in Loans	(13.5)	154.6	79.6	(299.6)
Dividend & Dividend Tax	(39.1)	(65.6)	(55.6)	(55.6)
Others	0.3	(57.4)	(11.0)	(0.2)
CF from financing activities	(52.3)	31.6	13.0	(355.5)
Net Cash flow	137.0	31.7	36.3	66.7
Opening Cash	4.6	141.6	173.3	209.6
Closing Cash	141.6	173.3	209.6	276.3

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	54.1	65.8	49.5	66.0
Cash EPS	67.5	78.3	62.0	81.7
BV	325.7	365.6	403.1	457.3
DPS	9.0	12.0	12.0	12.0
Cash Per Share	127.2	139.7	152.3	167.9
Operating Ratios (%)				
EBITDA margins	14.8	16.4	14.8	15.3
PBT margins	13.5	15.7	13.7	14.4
Net Profit margins	9.2	11.9	10.2	10.8
Inventory days	78	121	140	125
Debtor days	61	52	70	60
Creditor days	39	37	32	35
Return Ratios (%)				
RoE	16.6	18.0	12.3	14.4
RoCE	24.3	22.2	14.8	19.8
RoIC	26.3	25.6	16.3	19.7
Valuation Ratios (x)				
P/E	20.8	17.1	22.7	17.0
EV / EBITDA	12.7	12.5	16.0	11.4
EV / Revenues	1.9	2.1	2.4	1.7
Market Cap / Revenues	1.9	2.0	2.3	1.8
Price to Book Value	3.5	3.1	2.8	2.5
Solvency Ratios				
Debt / Equity	0.0	0.1	0.2	0.0
Debt/EBITDA	0.2	0.5	0.9	0.0
Current Ratio	2.6	2.3	2.6	2.3
Quick Ratio	1.2	0.8	1.0	0.9

Source: Company, ICICI Direct Research



Exhibit 15: ICICI Direct coverage universe (Metals and Mining)

	CMP		TP	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			Rating	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E
Coal India	129	150	Hold	80013	27.1	22.2	22.9	5.0	6.1	5.9	2.8	4.4	4.5	55.5	40.2	40.1	51.9	39.0	36.9
Hindalco	174	160	Hold	38750	18.2	8.5	20.4	8.3	17.9	7.5	4.9	6.9	5.1	7.8	4.8	7.2	7.0	3.0	6.7
Hind Zinc	231	195	Hold	97542	16.1	12.4	18.8	11.8	15.3	10.1	6.6	8.2	4.8	20.8	20.0	26.0	16.9	14.5	19.0
JSW Steel	253	210	Hold	61204	19.5	3.3	22.2	10.5	61.3	9.2	8.9	11.7	6.5	7.2	4.5	10.6	12.7	2.1	12.5
NMDC	94	90	Hold	28767	11.8	9.4	10.8	8.0	10.0	8.7	4.2	6.3	4.7	20.3	11.6	12.9	13.1	9.1	9.9
Ratnamani	1124	1200	Buy	5252	65.8	49.5	66.0	17.1	22.7	17.0	12.5	16.0	11.4	22.2	14.8	19.8	18.0	12.3	14.4
Graphite Ind.	186	200	Hold	3473	2.0	24.0	33.0	85.1	8.3	5.9	-21.8	2.8	1.5	-2.6	9.2	13.3	1.0	9.5	12.6
Tata Steel	413	350	Hold	49707	41.4	-16.3	46.9	7.9	NA	7.0	8.5	12.0	5.7	5.0	2.4	8.2	6.4	-2.6	6.6

Source: Company, ICICI Direct Research



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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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