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Powered by the Sharekhan 3R Research Philosophy

Ratnamani Metals & Tubes

Rising order inflow boosts growth prospects

Capital Goods	Sharekhan code: RATNAMANI

Reco/View: **Buy**	↔	CMP: **Rs. 2,044**	Price Target: **Rs. 2,500**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

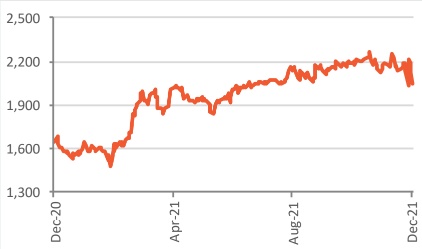
Company details

Market cap:	Rs. 9,550 cr
52-week high/low:	Rs. 2,300 / 1,455
NSE volume: (No of shares)	0.4 lakh
BSE code:	520111
NSE code:	RATNAMANI
Free float: (No of shares)	1.86 cr

Shareholding (%)

Promoters	60.2
FII	11.9
DII	15.3
Others	12.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6	-3	2	24
Relative to Sensex	-3	-2	-9	-4

Sharekhan Research, Bloomberg

Summary

- New order bookings grew by 2.3x y-o-y to Rs. 2,700 crore during April-Nov'21 and management sees monthly order execution of Rs. 250-300 crore. Thus, we believe that management is on track to achieve revenue growth guidance of 31% y-o-y for FY22.
- Large opportunities from oil & gas, CGD and water transportation sectors would result in annual order inflow of over Rs. 3,000 crore for next couple of years while ramp-up in utilisation of recently-expanded carbon steel/stainless steel capacity would take margin to historical average of 17-18%.
- Overall, we expect RMTL's revenue/EBITDA/PAT to clock 24%/23%/21% CAGR over FY21-24E given potential improvement in order execution with likely pick-up in capex plan of domestic clients and higher export order with approval of RMTL's new plants by international customers.
- Hence, we maintain a Buy on RMTL with an unchanged PT of Rs. 2,500 as RMTL's dominant domestic position makes it key beneficiary of demand revival in steel tubes and pipes. Stock trades at 23.4x its FY2023E EPS and 19.7x its FY2024E EPS.

Ratnamani Metals & Tubes Limited (RMTL) is expected to be key beneficiary of revival in expansion/ capex plan in the oil & gas and CGD space and new opportunities created by pipeline requirement for water transportation under the government's 'Har Ghar Nal Se Jal' initiative. Thus, we expect annual order inflow of >Rs. 3,000 crore over next couple of years, which would drive a strong 24% revenue CAGR over FY21-24E while potential improvement in utilisation of recently expanded carbon steel/stainless steel capacity would drive up margins (management's EBITDA margin guidance of 16-18% could see some upside in case of rise in stainless steel/export orders).

- **Improving order intake and execution - Makes us confident on 31% y-o-y revenue growth guidance for FY2022:** RMTL has seen a marked improvement in new order booking which increased by 2.3x y-o-y to ~Rs. 2,700 crore during April-November 2021 as compared to only Rs. 1200 crore during April-November 2020. This increased RMTL's order book by 48% y-o-y to Rs. 1741 crore and the monthly execution run-rate of Rs. 250-300 crore makes us confident that RMTL would be able to achieve its FY2022 revenue guidance of Rs. 3,000 crore, which implies a 31% y-o-y growth.
- **Huge growth potential across oil & gas, CGD and water transportation - RMTL could add ~Rs. 3,000 crore of new orders annually:** The management sees large opportunities from oil & gas (annual market size of Rs. 5,000-6,000 crore), CGDs (Rs. 2,000-2,500 crore annual market potential) and water transportation (7,500-8,000 crore annual opportunity size) supported by the government's 'Har Ghar Nal Se Jal' initiative. Moreover, removal of export rebate on certain steel products and the recent introduction of export tax on certain steel products by China would be beneficial for RMTL in terms of incremental export orders (that constitute 19-20% of overall order book) as India becomes more competitive. With more than 20% domestic market share, we believe that RMTL could add ~Rs. 3,000 crore of new orders annually and thus expect RMTL's revenue to grow at 24% CAGR over FY21-24E and reach Rs. 4,376 crore (versus management guidance of Rs. 4500 crore by FY24E).
- **Potential improvement in utilisation of new capacities could improve margins:** The utilisation rate for the company's recent expansion of 1,50,000 tonnes/30,000 tonnes for carbon steel/ stainless steel capacity is very low currently. With new orders likely to flow in the utilisation for the expanded capacities would improve and is expected to improve margin (management guidance of 16-18%).

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 2,500: RMTL is well-positioned to benefit from a potential increase in order intake, especially from the high-margin SS pipes segment. We remain constructive on RMTL, led by a strong balance sheet and ability to generate superior return ratios despite capacity expansions. At CMP, the stock trades at 23.4x its FY2023E EPS and 19.7x its FY2024E EPS, which is justified, given strong revenue/earnings growth potential in the medium to long term. We maintain a Buy rating on RMTL with an unchanged PT of Rs. 2,500.

Key Risks

- Softness in demand or delay in commissioning of plants might affect revenue growth momentum.
- Inability to undertake adequate and timely price hikes to mitigate volatility in input costs might affect margins.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Net Sales	2,298.1	2,984.7	3,641.0	4,376.1
OPM (%)	17.4	15.6	16.3	17.2
Adjusted PAT	276.0	303.6	407.9	483.7
% YoY growth	*-10.5*	*10.0*	*34.4*	*18.6*
EPS (Rs.)	59.1	65.0	87.3	103.5
PER (x)	34.6	31.5	23.4	19.7
P/BV (x)	4.8	4.2	3.6	3.1
EV/EBITDA (x)	24.1	21.0	16.2	12.5
RoNW (%)	14.9	14.3	16.7	16.9
RoCE (%)	16.5	16.4	19.4	21.4

Source: Company; Sharekhan estimates

New order wins surge 2.3x in April-November 2021; RMTL on track to achieve 31% revenue growth for FY22

RMTL has witnessed marked improvement in new order booking which increased by 2.3x y-o-y to over ~Rs. 2,700 crore during April-November 2021 as compared to just Rs. 1,200 crore during April-November 2020. This increased RMTL's order book by 48% y-o-y to Rs. 1,741 crore in Q2FY22 and the monthly execution run-rate of Rs. 250-300 crore makes us confident that RMTL would be able to achieve its FY2022 revenue guidance of Rs. 3,000 crore, which implies 31% y-o-y growth.

RMTL's key order wins in FY22 YTD

Date of order receipt	Amount (Rs. crore)	Execution duration	Sector
November 29, 2021	298	12 months (February 2022 to January 2023)	Oil & gas
October 7, 2021	98	5 to 12 months	Oil & Gas
October 5, 2021	144	3 to 8 months	Oil & Gas
September 8, 2021	149	9 months	Oil & Gas
June 2, 2021	82	7 months (September 2021 to March 2022)	Oil & Gas
April 12, 2021	594	11 months (September 2021 to July, 2022	Oil & Gas

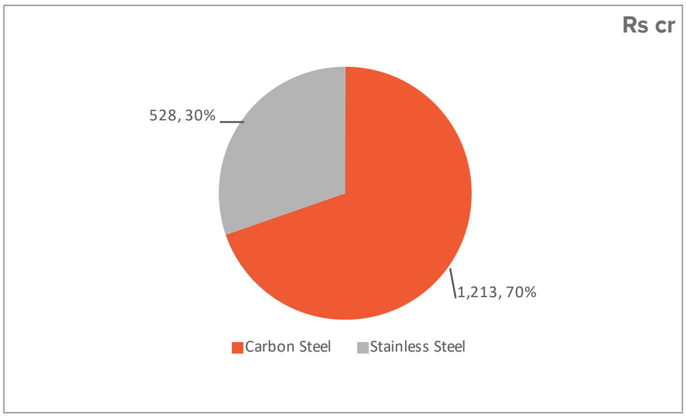
Source: Company; Sharekhan Research
Note: RMTL also receives various orders of smaller amount and the same has been not disclosed by the company

Order execution/intake improves in Q2FY22 Rs cr

Particulars	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Order book - Opening	1,720	1,738	1,383	1,322	1,492	1,916	1,926	1,569	1,380	860	1,178	1,359	1,498	1,535
Order execution	**609**	**730**	**728**	**716**	**588**	**610**	**756**	**630**	**581**	**579**	**443**	**696**	**526**	**712**
Order intake	591	1,085	789	546	164	600	1,113	819	1,101	261	262	557	489	506
Order book - Closing	**1,738**	**1,383**	**1,322**	**1,492**	**1,916**	**1,926**	**1,569**	**1,380**	**860**	**1,178**	**1,359**	**1,498**	**1,535**	**1,741**

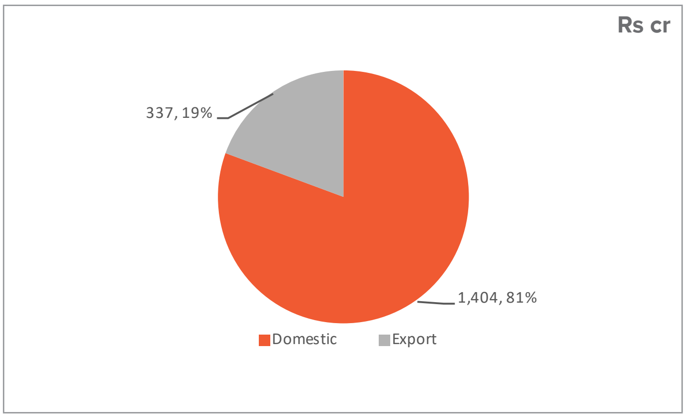
Source: Company; Sharekhan Research

Order book break-up - 70%:30% Carbon steel/Stainless steel



Source: Company, Sharekhan Research

Order book break-up - 81%:19% domestic/export



Source: Company, Sharekhan Research

Huge scope for new orders – Expect robust revenue CAGR of 24% over FY21-24E

Oil & Gas: The government's major focus to increase the share of gas in the total energy consumption basket of the country from current 6% to 15% by 2030, thereby leading to continued construction of gas pipelines to create a Gas Grid. Expansion of refining capacity in the Northeast by Numaligarh Refinery, Paradip Refinery, in the North by Panipat Refinery, under construction Barmer Refinery of HPCL and proposed construction of Greenfield refinery at the West Coast in the next few years would mean fresh construction of crude oil and product pipelines.

City gas distribution (CGD): The government has divided entire country in ~400 GAs. After the 11th round of tendering licenses for 293 GAs have been allotted and work to create the infrastructure is on in all these GAs. There would be continuous demand for smaller line pipes as networks take shape andthis market is expected grow continuously as the gas would increase considerably in the coming years.

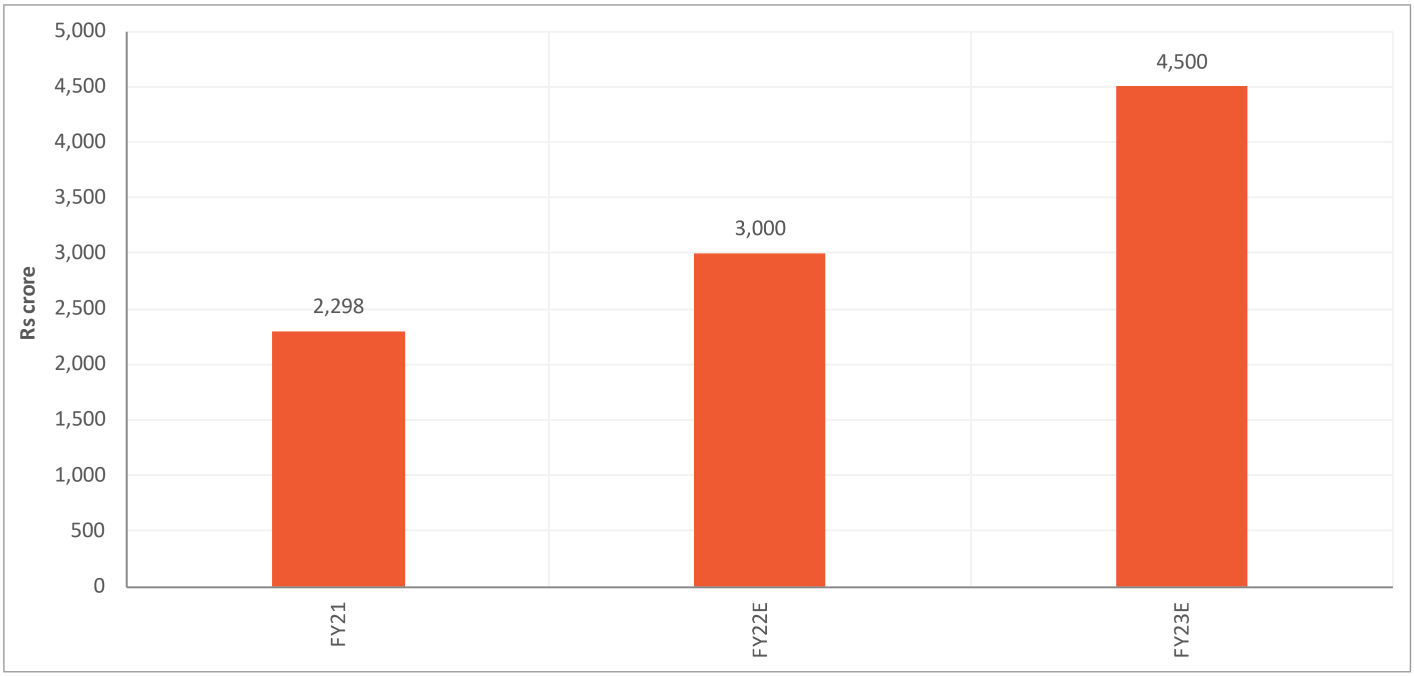
Water Transportation: Water is a state-level subject, and every state is creating a sustainable pipeline network for continuous supply of water to the habitations. Certain states (like, Gujarat, Rajasthan, MP, Tamil Nadu, Telangana, Karnataka) which are large but have fewer water sources and focused to are create large pipeline networks. RMTL has a 15-20% market share in the water pipeline market in Gujarat and is the major supplier for two projects in Rajasthan.

Overall annual opportunity size – Expect annual order inflow of >Rs. 3,000 crore

Sectors	Annual market potential (Rs crore)
Oil & Gas	5,000-6,000
CGDs	2,000-2,500
Water transportation	7,500-8,000
Total annual opportunity size	**14,500-16,500**
Potential market share for RMTL	**20-22%**
Potential order book for RMTL	**2,900-3,630**

Source: Company; Sharekhan Research

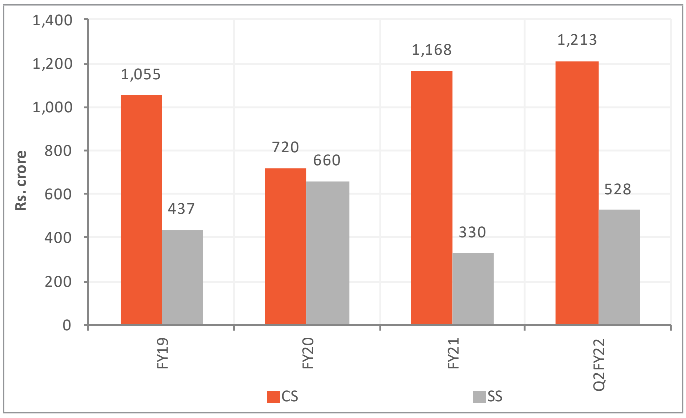
Management's revenue growth guidance



Source: Company; Sharekhan Research

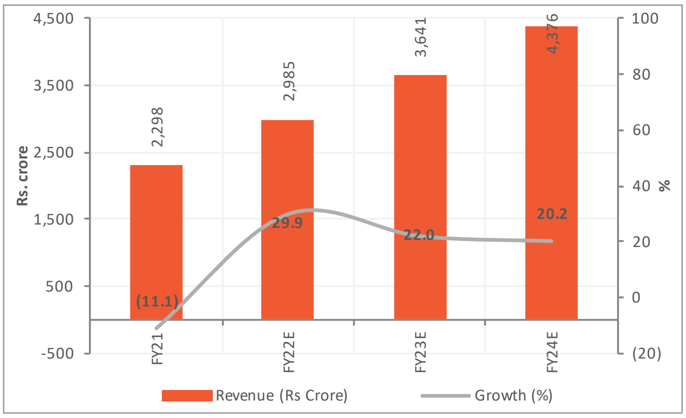
Financials in charts

Sharp improvement in order book



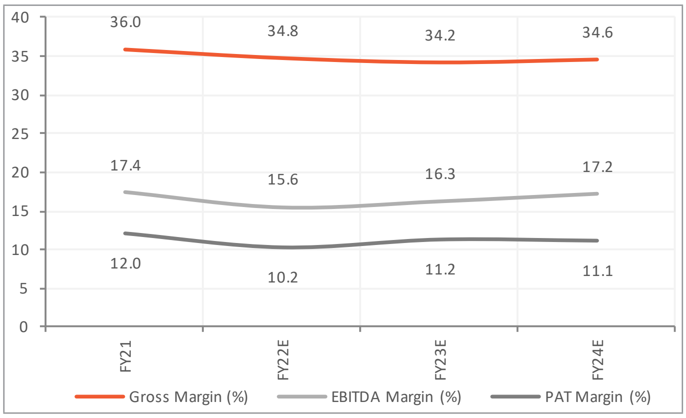
Source: Company, Sharekhan Research

Steady double digit revenue growth over FY22-24E



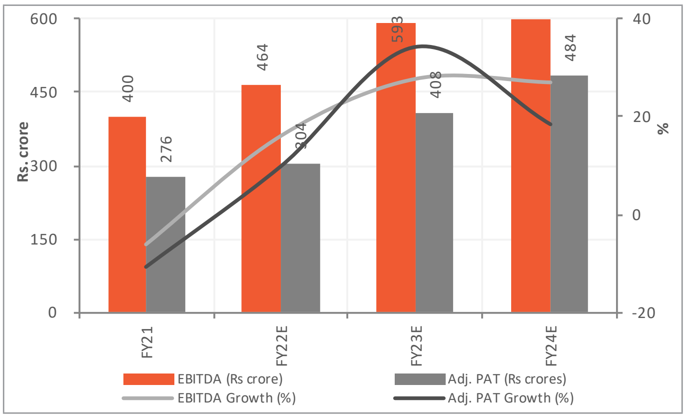
Source: Company, Sharekhan Research

Margin to gradually improve over FY22E-24E



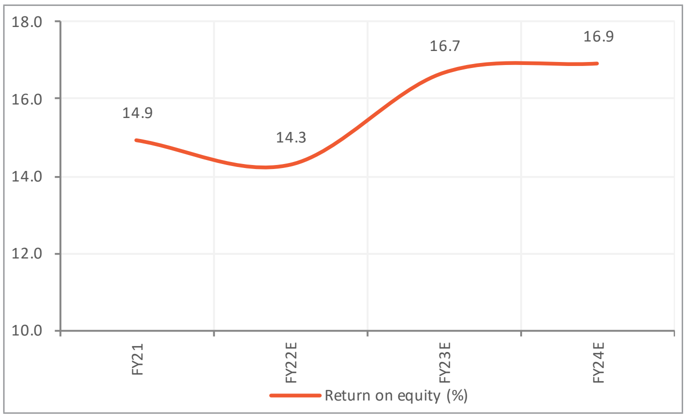
Source: Company, Sharekhan Research

EBITDA/PAT to clock 23%/21% CAGR over FY21-24E



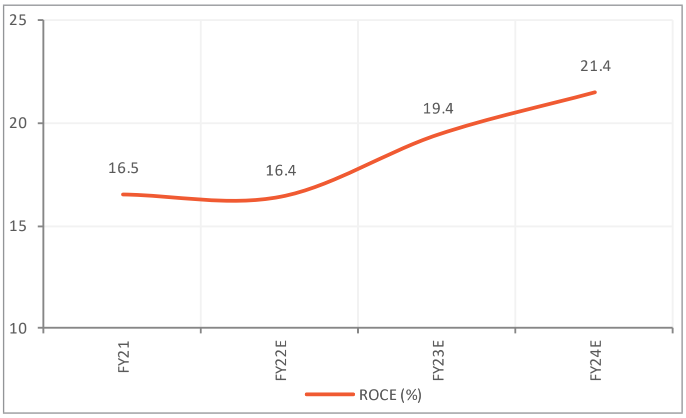
Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

RoCE trend



Source: Company, Sharekhan Research

Outlook and Valuation

Sector view – Long-term growth drivers remain intact

The global steel pipes & tubes market is expected to reach $279 billion by 2027, with a 7.9% CAGR over 2019-2027. Asia-Pacific has the largest share in the global pipes market and is expected to report a CAGR of 8.4% in the next four years. India is the third-largest manufacturer of steel pipes with an estimated market size of Rs. 33,000 crore, which registered a steady 8.2% CAGR over the past 10 years. Although the COVID-19 pandemic has affected the progress of some infrastructure projects, we believe return of normalcy in economic activities, the government's focus on increasing participation of local firms in government projects by disallowing global tenders for up to Rs. 200 crore, government spends on infrastructure projects (Jal se Nal, expansion of the National Gas Grid, and CGD pipelines among others), and anti-dumping duties on imports of seamless carbon steel pipes from China would drive overall demand for steel pipes going ahead.

Company outlook – Well-poised for growth

RMTL is the largest manufacturer of nickel alloy/SS seamless and welded tubes/pipes and titanium welded tubes in India and is one of the leading manufacturers of CS welded pipes. We believe revenue growth would recover sharply in FY2022E because of pent-up demand, higher order inflows on account of expanded capacities and an anticipated increase in government's spending on infrastructure schemes. RMTL's stainless steel pipe segment will strengthen its leadership position given robust demand from refineries and power plants. The management has guided for revenue of Rs. 3,000 crore plus in FY2022, which implies strong growth of 31% y-o-y and have maintained its margin guidance of 16-18%.

Valuation – Maintain Buy with an unchanged PT of Rs. 2,500

RMTL is well-positioned to benefit from a potential increase in order intake, especially from the high-margin SS pipes segment. We remain constructive on RMTL, led by a strong balance sheet and ability to generate superior return ratios despite capacity expansions. At CMP, the stock trades at 23.4x its FY2023E EPS and 19.7x its FY2024E EPS, which is justified, given strong revenue/earnings growth potential in the medium to long term. We maintain a Buy rating on RMTL with an unchanged PT of Rs. 2,500.

One-year forward P/E (x) band

Source: Sharekhan Research

About company

Incorporated in 1983, RMTL is a key player in piping solutions in India. The company is the largest manufacturer of nickel alloy/SS seamless and welded tubes/pipes and titanium welded tubes in India. RMTL is also one of the leading manufacturers of CS welded pipes (ERW, L-SAW, and H-SAW), SS/CS pipes with three-layer PE/PP coating in India. The company has two manufacturing plants located in Gujarat and manufactures various products in SS and CS along with value-added products in each segment having capacity of 28,000 mtpa and 3,50,000 mtpa. RMTL caters to clients in refineries, petrochemicals, oil and gas, thermal power, nuclear power energy, fertilisers, water distribution, chemicals, and aerospace, among others.

Investment theme

RMTL is expected to bounce back on its growth momentum path in FY2022E because of robust demand outlook coupled with expectation of healthy order intake. The company is expanding capacities in a calibrated manner through a mix of internal accruals and debt. RMTL is a net debt-free company with a stable margin profile and healthy return ratios.

Key Risks

- Softness in demand offtake or delay in commissioning of plant might impact revenue growth momentum.
- Inability to take adequate and timely price hikes to mitigate adverse volatility in input cost material might impact margin profile.

Additional Data

Key management personnel

Prakash Misrimal Sanghvi	Executive Chairman
Jayantilal Mistrimal Sanghvi	Executive Director
Shantilal Mishrimal Sanghvi	Executive Director
Vimal Katta	Chief Financial Officer
Anil Maloo	Company Secretary

Source: Company Website

Top shareholders

Sr. No.	Holder Name	Holding (%)
1	Nalanda India Fund Ltd	6.1
2	Kotak Mahindra Asset Management Co. Ltd	5.0
3	L&T Mutual Fund Trustee Ltd	4.3
4	Nalanda India Equity Fund Ltd	3.1
5	DSP Investment Managers Pvt. Ltd	2.3
6	SBI Funds Management Pvt. Ltd	1.3
6	Vanguard Group Inc.	1.3
7	Invesco Asset Management India Pvt. Ltd	0.7

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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