Sharekhan by BNP PARIBAS

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Ratnamani Metals & Tubes

Q3 slips, yet growth pipeline stays strong

Capital Goods	Sharekhan code: RATNAMANI	Result Update

Stock Update

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		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 1,574**	
Price Target: **Rs. 1,790**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

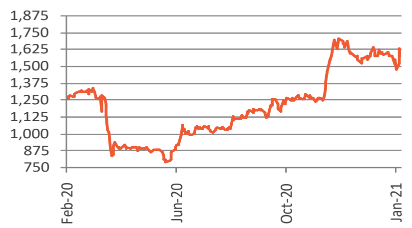
Company details

Market cap:	Rs. 7,354 cr
52-week high/low:	Rs. 1,775/716
NSE volume: (No of shares)	0.2 lakh
BSE code:	520111
NSE code:	RATNAMANI
Free float: (No of shares)	1.86 cr

Shareholding (%)

Promoters	60.2
FII	10.6
DII	15.4
Others	13.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4	25	44	24
Relative to Sensex	-8	2	10	1

Sharekhan Research, Bloomberg

Summary

- We maintain Buy on Ratnamani Metals & Tubes Limited (RMTL) with a PT of Rs. 1,790.
- Soft quarter, EBITDA margin expanded by 379 bps y-o-y to 18.1%, led by change in product mix; order book increased by 15% q-o-q to Rs. 1,359 crore.
- Management remains confident on pick-up in order intake from Q4FY2021E because of anticipated normalisation of steel prices, strong order inflows during QTD of Q4FY2021, and improving demand environment.
- We expect strong revenue growth of 35% y-o-y in FY2022E, led by availability of expanded capacities, improvement in capex cycle, and return of spending on infrastructure projects.

Ratnamani Metals & Tubes Limited (RMTL) reported weak revenue performance in Q3FY2021 owing to negligible order booking during 1HFY2021. However, operating profitability remained ahead of our expectations. The company's revenue declined sharply by 41.7% y-o-y to Rs. 440.8 crore, owing to a 61% y-o-y decline in carbon steel (CS) revenue. However, the stainless steel (SS) segment's revenue grew by 3.5% y-o-y. EBITDA margin improved by 379 bps y-o-y to 18.1%, ahead our expectations, led by higher contribution from high-margin products. Net profit came at Rs. 60.2 crore (down 40.5% y-o-y and up 6.1% q-o-q) and was in-line with our estimates, led by higher operating profitability and lower tax provisions. Order book stood at Rs. 1,359 crore, lower by 13% y-o-y but increased by 15% q-o-q. Notably, the intake of order book was impacted by slowdown of the capex cycle across sectors, as enterprises have been taking a cautious approach towards spending owing to COVID-19 related challenges, second round of lockdown in Europe, and a sharp increase in raw-material prices. However, management remains confident on pick-up in order intake from Q4FY2021E because of anticipated normalisation of steel prices (as the government revoked anti-dumping duties on imports of steel products and reduction of custom duties on stainless steel products by ~5%), strong order bookings in the first two months of Q4FY2021, and improving demand environment. Management indicated the commercial production from its new facilities would start from Q1FY2022, which could provide additional revenue potential of Rs. 1,500 crore-2,000 crore in the next 3-4 years. Management maintained its revenue guidance of Rs. 2,000 crore-2,200 crore owing to soft performance in revenue in Q3FY2021, lower order intake, and delay in decision-making for bidding and tendering of orders, while OPM (including other income) is likely to remain at 16%-18% in FY2021E. Management expects FY2022E revenue would be more than Rs. 3,000 crore (implying more than 43% growth), which we believe is a difficult task for the company to achieve. However, we estimate strong revenue growth of 35% for FY2022E, given improvement of capex cycle environment and pick-up of spending on expansion of the National Gas Grid, CGD pipeline, upgradation of refineries, and cross-country pipelines.

Key positives

- Margin improved by 379 bps y-o-y to 18.1%, exceeding our estimates.
- Management has guided for strong revenue recovery in FY2022E.

Key negatives

- Order book down by 13% y-o-y.
- Sharp rise in raw-material prices impacted order booking.

Our Call

Valuation: Maintain Buy with a PT of Rs. 1,790: We have lowered our earnings estimates for FY2021E/FY2022E/FY2023E, factoring in soft Q3FY2021 and sharp rise in raw-material prices. RMTL is well-positioned to strengthen its leadership position in the high-margin SS pipes segment post availability of new capacity from Q1FY2022E. We stay Positive on RMTL, led by a strong balance sheet and its ability to generate superior return ratios despite capacity expansions. At the CMP, the stock trades at 24x/20x its FY2022E/FY2023E earnings, which is justified given its strong revenue growth potential in FY2022E and beyond. We maintain our Buy rating on RMTL with a PT of Rs. 1,790.

Key Risks

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

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	2,784.0	2,583.1	2,099.7	2,831.8	3,461.0
OPM (%)	15.6	16.4	15.2	15.5	15.8
Adjusted PAT	282.0	307.5	224.6	307.9	377.8
% YoY growth	*85.7*	*9.0*	*-27.0*	*37.1*	*22.7*
Adjusted EPS (Rs.)	60.4	65.8	48.1	65.9	80.9
P/E (x)	26.2	24.1	32.9	24.0	19.6
P/B (x)	4.9	4.3	3.9	3.4	2.9
EV/EBITDA (x)	16.8	17.6	22.1	15.9	12.6
RoNW (%)	19.9	19.0	12.4	15.1	16.1
RoCE (%)	24.4	20.3	12.9	16.5	18.5

Source: Company; Sharekhan estimates

Revenue missed, margin beat estimates

RMTL delivered lower-than-expected revenue performance in Q3FY2021 owing to absence of order booking during 1HFY2021 due to strict nationwide lockdown restrictions, while operating profitability remained ahead of our expectations. The company reported sharp revenue decline of 41.7% y-o-y to Rs. 440.8 crore, owing to a 61% y-o-y decline in carbon steel (CS) revenue. However, the stainless steel (SS) segment's revenue grew by 3.5% y-o-y. Gross margin improved by 804 bps y-o-y to 40.5%, led by change in product mix (higher contribution of SS pipes). EBITDA margin improved by 379 bps y-o-y to 18.1%, ahead our expectations, led by higher contribution of revenue from high-margin products such as SS pipes, process pipes, and ERW steel pipes. Net profit came at Rs. 60.2 crore (down 40.5% y-o-y and up 6.1% q-o-q) and was in-line with of our estimates, led by higher operating profitability and lower tax provisions.

Stainless steel volumes continue to fall

Revenue mix for the SS and CS stood at 51:49 as compared to 29:71 in Q3FY2020. Revenue from the SS segment was up by 3.5% y-o-y to Rs. 224 crore, led by increased realisation (up 28.9% y-o-y to Rs. 4,47,409/tonne), while volume declined by 19.7% y-o-y during the quarter. However, in the CS segment, revenue was down by 60.9% y-o-y to Rs. 211.5 crore owing to soft realisation (down by 13.9% y-o-y) and 54.5% y-o-y decline in volumes.

Company expects to start commercial production in expanded capacity from Q1FY2022

The has company completed the addition of a 20,000 MT SS capacity and a 1,20,000 MT CS capacity. Of the 120,000 MT capacities, 40,000 MT of old capacities are being replaced. Management highlighted that the trial run of these expanded capacity plants is complete. Management also indicated that production in the expanded facilities would start from Q1FY2022. Further, management has highlighted that it would manufacture import substitute products from its new SS plants, which are currently imported and augur well for business visibility.

Order inflow to accelerate in Q4FY2021, expanded capacity to drive revenue over the next 3-4 years

With the outbreak of the pandemic and second lockdown in Europe, capex cycle across sectors has slowed down, as enterprises have been taking a cautious approach towards spending on the ongoing tough environment. Further, bidding and awarding of contracts is taking longer time than earlier, given the sharp rise in input costs. However, management indicated that it witnessed improvement in order bookings from September (up 15% q-o-q in Q3FY2021). Management remains confident on pick-up in order inflows from Q4FY2021E because of anticipated normalisation of steel prices (led by revoke of anti-dumping duties on imports of alloy-steel bars, rods and flat steel products, and reduction of custom duties on SS products to 7.5% from 10%-12.5%), strong demand from API parks, strong order bookings in QTD of Q4FY2021, and improving demand environment. Though order inflows could remain volatile in the near term, long-term order book visibility remains intact given upcoming projects in refineries, fertiliser, city gas distribution, water segment, and cross-country pipelines. Recently expanded capacity would be available for commercial production for FY2022, where management expects around 25%-30% capacity utilisation in FY2022E and gradual improvement in capacity utilisation going ahead. Further, the expanded capacity would provide additional revenue potential of Rs. 1,500 crore-2,000 crore in the next 3-4 years.

RMTL reiterates earlier guidance; Expect strong recovery in FY2022

Management has maintained its revenue guidance of Rs. 2,000 crore-2,200 crore owing to soft performance in revenue in Q3FY2021, lower order intake, and delay in decision-making for bidding and tendering of orders, while OPM (including other income) is likely to remain at 16%-18% in FY2021E. Growth momentum is expected to pickup in FY2022E as expanded capacities of both SS and CS will be available for full year, improvement of capex cycle environment, and return of normalcy in government spending. We believe the resumption of spending on projects such as expansion of the National Gas Grid, city gas distribution, upgradation of refineries, and cross-country pipelines would bode well for the company. Management expects FY2022E revenue would be more than Rs. 3,000 crore, implying growth more than 43%. We estimate 35%/22% growth in revenue for FY2022E/FY2023E, respectively.

Results Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Net sales	440.8	756.0	-41.7	576.9	-23.6
Operating expenses	360.9	647.6	-44.3	495.1	-27.1
EBIDTA	**79.9**	**108.4**	**-26.3**	**81.8**	**-2.4**
Depreciation	13.4	15.2	-12.0	14.2	-6.1
Other income	13.6	14.9	-9.0	14.0	-2.9
Interest	6.0	5.9	2.4	5.8	4.1
PBT	**74.1**	**102.3**	**-27.5**	**75.8**	**-2.2**
Tax	14.0	1.3	968.0	19.1	-26.9
PAT	**60.2**	**101.0**	**-40.5**	**56.7**	**6.1**
EPS (Rs.)	12.9	21.6	-40.5	12.1	6.1
%			BPS		BPS
EBITDA margin (%)	18.1	14.3	379	14.2	394
PAT margin (%)	13.6	13.4	29	9.8	382

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Long-term growth drivers remain intact

The global steel pipes and tubes market is expected to reach $279 billion by 2027, with a 7.9% CAGR over 2019-2027. The Asia-Pacific region 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. 330 billion, which has registered a steady 8.2% CAGR over the past 10 years. Although the pandemic has affected the progress of some infrastructure projects, we believe return of normalcy in economic activities, government's focus on increasing participation of local firms in government projects by disallowing global tenders for up to Rs. 200 crore, government spending 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 CS pipes from China would drive overall demand for steel pipes going ahead.

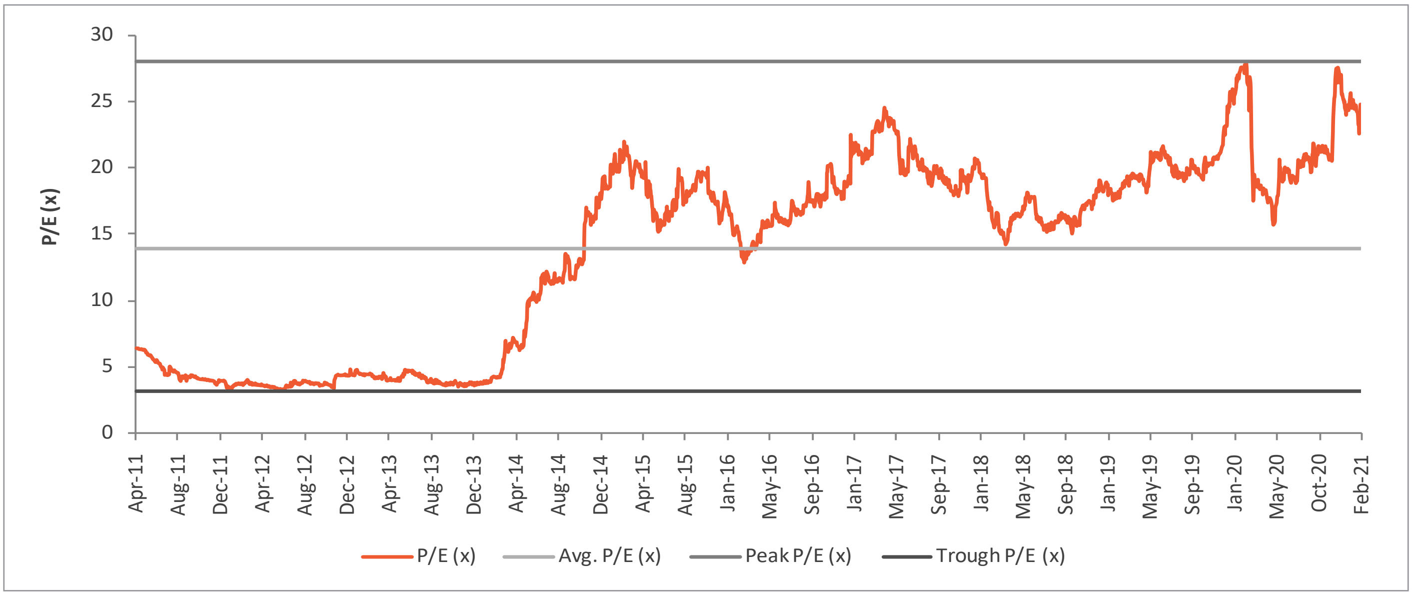
■ Company outlook - Well-poised for growth

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 SS pipe segment will strengthen its leadership position led by its products that would substitute from its expanded capacity and robust demand from refineries and power plants. Management has guided for revenue of Rs. 2,000 crore-2,200 crore owing to lower order intake, while OPM is likely to remain at 16%-18%, given its better product mix and cost-efficiency measures in FY2021E.

■ Valuation - Maintain Buy with a PT of Rs. 1,790

We have lowered our earnings estimates for FY2021E/FY2022E/FY2023E, factoring in soft Q3FY2021 and sharp rise in raw-material prices. RMTL is well positioned to strengthen its leadership position in the high-margin SS pipes segment post availability of new capacity from Q1FY2022E. We stay Positive on RMTL, led by a strong balance sheet and its ability to generate superior return ratios despite capacity expansions. At the CMP, the stock trades at 24x/20x its FY2022E/FY2023E earnings, which is justified given its strong revenue growth potential in FY2022E and beyond. We maintain our Buy rating on RMTL with a PT of Rs. 1,790.

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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nalanda India Fund Ltd.	6.10
2	L&T Investment Management	5.55
3	L&T Mutual Fund Trustee Ltd.	5.55
4	Kotak Mahindra Asset Management Co.	3.65
5	Nalanda India Equity Fund Ltd.	3.13
6	DSP Investment Managers Pvt. Ltd.	2.81
7	SBI Funds Management Pvt Ltd.	0.95
8	Dimensional Fund Advisors LP	0.32
9	BNP Paribas Asset Management India Pvt. Ltd.	0.32
10	Edelweiss Asset Management Ltd.	0.23

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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