Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Ratnamani Metals & Tubes Ltd

Strong Q4, positive growth outlook

Capital Goods	Sharekhan code: RATNAMANI

Reco/View: Buy	↔	CMP: **Rs. 2,526**	Price Target: **Rs. 3,000**	↑

↑ 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		↔	

ESG Disclosure Score NEW

ESG RISK RATING	44.0
Updated Apr 08, 2022	
High Risk	

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

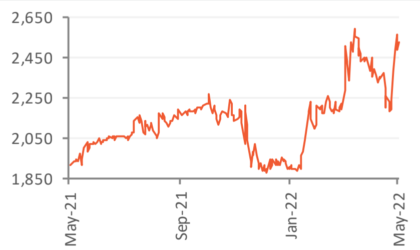
Company details

Market cap:	Rs. 11,803 cr
52-week high/low:	Rs. 2,642/1,855
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	12.1
DII	16.3
Others	11.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.1	14.2	18.3	31.5
Relative to Sensex	12.5	22.9	29.8	25.0

Sharekhan Research, Bloomberg

Summary

- Q4FY22 performance was impressive with a robust 40% y-o-y rise in revenue to Rs. 974 crore (versus our estimate of Rs. 930 crore) and resilient margin of 17.3% (70 bps above our estimate) led by strong order execution and rise in share of high-margin stainless steel products. PAT at Rs. 112 crore beat our estimate by 7%.
- Order book position remains robust and grew by 48% y-o-y and 16% q-o-q to Rs. 2,223 crore with the carbon steel (CS)/stainless steel (SS) mix at 71%/29%. Board approved bonus issue in the ratio of 1:2 (one equity share for every two equity shares held).
- Strong revenue growth guidance of 20-25% y-o-y for FY23; margins expected to be at 15-18%. Peak revenue potential is at Rs. 5,000 crore on existing capacities, while the company has planned fresh capex of Rs. 350 crore for SS/CS with incremental revenue potential of Rs. 600-700 crore.
- Superior earnings growth outlook, potential improvement in earnings quality and strong balance sheet warrants upward revision in PE multiple to 27x FY24E EPS and thus we increase our PT to Rs. 3,000. The stock trades at 27.3x/22.6x its FY23E/FY24E EPS.

Ratnamani Metals & Tubes Limited (RMTL) reported strong Q4FY22 results with beat of 5%/9%/7% in revenues/ operating profit/PAT at Rs. 974 crore/169 crore/Rs. 112 crore, up 40%/6%/2% y-o-y. The beat in earnings is attributable to strong order execution and a sharp rise of 43% y-o-y in blended realisations that stood at Rs. 143,686/tonne offsetting lower volume growth of 2% y-o-y to 67,791 tonnes. Improved realisation was led by a rise in share of high-margin stainless steel volume mix and the same is reflected in the 70 bps beat in OPM to 17.3% (down 552 bps y-o-y; up 321 bps q-o-q). We highlight here that Q4FY21 had exceptionally high share of high-margin products.

Key positives

- Better-than-expected revenue growth of 40% y-o-y.
- Beat of 70 bps in OPM at 17.3%.
- Order book increased by 16% q-o-q to Rs. 2,223 crore.

Key negatives

- Negative operating cash flow of Rs. 283 crore in FY22 versus positive Rs. 546 crore due to rise in working capital requirement.
- Management discontinued segmental revenue/volume break-up for stainless steel/carbon steel.

Management Commentary

- **Revenue/margin guidance –** The management has guided for 20-25% y-o-y revenue growth for FY23 depending upon metal prices and aim for peak revenue potential of Rs. 5000 crore on existing capacities. The company sees tonnage growth of ~20% y-o-y in FY23. It guided for 15-18% of sustainable EBITDA margin.
- **Fresh capex –** The company have planned a combined capex of Rs. 350 crore (break-up – Rs. 180 crore for SS and Rs. 170 crore for CS) for capacity expansion in both SS and CS. The plants are expected to become operational in next 18-24 months and capex could be largely funded through internal accruals with some debt only for an efficient capital structure. The management guided for Rs. 600-700 crore of revenue potential from the new capex of Rs. 350 crore.
- **Strong bid pipeline –** The company has bid for new orders worth 10 lakh tonnes in the carbon steel segment. Out of this, 40% is for oil & gas and remaining 60% for water projects.
- **New capacities to see tamp-up in utilisation –** The recently-commissioned stainless steel capacities would witness ramp-up to 30% in FY23 and thereafter ramp-up is expected to be gradual.
- **Order book position** stands at Rs. 2,223 crore with mix of 71%:29% for CS/SS and 85%:15% for domestic/exports.

Revision in estimates – We have increased our FY23E-FY24E earnings estimate to factor in higher growth in high margin SS segment with better utilization rate of the new plant.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 3,000: RMTL is well-positioned to benefit from the potential increase in order intake, especially from high-margin SS pipes. Superior earnings growth outlook (expect 27% PAT CAGR over FY22-24E) and potential improvement in earnings quality (higher margin and RoE/ROCE improvement to 17.9%/22.6%) makes us increase our P/E multiple to 27x FY24E EPS and thus we increase our PT to Rs. 3,000 and maintain Buy rating on RMTL. A valuation of 27.3x/22.6x FY23E/FY24E is justified given sustained strong growth potential, strong balance and strong return ratios.

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	FY22	FY23E	FY24E
Revenue	2,298.1	3,138.8	3,810.3	4,590.8
OPM (%)	17.4	15.8	16.5	17.6
Adjusted PAT	276.0	322.6	431.6	521.6
% YoY growth	*-10.5*	*16.9*	*33.8*	*20.9*
EPS (Rs.)	59.1	69.0	92.4	111.6
PER (x)	42.8	36.6	27.3	22.6
P/BV (x)	5.9	5.2	4.4	3.7
EV/EBITDA (x)	29.8	24.3	18.8	14.4
RoNW (%)	14.9	15.1	17.4	17.9
RoCE (%)	16.5	17.8	20.3	22.6

Source: Company; Sharekhan estimates

Robust Q4 performance with beat on all fronts

RMTL reported strong Q4FY22 revenue growth of 39.9%/5.1% y-o-y/q-o-q to Rs. 974 crore, which was 4.7% above our estimate of Rs. 930 crore. The beat versus our estimate reflects better-than-expected order execution during the quarter. OPM of 17.3% (up 321 bps q-o-q) was also 70 bps above our estimate of 16.6% reflecting a rise in share of high-margin SS products. Thus, operating profit grew by 6.1%/29% y-o-y/q-o-q to Rs. 169 crore (9% above our estimate). We highlight here that Q4FY21 OPM was exceptionally high at 22.8% versus normal range of 16-18% given higher share of high margin products. PAT at Rs. 112 crore (up 2%/25.3% y-o-y/q-o-q) was also 6.7% above our estimate of Rs. 105 crore led by stronger-than-expected revenues/ margins.

Results (consolidated) — Rs cr

Particulars	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Revenue	**974.1**	**696.1**	**39.9**	**927.0**	**5.1**
Total expenditure	805.5	537.2	49.9	796.4	1.1
Operating profit	**168.5**	**158.8**	**6.1**	**130.6**	**29.0**
Depreciation	23.1	15.0	54.2	19.0	21.6
Other income	9.9	8.7	14.0	10.7	-7.5
Interest	6.4	5.8	10.0	4.6	39.0
PBT	**148.9**	**146.7**	**1.5**	**117.7**	**26.5**
Tax	37.3	37.3	0.0	28.6	30.3
Reported PAT	**111.6**	**109.4**	**2.0**	**89.1**	**25.3**
EPS (Rs.)	23.9	23.4	2.0	19.1	25.3
Margins (%)			**BPS**		**BPS**
OPM	17.3	22.8	-552	14.1	321
NPM	11.5	15.7	-426	9.6	185
Tax rate	25.0	25.4	-38	24.3	73

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 to 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. 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 spending on infrastructure projects (Jal se Nal, expansion of the National Gas Grid, and CGD pipelines, etc), and anti-dumping duties on imports of seamless CS pipes from China would drive overall demand for steel pipes going ahead.

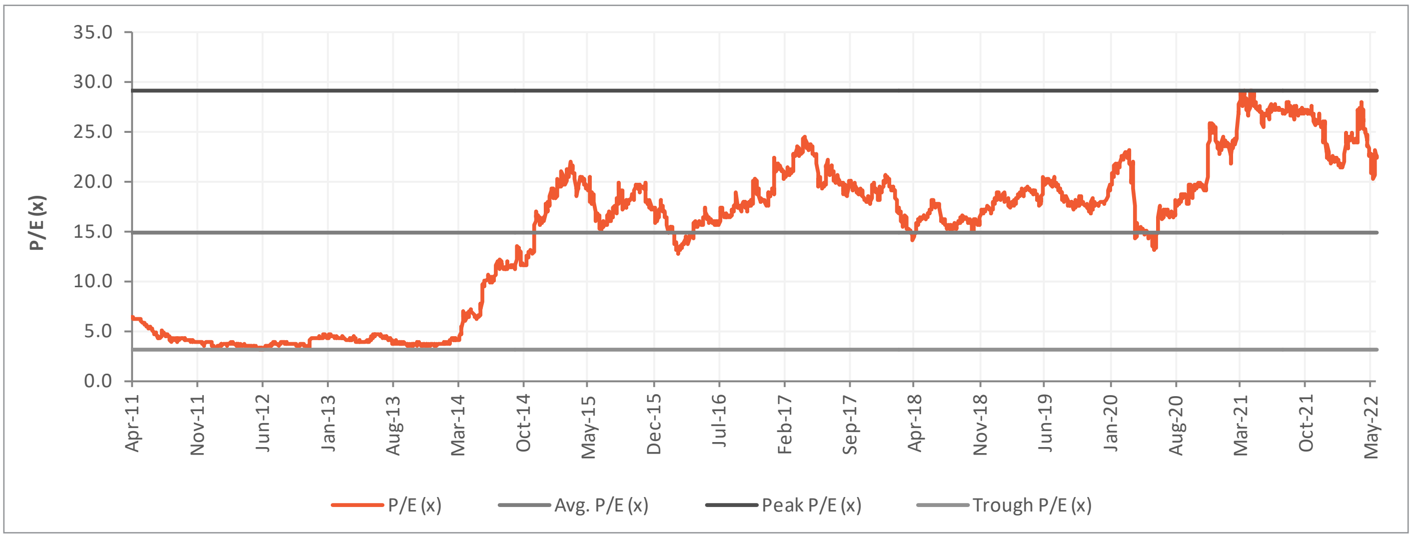
Company Outlook – Well-poised for growth

RMTL is the largest manufacturer of nickel alloy/stainless steel seamless and welded tubes/pipes and titanium welded tubes in India and is one of the leading manufacturers of CS welded pipes. We believe that strong revenue growth would continue over FY2023E-FY2024E led by strong order book, 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, led by products that would substitute from its expanded capacity and robust demand from refineries and power plants. The management has guided for a revenue growth of 20-25% for FY23 depending on steel price and have broadly maintained its margin guidance of 15-18%.

Valuation – Maintain Buy with a revised PT of Rs. 3,000

RMTL is well-positioned to benefit from the potential increase in order intake, especially from high-margin SS pipes. Superior earnings growth outlook (expect 27% PAT CAGR over FY22-24E) and potential improvement in earnings quality (higher margin and RoE/ROCE improvement to 17.9%/22.6%) makes us increase our P/E multiple to 27x FY24E EPS and thus we increase our PT to Rs. 3,000 and maintain Buy rating on RMTL. A valuation of 27.3x/22.6x FY23E/FY24E is justified given sustained strong growth potential, strong balance and strong return ratios.

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 sustain strong revenue growth momentum in FY2023 led by 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 cash 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 Limited	6.1
2	Kotak Mahindra Asset Management	5.0
3	L&T Mutual Fund Trustee Ltd	4.1
4	DSP Investment Managers Private Limited	3.5
5	Nalanda India Equity Limited	3.1
6	SBI Funds Management	1.4
7	Vanguard Group Inc	1.2
8	Invesco Asset Management India Private Limited	0.9

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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