Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Ratnamani Metals & Tubes

Mixed bag Q1; strong growth in pipeline

Capital Goods	Sharekhan code: RATNAMANI

Reco/View: Buy	↔	CMP: Rs. 1,727	Price Target: Rs. 2,000	↔

↑ 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 July 08, 2022

Severe Risk

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

Source: Morningstar

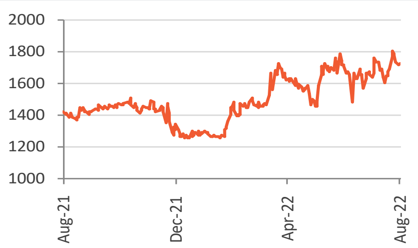
Company details

Market cap:	Rs. 12,107 cr
52-week high/low:	Rs. 1,920/1237
NSE volume: (No of shares)	0.3 lakh
BSE code:	520111
NSE code:	RATNAMANI
Free float: (No of shares)	2.79 cr

Shareholding (%)

Promoters	60.2
FII	12.3
DII	16.3
Others	11.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.0	18.2	20.4	21.0
Relative to Sensex	-3.1	9.5	19.3	13.1

Sharekhan Research, Bloomberg

Summary

- Q1FY23 numbers were a mixed bag with a robust 85.7% y-o-y rise in revenues to Rs. 977 crore (7% above estimate), led by strong order execution and higher realisation. However, OPM of 13.4% (down 271 bps y-o-y) missed estimates by 260 bps due to an unfavourable product mix and RM cost pressure. Operating profit/PAT of Rs. 131 crore/Rs. 87 crore missed estimate by 10%/8%.
- Order book position stays robust and grew by 5.5% q-o-q to Rs. 2,345 crore with CS/SS mix at 69%/31%. RMTL has a strong order bid pipeline and new inquiries from Europe are rising amid geopolitical concerns.
- Management lowered FY23 revenue growth guidance to 20% (from 25% earlier) due to decline in steel price and is hopeful of exceeding growth guidance, led by strong Q1 revenues and a robust order book. It maintained EBITDA margin guidance of 15-18%.
- We maintain a Buy on RMTL with an unchanged PT of Rs. 2,000 (adjusted for bonus issue) given strong earnings growth outlook, strong RoE of 18% and robust balance sheet. Stock trades at 28x/23x its FY23E/FY24E EPS.

Ratnamani Metals & Tubes Limited (RMTL) reported mixed Q1FY23 results with 7.1% beat in revenues at Rs. 977 crore (up 86% y-o-y) led by a strong 45% y-o-y volume growth to 75,662 tonnes and higher blended realization of Rs. 1,30,234/tonne (up 28% y-o-y). However, OPM disappointed at 13.4% (down 390 bps q-o-q) and was 260 bps below our estimates of 16% due to weak product mix and raw material cost pressure. Resultantly operating profit at Rs. 131 crores (up 54.5% y-o-y) lagged our estimate by 10% as a miss in margin offset strong revenue growth. PAT at Rs. 87 crore (up 72.3% y-o-y, down 22.2% q-o-q) was 8% below our estimate of Rs. 94 crore due to weak margin profile offsetting higher revenue and lower depreciation.

Key positives

- Higher-than-expected revenue growth of 86% y-o-y led by robust order execution.
- Strong order book position of Rs. 2,345 crore, up 5% q-o-q.

Key negatives

- Miss in margins due to weak product mix and raw material cost pressure.

Management Commentary

- **Revenue/margin guidance –** Management has lowered its revenue guidance for FY23 to 20% from earlier 25% due to drop in steel prices but is hopeful of exceeding its guidance. It reiterated its guidance of 15-18% EBITDA margins for FY23.
- **Strong bid pipeline –** Water project bids include 2.5 lakh tonnes, 1.1 lakh tonnes and 2 lakh tonnes in the states of Gujarat, Rajasthan and Madhya Pradesh, respectively. Oil & gas projects tenders for 1 lakh tonnes are submitted but the orders are yet to be finalized and the bids for 0.25 lakh tonnes are made in the CGD sector, where the company expects to win 0.1-0.15 lakh tonnes.
- **Export opportunity –** RMTL is seeing good traction in inquiries from Europe in both carbon steel (CS)/stainless steel (SS) as pipe supplies to Europe from Russia and Ukraine have been affected. RMTL has successful converted one inquiry in to an order.
- **New capex update –** Company said its Rs. 350 crore capex is on track and the company will provide further updates on the progress in the next six months.
- **Order book position** stands at Rs. 2,345 crore (versus Rs. 2,223 crore) with mix of 69%:31% for CS/SS and 81%:19% for domestic/exports.

Revision in estimates – We have fine-tuned our FY23-FY24 earnings estimate.

Our Call

Valuation - Maintain Buy with an unchanged PT of Rs. 2,000: RMTL is well-positioned to benefit from a potential rise in order intake, especially from high-margin SS pipes and geopolitical tension between Russia-Ukraine could open new growth opportunities from Europe. We expect RMTL to clock superior earnings CAGR of 27% over FY22-24E and improvement in RoE/ROCE to 18.1%/22.9%. Hence, we maintain a Buy rating on RMTL with an unchanged PT of Rs. 2,000 (adjusted for bonus issue of 1:2). The stock trades at 28x/23x FY23E/FY24E EPS.

Key Risks

- Soft 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	3,952.8	4,613.9
OPM (%)	17.4	15.8	16.1	17.6
Adjusted PAT	276.0	322.6	432.3	524.2
% YoY growth	-10.5	16.9	34.0	21.3
EPS (Rs.)	39.4	46.0	61.7	74.8
PER (x)	43.9	37.5	28.0	23.1
P/BV (x)	6.1	5.3	4.5	3.9
EV/EBITDA (x)	30.5	24.5	19.2	14.7
RoNW (%)	14.9	15.1	17.5	18.1
RoCE (%)	16.5	17.8	20.6	22.9

Source: Company; Sharekhan estimates

Note: We have adjusted FY21-24E EPS for bonus issue in the ratio of 1:2

Q1 PAT miss estimate as weak margin offset strong order execution

Ratnamani Metals & Tubes Limited (RMTL) reported mixed Q1FY23 results with 7.1% beat in revenues at Rs. 977 crore (up 86% y-o-y) led by a strong 45% y-o-y volume growth to 75,662 tonnes and higher blended realization of Rs. 1,30,234/tonne (up 28% y-o-y). However, OPM disappointed at 13.4% (down 390 bps q-o-q) and was 260 bps below our estimates of 16% due to weak product mix and raw material cost pressure. Resultantly operating profit at Rs. 131 crores (up 54.5% y-o-y) lagged our estimate by 10% as a miss in margin offset strong revenue growth. PAT at Rs. 87 crore (up 72.3% y-o-y, down 22.2% q-o-q) was 8% below our estimate of Rs. 94 crore due to weak margin profile offsetting higher revenue and lower depreciation.

Results (consolidated) Rs cr

Particulars	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Revenue	**976.8**	**526.0**	**85.7**	**974.1**	**0.3**
Total expenditure	845.9	441.3	91.7	805.5	5.0
Operating profit	**130.9**	**84.8**	**54.5**	**168.5**	**-22.3**
Depreciation	19.0	19.2	-1.1	23.1	-17.7
Other income	8.6	7.8	9.2	9.9	-13.7
Interest	4.8	5.4	-10.4	6.4	-25.1
PBT	**115.7**	**68.0**	**70.1**	**148.9**	**-22.3**
Tax	28.8	17.6	63.7	37.3	-22.7
PAT	**86.8**	**50.4**	**72.3**	**111.6**	**-22.2**
EPS (Rs.)	12.4	7.2	72.3	15.9	-22.2
Margins (%)			**BPS**		**BPS**
OPM	13.4	16.1	-271	17.3	-390
NPM	8.9	9.6	-69	11.5	-257
Tax rate	24.9	25.9	-97	25.0	-13

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 clock 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.

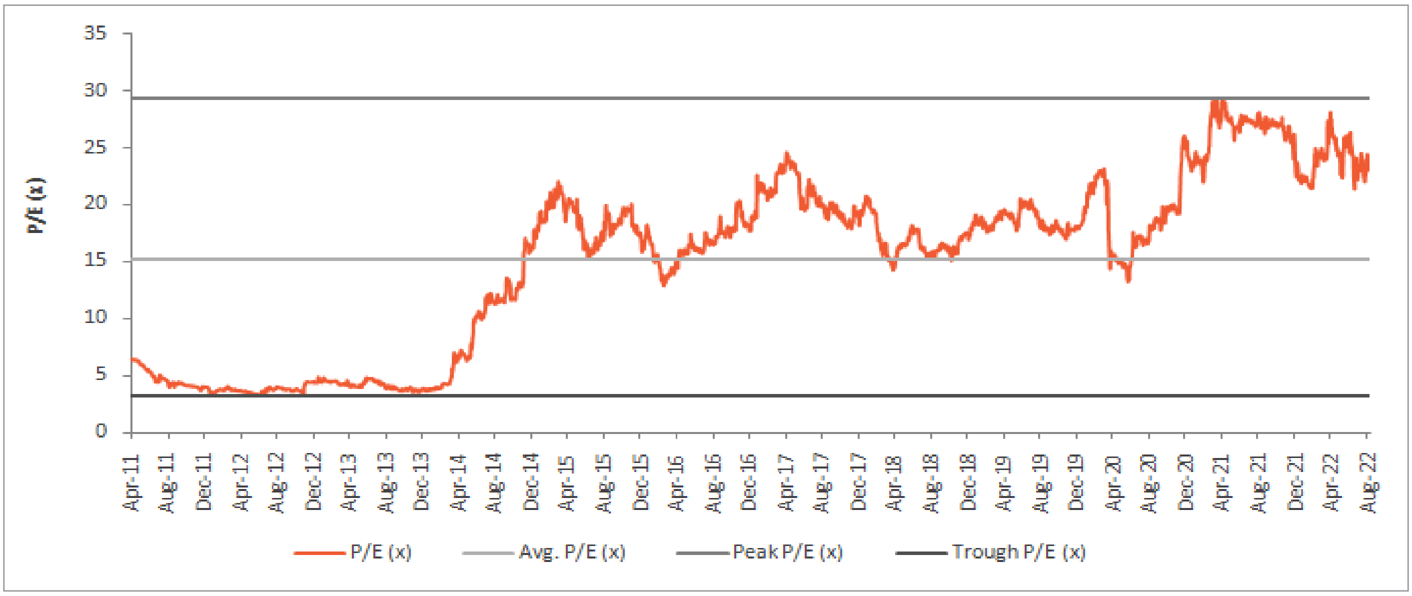
■ Company outlook - Well-poised for growth

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% for FY23 and have broadly maintained its margin guidance of 15-18%.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 2,000

RMTL is well-positioned to benefit from a potential rise in order intake, especially from high-margin SS pipes and geopolitical tension between Russia-Ukraine could open new growth opportunities from Europe. We expect RMTL to clock superior earnings CAGR of 27% over FY22-24E and improvement in RoE/ROCE to 18.1%/22.9%. Hence, we maintain a Buy rating on RMTL with an unchanged PT of Rs. 2,000 (adjusted for bonus issue of 1:2). The stock trades at 28x/23x FY23E/FY24E EPS.

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: Bloomberg

Top 10 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 (old data)

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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