

CMP: ₹ 1725

Target: ₹ 2000 (16%)

Target Period: 12 months

BUY

August 11, 2022

Mixed bag; margins to improve, going forward...

About the stock: Ratnamani Metals & Tubes (RMTL) is a niche player with superior capabilities in the domestic industrial pipes and tube segment. RMTL manufactures a wide range of stainless steel and carbon steel pipes & tubes, which find application in key end user industries like oil & gas refineries, power, healthcare, etc.

- RMTL has an impeccable capital allocation strategy and best in class operating margins and return ratios
- RMTL has healthy cash flow and strong balance-sheet. It is one of the few players in the steel pipe sector having net cash position on its balance-sheet

Q1FY23 Results: RMTL reported a mixed bag performance for Q1FY23 wherein the topline came in higher than our estimate. However, EBITDA and PAT came in marginally below our estimate.

- For Q1FY23, RMTL reported total sales volume of 75662 tonnes, up 45% YoY and 12% QoQ (our estimate of 62000 tonnes). Revenue from operations for the quarter were at ₹ 977 crore, up 86% YoY (our estimate: ₹ 915 crore)
- EBITDA for the quarter was at ₹ 131 crore, up 55% YoY but 22% QoQ, marginally lower than our estimate of ₹ 141 crore. EBITDA margin for the quarter were at 13.4% down 270 bps YoY and 390 bps QoQ, lower than our estimate of 15.4%. During the quarter, gross margins were at 30% compared to 34% in Q4FY22 and 37% in Q1FY23. Ensuing PAT for the quarter was at ₹ 87 crore, up 73% YoY but down 22% QoQ, marginally lower than our estimate of ₹ 91 crore

What should investors do? RMTL's share price has given a return of ~25% over the last one year (from ~₹ 1379 in August 2021 to ~₹ 1725 levels in August 2022).

- We maintain **BUY** rating on the stock. With improvement in product-mix, going forward, EBITDA margin is expected to improve from Q1FY23 levels

Target Price and Valuation: We value RMTL at ₹ 2000, 25x FY24E EPS.

Key triggers for future price performance:

- Order book as on August 1, 2022 was at ₹ 2345 crore (₹ 2223 crore as on May 1, 2022). As on August 1, 2022, stainless steel (SS) order book was at ₹ 730 crore (₹ 650 crore as on May 1, 2022) while carbon steel (CS) orders were at ₹ 1615 crore (₹ 1573 crore as on May 1, 2022)
- Over FY22-24E, we expect the topline to grow at a CAGR of 20% while EBITDA, PAT are expected to register CAGR of 27%, 32%, respectively

Alternate Stock Idea: In our metal sector coverage, we also like Jindal Stainless.

- Jindal Stainless (JSL) has a 1.1 million tonnes per annum (MTPA) integrated facility with backward integration.
- BUY with a target price of ₹ 135



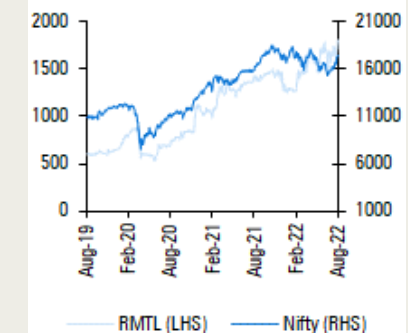
Particulars

Particulars	
Market Capitalisation (₹ crore)	12,075
Total Debt (FY22) (₹ crore)	148
Cash & Cash Eq (FY22) (₹ crore)	151
EV (₹ crore)	12,072
52 week H/L (₹)	1920 /1237
Equity Capital (₹ crore)	14.0
Face Value (₹)	₹ 2

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	60.2	60.2	60.2	60.2
FIs	11.9	12.0	12.1	12.3
DIs	15.3	16.0	16.3	16.4
Public	12.7	11.8	11.5	11.2
Total	100.0	100.0	100.0	100.0

Price Chart



Key Risks

- Any notably slowdown in demand for steel pipes (both stainless steel and carbon steel)
- Higher-than-expected increase in operating costs

Research Analyst

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22	CAGR (17-22) in %	FY23E	FY24E	CAGR (22-24E) in %
Total Operating Income (₹ crore)	2,755	2,583	2,298	3,139	17	3,817	4,530	20
EBITDA (₹ crore)	407	424	400	495	14	611	793	27
EBITDA Margin	14.8%	16.4%	17.4%	15.8%		16.0%	17.5%	
Net Profit (₹ crore)	253	307	276	322	17	404	560	32
EPS (₹)	54.1	65.8	39.4	46.0		57.6	80.0	
P/E (x)	31.9	26.2	43.8	37.5		29.9	21.6	
RoCE (%)	24.3	19.0	15.7	17.3		18.6	21.5	
RoE (%)	16.6	18.0	13.9	14.3		15.6	18.2	

Source: Company, ICICI Direct Research

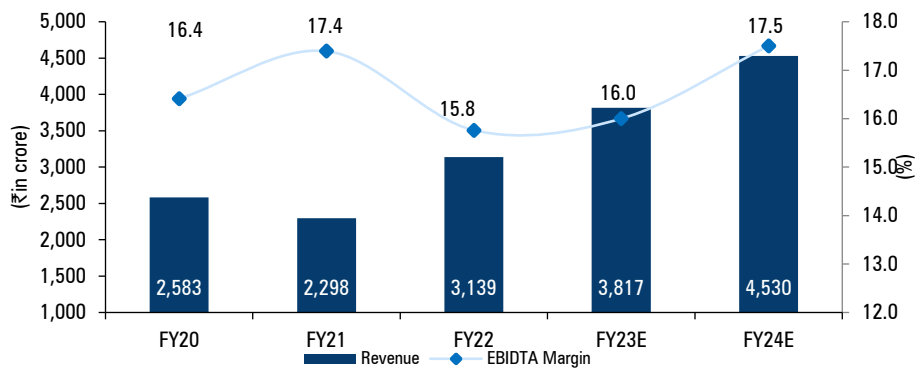
Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Operating Income	977	915	526	86%	974	0%	Topline came in higher than our estimate
Other Income	9	10	8	9%	10	-12%	
Raw Material Expense	683	632	330	107%	646	6%	
Employee Expense	45	42	33	36%	39	13%	
Other Expenses	118	100	79	50%	120	-2%	
Total Operating Expenses	846	774	441	92%	805	5%	
EBITDA	131	141	85	55%	169	-22%	EBITDA came in marginally below our estimate
EBITDA Margin (%)	13.4	15.4	16.1	(270) bps	17.3	(390) bps	EBITDA margin came in below our estimate on the back of lower than expected gross margin
Depreciation	19	25	19	-1%	23	-18%	
Finance cost	5	5	5	-10%	6	-25%	
Exceptional Items	0	0	0	NA	0	NA	
PBT	116	121	68	70%	149	-22%	
Tax Outgo	29	30	18	64%	37	-23%	
PAT	87	91	50	73%	112	-22%	PAT came in below our estimate

Source: Company, ICICI Direct Research

Financial story in charts

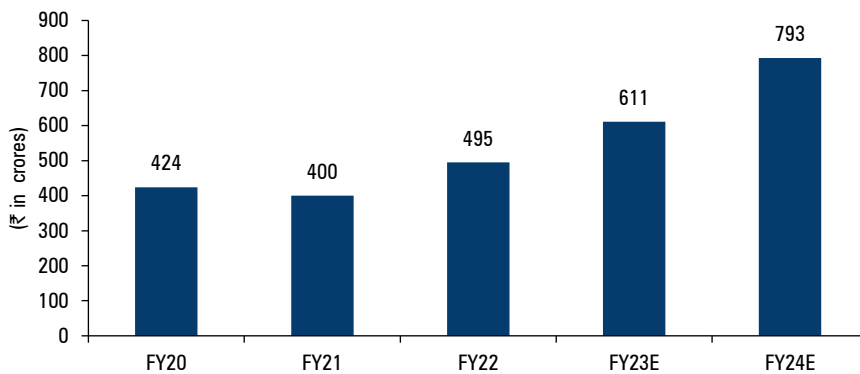
Exhibit 2: Trend in revenue (in ₹ crore) & EBITDA margin (in %)



Source: Company, ICICI Direct Research

We expect topline to grow at a CAGR of 20% during FY22-FY24E. For RMTL, we model EBITDA margin of 16.0% for FY23E and 17.5% for FY24E

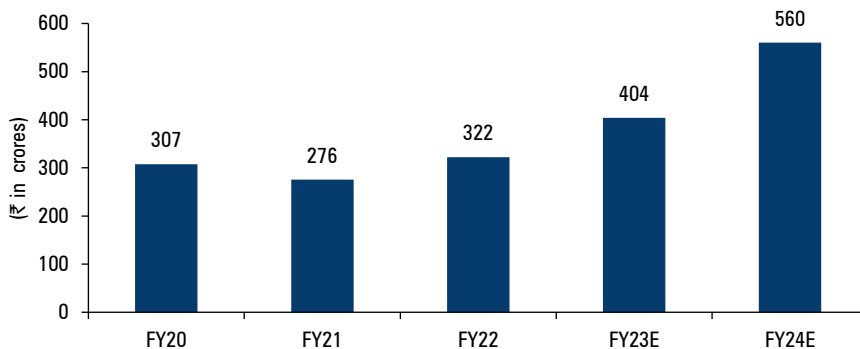
Exhibit 3: Trend in EBITDA (in ₹ crore)



Source: Company, ICICI Direct Research

We expect EBITDA to grow at a CAGR of 27% during FY22-FY24E

Exhibit 4: Trend in PAT (in ₹ crore)



Source: Company, ICICI Direct Research

We expect PAT to grow at a CAGR of 32% during FY22-24E

Exhibit 5: Valuation Matrix

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	P/BV (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	2,583	(6)	66	22	26	4.7	19	18	19
FY21	2,298	(11)	39	(40)	44	4.1	19	14	16
FY22	3,139	37	46	17	38	3.6	16	14	17
FY23E	3,817	22	58	25	30	4.7	20	16	19
FY24E	4,530	19	80	39	22	3.9	15	18	22

Source: ICICI Direct Research, Company

Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	2,298	3,139	3,817	4,530
Growth (%)	-11%	37%	22%	19%
Raw Material Expenses	1,471	2,104	2,557	2,978
Employee Expenses	141	158	191	215
Other Mfg. Expenses	286	382	458	544
Total Operating Expenditure	1,898	2,644	3,206	3,737
EBITDA	400	495	611	793
Growth (%)	-6%	24%	23%	30%
Interest & Finance Cost	23	21	16	14
Depreciation	57	80	100	97
Other Income	43	38	45	67
PBT before Exceptional Items	363	431	539	749
Less: Exceptional Items	0	0	0	0
PBT	363	431	539	749
Total Tax	87	108	136	188
PAT	276	322	404	560
Growth (%)	-10%	17%	25%	39%
EPS	39.4	46.0	57.6	80.0

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	276	322	404	560
Add: Depreciation & Amortization	57	80	100	97
Net (Inc) / dec in Current Assets	361	-845	-210	-289
Net Inc / (dec) in Current Liabilities	-148	138	97	188
CF from operating activities	545	-305	391	556
(Inc)/dec in Investments	-482	528	-150	-275
(Inc)/dec in Fixed Assets	-127	-120	-175	-225
Others	0	0	0	0
CF from investing activities	-609	408	-325	-500
Inc / (Dec) in Equity Capital	0	0	5	0
Inc / (Dec) in Loans	-24	-48	0	0
Dividend & Dividend Tax	-65	-65	-65	-65
Others	33	-1	3	5
CF from financing activities	-56	-114	-57	-61
Net Cash flow	-119	-11	9	-5
Opening Cash	173	54	42	51
Closing Cash	54	42	51	47

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	9	9	14	14
Reserve and Surplus	1,977	2,238	2,576	3,071
Total Shareholders funds	1,986	2,247	2,590	3,085
Total Debt	196	148	148	148
Deferred Tax Liability	39	42	42	42
Other Non Current Liabilities	17	10	14	19
Source of Funds	2,239	2,447	2,794	3,293
Gross Block - Fixed Assets	1,575	1,665	1,910	2,110
Accumulated Depreciation	710	790	890	987
Net Block	865	875	1,019	1,122
Capital WIP	76	107	37	62
Net Fixed Assets	941	981	1,056	1,184
Investments	637	109	259	534
Inventory	537	1,112	1,255	1,489
Cash	54	42	51	47
Debtors	403	601	680	745
Loans & Advances & Other C/	44	116	104	94
Total Current Assets	1,038	1,871	2,090	2,374
Creditors	243	315	366	496
Provisions & Other CL	134	199	245	302
Total Current Liabilities	376	514	611	799
Net Current Assets	661	1,357	1,479	1,575
Other Assets	0	0	0	0
Application of Funds	2,239	2,447	2,794	3,293

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	39.4	46.0	57.6	80.0
Cash EPS	47.5	57.4	71.9	93.8
BV	283	321	370	440
DPS	9	9	9	9
Cash Per Share	7.7	6.1	7.3	6.6
Operating Ratios (%)				
EBITDA margins	17.4	15.8	16.0	17.5
PBT margins	15.8	13.7	14.1	16.5
Net Profit margins	12.0	10.3	10.6	12.4
Inventory days	85	129	120	120
Debtor days	64	70	65	60
Creditor days	39	37	35	40
Return Ratios (%)				
RoE	13.9	14.3	15.6	18.2
RoCE	15.7	17.3	18.6	21.5
RoIC	16.1	17.6	19.0	21.8
Valuation Ratios (x)				
P/E	29.2	25.0	29.9	21.6
EV / EBITDA	18.9	16.3	19.5	14.7
EV / Revenues	3.3	2.6	3.1	2.6
Market Cap / Revenues	3.5	2.6	3.2	2.7
Price to Book Value	4.1	3.6	4.7	3.9
Solvency Ratios				
Debt / Equity	0.1	0.1	0.1	0.0
Debt/EBITDA	0.5	0.3	0.2	0.2
Current Ratio	2.6	3.6	3.3	2.9
Quick Ratio	1.2	1.4	1.3	1.0

Source: Company, ICICI Direct Research

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