Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Ratnamani Metals & Tubes Ltd

Record high order book boosts growth visibility

Capital Goods	Sharekhan code: RATNAMANI

Reco/View: Buy	↔	CMP: Rs. 1,992	Price Target: Rs. 2,285	↑

↑ 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

Updated July 08, 2022

Severe Risk

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

Source: Morningstar

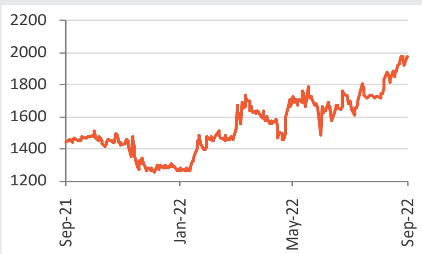
Company details

Market cap:	Rs. 13,959 cr
52-week high/low:	Rs. 2,018/1237
NSE volume: (No of shares)	0.4 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	14.3	18.8	29.7	37.0
Relative to Sensex	14.2	5.1	25.5	35.8

Sharekhan Research, Bloomberg

Summary

- Large order win of Rs. 1,186 crore takes Ratnamani Metals & Tubes Limited's (RMTL's) order book to all-time high of Rs. 3,214 crore, implying a 37% rise over Q1FY23. Company won a major Rs. 800-crore order in water transportation segment with decent margin of 14-15%.
- Strong order book position and robust bid pipeline offer confidence on revenue growth of over 20% for FY23 and 20% CAGR over FY22-25E. Overall, we expect RMTL to post a robust 24% PAT CAGR over FY22-25E with healthy RoE/RoCE of 18%/23%.
- RMTL has planned new capex of Rs. 350 crore in 18-24 months for expansion of both CS/SS capacities and the same bodes well for growth beyond FY24E.
- We maintain a Buy on RMTL with a revised PT of Rs. 2,285 as RMTL's dominant domestic position makes it key beneficiary of demand recovery in steel tubes and pipes. Stock trades at 26.6x its FY2024E EPS and 22.5x its FY2025E EPS.

Ratnamani Metals & Tubes Limited (RMTL) has recently bagged large new order of Rs. 1,186 crore (of which an Rs. 800-crore order is related to water projects) and thus its order book has soared by 37% to Rs. 3214 crore versus its Q1FY23 order book position of Rs. 2,345 crore. Strong bid pipeline across oil & gas, CGDs and water transport (supported by the government's 'Har Ghar Nal Se Jal' initiative), ramp-up of new capacities and capex plan of Rs. 350 crore (for expansion of SS/CS capacities) bodes well for sustained high revenue/earnings growth. We thus expect RMTL's revenue/EBITDA/PAT to clock a 20%/25%/24% CAGR over FY22-25E along with healthy RoE/RoCE of 18%/23%. We maintain our Buy rating on RMTL with a revised PT of Rs. 2,285.

- **Record-high order book gives confidence on revenue growth:** RMTL new order intake has been very strong with aggregate order win of Rs. 2,524 in the past six months and its order book position is at all-time high level of Rs. 3,214 crore (an increase of 37% versus Q1FY23 order book of Rs. 2,345 crore). The company has won a recent order of Rs. 800 crore from the water transportation sector in Rajasthan and the same is expected to be completed by FY23E-24E, while remaining orders would be executed in FY23E. This gives us confident of monthly execution run-rate of Rs. 300-320 crore and thus believe that the company's revenue guidance of Rs. 3,800 crore (implies 21% y-o-y revenue growth).
- **Robust bid pipeline:** RMTL has strong bid pipeline across water projects (bids include 2.5 lakh tonnes and 2 lakh tonnes in Gujarat and Madhya Pradesh, respectively), oil & gas project tenders for 1 lakh tonnes have been submitted but 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. A conversion of above bids to orders would help improve utilisation rate on recent expansion of 1,50,000 tonnes/30,000 tonnes for carbon steel/stainless steel capacity. Strong order book position and robust bid pipeline provide us confidence on a revenue growth CAGR of 20% over FY22-25E.
- **New capex to drive growth beyond FY24**: The company have planned a capex of Rs. 350 crore for capacity expansion in both SS (capex of Rs. 180 crore) and CS (capex plan of Rs. 170 crore). The plants are expected to become operational in next 18-24 months and the capex could be largely funded through internal accruals with little 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.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 2,285: 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 maintain our FY23-24 earnings estimate and have introduced our FY25 earnings estimates in this report. We expect RMTL to clock superior earnings CAGR of 25% over FY22-25E and improvement in RoE/ROCE improvement to 18.1%/22.9%. Hence, we maintain a Buy rating on RMTL with a revised PT of Rs. 2,285 (increase reflects rollover of PE multiple to September 2024 EPS). The stock trades at 27x/23x FY24E/FY25E EPS.

Key Risks

1) Soft demand or delay in commissioning of plants might affect revenue growth momentum and 2) Inability to undertake adequate and timely price hikes to mitigate volatility in input costs might affect margins.

Valuation (consolidated) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	3,138.8	3,952.8	4,613.9	5,443.0
OPM (%)	15.8	16.1	17.6	17.6
Adjusted PAT	322.6	432.3	524.2	619.8
% YoY growth	16.9	34.0	21.3	18.2
EPS (Rs)	46.0	61.7	74.8	88.4
PER (x)	43.3	32.3	26.6	22.5
P/BV (x)	6.1	5.2	4.4	3.8
EV/EBITDA (x)	28.3	22.1	17.0	14.1
RoNW (%)	15.1	17.5	18.1	18.1
RoCE (%)	17.8	20.6	22.9	23.1

Source: Company; Sharekhan estimates

All time high order book – to drive sustained strong revenue CAGR of 20% over FY22-25E

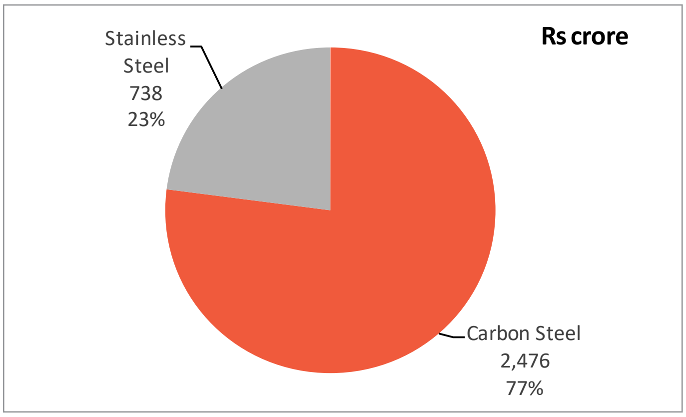
RMTL's new order book surged by 2.3x y-o-y to Rs. 1,933 crore during April-September 2022 led by large order of Rs. 1186 crore in August 2022 and thus its order book soared to Rs. 3,214 crore, which is an increase of 37% as compared to Q1FY23 order book position of Rs. 2345 crore. The company has received a major order from water transportation (in Rajasthan) of ~Rs. 800 crore with decent margin of 14-15%. The company has robust bid pipeline - Water project bids include 2.5 lakh tonnes and 2 lakh tonnes in the states of Gujarat 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. Strong order book position and robust bid pipeline provide us confidence on revenue growth of over 20% for FY23 and revenue CAGR of 20% over FY22-25E.

Key order wins during FY23 YTD

Date of order receipt	Amount (Rs. crore)	Execution duration	Sector
August 22, 2022	1,186	Domestic Orders aggregating to Rs.1083 Crores to be executed over next 4 to 24 months Export Orders aggregating to Rs.103 Crores to be executed in the Current FY23.	Water and oil & gas
June 17, 2022	203	In FY23	Oil & gas
May 6, 2022	206	In FY23	Oil & gas
April 18, 2022	338	In FY23	Oil & gas
March 21, 2022	591	August 2022 to March 2023.	Oil & gas
Dec 10, 2021	189.63	February 2022 to May 2023.	Oil & Gas and Power Sectors
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

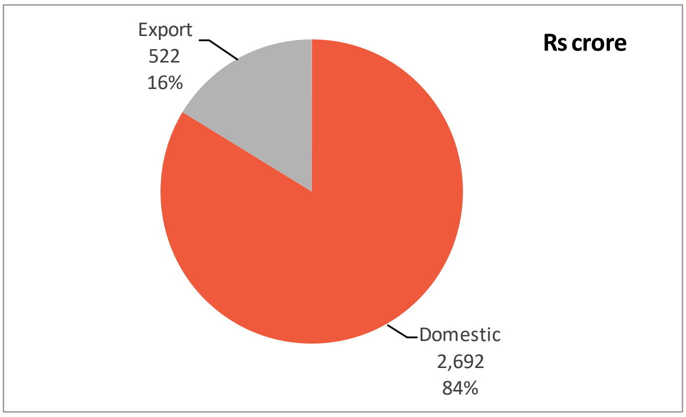
Source: Company' Sharekhan Research; Note: RMTL also receives various orders of smaller amount and the same has been not disclosed by the company

Order book break-up - 77%:23% Carbon steel/Stainless steel



Source: Company, Sharekhan Research

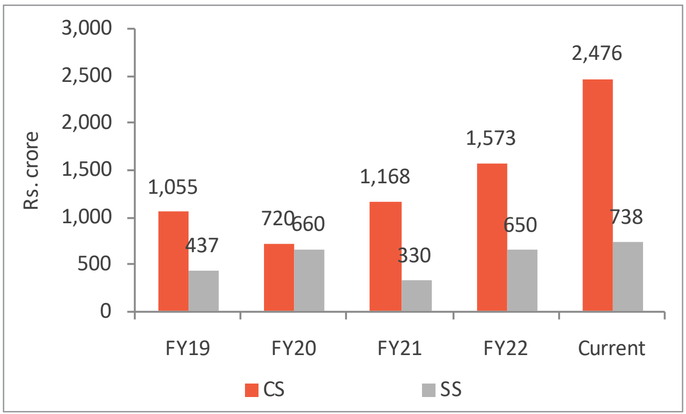
Order book break-up - 84%:16% domestic/export



Source: Company, Sharekhan Research

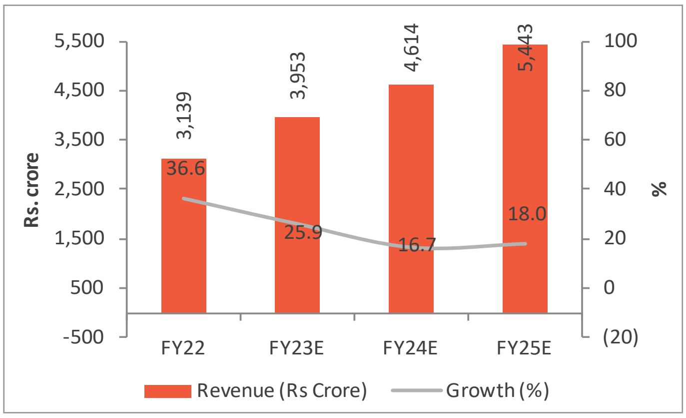
Financials in charts

Order book surges



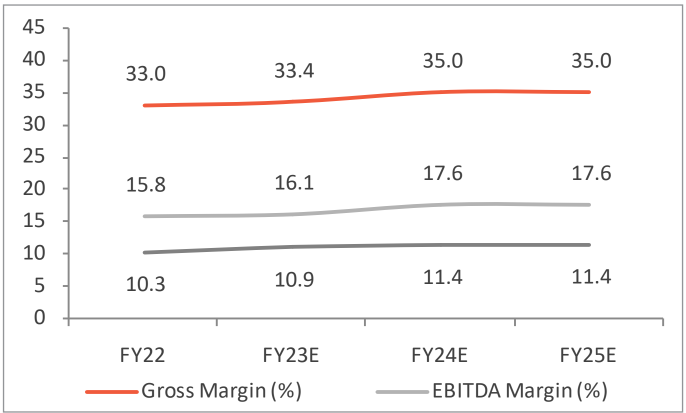
Source: Company, Sharekhan Research

Steady double digit revenue growth over FY22-25E



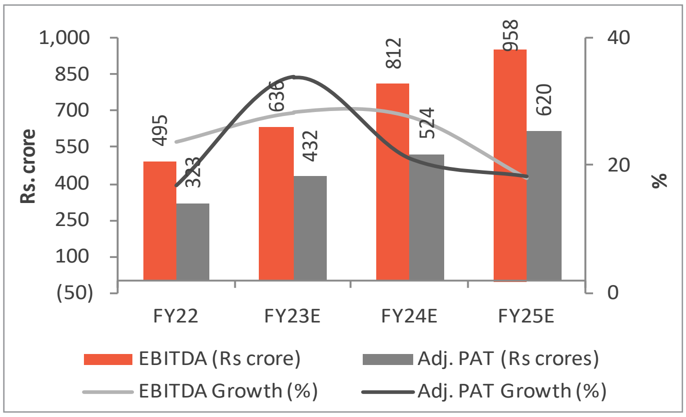
Source: Company, Sharekhan Research

Margins to gradually improve over FY23E-25E



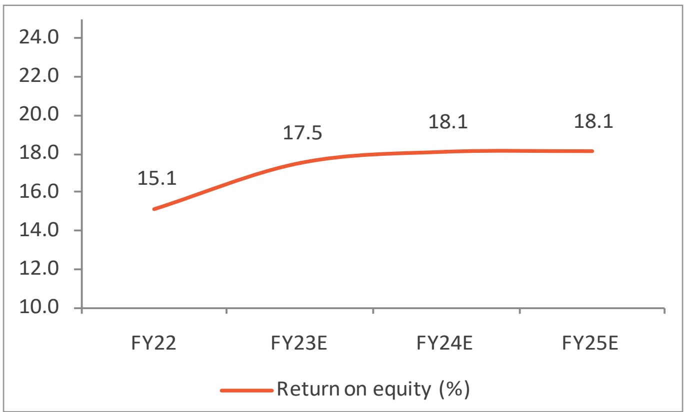
Source: Company, Sharekhan Research

EBITDA/PAT to clock 25%/24% CAGR over FY22-25E



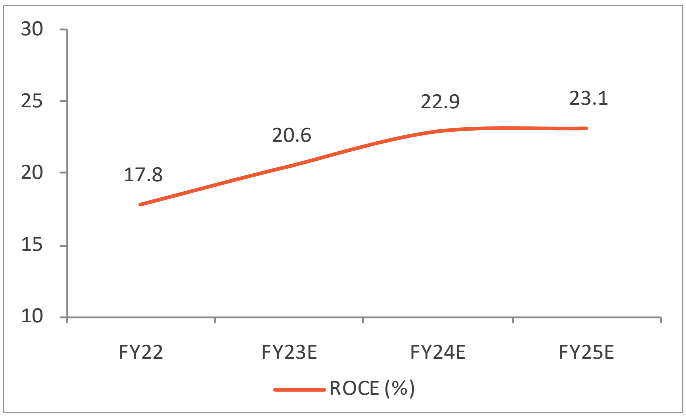
Source: Company, Sharekhan Research

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 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.

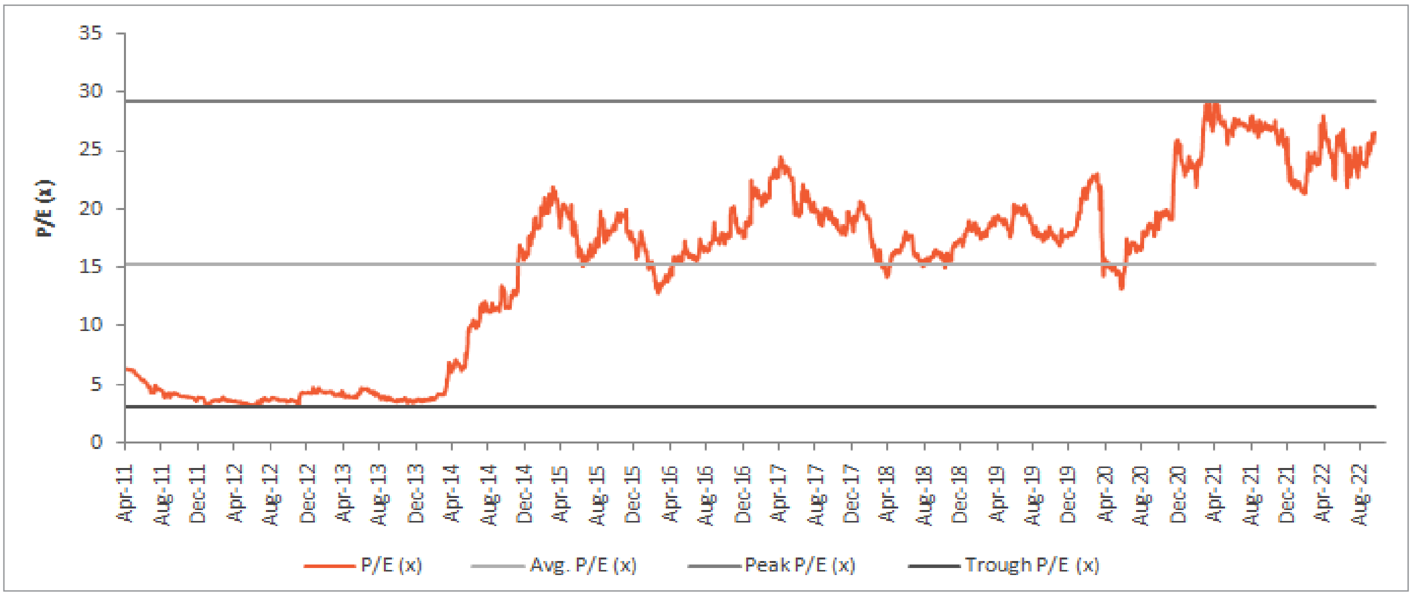
■ Company outlook - Well-poised for growth

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 pipes 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 a revised PT of Rs. 2,285

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 maintain our FY23-24 earnings estimate and have introduced our FY25 earnings estimate in this report. We expect RMTL to clock superior earnings CAGR of 25% over FY22-25E and improvement in RoE/ROCE improvement to 18.1%/22.9%. Hence, we maintain a Buy on RMTL with a revised PT of Rs. 2,285 (increase reflects rollover of PE multiple to September 2024 EPS). The stock trades at 27x/23x FY24E/FY25E 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 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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