

EBITDA margin improves both QoQ, YoY...

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 flows and a strong balance-sheet. It is one of the few players in the steel pipe sector having net cash position on its balance-sheet

Q2FY23 Results: RMTL reported a mixed set of Q2FY23 numbers wherein the topline came in lower than our estimate while, aided by healthy EBITDA margins, EBITDA and PAT came in higher than our estimate.

- For Q2FY23, RMTL reported total sales volume of 56378 tonnes, down 2% YoY and 25% QoQ, lower than our estimate of 78000 tonnes. Revenue from operations for the quarter was at ₹ 900 crore, up 26% YoY but down 8% QoQ, lower than our estimate of ₹ 975 crore
- EBITDA for the quarter was at ₹ 145 crore, up 30% YoY, 11% QoQ, higher than our estimate of ₹ 125 crore. EBITDA margin for the quarter was at 16.1%, up 50 bps YoY, 270 bps QoQ, significantly higher than our estimate of 12.8%. During the quarter, gross margins were at 34% compared to 30% in Q1FY23 and 34% in Q2FY22. Gross margin expansion aided RMTL to report healthy EBITDA margins during the quarter. Ensuing PAT for the quarter was at ₹ 99 crore, up 38% YoY, 14% QoQ, higher than our estimate of ₹ 82 crore

What should investors do? RMTL's share price has given a return of ~33% over the last one year (from ~₹ 1443 in November 2021 to ~₹ 1916 in November 2022).

- We maintain **BUY** rating on the stock

Target Price and Valuation: We value RMTL at ₹ 2225, 28x FY24E EPS.

Key triggers for future price performance:

- Order book as on November 1, 2022 was at ₹ 3244 crore (₹ 2345 crore as on August 1, 2022). As on November 1, 2022, stainless steel (SS) order book was at ₹ 765 crore (₹ 730 crore as on August 1, 2022) while carbon steel (CS) orders were at ₹ 2479 crore (₹ 1615 crore as on August 1, 2022)
- Over FY22-24E, we expect the topline to grow at a CAGR of 21% while EBITDA, PAT are expected to register CAGR of 26%, 31%, respectively

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

- Jindal Stainless (JSL) operates an integrated stainless steel plant at Jajpur, Odisha.
- BUY with a target price of ₹ 180

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	3,965	4,601	21
EBITDA (₹ crore)	407	424	400	495	14	634	782	26
EBITDA Margin	14.8%	16.4%	17.4%	15.8%		16.0%	17.0%	
Net Profit (₹ crore)	253	307	276	322	17	427	557	31
EPS (₹)	54.1	65.8	39.4	46.0		61.0	79.5	
P/E (x)	31.9	26.2	43.8	37.5		28.3	21.7	
RoCE (%)	24.3	19.0	15.7	17.3		19.8	21.2	
RoE (%)	16.6	18.0	13.9	14.3		16.4	17.9	



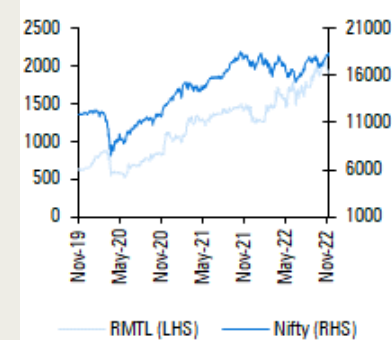
Particulars

Particulars	
Market Capitalisation (₹ crore)	13,541
Total Debt (FY22) (₹ crore)	148
Cash & Cash Eq (FY22) (₹ crore)	151
EV (₹ crore)	13,538
52 week H/L (₹)	2138 /1237
Equity Capital (₹ crore)	14.0
Face Value (₹)	₹ 2

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	60.2	60.2	60.2	60.1
FIs	12.0	12.1	12.3	12.5
DIs	16.0	16.3	16.4	16.3
Public	11.8	11.5	11.2	11.1
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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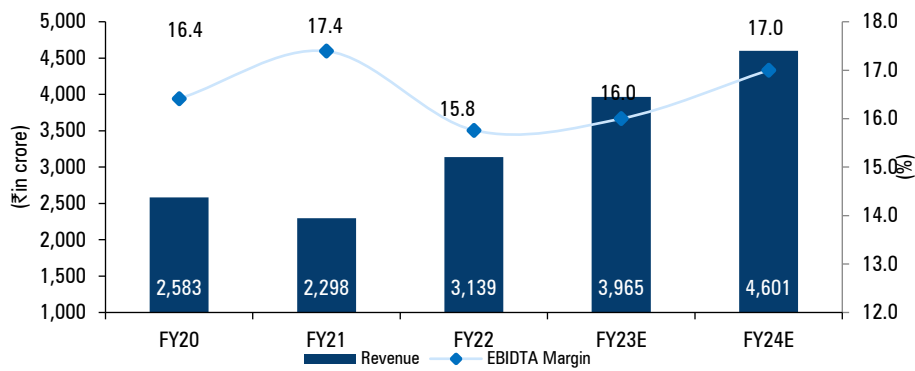
Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Operating Income	900	975	712	26%	977	-8%	Topline came in lower than our estimate on the back of muted sales volumes
Other Income	10	10	9	11%	9	18%	
Raw Material Expense	592	667	467	27%	683	-13%	
Employee Expense	47	48	44	6%	45	4%	
Other Expenses	117	135	90	30%	118	-1%	
Total Operating Expenses	755	850	600	26%	846	-11%	
EBITDA	145	125	111	30%	131	11%	EBITDA came in higher than our estimate
EBITDA Margin (%)	16.1	12.8	15.6	50 Bps	13.4	270 Bps	EBITDA margin came in higher than our estimate
Depreciation	19	20	19	-1%	19	-2%	
Finance cost	5	5	5	-12%	5	-2%	
Exceptional Items	0	0	0	NA	0	NA	
PBT	132	110	96	37%	116	14%	
Tax Outgo	33	28	25	33%	29	14%	
PAT	99	82	71	38%	87	14%	PAT came in higher than our estimate
Key Metrics (Volume in tonne)							
Total Sales volumes (CS+SS)	56378	78000	57764	-2%	75662	-25%	Total sales volumes (carbon steel + stainless steel) came in lower than our estimate

Source: Company, ICICI Direct Research

Financial story in charts

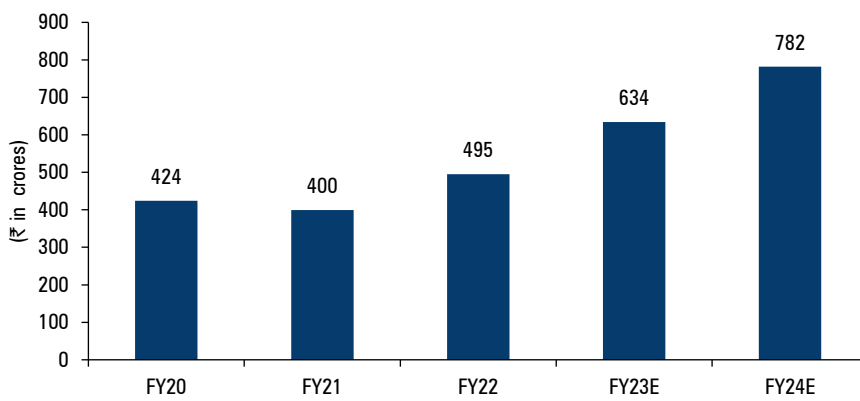
Exhibit 2: Trend in revenue (in ₹ crore) & EBITDA margin (in %)



Source: Company, ICICI Direct Research

We expect topline to grow at a CAGR of 21% during FY22-FY24E. For RMTL, we model EBITDA margin of 16% for FY23E and 17% for FY24E

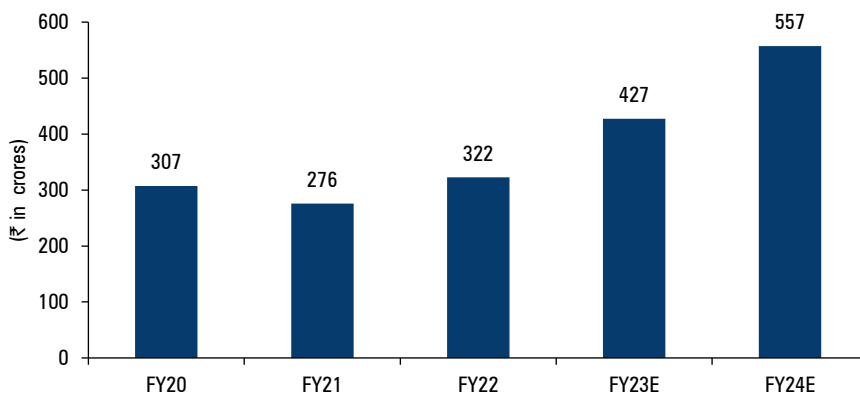
Exhibit 3: Trend in EBITDA (in ₹ crore)



Source: Company, ICICI Direct Research

We expect EBITDA to grow at a CAGR of 26% during FY22-FY24E

Exhibit 4: Trend in PAT (in ₹ crore)



Source: Company, ICICI Direct Research

We expect PAT to grow at a CAGR of 31% 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	5.2	21	18	19
FY21	2,298	(11)	39	(40)	44	6.8	21	14	16
FY22	3,139	37	46	17	38	6.0	18	14	17
FY23E	3,965	26	61	33	28	5.1	21	16	20
FY24E	4,601	16	79	30	22	4.3	17	18	21

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	3,965	4,601
Growth (%)	-11%	37%	26%	16%
Raw Material Expenses	1,471	2,104	2,636	3,048
Employee Expenses	141	158	198	219
Other Mfg. Expenses	286	382	496	552
Total Operating Expenditure	1,898	2,644	3,330	3,819
EBITDA	400	495	634	782
Growth (%)	-6%	24%	28%	23%
Interest & Finance Cost	23	21	20	14
Depreciation	57	80	88	91
Other Income	43	38	45	67
PBT before Exceptional Items	363	431	571	744
Less: Exceptional Items	0	0	0	0
PBT	363	431	571	744
Total Tax	87	108	144	187
PAT	276	322	427	557
Growth (%)	-10%	17%	33%	30%
EPS	39.4	46.0	61.0	79.5

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	276	322	427	557
Add: Depreciation & Amortization	57	80	88	91
Net (Inc) / dec in Current Assets	361	-845	-285	-249
Net Inc / (dec) in Current Liabilities	-148	138	111	181
CF from operating activities	545	-305	342	580
(Inc)/dec in Investments	-482	528	-150	-275
(Inc)/dec in Fixed Assets	-127	-120	-125	-175
Others	0	0	0	0
CF from investing activities	-609	408	-275	-450
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	10	69
Opening Cash	173	54	42	52
Closing Cash	54	42	52	122

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	2,600	3,091
Total Shareholders funds	1,986	2,247	2,614	3,105
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	2,817	3,314
Gross Block - Fixed Assets	1,575	1,665	1,765	1,965
Accumulated Depreciation	710	790	878	969
Net Block	865	875	886	995
Capital WIP	76	107	132	107
Net Fixed Assets	941	981	1,018	1,102
Investments	637	109	259	534
Inventory	537	1,112	1,303	1,513
Cash	54	42	52	122
Debtors	403	601	706	756
Loans & Advances & Other C/	44	116	104	94
Total Current Assets	1,038	1,871	2,166	2,484
Creditors	243	315	380	504
Provisions & Other CL	134	199	245	302
Total Current Liabilities	376	514	625	807
Net Current Assets	661	1,357	1,541	1,678
Other Assets	0	0	0	0
Application of Funds	2,239	2,447	2,817	3,314

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	61.0	79.5
Cash EPS	47.5	57.4	73.6	92.5
BV	283	321	373	443
DPS	9	9	9	9
Cash Per Share	7.7	6.1	7.4	17.3
Operating Ratios (%)				
EBITDA margins	17.4	15.8	16.0	17.0
PBT margins	15.8	13.7	14.4	16.2
Net Profit margins	12.0	10.3	10.8	12.1
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	16.4	17.9
RoCE	15.7	17.3	19.8	21.2
RoIC	16.1	17.6	20.2	22.1
Valuation Ratios (x)				
P/E	32.5	27.8	31.4	24.1
EV / EBITDA	21.2	18.1	20.9	16.5
EV / Revenues	3.7	2.9	3.3	2.8
Market Cap / Revenues	3.9	2.9	3.4	2.9
Price to Book Value	6.8	6.0	5.1	4.3
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	3.4	2.9
Quick Ratio	1.2	1.4	1.3	1.1

Source: Company, ICICI Direct Research

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