



Powered by the Sharekhan 3R Research Philosophy

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

Updated Dec 08, 2022

44.00

Severe Risk

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

Source: Morningstar

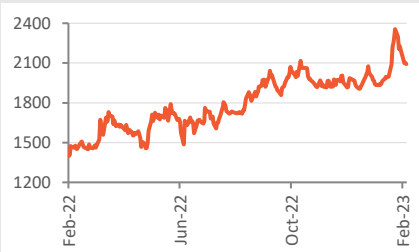
Company details

Market cap:	Rs. 14,661 cr
52-week high/low:	Rs. 2,511 / 1348
NSE volume: (No of shares)	0.3 lakh
BSE code:	520111
NSE code:	RATNAMANI
Free float: (No of shares)	2.80 cr

Shareholding (%)

Promoters	60.1
FII	12.5
DII	16.3
Others	11.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.3	8.6	21.5	49.4
Relative to Sensex	6.3	9.7	19.2	43.8

Sharekhan Research, Bloomberg

Ratnamani Metals & Tubes Ltd

Stellar Q3; Growth outlook promising

Capital Goods

Sharekhan code: RATNAMANI

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 2,092

Price Target: Rs. 2,500



Summary

- Q3FY23 results were strong, led by better-than-expected revenue growth of 19% y-o-y and 192 bps beat in OPM at 18.1% (up 403 bps y-o-y). Operating profit/PAT of Rs. 199 crore/Rs. 134 crore, up 52%/51% was 17%/17% above our estimates.
- Order book remains strong at Rs. 3,102 crore (versus Rs. 3,244 crore in Q2FY23) and our expectations for improvement in bid pipeline would further boost order book going forward.
- RMTL has a new capex plan of Rs. 350 crore (asset turn of 1.5-2x) for expansion of both CS/SS capacities and would drive the next leg of growth for RMTL.
- We maintain a Buy on RMTL with a revised PT of Rs. 2,500 as RMTL's dominant domestic position makes it key beneficiary of demand recovery in steel tubes and pipes. Strong order book position and robust bid pipeline to drive 25% PAT CAGR over FY24E-25E with healthy RoE of 18%. Stock trades at 27.6x/23.3x its FY24E/FY25E EPS.

Ratnamani Metals & Tubes Limited (RMTL) reported robust Q3FY23 results with 5%/17% beat in consolidated revenues/operating profit at Rs. 1,099 crore/Rs. 199 crore, up 19%/52% y-o-y. A large part of revenue growth was driven by execution of higher-value order and the same is reflected in a 31% y-o-y improvement in blended realisation while overall volumes detailed by 13% y-o-y. OPM of 18.1% (up 403 bps y-o-y; up 202 bps q-o-q) was 192 bps above our estimate of 16.2% reflecting the benefit of execution of higher value-added order. Consolidated PAT at Rs. 134 crore (up 51% y-o-y; up 36% q-o-q) was also 17% above our estimate of Rs. 114 crore led by stronger-than-expected revenue/margin and lower-than-expected depreciation partially offset by lower other income.

Key positives

- Stronger-than-expected revenue growth of 19% y-o-y.
- Better-than-expected OPM of 18.1%, up 403 bps y-o-y and 192 bps above our estimate of 16.2%.

Key negatives

- Overall volumes declined by 13% y-o-y to 66,314 tonnes.

Revision in estimates – We have fine-tuned our FY23 earnings estimate and largely maintain our FY24-25 earnings estimate.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 2,500: RMTL is well-positioned to benefit from a potential rise in order intake, especially from high-margin SS pipes and geopolitical tensions between Russia-Ukraine could open new growth opportunities from Europe. We expect RMTL to clock superior earnings CAGR of 25% over FY22-25E and improvement in RoE/ROCE to 18%/23%. Hence, we maintain a Buy rating on RMTL with a revised PT of Rs. 2,500 (reflects rollover of PE multiple to FY25E EPS). The stock trades at 27.6x/23.3x its FY24E/FY25E EPS.

Key Risks

- Soft demand or delay in plant commissioning might affect revenue growth momentum.
- Inability to undertake adequate and timely price hikes to mitigate the volatility in input costs might affect margins.

Valuation (Consolidated)

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	3,138.8	4,072.2	4,674.4	5,514.2
OPM (%)	15.8	16.2	17.6	17.6
Adjusted PAT	322.6	445.5	531.2	628.0
% YoY growth	16.9	38.1	19.2	18.2
EPS (Rs)	46.0	63.6	75.8	89.6
PER (x)	45.4	32.9	27.6	23.3
P/BV (x)	6.4	5.5	4.6	3.9
EV/EBITDA (x)	29.7	22.5	17.6	14.6
RoNW (%)	15.1	18.0	18.2	18.2
RoCE (%)	17.8	21.5	23.1	23.2

Source: Company; Sharekhan estimates

Stellar Q3; beat on all fronts

RMTL clocked robust Q3FY23 results with a 5%/17% beat in consolidated revenues/operating profit at Rs. 1,099 crore/Rs. 199 crore, up 19%/52% y-o-y. The large part of revenue growth was driven by execution of higher-value orders and the same is reflected in 31% y-o-y improvement in blended realisation while overall volumes detailed by 13% y-o-y. OPM of 18.1% (up 403 bps y-o-y; up 202 bps q-o-q) was 192 bps above our estimate of 16.2% reflecting benefit of execution of higher value-added order. Consolidated PAT at Rs. 134 crore (up 51% y-o-y; up 36% q-o-q) was also 17% above our estimate of Rs. 114 crore led by stronger-than-expected revenue/margin and lower-than-expected depreciation partially offset by lower other income.

Results (Consolidated)

Particulars	Rs cr				
	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
Revenue	1098.7	927.0	18.5	899.8	22.1
Total expenditure	899.7	796.4	13.0	755.0	19.2
Operating profit	199.1	130.6	52.4	144.9	37.4
Depreciation	20.4	19.0	7.2	18.7	9.1
Other income	7.4	10.7	-31.1	10.2	-27.1
Interest	7.7	4.6	67.1	4.7	63.4
PBT	178.4	117.7	51.5	131.6	35.5
Tax	44.3	28.6	54.6	32.8	34.8
PAT	134.1	89.1	50.5	98.8	35.7
EPS (Rs.)	19.1	12.7	50.5	14.1	35.7
Margins			BPS		BPS
EBITDA (%)	18.1	14.1	403	16.1	202
PAT (%)	12.2	9.6	259	11.0	123
Tax rate (%)	24.8	24.3	50	24.9	-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 from 2019 to 2027. The Asia-Pacific region has the largest share of 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 crores, 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 the participation of local firms in government projects by disallowing global tenders for up to Rs. 200 crores, 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.

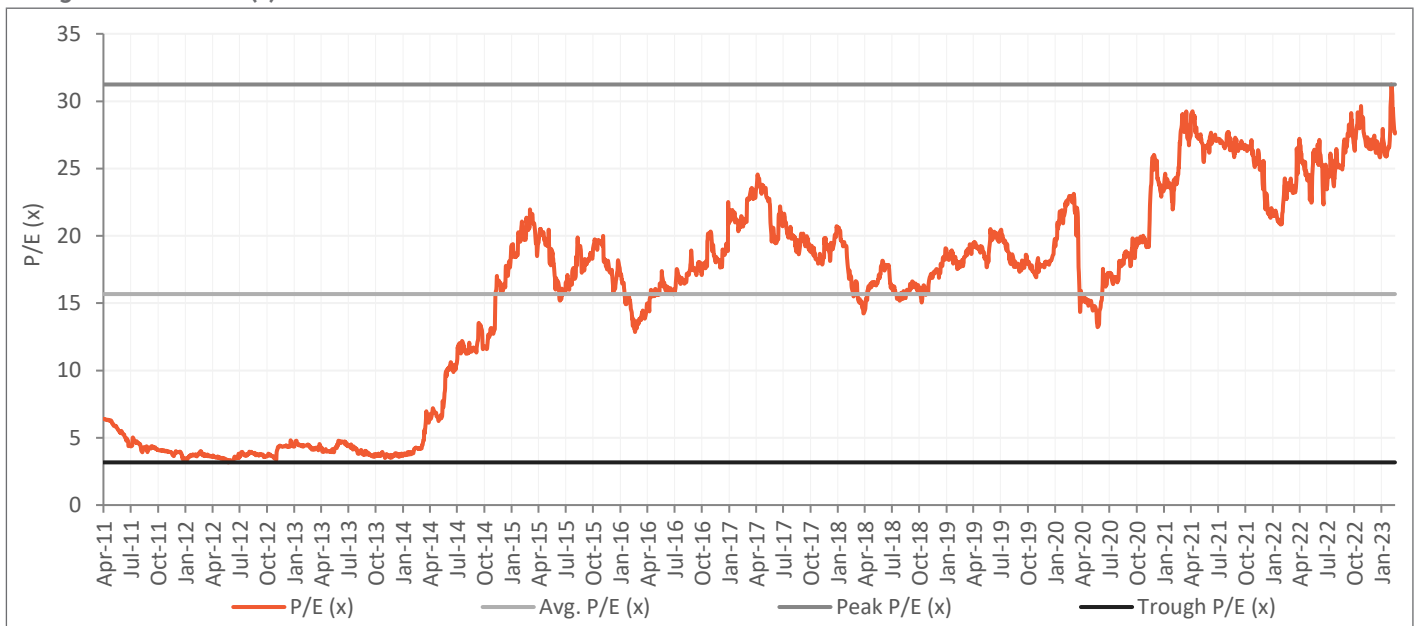
■ Company Outlook – Well-poised for growth

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 solid revenue growth would continue over FY2023E-FY2025E, led by a 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 had earlier guided for revenue of Rs. 3,800-4,000 crore for FY23 and EBITDA margin of 15-17%.

■ Valuation – Maintain Buy with an revised PT of Rs. 2,500:

RMTL is well-positioned to benefit from a potential rise in order intake, especially from high-margin SS pipes and geopolitical tensions between Russia-Ukraine could open new growth opportunities from Europe. We expect RMTL to clock superior earnings CAGR of 25% over FY22-25E and improvement in RoE/ROCE to 18%/23%. Hence, we maintain a Buy rating on RMTL with a revised PT of Rs. 2,500 (reflects rollover of PE multiple to FY25E EPS). The stock trades at 27.6x/23.3x its 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 India's leading manufacturers of CS welded pipes (ERW, L-SAW, and H-SAW), SS/CS pipes with three-layer PE/PP coating. The company has two manufacturing plants located in Gujarat. It manufactures various withs and CS products and value-added products in each segment, having a 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 growth momentum path over FY2024E-FY2025E given robust demand outlook coupled with the 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

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 (old data)

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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 deteriorating 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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