Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

# Ratnamani Metals & Tubes Ltd

## Stellar Q4 led by strong order execution

| Capital Goods | Sharekhan code: RATNAMANI |
|---|---|
| Reco/View: Buy ↔ | CMP: Rs. 2,385 / Price Target: Rs. 2,670 ↑ |

↑ 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 36.68

Updated Mar 08, 2023

Severe Risk

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

*Source: Morningstar*

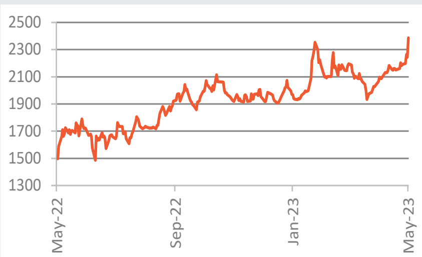
**Company details**

| | |
|---|---|
| Market cap: | Rs. 16,716 cr |
| 52-week high/low: | Rs. 2,511/1,434 |
| 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 | 12.8 |
| DII | 16.4 |
| Others | 10.8 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 13.8 | 10.1 | 24.3 | 59.3 |
| Relative to Sensex | 11.3 | 8.1 | 24.1 | 42.4 |

*Sharekhan Research, Bloomberg*


**Summary**

- RMTL posted a phenomenal performance in Q4FY23 with best-ever consolidated revenues of Rs. 1,499 crore (up 54% y-o-y) and OPM of 20% (up 275 bps y-o-y), which significantly surpassed our estimates given strong order execution (volume growth of 57% y-o-y), better product mix and operational efficiencies. PAT of Rs. 193 crore (up 73% y-o-y) was 57% above our estimates.
- Order book declined by 21% q-o-q to Rs. 2,440 crore and is at Rs. 2600 crore currently. Management hinted at softness in orders from oil & gas space and line pipe segment while that from water segment to remain strong but has relatively lower margin.
- Standalone revenue guidance of Rs. 5,000 crore (implies 14% y-o-y growth with likely variance of +5%/-5%) with EBITDA margin of 16-18%. Ravi Technoforge (bearings business) expected to see a revenue ramp-up to Rs. 300 crore, 200 bps margin improvement in FY24 and Rs. 15-20 crore of annual debt repayment.
- RMTL stock price has run-up by 19% in CY23YTD and near-term stock price may remain rangebound until order book improves from current level. Having said that, we believe that RMTL's dominant domestic position in steel tubes & pipes makes it well placed to capture medium to long-term growth opportunities from the oil & gas space. Hence, we maintain our Buy rating on RMTL with revised PT of Rs. 2,670. Stock trades at 31.1x/26.3x its FY24E/FY25E EPS.


**Ratnamani Metals & Tubes Limited (RMTL) posted stellar Q4FY23 results with beat of 29%/405 bps in consolidated revenue/OPM at Rs. 1,499 crore/20%, up 54%/275 bps y-o-y. Q4FY23 had revenue contribution of Rs. 63 crore from Ravi Technoforge. The phenomenal performance was led by a substantial rise in volume by 57% y-o-y to 106kt supported by higher carbon steel (CS) deliveries, benefit of operating leverage (higher utilisation) and a superior product mix which aided margin. Consequently, consolidated operating profit/PAT grew strongly by 78%/73% y-o-y to Rs. 301 crore/Rs. 193 crore, which was 62%/57% above our estimate given significant beat in revenue/margin partially offset by higher-than-expected finance costs, lower other income and higher tax rate.**

**Key positives**

- Stronger-than-expected revenue growth of 29% y-o-y.
- Better-than-expected OPM of 20%, up 275 bps y-o-y and 405 bps above our estimate of 16%.
- Robust 57% y-o-y volume growth to 106 kt.

**Key negatives**

- Rise of 24%/80% q-o-q in depreciation/interest cost in Q4FY23 which could be attributed to the Ravi acquisition.

**Revision in estimates –** We have fine-tuned our FY24-25 earnings estimate to factor management guidance and incorporation of Ravi acquisition.

**Management Commentary**

- Standalone FY24 revenue guidance of Rs. 5,000 crore, which implies 14% y-o-y growth with likely variance of +5%/-5%. Margin guidance retained at 16-18%.
- Ravi Technoforge revenue guidance of Rs. 300 crore with the aim of improving its margin by 200 bps in FY24. Including Ravi Technoforge, consolidated revenues expected at Rs. 5300 crore.
- Management hinted at some softness in orders from the oil & gas space and line pipe segment. Order flow in the water segment expected to remain strong but it holds lower margin as compared to oil & gas orders.
- **Project updates -** New SS plant expected to get completed by Dec'23 or Jan'24 and CS plant by Q1FY24.
- Order book declined by 21% q-o-q to Rs. 2,440 crore and currently it stands at Rs. 2600 crore.
- Capex guidance of Rs. 100-150 crore for FY24.

**Our Call**

**Valuation – Maintain Buy with a revised PT of Rs. 2,670:** 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 earnings CAGR of 12% over FY23-25E and healthy RoE/ROCE to 19%/23%. Hence, we maintain a Buy rating on RMTL with a revised PT of Rs. 2,670. The stock trades at 31.1x/26.3x 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)** Rs cr

| Particulars | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|
| Revenue | 3,138.8 | 4,474.4 | 5,304.1 | 6,228.3 |
| OPM (%) | 15.8 | 17.3 | 16.2 | 16.2 |
| Adjusted PAT | 322.6 | 510.5 | 537.5 | 636.2 |
| % YoY growth | 16.9 | 58.2 | 5.3 | 18.4 |
| EPS (Rs. ) | 46.0 | 72.8 | 76.7 | 90.8 |
| PER (x) | 51.8 | 32.7 | 31.1 | 26.3 |
| P/BV (x) | 7.3 | 6.4 | 5.4 | 4.5 |
| EV/EBITDA (x) | 33.8 | 21.8 | 18.8 | 15.6 |
| RoNW (%) | 15.1 | 20.9 | 18.9 | 18.8 |
| RoCE (%) | 17.8 | 24.9 | 22.3 | 22.5 |

*Source: Company; Sharekhan estimates*

**Stellar Q4; beat on all fronts**

Strong Q4FY23 consolidated revenue growth of 54% y-o-y and 36% q-o-q to Rs. 1,499 crore, which was 29% above our estimate of Rs. 1,163 crore. Overall volumes grew strongly by 57%/60% y-o-y/q-o-q to 106kt led by higher sales volume for CS pipe (which may include one-time deliveries as well). The higher share of CS pipes led to decline in blended realization by 2%/15% y-o-y/q-o-q to Rs. 1,35,711. The company accounted ~Rs. 63 crore contribution from Ravi Technoforge in Q4FY23. OPM of 20% (up 275 bps y-o-y; up 193 bps q-o-q) was 405 bps above our estimate of 16% on account of operating leverage given high volume. Consequently, consolidated operating profit grew by 78%/51% y-o-y/q-o-q to Rs. 301 crore (62% above our estimates). Consolidated PAT at Rs. 193 crore (up 73% y-o-y; up 44% q-o-q) was 57% above our estimate of Rs. 123 crore as revenue/margin beat was partially offset by higher-than-expected finance cost and tax rate and lower-than-expected other income.

**Q4FY23 earnings conference call highlights**

- **FY24 Revenue/margin guidance –** The management expects standalone revenues to be over Rs. . 5,000 crores in FY24, which will be more than 14% y-o-y growth in the topline with likely variance +5%/-5%. The company expects margins to be in the range of 16-18%.
- **FY24 Ravi Technoforge guidance –** Management expects Ravi Technoforge to clock ~Rs. 300 crores of revenue in FY24 and expects the topline to grow in the range of 15-20%. Margins will improve by 200 bps and the capex expansion/cost reduction programs are expected to be completed in September/October 2023. Performance in the first seven months of FY23 (prior to company acquisition) was subdued due to ineffective use of capacity.
- **FY24 capex guidance:** Management guided for a capex in the range of Rs. 150-200 crore for FY24 but said will provide greater clarity in subsequent calls as the company is in the initial phases of drawing the capex budget.
- **Project updates –** Management Rs. 180 crore SS plant is expected to get commissioned by Dec'23 or Jan'24 and Rs. . 170 crore CS plant by Q1FY24. The company also successfully commissioned 15MW of Solar power plant in March 2023 which will help save power cost.
- **Capacity utilisation:** Capacity utilisation for capacities other than the newly commissioned facilities is in the range of 60-80%. The utilization of the new facilities is ~30% and management intend to scale it up to 50-60% in FY24.
- **Order book:** It stands at Rs. 2440 crore (versus Rs. 3102 crore earlier) with mix of 80%/20% for CS/SS orders and 77%/23% for domestic/exports versus Q3FY23 order book mix of 82%:/18% for CS/SS and 84%/16% for domestic/exports.
- **Bidding pipeline:** Management said in O&G they have bid for projects of GAIL (in KK BMPL Phase 2), IOCL, IGGL, Vedanta and GIGL. In the water segment, the company has bid for projects of Surat Municipal Corporation, Ahmedabad Urban Development Authority Yojana and some in Africa. Management said they will provide greater details on bidding in September 2023 results.
- **Others:** 1) Management expects more volumes from the water segment in FY24 but margins for it are 100-200 bps lower than O&G. 2) Softness in demand for the CGD segment is temporary 3) Company expects to repay debt in the range of Rs. 15-20 crore every year.

**Results (Consolidated)** Rs cr

| Particulars | Q4FY23 | Q4FY22 | YoY (%) | Q3FY23 | QoQ (%) |
|---|---|---|---|---|---|
| **Revenues** | **1499.1** | **974.1** | **53.9** | **1098.7** | **36.4** |
| Total expenditure | 1198.5 | 805.5 | 48.8 | 899.7 | 33.2 |
| **Operating profit** | **300.6** | **168.5** | **78.3** | **199.1** | **51.0** |
| Depreciation | 25.3 | 23.1 | 9.4 | 20.4 | 24.0 |
| Other income | 6.6 | 9.9 | -33.9 | 7.4 | -11.3 |
| Interest | 13.9 | 6.4 | 116.9 | 7.7 | 80.3 |
| **PBT** | **267.9** | **148.9** | **79.9** | **178.4** | **50.2** |
| Tax | 75.3 | 37.3 | 102.0 | 44.3 | 70.2 |
| **PAT** | **192.6** | **111.6** | **72.5** | **134.1** | **43.6** |
| EPS (Rs. ) | 27.5 | 15.9 | 72.5 | 19.1 | 43.6 |
| **Margins** | | | **BPS** | | **BPS** |
| OPM (%) | 20.0 | 17.3 | 275 | 18.1 | 193 |
| NPM (%) | 12.8 | 11.5 | 139 | 12.2 | 64 |
| Tax rate (%) | 28.1 | 25.0 | 307 | 24.8 | 331 |

*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.

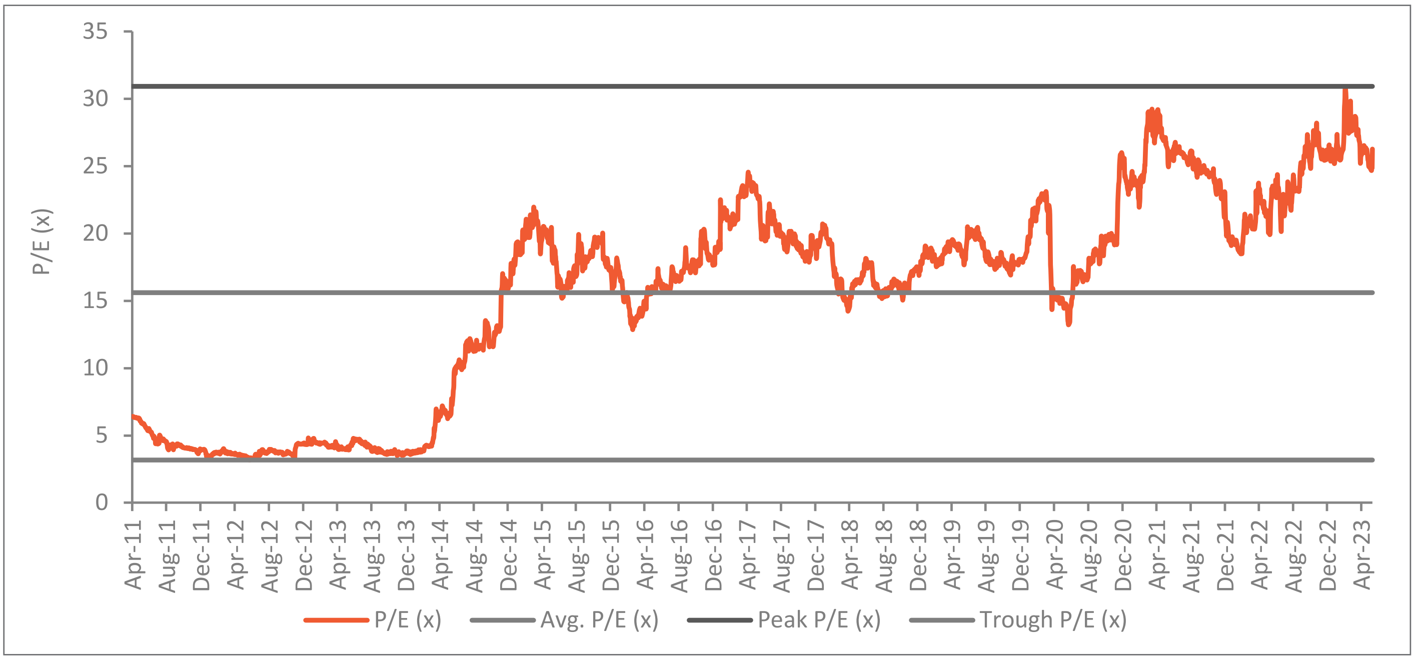
### ■ Company Outlook – Well-poised for growth

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 FY2024E-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 has guided for standalone revenue of Rs. . 5,000 crore for FY24 and EBITDA margin of 16-18%.

### ■ Valuation – Maintain Buy with a revised PT of Rs. . 2,670

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 earnings CAGR of 12% over FY23-25E and healthy RoE/ROCE to 19%/23%. Hence, we maintain a Buy rating on RMTL with a revised PT of Rs. 2,670. The stock trades at 31.1x/26.3x its FY24E/FY25E EPS.

**One-year forward P/E (x) band**




*Source: Sharekhan Research*

## About the 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 |
| Anil Maloo | Company Secretary |

*Source: Bloomberg*

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | Nalanda India Fund Ltd | 6.1 |
| 2 | Kotak Mahindra Asset Management Co | 5.3 |
| 3 | L&T Mutual Fund Trustee Ltd/India | 3.9 |
| 4 | Nalanda India Equity Fund Ltd | 3.1 |
| 5 | DSP Investment Managers Pvt Ltd | 3.1 |
| 6 | Vanguard Group Inc/The | 1.5 |
| 7 | SBI Funds Management Ltd | 1.2 |
| 8 | Invesco Asset Management India Pvt | 1.0 |
| 9 | Baroda Mutual Fund Ltd | 0.3 |
| 10 | Norges Bank | 0.3 |

*Source: Bloomberg*

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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 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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