Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Ratnamani Metals & Tubes Ltd

Strong Q1; order book improves

Capital Goods	Sharekhan code: RATNAMANI
Reco/View: Buy ↔	CMP: Rs. 2,628 — Price Target: Rs. 2,950 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Robust Q1 performance led by superior order execution and margin expansion of 415 bps y-o-y and thus consolidated PAT of Rs. 135 crore (up 56% y-o-y) was significantly above our estimate of Rs. 108 crore. Volumes/realisation rose 5%/14% y-o-y.
- Order book remains strong and increased strongly by 20% q-o-q to Rs. 2,921 crore. Order book SS/CS mix 23%/77% (versus 20%/80% in Q4FY23) and domestic/export mix at 81%/19% (versus 84%/16% in Q4FY23).
- 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. Strong order book and potential improvement in financials of Ravi Technoforge (bearings business) to drive 18%/14% revenue/PAT CAGR over FY23-25E.
- A strong balance sheet and dominant domestic position in steel tubes & pipes makes it well placed to capture medium to long-term growth opportunities from oil & gas and the water space. Hence, we maintain a Buy rating on RMTL with a revised PT of Rs. 2,950. The stock trades at 34x/27.6x its FY24E/FY25E EPS.

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 Jun 08, 2023

High Risk

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

Source: Morningstar

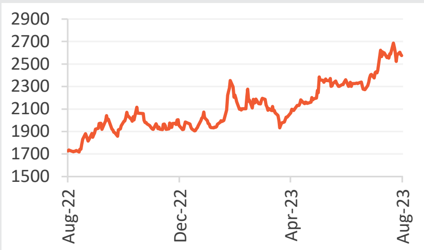
Company details

Market cap:	Rs. 18,419 cr
52-week high/low:	Rs. 2700/1703
NSE volume: (No of shares)	0.5 lakh
BSE code:	520111
NSE code:	RATNAMANI
Free float: (No of shares)	2.82 cr

Shareholding (%)

Promoters	59.8
FII	12.8
DII	16.5
Others	11.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.4	10.2	25.2	51.5
Relative to Sensex	8.3	4.1	16.5	40.8

Sharekhan Research, Bloomberg

Ratnamani Metals & Tubes Limited (RMTL) posted yet another robust performance with 4%/21%/25% beat in consolidated revenue/operating profit/PAT at Rs. 1,175 crore/Rs. 206 crore/Rs. 135 crore, up 20%/58%/56% y-o-y led by strong order expectation, higher OPM and lower interest cost. Revenue contribution from Ravi Technoforge remained flat q-o-q at Rs. 63 crore. Strong revenue growth for core business reflects continued healthy traction in volumes (up 5% y-o-y to 79kt) and improved realisations (up 8% y-o-y) led by better product mix which aided EBITDA margin expansion by 415 bps y-o-y to 17.6% (within company's guided range of 16-18%).

Key positives

- Order book surged by 20% q-o-q to Rs. 2,921 crore.
- Better-than-expected revenue growth of 20% y-o-y and OPM expansion of 415 bps y-o-y to 17.6%.

Key negatives

- Flat q-o-q revenue contribution from Ravi Technoforge.

Revision in estimates: We fine-tuned our FY24 earnings estimate and increased FY25 earnings estimate by 5% to factor higher margin assumption.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 2,950: 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 14% over FY23-25E and healthy RoE/ROCE of 20%/23%. Hence, we maintain a Buy rating on RMTL with a revised PT of Rs. 2,950. The stock trades at 34x/27.6x its FY24E/FY25E EPS.

Key Risks

- Soft demand or delay in plant commissioning might affect revenue growth.
- Inability to undertake adequate and timely price hikes to mitigate the volatility in put 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	16.7
Adjusted PAT	322.6	510.5	541.3	666.4
% YoY growth	16.9	58.2	6.0	23.1
EPS (Rs)	46.0	72.8	77.2	95.1
PER (x)	57.1	36.1	34.0	27.6
P/BV (x)	8.1	7.1	5.9	5.0
EV/EBITDA (x)	37.3	24.0	20.8	16.7
RoNW (%)	15.1	20.9	19.0	19.6
RoCE (%)	17.8	24.9	22.2	23.3

Source: Company; Sharekhan estimates

Strong Q1; beat on all fronts led by superior order execution

Consolidated revenues rose 20% y-o-y (down 22% q-o-q) to Rs. 1,175 crore, which was 4% above our estimate of Rs. 1126 crore. The beat in revenue reflects continued robust order execution. OPM of 17.6% (up 415 bps y-o-y; down 249 bps q-o-q) was 246 bps above our estimate of 15.1% on account of operating leverage and probably due to execution of high-margin orders on SS side. Consequently, operating profit grew by 58% (down 31% q-o-q) to Rs. 206 crore (21% above our estimates). Sequential decline in operating profit should be viewed from the perspective of exceptionally strong Q4FY23 order execution. PAT at Rs. 135 crore (up 56% y-o-y; down 30% q-o-q) was 25% above our estimate of Rs. 108 crore led by beat in revenue/margin and significantly lower-than-expected interest costs.

Results (consolidated) Rs cr

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	**1174.9**	**976.8**	**20.3**	**1499.1**	**-21.6**
Total expenditure	968.7	845.9	14.5	1198.5	-19.2
Operating profit	**206.3**	**130.9**	**57.6**	**300.6**	**-31.4**
Depreciation	24.3	19.0	27.8	25.3	-3.8
Other income	8.5	8.6	-0.7	6.6	29.7
Interest	9.9	4.8	104.7	13.9	-29.3
PBT	**180.6**	**115.7**	**56.2**	**267.9**	**-32.6**
Tax	45.3	28.8	57.2	75.3	-39.9
Reported PAT	**135.3**	**86.8**	**55.8**	**192.6**	**-29.7**
EPS (Rs.)	19.3	12.4	55.8	27.5	-29.7
Margins			**BPS**		**BPS**
OPM (%)	17.6	13.4	415	20.0	-249
NPM (%)	11.5	8.9	263	12.8	-133
Tax rate (%)	25.1	24.9	17	28.1	-303

Source: Company, Sharekhan Research

Order book mix Rs cr

Particulars	Domestic	Exports	Total
SSTP	330	329	659
CS	2,022	240	2,262
Total	**2,352**	**569**	**2,921**

Source: Company

Outlook and Valuation

■ Sector view - Long-term growth drivers remain intact

The global steel pipes & tubes market is expected to reach a size of $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 COVID-19 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 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.

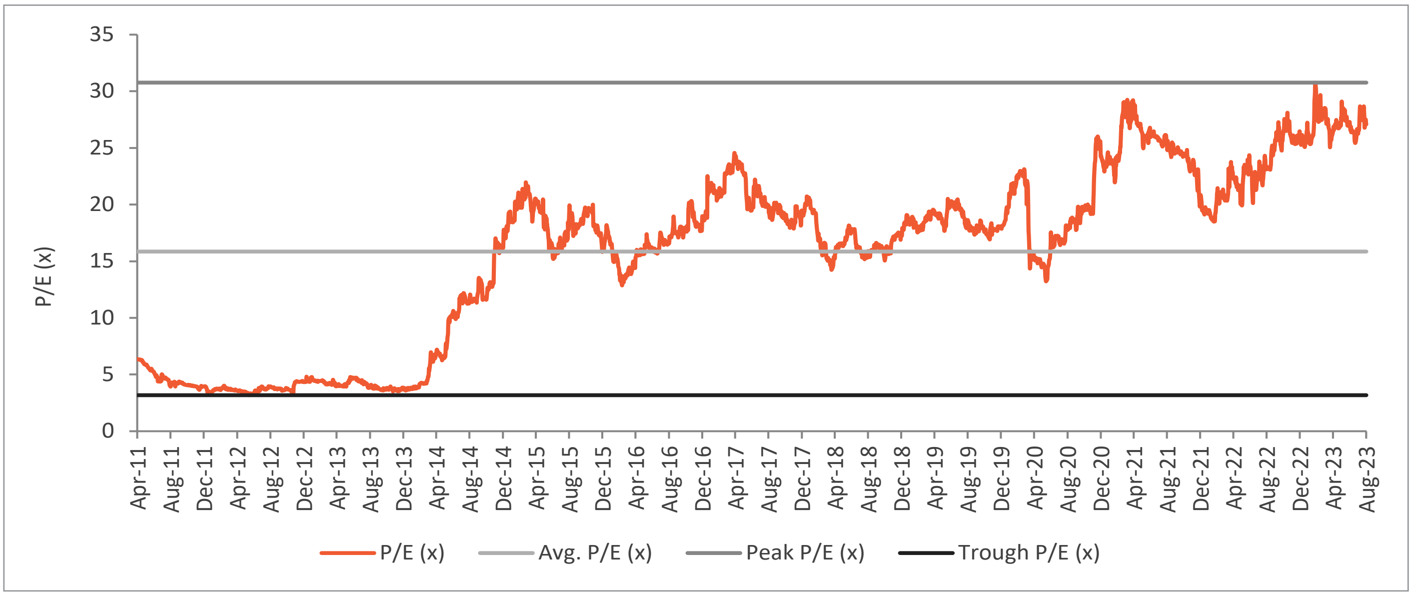
■ Company outlook - Well-poised for growth

RMTL is the largest manufacturers of nickel alloy/stainless steel seamless and welded tubes/pipes and titanium welded tubes in India and is one of the leading manufacturers of carbon steel (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 revenues of Rs. 5,000 crore for FY24 and EBITDA margin of 16-18%.

■ Valuation - Maintain Buy with a revised PT of Rs. 2,950

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 14% over FY23-25E and healthy RoE/ROCE of 20%/23%. Hence, we maintain a Buy rating on RMTL with a revised PT of Rs. 2,950. The stock trades at 34x/27.6x 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
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	5.4
3	L&T Mutual Fund Trustee Ltd/India	3.87
4	Nalanda India Equity Fund Ltd	3.13
5	DSP Investment Managers Pvt Ltd	2.91
6	HSBC Asset Management India Pvt Lt	1.66
7	Vanguard Group Inc/The	1.32
8	SBI Funds Management Ltd	1.21
9	Invesco Asset Management India Pvt	1.21
10	Dimensional Fund Advisors LP	0.4

Source: Bloomberg

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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