PROFITMART

RESEARCH REPORT 30th Sept 2023

RATNAVEER PRECISION ENGINEERING LIMITED

BSE : RATNAVEER **Sector: AUTO/SOLAR/TUBES COMPONENTS** **BSE: 543978**

View - BUY

CMP : Rs. 122

Target Price: Rs 231 (In next 12 to 18 mths)

BUSINESS BACKGROUND

Ratnaveer Precision Engineering Limited (RPEL) incorporated in 2002 is a stainless steel ("SS") product manufacturer focused on producing finished sheets, washers, solar roofing hooks, pipes, and tubes. RPEL operates out of 4 manufacturing units, out of which 2 (Unit-I and Unit-II) are located at GIDC, Savli, Vadodara, Gujarat, one (Unit-III) is located at Waghodia, Vadodara, Gujarat and the other 1 (Unit-IV) is located at GIDC, Vatva, Ahmedabad, Gujarat. RPEL's products find application across various industries including automotive, solar power, wind energy, power plants, oil & gas, pharmaceuticals, sanitary & plumbing, instrumentation, electro mechanics, architecture, building & construction, electrical appliances, transportation, kitchen appliances, chimney liners, etc

INVESTMENT HIGHLIGHTS

Strong Operating Financial Performance in FY23 –

RPEL reported a strong set of FY23 numbers with net sales at Rs 480 crs as compared to Rs 427 crs last year, a EBIDTA of Rs 46 crs as compared to Rs 28 crs last year with a PAT of Rs 25 crs as compared to Rs 9 crs last year

During Q1FY24 RPEL reported a Topline of Rs 117.66 crs vs Rs 93.48 crs in Q1 last year up by 26% YoY, a EBIDTA of Rs 14.62 crs vs Rs 9.86 crs in Q1 last year with a PAT of Rs 8.21 crs as compared to Rs 5.50 crs in Q1 last year – up by 49% YoY

RPEL is a value-added manufacturer of Stainless Steel products enjoying diverse applications –

RPEL is a stainless steel ("SS") product manufacturer focused on producing finished sheets, washers, solar roofing hooks, pipes, and tubes. Stainless steel is a value-added product with high corrosion resistant properties. RPEL's products find application across automotive, solar power, wind energy, power plants, oil & gas, pharmaceuticals, sanitary & plumbing, instrumentation, electro mechanics, architecture, building & construction, electrical appliances, transportation, kitchen appliances, chimney liners, etc. RPEL's products are used in both commercial and residential sector and are sold within India and overseas.

KEY DATA

FACE VALUE Rs	10.00
DIVD YIELD %	NA
52 WK HI/LOW	134/111
BSE CODE	RATNAVEER
NSE CODE	RATNAVEER
MARKET CAP	RS 555 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	55%
BANKS, MFs & DIIs	-	4%
FIIs/Others	-	12%
PUBLIC	-	29%

KEY FUNDAMENTALS

YE	FY24	FY25	FY26
Rev Gr%	15	27	20
EBIDTA Gr%	36	29	30
PAT Gr%	52	32	36
EPS Gr%	9	32	36
EPS (Rs)	7.84	10.31	14.00
ROE %	20	16	19
ROCE %	12	13	15
EV/EBIDTA(x)	12	9	7
P/E(x)		11	8

Ratnaveer Precision Engineering Group Profile & its Execution abilities –

Business Profile –

RPEL is promoted & is headed by Vijay Ramanlal Sanghavi who is the Promoter, Chairman, Managing Director of the company. He has been associated with the Company since its incorporation and has been actively involved in the operations of the Company

Ratnaveer Precision Engineering Limited ("RPEL") is a stainless steel ("SS") product manufacturer focused on producing finished sheets, washers, solar roofing hooks, pipes, and tubes. Stainless steel is a value-added product with high corrosion resistant properties. Higher levels of chromium and additions of other alloy elements enhance the corrosion resistance. Compared to traditional steel, stainless-steel has higher resistance to corrosion, superior aesthetic finish and higher life span. These features have helped in increasing the popularity of stainless-steel across the world.

RPEL operates out of 4 manufacturing units, out of which 2 (Unit-I and Unit-II) are located at GIDC, Savli, Vadodara, Gujarat, one (Unit-III) is located at Waghodia, Vadodara, Gujarat and the other 1 (Unit-IV) is located at GIDC, Vatva, Ahmedabad, Gujarat. Their manufacturing units are strategically located with availability of transportation, which facilitates convenient transportation of their products. RPEL manufactures SS finishing sheets, SS washers and SS solar mounting hooks at their Unit I and SS pipes & tubes at their Unit II. Unit III and Unit IV are dedicated for the backward integration process. Unit III is the melting unit where it melts steel scrap and turns it into steel ingots and Unit IV is the rolling unit where flat ingots are further processed to turn them into SS sheets which are the raw material for SS washers. Their Units are supported by infrastructure for storage of raw materials, manufacturing of their products, storage of finished goods, together with a quality control and R&D laboratory.

RPEL is one of the few companies who has a backward integration model, which is one of their major strengths and has helped them in maximizing the returns on their investments. While their 2 units (Unit I and II) are dedicated for manufacturing the products which are offered to their customers, the other 2 units (Unit III and IV) are dedicated towards processing the byproducts generated in manufacturing their products and converting it back into the raw material for their products

RPEL intends to expand its portfolio of SS washers by adding circlips into the product line. They currently offer over 2500 SKUs of SS washers to their customers including inner ring washers, spring washers, Nord lock washers, retaining rings, internal tooth washers and external tooth washers of different sizes and specifications. The wide range of products enables them to meet the trends and demands of their customers and, also gives an edge to efficiently compete with their competitors

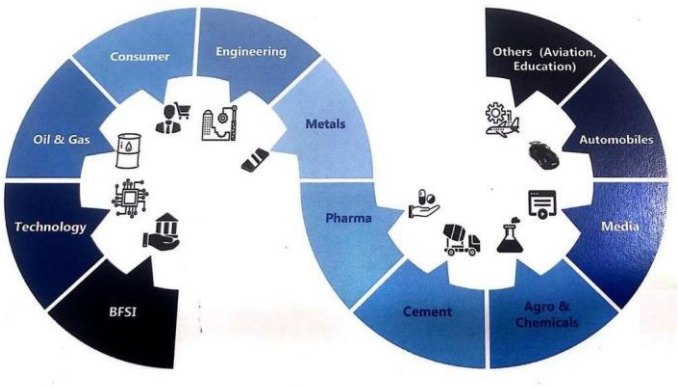
RPEL enjoys marquee customers some of which include –

RPEL has over 138 customers and has a large export presence with over 60% to 65% revenues coming in from exports

Ratnaveer Precision Engineering Ltd has been an ISO 9001, ISO 14001 AND ISO 18001 registered company. Additionally, it has producing washers that meet with different country standards and meet their quality requirements like USA – ANSI & ASME, Germany – DIN, UK- BS, France – AFNOR, Italy -UNI and International – ISO

RPEL exports to 31 countries some of which prominently include like UAE, ISTAMBUL Greece, Isreael, Italy, Hungary, Germany, Poland, France, Spain, Netherlands, USA, Austria & Sweden

Key Product Applications for RPEL's Products across various sectors –



General Application of Washers –

Wind Mills

Railways

Electro Mechanics

Electro Mechanics

Safety Assembly

Motors

Key Product Details of RPEL –

SS Finishing Sheets

SS sheet is a thin flat piece of stainless steel that has a wide range of applications. Depending on the grade of SS used, size, thickness and finish SS sheet finds application in sectors ranging from architecture, building & construction (ABC), automotive, railway & transport (ART), food industry process industry, and aerospace, among others. The corrosion resistance attribute of the material, along with the ability to incorporate custom finishes has helped increase the usage of SS sheet. Thickness (or gauge) of the material is used to differentiate SS sheet from other flat products like plates and foils

Stainless steel sheets (SS sheets) with a wide variety of finishes meets the aesthetic requirements and emerged as one of the several candidates for exterior cladding. Company's product range of SS finishing sheets consists of Satin Surface SS Sheet, Hairline SS Sheet, Scotch Bright SS Sheet, Mirror Surface SS Sheet etc

Satin Finish

Hairline Finish

Mirror Finish

Application of Decorative Finish Sheets –

Elevators
Laminates
Home and office appliances
Architecture, building & construction
Industrial machinery & equipment
Electrical appliances
Transportation
For Aesthetic look (Ex. Mall, Airport, Metro Rail).

SS Washers

A typical washer is a disk-shaped small thin plate with a hole. There are numerous uses of washers, however it mainly serves as a spacer to absorb a shock and evenly distribute load of a fastener. Washers can also prevent leakage or corrosion, relieve friction, and maintain tension. Washers are usually metal or plastic and are made in different sizes based on their application.

Stainless steel (SS) washers and galvanized carbon steel washers are the most commonly used. Stainless steel washers are most used washers applied in fastener assemblies to distribute load from a bolt's top across a wider surface area. Globally, stainless steel washer is a preferred choice for the end-users of washers owing to its numerous positive properties.

Stainless steel washers are made by the stamping process that uses a die to punch a shape or a form from a flat sheet of stainless steel.

RPEL's portfolio includes the following SS washers in various specifications: Inner ring washers, Spring washers, Nord lock washers, Retaining rings, Internal tooth washers, External tooth washers

Spring Washers

Nord Lock Washers

Retaining Rings

External Tooth Washer

Circlips

Internal Tooth Washer

Inner Rings Washers

SS Solar roofing hooks

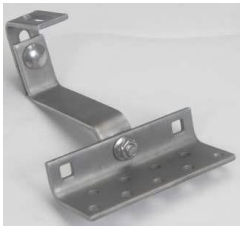
Solar roofing hooks are used for solid fastening of photovoltaic systems on pitched roofs. Roofing hooks serve as a foundation for photovoltaic mounting systems for tiled roofs and are to be mounted directly on the roof battens and rafters. Solar roofing hooks are critical for the efficient working of a solar power system in both utility and rooftop applications

Fix Hook

Long Roofing Hook

Pan Title Hook

Gweinde Hook



Vario Hook

SS Tubes & Pipes

Stainless steel pipes and tubes are finding wide application in oil & gas, capital goods, power and several other. In the industrial sector, it is used in the manufacturer of the heat exchanger, condensers, and similar industrial equipment that are used in chemical plants, fertilizer plants, pharmaceuticals, sugar, dairy & dairy products, water desalination and automotive industry amongst other.

It also find application in construction. Oil & gas and chemical & petrochemical industry are the two largest consumers of steel pipes and tubes, is driving the demand across the world. Stainless steel tubes are usually cylindrical, hollow items that are utilized as equipment components or as a medium for fluids to travel through.

The usage of stainless steel in the construction of tubes is due to the favourable qualities of stainless steel, which is the most commonly used material in tubing production. Stainless steel square tubing is a hollow pipe-like piece of hardware with 4 equal-length sides constructed from a number of steel alloys.

RPEL manufactures finishing sheets, washers and solar mounting hooks at Unit I and SS pipes & tubes at Unit II. Unit III and Unit IV are dedicated for the backward integration process. Unit III is the melting unit where they melt the scrap steel and turn it into steel ingots. Unit IV is the rolling unit where flat ingots are further processed to turn them into sheets which are the raw material for washers

At present as on March 2023 SS Finishing Sheets accounted for Rs 305.73 crs accounting for 64% of total revenues which totalled Rs 479.73 crs. Other key products which contributed to the topline was SS Washers totalling Rs 84.08 crs, SS Solar Roofing Hooks Rs 10.55 crs, SS Scrap Metals Rs 49.38 crs & SS Tubes & Pipes Rs 29.99 crs

Globally & Domestically the SS Sheets & Washers Industry Potential looks strong –

Annual consumption of SS sheets in India is approximately 10 lac tons plus in 2022-23. This includes SS sheets used for functional purposes as well as aesthetic purposes (decorative sheets). Consumption has been increasing by a CAGR of 13% during the last five to six years. Architecture, building & construction (ABC) segment and automotive, railways & transportation (ART) are the two major sectors that are driving the demand for SS sheets

Two of the key segments that are driving the demand for SS sheets are Architecture, Building & Construction (ABC) and Automotive, Railway & Transport (ART). In ABC, the usage is primarily on roofing and cladding (external and internal), with external cladding by SS decorative sheets. In addition, the usage in elevators & escalators too comes under this broad segment. In ART segment, the usage is primarily in the construction of bus bodies, as well as coaches (metros and railways). Although SS is used in auto components, the usage is mostly SS long products

Stainless steel sheets (SS sheets) with a wide variety of finishes meets this aesthetic requirement and emerged as one of the several candidates for exterior cladding. However, the factors that tilted the balance in its favor include its superior corrosion resistance, ability to hold its form under extreme natural elements (stress, sun & rain), and flexibility to fabricate into any shape required

Moreover, the cost effectiveness of the material together with its recyclability too helped, with the later gaining prominence due to the increasing interest in green buildings. The usage of stainless steel (SS) in construction industry is not new, and is used extensively for load bearing, railings, plumbing applications, and HVAC, among others. All these applications were mostly from a functional perspective – utilizing its corrosion resistance and other properties. Its usage as a decorative element is relatively recent, and in a country like India this application trend is still to become widespread

Office building construction scenario in India

Since 2015, India has been adding nearly 35.5 mn sq.ft of new office space every year (except 2019 when the annual addition was in the range of 61.2 mn sq.ft6 . With IT-ITES sector accounting for nearly 80% of office space absorption every year, new addition is driven by expected demand from this sector. The dominance of IT-ITES in office building segment is a positive for SS sheet used for decorative purposes, as the focus on aesthetic element in building design is highest among this particular customer segment. Thus the 35.5 mn sq.ft of office space construction every year is providing a huge market for SS decorative steel, for usage in exterior cladding and design

Growth in Hospitality Space

Compared to office space and malls, the usage of metal for exterior cladding is relatively low in hotel construction. Given the aesthetic element, together with durability and cost saving the prospect of SS sheet metal usage picking up in hotel construction space cannot be ruled out. This sector could emerge as a demand driver in the coming years, subject to the evolution of architectural design elements.

India has risen to become the fourth largest green building market in the world, in terms of build volume. According to Indian Green Building Council, there are nearly 7,000 green certified building projects while the total area that comes under the category of green building is estimated to be nearly 8 bn sq.ft. Such a wide network of projects and large green building footprint points to an aggressive growth in green buildings in India. The recyclability and lower carbon footprint (due to high life cycle) makes SS sheet an excellent material of choice for green building construction

Demand from Elevators & Escalators In elevators,

SS sheet is used as interior finishing material – serving as a decorative material. Depending on the requirement, SS sheet with suitable finish is used inside elevators. All modern elevators used in residential, commercial, institutional and infrastructure buildings today use SS sheet for interior finishing. Hence, the growth in elevators & its usage is a direct barometer of increasing demand for SS decorative sheet from elevator manufacturers. Apart from elevator, SS sheet also finds usage in escalators which is extensively used in shopping malls, metro stations as well as airports

Over the last few years, elevator sales in India is approximately 50,000 – 55,000 per annum, while the installed elevator base in the country is nearly 250,000 units per annum.

As per OTIS India, India is the second largest elevator market in the world, after China, with residential real estate market accounting for nearly 80% of annual consumption accounted by residential market. Escalators, which is yet to become mainstream, is estimated to be a 3,500 – 4,000 units per annum market.

The expansion in mall space, and growth in metro stations are driving the demand for escalators, and these two factors would be instrumental in pulling up the annual volume sales from the current levels. This strong elevator demand is expected to translate into strong demand for SS decorative sheet, which has become an integral component of elevator. This strong demand for escalator manufacturers would be complimented by the rising demand for escalator market.

Demand from commercial kitchens

Usage of SS sheet in kitchen stems from its inert & neutral attribute, making it an excellent antimicrobial material. It is this functional attribute, more than the decorative attribute, that has made SS sheet a preferred material of choice in kitchens.

Moreover, its ability to hold original design & colour as well as excellent anti scratch attributes too have helped SS sheet become a preferred material in kitchens (mainly commercial kitchens). In commercial kitchens, SS sheet is used in workstations, storage cabinets, exterior material for refrigerators, cooking range, and equipment’s like ovens & frying stations.

Commercial kitchen is directly linked to the restaurant industry, with an increase in restaurant base directly triggering fresh demand for commercial kitchen equipment. However, the popularity of hyperlocal food delivery services has created a new type of commercial kitchens – cloud kitchens.

These cloud kitchens have emerged as the second demand driver in this industry, apart from the traditional restaurant business. Apart from restaurants (and the newly emergent cloud kitchens), commercial kitchen equipment also finds application in QSR chains, bakeries, cafes, institutions, catering service providers, and industrial kitchens. All these segments together create demand for commercial kitchen ware, which in turn lead to higher consumption of SS sheet by manufacturers of commercial kitchenware.

Demand from Automotive, Railways & Transport (ART) Segment

SS sheet of varying finishes is used in the construction of metro coaches. For example, Jindal Stainless supplies SS sheet of 2J and No.4 finishes that are required for metro coaches. When the metro rail project was launched in India, coaches were imported.

However, the expansion of metro rail projects to multiple cities has led global OEMs like Alstom and Bombardier to set up domestic manufacturing facilities, apart from domestic PSU BEML. Together these firms are the major consumers of SS sheets with specialized finishes.
As on end of Dec 2021, metro rail network is operational across 14 cities in India, with a cumulative railway track network of 74.5kms and about 551 metro stations.

More than 2,500 metro coaches are in use today, servicing the metro network currently operational in India. Moreover, in the past three to four years, metro coach manufactures (BEML, Alstom, Bombardier and Titagarh) have together won tenders to supply more than 1,200 coaches10 (metro coaches and Rapid Rail Transport System coaches). With metro rail expected to become the pillar of urban transport infrastructure across all major cities, the demand for metro coaches is only going to increase. This planned expansion in metro network is thus a big position for SS sheet manufacturer

Export Demand

Europe and the US form the largest export market for Indian SS sheet manufacturing industry, accounting for more than 85 - 90% of the total export volume. US alone accounts for nearly 30% of total import volumes, while in Europe the key export markets are Italy, Poland, Spain, Belgium, and Russia. Apart from stable demand from building construction and other allied structures, the presence of trade barriers against imports from China and other Asian destinations have worked to Indian SS sheet manufacturing industry

SS sheet usage has seen a significant growth in the past decade, on the back of novel application in ABC segment as well as emergence of new customer segments like metro railways. Usage of steel in architecture & building construction was mostly confined to load bearing & structural applications. Usage of specialized products like SS sheet was relatively low. Changes in building design & construction technics have ushered in a change, paving the way for the adoption of SS sheets. While usage of SS sheet as roofing and cladding material has found a ready audience, its usage as a decorative sheet is yet to gain traction.

On the other hand, the growth in metro rail network has presented SS sheet manufacturers with a new customer segment. Given the rapid growth in metro network in the country, this new segment has turned out to be a key demand driver. These two customer segments would continue to be the major demand drivers for this product in the years to come.

Stainless Steel (SS) washers

A typical washer is a disk-shaped small thin plate that has a hole in the center. There are numerous uses of washers, however it mainly serves as a spacer to absorb a shock and evenly distribute load of a fastener. Washers can also prevent leakage or corrosion, relieve friction, and maintain tension.

The size of the hole in the middle of a washer is typically based on the clearance value of the fastener it will be used along with. Washers are usually metal or plastic and are made in different sizes based on their application. They are made from a variety of materials including stainless steel, carbon steel, zinc, copper, brass, plastic, rubber, fiber, and ceramic. Stainless steel (SS) washers and galvanized carbon steel washers are the most commonly used.

While the former offers better strength, the superior corrosion resistance attribute of stainless steel gives it an edge. Stainless steel washers are most used washers applied in fastener assemblies to distribute load from a bolt's top across a wider surface area. Globally, stainless steel washer is a preferred choice for the end-users of washers owing to its numerous positive properties.

The notable advantage of stainless steel over other metals is its natural characteristics such as resistance from corrosion and rust, and thus, is most preferred input material for manufacturing washers.

Another advantage of SS washer is that they make maintenance tasks much easier, as their load-bearing quality makes the tightening and/or loosening of components hassle-free. Stainless steel washers are made by the stamping process that uses a die to punch a shape or a form from a flat sheet of stainless steel. Stamping is a fast and smooth process that is capable of manufacturing large number of washers and enables maximum use of metal sheets.

Global Consumption Scenario

SS washer, although a low value product, but is a critical component and are widely used in multiple manufacturing industries, utility sector, infrastructure, and real estate construction, amongst other. In value terms, the revenue from SS washers was estimated to value at USD 2,960 in 2021, registering a CAGR of 1.3% between 2018-21. Supported by favorable product attributes, the demand for SS washer is driven by rapid urbanization which has accelerated the pace of the infrastructure developments, real estate construction and industrial production

In value terms, the domestic consumption of SS washers is estimated to have grown at 3.2% CAGR between 2018-21 to reach USD 102 Bn in 2021

Northern region closely followed by western region have garnered majority share both in terms of consumption volume and value on account of its large population and presence of industries. Gurugram and Manesar in Haryana have the largest automotive manufacturing industry of Maruti Suzuki coupled with Noida and Gurugram as the major corporate hubs in the northern region with the greatest number of office space have support the demand for SS washers.

In FY 2022, USA continued to remain India's largest export market with 31.6% share in the total SS washer exports. Export of SS washers to the US market has steadily grown at a CAGR of nearly 33% during FY 2018-22 to reach the value of Rs 1.33 billion from the level of Rs 0.37 billion in FY 2018. As a result, the share of USA in India's SS washer export has increased from 17% to 31%. Germany, UK, Netherland, and Spain were the other major export markets for SS washers in FY 2022

Washers are primarily used as spacer to absorb a shock and evenly distribute load of a threaded fastener. The versatile applications of washers along with various engineering products such as nuts, bolts, and fasteners used in almost every industry has supported the demand for washers. Amongst several type of washers available, washers made from SS steel are the most widely used material in washers.

These are widely used in automobile industry, residential, commercial and infrastructure construction and in several other manufacturing and utility sector. SS washers with having better corrosion and chemical resistance are commonly used in a salty environment like saltwater, chlorine, coastal area. In industrial sector, SS washer thus find diversified application specialty chemical, petrochemical, power, industry. sea water equipment, and many other engineering applications

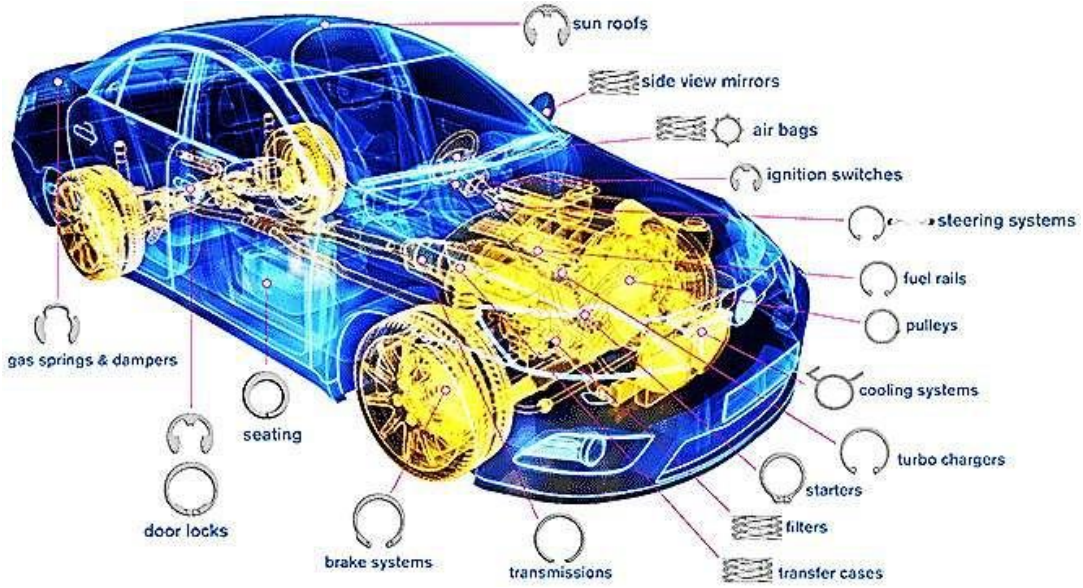
Ongoing capex at new unit & increase in value added products will further boost growth for RPEL going ahead –

RREL is currently implementing a capex progg totalling Rs 45 crs which includes setting up of the company's 5th new facility where in it will increasing capacity of its washers unit, adding more value added products like Circlips and increasing the new SKUs of new washers for new clients

The company expects that commercial operations from the new facility will start from April 2024 onwards and where the company expects to generate incremental revenues of around Rs 150 crs going ahead

More importantly here in this unit the company will focus on high value added and high margin products wherein drawings and product certifications are already completed by the company & approved by customers

E- Clip & Retaining Ring Application Division –



Key Competitive Moats & growth drivers ahead for RPEL –

Experienced Management Team – The company's management team led by Vijay Ramanlal Sanghavi who is the Promoter, Chairman, Managing Director and Chief Financial Officer has rich experience in the industry in which it is operating and have been responsible for the growth of its operations and financial performance. He also has adequate experience in the line of business undertaken by the Company for its strategic and day-to-day business operations.

Scalable Business Model – RPEL enjoys a business model which is scalable. The biggest positive RPEL enjoys is that it is a fully Indian-grown integrated SS Finishing Sheets & SS Washers player which operates across diverse sectors like automotive, solar power, wind energy, power plants, oil & gas, pharmaceuticals, sanitary & plumbing, instrumentation, electro mechanics, architecture, building & construction, electrical appliances, transportation, kitchen appliances, chimney liners, etc. catering to diverse set of customers

RPEL has developed a synergistic system of backward integration whereby they process the waste being generated in manufacturing of their products for converting back into the raw material which is utilized again in manufacturing. Thus, the raw material required is also being generated in-house, while the waste being produced in the manufacturing process is being completely utilized, ensuring economies of scale and minimal wastage.

RPEL sells their products both in the domestic as well as international markets. They have been exporting since incorporation and as on March 31, 2023, some of the countries they are exporting to including but not limited to Germany, UK, Spain, Netherland, etc. Additionally RPEL enjoys marquee customers totalling over 138 customers which have been doing business with RPEL for almost 2 decades which signifies the quality standards & comfort enjoyed with global customers which is a big positive

Strong Industry tailwinds to be another positive driver for RPEL going ahead –

Annual consumption of SS sheets in India is approximately 10 lac tonnes plus in 2022-23. This includes SS sheets used for functional purposes as well as aesthetic purposes (decorative sheets). Consumption has been increasing by a CAGR of 13% during the last five to six years. Architecture, building & construction (ABC) segment and automotive, railways & transportation (ART) are the two major sectors that are driving the demand for SS sheets

Two of the key segments that are driving the demand for SS sheets are Architecture, Building & Construction (ABC) and Automotive, Railway & Transport (ART). In ABC, the usage is primarily on roofing and cladding (external and internal), with external cladding by SS decorative sheets.

In addition, the usage in elevators & escalators too comes under this broad segment. In ART segment, the usage is primarily in the construction of bus bodies, as well as coaches (metros and railways). Although SS is used in auto components, the usage is mostly SS long products

Europe and the US form the largest export market for Indian SS sheet manufacturing industry, accounting for more than 85 - 90% of the total export volume. US alone accounts for nearly 30% of total import volumes, while in Europe the key export markets are Italy, Poland, Spain, Belgium, and Russia. Apart from stable demand from building construction and other allied structures, the presence of trade barriers against imports from China and other Asian destinations have worked to Indian SS sheet manufacturing industry

Domestic markets are also growing steadily on the back of strong demand in ABC segment as well as emergence of new customer segments like metro railways. Changes in building design & construction technics have ushered in a change, paving the way for the adoption of SS sheets. While usage of SS sheet as roofing and cladding material has found a ready audience, its usage as a decorative sheet is yet to gain traction. On the other hand, the growth in metro rail network has presented SS sheet manufacturers with a new customer segment.

Presence of a diversified product basket will also ensure steady growth for RPEL –

RPEL's products find application across various industries including automotive, solar power, wind energy, power plants, oil & gas, pharmaceuticals, sanitary & plumbing, instrumentation, electro mechanics, architecture, building & construction, electrical appliances, transportation, kitchen appliances, chimney liners, etc

RPEL intends to expand its portfolio of SS washers by adding circlips into the product line. They currently offer over 2500 SKUs of SS washers to their customers including inner ring washers, spring washers, Nord lock washers, retaining rings, internal tooth washers and external tooth washers of different sizes and specifications. The wide range of products enables them to meet the trends and demands of their customers and, also gives an edge to efficiently compete with their competitors

Key Weakness –

Environmental risks like floods, heavy rainfalls & Cyclones can significantly affect business growth

Any geo political risks in overseas markets can also impact the company's performance

RPEL enjoys a strong BS with huge scalability potential going ahead –

RPEL runs a strong business model covering several SKUs while it continues to invest on a sustained basis largely via internal accruals for both its capex & working capital requirements.

Looking at the huge growth available to grow in the industrial fastener market and the company's aggressive strategy to increase its SKUs for both Washers, Circlips and other value added products and for widening its distribution reach saw its OCF getting negative in FY23 at Rs 14 crs.

The management however reiterated that higher inventory is largely responsible for larger SKUs at different locations but average debtors' collections are well under control and hopefully in FY24 the company will be OCF positive once all the capacity additions start generating at peak capacity leading to higher cash generation

We expect that going ahead overall bottomline growth in the next 3 years starting FY24 onwards should increase at a CAGR of 21% and with capex & WC largely funded from internal cash flows

We expect the PAT to grow solidly in the next 3 years until FY26 to Rs 68 crs from Rs 25 crs in FY23.

Also EBIDTA is also expected to grow at a CAGR of 23% in the next 3 years to Rs 105 crs in FY26 from Rs 46 crs in FY23

Going ahead the company is confident of maintaining & improving its EBIDTA margins to around 14-15% largely on the back of a better product mix and benefits of higher volumes which are expected going ahead which currently stand at 9.58% following a strong order book pipeline in the coming years which will also improve in stronger OCFs in coming 2 years ahead

Business Outlook & Stock Valuation –

On a rough cut basis, in FY24E, Topline is expected to touch Rs 550 crs, followed by Rs 700 crs in FY25E & Rs 840 crs in FY26E

On the bottomline level we expect the company to record a PAT of Rs 38 crs in FY24E which is expected to bounce back to Rs 50 crs in FY25 & Rs 68 crs in FY26

Thus on a conservative basis, RPEL should record a EPS of Rs 7.85 (On diluted post public issue equity) for FY24E. For FY25E & FY26E our expectation is that earnings traction for RPEL would continue to be strong wherein we expect a EPS of Rs 10.31 & Rs 14 respectively.

Also another attractive point for RPEL is that EPS growth on post public issue equity base over the next 4 years between FY23 to FY26 is expected to average 18-20% YoY. We believe that in FY25E once all the capacities get fully operational, the company is also likely to benefit from Operating Leverage translating in to a sharp rise in topline & profitability

On a EV/EBIDTA basis the stock trades at 12x & 9x on FY24 and FY25 which looks very low for a well established player enjoying good profitability, and a strong hold in its business segment. If the company executes and delivers on the numbers ahead, we believe that looking at its present financial track record & future potential we expect valuation multiples on a EV/EBIDTA basis to average around 14-15x going forward.

The company management is confident of improving EBIDTA margins in going ahead via operational efficiency and better pricing due to operating leverage benefits ahead

Looking at RPEL's steady financial track record, strong business domain and dominant market share and strong promoters we expect the stock to get re rated in future.

Hence we believe that the RPEL stock should be BUY at the current price for a price target of around Rs 231 over the next 12 to 18 months which is based on FY25E EV/EBIDTA multiple of 14x

FINANCIALS

For the Year Ended March RsCrs	FY22	FY23	FY24	FY25	FY26
Net Sales	427.00	480.00	550.00	700.00	840.00
EBIDTA	28.00	46.00	62.50	80.50	105.00
EBIDTA %	6.56	9.58	11.36	9.25	9.50
Interest	12.00	12.00	12.00	11.50	10.00
Depreciation	4.00	4.00	4.50	5.50	6.00
Non Operational Other Income	2.00	1.00	2.00	2.00	2.00
Profit Before Tax	13.00	31.00	48.00	65.50	91.00
Profit After Tax	9.00	25.00	38.00	50.00	68.00
Cash Profits	13.00	29.00	42.50	55.50	74.00
Diluted EPS (Rs)	21.18	7.17	7.84	10.31	14.02
CPS (Rs)	30.59	8.31	8.76	11.45	15.26
Equity Capital	4.25	34.89	48.49	48.49	48.49
Reserves	62.00	71.00	230.44	280.44	348.44
Borrowings	190.00	229.00	205.00	185.00	175.00
Gross Block	67.00	85.00	130.00	145.00	165.00
Investments	0.00	0.00	0.00	0.00	0.00

Source Company our Estimates

KEY CONCERNS

Environmental risks like floods, heavy rainfalls & Cyclones can significantly affect business growth

Any geo political risks in overseas markets can also impact the company's performance