Sharekhan
by BNP PARIBAS

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Ratnamani Metals & Tubes Ltd

Stellat Q2; order book brightens growth outlook

Capital Goods	Sharekhan code: RATNAMANI

Reco/View: Buy	↔	CMP: Rs. 2,926	Price Target: Rs. 3,500	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Stock Update

Result Update

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 Aug 08, 2023

High Risk

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

Source: Morningstar

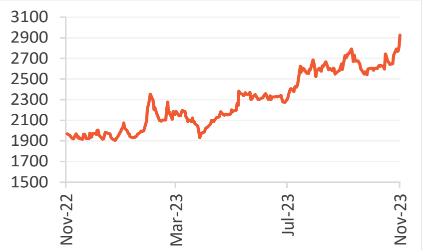
Company details

Market cap:	Rs. 20,507 cr
52-week high/low:	Rs. 3016/1867
NSE volume: (No of shares)	0.4 lakh
BSE code:	520111
NSE code:	RATNAMANI
Free float: (No of shares)	2.82 cr

Shareholding (%)

Promoters	59.8
FII	12.9
DII	16.5
Others	10.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.4	13.4	34.1	48.6
Relative to Sensex	13.7	15.4	29.9	43.0

Sharekhan Research, Bloomberg

Summary

- Robust Q2 was led by superior order execution and a 555 bps y-o-y rise in margins that drove 66% y-o-y increase in consolidated PAT to Rs. 164 crore (43% above estimate).
- Sharp rise in OPM was led by favourable product mix and execution of certain exceptional orders. Order book remains strong at Rs. 2975 crore. Standalone revenue/EBITDA margin guidance stood at Rs. 4,500-5,000 crore/16-18% for FY24.
- Capex of Rs. 350 crore for CS/SS plant to drive the next leg of growth. JV with Technoenregy AG to provide new growth avenue.
- 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 supply segment. Hence, we maintain a Buy with a revised PT of Rs. 3,500. Stock trades at 31x/27x its FY25E/FY26E EPS.

Ratnamani Metals & Tubes Limited (RMTL) posted a stellar Q2FY24 performance with beat on all fronts and particularly OPM of 21.6% (versus stated guidance of 16-18%) surprised positively. Its consolidated revenue/operating profit/PAT at Rs. 1,131 crore/Rs. 245 crore/Rs. 164 crore, up 26%/69%/66% y-o-y was 3%/37%/43% above our estimate reflecting yet another quarter of robust order execution and higher other income. The super strong OPM of 21.6% (up 555 bps/409 bps q-o-q) was 545 bps above our estimate of 16.2% led by favourable product mix (likely higher share of high margin stainless steel) and execution of certain exceptional orders. Revenue contribution from Ravi Technoforge declined by 6% q-o-q to Rs. 63 crore due to pressure on export revenue given geopolitical issues. Core business growth was strong at 19% y-o-y to Rs. 1,084 crore and reflects continued healthy traction in volumes (up 4% y-o-y to 59 kt) and improved realisations (up 14% y-o-y) led by a better product mix.

Key positives

- Better-than-expected revenue growth of 20% y-o-y.
- Super strong OPM at 21.6%, up 555 bps y-o-y and a beat of 545 bps versus estimate.
- Order book remained strong at Rs. 2,975 crore.

Key negatives

- Decline in revenue contribution from Ravi Technoforge as exports were hit.

Management Commentary

- Standalone FY24 revenue guidance of Rs. 4,500-5,000 crore. Margin guidance retained at 16-18% as H2 would see execution of orders from relatively low margin water segment.
- Ravi Technoforge revenue guidance growth 10-15% y-o-y for FY24 and expect margin of 13-14% by Q4FY24. Target to reach Rs. 500 crore of revenues and have capex plan of Rs. 40-50 crore.
- Management hinted at some slowdown in line pipe orders from oil & gas space. Water segment order flow remains strong.
- Project updates - New SS/CS plant expected to get completed by June/September 2024. Total capex of Rs. 250-300 crore planned.
- Entered in JV (51%/49%) with Technoenregy AG of Switzerland to form Ratnamani Finow Spooling Solutions. JV will provide pipe spoiling solutions, fittings and auxiliary support systems for piping and tubing applications for sectors like oil & gas, thermal and nuclear power. Investment plan of Rs. 40-50 crore in next 6-12 months.
- Order book of Rs. 2975 crore (up 2% q-o-q and 70%/30% from oil & gas/water). Order book SS/CS mix 23%/77% (same as Q1FY24) and domestic/export mix at 80%/20% (versus 81%/19% in Q1FY24).

Revision in estimates – We maintain our FY24-25 earnings estimate and have introduced our FY26 earnings estimate

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 3,500: 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 up new growth opportunities from Europe. We expect RMTL to clock an earnings CAGR of 14% over FY23-26E and healthy RoE/ROCE to 20%/24%. Hence, we maintain a Buy rating on RMTL with a revised PT of Rs. 3,500 (an increase in PT reflects rollover of valuation multiple to FY26E EPS). The stock trades at 31x/27x its FY25E/FY26E 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 input costs might affect margins.

Valuation (consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenue	3,138.8	4,474.4	5,304.1	6,228.3	7,153.7
OPM (%)	15.8	17.3	16.2	16.7	16.8
Adjusted PAT	322.6	510.5	541.3	666.4	766.1
% YoY growth	16.9	58.2	6.0	23.1	15.0
EPS (Rs)	46.0	72.8	77.2	95.1	109.3
PER (x)	64.7	40.9	38.6	31.3	27.3
P/BV (x)	9.2	8.0	6.9	5.9	5.0
EV/EBITDA (x)	42.3	27.2	23.7	19.2	16.3
RoNW (%)	15.2	21.0	19.2	20.3	19.9
RoCE (%)	17.8	24.9	22.5	24.1	24.2

Source: Company; Sharekhan estimates

Robust Q2; beat on all fronts reflects strong order execution

Strong consolidated revenue growth of 26% y-o-y to Rs. 1,131 crore, was 3% above our estimate of Rs. 1101 crore. The beat in revenue reflects continued robust order execution and that too for high margin orders. OPM of 21.6% (up 555 bps y-o-y; up 409 bps q-o-q) was 545 bps above our estimate of 16.2% on account of operating leverage and probably due to execution of better margin orders on SS side. Consequently, operating profit grew by 69% (up 19% q-o-q) to Rs. 225 crore (37% above our estimate). Consolidated PAT at Rs. 164 crore (up 66% y-o-y; up 21% q-o-q) was 43% above our estimate of Rs. 115 crore led by beat in revenue/margin and lower-than-expected interest cost and higher other income.

Results (consolidated) Rs cr

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Revenue	**1131.2**	**899.8**	**25.7**	**1174.9**	**-3.7**
Total expenditure	886.3	755.0	17.4	968.7	-8.5
Operating profit	**244.9**	**144.9**	**69.0**	**206.3**	**18.7**
Depreciation	23.6	18.7	26.2	24.3	-2.9
Other income	10.7	10.2	5.2	8.5	25.5
Interest	10.8	4.7	129.2	9.9	9.9
PBT	**221.1**	**131.6**	**68.0**	**180.6**	**22.4**
Tax	56.8	32.8	73.0	45.3	25.3
Reported PAT	**164.3**	**98.8**	**66.4**	**135.3**	**21.4**
EPS (Rs.)	23.4	14.1	66.4	19.3	21.4
Margins			**BPS**		**BPS**
OPM (%)	21.6	16.1	555	17.6	409
NPM (%)	14.5	11.0	355	11.5	301
Tax rate (%)	25.7	24.9	73	25.1	59

Source: Company, Sharekhan Research

Order book mix Rs cr

Division	Domestic	Exports	Total
SSTP	397	293	690
CS	1,971	314	2,285
Total	**2,368**	**607**	**2,975**

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 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.

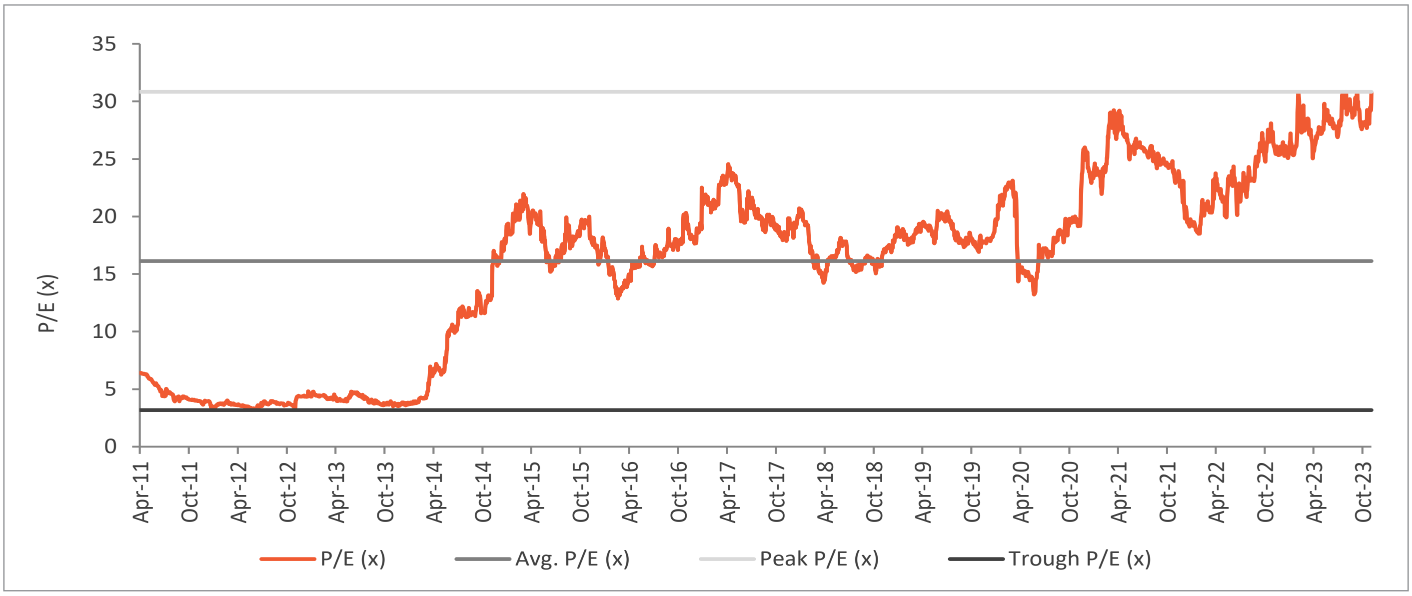
■ Company outlook - Well-poised for growth

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-FY2026E, 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. 4500-5,000 crore for FY24 and EBITDA margin of 16-18%.

■ Valuation - Maintain Buy with a revised PT of Rs. 3,500

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 up new growth opportunities from Europe. We expect RMTL to clock an earnings CAGR of 14% over FY23-26E and healthy RoE/ROCE to 20%/24%. Hence, we maintain a Buy rating on RMTL with a revised PT of Rs. 3,500 (an increase in PT reflects rollover of valuation multiple to FY26E EPS). The stock trades at 31x/27x its FY25E/FY26E 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	5.52
3	L&T Mutual Fund Trustee Ltd/India	3.75
4	Nalanda India Equity Fund Ltd	3.13
5	DSP Investment Managers Pvt Ltd	2.78
6	HSBC Asset Management India Pvt Lt	1.63
7	Vanguard Group Inc/The	1.56
8	Invesco Asset Management India Pvt	1.25
9	SBI Funds Management Ltd	1.21
10	Dimensional Fund Advisors LP	0.42

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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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022 - 41523200/022 - 69920600