



## 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		↔	

## Company details

Market cap:	Rs. 25,535 cr
52-week high/low:	Rs. 3972/2580
NSE volume: (No of shares)	1.04 lakh
BSE code:	520111
NSE code:	RATNAMANI
Free float: (No of shares)	2.82 cr

## Shareholding (%)

Promoters	59.8
FII	12.7
DII	16.8
Others	10.8

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	3.6	3.3	10.1	3.0
Relative to Sensex	7.3	8.9	7.8	-13.9

Sharekhan Research, Bloomberg

## Ratnamani Metals &amp; Tubes Ltd

## Execution delays hit Q2

## Capital Goods

## Sharekhan code: RATNAMANI

Reco/View: Hold



CMP: Rs. 3,643

Price Target: Rs. 3,950



Upgrade



Maintain



Downgrade

## Summary

- PAT stood at Rs. 99 crore (down 40%/6% y-o-y/q-o-q) was 23% below our estimate due to monsoon led delayed dispatches and weakness in pricing.
- OPM fell by 584 bps on lower execution of export orders, which are scheduled to be executed in the coming quarters.
- Order book rose 16% q-o-q to Rs. 2,960 crore. Strong traction was seen in inquiry of export orders.
- Strong balance sheet and dominant domestic position in steel tubes & pipes segment makes it well-placed to capture medium to long-term growth opportunities from oil & gas and the water supply segment. We retain a Hold rating due to limited upside on the rich valuations with a PT of Rs. 3,950. Stock trades at 32x FY27 EPS and 20x FY27 EV/EBITDA.

**Revenues fell by 14% y-o-y as an impact of passing on falling steel prices, delayed dispatches due to monsoon and postponement of a few SS export orders. Orders are expected to be executed in the coming quarter. Order booking has been sluggish for the last few quarters but has revived and is 16% up y-o-y to Rs 2960 crore with exports contributing 50%. OPM of 15.8% (down 584 bps y-o-y; up 195 bps q-o-q) was 219 bps below our estimates of 18% due to execution of low-margin SS pipes. Consequently, the operating profit/PAT is Rs. 153 crore/Rs. 99 crore, down 37%/40% y-o-y. Delayed pipe deliveries and strong export order execution is expected to result in strong H2FY2025.**

## Key positives

- Order booking has seen strong traction in export orders.

## Key negatives

- Monsoons delayed the dispatches, falling steel prices and delay in execution of export orders led to decline in revenue.
- OPM declined by 584 bps at 15.8%.

**Revision in estimates:** We revisited our FY24-27 estimates factoring in the H1FY2025 performance.

## Our Call

**Valuation—Retained Hold with a PT of Rs. 3,950:** RMTL is well-positioned to benefit from a potential rise in order intake, especially from high-margin SS pipes, and is exploring Europe and the US. We retain a Hold rating due to limited upside on the rich valuations with a revised PT of Rs. 3,950. The stock trades at 32x FY26EPS and 20x FY26 EV/EBITDA.

## Key Risks

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

## Valuation (consolidated)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	4,474	5,059	5,538	6,339	7,258
OPM (%)	17.3	17.7	15.8	16.3	16.3
Adjusted PAT	512	626	546	648	769
% YoY growth	58.8	22.1	(12.7)	18.7	18.6
EPS (Rs. )	73.1	89.3	77.9	92.5	109.7
PER (x)	47.8	39.2	44.9	37.8	31.9
P/BV (x)	9.4	7.8	6.9	6.0	5.2
EV/EBITDA (x)	31.7	27.2	27.2	22.7	19.5
RoNW (%)	26.0	26.3	20.8	21.8	22.1
RoCE (%)	21.1	21.8	16.3	16.9	17.5

Source: Company; Sharekhan estimates

## Key Highlights of Q2FY25:

Weak Q2FY25 consolidated revenue was down by 14% y-o-y to Rs. 971 crore below our estimates of Rs 1,267 crore. Demand from the oil & gas sector is tepid in India management expects it to remain muted for coming few quarters. Management has guided a revenue of Rs 5,000-5,200 crore with margins spanning around 16-18%. Management looks to spend around Rs 200 crore as capex in FY25 and Rs. 320 crore in FY2026. Commissioning of heavy thickness pipe capacity, new cold finishing line, CS pipe capacity in East and strong order booking on spooling business (Rs 650 crore) should drive earnings in short term.

Results (consolidated)					Rs cr
Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
<b>Revenues</b>	<b>971.3</b>	<b>1131.2</b>	<b>-14.1</b>	<b>1183.7</b>	<b>-17.9</b>
Operating expenses	817.8	886.3	-7.7	1019.7	-19.8
<b>Operating profit</b>	<b>153.5</b>	<b>244.9</b>	<b>-37.3</b>	<b>164.0</b>	<b>-6.4</b>
Depreciation	25.9	23.6	9.8	26.2	-1.3
Other income	19.5	10.7	82.8	12.3	59.2
Interest	13.6	10.8	25.3	9.7	39.8
<b>PBT</b>	<b>133.6</b>	<b>221.1</b>	<b>-39.6</b>	<b>140.4</b>	<b>-4.8</b>
Tax	34.2	56.8	-39.7	34.4	-0.4
<b>PAT</b>	<b>99.4</b>	<b>164.3</b>	<b>-39.5</b>	<b>106.0</b>	<b>-6.3</b>
EPS (Rs.)	14.2	23.4	-39.5	15.1	-6.3
<b>Margins</b>			<b>BPS</b>		<b>BPS</b>
OPM (%)	15.8	21.6	-584	13.9	195
NPM (%)	10.2	14.5	-430	9.0	128
Tax rate (%)	25.6	25.7	-6	24.5	114

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Long-term growth drivers remain intact

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 COVID-19 affected the progress of some infrastructure projects, we believe the 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

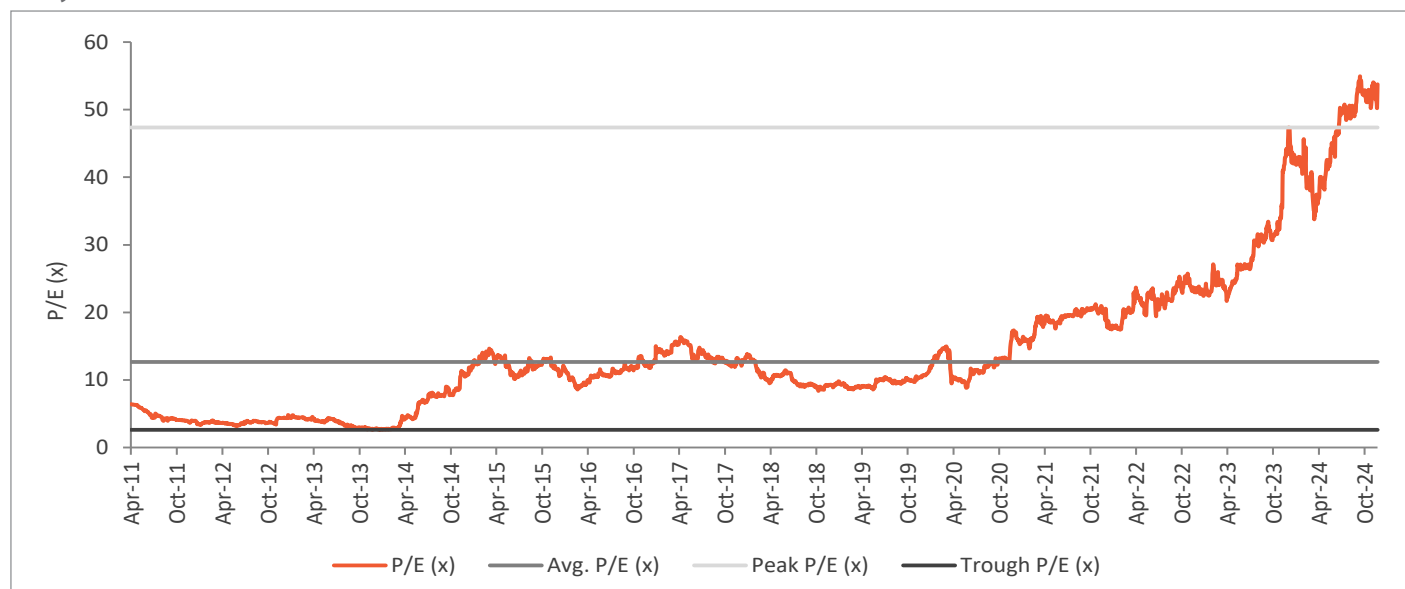
### ■ Company outlook - Well-poised for growth

RMTL is the most prominent 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 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, an anticipated increase in government's due to expanded capacities, and an anticipated increase in government spending on infrastructure schemes. RMTL's stainless steel pipes segment will strengthen its leadership position, led by products that would substitute for 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 - Retain Hold with PT of Rs. 3,950

RMTL is well-positioned to benefit from a potential rise in order intake, especially from high-margin SS pipes, and is exploring Europe and the US. We retain a Hold rating due to limited upside on the rich valuations with a revised PT of Rs. 3,950. The stock trades at 32x FY26EPS and 20x FY26 EV/EBITDA.

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



Source: Sharekhan Research

## About company

Incorporated in 1983, RMTL is a critical 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) and 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 50,000 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.

## Investment theme

RMTL is expected to sustain a growth momentum path over FY2024E-FY2025E, given the 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	Chairman and Managing Director
Jayantilal Mistrimal Sanghvi	Joint Managing 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	5.57
2	Kotak Mahindra Asset Management Co	5.45
3	ICICI Prudential Asset Management	2.78
4	L&T Mutual Fund Trustee Ltd/India	1.96
5	DSP Investment Managers Pvt Ltd	1.77
6	Vanguard Group Inc/The	1.56
7	SBI Funds Management Ltd	1.21
8	Invesco Asset Management India Pvt	0.66
9	Mirae Asset Financial Group	0.62
10	Canara Robeco Asset Management Co	0.46

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
<b>Positive</b>	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
<b>Neutral</b>	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
<b>Negative</b>	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	
<b>Positive</b>	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
<b>Neutral</b>	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
<b>Negative</b>	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	
<b>Positive</b>	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.
<b>Neutral</b>	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
<b>Negative</b>	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 Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com)

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