Ratnamani Metals & Tubes (RATMET)

CMP: ₹ 2075 | Target: ₹ 2400 (16%) | Target Period: 12 months | BUY

August 10, 2021

Performance set to improve, going forward…

About the stock: Ratnamani Metals & Tubes (RMTL) is a niche player with superior capabilities in the domestic industrial pipes and tube segment. RMTL manufactures a wide range of stainless steel and carbon steel pipes and tubes, which find application in key end user industries like oil & gas refineries, power, healthcare, etc.

- Ratnamani Metals and Tubes has an impeccable capital allocation strategy and best in class operating margins and return ratios
- RMTL has healthy cash flow and strong balance-sheet. It is one of the few players in the steel pipe sector having net cash position in it balance-sheet

Q1FY22 Results: RMTL reported a subdued set of numbers for Q1FY22.

- For Q1FY22, revenue from operations stood at ₹ 526 crore (down 9% YoY, 24% QoQ), lower than our estimate of ₹ 592 crore. Stainless steel segment reported sales volume of 3643 tonnes (down 9% YoY) while carbon steel segment reported sales volume of 48687 tonnes (down 17% YoY)
- EBITDA for the quarter was at ₹ 85 crore (up 11% YoY but down 47% QoQ), lower than our estimate of ₹ 104 crore. EBITDA margin for the quarter was at 16.1%, lower than our estimate of 17.5% (EBITDA margin of 13.1% in Q1FY21 and 22.8% in Q4FY21). Ensuing PAT for the quarter was at ₹ 50 crore, lower than our estimate of ₹ 70 crore (PAT of ₹ 109 crore in Q4FY21 and ₹ 50 crore in Q1FY21)

What should investors do? Ratnamani's share price has grown by ~2.4x over the last three years (from ~₹ 865 in August 2018 to ~₹ 2075 in August 2021).

- We maintain our BUY rating on the stock

Target Price and Valuation: We value RMTL at ₹ 2400, 25x FY23E EPS

Key triggers for future price performance:

- RMTL has completed a majority of its capacity expansion projects and is expected to reap the benefits of the same during the next couple of years. Over the last couple of years, the company has incurred a capex of ~₹ 600 crore to increase its capacities.
- Over FY21-23E, we expect topline to grow at 24.6% CAGR while EBITDA, PAT are expected to grow at a CAGR of 26.8%, 27.5%, respectively

Alternate Stock Idea: In our steel pipe sector coverage, we also like Tata Metaliks.

- By Q4FY23, Tata Metaliks is planning to double the Ductile Iron (DI) pipe capacity to 4 lakh tonnes
- BUY with a target price of ₹ 1475

Result Update

ICICI Securities – Retail Equity Research

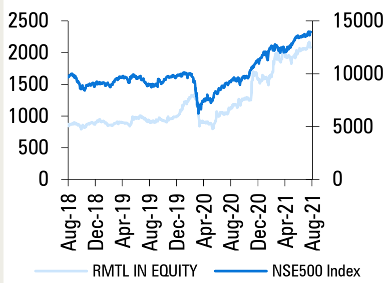
Particulars

Particulars	
Market Capitalisation (₹ crore)	9,696
Total Debt (FY21) (₹ crore)	196
Cash & Cash Eq (FY21) (₹ crore)	690
EV (₹ crore)	9,202
52 week H/L (₹)	2249 /1084
Equity Capital (₹ crore)	9.3
Face Value	₹ 2

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	60.2	60.2	60.2	60.2
FIIs	9.6	10.1	11.2	11.9
DIIs	14.1	14.4	14.3	14.1
Others	16.1	15.4	14.4	13.9
Total	100	100	100	100

Price Chart



Key Risks

- Any notably slowdown in demand for steel pipes (both Stainless Steel as well as Carbon Steel).
- Higher than expected increase in operating costs.

Research Analyst

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Key Financial Summary

(Year-end March)	FY18	FY19	FY20	FY21	CAGR (16-21) in %	FY22E	FY23E	CAGR (21-23E) in %
Total Operating Income (₹ crore)	1,767	2,755	2,583	2,298	6.0	3,068	3,571	24.6
EBITDA (₹ crore)	266	407	424	400	7.0	537	643	26.8
EBITDA Margin	15.1%	14.8%	16.4%	17.4%		17.5%	18.0%	
Net Profit (₹ crore)	152	253	307	276	11.0	356	449	27.5
EPS (₹)	32.5	54.1	65.8	59.0		76.2	96.0	
EV/EBITDA (x)	36.7	23.2	22.6	23.0		16.7	13.5	
RoCE (%)	17.1	24.3	19.0	15.7		19.3	20.1	
RoE (%)	11.6	16.6	18.0	13.9		15.7	16.9	

Source: Company, ICICI Direct Research

Key takeaways from conference call

- RMTL's order book has improved QoQ. RMTL's order book as on August 1, 2021 was at ₹ 1535 crore (₹ 1498 crore as on May 1, 2021). As on August 1, 2021, stainless steel (SS) order book was at ₹ 456 crore (₹ 330 crore as on May 1, 2021) while carbon steel (CS) orders were at ₹ 1079 crore (₹ 1168 crore as on May 1, 2021)

- On August 1, 2021, in terms of domestic and exports mix, domestic orders were at ₹ 1286 crores while export orders were at ₹ 249 crore. Of the ₹ 1286 crore domestic order book, ₹ 270 crore is in the SS segment while the balance ₹ 1016 crore is in the CS segment. Of the ₹ 249 crore export order book: ₹ 186 crore is in the SS segment while the balance ₹ 63 crore is in the CS segment

- For FY23E, the management has given a topline guidance in the range of ~₹ 3000 crore. Furthermore, EBITDA margins (inclusive of other income) are likely to hover between 16% and 18%

- For the ERW segment, RMTL's order book is booked until December 2021-January 2022

- Dispatches during Q1FY22 were impacted on account of the second wave of Covid-19 pandemic. If pandemic related disruption would not have been there, RMTL's topline for Q1FY22 would have been ~₹ 600 crore. As Q1FY22 was impacted by the second wave of pandemic, RMTL's reported topline for Q1FY22 was at ₹ 526 crore

- Cash and cash equivalents as on June 30, 2021 were at ~₹ 600 crore

- The management has guided a maintenance capex of ~₹ 50 crore for FY22E

Peer comparison

Exhibit 1: Peer Comparison

	CMP	TP		M Cap	Topline(in ₹ crore)			EBITDA(in ₹ crore)			PAT(in ₹ crore)			P/E (x)			EV/EBITDA (x)		
	(₹)	(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Ratnamani	2075	2400	Buy	2696	2298	3068	3571	400	537	643	276	356	449	35.0	27.1	21.5	22.9	16.6	13.4
Tata Metaliks	1265	1475	Buy	4004	1917	2568	2818	389	494	592	221	313	389	18.1	12.8	10.3	9.8	7.7	5.9

Source: Company, ICICI Direct Research

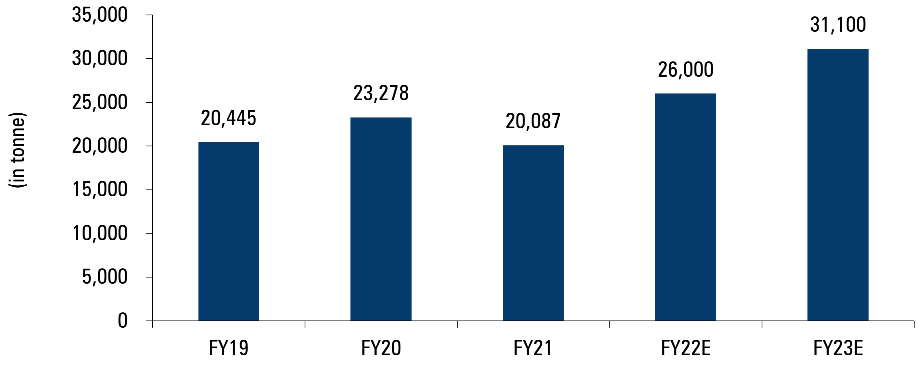
Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Operating Income	526	592	581	-9%	696	-24%	Topline came in lower than our estimates
Other Income	8	10	10	-23%	9	-10%	
Total Operating Expenses	441	488	505	-13%	537	-18%	
EBITDA	**85**	**104**	**76**	**11%**	**159**	**-47%**	EBITDA came in lower than our estimate
EBITDA Margin (%)	16.1	17.6	13.1	297 bps	18.1	-205 bps	EBITDA margin came in lower than our estimate
Depreciation	19	15	14	34%	15	28%	
Interest	5	5	5	1%	6	-8%	
Exceptional Items	0	0	0	NA	0	NA	
PBT	**68**	**94**	**67**	**2%**	**147**	**-54%**	
Tax Outgo	18	24	17	3%	37	-53%	
PAT	**50**	**70**	**50**	**1%**	**109**	**-54%**	PAT came in lower than our estimate
Key Metrics (Volume in tonne)							
Stainless Steel (SS)	3643	4200	4024	-9%	5792	-37%	Stainless steel volume came in lower than our estimate
Carbon Steel (CS)	48687	52500	58546	-17%	63511	-23%	Carbon steel volume came in lower than our estimate

Source: Company, ICICI Direct Research

Financial story in charts

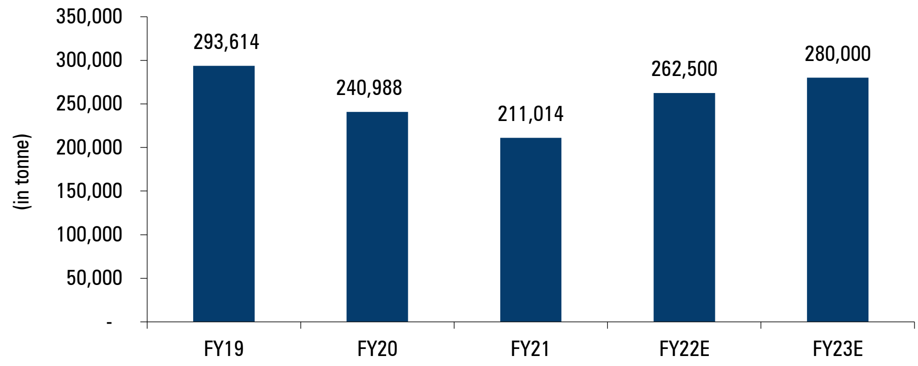
Exhibit 3: Trend in stainless steel volumes (in tonnes)



Source: Company, ICICI Direct Research

For the stainless steel segment, we model sales volume of 26000 tonnes for FY22E and 31100 tonnes for FY23E

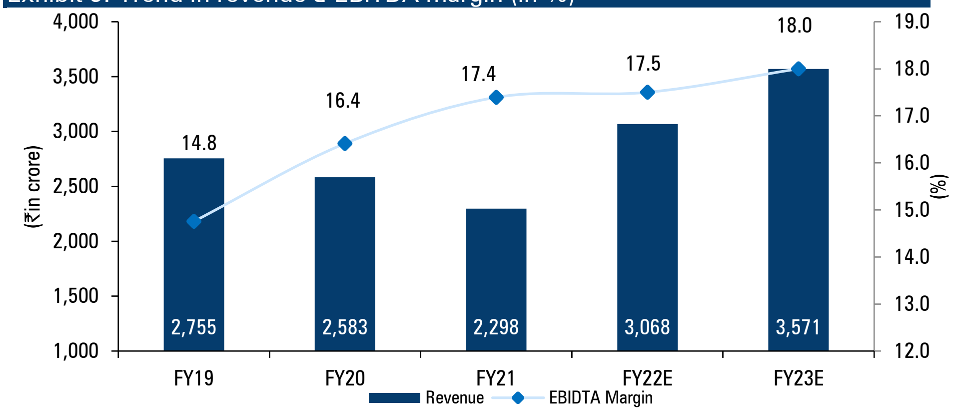
Exhibit 4: Trend in carbon steel volumes (in tonnes)



Source: Company, ICICI Direct Research

For the carbon steel segment, we model sales volume of 262500 tonnes for FY22E and 280000 tonnes for FY23E

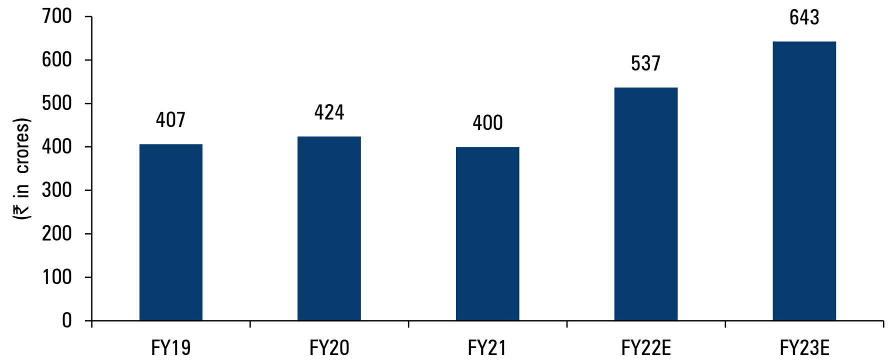
Exhibit 5: Trend in revenue & EBITDA margin (in %)



Source: Company, ICICI Direct Research

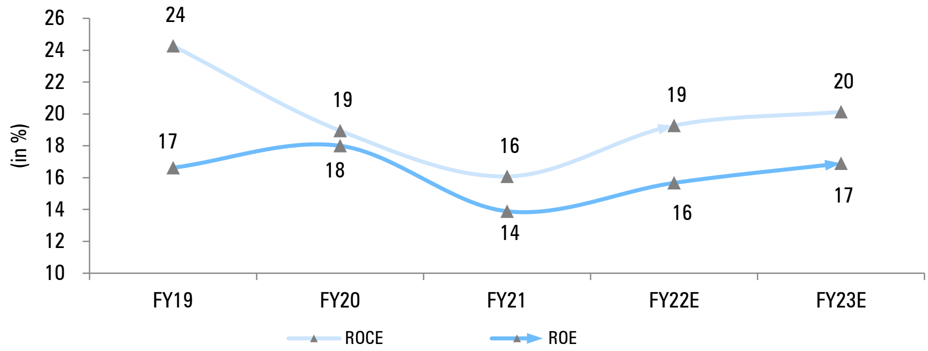
We model EBITDA margin of 17.5% for FY22E and 18.0% for FY23E

Exhibit 6: Trend in EBITDA (in crore)



Source: Company, ICICI Direct Research

Exhibit 7: Trend in RoE & RoCE (in %)



Source: Company, ICICI Direct Research

Exhibit 8: Valuation Matrix

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	P/BV (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	1,767	25	32	5	64	7	37	12	17
FY19	2,755	56	54	67	38	6	23	17	24
FY20	2,583	(6)	66	22	32	6	23	18	19
FY21	2,298	(11)	59	(10)	35	5	23	14	16
FY22E	3,068	34	76	29	27	4	17	16	19
FY23E	3,571	16	96	26	22	4	14	17	20

Source: ICICI Direct Research, Company

Financial Summary

Exhibit 9: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	**2,583**	**2,298**	**3,068**	**3,571**
Growth (%)	-6%	-11%	34%	16%
Total Operating Expenditure	2,159	1,898	2,531	2,928
EBITDA	**424**	**400**	**537**	**643**
Growth (%)	4%	-6%	34%	20%
Interest & Finance Cost	21	23	20	18
Depreciation	59	57	99	109
Other Income	62	43	58	84
PBT before Exceptional Items	406	363	476	599
Less: Exceptional Items	0	0	0	0
PBT	406	363	476	599
Total Tax	99	87	120	151
PAT	**307**	**276**	**356**	**449**
Growth (%)	22%	-10%	29%	26%
EPS	**65.8**	**59.0**	**76.2**	**96.0**

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	**307**	**276**	**356**	**449**
Add: Depreciation & Amortization	59	57	99	109
Net (Inc) / dec in Current Assets	-255	361	-192	-182
Net Inc / (dec) in Current Liabilities	152	-148	123	87
CF from operating activities	**263**	**545**	**387**	**463**
(Inc)/dec in Investments	48	-482	-25	-289
(Inc)/dec in Fixed Assets	-311	-127	-100	-100
Others	0	0	0	0
CF from investing activities	**-263**	**-609**	**-125**	**-389**
Inc / (Dec) in Equity Capital	0	0	0	0
Inc / (Dec) in Loans	155	-24	-196	0
Dividend & Dividend Tax	-66	-65	-70	-70
Others	-57	33	6	8
CF from financing activities	**32**	**-56**	**-261**	**-62**
Net Cash flow	32	-119	1	12
Opening Cash	142	173	54	55
Closing Cash	**173**	**54**	**55**	**67**

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	9	9	9	9
Reserve and Surplus	1,699	1,977	2,263	2,642
Total Shareholders funds	1,708	1,986	2,273	2,651
Total Debt	220	196	0	0
Deferred Tax Liability	31	39	39	39
Other Non Current Liabilities	11	17	23	32
Source of Funds	**1,970**	**2,239**	**2,335**	**2,721**
Net Block	500	865	912	903
Capital WIP	371	76	30	30
Net Fixed Assets	871	941	942	933
Investments	155	637	662	951
Inventory	859	537	630	734
Cash	173	54	55	67
Debtors	370	403	504	587
Loans & Advances & Other CA	115	44	41	37
Total Current Assets	1,518	1,038	1,230	1,424
Creditors	264	243	336	391
Provisions & Other CL	310	134	163	195
Total Current Liabilities	574	376	499	586
Net Current Assets	943	661	731	837
Other Assets	0	0	0	0
Application of Funds	**1,970**	**2,239**	**2,335**	**2,721**

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	65.8	59.0	76.2	96.0
Cash EPS	78.3	71.2	97.4	119.4
BV	365.6	425.1	486.3	567.3
DPS	12	14	15	15
Cash Per Share	139.7	151.9	173.0	196.4
Operating Ratios (%)				
EBITDA margins	16.4	17.4	17.5	18.0
PBT margins	15.7	15.8	15.5	16.8
Net Profit margins	11.9	12.0	11.6	12.6
Inventory days	121	85	75	75
Debtor days	52	64	60	60
Creditor days	37	39	40	40
Return Ratios (%)				
RoE	18.0	13.9	15.7	16.9
RoCE	19.0	15.7	19.3	20.1
RoIC	20.8	16.1	19.7	20.6
Valuation Ratios (x)				
P/E	31.5	35.1	27.2	21.6
EV / EBITDA	22.6	23.0	16.7	13.5
EV / Revenues	3.7	4.0	2.9	2.4
Market Cap / Revenues	3.8	4.2	3.2	2.7
Price to Book Value	5.7	4.9	4.3	3.7
Solvency Ratios				
Debt / Equity	0.1	0.1	0.0	0.0
Debt/EBITDA	0.5	0.5	0.0	0.0
Current Ratio	2.3	2.6	2.4	2.3
Quick Ratio	0.8	1.2	1.1	1.1

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Metals and Mining)

	CMP	TP		M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Coal India	143	165	Hold	90877	20.6	25.1	27.7	7.1	5.9	5.3	4.1	3.9	3.9	42.3	43.1	41.2	34.8	36.7	35.5
Hindalco	435	525	Buy	99336	25.5	46.0	51.1	17.3	9.6	8.6	8.3	6.2	5.4	8.8	12.4	13.0	8.5	14.3	13.9
Hind Zinc	317	340	Hold	140598	18.9	22.3	25.6	17.6	14.9	13.0	10.8	8.1	6.8	27.8	33.1	37.8	24.7	26.3	26.0
JSW Steel	751	850	Buy	173411	32.9	87.7	71.6	21.8	8.2	10.0	11.2	6.0	6.6	13.8	24.2	18.2	17.0	31.3	20.4
NMDC	175	210	Buy	52077	21.3	24.7	9.5	8.3	7.2	9.2	5.5	4.6	5.3	27.0	24.9	17.2	21.0	20.5	14.6
Ratnamani	2075	2400	Buy	9696	59.0	76.2	96.0	33.9	26.2	20.8	22.1	16.1	13.0	15.7	19.3	20.1	13.9	15.7	16.9
Graphite Ind.	702	825	Buy	13717	-2.0	46.0	81.0	NA	15.4	8.8	NA	10.5	5.3	-5.4	19.0	28.8	-5.7	20.0	30.3
Tata Steel	1419	1500	Buy	134858	77.1	189.3	152.9	14.8	6.0	7.5	7.2	4.2	4.5	13.1	23.2	18.4	12.4	23.6	15.7
Sail	138	160	Buy	53697	9.2	26.4	21.2	14.2	4.9	6.1	7.0	4.1	4.8	10.9	18.4	13.9	8.9	20.7	14.7

Source: Company, ICICI Direct Research

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