

RATNAMANI METALS AND TUBES LTD

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Strong volume growth in Carbon steel drives performance....

Key Highlights

- ❑ Ratnamani is a market leader in manufacturing Stainless Steel (SS) Tubes & Pipes and is a significant player in Carbon Steel (CS) welded pipes. It is based out of Gujarat with current SS capacity of 28000 tonnes and CS capacity of 350000 tonnes.
- ❑ Seamless SS pipes capex of 20000 tonnes is on track and is expected to start production from 2QFY19, it would make Ratnamani the only player in market with a capability to extrude mother hollow pipes of upto 8" in diameter from current 2" it would also lead to import substitution.
- ❑ Management expects 2HFY19 revenue to be in range of Rs.1100-1200 crore and EBITDA margins to be in range of 16-18% over long term.

2Q FY19 Result Update

Ratnamani delivered strong performance in 2QFY19, sales at Rs.730 crore was up 130% YoY and 20% QoQ primarily led by robust performance in CS division (CS sales 4x 2QFY18 at Rs.525 crore), SS division also delivered good numbers with sales growing at 18% YoY to Rs.206 crore. YoY Sales growth was driven by higher CS volumes at 77kt (3x 2QFY18). EBITDA for the quarter came in at Rs. 116 crore (up 128% YoY, 28% QoQ) and EBITDA margins were at 16% in line with guidance of 16-18%. Depreciation for the quarter was at Rs.16 crore (vs.Rs.15 crore in 2QFY18, flat QoQ) and interest cost was at Rs.4 crore (vs.Rs.1 crore in 2QFY18 and Rs.5 crore in 1QFY19). PAT for the quarter came in at Rs.69 crore (up 162% YoY, 20% QoQ).

View and Valuation

Ratnamani posted strong set of numbers yet again in 2QFY19 led by robust growth in Carbon Steel (CS) volume at 76653 tonne (3x 2QFY18 and 8% up QoQ) driven by demand from water transportation projects from different states and higher realization as well. Company's EBITDA margin for the quarter was at 16% in line with its guidance of 16-18%. Management has revised its annual revenue guidance to around Rs.2500 crore (earlier Rs.2100-2200 crore) led by robust performance in 1HFY19 but it has kept its EBITDA margin guidance around the same level of 16-18%. Going ahead we expect Ratnamni to post good set of numbers on the back of strong deliveries in CS segment driven by water pipeline projects and with Stainless steel (SS) division orders gaining strength (over Rs.400 crore, 31% of overall order book) we expect in coming quarters margins may go up towards the upper end of the guidance (guidance of 16-18%). Considering 1HFY19 result and management maintaining its annual volume growth guidance of 15-20% and sustaining realizations of 2QFY19 going ahead as well driven by strength in steel prices, we have increased our EBITDA/PAT estimates by 14%/18% for FY19 and by 12%/16% for FY20. Capacity expansion in both SS and CS division of 20000 tonnes and 120000 tonnes respectively are expected to get commissioned in 2QFY20 and 4QFY20 are also positives. We expect earnings CAGR of 30% over FY18-20e and value the stock at **Rs.1095 (20x FY20e EPS) and recommend BUY.**

Key Risks to our rating and target

- ❑ Sharp increase in steel prices as it will put short term pressure on margins.
- ❑ Delay in Indian refineries capex activity.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	1718	1412	1767	2511	2680
EBITDA	286	257	266	393	447
EBIT	229	197	205	329	364
PAT	165	144	152	234	256
EPS (Rs)	35	31	33	50	55
EPS growth (%)	-5%	-13%	7%	54%	9%
ROE (%)	16%	12%	12%	15%	15%
ROCE (%)	22%	17%	16%	19%	19%
BV	224	254	280	323	370
P/B (X)	2.1	3.0	3.1	2.7	2.4
P/E (x)	13.2	24.9	26.3	17.5	16.0

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2QFY19 Results

Standalone

Strong YoY performance yet again....

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	318	536	619	609	730	129.9%	19.9%	1,412	1,767	25.1%
Other Income	3	4	13	17	11	229.4%	-36.4%	14	32	134%
Total Income	321	539	632	626	741	130.9%	18.4%	1,426	1,799	26.2%
COGS	203	348	403	414	483	137.9%	16.7%	880	1,141	29.6%
Staff Cost	25	29	31	33	38	51.6%	17.1%	98	109	11.1%
Other Exp.	38	74	92	72	93	143.3%	28.5%	176	251	42.6%
Expenditure	266	451	526	519	614	130.5%	18.4%	1,155	1,501	30.0%
EBITDA	51	84	93	90	116	126.7%	28.2%	257	266	3.4%
Depreciation	15	15	15	16	16	9.1%	-0.1%	60	61	1.5%
EBIT	37	69	77	75	100	173.5%	34.2%	197	205	4.0%
Interest	1	3	4	5	4	304.0%	-11.1%	6	10	62.4%
PBT	39	69	87	87	107	174.7%	23.1%	205	228	11.0%
Tax	12	23	30	29	37	209.6%	28.9%	61	76	24.4%
PAT	26	45	57	58	69	161.9%	20.1%	143	152	6.6%

Strong revenue and volume growth in CS continued

Carbon Steel (CS) continues to drive the performance in 2QFY19. CS division revenue was higher YoY as well as QoQ at Rs.525 crore (4x 2QFY18 and up 15% QoQ) led by higher volume and increase in realization. Volume in CS is witnessing traction due to increase in demand from water segment. CS volume for the quarter came in at 76653 tonne (3x 2QFY18 and up 8% QoQ). Realization also grew by 28% YoY and 8% QoQ to Rs.68430/t as company was able to pass on the increase in input cost on to the customers.

Healthy revenue growth in SS division

Stainless Steel (SS) revenue also registered healthy growth of 18% YoY and 43% QoQ to Rs.206 crore primarily due to higher realizations YoY and higher volume QoQ. Realization for the quarter was at Rs.364442/t (up 21% YoY and 1% QoQ). Volume in SS for the quarter was at 5651 tonne (down 3% YoY, up 42% QoQ). YoY volume growth in SS declined due to lower capacity utilization in welded segment due to lower demand from refinery, petrochemical and power segment.

Margins improved QoQ

Company EBITDA margin at 16% for 2QFY19 were in line with guidance of 16-18%. Margins improved QoQ from 15% and were flat YoY. However, Margins still remain towards the lower end of guidance due to higher CS volume (commands low margins as compare to SS division).

Order book still healthy at close to Rs.1400 crore

Company's current order book stood around Rs.1383 crore (vs.Rs.1738 crore at the end of Jul'18). Management has not been that aggressive in order booking in 1HFY19 as company's capacities were already booked till Jan'19 (Capacity utilization at 80-90% except in welded seamless). However, management expects order book would gradually start to pick up in next 2-3 months as company books order for 4QFY19 and primarily for FY20. SS orders were steel robust at Rs.432 crore. Out of the total orders domestic orders were at Rs.990 crore and export orders were at Rs.393 crore. Though, order book is still dominated by CS division but the share of SS division has improved to 31% (vs. 27% in Jul'18 and 14% in Nov'17).

Conference call highlights

- ❑ Stainless steel (SS) capacity expansion of 20000 tonnes expected to get commission by 2QFY19 (delayed by 2-3 months due to supply side issues) and Carbon steel (CS) expansion of 120000 tonnes expected to get commission by 4QFY19.
- ❑ Management expects Rs.1100-1200 crore of revenue in 2HFY19 and may exceed it if there are no disruptions due to elections.
- ❑ Management maintained annual volume guidance of 15-20%. EBITDA margins to be maintained in the range of 16-18%.
- ❑ Capex for FY19 in the range of Rs.150-200 crore and Rs.320-350 crore in FY20 for the SS and CS expansion. 1HFY19 capex was around Rs.30-40 crore.

Exhibit: SS Volume and Realization Trend

SS volume may see pickup due to strengthening order book in SS....

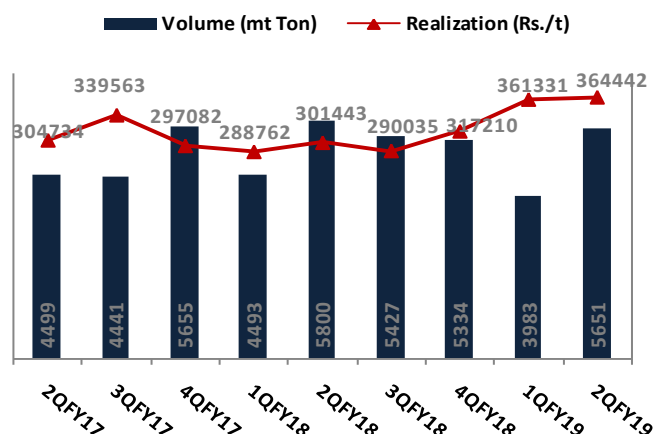


Exhibit: CS Volume and Realization Trend

continued robust performance in terms of volume and realization too....

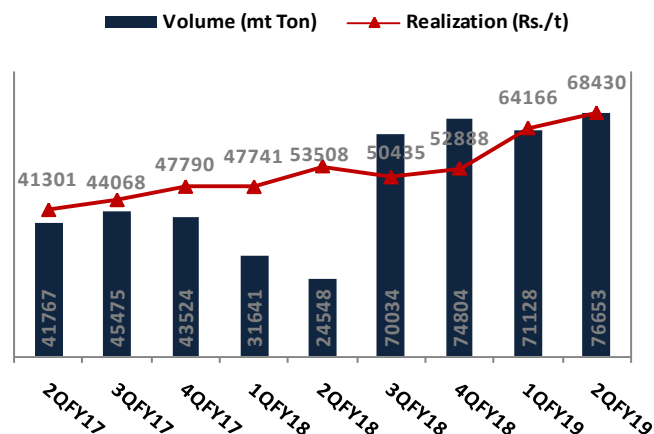


Exhibit: Net sales and sales growth Trend

robust performance of CS division leading to exceptional growth in sales....

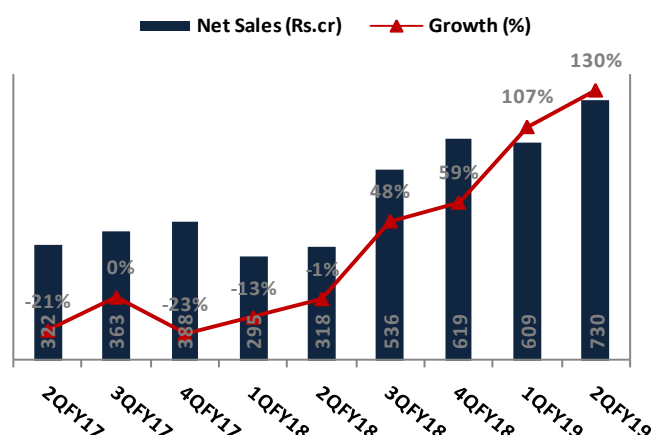


Exhibit: EBITDA and EBITDA Margin Trend

margins in line with the guidance of 16-18%....

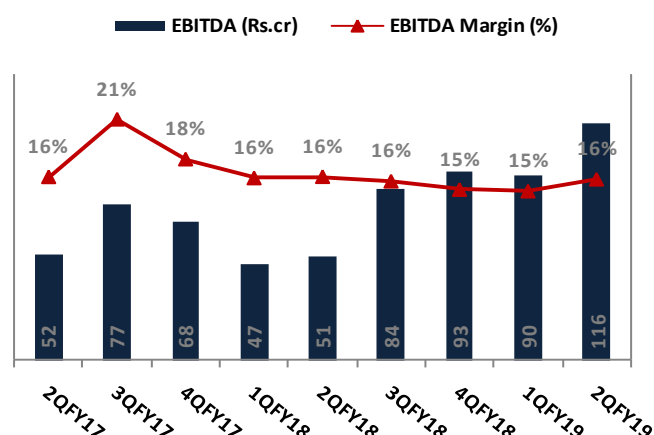


Exhibit: PAT and PAT Margin Trend

PAT margin following the trend of EBITDA margin....

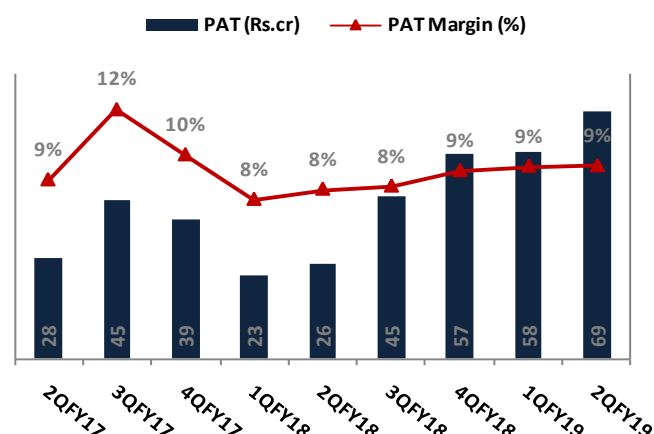
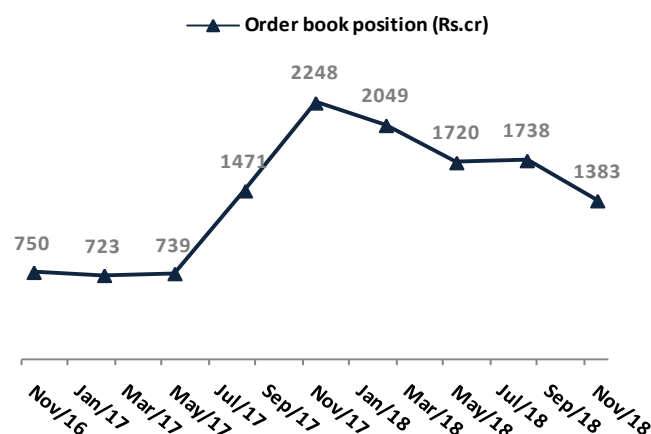


Exhibit: Order Book Trend

Subdued in 1HFY19 as capacities were already booked till Jan'19, expected to pick up in 2-3 months....



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	9	9	9	9	9	9	9	9
Reserves	637	757	899	1,036	1,178	1,299	1,500	1,721
Networth	647	767	908	1,045	1,187	1,308	1,509	1,731
Debt	119	73	30	14	-	79	250	200
Other Non Cur Liab	40	47	48	48	48	43	44	43
Total Capital Employed	689	783	917	1,045	1,187	1,308	1,709	1,881
Net Fixed Assets (incl CWIP)	413	455	467	494	486	492	670	738
Non Cur Investments	0	0	0	0	0	0	0	0
Other Non Cur Asst	-	-	-	4	12	13	-	17
Non Curr Assets	422	463	492	502	502	507	675	761
Inventory	233	252	343	295	339	574	709	697
Debtors	251	278	223	390	425	558	722	734
Cash & Bank	60	43	76	12	15	5	9	88
Other Curr Assets	2	2	4	62	55	99	126	134
Curr Assets	606	685	734	817	910	1,240	1,571	1,701
Creditors	101	153	128	123	117	193	274	308
Provisions (both)	33	35	42	3	6	4	6	6
Other Curr Liab	89	74	69	43	40	99	140	150
Curr Liabilities	223	261	239	211	178	317	444	489
Net Curr Assets	384	423	495	606	733	923	1,127	1,213
Total Assets	1,029	1,148	1,226	1,319	1,413	1,746	2,246	2,462

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	1,201	1,326	1,688	1,718	1,412	1,767	2,511	2,680
Change (%)	-2%	10%	27%	2%	-18%	25%	42%	7%
Other Income	18	14	26	17	14	32	49	42
EBITDA	238	257	300	286	257	266	393	447
Change (%)	16%	8%	17%	-5%	-10%	3%	48%	14%
Margin (%)	20%	19%	18%	17%	18%	15%	16%	17%
Depr & Amor.	42	46	54	57	60	61	65	83
EBIT	195	211	246	229	197	205	329	364
Int. & other fin. Cost	12	10	9	6	6	10	20	14
EBT	202	214	262	240	205	228	357	393
Exp Item	-	-	-	-	-	-	-	-
Tax	66	71	89	75	61	76	123	137
Reported PAT	136	143	173	165	144	152	234	256
Adjusted PAT	136	143	173	164	143	152	234	256
Change (%)	22%	5%	21%	-5%	-13%	7%	54%	9%
Margin(%)	11%	11%	10%	10%	10%	9%	9%	10%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	21%	19%	19%	0.16	12%	12%	15%	15%
ROCE	28%	27%	27%	22%	17%	16%	19%	19%
Asset Turnover	1.17	1.16	1.38	1.30	1.00	1.01	1.12	1.09
Debtor Days	76	77	48	83	110	115	105	93
Inv Days	71	69	74	63	88	119	103	100
Payable Days	31	42	28	26	30	40	40	40
Int Coverage	16.6	20.7	28.0	40.1	33.8	23.1	17.9	29.1
P/E	4.6	7.9	18.6	13.2	24.9	26.3	17.5	16.0
Price / Book Value	1.0	1.5	3.6	2.1	3.0	3.1	2.7	2.4
EV/EBITDA	2.6	4.3	10.5	7.5	13.8	15.0	10.9	9.3
FCF per Share	38.4	17.1	13.6	19.9	14.0	(30.7)	(24.3)	46.7
Div Yield	2%	2%	1%	2%	0%	1%	1%	0%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	202	214	262	240	205	228	357	393
(inc)/Dec in Working Capital	51	(33)	(76)	(58)	(48)	(279)	(190)	18
Non Cash Op Exp	38	43	49	40	48	50	85	96
Int Paid (+)	9	6	6	3	4	7	20	14
Tax Paid	(55)	(65)	(87)	(67)	(74)	(72)	(123)	(137)
others								
CF from Op. Activities	236	160	148	155	132	(73)	128	370
(inc)/Dec in FA & CWIP	(58)	(80)	(85)	(62)	(66)	(71)	(242)	(152)
Free Cashflow	178	80	64	93	66	(144)	(113)	218
(Pur)/Sale of Inv	(23)	(25)	34	-	(50)	75	0	(42)
others								
CF from Inv. Activities	(63)	(109)	(51)	(10)	(100)	21	(242)	(194)
inc/(dec) in NW	-	2	0	-	-	-	-	-
inc/(dec) in Debt	(159)	(59)	(43)	(114)	(23)	79	171	(50)
Int. Paid	(8)	(6)	(6)	-	-	-	(20)	(14)
Div Paid (inc tax)	(16)	(22)	(25)	(62)	-	(31)	(33)	(33)
others								
CF from Fin. Activities	(184)	(85)	(74)	(179)	(28)	42	118	(96)
Inc(Dec) in Cash	(11)	(34)	24	(34)	4	(10)	5	80
Add: Opening Balance	71	60	24	47	11	12	5	9
Closing Balance	60	26	48	12	15	5	9	89

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