

# Ratnamani Metals And Tubes Ltd

Industry Metals  
Bloomberg RMT IN  
BSE CODE 520111

## Strong order execution continued, healthy order book to mitigate near term industry headwinds....

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>876</b>
<b>Price Target</b>	<b>1030</b>
<b>Potential Upside</b>	<b>18%</b>

<b>Rating Change</b>	
<b>Estimate Change</b>	
<b>Target Change</b>	

### Stock Info

52wk Range H/L	1072/736
Mkt Capital (Rs Cr)	4092
Free float (%)	40%
Avg. Vol 1M (,000)	7
No. of Shares (Cr.)	5
Promoters Pledged %	0%

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### 3QFY19 Result Update

- ❑ Ratnamani yet again delivered strong topline of Rs.728cr (up 36% YoY, flat QoQ), driven by continued strong deliveries in CS division.
- ❑ Volume in SS division came in at 5405 MT (flat YoY, down 4% QoQ) and CS division volume came in at 73680 MT (up 5% YoY, down 4% QoQ).
- ❑ Lower employee cost and slightly lower other expenses helped to reduce the impact at EBITDA helped to restrict fall in EBITDA margin to 2% as compare to 3% fall in gross margin. EBITDA for the quarter came in at Rs.101cr (up 20% YoY, down 13% QoQ).
- ❑ Depreciation and interest cost for the quarter came in at Rs.16cr (down 1% YoY, down 2% QoQ) and Rs.3.8cr (vs. Rs.3.3cr in 3QFY18 and Rs.4.21cr in 2QFY19).
- ❑ PAT for the quarter came in at Rs.63cr (up 38% YoY, down 10% QoQ).
- ❑ SS division capex of 20000 MT is expected to come online by Oct-Dec'19 and CS division capex of 120000 MT is expected to come online by Nov-Dec'19.
- ❑ Near term headwinds expected due to election, however, healthy order book expected to mitigate the risk.

### View and Valuation

Ratnamani delivered strong topline at Rs.728cr (up 36% YoY, flat QoQ) led by continued strong execution in CS segment. Company is on line to achieve its yearly revenue guidance of around Rs.2600-2700cr in FY19 and may even exceed its earlier guidance of Rs.1100-1200cr topline in 2HFY19 considering the 3QFY19 numbers. Strong execution in CS division led by city gas distribution and water segment orders has been driving company's performance for a while now. Order inflow in SS division remain impacted by low capex in refinery segment and power sector, however, in recent quarters SS order book has improved to Rs.400-450cr level from earlier levels of Rs.300-350cr. SS division capex of 20000 MT is expected to come online by Oct-Dec'19 and CS division capex of 120000 MT is expected to come online by Nov-Dec'19. Order book at the beginning of CY19 stood at Rs.1322cr and management expects it to be in range of Rs.1300-1500cr by the end of FY19. We are positive on Ratnamani led by its consistent performance in the past in terms of margins, presence in all the major category of steel pipes, and ongoing capex plans in both SS and CS division which are expected to start contributing from 4QFY20 onwards. Our FY19 Revenue/PAT estimate stand increased considering 3QFY19 numbers; however, we have maintained our FY20 estimates. Considering near term industry headwinds we have reduced our target price to **Rs.1030 (11x FY20E EV/EBITDA) but maintain our BUY stance on the stock.**

### 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	2662	2682
EBITDA	286	257	266	400	445
EBIT	229	197	205	336	365
PAT	165	144	152	242	255
EPS (Rs)	35	31	33	52	55
EPS growth (%)	-5%	-13%	7%	59%	6%
ROE (%)	16%	12%	12%	16%	15%
ROCE (%)	22%	17%	16%	21%	20%
BV	224	254	280	323	368
P/B (X)	2.1	3.0	3.1	2.7	2.4
P/E (x)	13.2	24.9	26.3	16.9	16.0

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## 3QFY19 Results Standalone Base effect starting to come into play, will lead to lower growth rate going ahead...

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	536	619	609	730	728	36.0%	-0.3%	1,412	1,767	25.1%
Other Income	4	13	17	11	11	196.4%	6.2%	14	32	134%
Total Income	539	632	626	741	740	37.1%	-0.2%	1,426	1,799	26.2%
COGS	348	403	414	483	506	45.2%	4.6%	880	1,141	29.6%
Staff Cost	29	31	33	38	33	12.8%	-13.5%	98	109	11.1%
Other Exp.	74	92	72	93	89	20.1%	-4.4%	176	251	42.6%
Expenditure	451	526	519	614	628	39.0%	2.2%	1,155	1,501	30.0%
EBITDA	84	93	90	116	101	19.9%	-13.0%	257	266	3.4%
Depreciation	15	15	16	16	16	0.9%	-1.6%	60	61	1.5%
EBIT	69	77	75	100	85	24.2%	-14.8%	197	205	4.0%
Interest	3	4	5	4	4	11.8%	-10.7%	6	10	62.4%
PBT	69	87	87	107	93	34.3%	-12.9%	205	228	11.0%
Tax	23	30	29	37	30	28.6%	-19.3%	61	76	24.4%
PAT	45	57	58	69	63	38.0%	-9.5%	143	152	6.6%

SS Pipes	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %
Volume (MT)	4,441	5,655	4,493	5,800	5,427	5,334	3,983	5,651	5,405	-0.4%
Realiz. (Rs./t)	339563	297082	288762	301443	290035	317210	361331	364442	359721	24.0%
Sales (Rs.cr)	151	168	130	175	157	169	144	206	194	23.5%

CS Pipes	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %
Volume (MT)	45475	43524	31641	24548	70034	74804	71128	76653	73680	5.2%
Realiz. (Rs./t)	44068	47790	47741	53508	50435	52888	64166	68430	70013	38.8%
Sales (Rs.cr)	200	208	151	131	353	396	456	525	516	46.0%

### Strong revenue growth continued in CS division

CS division continued to perform good, revenue grew by 46% YoY to Rs.516cr led by 39% increase in realization and 5% growth in volume. Strong order execution coupled with significantly stronger realization (YoY) has led to robust performance in the division. CS order book continues to remain strong at Rs.914cr at the beginning of Jan'19 (vs.Rs.951cr in Nov'18).

### Healthy YoY growth in SS revenue, volume remained flat

Volume growth in SS division continued to remain muted, however, higher realization helped to post 24% YoY growth in revenue to Rs.194cr. SS order book continues to remain at healthy level and have improved significantly on YoY basis to Rs.408cr (vs.Rs.296cr in Feb'18 and Rs.432cr in Nov'18).

### Order book continues to remain at healthy level

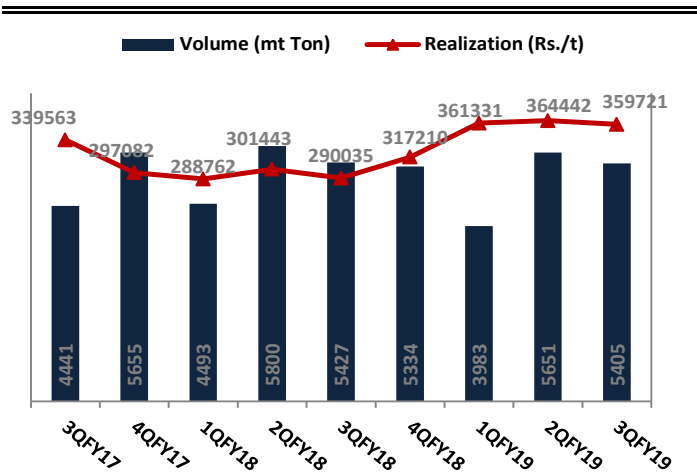
Company's order book at the beginning of CY19 stood at Rs.1322cr (vs.Rs.1383cr in Nov'18), order book still remain dominated by CS division orders however share of SS order have increased to 31% of total order book and SS orders have moved up to level of Rs.400-450cr from earlier level of Rs.300-350cr. Management expects order book to be in range of Rs.1300-1500cr by the end of FY19, as up to Dec'18 company's capacities were fully booked leading to reduction in bidding for new orders by company.

### Conference call highlights

- Demand is expected to be good in Oil & Gas, Cross country pipeline, city gas distribution, water pipeline, petro chem., fertilizer and demand is expected from Barmer refinery as well.
- Election may cause some disruption in near term. However, healthy order book is expected to mitigate the risk.
- Management maintained its annual volume growth guidance of 10-15% going ahead.
- FY19 topline expected to be in range of Rs.2600-2700cr, EBITDA margin (including other income) expected to be in range of 16-18% for FY19.
- Total capex including the expansion in SS and CS division is expected to be in range of Rs.600cr, out of which Rs.150cr has been spent and Rs.450cr is expected in FY20. 50% is expected to be funded by internal accrual rest by debt.

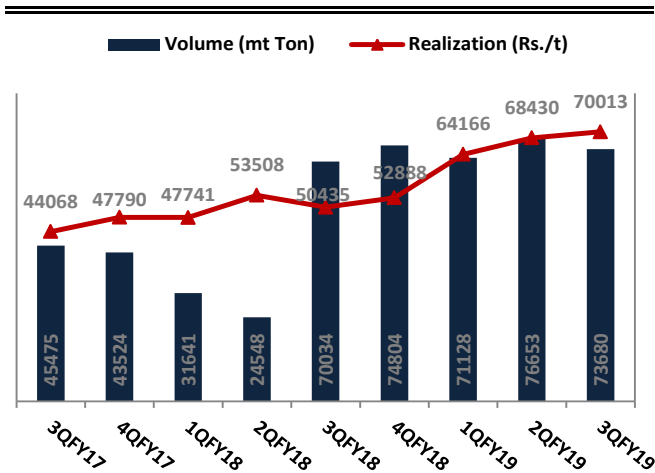
## Exhibit: SS Volume and Realization Trend

SS Volume flat YoY, realization sustaining the quarterly trend....



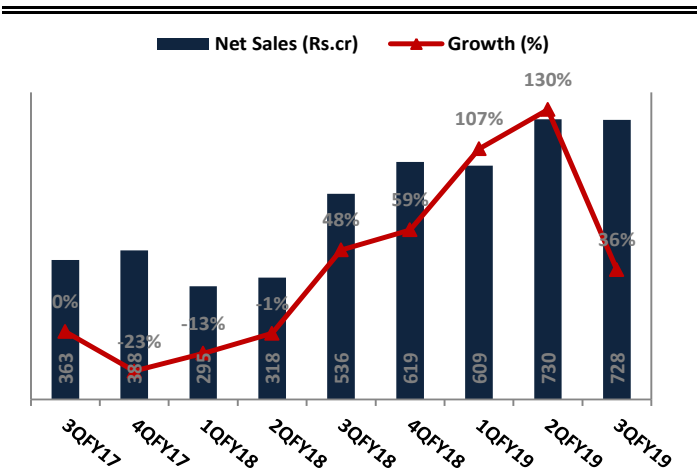
## Exhibit: CS Volume and Realization Trend

volume growth flat YoY as base effect catches up, realization continued to be strong....



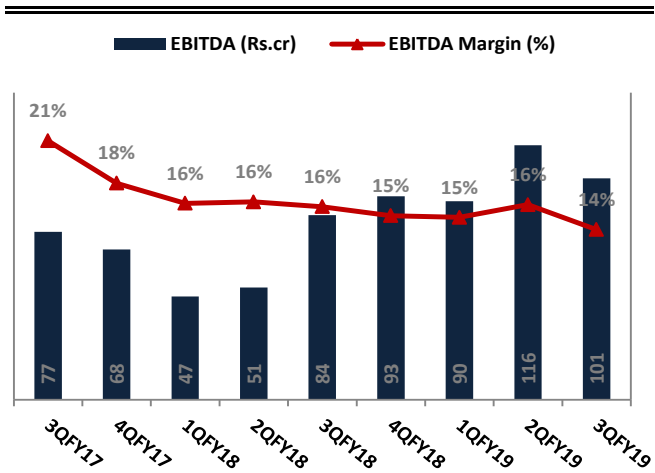
## Exhibit: Net sales and sales growth Trend

sales growth (YoY) slows down as high base effect come into the play....



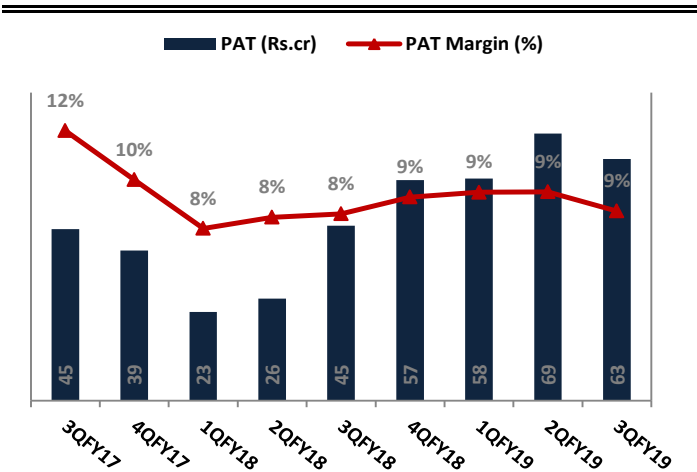
## Exhibit: EBITDA and EBITDA Margin Trend

EBITDA margin off the usual trend, however on yearly basis expected to be in range of 16-18%....



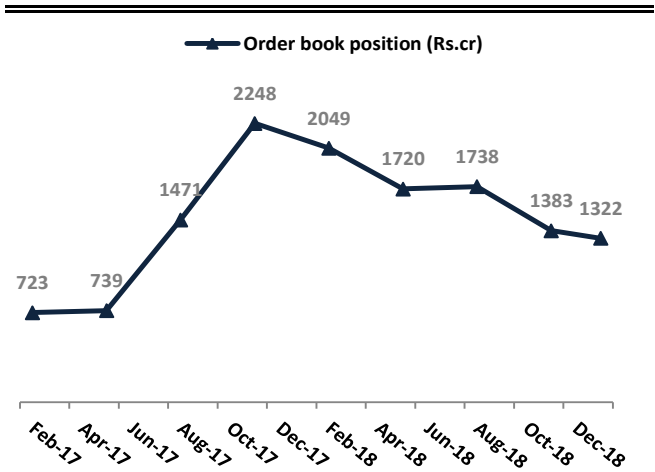
## Exhibit: PAT and PAT Margin Trend

lower tax rate restricted the fall in PAT margin to 1% as compare to 2% fall in EBITDA margin....



## Exhibit: Order Book Trend

order book continue to remain healthy, expected to be in range of Rs.1300-1500cr by the end of FY19....



## Financial Details

### Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Share Capital</b>	9	9	9	9	9	9	9	9
Reserves	637	757	899	1,036	1,178	1,299	1,502	1,712
<b>Networth</b>	<b>647</b>	<b>767</b>	<b>908</b>	<b>1,045</b>	<b>1,187</b>	<b>1,308</b>	<b>1,511</b>	<b>1,721</b>
Debt	119	73	30	14	-	79	150	200
Other Non Cur Liab	40	47	48	48	48	43	53	53
<b>Total Capital Employed</b>	<b>689</b>	<b>783</b>	<b>917</b>	<b>1,045</b>	<b>1,187</b>	<b>1,308</b>	<b>1,611</b>	<b>1,871</b>
Net Fixed Assets (incl CWIP)	413	455	467	494	486	492	520	752
Non Cur Investments	0	0	0	0	0	0	0	0
Other Non Cur Asst	-	-	-	4	12	13	-	-
Non Curr Assets	422	463	492	502	502	507	520	752
<b>Inventory</b>	<b>233</b>	<b>252</b>	<b>343</b>	<b>295</b>	<b>339</b>	<b>574</b>	<b>751</b>	<b>698</b>
<b>Debtors</b>	<b>251</b>	<b>278</b>	<b>223</b>	<b>390</b>	<b>425</b>	<b>558</b>	<b>766</b>	<b>735</b>
<b>Cash &amp; Bank</b>	<b>60</b>	<b>43</b>	<b>76</b>	<b>12</b>	<b>15</b>	<b>5</b>	<b>35</b>	<b>81</b>
Other Curr Assets	2	2	4	62	55	99	106	134
Curr Assets	606	685	734	817	910	1,240	1,664	1,711
Creditors	101	153	128	123	117	193	290	309
Provisions (both)	33	35	42	3	6	4	5	6
Other Curr Liab	89	74	69	43	40	99	149	150
Curr Liabilities	223	261	239	211	178	317	470	489
<b>Net Curr Assets</b>	<b>384</b>	<b>423</b>	<b>495</b>	<b>606</b>	<b>733</b>	<b>923</b>	<b>1,194</b>	<b>1,222</b>
<b>Total Assets</b>	<b>1,029</b>	<b>1,148</b>	<b>1,226</b>	<b>1,319</b>	<b>1,413</b>	<b>1,746</b>	<b>2,184</b>	<b>2,463</b>

### Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue from Operation</b>	<b>1,201</b>	<b>1,326</b>	<b>1,688</b>	<b>1,718</b>	<b>1,412</b>	<b>1,767</b>	<b>2,662</b>	<b>2,682</b>
Change (%)	-2%	10%	27%	2%	-18%	25%	51%	1%
Other Income	18	14	26	17	14	32	50	45
<b>EBITDA</b>	<b>238</b>	<b>257</b>	<b>300</b>	<b>286</b>	<b>257</b>	<b>266</b>	<b>400</b>	<b>445</b>
Change (%)	16%	8%	17%	-5%	-10%	3%	50%	11%
Margin (%)	20%	19%	18%	17%	18%	15%	15%	17%
Depr & Amor.	42	46	54	57	60	61	65	80
<b>EBIT</b>	<b>195</b>	<b>211</b>	<b>246</b>	<b>229</b>	<b>197</b>	<b>205</b>	<b>336</b>	<b>365</b>
Int. & other fin. Cost	12	10	9	6	6	10	21	24
<b>EBT</b>	<b>202</b>	<b>214</b>	<b>262</b>	<b>240</b>	<b>205</b>	<b>228</b>	<b>364</b>	<b>386</b>
Exp Item	-	-	-	-	-	-	-	-
Tax	66	71	89	75	61	76	123	131
<b>Reported PAT</b>	<b>136</b>	<b>143</b>	<b>173</b>	<b>165</b>	<b>144</b>	<b>152</b>	<b>242</b>	<b>255</b>
<b>Adjusted PAT</b>	<b>136</b>	<b>143</b>	<b>173</b>	<b>164</b>	<b>143</b>	<b>152</b>	<b>242</b>	<b>255</b>
Change (%)	22%	5%	21%	-5%	-13%	7%	59%	6%
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%	16%	15%
ROCE	28%	27%	27%	22%	17%	16%	21%	20%
Asset Turnover	1.17	1.16	1.38	1.30	1.00	1.01	1.22	1.09
Debtor Days	76	77	48	83	110	115	105	100
Inv Days	71	69	74	63	88	119	103	95
Payable Days	31	42	28	26	30	40	40	42
Int Coverage	16.6	20.7	28.0	40.1	33.8	23.1	17.4	16.1
P/E	4.6	7.9	18.6	13.2	24.9	26.3	16.9	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	10.4	9.4
FCF per Share	38.4	17.1	13.6	19.9	14.0	(30.7)	4.1	26.3
Div Yield	2%	2%	1%	2%	1%	1%	1%	1%

### Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>PBT</b>	<b>202</b>	<b>214</b>	<b>262</b>	<b>240</b>	<b>205</b>	<b>228</b>	<b>364</b>	<b>386</b>
<i>(inc)/Dec in Working Capital</i>	51	(33)	(76)	(58)	(48)	(279)	(216)	76
<i>Non Cash Op Exp</i>	38	43	49	40	48	50	86	104
<i>Int Paid (+)</i>	9	6	6	3	4	7	21	24
<i>Tax Paid</i>	(55)	(65)	(87)	(67)	(74)	(72)	(123)	(131)
<i>others</i>								
<b>CF from Op. Activities</b>	<b>236</b>	<b>160</b>	<b>148</b>	<b>155</b>	<b>132</b>	<b>(73)</b>	<b>111</b>	<b>435</b>
<i>(inc)/Dec in FA &amp; CWIP</i>	(58)	(80)	(85)	(62)	(66)	(71)	(92)	(312)
<i>Free Cashflow</i>	178	80	64	93	66	(144)	19	123
<i>(Pur)/Sale of Inv</i>	(23)	(25)	34	-	(50)	75	0	(58)
<i>others</i>								
<b>CF from Inv. Activities</b>	<b>(63)</b>	<b>(109)</b>	<b>(51)</b>	<b>(10)</b>	<b>(100)</b>	<b>21</b>	<b>(92)</b>	<b>(369)</b>
<i>inc/(dec) in NW</i>	-	2	0	-	-	-	-	-
<i>inc/(dec) in Debt</i>	(159)	(59)	(43)	(114)	(23)	79	71	50
<i>Int. Paid</i>	(8)	(6)	(6)	-	-	-	(21)	(24)
<i>Div Paid (inc tax)</i>	(16)	(22)	(25)	(62)	-	(31)	(38)	(44)
<i>others</i>								
<b>CF from Fin. Activities</b>	<b>(184)</b>	<b>(85)</b>	<b>(74)</b>	<b>(179)</b>	<b>(28)</b>	<b>42</b>	<b>12</b>	<b>(18)</b>
<i>Inc(Dec) in Cash</i>	(11)	(34)	24	(34)	4	(10)	31	48
<i>Add: Opening Balance</i>	71	60	24	47	11	12	5	35
<b>Closing Balance</b>	<b>60</b>	<b>26</b>	<b>48</b>	<b>12</b>	<b>15</b>	<b>5</b>	<b>35</b>	<b>83</b>

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