

Ratnamani Metals & Tubes Ltd

Industry	Metals
Bloomberg	RMT IN
BSE CODE	520111

Strong Carbon Steel performance drives growth in FY19....

RATING	BUY
CMP	946
Price Target	1050
Potential Upside	11%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	1065/736
Mkt Capital (Rs Cr)	4421
Free float (%)	40%
Avg. Vol 1M (,000)	21
No. of Shares (Cr.)	5
Promoters Pledged %	0%

Research Analyst

Sagar Sharma

sagar.sharma@narnolia.com

+91-22-62701234

4QFY19 Result Update

- Company's revenue in 4QFY19 came in at Rs.687cr (up 10.9% YoY, down 5.7% QoQ) and at Rs.2755cr (up 55.9% YoY).
- Stainless Steel (SS) volume in 4QFY19 was at 5406MT (up 1.3% YoY) and 20445MT for FY19 (down 2.9% YoY). Carbon Steel (CS) volume in 4QFY19 was at 72153MT (down 3.5% YoY) and 293614MT for FY19 (up 46% YoY).
- SS realization was at Rs.392796/t (up 23.8% YoY and 9.2% QoQ) in 4QFY19 and SS revenue for quarter was at Rs.212cr (up 25.5% YoY and 9.2% QoQ). FY19 SS revenue was Rs.757cr (up 20% YoY).
- CS realization for quarter was at Rs.68737/t (up 30% YoY, down 1.8% QoQ) and revenue was at Rs.496cr (up 25.4% YoY, down 3.9% QoQ). FY19 CS revenue was at Rs.1993cr (up 93.2% YoY).
- EBITDA for the quarter was Rs.99cr (up 6.8% YoY, down 1.7% QoQ) and margin was at 14.4% (vs. 15% in 4QFY18 and 13.9% in 3QFY19). FY19 EBITDA was Rs.407cr (up 52.9% YoY) and margin was at 14.8% (vs. 15.1% in FY18).
- Employee and other expenses were lower at Rs.26cr (down 18.7% YoY and 22.3% QoQ) and Rs.61cr (down 33.4% YoY and 30.9% QoQ) respectively in 4QFY19.
- Employee cost was lower due to lower commission to directors (Against 9% of total remuneration to directors earlier it is now at 7.5%).
- Other income in 4QFY19 was at Rs.2.6cr (down 80% YoY and 76.7% QoQ) and was at Rs.41cr (up 27.2% YoY) for FY19.
- PAT in 4QFY19 was Rs.63cr (up 12%YoY and 1%QoQ) and Rs.253cr (up 66.6%YoY) in FY19. Effective tax rate was 25.4% (vs.35% in 4QFY18 and 32% in 3QFY19).
- Company declared dividend of Rs.9/share for FY19, subject to shareholders approval.
- Revenue and profit is expected to grow by 10%-12% in FY20.

View and Valuation

We continue to like Ratnamani on the back of stable performance in terms of margins, presence in all major category of steel pipes and being the leader in high margin Stainless Steel division, its ongoing capex both in Carbon steel (increasing capacity by 120kt) and Stainless steel (increasing capacity by 20kt) also augurs well for the company, furthermore, its presence in all major types of steel pipe helps the company in time when demand from SS is low by compensating with orders from CS division. We broadly maintain our FY20 estimate and expect Revenue/EBITDA/PAT CAGR of 27%/31%/31% over FY18-20e. We maintain our **BUY stance on the stock with an unchanged target price of Rs.1050.**

Key Risks to our rating and target

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

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	1718	1412	1767	2755	2835
EBITDA	286	257	266	407	458
EBIT	229	197	205	344	378
PAT	165	144	152	253	260
EPS (Rs)	35	31	33	53	56
EPS growth (%)	-5%	-13%	7%	63%	5%
ROE (%)	16%	12%	12%	16%	15%
ROCE (%)	22%	17%	16%	23%	20%
BV	224	254	280	326	371
P/B (X)	2.1	3.0	3.1	2.7	2.6
P/E (x)	13.2	24.9	26.3	16.9	17.0

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4QFY19 Results

Standalone

de-growth in CS volume due to high base....

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	619	609	730	728	687	10.9%	-5.7%	1,767	2,755	55.9%
Other Income	13	17	11	11	3	-80.0%	-76.7%	32	41	27%
Total Income	632	626	741	740	689	9.0%	-6.8%	1,799	2,796	55.4%
COGS	403	414	483	506	501	24.3%	-1.0%	1,141	1,904	66.9%
Staff Cost	31	33	38	33	26	-18.7%	-22.3%	109	129	18.2%
Other Exp.	92	72	93	89	61	-33.4%	-30.9%	251	315	25.6%
Expenditure	526	519	614	628	588	11.7%	-6.4%	1,501	2,348	56.5%
EBITDA	93	90	116	101	99	6.8%	-1.7%	266	407	52.9%
EBITDAmargin	15.0%	14.9%	15.9%	13.9%	14.4%	-3.7%	4.2%	15.1%	14.8%	-2.0%
Depreciation	15	16	16	16	15	-2.1%	-4.1%	61	62	3.0%
EBIT	77	75	100	85	84	8.6%	-1.3%	205	344	67.6%
Interest	4	5	4	4	2	-48.4%	-45.3%	10	15	49.8%
PBT	87	87	107	93	85	-2.2%	-8.7%	228	371	62.6%
Tax	30	29	37	30	22	-29.2%	-28.4%	76	118	54.6%
PAT	56	58	69	63	63	12.4%	0.7%	152	253	66.6%

SS Pipes	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %
Volume (MT)	5,655	4,493	5,800	5,427	5,334	3,983	5,651	5,405	5,406	1.3%
Realiz. (Rs./t)	297082	288762	301443	290035	317210	361331	364442	359721	392796	23.8%
Sales (Rs.cr)	168	130	175	157	169	144	206	194	212	25.5%

CS Pipes	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %
Volume (MT)	43524	31641	24548	70034	74804	71128	76653	73680	72153	-3.5%
Realiz. (Rs./t)	47790	47741	53508	50435	52888	64166	68430	70013	68737	30.0%
Sales (Rs.cr)	208	151	131	353	396	456	525	516	496	25.4%

CS drove the show in FY19

CS division 4QFY19 revenue was at Rs.496cr (up 25.4% YoY, down 3.9% QoQ) and volume was at 72153MT (down 3.5% YoY and 2.1% QoQ). FY19 revenue of CS division was at Rs.1993cr (up 93.2% YoY) and volume was 293614MT (up 46% YoY). Realization in 4QFY19 was at Rs.68737/t (up 30% YoY, down 1.8% QoQ). On account of robust CS order book which reached its peak of Rs.1926cr in 2QFY18 on the back of robust demand from water and oil and gas sector, CS division drove the show in FY19. Though margin contracted on the back of higher CS division orders but execution of these orders led to substantial growth in Revenue, EBITDA and PAT in FY19.

SS volume was down in FY19

SS segments revenue for FY19 was at Rs.757cr (up 19.9% YoY) but volume was down by 3% to 20445MT in FY19. SS segment revenue grew on the back of higher realization however low activity in refinery and power sector impacted SS performance. However, going ahead in SS segment company is trying to move up in value chain, by going into Titanium, Nickel 600-800 grade also. Management stated that it is witnessing good demand in Titanium products as well and company has is converting some of its SS capacity to cater to Titanium product demand.

Order book though off the high but still strong

Order book at the start of May'19 stood at Rs.1492cr, though it has fallen from the high of Rs.2248cr in Nov'17 but it is still continues to be strong. CS orders share in overall order book was 71% (vs.81% in May'18) and SS share stood at 29% (vs.18.5% in May'18). At the end of May'19 SS order book further increased to around Rs.500cr (vs.Rs.437cr at the start of May'19).

Update on expansion projects

Out of total capex of Rs.550cr-600cr for SS and CS expansion, up to Mar'19 Rs.180cr have already been spent and incremental Rs.180cr is expected to be spent by Jun'19 and rest will be spent by Dec'19. Both CS and Stainless steel (SS) division capex of 120000MT and 20000MT respectively is expected to get completed in next 5-6months. CS capacity will increase to 430000MT after capex and SS capacity will increase to 40000MT. However, both the capacities will have to get approvals before commissioning. Incremental capacity of SS will take over a year to come in to full operation.

Concall highlights

- Carbon steel (CS) division performance was very good in FY19 on the back of line pipe and city gas distribution orders.
- Good demand in oil & gas segment close to 50% of revenue of company comes from oil & gas segment only. Revenue from oil & gas sector is expected to continue to be around 40%-60% of the revenue of company.
- Fertilizer plants have started procuring material.
- Demand for water transportation also looks good from states like Gujarat, Madhya Pradesh and Rajasthan.
- There is good demand in Middle East as well from countries like Saudi, Qatar and Thailand where there is new refinery being established.
- Good traction is seen in Titanium order, current capacity will be fully utilized and company is converting part of its current capacity of SS welded into Titanium to cater to the demand for Titanium product.
- Currently order book is around Rs.1500cr and SS order is around Rs.500cr.
- Employee cost lower because earlier company was providing commission to directors as per the past ratios but looking at the growth in profitability, the board decided to have lower commission figure. Against 9% of total remuneration to directors in earlier it is now at 7.5%.
- In city gas distribution (CGD), every year the requirement is around 60-80km from a particular vendor for a particular district. In total 186 geographical areas have been awarded and every area has 80-100km which translates to 8600km of requirement annually and these includes pipes in the range of 4'inch to up to 12'inch. 1 million tonne of demand is expected over next 5 years in CGD.
- ERW pipe are used for CGD. Company has 75000MT of capacity of ERW which is running at 80% of utilization level and it can be increased 1.5x by with Rs.25cr-30cr of capex, company is planning to do it in next 6-8 months.
- Export target is set at around 20% of the total revenue.
- Revenue and profit is expected to grow by 10%-12% in FY20.
- Both CS and Stainless steel (SS) division capex of 120000MT and 20000MT respectively is expected to get completed in next 5-6months. And some contribution is expected in 4QFY20 as well.
- Out of total capex of Rs.550cr-600cr for SS and CS expansion, up to Mar'19 Rs.180cr have already been spent and incremental Rs.180cr is expected to be spent by Jun'19 and rest will be spent by Dec'19.
- However, in case of SS expansion, company will have to get approvals for the new capacity as well, which will take another 6-8 months. SS plant will take over a year to come in to operations after the capacity has been installed. In case of CS capacity, the capacity will be operational from 4QFY20 and will run at round 40% utilization level in 1st year of being commissioned, company need to get approval for CS plant as well.

Exhibit: SS Volume and Realization Trend

volume in SS remains flat YoY and QoQ, however, realization increased after being stable for last three quarters....

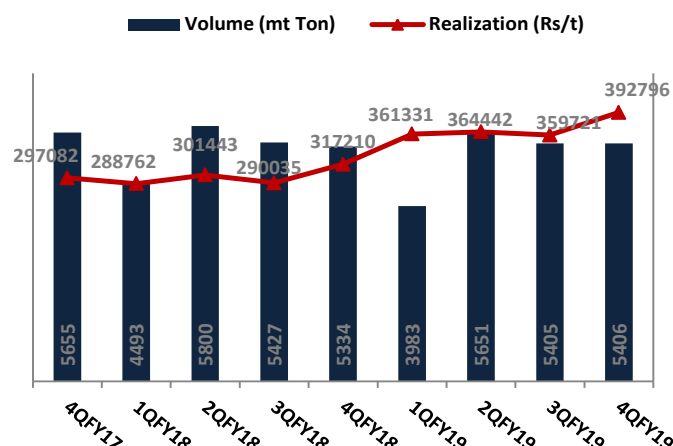


Exhibit: CS Volume and Realization Trend

volume down slightly but still over 70kt, realization significantly high YoY but moderated QoQ....

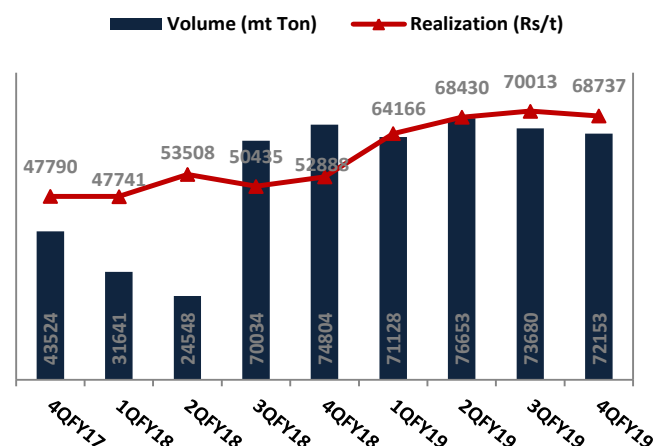


Exhibit: Net sales and sales growth Trend

sales growth (YoY) slows down as high base effect catches up....

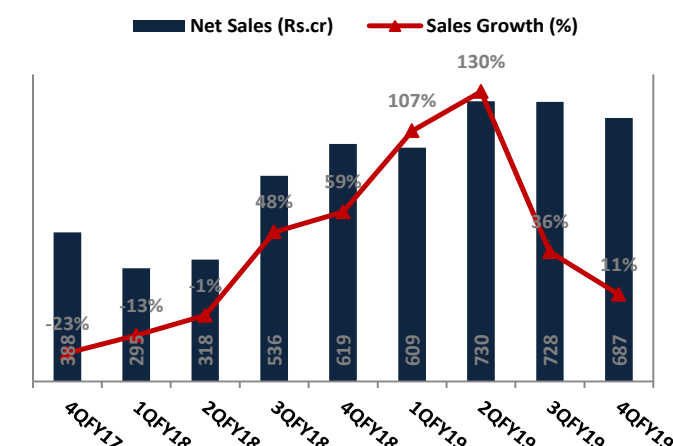


Exhibit: EBITDA and EBITDA Margin Trend

margin in last 8 quarters remained in the range of 16% - 14% on the back significantly higher share of CS orders....

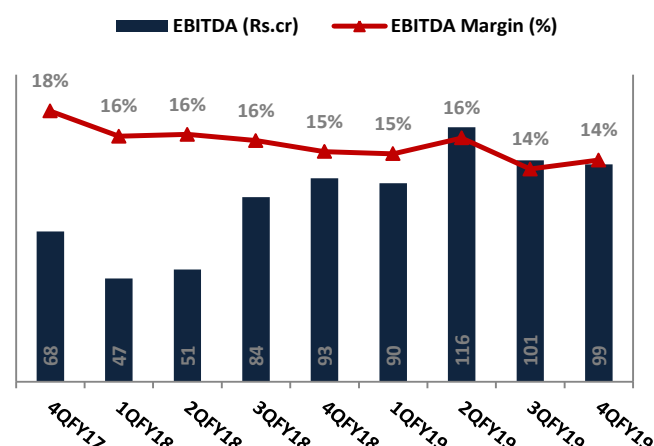


Exhibit: PAT and PAT Margin Trend

PAT was impacted by lower other income in the quarter....

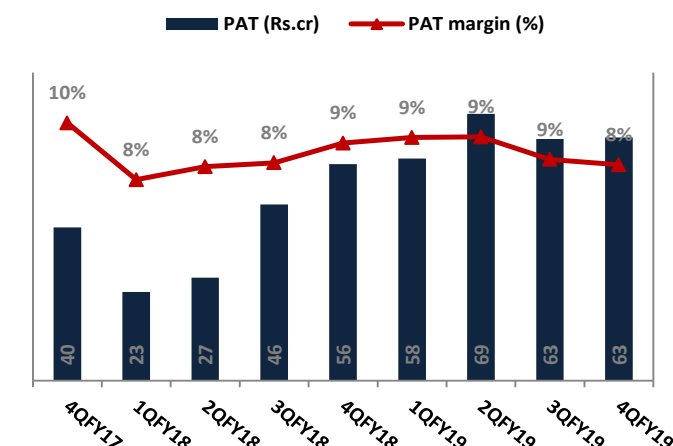
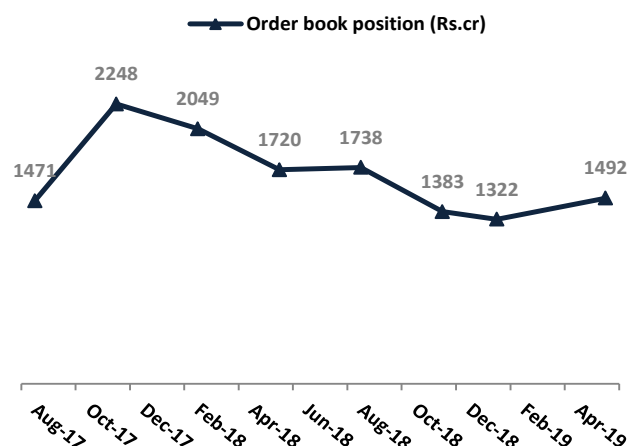


Exhibit: Order Book Trend

Order book though off high but still strong....



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	9	9	9	9	9	9	9	9
Reserves	637	757	899	1,036	1,178	1,299	1,513	1,722
Networth	647	767	908	1,045	1,187	1,308	1,522	1,731
Debt	119	73	30	14	-	79	65	200
Other Non Cur Liab	40	47	48	48	48	43	43	43
Total Capital Employed	689	783	917	1,045	1,187	1,308	1,522	1,881
Net Fixed Assets (incl CWIP)	413	455	467	494	486	492	619	909
Non Cur Investments	0	0	0	0	0	0	0	0
Other Non Cur Asst	-	-	-	4	12	13	15	15
Non Curr Assets	422	463	492	502	502	507	635	925
Inventory	233	252	343	295	339	574	590	621
Debtors	251	278	223	390	425	558	462	660
Cash & Bank	60	43	76	12	15	5	142	81
Other Curr Assets	2	2	4	62	55	99	14	57
Curr Assets	606	685	734	817	910	1,240	1,417	1,525
Creditors	101	153	128	123	117	193	292	326
Provisions (both)	33	35	42	3	6	4	5	6
Other Curr Liab	89	74	69	43	40	99	89	91
Curr Liabilities	223	261	239	211	178	317	422	475
Net Curr Assets	384	423	495	606	733	923	996	1,050
Total Assets	1,029	1,148	1,226	1,319	1,413	1,746	2,052	2,450

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	1,201	1,326	1,688	1,718	1,412	1,767	2,755	2,835
Change (%)	-2%	10%	27%	2%	-18%	25%	56%	3%
Other Income	18	14	26	17	14	32	41	40
EBITDA	238	257	300	286	257	266	407	458
Change (%)	16%	8%	17%	-5%	-10%	3%	53%	13%
Margin (%)	20%	19%	18%	17%	18%	15%	15%	16%
Depr & Amor.	42	46	54	57	60	61	62	80
EBIT	195	211	246	229	197	205	344	378
Int. & other fin. Cost	12	10	9	6	6	10	15	24
EBT	202	214	262	240	205	228	371	394
Exp Item	-	-	-	-	-	-	-	-
Tax	66	71	89	75	61	76	118	134
Reported PAT	136	143	173	165	144	152	253	260
Adjusted PAT	136	143	173	165	144	152	253	260
Change (%)	22%	5%	21%	-5%	-13%	5%	67%	3%
Margin(%)	11%	11%	10%	10%	10%	9%	9%	9%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	21%	19%	19%	0.16	12%	12%	17%	15%
ROCE	28%	27%	27%	22%	17%	16%	23%	20%
Asset Turnover	1.17	1.16	1.38	1.30	1.00	1.01	1.34	1.16
Debtor Days	76	77	48	83	110	115	61	85
Inv Days	71	69	74	63	88	119	78	80
Payable Days	31	42	28	26	30	40	39	42
Int Coverage	16.6	20.7	28.0	40.1	33.8	23.1	25.1	16.4
P/E	4.6	7.9	18.6	13.2	24.9	26.3	16.9	17.0
Price / Book Value	1.0	1.5	3.6	2.1	3.0	3.1	2.7	2.6
EV/EBITDA	2.6	4.3	10.5	7.5	13.8	15.0	9.9	9.8
FCF per Share	38.4	17.1	13.6	19.9	14.0	(30.7)	85.7	(48.1)
Div Yield	2.2%	1.7%	0.7%	2.4%	1.4%	0.6%	0.7%	1.0%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	202	214	262	240	205	228	371	394
(inc)/Dec in Working Capital	51	(33)	(76)	(58)	(48)	(279)	259	(219)
Non Cash Op Exp	38	43	49	40	48	50	77	104
Int Paid (+)	9	6	6	3	4	7	15	24
Tax Paid	(55)	(65)	(87)	(67)	(74)	(72)	(118)	(134)
others								
CF from Op. Activities	236	160	148	155	132	(73)	589	145
(inc)/Dec in FA & CWIP	(58)	(80)	(85)	(62)	(66)	(71)	(189)	(370)
Free Cashflow	178	80	64	93	66	(144)	400	(225)
(Pur)/Sale of Inv	(23)	(25)	34	-	(50)	75	(203)	104
others								
CF from Inv. Activities	(63)	(109)	(51)	(10)	(100)	21	(392)	(265)
inc/(dec) in NW	-	2	0	-	-	-	-	-
inc/(dec) in Debt	(159)	(59)	(43)	(114)	(23)	79	(14)	135
Int. Paid	(8)	(6)	(6)	-	-	-	(15)	(24)
Div Paid (inc tax)	(16)	(22)	(25)	(62)	-	(31)	(33)	(50)
others								
CF from Fin. Activities	(184)	(85)	(74)	(179)	(28)	42	(61)	60
Inc(Dec) in Cash	(11)	(34)	24	(34)	4	(10)	136	(60)
Add: Opening Balance	71	60	24	47	11	12	5	142
Closing Balance	60	26	48	12	15	5	141	81

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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