

# Ratnamani Metals & Tubes Ltd

Industry	Metals
Bloomberg	RMT IN
BSE CODE	520111

**Strong operational performance, order book strengthens...**

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>945</b>
<b>Price Target</b>	<b>1205</b>
<b>Potential Upside</b>	<b>28%</b>

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

## Stock Info

52wk Range H/L	1030/734
Mkt Capital (Rs Cr)	4416
Free float (%)	40%
Avg. Vol 1M (,000)	28
No. of Shares (Cr.)	5
Promoters Pledged %	0%

**Research Analyst**  
**Sagar Sharma**

sagar.sharma@narnolia.com  
+91-22-62701234

## 1QFY20 Result Update

- ❑ Company's revenue for the quarter stood at Rs.588cr (down 3.4% YoY), lower sale was primarily on account of lower Carbon Steel sales at Rs.351cr (down 23.1% YoY). Stainless Steel sales registered a growth of 21.9% YoY to Rs.175cr.
- ❑ SS volume for the quarter was at 4576MT (up 14.9% YoY and down 15.3% QoQ), and CS volume stood at 46879MT (down 34.1% YoY and 35.0% QoQ).
- ❑ SS realization was at Rs.383471/t (up 6.1% YoY, down 2.4% QoQ), CS realization for the quarter was at Rs.74884/t (up 16.7% YoY and 8.9% QoQ).
- ❑ 1QFY20 EBITDA came in at Rs.103cr (up 13.8% YoY and 3.9% QoQ), EBITDA margin improved to 17.5% (vs. 14.9% in 1QFY19 and 14.4% in 4QFY19), higher gross margin and lower other expenses helped in improving EBITDA margin in the quarter.
- ❑ Contribution of Stainless steel and LSAW orders were higher in the quarter leading to higher margin.
- ❑ Depreciation for the quarter was at Rs.14cr (down 9.9% YoY and 4.5% QoQ). Interest cost was at Rs.3.8cr (down 19.7% YoY, up 84.6% QoQ).
- ❑ Other income came in at Rs.11cr (vs. Rs.17cr in 1QFY19 and Rs.3cr in 4QFY19), PAT was at Rs.63cr (up 8.8% YoY, down 0.7% QoQ). Effective tax rate for the quarter was 34.6% (vs. 33.4% in 1QFY19).
- ❑ Order book position of company improved to Rs.1916cr (vs. Rs.1492cr in Apr'19), SS order book crossed Rs.500cr mark since 1QFY16 and stood at Rs.502cr. CS order book stood at Rs.1414cr (vs. 1055cr in Apr'19).
- ❑ Both CS and SS capacity will start trial production by 4QFY20 and would start commercial production from 1QFY21 onwards.

## View and Valuation

Ratnamani's sales de-grew by 3.4% YoY to Rs.588cr, however, EBITDA margin improved significantly to 17.5% (vs. 14.9% in 1QFY19 and 14.4% in 4QFY19) led by higher gross margin and lower other expenses. We continue to remain positive on Ratnamani driven by its consistent performance, leadership position in high margin Stainless Steel division and presence in all major categories of steel pipes and ongoing capacity expansion in both Carbon Steel (incremental capacity of 120kt) and Stainless Steel (increasing by 20kt) will help to cater to incremental demand. Furthermore, company's order book has reached to Rs.1916cr and the SS and CS mix has improved as compare to recent past which may improve margin going ahead. As we factor in 1QFY20 estimate our FY20 EBITDA/PAT estimate stand increased by 2%/2%, but, we maintain our FY21 estimates. We maintain **BUY rating on the stock with an unchanged target price of Rs.1205 (11x FY21e EV/EBITDA)**.

## 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.

Fig in Rs.cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1412	1767	2755	2975	3261
EBITDA	257	266	407	454	501
EBIT	197	205	344	384	421
PAT	144	152	253	274	300
EPS (Rs)	31	33	53	59	64
EPS growth (%)	-13%	7%	63%	11%	9%
ROE (%)	12%	12%	16%	16%	15%
ROCE (%)	17%	16%	23%	22%	21%
BV	254	280	326	374	427
P/B (X)	3.0	3.1	2.7	2.5	2.2
P/E (x)	24.9	26.3	16.9	16.1	14.7

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## 1QFY20 Results

Sales down but margins improved....

### Standalone

Fig in Rs.cr										
Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	609	730	728	687	588	-3.6%	-14.4%	1,767	2,755	55.9%
Other Income	17	11	11	3	11	-33.7%	321.7%	32	41	27%
Total Income	626	741	740	689	599	-4.4%	-13.1%	1,799	2,796	55.4%
COGS	414	483	506	501	387	-6.5%	-22.7%	1,141	1,904	66.9%
Staff Cost	33	38	33	26	35	9.2%	38.7%	109	129	18.2%
Other Exp.	72	93	89	61	62	-14.1%	1.1%	251	315	25.6%
Expenditure	519	614	628	588	485	-6.6%	-17.5%	1,501	2,348	56.5%
EBITDA	90	116	101	99	103	13.8%	3.9%	266	407	52.9%
EBITDAmargin	14.9%	15.9%	13.9%	14.4%	17.5%	18.0%	21.4%	15.1%	14.8%	-2.0%
Depreciation	16	16	16	15	14	-10.0%	-4.5%	61	62	3.0%
EBIT	75	100	85	84	89	18.9%	5.4%	205	344	67.6%
Interest	5	4	4	2	4	-19.8%	84.7%	10	15	49.8%
PBT	87	107	93	85	96	10.9%	13.3%	228	371	62.6%
Tax	29	37	30	22	33	15.0%	54.5%	76	118	54.6%
PAT	58	69	63	63	63	8.8%	-0.7%	152	253	66.6%

SS Pipes	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %
Volume (MT)	4,493	5,800	5,427	5,334	3,983	5,651	5,405	5,406	4,576	14.9%
Realiz. (Rs./t)	288762	301443	290035	317210	361331	364442	359721	392796	383471	6.1%
Sales (Rs.cr)	130	175	157	169	144	206	194	212	175	21.9%

CS Pipes	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %
Volume (MT)	31641	24548	70034	74804	71128	76653	73680	72153	46879	-34.1%
Realiz. (Rs./t)	47741	53508	50435	52888	64166	68430	70013	68737	74884	16.7%
Sales (Rs.cr)	151	131	353	396	456	525	516	496	351	-23.1%

### CS volume falls, realization increases

Company's CS volume for the quarter was at 46879MT (down 34.1% YoY), after delivering robust last few quarters, CS division witnessed lower volume in the quarter. Revenue for the division stood at Rs.351cr (down 23.1% YoY) and realization was at Rs.74884/t (up 16.7% YoY). Significantly lower volume was slightly compensated by higher realization in the quarter. On the order front, CS order book has seen significantly jump in 1QFY20, CS order currently amount to Rs.1414cr (vs. Rs.1055cr in May'19), current order book position ensures revenue visibility for next few quarters and we expect sales to pick up going ahead in the division.

### SS division delivered strong performance

SS segments revenue came in at Rs.175cr (up 21.9% YoY), volume grew by 14.9% YoY to 4576MT and realization improved by 6.1% to Rs.383471/t. Low capex in petchem, refineries and power sector have led to muted kind of growth in SS division in past few years, however, SS divisions orders have seen improvement in last few quarters and company's initiatives like converting part of existing stainless steel capacity into a titanium tube producing capacity is show of improving the capacity utilization of the stainless steel division and company have also started getting orders for the same. Company earlier had 350MT of capacity for titanium tubes and now it has been increased to 1500MT (after converting part of stainless steel capacity).

### Sharp jump in order book

Company's order book improved to Rs.1916cr (vs. Rs.1490cr at the end of Apr'19). CS division's domestic order book saw sharp jump of Rs.400cr to Rs.1275cr and total CS order at Rs.1414cr, and SS order book also improved further to Rs.502cr (vs. Rs.437cr in Apr'19) with about Rs.100cr of Titanium orders bagged in May'19. The share of SS order is around 26% currently vs. 14% when the order book had crossed the Rs.2000cr mark in Nov'17, however, share of export order have fallen from 32% in Nov'17 to 15% currently.

### Update on expansion projects

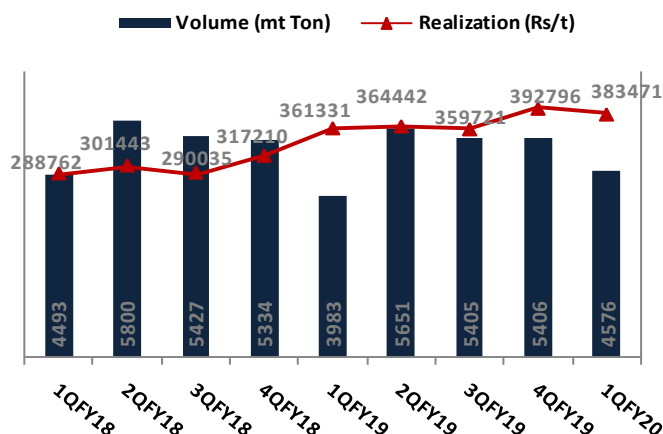
Both CS and SS capacity will start trial production by 4QFY20 and would start commercial production from 1QFY21 onwards.

**Concall highlights**

- Contribution of LSAW and stainless steel order were higher in the quarter and HSAW (low margin) contribution was lower which led to higher margins in the quarter.
- Volume in the quarter was lower on account of financial arrangement issues from the customer end and certain inspection issues also led to delay in dispatches.
- Demand is good because of cross country pipeline and city gas distribution. Management still expects reasonable order booking; however, currently capacities are booked till Mar'20. Currently company's spiral SAW capacity is fully booked with oil and gas orders.
- Titanium tube capacity earlier was around 350MT and now it has been increased to 1500MT. Titanium tube material costs at least 5-7x of that of normal stainless steel material.
- ERW capacity currently is around 70kt, and due to good demand in CGD company will increase the capacity to over 100kt by 3QFY21.
- Certain challenges are there in water application orders, as orders are from state govt. and there are sometimes payment issues because of which EPC contractor doesn't get paid and eventually company's like Ratnamani also don't get paid.
- In the quarter export amount to around Rs.100cr of the revenue. FY19 export was around Rs.500cr.
- Company recently got two orders from a Greenfield refinery in Thailand one for Carbon steel and one for Stainless steel. Management expects from the refinery to continue in future like it did with Dangote refinery.
- Both CS and SS capacity will start trial production by 4QFY20 and would start commercial production from 1QFY21 onwards.
- FY20 revenue is expected to be in range of Rs.2800-3000cr (Rs.2755cr revenue in FY19). FY21 revenue expected to grow by 20% over FY20. Due to lower raw material prices growth in revenue may be less but volume would be higher than FY19 in FY20.
- Management maintained its EBITDA margin guidance of 16-18% (including other income) over longer time horizon.
- FY20 capex is expected to be around Rs.400cr and FY21 capex is expected to be around Rs.100cr.
- Cash and cash equivalent at the end of Jun'19 was around Rs.350cr.

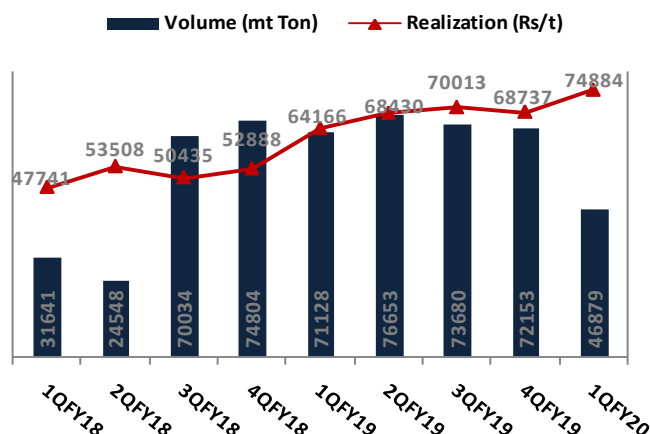
## Exhibit: SS Volume and Realization Trend

higher volume and realization YoY led to strong performance in SS division....



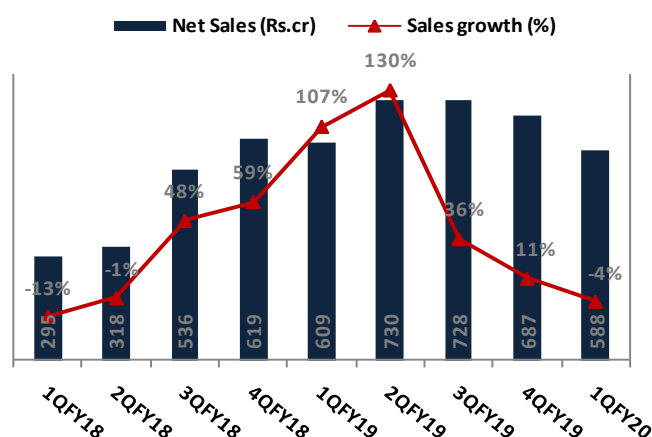
## Exhibit: CS Volume and Realization Trend

delays due to inspection and financial arrangement issues led to lower volume.....



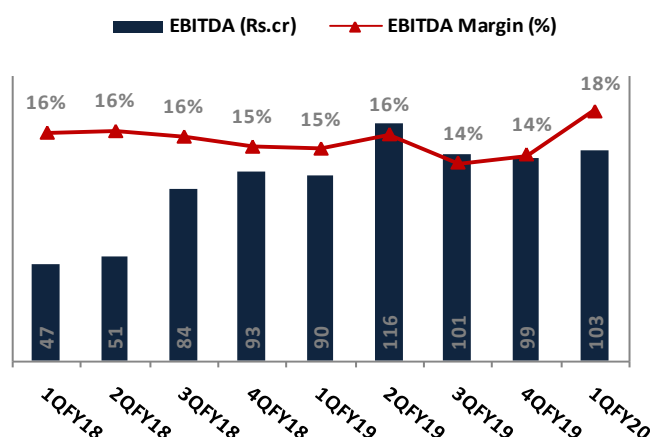
## Exhibit: Net sales and sales growth Trend

lower volume led to de-growth in revenue....



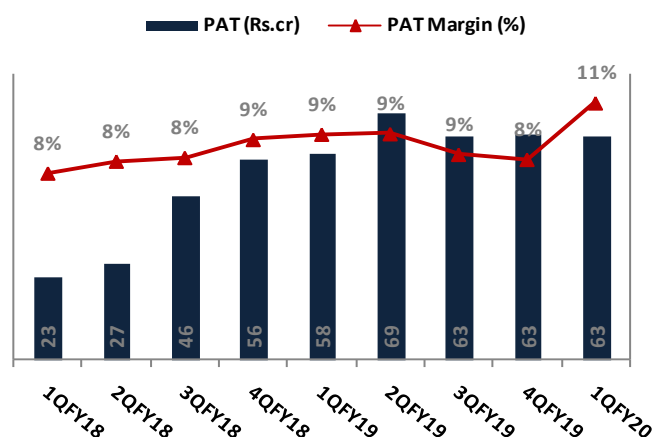
## Exhibit: EBITDA and EBITDA Margin Trend

however, higher share of LSAW and SS orders led to improvement in margins....



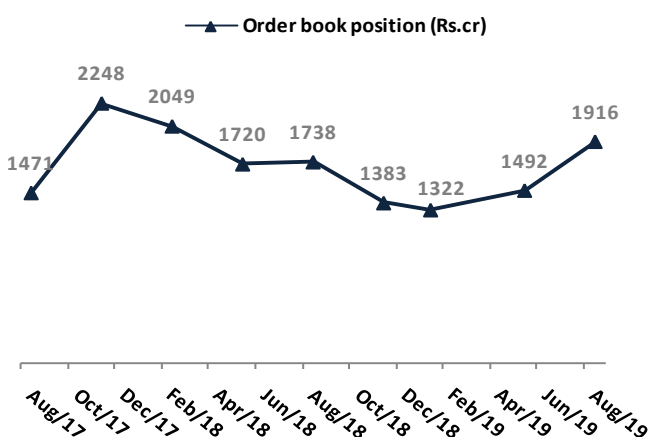
## Exhibit: PAT and PAT Margin Trend

high margin order led to improvement in PAT margin....



## Exhibit: Order Book Trend

sharp jump in order book due to incremental order worth Rs.400cr in CS division....



## Financial Details

### Balance Sheet

Fig in Rs.cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Share Capital</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>
Reserves	757	899	1,036	1,178	1,299	1,513	1,736	1,985
<b>Networth</b>	<b>767</b>	<b>908</b>	<b>1,045</b>	<b>1,187</b>	<b>1,308</b>	<b>1,522</b>	<b>1,745</b>	<b>1,995</b>
Debt	73	30	14	-	79	65	50	50
Other Non Cur Liab	47	48	48	48	43	43	43	43
<b>Total Capital Employed</b>	<b>783</b>	<b>917</b>	<b>1,045</b>	<b>1,187</b>	<b>1,308</b>	<b>1,522</b>	<b>1,745</b>	<b>1,995</b>
Net Fixed Assets (incl CWIP)	455	467	494	486	492	619	747	740
Non Cur Investments	0	0	0	0	0	0	0	0
Other Non Cur Asst	-	-	4	12	13	15	15	15
Non Curr Assets	463	492	502	502	507	635	764	756
<b>Inventory</b>	<b>252</b>	<b>343</b>	<b>295</b>	<b>339</b>	<b>574</b>	<b>590</b>	<b>652</b>	<b>715</b>
<b>Debtors</b>	<b>278</b>	<b>223</b>	<b>390</b>	<b>425</b>	<b>558</b>	<b>462</b>	<b>652</b>	<b>759</b>
<b>Cash &amp; Bank</b>	<b>43</b>	<b>76</b>	<b>12</b>	<b>15</b>	<b>5</b>	<b>142</b>	<b>83</b>	<b>156</b>
Other Curr Assets	2	4	62	55	99	14	60	65
Curr Assets	685	734	817	910	1,240	1,417	1,572	1,860
Creditors	153	128	123	117	193	292	342	375
Provisions (both)	35	42	3	6	4	5	5	6
Other Curr Liab	74	69	43	40	99	89	96	105
Curr Liabilities	261	239	211	178	317	422	497	529
<b>Net Curr Assets</b>	<b>423</b>	<b>495</b>	<b>606</b>	<b>733</b>	<b>923</b>	<b>996</b>	<b>1,075</b>	<b>1,332</b>
<b>Total Assets</b>	<b>1,148</b>	<b>1,226</b>	<b>1,319</b>	<b>1,413</b>	<b>1,746</b>	<b>2,052</b>	<b>2,335</b>	<b>2,617</b>

### Income Statement

Fig in Rs.cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>1,326</b>	<b>1,688</b>	<b>1,718</b>	<b>1,412</b>	<b>1,767</b>	<b>2,755</b>	<b>2,975</b>	<b>3,261</b>
Change (%)	10%	27%	2%	-18%	25%	56%	8%	10%
Other Income	14	26	17	14	32	41	41	40
<b>EBITDA</b>	<b>257</b>	<b>300</b>	<b>286</b>	<b>257</b>	<b>266</b>	<b>407</b>	<b>454</b>	<b>501</b>
Change (%)	8%	17%	-5%	-10%	3%	53%	12%	10%
Margin (%)	19%	18%	17%	18%	15%	15%	15%	15%
Depr & Amor.	46	54	57	60	61	62	70	80
<b>EBIT</b>	<b>211</b>	<b>246</b>	<b>229</b>	<b>197</b>	<b>205</b>	<b>344</b>	<b>384</b>	<b>421</b>
Int. & other fin. Cost	10	9	6	6	10	15	14	14
<b>EBT</b>	<b>214</b>	<b>262</b>	<b>240</b>	<b>205</b>	<b>228</b>	<b>371</b>	<b>411</b>	<b>447</b>
Exp Item	-	-	-	-	-	-	-	-
Tax	71	89	75	61	76	118	137	148
<b>Reported PAT</b>	<b>143</b>	<b>173</b>	<b>165</b>	<b>144</b>	<b>152</b>	<b>253</b>	<b>274</b>	<b>300</b>
<b>Adjusted PAT</b>	<b>143</b>	<b>173</b>	<b>165</b>	<b>144</b>	<b>152</b>	<b>253</b>	<b>274</b>	<b>300</b>
Change (%)	5%	21%	-5%	-13%	5%	67%	8%	9%
Margin(%)	11%	10%	10%	10%	9%	9%	9%	9%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	19%	19%	0.16	12%	12%	17%	16%	15%
ROCE	27%	27%	22%	17%	16%	23%	22%	21%
Asset Turnover	1.16	1.38	1.30	1.00	1.01	1.34	1.27	1.25
Debtor Days	77	48	83	110	115	61	80	85
Inv Days	69	74	63	88	119	78	80	80
Payable Days	42	28	26	30	40	39	42	42
Int Coverage	20.7	28.0	40.1	33.8	23.1	25.1	29.4	32.0
P/E	7.9	18.6	13.2	24.9	26.3	16.9	16.1	14.7
Price / Book Value	1.5	3.6	2.1	3.0	3.1	2.7	2.5	2.2
EV/EBITDA	4.3	10.5	7.5	13.8	15.0	9.9	9.5	8.5
FCF per Share	17.1	13.6	19.9	14.0	(30.7)	82.8	(13.6)	37.8
Div Yield	1.7%	0.7%	2.4%	1.4%	0.6%	0.7%	1.0%	1.0%

### Cash Flow Statement

Fig in Rs.cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>PBT</b>	<b>214</b>	<b>262</b>	<b>240</b>	<b>205</b>	<b>228</b>	<b>371</b>	<b>411</b>	<b>447</b>
(inc)/Dec in Working Capital	(33)	(76)	(58)	(48)	(279)	260	(223)	(144)
Non Cash Op Exp	43	49	40	48	50	62	84	94
Int Paid (+)	6	6	3	4	7	9	14	14
Tax Paid	(65)	(87)	(67)	(74)	(72)	(139)	(137)	(148)
others								
<b>CF from Op. Activities</b>	<b>160</b>	<b>148</b>	<b>155</b>	<b>132</b>	<b>(73)</b>	<b>554</b>	<b>136</b>	<b>249</b>
(inc)/Dec in FA & CWIP	(80)	(85)	(62)	(66)	(71)	(167)	(199)	(72)
Free Cashflow	80	64	93	66	(144)	387	(63)	177
(Pur)/Sale of Inv	(25)	34	-	(50)	75	(203)	85	(39)
others								
<b>CF from Inv. Activities</b>	<b>(109)</b>	<b>(51)</b>	<b>(10)</b>	<b>(100)</b>	<b>21</b>	<b>(360)</b>	<b>(114)</b>	<b>(111)</b>
inc/(dec) in NW	2	0	-	-	-	-	-	-
inc/(dec) in Debt	(59)	(43)	(114)	(23)	79	(13)	(15)	-
Int. Paid	(6)	(6)	-	-	-	-	(14)	(14)
Div Paid (inc tax)	(22)	(25)	(62)	-	(31)	(34)	(50)	(50)
others								
<b>CF from Fin. Activities</b>	<b>(85)</b>	<b>(74)</b>	<b>(179)</b>	<b>(28)</b>	<b>42</b>	<b>(56)</b>	<b>(80)</b>	<b>(64)</b>
Inc(Dec) in Cash	(34)	24	(34)	4	(10)	137	(59)	74
Add: Opening Balance	60	24	47	11	12	5	142	83
<b>Closing Balance</b>	<b>26</b>	<b>48</b>	<b>12</b>	<b>15</b>	<b>2</b>	<b>143</b>	<b>83</b>	<b>156</b>

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Correspondence Office Address: Arch Waterfront, 5<sup>th</sup> Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; [www.narnolia.com](http://www.narnolia.com).

Registered Office Address: Marble Arch, Office 201, 2<sup>nd</sup> Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; [www.narnolia.com](http://www.narnolia.com)

Compliance Officer: Manish Kr Agarwal, Email Id: [mkagarwal@narnolia.com](mailto:mkagarwal@narnolia.com), Contact No.:033-40541700.

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