

Industry
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Metals
RMT IN
520111

Margins sustain based on orders pertaining higher margin products..

RATING	BUY
CMP	959
Price Target	1194
Potential Upside	25%

Rating Change	↔
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	1030/734
Mkt Capital (Rs Cr)	4480
Free float (%)	40%
Avg. Vol 1M (,000)	20
No. of Shares (Crs)	5
Promoters Pledged %	0%

2QFY20 Result Update

- RATNAMANI reported a revenue of Rs.610 Cr. (vs our estimate of Rs.715 Cr.) de-grew by 16.4% YoY largely on account of lower volumes of both Carbon Steel (CS) business. However, management expects revenue of FY20 to be same as that of FY19 (Rs.275Cr.).
- Volumes at CS business stood at 50791 MT (down 33.7% YoY and 12.7% QoQ). The raw material in CS came down heavily impacted the overall volumes. One of the raw material suppliers is under investigation and then the raw material is sourced from some other supplier resultant to production losses.
- Volumes at Stainless Steel (SS) business were at 5813 MT (up 2.9% YoY and 27% QoQ) in 2QFY20.
- Management expects Volumes in 2HFY20 for CS to be on lower side on YOY basis and Stainless steel (SS) some de-growth will be there in value terms. However, titanium business is expected to outperform based on the demand going ahead.
- Realization of CS segment grew by 12.2% YoY and 11.6% QoQ. However, SS realization reduced 5.1% YoY and 9.8% QoQ in 2QFY20.
- EBITDA margin expanded to 19.1% (160 bps QoQ and 320 bps YoY) largely driven by sale of higher margin products like CS segment Oil and gas pipes and no orders were taken by the management of Water business for FY20 due to lower margin product.
- Management expects margins to sustain at a range of 16-18% for FY20.
- PAT during the quarter stood at Rs. 76 Cr. with the growth of 9.5% YoY on the back of higher other income in 2QFY20.

View and Valuation

Reduced volumes consecutively of CS business over the last few quarters reduced the overall volume guidance for FY20. Expansion plans by various companies like IOC in Panipat, BPCL in Cochin, HPCL etc. will have higher demand of CS business going forward. Robust order book of SS is expected based on current orders from L&T, petrochemical and fertilizers companies. Orders will be fulfilled based on the current expansion plans of both CS and SS by 120000 T and 20000 T respectively. Current Order book for CS consist orders from Oil and Gas business which will help for further margin expansion. Margins during the quarter expanded based on higher margins orders fulfilled by the company. We maintain BUY with the target price of Rs. 1194 (10x FY21E EV/EBITDA).

Key Risks to our rating and target

- Increase in raw material cost will put 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	2677	3066
EBITDA	257	266	407	472	547
EBIT	197	205	344	410	466
PAT	144	152	253	338	386
EPS (Rs)	31	33	53	72	83
EPS growth (%)	-13%	7%	63%	36	14
ROE (%)	12%	12%	16%	19	18
ROCE (%)	17%	16%	23%	21	20
BV	254	280	326	387	459
P/B (X)	3.0	3.1	2.7	2.5	2.1
P/E (x)	24.9	26.3	16.9	13.3	11.6

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Volumes down but margins improved....

2QFY20 Results Standalone

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	730	728	687	588	610	-16.4%	3.9%	1,767	2,755	55.9%
Other Income	11	11	3	11	22	102.6%	94.5%	32	41	27%
Total Income	741	740	689	599	632	-14.7%	5.5%	1,799	2,796	55.4%
COGS	483	506	501	387	379	-21.6%	-2.1%	1,141	1,904	66.9%
Staff Cost	38	33	26	35	39	3.4%	10.9%	109	129	18.2%
Other Exp.	93	89	61	62	76	-18.7%	21.7%	251	315	25.6%
Expenditure	614	628	588	485	494	-19.6%	1.9%	1,501	2,348	56.5%
EBITDA	116	101	99	103	117	0.5%	13.1%	266	407	52.9%
EBITDAmargin	15.9%	13.9%	14.4%	17.5%	19.1%	20.2%	8.9%	15.1%	14.8%	-2.0%
Depreciation	16	16	15	14	14	-9.2%	0.8%	61	62	3.0%
EBIT	100	85	84	89	102	2.0%	15.1%	205	344	67.6%
Interest	4	4	2	4	6	35.2%	49.7%	10	15	49.8%
PBT	107	93	85	96	118	10.7%	22.9%	228	371	62.6%
Tax	37	30	22	33	41	11.5%	24.9%	76	118	54.6%
PAT	69	63	63	63	76	10.3%	21.9%	152	253	66.6%

SS PIPES	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %
Volume (MT)	5,800	5,427	5,334	3,983	5,651	5,405	5,406	4,576	5,813	2.9%
Realiz. (Rs./t)	301443	290035	317210	361331	364442	359721	392796	383471	345,814	-5.1%
Sales (Rs.cr)	175	157	169	144	206	194	212	175	201	-2.4%

CS PIPES	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %
Volume (MT)	24548	70034	74804	71128	76653	73680	72153	58,232	50,791	-33.7%
Realiz. (Rs./t)	53508	50435	52888	64166	68430	70013	68737	68,730	76,764	12.2%
Sales (Rs.cr)	131	353	396	456	525	516	496	400	390	-25.7%

Volumes and Realization of CS and SS

Volumes in 2QFY20 for CS and SS stood at 50791 MT and 5813 MT respectively. CS volumes reduced on the back of raw material prices which came down heavily along with one of the raw material supplier is under investigation and then the raw material is sourced from some other supplier resultant to production losses. However, management expects CS volumes to remain lower for 2HFY20 on YOY basis. SS volumes grew by 2.9% YoY. Looking forward the demand and availability of the SS manufactured in India management expect robust demand of SS in the upcoming years. Realization in CS business grew by 12.2% YoY while in SS business realization de-grew by 5% YoY.

Margins expansion led by higher margin products

Margins during the quarter expanded in 2QFY20 to 19% (160 bps QoQ and 320 bps YoY) largely driven by sale of higher margin products like CS segment Oil and gas pipes and SS products. No orders were taken by the management of CS segment for water business for FY20 due to lower margin product. Management is focusing on expanding the margins going forward and it expects margins to be in the range of 16-18% for FY20.

Order book status

As on 1-Oct.-19, order book of Rs. 1926 Cr. lined up with the company. It includes orders of Carbon steel (CS) and Stainless steel (SS) worth Rs. 1390 Cr. and Rs. 536 Cr. respectively. Orders within CS are from Oil and Gas segment and not from water segment because water segment business is lower margin segment. Total exports consist of around 15-20% of total revenue. Out of current order book the exports orders are worth Rs. 377 Cr. Order book as on 1-Nov.-19 is Rs. 1831 Cr. which includes orders from SS, CS and LSAW of Rs. 575 Cr., Rs. 1032 Cr. and Rs. 224 Cr. respectively. Out of the current order book only SS order worth Rs. 100 Cr. will carry forward to FY21 remaining orders management expects to execute in FY20. Orders from exports market are worth Rs. 350 Cr. in the current order book

Concall highlights

- Revenue for FY20 is expected to be flattish based on the lower volumes and performance in 1HFY20. Reduced volume particularly in the Carbon Steel (CS) business is due to one of the raw material supplier is under investigation and then the raw material is sourced from some other supplier resultant to production losses.
- Revenue of FY20 is expected to be same as what was achieved by the company in Fy19.
- Management expects Volumes in 2HFY20 for CS to be on lower side on YOY basis and Stainless steel (SS) some de-growth will be there in value terms. However, titanium business is expected to outperform based on the demand going ahead.
- Management expects Revenue and Pat to grow by 12-15% YoY going ahead based on the current capacity addition being completely utilized in 2-3 years down the line.
- In 1HFY20 margins are still maintained by the company despite lower volumes due to the orders of CS business, where orders are fulfilled 100% by Oil and gas segment and no orders are from the water segment. Oil and gas segment being the higher value addition product to the company contributes higher margin.
- Management expects margins to be in the range of 16-18% for Fy20.
- Order book as on 1-Nov.-19 is Rs. 1831 Cr. which includes orders from SS, CS and LSAW of Rs. 575 Cr., Rs. 1032 Cr. and Rs. 224 Cr. respectively. Out of the current order book only SS order worth Rs. 100 Cr. will carry forward to FY21 remaining orders management expects to execute in FY20.
- Orders from exports market are worth Rs. 350 Cr. in the current order book.
- As per the current order book lined up by the management, CS business 100% orders will be fulfilled by oil and gas segment.
- Domestic order book lined up by the management are for various segment across products like; Oil and gas segment (for line pipe and refinery), LSAW segment (for refinery and Petro chemical), HSAW / ERW segment (for cross country pipes and city gas distribution pipes).
- Robust demand on CS business is expected by the management on account of the expansion plans of capacity by various companies like IOC in Panipat, BPCL in Cochin, HPCL etc.
- Demand for Seamless SS pipes and welded SS pipes as well as tubes are expected based on orders lined up from L&T for petrochemical plants (for 358- class I). Fertilizers and petrochemical industry are in huge demand for SS, which is imported in our country for around 30-40000 Tonnes.
- LSAW capacity expansion is 120000 Tonnes of which the trial run will start in 4QFY20. Management expects plant to utilize at around 25-30% in FY21 and ramping up at full utilization level will take around 2-3 years time.
- Management will be focusing towards project piping from LSAW additional capacity and later on if in case to utilize the capacity left out it will be used for line piping.
- Seamless SS capacity of 20000 Tonnes will start the trial run in 4QFY20 and in FY21 it's expected to reach at 30-40% of utilization level. To ramp up the capacity, around 2 years will be required to reach the capacity at 80-90% utilization level.
- Other income being higher during the quarter due to income from investment and some impact of positive change in foreign exchange.
- Due to increase in the debt raised for capacity expansion of Rs. 150 Cr. the finance cost was higher in 2QFY20.
- CAPEX plan for capacity addition in SS business is of 20000 Tones and in CS capacity addition is 50% based on value addition and remaining 50% is on Volume production.
- Trial run for the LSAW and SS business CAPEX will start in 4QFY20 and the plant will be at its complete utilization level in FY21. Major revenue from the plant is expected to be in Fy21.
- CAPEX planned by the management other than LSAW and SS are in cross country pipeline, city gas distribution pipeline, work started on HPCL, refinery etc.
- Cash conversion cycle of the company increased to 75-90 days.

Exhibit: SS Volume and Realization Trend

Volume growth overcome by reduced reduced realization...

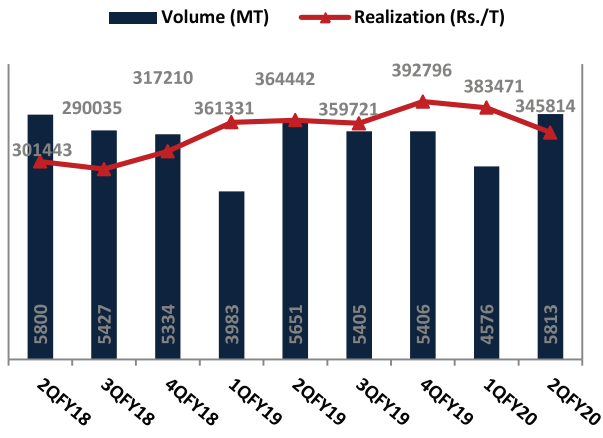


Exhibit: CS Volume and Realization Trend

Reduced volumes due to unavailable raw material..

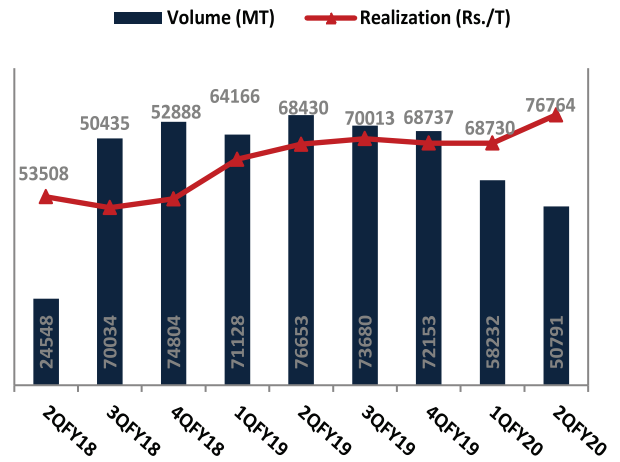


Exhibit: Net sales and sales growth Trend

Lower volume of CS reduced the revenue by 16.2% YoY in 2QFY20..

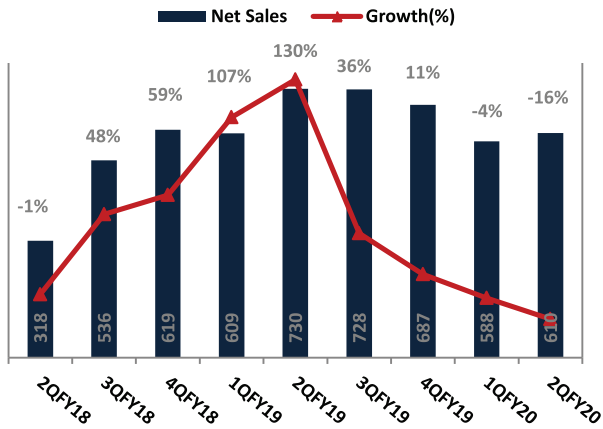


Exhibit: EBITDA and EBITDA Margin Trend

Margins expansion based on orders fulfilled are higher margin products..

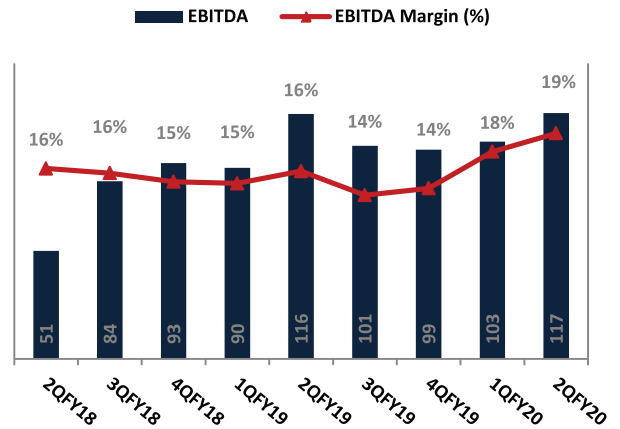


Exhibit: PAT and PAT Margin Trend

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

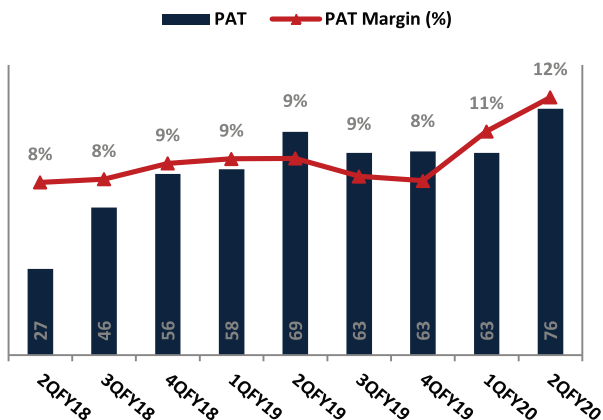
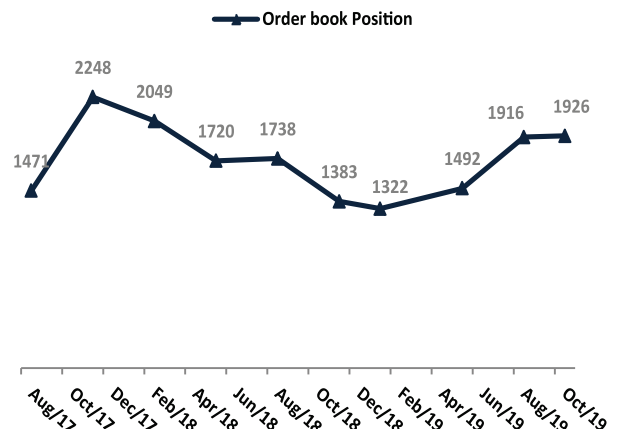


Exhibit: Order Book Trend

Order book remains flat yet consist products of higher margin..



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	9	9	9	9	9	9	9	9
Reserves	757	899	1,036	1,178	1,299	1,513	1,800	2,135
Networth	767	908	1,045	1,187	1,308	1,522	1,809	2,145
Debt	73	30	14	-	79	65	130	130
Other Non Cur Liab	47	48	48	48	43	43	43	43
Total Capital Employed	783	917	1,045	1,187	1,308	1,522	1,939	2,275
Net Fixed Assets (incl CWIP)	455	467	494	486	492	619	756	748
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	772	764
Inventory	252	343	295	339	574	590	587	672
Debtors	278	223	390	425	558	462	587	714
Cash & Bank	43	76	12	15	5	142	195	247
Other Curr Assets	2	4	62	55	99	14	54	61
Curr Assets	685	734	817	910	1,240	1,417	1,658	2,051
Creditors	153	128	123	117	193	292	308	353
Provisons (both)	35	42	3	6	4	5	5	5
Other Curr Liab	74	69	43	40	99	89	86	99
Curr Liabilities	261	239	211	178	317	422	449	497
Net Curr Assets	423	495	606	733	923	996	1,210	1,554
Total Assets	1,148	1,226	1,319	1,413	1,746	2,052	2,430	2,815

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	1,326	1,688	1,718	1,412	1,767	2,755	2,677	3,066
Change (%)	10%	27%	2%	-18%	25%	56%	-3%	15%
Other Income	14	26	17	14	32	41	76	86
EBITDA	257	300	286	257	266	407	472	547
Change (%)	8%	17%	-5%	-10%	3%	53%	16%	16%
Margin (%)	19%	18%	17%	18%	15%	15%	18%	18%
Depr & Amor.	46	54	57	60	61	62	62	81
EBIT	211	246	229	197	205	344	410	466
Int. & other fin. Cost	10	9	6	6	10	15	23	23
EBT	214	262	240	205	228	371	462	529
Exp Item	-	-	-	-	-	-	0	0
Tax	71	89	75	61	76	118	125	143
Reported PAT	143	173	165	144	152	253	338	386
Adjusted PAT	143	173	165	144	152	253	338	386
Change (%)	5%	21%	-5%	-13%	5%	67%	33%	14%
Margin(%)	11%	10%	10%	10%	9%	9%	13%	13%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	19%	19%	16%	12%	12%	17%	19%	18%
ROCE	27%	27%	22%	17%	16%	23%	21%	20%
Asset Turnover	1.16	1.38	1.30	1.00	1.01	1.34	1.10	1.09
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	21	28	40	34	23	25	20	23
P/E	7.88	18.62	13.18	24.90	26.27	16.87	13.27	11.60
Price / Book Value	1.47	3.55	2.07	2.99	3.05	2.75	2.48	2.09
EV/EBITDA	4.28	10.53	7.54	13.75	15.00	9.93	9.36	7.98
FCF per Share	17	14	20	14	-31	83	19	53
Div Yield	2%	1%	2%	1%	1%	1%	1%	1%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	214	262	240	205	228	371	462	529
(inc)/Dec in Working Capital	(33)	(76)	(58)	(48)	(279)	260	-134	-172
Non Cash Op Exp	43	49	40	48	50	62	85	104
Int Paid (+)	6	6	3	4	7	9	23	23
Tax Paid	(65)	(87)	(67)	(74)	(72)	(139)	-125	-143
others								
CF from Op. Activities	160	148	155	132	(73)	554	289	318
(inc)/Dec in FA & CWIP	(80)	(85)	(62)	(66)	(71)	(167)	-199	-72
Free Cashflow	80	64	93	66	(144)	387	90	246
(Pur)/Sale of Inv	(25)	34	-	(50)	75	(203)	-27	-120
others								
CF from Inv. Activities	(109)	(51)	(10)	(100)	21	(360)	-226	-192
inc/(dec) in NW	2	0	-	-	-	-	0	0
inc/(dec) in Debt	(59)	(43)	(114)	(23)	79	(13)	65	0
Int. Paid	(6)	(6)	-	-	-	-	-23	-23
Div Paid (inc tax)	(22)	(25)	(62)	-	(31)	(34)	-50	-50
others								
CF from Fin. Activities	(85)	(74)	(179)	(28)	42	(56)	-9	-74
Inc(Dec) in Cash	(34)	24	(34)	4	(10)	137	54	52
Add: Opening Balance	60	24	47	11	12	5	142	195
Closing Balance	26	48	12	15	2	143	195	247

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