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Metals
RMT IN
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Subdued volume growth along with inferior product mix leads margin contraction

3QFY20 Result Update

- RATNAMANI reported revenue of Rs. 756 Cr. largely driven by volume growth in SS division of 15.6% YoY and realization growth in CS division of 6.4% YoY.
- SS division contributed revenue of Rs. 217 Cr. on the back of volume growth of 15.6% YoY due to strong order book while drop in realization by 3.5% YoY led by reduced HRC prices off-set the same.
- Revenue from CS division in 3QFY20 is Rs. 541 Cr. on account of fall in volume by 1.6% YoY while realization grew by 6.4% YoY. Increase in realization on account of 100% order book backed with oil and gas sector.
- EBITDA in 3QFY20 is Rs. 108 Cr. with an EBITDA margin of 14.3% (up 50 bps YoY, down 480 bps QoQ) due to increase in the share of line pipe which is lower margin business as compare to LSAW and SS business. However, management is confident with the margin guidance of 16-18% in long run.
- The total order book currently stood at Rs. 1569 Cr. which consists of orders from CS and SS division of worth Rs. 1053 Cr. and Rs. 516 Cr. respectively. Exports order is Rs. 448 Cr. in total order book.
- Within CS division 100% orders are from oil and gas sector while SS division orders are from oil and gas, petro chemicals, refineries, power sector and others.
- PAT during the quarter stood at Rs. 101 Cr. on account of deferred tax benefit resultant tax expense of Rs. 1 Cr.
- Expansion project update :
 - SS additional capacity of 20000 T will start the trial run of production in April-2020 and post that 3-4 months is required for the approvals. Commercial production for distributors is expected to start from July onwards as per management.
 - CS division additional capacity of 200000 T (including debottlenecking capacity addition), equipment's are ready and certain approvals are going on. Commercial production from the same is expected in 2HFY21.

View and Valuation

Subdued volume growth for FY20 is expected by the management while the value added product will drive the growth. Favorable product mix in the existing order book leads to maintain margin growth of 16-18% going ahead. Government spending in the recent budget plan expected to fillip order book with the upcoming tenders. Additional capacity in CS as well as SS division coming in 2HFY21 will fulfill the upcoming orders. We maintain the target price of Rs. 1312 (12.7x FY21E EV/EBITDA) which gives us limited upside on the stock; hence we downgrade the stock to NEUTRAL.

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	2717	3011
EBITDA	257	266	407	443	478
EBIT	197	205	344	385	395
PAT	144	152	253	326	319
EPS (Rs)	31	33	53	70	68
EPS growth (%)	-13%	7%	63%	32	-2
ROE (%)	12%	12%	16%	18	15
ROCE (%)	17%	16%	23%	20	17
BV	254	280	326	384.7	442.1
P/B (X)	3.0	3.1	2.7	3.32	2.97
P/E (x)	24.9	26.3	16.9	18.29	19.23

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RATING	NEUTRAL
CMP	1276
Price Target	1312
Potential Upside	3%
Rating Change	↓
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	1358/814
Mkt Capital (Rs Cr)	5964
Free float (%)	40%
Avg. Vol 1M (,000)	32.8
No. of Shares (Cr)	5
Promoters Pledged %	0%

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Revenue in line with estimates

3QFY20 Results Standalone

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	728	687	588	610	756	3.8%	23.9%	1,767	2,755	55.9%
Other Income	11	3	11	22	15	32.2%	-30.7%	32	41	27%
Total Income	740	689	599	632	771	4.2%	22.0%	1,799	2,796	55.4%
COGS	506	501	387	379	511	1.0%	34.8%	1,141	1,904	66.9%
Staff Cost	33	26	35	39	37	11.8%	-6.4%	109	129	18.2%
Other Exp.	89	61	62	76	100	12.6%	32.4%	251	315	25.6%
Expenditure	628	588	485	494	648	3.2%	31.2%	1,501	2,348	56.5%
EBITDA	101	99	103	117	108	7.4%	-7.0%	266	407	52.9%
EBITDAmargin	13.9%	14.4%	17.5%	19.1%	14.3%	3.5%	-24.9%	15.1%	14.8%	-2.0%
Depreciation	16	15	14	14	15	-3.0%	5.1%	61	62	3.0%
EBIT	85	84	89	102	93	9.3%	-8.7%	205	344	67.6%
Interest	4	2	4	6	6	55.5%	2.8%	10	15	49.8%
PBT	93	85	96	118	102	10.3%	-13.2%	228	371	62.6%
Tax	30	22	33	41	1	-95.6%	-96.8%	76	118	54.6%
PAT	63	63	63	76	101	60.9%	32.1%	152	253	66.6%

SS PIPES	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %
Volume (MT)	5,427	5,334	3,983	5,651	5,405	5,406	4,576	5,813	6,246	15.6%
Realiz. (Rs./t)	290,035	317,210	361,331	364,442	359,721	392,796	383,471	345,814	347,198	-3.5%
Sales (Rs.cr)	157	169	144	206	194	212	175	201	217	11.5%

CS PIPES	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %
Volume (MT)	70,034	74,804	71,128	76,653	73,680	72,153	58,232	49,567	72,525	-1.6%
Realiz. (Rs./t)	50,435	52,888	64,166	68,430	70,013	68,737	68,730	78,659	74,527	6.4%
Sales (Rs.cr)	353	396	456	525	516	496	400	390	541	4.8%

Volumes and Realization of CS and SS

Volumes in 3QFY20 for CS and SS stood at 72525 MT and 6246 MT respectively. CS volumes reduced on the back of raw material prices which came down heavily along with poor market sentiments. However, management expects CS volumes to remain lower for 2HFY20 on YOY basis. Realization in CS business fell by 1.6% YoY on account of change product mix (increase in the share of line pipe business). SS volumes grew by 15.6% YoY. SS business realization dropped by 3.5% YoY on account of reduced HRC prices. Looking forward the demand and availability of the SS manufactured in India management expect robust demand of SS in the upcoming years. Management expects volume of CS and SS division for FY20 to be around 250000 T and 22000 T respectively which remains muted for FY20.

Margin contraction led by product mix

EBITDA margin during the quarter is 14.3% (up 50 bps YoY, down 480 bps QoQ) due to increase in the share of line pipe which is lower margin business as compare to LSAW and SS business. However, management is confident with the margin guidance of 16-18% in long run. No orders were accepted by the management of CS segment for water business for FY20 due to lower margin product.

Order book status

The total order book as on 1-Feb-2020 stood at Rs. 1569 Cr. which consists of orders from CS and SS division of worth Rs. 1053 Cr. and Rs. 516 Cr. respectively. Exports order is Rs. 448 Cr. in total order book which includes CS and SS division worth Rs. 335 Cr. and 113 Cr. respectively. Within CS division 100% orders are from oil and gas sector while SS division orders are from oil and gas, petro chemicals, refineries, power sector and others. Based on the government budget spending on Oil and gas refinery and petro chemicals of around Rs. 100000 Cr. , around Rs. 63000 Cr. power and related industry investing in NTPC, National grid and cross country pipeline and city gas distribution will boost the order book in CS division in the coming quarters.

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.
- Management expects volume of CS and SS division for FY20 to be around 250000 T and 22000 T respectively. However the volume growth is expected to be muted while value addition will take place in FY20.
- Margin decline during the quarter was due to increase in the share of line pipe which is lower margin business as compare to LSAW and SS business. However, management is confident with the margin guidance of 16-18% in long run.
- Titanium based product consists orders of around Rs. 80-90 Cr. includes one order from export market. Management is confident of receiving more orders from export market for titanium products.
- Margins of SS division is 1.5x-1.8x higher than compare to margins of CS division.
- Project piping orders are higher margin segment.
- The total order book currently stood at Rs. 1569 Cr. which consists of orders from CS and SS division of worth Rs. 1053 Cr. and Rs. 516 Cr. respectively. Exports order is Rs. 448 Cr. in total order book.
- Based on the government budget spending on Oil and gas refinery and petro chemicals of around Rs. 100000 Cr. , around Rs. 63000 Cr. power and related industry investing in NTPC, National grid and cross country pipeline and city gas distribution will boost the order book in CS division in the coming quarters.
- Within CS division 100% orders are from oil and gas sector while SS division orders are from oil and gas, petro chemicals, refineries, power sector and others.
- Cash and cash equivalents as on 31-Dec-19 is around Rs. 300 Cr. out of which Rs. 150 Cr. is used in raising long term debt.

- Expansion project update :
 - SS additional capacity of 20000 T will start the trial run of production in April-2020 and post that 3-4 months is required for the approvals. Commercial production for distributors is expected to start from July onwards as per management.
 - CS division additional capacity of 200000 T (including debottlenecking capacity addition), equipment's are ready and certain approvals are going on. Commercial production from the same is expected in 2HFY21.

- Revenue contribution from the additional capacity of both the division is expected from 2HFY21.
- Capacity utilization for additional capacity in CS and SS division in FY21 will be around 20-25% level. However, the breakeven capacity utilization will be around 40-45% level.
- EBITDA margin contribution from additional capacity is expected to remain muted for FY21.
- CAPEX spent for the additional capacity for both the divisions till date is around Rs. 450 Cr. and Rs. 160 Cr. is still remaining for some of the equipment's needed at the time of ramping up of plant (in next 6 months it will be utilized).
- Fixed cost for the additional capacity coming in is around Rs. 22-25 Cr. of interest cost, other cost will be around Rs. 20-25 Cr., depreciation will be around 35 Cr. and operating cost will be around Rs. 25-30 Cr.

Exhibit: SS Volume and Realization Trend

Volume growth overcome by reduced reduced realization...

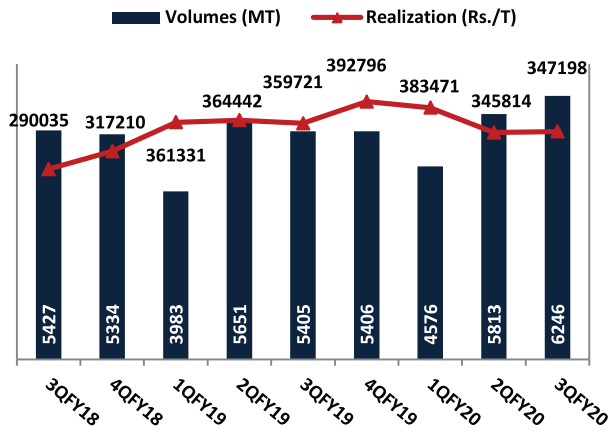


Exhibit: CS Volume and Realization Trend

Reduced volumes due to poor market sentiments...

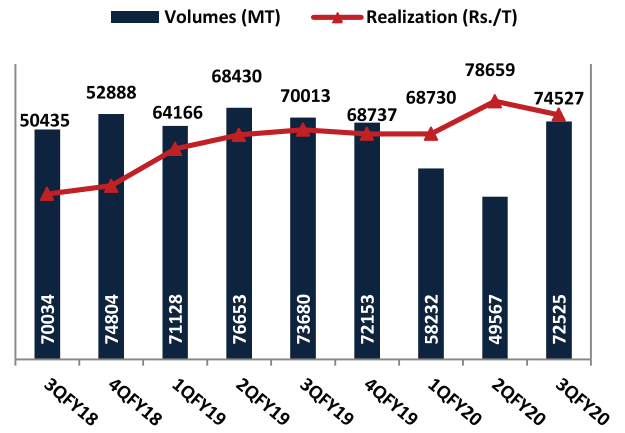


Exhibit: Net sales and sales growth Trend

Sales growth of 4% largely on account of SS volumes and CS realisation growth of 15.6% YoT and 6.4% YoY respectively..

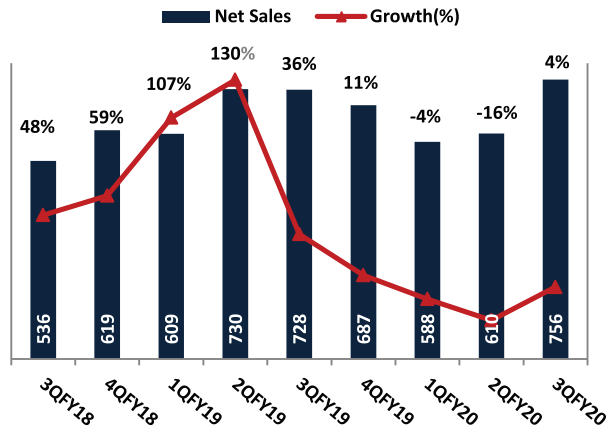


Exhibit: EBITDA and EBITDA Margin Trend

Margins contraction based on orders fulfilled by inferior products..

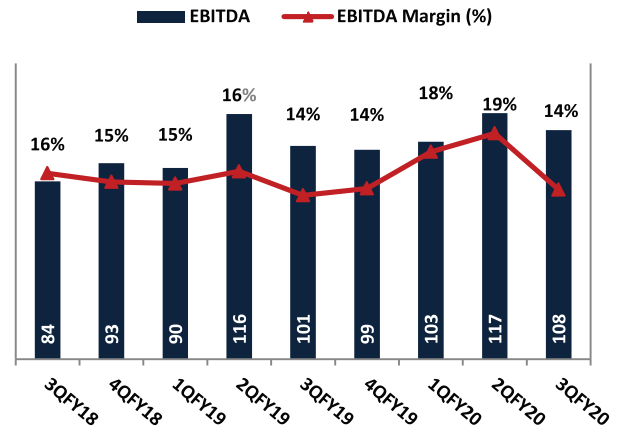


Exhibit: PAT and PAT Margin Trend

PAT margin expansion on account of reduced tax benefits..

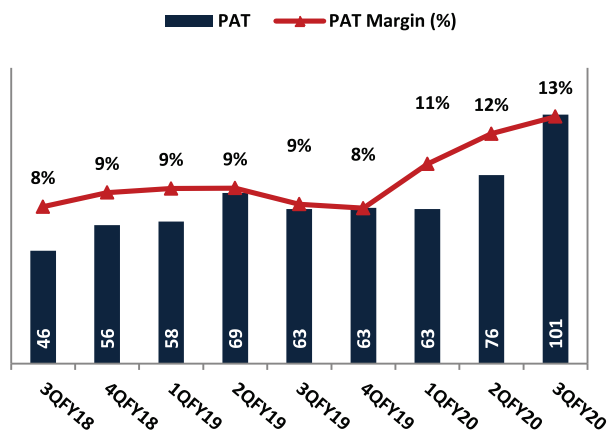
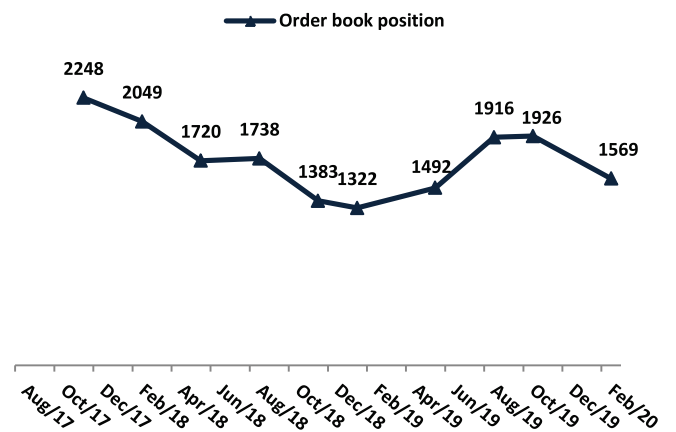


Exhibit: Order Book Trend

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	1788	2056
Networth	767	908	1,045	1,187	1,308	1,522	1797	2066
Debt	73	30	14	-	79	65	150	250
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	1947	2316
Net Fixed Assets (incl CWIP)	455	467	494	486	492	619	759	749
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	776	766
Inventory	252	343	295	339	574	590	596	660
Debtors	278	223	390	425	558	462	596	701
Cash & Bank	43	76	12	15	5	142	189	304
Other Curr Assets	2	4	62	55	99	14	54	60
Curr Assets	685	734	817	910	1,240	1,417	1671	2082
Creditors	153	128	123	117	193	292	313	346
Provisons (both)	35	42	3	6	4	5	5	5
Other Curr Liab	74	69	43	40	99	89	88	97
Curr Liabilities	261	239	211	178	317	422	455	488
Net Curr Assets	423	495	606	733	923	996	1216	1594
Total Assets	1,148	1,226	1,319	1,413	1,746	2,052	2446	2848

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	2,717	3,011
Change (%)	10%	27%	2%	-18%	25%	56%	-1%	11%
Other Income	14	26	17	14	32	41	62	66
EBITDA	257	300	286	257	266	407	443	478
Change (%)	8%	17%	-5%	-10%	3%	53%	9%	8%
Margin (%)	19%	18%	17%	18%	15%	15%	16%	16%
Depr & Amor.	46	54	57	60	61	62	58	83
EBIT	211	246	229	197	205	344	385	395
Int. & other fin. Cost	10	9	6	6	10	15	21	35
EBT	214	262	240	205	228	371	426	426
Exp Item	-	-	-	-	-	-	-	-
Tax	71	89	75	61	76	118	100	107
Reported PAT	143	173	165	144	152	253	326	319
Adjusted PAT	143	173	165	144	152	253	326	319
Change (%)	5%	21%	-5%	-13%	5%	67%	29%	-2%
Margin(%)	11%	10%	10%	10%	9%	9%	12%	11%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	19%	19%	16%	12%	12%	17%	18%	15%
ROCE	27%	27%	22%	17%	16%	23%	20%	17%
Asset Turnover	1.16	1.38	1.30	1.00	1.01	1.34	1.11	1.06
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	12
P/E	7.88	18.62	13.18	24.90	26.27	16.87	18.29	19.23
Price / Book Value	1.47	3.55	2.07	2.99	3.05	2.75	3.32	2.97
EV/EBITDA	4.28	10.53	7.54	13.75	15.00	9.93	13.38	12.72
FCF per Share	17	14	20	14	-31	83	13	47
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	426	426
(inc)/Dec in Working Capital	(33)	(76)	(58)	(48)	(279)	260	(146)	(143)
Non Cash Op Exp	43	49	40	48	50	62	79	118
Int Paid (+)	6	6	3	4	7	9	21	35
Tax Paid	(65)	(87)	(67)	(74)	(72)	(139)	(100)	(107)
others								
CF from Op. Activities	160	148	155	132	(73)	554	260	293
(inc)/Dec in FA & CWIP	(80)	(85)	(62)	(66)	(71)	(167)	(199)	(72)
Free Cashflow	80	64	93	66	(144)	387	61	221
(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)	85	100
Int. Paid	(6)	(6)	-	-	-	-	(21)	(35)
Div Paid (inc tax)	(22)	(25)	(62)	-	(31)	(34)	(50)	(50)
others								
CF from Fin. Activities	(85)	(74)	(179)	(28)	42	(56)	13	15
Inc(Dec) in Cash	(34)	24	(34)	4	(10)	137	47	115
Add: Opening Balance	60	24	47	11	12	5	142	189
Closing Balance	26	48	12	15	2	143	189	304

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