

Industry
Bloomberg
BSE CODE

Metals
RMT IN
520111

Current pandemic act as headwind for expansion approval

RATING	BUY
CMP	993
Price Target	1180
Potential Upside	19%
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 (Crs)	5
Promoters Pledged %	0%

4QFY20 Result Update

- RATNAMANI reported revenue of Rs. 629 Cr. (vs our estimate of Rs. 612 Cr.) de-grew by 8.4% YoY on the back of drop in realization by 7% YoY of SS segment. Meanwhile, Volumes and realization of CS segment also fell by 16% YoY and 2.8% YoY respectively.
- Drop in volume of CS segment during the quarter was due to COVID impact during the last month of the quarter when the orders could not be dispatched.
- Fall in realization of both CS and SS segment in 4QFY20 is due to fall in HRC prices by 7% YoY.
- Volumes during the quarter for SS and CS is at 6643 MT (up 22.8% YoY and 6.3% QoQ) and 60663 MT (down 16% YoY as well as QoQ) respectively.
- EBITDA during the quarter is Rs. 96 Cr. with an EBITDA margin of 15.3% (up 90 bps YoY and 100 bps QoQ) largely driven by fall in raw material prices, manpower cost and other expenses.
- PAT during the quarter stood at Rs. 67 Cr. with the pat margin of 10.7%. Order book as on 1ST Jun 20 was Rs. 1380 Cr. consist of SS and CS worth Rs. 660 Cr. and Rs. 720 Cr. respectively. Domestic and exports order include Rs. 877 Cr. and Rs. 503 Cr. respectively.
- Plant commissioning (SS) was delayed due to COVID once the international travel will start and then the company will from Italy will come and do the pending approvals to start the trial run of production.

View and Valuation

Reduced volumes due to disruption in dispatching orders along with lower HRC prices led by lockdown across the country. However, EBITDA margins during the quarter was maintained as per the management guidance and they are confident to maintain the same going ahead. Management is conservative in terms of order booking looking towards the current situation; where the customers either defer in terms of payment or in terms of projects. Current pandemic act as a constrain in additional capacity for CS as well as SS division. However, we maintain our stance to BUY the stock with the target price of Rs. 1180 valuing at 18.5x EV/EBITDA FY21E.

Key Risks to our rating and target

- Fall in HRC prices may put pressure on margins.
- Delay in oil & gas and Indian refineries capex activity.

RESEARCH ANALYST

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20	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	254.0	279.9	325.7	384.7	442.1
P/B (X)	2.99	3.05	2.75	3.32	2.97
P/E (x)	24.90	26.27	16.87	18.29	19.23

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Revenue in line with estimates

4QFY20 Results Standalone

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	687	588	610	756	629	-8.4%	-16.8%	2,755	2583	-6.2%
Other Income	3	11	22	15	14	445.3%	-4.1%	41	62	50%
Total Income	689	599	632	771	643	-6.7%	-16.5%	2,796	2645	-5.4%
COGS	501	387	379	511	419	-16.2%	-17.9%	1,904	1696	-10.9%
Staff Cost	26	35	39	37	33	29.5%	-10.0%	129	145	12.2%
Other Exp.	61	62	76	100	81	31.2%	-19.5%	315	318	0.9%
Expenditure	588	485	494	648	533	-9.3%	-17.7%	2,348	2159	-8.1%
EBITDA	99	103	117	108	96	-3.1%	-11.4%	407	424	4.3%
EBITDAmargin	14.4%	17.5%	19.1%	14.3%	15.3%	5.7%	6.5%	0	0	11.2%
Depreciation	15	14	14	15	15	-2.7%	-3.8%	62	58	-6.7%
EBIT	84	89	102	93	81	-3.2%	-12.7%	344	366	6.3%
Interest	2	4	6	6	6	172.1%	-4.3%	15	21	42.2%
PBT	85	96	118	102	90	6.4%	-11.9%	371	407	9.7%
Tax	22	33	41	1	23	6.0%	1639.7%	118	99	-16.0%
PAT	63	63	76	101	67	6.6%	-33.3%	253	308	21.7%

SS PIPES	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%
Volume (MT)	5,334	3,983	5,651	5,405	5,406	4,576	5,813	6,246	6,643	22.9%
Realiz. (Rs./t)	317,210	361,331	364,442	359,721	392,796	383,471	345,814	347,198	364,825	-7.1%
Sales (Rs.cr)	169	144	206	194	212	175	201	217	242	14.0%

CS PIPES	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%
Volume (MT)	74,804	71,128	76,653	73,680	72,153	58,232	49,567	72,525	60,663	-15.9%
Realiz. (Rs./t)	52,888	64,166	68,430	70,013	68,737	68,730	78,659	74,527	66,750	-2.9%
Sales (Rs.cr)	396	456	525	516	496	400	390	541	405	-18.3%

Volumes and Realization of CS and SS

Volumes in 4QFY20 for CS and SS stood at 60663 MT and 6643 MT respectively. CS volumes reduced on the back of disruption in logistics due to lockdown in COVID-19 pandemic. However, management expects CS volumes to remain lower for 1QFY21 on YOY basis. Management is also conservative in terms of order booking looking towards the current scenario where there is delay in payment from customer as well as in project expansion. Realization in CS business fell by 2.8% YoY on account of fall in HRC prices. SS volumes grew by 22.9% YoY. SS business realization dropped by 7% 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 post COVID. Capacity expansion will get delay due to certain approvals pending from ITALY leads to lower capacity utilization in FY21.

Margin expansion led by reduced raw material prices

EBITDA margin during the quarter is 15.3% (up 90 bps YoY and 100 bps QoQ) due to reduced raw material, manpower and other expenses during the quarter. However, management is confident with the margin guidance of 16-18% in long run. Management is open for accepting orders even for line pipes currently the company is operating at its 60% capacity utilization level. However, management is conservative in terms of accepting orders.

Order book status

The Order book as on 1ST Jun 20 was Rs. 1380 Cr. consist of SS and CS worth Rs. 660 Cr. and Rs. 720 Cr. respectively. Domestic and exports order include Rs. 877 Cr. and Rs. 503 Cr. respectively. Order book due to COVID remains stuck due to delays and management is open for line pipe orders in LSAW business. L&G Canada orders are not expected to come up further while management expects L&G Mozambique orders to lined up going ahead. IOC orders are lined up by management for line pipes which are required to be fulfilled in the month of July. IOC has opened up their tenders for line pipes.

Concall highlights

- Order book as on 1ST Jun 20 was Rs. 1380 Cr. consist of SS and CS worth Rs. 660 Cr. and Rs. 720 Cr. respectively. Domestic and exports order include Rs. 877 Cr. and Rs. 503 Cr. respectively.
- Volumes during the quarter for SS and CS is at 6643 MT and 60663 MT respectively.
- Starting 20 days of 1QFY21 was remain closed due to lockdown and then gradually the plant at all the three locations started production with the minimum workforce with two shifts of 12 hours.
- Management is currently working with 60% of the workforce in all the three units remaining went to their native places and didn't came so far. Management is expecting in the next 2 months they will be back.
- Due to no production activity during lockdown, critical maintenance of machinery took place in 1QFY21.
- Currently, the plants are working at 60% capacity utilization.
- Management expects some slowdown in order booking based on the current working size went down of the business and some of the projects are on hold especially for refinery activity.
- Petrochemical, city gas distribution, power etc. in this last two months management has booked around Rs. 200 Cr. of orders from international as well as local market.
- Delay in tenders and order due to COVID are expected to be started back from 2QFY21.
- Plant commissioning (SS) was delayed due to COVID once the international travel will start and then the company will from Italy will come and do the pending approvals to start the trial run of production.
- Order book due to COVID remains stuck due to delays and management is open for line pipe orders in LSAW business.
- L&G Canada orders are not expected to come up further while management expects L&G Mozambique orders to lined up going ahead.
- Management is a bit conservative in booking the order keeping in mind if it's stuck in terms of payment/extension or delivery.
- IOC orders are lined up by management for line pipes which are required to be fulfilled in the month of July. IOC has opened up their tenders for line pipes.
- Other current liabilities consist of advances from customers, capital payments pending (plant already commissioned).

Exhibit: SS Volume and Realization Trend

Volume growth by 22% YoY in 4QFY20..

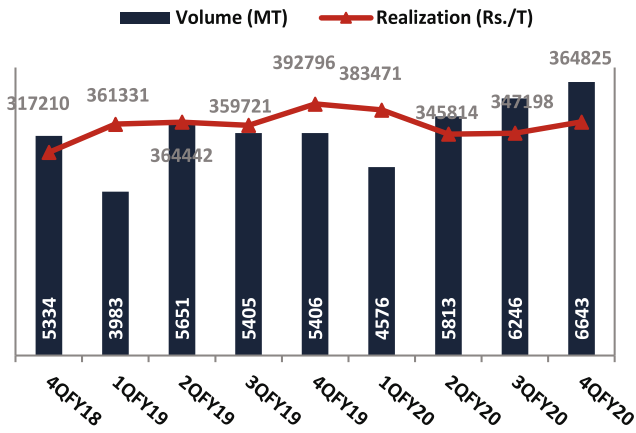


Exhibit: CS Volume and Realization Trend

Reduced volumes due to disruption in supply chain management..

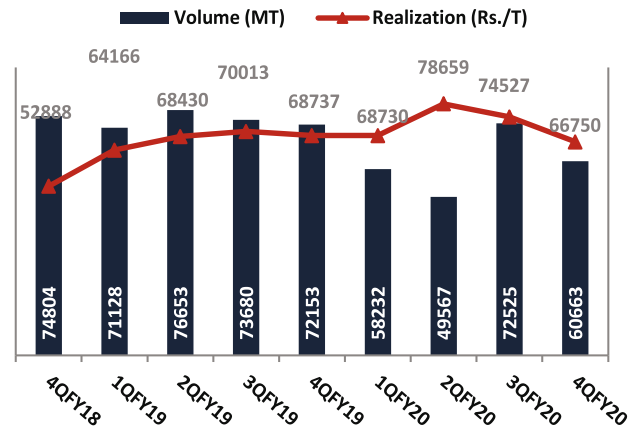


Exhibit: Net sales and sales growth Trend

Sales de-grew by 8.3% YoY largely on account of lower realization and reduced volume in CS segment

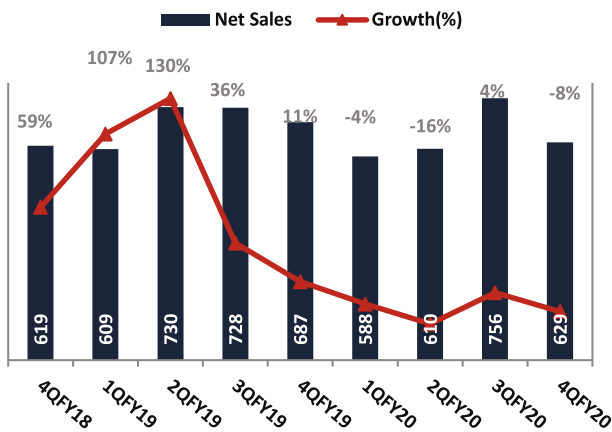


Exhibit: EBITDA and EBITDA Margin Trend

Margins expansion based on reduced raw material prices, manpower and other expenses..

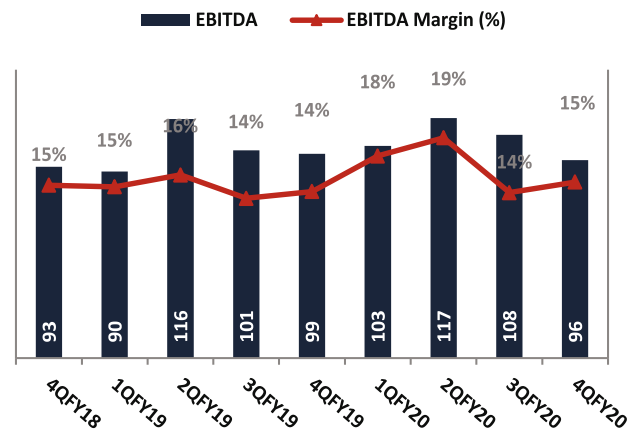


Exhibit: PAT and PAT Margin Trend

PAT margin contraction due to lower higher finance cost..

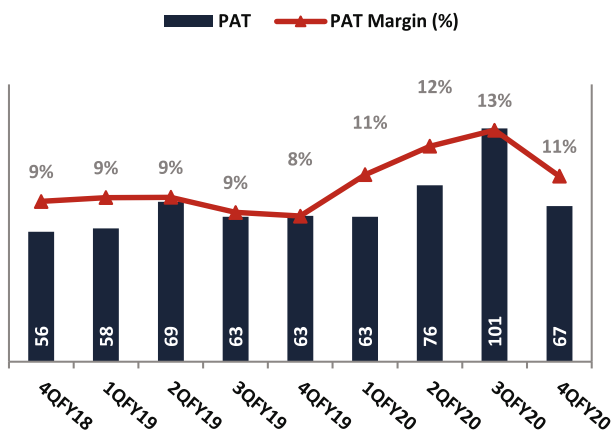
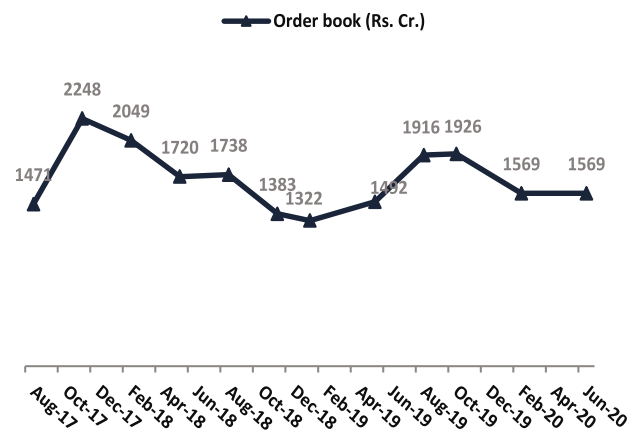


Exhibit: Order Book Trend

Order book remains subdued due to COVID impact..



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Share Capital	9	9	9	9	9	9	9	9
Reserves	757	899	1,036	1,178	1,299	1,513	1699	1825
Networth	767	908	1,045	1,187	1,308	1,522	1708	1834
Debt	73	30	14	-	79	65	220	250
Other Non Cur Liab	47	48	48	48	43	43	41	41
Total Capital Employed	783	917	1,045	1,187	1,308	1,522	1884	2084
Net Fixed Assets (incl CWIP)	455	467	494	486	492	619	871	649
Non Cur Investments	0	0	0	0	0	0	0	0
Other Non Cur Asst	-	-	4	12	13	15	31	31
Non Curr Assets	463	492	502	502	507	635	904	682
Inventory	252	343	295	339	574	590	859	855
Debtors	278	223	390	425	558	462	370	598
Cash & Bank	43	76	12	15	5	142	173	329
Other Curr Assets	2	4	62	55	99	14	71	71
Curr Assets	685	734	817	910	1,240	1,417	1640	2014
Creditors	153	128	123	117	193	292	264	263
Provisons (both)	35	42	3	6	4	5	6	5
Other Curr Liab	74	69	43	40	99	89	210	209
Curr Liabilities	261	239	211	178	317	422	574	570
Net Curr Assets	423	495	606	733	923	996	1066	1444
Total Assets	1,148	1,226	1,319	1,413	1,746	2,052	2544	2696

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Revenue from Operation	1,326	1,688	1,718	1,412	1,767	2,755	2,583	2,570
Change (%)	10%	27%	2%	-18%	25%	56%	-6%	-1%
Other Income	14	26	17	14	32	41	62	63
EBITDA	257	300	286	257	266	407	424	294
Change (%)	8%	17%	-5%	-10%	3%	53%	4%	-31%
Margin (%)	19%	18%	17%	18%	15%	15%	16%	11%
Depr & Amor.	46	54	57	60	61	62	58	83
EBIT	211	246	229	197	205	344	366	212
Int. & other fin. Cost	10	9	6	6	10	15	21	39
EBT	214	262	240	205	228	371	407	236
Exp Item	-	-	-	-	-	-	0	0
Tax	71	89	75	61	76	118	99	59
Reported PAT	143	173	165	144	152	253	308	176
Adjusted PAT	143	173	165	144	152	253	308	176
Change (%)	5%	21%	-5%	-13%	5%	67%	22%	-43%
Margin(%)	11%	10%	10%	10%	9%	9%	12%	7%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
ROE	19%	19%	16%	12%	12%	17%	18%	10%
ROCE	27%	27%	22%	17%	16%	23%	19%	10%
Asset Turnover	1.16	1.38	1.30	1.00	1.01	1.34	1.02	0.95
Debtor Days	77	48	83	110	115	61	52	85
Inv Days	69	74	63	88	119	78	121	121
Payable Days	42	28	26	30	40	39	37	37
Int Coverage	21	28	40	34	23	25	19	6
P/E	7.88	18.62	13.18	24.90	26.27	16.87	13.71	26.33
Price / Book Value	1.47	3.55	2.07	2.99	3.05	2.75	2.47	2.53
EV/EBITDA	4.28	10.53	7.54	13.75	15.00	9.93	9.96	15.51
FCF per Share	17	14	20	14	-31	83	46	45
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	FY20	FY21E
PBT	214	262	240	205	228	371	406	236
(inc)/Dec in Working Capital	-33	-76	-58	-48	-279	260	0	-227
Non Cash Op Exp	43	49	40	48	50	62	0	122
Int Paid (+)	6	6	3	4	7	9	0	39
Tax Paid	-65	-87	-67	-74	-72	-139	-106	-59
others								
CF from Op. Activities	160	148	155	132	-73	554	215	70
(inc)/Dec in FA & CWIP	-80	-85	-62	-66	-71	-167	0	139
Free Cashflow	80	64	93	66	-144	387	215	210
(Pur)/Sale of Inv	-25	34	0	-50	75	-203	0	5
others								
CF from Inv. Activities	-109	-51	-10	-100	21	-360	-357	144
inc/(dec) in NW	2	0	0	0	0	0	0	0
inc/(dec) in Debt	-59	-43	-114	-23	79	-13	0	30
Int. Paid	-6	-6	0	0	0	0	0	-39
Div Paid (inc tax)	-22	-25	-62	0	-31	-34	0	-50
others								
CF from Fin. Activities	-85	-74	-179	-28	42	-56	47	12
Inc(Dec) in Cash	-34	24	-34	4	-10	137	-95	226
Add: Opening Balance	60	24	47	11	12	5	143	173
Closing Balance	26	48	12	15	2	143	48	400

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