

Stock Update

Healthy order book provides growth visibility - Maintain Buy

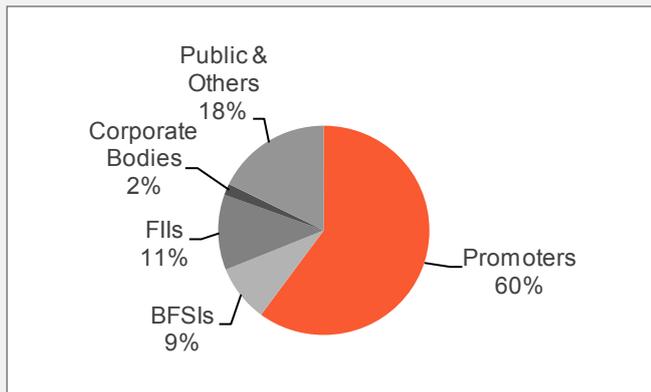
Ratnamani Metals and Tubes

Reco: Buy | CMP: Rs946

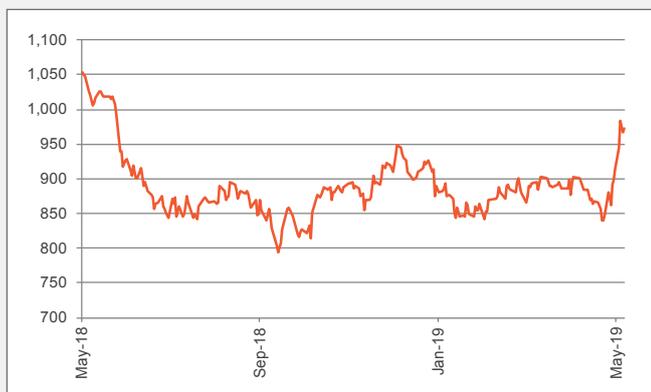
Company details

Price target:	Rs1,150
Market cap:	Rs4,421
52-week high/low:	Rs1,065/736
NSE volume: (No of shares)	11,456
BSE code:	520111
NSE code:	RATNAMANI
Sharekhan code:	RATNAMANI
Free float: (No of shares)	1.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.0	13.1	8.6	-7.5
Relative to Sensex	6.7	1.7	-1.7	-19.9

Key points

- Q4 results, slightly below expectation:** Ratnamani Metals & Tubes Limited (RMTL) reported revenue growth of 10.9% y-o-y to Rs 687 crore (below expectation, largely led by negative other operating income in Q4FY19). Revenue growth was driven largely by improved realisations as volumes growth was not supportive. Input cost pressures due to volatile commodity prices led to a gross margin contraction of 785 bps at 27.1%. However, better absorption of cost (employee cost 3.7% of sales against 5.1% [lowered directors commission] as a result of enhanced profitability and other expenses 8.9% of sales as against 14.9% in Q4FY18) contained the contraction in EBITDA margin to 55 bps at 14.4% (24 bps ahead of expectation). EBITDA grew by 6.8% to Rs 99 crores. Lower tax incidence of 25.4% as against 35.1% in Q4FY18, helped the PAT to register a growth of 12.4% y-o-y to Rs 63 crores (higher than EBITDA growth rate).
- Revenue growth driven by improved realisation, as volume not supportive during Q4FY2019:** Revenue grew by 25.4% y-o-y in the Carbon Steel (CS) segment to Rs 496 crore largely driven by improved blended realisations up by 30.0% y-o-y to Rs 68737/ tonne as volumes sold was lower by 3.5% y-o-y to 72153 MT. Also revenue grew by 25.5% y-o-y in the Stainless steel (SS) segment to Rs 212 crore led by improved blended realisation up by 23.8% y-o-y to Rs 392,796/ tonne along with slightly higher volumes sold marginally up by 1.3% y-o-y to 5,406 MT. The carbon steel remains the key revenue contributor. However, the mix further improved. Revenue mix changed to 72: 31: (3) for Carbon Steel: Stainless Steel: Other operating income as against 62: 27: 11 during Q4FY18.
- Robust demand outlook, order book remains healthy:** The outlook visibility remains strong on the back of increased bidding opportunities from the water segment (from Africa as well), city-gas distribution (gas to every village, 9th & 10th round bidding expected soon), cross-country oil-gas pipeline, refinery upgradation, fertiliser plants and nuclear power (RMTL registered with Nuclear Power Corporation of India). Also the outcome of general election 2019 is expected to further fuel the growth momentum in RMTL customer's industry verticals. The outstanding order book of the company stood at Rs 1,492 crores of which 71% is attributable to Carbon steel and 29% to Stainless steel, whereas it's 82:18 in terms of domestic and export split. The company eyes to achieve a turnover of 20%

from exports in FY2020. The demand outlook from the overseas market also looks strong in the Oil & Gas space as new projects are coming up in Middle East, Thailand, Qatar, Abu Dhabi and Dangote.

- ♦ **Expanding capacities, without stretching balance sheet:** RMTL is adding 20,000 MT capacity in the SS division and 1,20,000 MT capacity in CS which is expected to be commissioned by the end of Q3FY2020. Of the 1,20,000 capacity, 40,000 MT old capacity is being replaced; hence additional fresh capacity addition will only be 80,000MT. The expanded capacities are expected to commence commercial production during Q4FY2020. The company is expected to incur a total capex in the range of Rs 550-600 crores during FY2020 of which Rs 325 crores is towards SS expansion; Rs 180 crores is for CS expansion and the balance Rs 45-90 crores towards routine capex. Of the above capex the company has already spend Rs 180 crores till March 2019 and has further spend Rs 100 crores till June 2019. The major revenue contribution from these two plants are to accrue in FY2021E. RMTL is also converting part of its SS capacity into Titanium

Tubes, which will be fully utilised in FY2020 and will help in increasing the contribution of value added products in the overall revenues. Further, the management has highlighted that it would manufacture import substitute products from its new SS plants from FY2021E onwards, which are currently imported and this augurs well for business visibility.

- ♦ **Maintain Buy, with revised PT of Rs 1150:** The management has provided volume growth of 15-20% during FY2020 on the back of improved demand outlook along with enhanced capacity in both CS and SS which will be available for commercial production throughout Q4FY2020. The management has also provided revenue and PAT growth guidance of 10-12% each for FY2020. We introduce FY2021E estimates and expect the company to report a revenue and earnings CAGR of 11.1% and 9.4% during FY2019-21E. We remain Positive on RMTL, led by a strong balance sheet, its ability to generate superior return ratios despite capacity expansion programmes. We maintain our Buy rating on Ratnamani Metals & Tubes Limited (RMTL) with a revised PT of Rs. 1,150.

Results

Particulars	Rs cr				
	Q4FY19	Q4FY18	y-o-y (%)	Q3FY18	q-o-q (%)
Net sales	687	619	10.9	728	(5.7)
Operating expenses	588	526	11.7	628	(6.4)
EBIDTA	99	93	6.8	101	(1.7)
Other income	3	13	(80.0)	11	(76.7)
Depreciation	15	15	(2.1)	16	(4.1)
Interest	2	4	(48.4)	4	(45.3)
PBT	85	87	(2.2)	93	(8.7)
Tax	22	30	(29.2)	30	(28.4)
Net profit	63	56	12.4	63	0.7
EPS (Rs.)	13.5	12.0	12.4	13.4	0.7
Margins			bps		bps
EBITDA (%)	14.4	15.0	(55.3)	13.9	58.5
NPM (%)	9.2	9.1	12.2	8.6	58.8

Source: Sharekhan Research

Valuation

Particulars	Rs cr				
	FY2017	FY2018	FY2019	FY2020E	FY2021E
Net sales	1,476	1,767	2,755	3,048	3,400
EBIDTA Margin (%)	17.4	15.1	14.8	15.0	15.2
Net profit	145	152	253	276	303
EPS (Rs)	30.9	32.4	54.0	59.0	64.7
P/E (x)	30.6	29.2	17.5	16.0	14.6
EV/EBIDTA (x)	17.1	17.0	11.2	9.5	8.7
Price/BV (x)	3.7	3.4	2.8	2.4	2.2
RoCE (%)	17.4	15.4	21.7	22.1	22.3
RoNW (%)	13.0	12.2	17.1	17.6	17.9

Source: Sharekhan Research

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