Ratnamani Metals and Tubes (RATMET)

CMP: ₹ 1625 | Target: ₹ 1900 (17%) | Target Period: 12 months | BUY

February 4, 2021

EBITDA margin surprises positively...

Ratnamani Metals and Tubes (RMTL) reported operationally good set of Q3FY21 numbers. For the quarter, topline came in line with our estimates while EBITDA & PAT came in higher than our estimates. Healthy operational performance was on the back of better-than-expected sales volumes from the stainless steel division (higher margin segment). This aided the company to report healthy EBITDA margins for the quarter. For Q3FY21, Ratnamani reported a net income from operations of ₹ 441 crore, broadly in line with our estimate of ₹ 448 crore. Stainless sales volume was at 5015 tonnes (higher than our estimate of 4550 tonnes) while carbon steel sales volume were at 32968 tonnes (lower than our estimate of 48125 tonnes). EBITDA came in at ₹ 80 crore, higher than our estimate of ₹ 66 crore. EBITDA margin was at 18.1% (highest in the last five quarters) higher than our estimate of 14.8% (14.3% in Q3FY20, 14.2% in Q2FY21). Ensuing PAT for the quarter was at ₹ 60 crore, higher than our estimate of ₹ 41 crore.

Aggregate order book increases sequentially...

RMTL's order book as on January 1, 2021 was at ₹ 1359 crore (₹ 1178 crore as on October 1, 2020). Stainless steel (SS) order book was at ₹ 347 crore (₹ 439 crore as on October 1, 2020), while carbon steel (CS) orders were at ₹ 1012 crore (₹ 739 crore as on October 1, 2020). In terms of domestic and exports mix, domestic orders were at ₹ 1230 crore while export orders were at ₹ 129 crore. Of the ₹ 1230 crore domestic order book, ₹ 286 crore is in the SS segment while balance ₹ 944 crore is in the CS segment. Of the ₹ 129 crore export order book: ₹ 61 crore is in the SS segment while the balance ₹ 68 crore is in the CS segment. Going forward, over the medium term horizon, we expect orders from the healthcare sector (especially API segment), oil and gas sector, etc, to flow-in thereby auguring well for the for the higher margin SS segment of the company.

For FY22E, EBITDA margins expected in ~16-18% range...

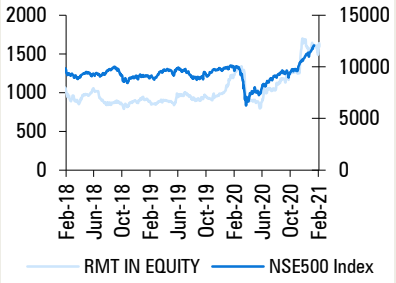
For FY22E, the management has given a topline guidance of ~₹ 3000 crore. Furthermore, for the next fiscal year, EBITDA margins (inclusive of other income) are likely to hover between 16% and 18%.

Valuation & Outlook

RMTL's Q3FY21 performance was aided by healthy EBITDA margins. Going forward for FY21E, FY22E and FY23E, we model EBITDA margin of 14.8%, 15.8% and 16.0%, respectively. We introduce FY23E estimates and roll over our valuations to FY23E. We value the stock at 24x FY23E EPS and arrive at a target price of ₹ 1900 (earlier target price of ₹ 1475). We maintain our **BUY** recommendation on the stock.

Particulars	
Market Capitalisation (₹ crore)	7,593
Total Debt (FY20) (₹ crore)	220
Cash & Cash Eq (FY20) (₹ crore)	328
EV (₹ crore)	7,485
52 week H/L (₹)	1775 /715
Equity Capital (₹ crore)	9.3
Face Value	₹ 2

Price Performance



Key risks to our call

- Any notably slowdown in demand for steel pipes (both SS as well as CS)
- Higher than expected increase in operating costs

Research Analyst

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E
Net Sales	1,767	2,755	2,583	2,228	2,706	3,122	7%
EBITDA	266	407	424	329	426	499	6%
EBITDA Margin (%)	15.1	14.8	16.4	14.8	15.8	16.0	
PAT	152	253	307	231	301	370	6%
EPS (₹)	32.5	54.1	65.8	49.4	64.5	79.2	
EV/EBITDA (x)	28.8	18.0	17.7	22.6	16.8	13.9	
RoCE (%)	17.1	24.3	22.2	16.2	19.6	21.6	
RoE (%)	11.6	16.6	18.0	12.3	14.1	15.8	

Source: Company, ICICI Direct Research

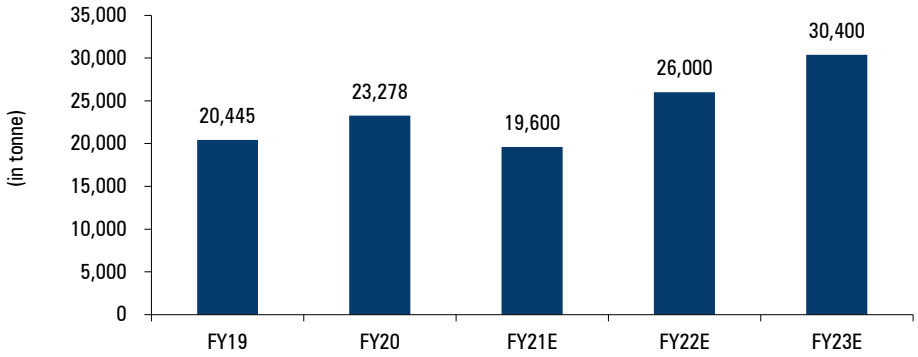
Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Operating Income	441	448	756	-42%	577	-24%	Topline came broadly in line with our estimate
Other Income	14	15	15	-9%	14	-3%	
Total Operating Expenses	361	382	648	-44%	495	-27%	
EBITDA	**80**	**66**	**108**	**-26%**	**82**	**-2%**	EBITDA came in higher than our estimate
EBITDA Margin (%)	18.1	14.8	14.3	379 bps	14.2	394 bps	EBITDA margin came in higher than our estimate
Depreciation	13	15	15	-12%	14	-7%	
Interest	6	6	6	5%	6	4%	
Exceptional Items	0	0	0	NA	0	NA	
PBT	**74**	**60**	**102**	**-28%**	**76**	**-2%**	
Tax Outgo	14	19	1	968%	19	-27%	
PAT	**60**	**41**	**101**	**-41%**	**57**	**6%**	PAT came in higher than our estimate
Key Metrics (Volume in tonne)							
Stainless Steel (SS)	5015	4550	6246	-20%	5256	-5%	Stainless steel volume came in higher than our estimate
Carbon Steel (CS)	32968	48125	72525	-55%	55989	-41%	Carbon steel volume came in lower than our estimate

Source: Company, ICICI Direct Research

Financial story in charts

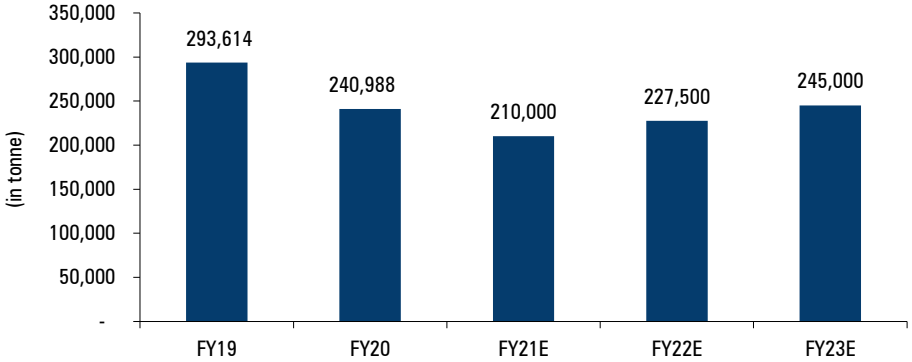
Exhibit 2: Trend in stainless steel volumes (in tonnes)



For the stainless steel segment, we model sales volume of 19600 tonnes for FY21E, 26000 tonnes for FY22E and 30400 tonnes for FY23E

Source: Company, ICICI Direct Research

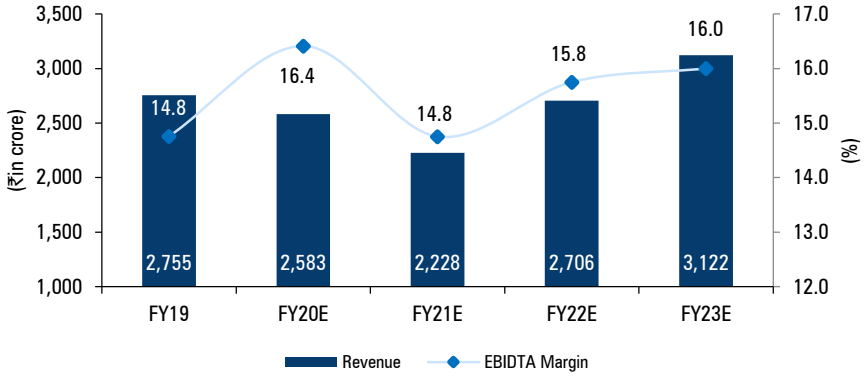
Exhibit 3: Trend in carbon steel volumes (in tonnes)



For the carbon steel segment, we model sales volume of 210000 tonnes for FY21E, 227500 tonnes for FY22E and 245000 tonnes for FY23E

Source: Company, ICICI Direct Research

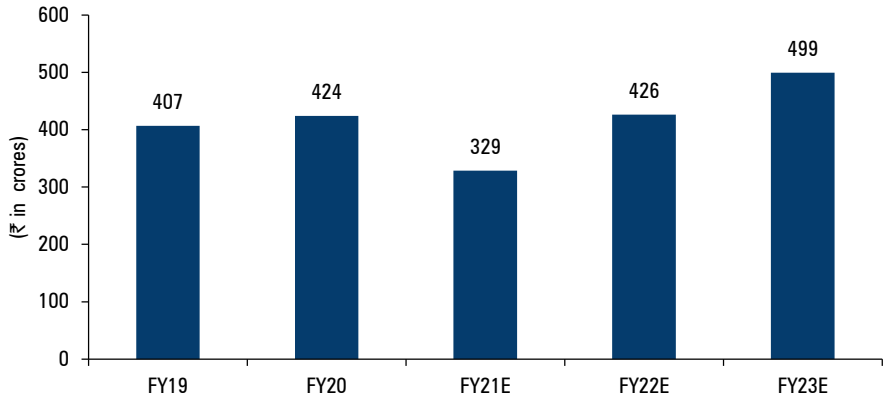
Exhibit 4: Trend in revenue & EBITDA margin (in %)



We model EBITDA margin of 14.8% for FY21E, 15.8% for FY22E and 16% for FY23E.

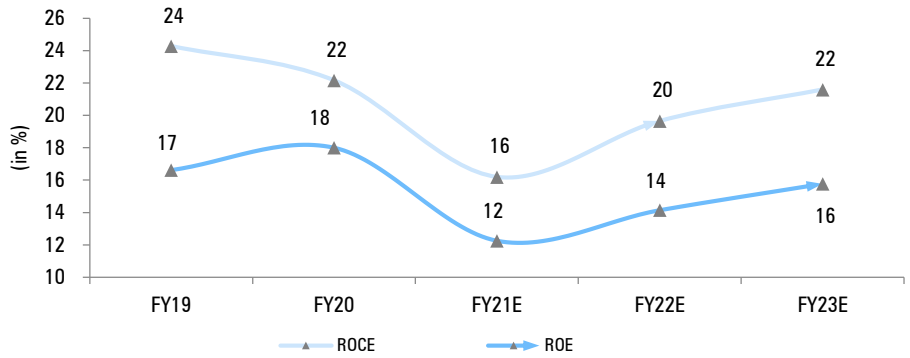
Source: Company, ICICI Direct Research

Exhibit 5: Trend in EBITDA (in crore)



Source: Company, ICICI Direct Research

Exhibit 6: Trend in RoE & RoCE (in %)



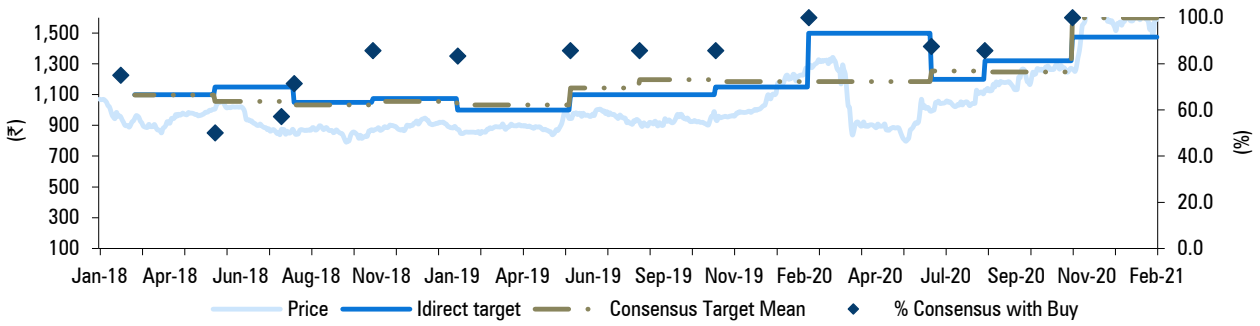
Source: Company, ICICI Direct Research

Exhibit 7: Valuation Matrix

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	P/BV (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	1,767	25	32	5	50	6	29	12	17
FY19	2,755	56	54	67	30	5	18	17	24
FY20	2,583	(6)	66	22	25	4	18	18	22
FY21E	2,228	(14)	49	(25)	33	4	23	12	16
FY22E	2,706	21	64	30	25	4	17	14	20
FY23E	3,122	15	79	23	21	3	14	16	22

Source: ICICI Direct Research, Company

Exhibit 8: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 9: Top 10 Shareholders

Rank	Name	Latest Filing	% O/S	Position (m)	Change (m)
1	Sanghvi Prakash Mish	30-09-2020	15.5	7.2	0.0
2	Sanghvi Jayanti M	30-09-2020	9.4	4.4	0.0
3	NALANDA INDIA FUND L	30-09-2020	6.1	2.9	0.0
4	L&T INVESTMENT MANAG	30-09-2020	5.6	2.6	0.0
5	L&T MUTUAL FUND	31-12-2020	5.5	2.6	0.0
6	SANGHVI SHANTILAL M	30-09-2020	4.9	2.3	0.0
7	KOTAK MAHINDRA ASSET	31-12-2020	3.7	1.7	0.0
8	SANGHVI CHUNILAL M	30-09-2020	3.6	1.7	0.0
9	SANGHVI RESHMIDEVI P	30-09-2020	3.4	1.6	0.0
10	SANGHVI CHUNILAL FOJ	30-09-2020	3.3	1.5	0.0

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Jun-20	Sep-20	Dec-20
Promoter	60.2	60.2	60.2
Others	39.8	39.8	39.8
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Operating Income	**2,583**	**2,228**	**2,706**	**3,122**
Growth (%)	-6%	-14%	21%	15%
Total Operating Expenditure	2,159	1,900	2,280	2,622
EBITDA	**424**	**329**	**426**	**499**
Growth (%)	4%	-22%	30%	17%
Interest & Finance Cost	21	22	18	14
Depreciation	59	58	70	72
Other Income	62	60	64	81
PBT before Exceptional Items	406	309	403	494
Less: Exceptional Items	0	0	0	0
PBT	406	309	403	494
Total Tax	99	78	101	124
PAT	**307**	**231**	**301**	**370**
Growth (%)	22%	-25%	30%	23%
EPS	**65.8**	**49.4**	**64.5**	**79.2**

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	**307**	**231**	**301**	**370**
Add: Depreciation & Amortization	59	58	70	72
Net (Inc) / dec in Current Assets	-255	74	-146	-123
Net Inc / (dec) in Current Liabilitie	152	-25	151	132
CF from operating activitie	**263**	**338**	**376**	**450**
(Inc)/dec in Investments	48	-70	-75	-200
(Inc)/dec in Fixed Assets	-311	-200	-75	-75
Others	0	0	0	0
CF from investing activitie	**-263**	**-270**	**-150**	**-275**
Inc / (Dec) in Equity Capital	0	0	0	0
Inc / (Dec) in Loans	155	-60	-150	0
Dividend & Dividend Tax	-66	-56	-56	-56
Others	-57	-11	0	-98
CF from financing activitie	**32**	**-127**	**-205**	**-154**
Net Cash flow	32	-59	21	22
Opening Cash	142	173	114	135
Closing Cash	**173**	**114**	**135**	**157**

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	9	9	9	9
Reserve and Surplus	1,699	1,874	2,120	2,336
Total Shareholders funds	1,708	1,883	2,129	2,346
Total Debt	220	160	10	10
Deferred Tax Liability	31	30	30	30
Other Non Current Liabilities	11	0	0	0
Source of Funds	**1,970**	**2,073**	**2,169**	**2,386**
Gross Block - Fixed Assets	1,153	1,653	1,748	1,791
Accumulated Depreciation	653	711	781	781
Net Block	500	942	967	1,010
Capital WIP	371	71	51	11
Net Fixed Assets	871	1,014	1,019	1,022
Investments	155	225	300	500
Inventory	859	794	890	984
Cash	173	114	135	157
Debtors	370	366	408	428
Loans & Advances & Other CA	115	110	119	129
Total Current Assets	1,518	1,384	1,551	1,697
Creditors	264	183	259	299
Provisions & Other CL	310	366	441	533
Total Current Liabilities	574	549	701	833
Net Current Assets	943	835	851	864
Other Assets	0	0	0	0
Application of Funds	**1,970**	**2,073**	**2,169**	**2,386**

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	65.8	49.4	64.5	79.2
Cash EPS	78.3	61.8	79.4	94.5
BV	365.6	403.1	455.6	502.0
DPS	12.0	12.0	12.0	12.0
Cash Per Share	139.7	152.1	167.0	167.0
Operating Ratios (%)				
EBITDA margins	16.4	14.8	15.8	16.0
PBT margins	15.7	13.8	14.9	15.8
Net Profit margins	11.9	10.4	11.1	11.9
Inventory days	121	130	120	115
Debtor days	52	60	55	50
Creditor days	37	30	35	35
Return Ratios (%)				
RoE	18.0	12.3	14.1	15.8
RoCE	22.2	16.2	19.6	21.6
RoIC	25.6	14.3	18.0	19.3
Valuation Ratios (x)				
P/E	24.7	32.9	25.2	20.5
EV / EBITDA	17.7	22.6	16.8	13.9
EV / Revenues	2.9	3.3	2.6	2.2
Market Cap / Revenues	2.9	3.4	2.8	2.4
Price to Book Value	4.4	4.0	3.6	3.2
Solvency Ratios				
Debt / Equity	0.1	0.1	0.0	0.0
Debt/EBITDA	0.5	0.5	0.0	0.0
Current Ratio	2.3	2.3	2.0	1.8
Quick Ratio	0.8	0.9	0.8	0.7

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (Metals and Mining)

	CMP	TP		M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Coal India	142	130	Hold	88269	27.1	22.2	22.9	5.2	6.4	6.2	3.0	4.6	4.7	55.5	40.2	40.1	51.9	39.0	36.9
Hindalco	265	240	Buy	59500	18.2	25.3	34.4	14.3	10.3	7.6	6.9	7.0	5.8	7.8	7.7	9.2	6.9	9.0	10.9
Hind Zinc	295	290	Hold	124794	16.1	18.7	23.6	15.2	12.0	10.4	9.2	7.0	5.8	27.3	30.4	30.1	25.1	27.5	26.9
JSW Steel	400	400	Hold	96736	19.5	29.9	37.3	19.4	12.7	10.2	12.5	8.2	6.7	7.2	11.9	13.7	12.9	16.6	17.2
NMDC	113	100	Hold	34722	11.8	11.6	9.0	10.6	10.7	13.8	4.5	5.0	5.5	20.3	14.3	9.9	13.1	11.3	8.3
Ratnamani	1625	1900	Buy	7638	65.8	49.4	64.5	24.7	32.9	25.2	17.7	22.6	16.8	22.2	16.2	19.6	18.0	12.3	14.1
Graphite Ind.	336	185	Hold	6565	2.0	-1.0	18.0	78.0	NA	10.5	NA	NA	3.6	-2.6	-5.7	4.4	1.0	-0.4	7.3
Tata Steel	659	625	Buy	75514	41.4	18.4	58.1	16.7	37.6	11.9	10.7	9.8	6.3	4.8	5.0	8.7	6.4	2.8	7.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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