

May 12, 2023

Healthy show; EBITDA margin surprises positively...

About the stock: Ratnamani Metals & Tubes (RMTL) is a niche player with superior capabilities in the domestic industrial pipes and tube segment. RMTL manufactures a wide range of stainless steel and carbon steel pipes & tubes, which find application in key end user industries like oil & gas refineries, power, healthcare, etc.

- RMTL has an impeccable capital allocation strategy and best in class operating margins and return ratios
- RMTL has healthy cash flows and a strong balance sheet. It is one of the few players in the steel pipe sector having net cash position on its balance-sheet

Q4FY23 Results: RMTL reported a healthy Q4FY23 performance aided by healthy growth in sales volumes and robust EBITDA margins.

- For Q4FY23, RMTL reported total sales volume of 106260 tonnes, up 57% YoY and 60% QoQ, significantly higher than our estimate of 71500 tonnes. Revenue from operations (standalone) for the quarter was at ₹ 1436 crore, up 47% YoY, 36% QoQ, notably higher than our estimate of ₹ 1126 crore
- Standalone EBITDA for the quarter was at ₹ 292 crore, up 73% YoY, 50% QoQ (our estimate of ₹ 179 crore). Standalone EBITDA margin for the quarter was at 20.3%, up 300 bps YoY, 190 bps QoQ, higher than our estimate of 15.9%
- Ensuing standalone PAT for the quarter was at ₹ 196 crore, up 75% YoY, 48% QoQ (our estimate of ₹ 121 crore)

What should investors do? RMTL's share price has given a return of ~63% over the last one year (from ~₹ 1460 in May 2022 to ~₹ 2375 levels in May 2023).

- We maintain **BUY** rating on the stock

Target Price and Valuation: We value RMTL at ₹ 2750, 28x FY25E EPS.

Key triggers for future price performance:

- RMTL's order book as on May 1, 2023 was at ₹ 2440 crore, wherein in terms of segment wise break-up stainless steel (SS) order book was at ₹ 737 crore, while carbon steel (CS) orders book was at ₹ 1703 crore
- For the standalone entity, topline guidance for FY24E is ~₹ 5000 crore, with EBITDA margin guidance in the range of ~16-18%.
- Over FY23-25E, we expect the topline to grow at a CAGR of 13% while EBITDA, PAT are expected to register CAGR of 14%, 16%, respectively

Alternate Stock Idea: In our metal sector coverage, we also like Jindal Stainless.

- Jindal Stainless (JSL) operates an integrated stainless-steel plant at Jajpur, Odisha
- BUY with a target price of ₹ 300



Particulars

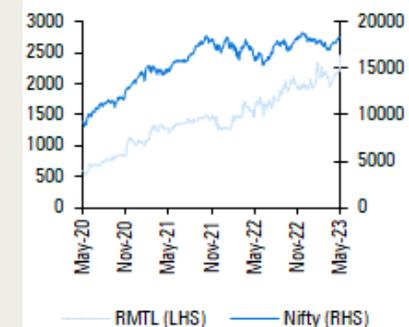
Particulars

Market Capitalisation (₹ crore)	16,820
Total Debt (FY23) (₹ crore)	150
Cash & Cash Eq (FY23) (₹ crore)	169
EV (₹ crore)	16,802
52 week H/L (₹)	2511 /1434
Equity Capital (₹ crore)	14.0
Face Value (₹)	₹ 2

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	60.2	60.1	60.1	60.1
FIs	12.3	12.5	12.5	12.8
DIs	16.4	16.3	16.3	16.4
Public	11.2	11.1	11.1	10.8
Total	100.0	100.0	100.0	100.0

Price Chart



Key Risks

- Any notable slowdown in demand for steel pipes (both stainless steel and carbon steel)
- Higher-than-expected increase in operating costs

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Key Financial Summary (Standalone)

(Year-end March)	FY20	FY21	FY22	FY23	CAGR (18-23) in %	FY24E	FY25E	CAGR (23-25E) in %
Total Operating Income (₹ crore)	2,583	2,298	3,139	4,370	20	4,954	5,619	13
EBITDA (₹ crore)	424	400	495	762	23	855	983	14
EBITDA Margin	16.4%	17.4%	15.8%	17.4%		17.3%	17.5%	
Net Profit (₹ crore)	307	276	322	514	28	591	688	16
EPS (₹)	65.8	39.4	46.0	73.4		84.3	98.2	
P/E (x)	36.5	40.6	34.8	32.7		28.5	24.4	
RoCE (%)	19.0	15.7	17.3	24.1		22.8	22.1	
RoE (%)	18.0	13.9	14.3	19.0		18.4	18.1	

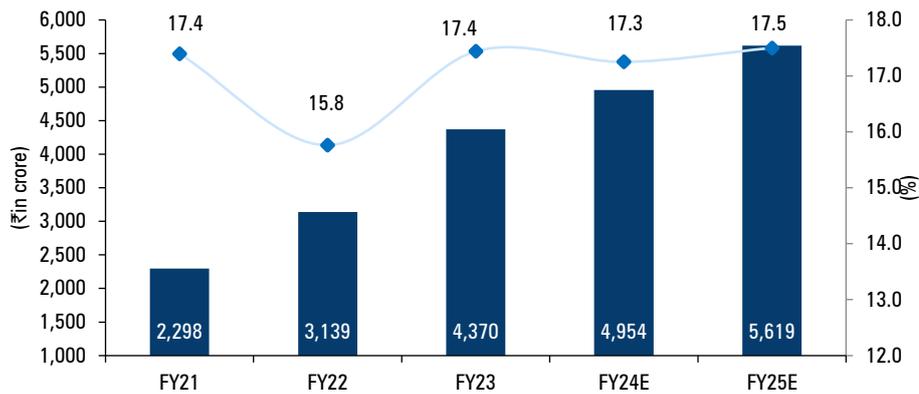
Exhibit 1: Variance Analysis (Standalone)

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total Operating Income	1436	1126	974	47%	1057	36%	Standalone topline came in notably higher than our estimate
Other Income	6	8	10	-39%	6	-5%	
Raw Material Expense	931	732	646	44%	685	36%	
Employee Expense	52	55	39	33%	51	2%	
Other Expenses	162	160	120	35%	126	28%	
Total Operating Expenses	1144	947	805	42%	863	33%	
EBITDA	292	179	169	73%	195	50%	Standalone EBITDA came in significantly higher than our estimate
EBITDA Margin (%)	20.3	15.9	17.3	300 Bps	18.4	190 Bps	Standalone EBITDA margin came in notably higher than our estimate
Depreciation	20	20	23	-15%	19	5%	
Finance cost	7	6	6	15%	6	21%	
Exceptional Items	0	0	0	NA	0	NA	
PBT	271	161	149	81%	176	54%	
Tax Outgo	75	40	37	102%	44	71%	
PAT	196	121	112	75%	132	48%	Standalone PAT came in significantly higher than our estimate
Key Metrics (Volume in tonne)							
Total Sales volumes (Carbon Steel +Stainless Steel)	106260	71500	67791	57%	66314	60%	Total sales volumes came in notably higher than our estimate

Source: Company, ICICI Direct Research

Financial story in charts

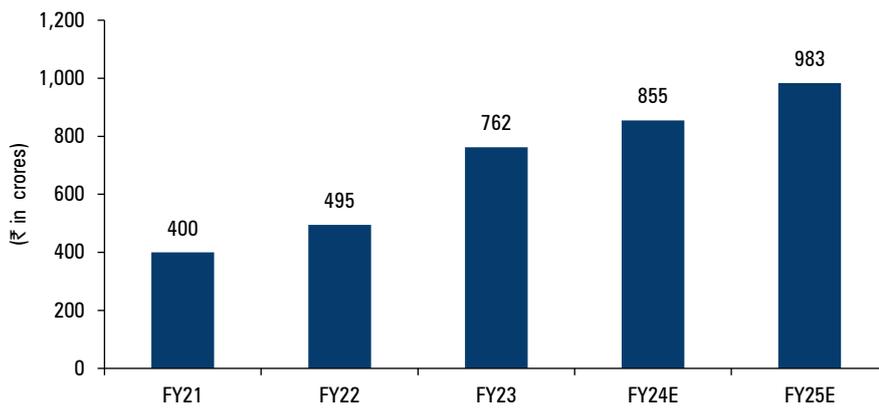
Exhibit 2: Trend in standalone revenue (in ₹ crore) & EBITDA margin (in %)



Source: Company, ICICI Direct Research

We expect standalone topline to grow at a CAGR of 13% during FY23-FY25E. For RMTL, we model EBITDA margin of 17.3% for FY24E and 17.5% for FY25E

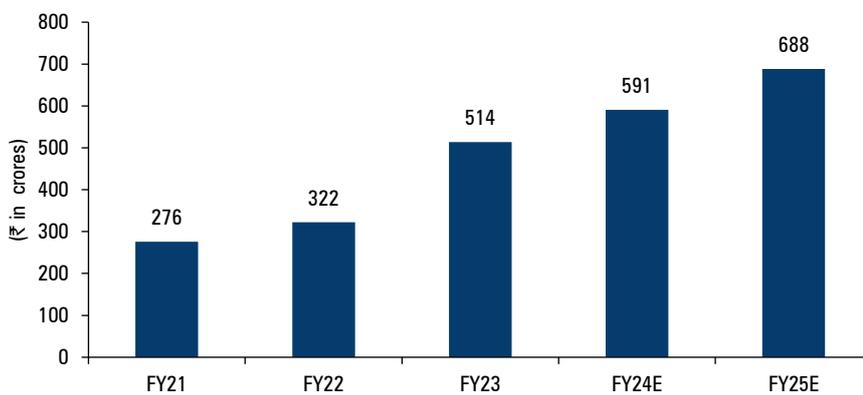
Exhibit 3: Trend in standalone EBITDA (in ₹ crore)



Source: Company, ICICI Direct Research

We expect standalone EBITDA to grow at a CAGR of 14% during FY23-25E

Exhibit 4: Trend in Standalone PAT (in ₹ crore)



Source: Company, ICICI Direct Research

We expect standalone PAT to grow at a CAGR of 16% during FY23-25E

Exhibit 5: Valuation Matrix (Standalone)

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	P/BV (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY22	3,139	37	46	17	52	7.5	22.7	14.3	17.3
FY23E	4,370	39	73	59	33	6.2	21.9	19.0	24.1
FY24E	4,954	13	84	15	28	5.2	19.3	18.4	22.8
FY25E	5,619	13	98	16	24	4.4	16.5	18.1	22.1

Source: ICICI Direct Research, Company

Financial Summary (Standalone)

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Total Operating Income	3,139	4,370	4,954	5,619
Growth (%)	37%	39%	13%	13%
Raw Material Expenses	2,104	2,891	3,282	3,708
Employee Expenses	158	194	223	253
Other Mfg. Expenses	382	523	595	674
Total Operating Expenditure	2,644	3,608	4,100	4,635
EBITDA	495	762	855	983
Growth (%)	24%	54%	12%	15%
Interest & Finance Cost	21	23	19	17
Depreciation	80	76	91	109
Other Income	38	31	45	63
PBT before Exceptional Items	431	694	790	920
Less: Exceptional Items	0	0	0	0
PBT	431	694	790	920
Total Tax	108	180	199	231
PAT	322	514	591	688
Growth (%)	17%	59%	15%	16%
EPS	46.0	73.4	84.3	98.2

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit/(Loss) after taxation	322	514	591	688
Add: Depreciation & Amortization	80	76	91	109
Net (Inc) / dec in Current Assets	-845	-436	-273	-318
Net Inc / (dec) in Current Liabilities	138	132	18	52
CF from operating activities	-305	287	427	532
(Inc)/dec in Investments	528	-135	-150	-250
(Inc)/dec in Fixed Assets	-120	-123	-175	-175
Others	0	0	0	0
CF from investing activities	408	-258	-325	-425
Inc / (Dec) in Equity Capital	0	5	0	0
Inc / (Dec) in Loans	-48	2	0	0
Dividend & Dividend Tax	-65	-84	-84	-84
Others	-1	39	8	11
CF from financing activities	-114	-38	-76	-73
Net Cash flow	-11	-9	26	34
Opening Cash	54	42	33	59
Closing Cash	42	33	59	93

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Liabilities				
Equity Capital	9	14	14	14
Reserve and Surplus	2,238	2,685	3,192	3,796
Total Shareholders funds	2,247	2,699	3,206	3,810
Total Debt	148	150	150	150
Deferred Tax Liability	42	50	50	49
Other Non Current Liabilities	10	25	33	45
Source of Funds	2,447	2,924	3,439	4,054
Assets				
Gross Block - Fixed Assets	1,665	1,807	2,007	2,207
Accumulated Depreciation	790	866	957	1,067
Net Block	875	941	1,050	1,141
Capital WIP	107	87	62	37
Net Fixed Assets	981	1,028	1,112	1,178
Investments	109	244	394	644
Inventory	1,112	1,193	1,357	1,539
Cash	42	33	59	93
Debtors	601	967	1,086	1,231
Loans & Advances & Other C/	116	105	94	85
Total Current Assets	1,871	2,298	2,597	2,949
Creditors	315	328	339	385
Provisions & Other CL	199	318	324	331
Total Current Liabilities	514	646	664	716
Net Current Assets	1,357	1,652	1,933	2,233
Other Assets	0	0	0	0
Application of Funds	2,447	2,924	3,439	4,054

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
EPS	46.0	73.4	84.3	98.2
Cash EPS	57.4	84.3	97.3	113.8
BV	321	385	457	544
DPS	9	12	12	12
Cash Per Share	6.1	4.8	8.5	13.3
Operating Ratios (%)				
EBITDA margins	15.8	17.4	17.3	17.5
PBT margins	13.7	15.9	15.9	16.4
Net Profit margins	10.3	11.8	11.9	12.2
Inventory days	129	100	100	100
Debtor days	70	81	80	80
Creditor days	37	27	25	25
Return Ratios (%)				
RoE	14.3	19.0	18.4	18.1
RoCE	17.3	24.1	22.8	22.1
RoIC	17.6	24.3	23.2	22.6
Valuation Ratios (x)				
P/E	34.8	32.7	28.5	24.4
EV / EBITDA	22.7	21.9	19.3	16.5
EV / Revenues	3.6	3.8	3.3	2.9
Market Cap / Revenues	3.6	3.8	3.4	3.0
Price to Book Value	7.5	6.2	5.2	4.4
Solvency Ratios				
Debt / Equity	0.1	0.1	0.0	0.0
Debt/EBITDA	0.3	0.2	0.2	0.2
Current Ratio	3.6	3.5	3.8	4.0
Quick Ratio	1.4	1.7	1.8	1.8

Source: Company, ICICI Direct Research

RTML - ESG Disclosure Score*

ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	0.4	0.4	0.4
Social	16.0	16.0	18.6
Governance	81.1	81.1	81.1
Overall ESG Score	32.6	32.6	33.4

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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