21 December 2015

Ratnamani Metals

RMT IN

SS focus: Long-term gain over near-term pain

We recently visited Ratnamani Metals and Tubes' (RMT) plant at Bhuj and Ahmedabad, and returned moderately cautious on the company. While we are long-term positive on RMT given its experienced management team and focus on the high-margin SS segment, we see near-to-medium term headwinds such as muted demand, a weakening SS order book, and a longer cash conversion cycle. We do not have a rating on the stock.

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- **Key takeaways:** Our key takeaways from the visit were (a) within the stainless steel pipes and tubes (SS) segment, tubes is highly profitable (80% of SS volumes) and (b) the proposed capacity expansion at Indrad is unlikely to translate into revenues in FY18. RMT intends to increase focus on the SS segment by incurring Rs 5bn at its Indrad unit, post which the capital deployed in the segment would increase from 40% to 60%. While this clearly indicates the company's strategy to stay ahead of competition by investing in this high-margin segment, it is consciously going slow on capital spending till it is certain about the product mix expansion.

- **SS segment reels under demand pressure:** Even as SS segment's revenue share stands at 40% (as of 2QFY16), its EBITDA contribution is estimated to be 65%. While tubes are highly profitable as there are sold in length (versus ton for other products), segment volumes declined 16% YoY in Q1FY16 and the order book shrunk to 27% in Sep'15 from 41% in Sep'14. Note that RMT generates 30-35% of its revenue from the oil & gas segment; even as long-term demand expectations from refinery modernisation (as Euro VI norms are enforced) and thermal power capacity addition persist, lower oil prices could discourage capex plans, hurting demand for SS products.

- **Internal cash flows to support capex**: RMT operationally generates enough cash flows (Rs 1.7bn-1.8bn p.a.) to fund its expansion plans and is unlikely to raise debt or dilute equity. The Rs 5bn capex plan seems to have been revised upwards by Rs 1bn and RMT expects the entire capex to come on-stream by FY19. The potential risk to its domestic business from a minimum import price (MIP) levy is partially cushioned by its exports business (35-40% of revenues from exports/deemed exports).

- **Long-term drivers intact:** We like RMTL for its niche presence, ability to offer various carbon/stainless steel products, the potential increase in long-term demand from three key sectors (oil & gas, power, water), and promoter focus on low gearing and FCF generation. However, at a TTM EPS of Rs 35.7, the stock is not cheap at 15.6x earnings given that earnings growth over next two years should come from product mix changes. We don't have a rating on the stock.

PRICE CLOSE (21 Dec 15)
INR 556.00

MARKET CAP
INR 25.93 bln
USD 390.8 mln

SHARES O/S
46.71 mln

FREE FLOAT
39.1%

52 WK HIGH
INR 805.45

52 WK LOW
INR 505.00

Financials

(Rs mn)	FY11	FY12	FY13	FY14	FY15
Revenue	8,137	12,217	12,011	13,530	16,756
EBITDA	1,615	2,051	2,379	2,565	2,994
Adjusted net profit	821	943	1,360	1,428	1,725
Adjusted EPS	17.7	20.3	29.3	30.6	36.9
Adjusted EPS growth (%)		14.9	44.1	4.4	20.7
DPS	2.2	2.5	3.0	4.0	5.5
ROIC (%)	14.8	15.2	20.0	18.6	20.8
Adjusted ROAE (%)	18.8	17.7	21.0	18.6	19.0
Adjusted P/E (x)	33.3	29.0	20.1	19.3	16.0
EV/EBITDA (x)	18.2	14.4	11.7	10.7	9.0
P/BV (x)	6.3	5.1	4.2	3.6	3.0

Source: RCML Research, Company

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Financials

Fig 1 - Profit and Loss Statements

Particulars	FY11	FY12	FY13	FY14	FY15	1HFY16
Net Sales	8,137	12,217	12,011	13,530	16,756	8351.8
Raw Materials consumed	5,282	7,945	7,398	8,406	10,945	5469.9
% of net sales	65	65	62	62	65	0
Employee expenses	493	568	721	789	915	503.8
Other operational expenses	748	1,654	1,513	1,769	1,902	918.3
Total expenses	6,522	10,167	9,633	10,965	13,762	6892
EBITDA	1,615	2,051	2,379	2,565	2,994	1,460
Depreciation	400	425	425	459	544	278.7
EBIT	1,215	1,626	1,954	2,106	2,450	1,181
Interest expenses	184	293	121	103	94	27.1
Other Income	97	58	183	139	251	73.3
EBT	1,127	1,392	2,015	2,142	2,607	1,227
Provision for tax	306	449	656	714	882	404.4
Net Profit	821	943	1,360	1,428	1,725	823
Net Profit Margin (%)	10.1	7.7	11.3	10.6	10.3	9.9

Source: RCML Research, Company

Fig 2 - Balance Sheets

Particulars	FY11	FY12	FY13	FY14	FY15	1HFY16
Equity share capital	93	93	93	93	93	93
Reserves & surplus	4,277	5,232	6,374	7,572	8,997	9,813
Shareholders' fund	4,370	5,325	6,467	7,665	9,090	9,907
Total debt	2,553	2,898	1,355	811	304	1,823
Deferred tax liabilities	537	357	400	467	478	467
Total Liabilities	7,460	8,579	8,222	8,943	9,872	12,196
Gross block	5,293	5,887	6,536	7,494	7,837	-
Less: acc. Dep.	1,807	2,219	2,631	3,076	3,620	-
Net block	3,486	3,668	3,905	4,418	4,218	4,687
CWIP	122	283	229	130	418	-
Goodwill	-	-	-	-	-	
Investments	70	65	291	541	200	406
Inventories	3,518	2,838	2,327	2,517	3,431	4,070
Trade Receivables	1,747	2,289	2,512	2,781	2,234	4,061
Cash equivalents	474	707	601	434	794	170
Loans & advances	533	271	405	637	930	957
Trade payables	1,979	955	1,006	1,531	1,276	1,915
Other current liabilities	357	397	728	656	695	-
Provisions	154	213	331	346	420	240
Total Assets	7,460	8,579	8,222	8,943	9,872	12,196

Source: RCML Research, Company

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