

June 27, 2022

Companies with EBITDA margins relatively protected are better placed...

Over the last couple of months, metal prices have witnessed a substantial correction due to Covid led clampdown in China. Both ferrous and non-ferrous prices have witnessed a steep decline and fallen sharply from their recent highs. In the current challenging scenario, we have a positive view on companies whose EBITDA margins are relatively protected even during this current meltdown in metal prices. In the large cap space, we remain positive on Coal India (CIL), while in the midcap space we remain positive on Ratnamani Metals and Tubes (RMTL). Global thermal coal prices have remained at an elevated level over last few months and is likely to have a positive rub-off on Coal India's e-auction realisations. Hence, on the back of strength witnessed in global thermal coal prices, we remain positive on Coal India. On account of its superior capabilities in domestic Industrial pipes and tubes segment, historically Ratnamani Metal and Tubes (RMTL) EBITDA margins have remained relatively stable even during challenging times. Furthermore, Ratnamani Metals and Tubes also has a healthy order book position, which provides healthy visibility and augurs well for the company. Hence we also remain positive on Ratnamani Metals and Tubes (RMTL).

Metal prices fall due to Covid led clampdown in China

Over the last few months, Covid, in general, has slowed down Chinese growth and as China is the largest consumer of majority of metals it has adversely impacted global metal prices. Furthermore, China's zero tolerance approach towards Covid-19, which has led to cycle of unpredictable, stop-start restrictions, thereby also impacting metal demand in the region.

Both ferrous, non-ferrous prices witness sharp drop...

Metal prices (both ferrous and non-ferrous) have witnessed a sharp decline and have fallen sharply from their recent highs. During the last one month itself, domestic HRC prices have corrected by ~15% are currently hovering at ~₹ 59500/tonne. Similarly, over the last one-month aluminium prices on the LME have witnessed a decline of ~16% and are currently hovering at ~US\$ 2466/tonne. Copper prices on the LME have also witnessed a decline of 12% during the last one month and are currently hovering at ~US\$8397/tonne. Lead prices on the LME have witnessed a decline of 11% during last one month and is currently hovering at ~US\$1946/tonne. Zinc prices on the LME witnessed a decline of 2% during the last one month and are currently hovering at ~ US\$3710/tonne.

Valuation and Outlook

On the back of headwinds faced by metals and mining sector, Nifty Metal index has underperformed broader markets and is down ~17% YTD in CY22 vs. ~10% decline in Nifty. In current challenging times, we remain positive of Ratnamani Metals and Tubes (RMTL) and Coal India (CIL). RMTL has an impressive capital allocation track record and best in class operating margins and return ratios, while Coal India's e-auction realisations are likely to benefit from the elevated global thermal coal prices. We value Ratnamani Metals and Tubes at 25x FY24E EPS and arrive at a target of ₹ 2950, maintaining our **BUY** rating on the stock. We value Coal India at 4.5x FY24E EV/EBITDA and arrive at a target of ₹ 225, maintaining our **BUY** rating on the stock. We maintain our forward numbers (FY23E and FY24E) and BUY rating for both the stocks (Coal India and Ratnamani Metals and Tubes).

Sector View: Neutral

Top Picks in Metals and Mining Space

Company	CMP (₹/share)	Target Price (₹/share)	Upside (%)	Rating
Coal India	182	225	24%	Buy
Ratnamani	2546	2950	16%	Buy

Key risks to our call – Coal India

- Lower than expected e-auction realisation and offtake
- Higher than expected increase in operating costs

Key risks to our call – Ratnamani Metals and Tubes

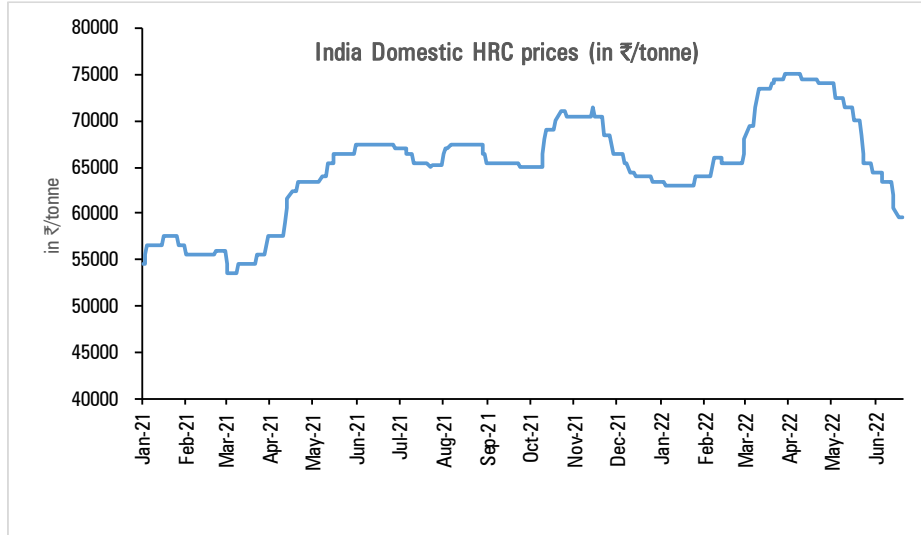
- Any notable slowdown in demand for steel pipes (both Stainless Steel and Carbon Steel)
- Higher than expected increase in operating costs

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Trend in Key Metal prices....

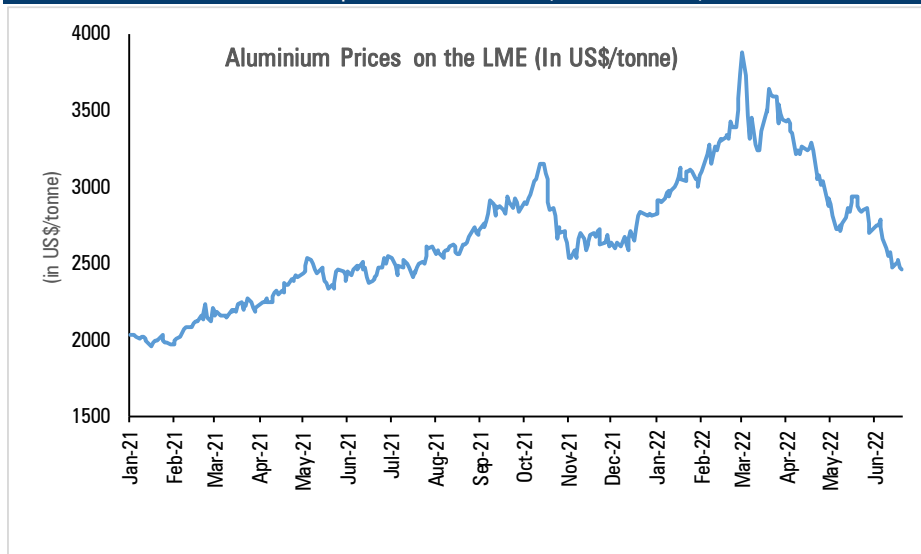
Exhibit 1: Trend in India domestic hot rolled coil (HRC) prices (in ₹/tonne)



Over the last month domestic HRC prices have witnessed a decline of 15% and are currently hovering at ~ ₹59500/tonne. The export duty levied on steel exports with effect from May 22, 2022 has also contributed to the fall in HRC prices

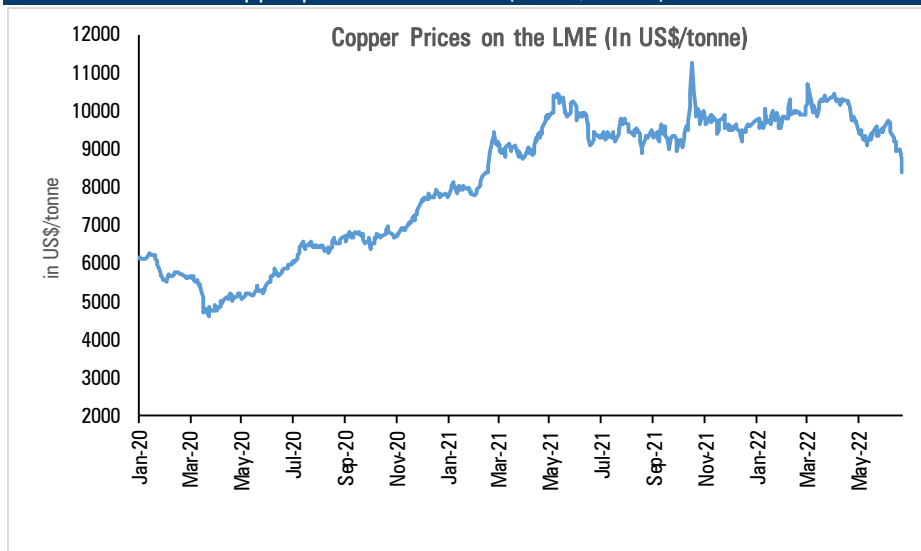
Source: Company, ICICI Direct Research

Exhibit 2: Trend in aluminium prices on the LME (in US\$/tonne)



Source: Company, ICICI Direct Research

Exhibit 3: Trend in copper prices on the LME (in US\$/tonne)



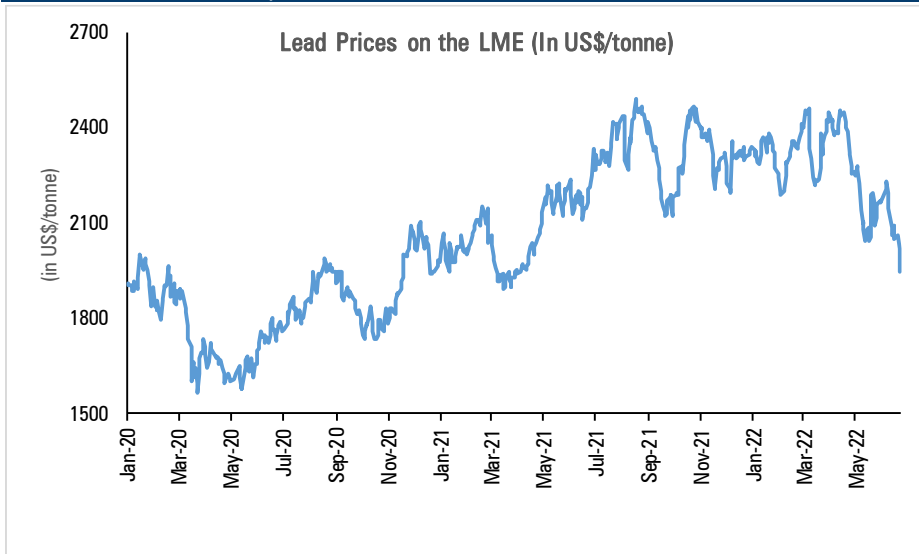
Source: Company, ICICI Direct Research

Exhibit 4: Trend in zinc prices on LME (in US\$/tonne)



Source: Company, ICICI Direct Research

Exhibit 5: Trend in lead prices on LME (in US\$/tonne)



Source: Company, ICICI Direct Research

Top bets in Metals and Mining Coverage Universe

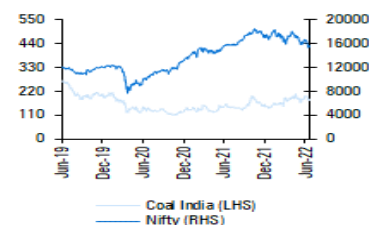
Coal India (CIL)

Coal India (CIL) is one of the largest coal producers in the world. In FY22, CIL produced 623 million tonnes (MT) while offtake for FY22 was at 662 MT. CIL has 345 mines (as on April 1, 2021) of which 151 are underground, 172 open cast and 22 mixed mines.

- Global thermal coal prices have remained at an elevated level over last few months and is likely to have a positive rub-off on Coal India's e-auction realisations. Hence, we expect Coal India's consolidated operating margins to firm up and hover ~24% level in next couple of years (22.5% in FY22)

Going forward, we expect Coal India to report offtake of 675 Million tonnes (MT) in FY23E and 700 MT in FY24E. Over FY22-24E, we expect Coal India's consolidated topline to grow at a CAGR of 3.2% while consolidated EBITDA and consolidated PAT are expected to register a CAGR of 6.3% and 5.6%, respectively. We value Coal India at 4.5x FY24E EV/EBITDA and arrive at a target of ₹ 225, maintaining our **BUY** rating on the stock.

Price Chart – Coal India



Particulars

Particular	Amount
Market Capitalization	₹ 112162 crore
Total Debt (FY22)	₹ 3310 crore
Cash and Bank Balance(FY22)	₹ 29179 crore
EV	₹ 86293 crore
52 week H/L	209 / 133
Equity capital	₹ 6162.7 crore
Face value	₹ 10

Exhibit 7: Financial summary for Coal India (CIL) – Consolidated

(₹ Crore)	FY19	FY20	FY21	FY22	CAGR in % (FY17-FY22)	FY23E	FY24E	CAGR (FY22-FY24E)
Total Operating Income	99,586	96,080	90,026	1,09,714	5.9%	1,11,031	1,16,822	3.2%
EBITDA	25,006	21,581	18,574	24,691	15.1%	26,600	27,882	6.3%
EBITDA Margin (%)	25.1	22.5	20.6	22.5		24.0	23.9	
PAT	17,464	16,700	12,702	17,378	3.8%	18,649	19,383	5.6%
EPS (₹)	28.3	27.1	20.6	28.2		30.3	31.5	
EV/EBITDA (x)	3.2	4.2	5.2	3.3		3.3	3.4	
RoCE (%)	86.3	54.6	42.3	52.0		48.2	44.7	
RoE (%)	66.0	51.9	34.8	40.3		36.8	33.6	

Source: Company, ICICI Direct Research

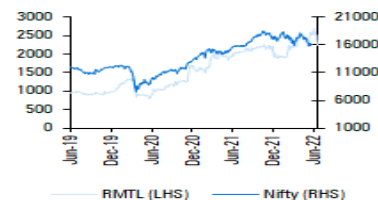
Ratnamani Metals and Tubes (RMTL)

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, healthcare, etc. RMTL has healthy cash flow and strong balance-sheet. It is one of the few players in the steel pipe sector having net cash position on its balance-sheet.

- As on May 1, 2022 RMTL had an order book position of ₹ 2223 crore (₹ 1912 crore as on February 1, 2022). As on May 1, 2022, stainless steel (SS) order book was at ₹ 650 crore (₹ 666 crore as on February 1, 2022) while carbon steel (CS) orders were at ₹ 1573 crore (₹ 1246 crore as on February 1, 2022)

We retain positive view on Ratnamani Metals and Tubes due to its steady EBITDA margin profile. We value Ratnamani Metals and Tubes at 25x FY24E EPS and arrive at a target of ₹ 2950, maintaining our **BUY** rating on the stock.

Price Chart – Ratnamani Metals



Particulars

Particulars	
Market Capitalisation (₹ crore)	11,840
Total Debt (FY22) (₹ crore)	148
Cash & Cash Eq (FY22) (₹ crore)	151
EV (₹ crore)	11,837
52 week H/L (₹)	2857 / 1855
Equity Capital (₹ crore)	9.3
Face Value	₹ 2

Exhibit 8: Financial summary for Ratnamani Metals and Tubes (RMTL)

(Year-end March)	FY19	FY20	FY21	FY22	CAGR (17-22) in %	FY23E	FY24E	CAGR (22-24E) in %
Total Operating Income (₹ crore)	2,755	2,583	2,298	3,139	17	3,717	4,411	19
EBITDA (₹ crore)	407	424	400	495	14	632	783	26
EBITDA Margin	14.8%	16.4%	17.4%	15.8%		17.0%	17.8%	
Net Profit (₹ crore)	253	307	276	322	17	428	551	31
EPS (₹)	54.1	65.8	59.0	69.0		91.6	118.0	
P/E (x)	47.0	38.7	43.1	36.9		27.8	21.6	
RoCE (%)	24.3	19.0	15.7	17.3		19.6	21.1	
RoE (%)	16.6	18.0	13.9	14.3		16.4	17.8	

Source: Company, ICICI Direct Research

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Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



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