

CMP: ₹ 2164

Target: ₹ 2500 (16%)

Target Period: 12 months

BUY

February 14, 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

**Q3FY23 Results:** RMTL reported a healthy Q3FY23 performance aided by robust EBITDA margins.

- For Q3FY23, RMTL reported total sales volume of 66314 tonnes, up 18% QoQ but down 8% YoY, broadly in line with our estimate of 67500 tonnes. Standalone revenue from operations for the quarter was at ₹ 1057 crore, up 14% YoY, 18% QoQ, higher than our estimate of ₹ 1029 crore
- Standalone EBITDA was at ₹ 195 crore, up 50% YoY, 34% QoQ, higher than our estimate of ₹ 154 crore. EBITDA margin was at 18.4%, up 440 bps YoY and 230 bps QoQ, significantly higher than our estimate of 14.9%. During the quarter, RMTL's gross margins were at 35.2% compared to 28.7% in Q3FY22 and 34.3% in Q2FY23. Gross margin expansion aided RMTL to report healthy EBITDA margins during the quarter
- Ensuing standalone PAT for the quarter was at ₹ 132 crore, up 49% YoY and 34% QoQ, higher than our estimate of ₹ 105 crore

**What should investors do?** RMTL's share price has given a return of ~54% over the last one year (from ~₹ 1407 in February 2022 to ~₹ 2164 levels in February 2023).

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

**Target Price and Valuation:** We value RMTL at ₹ 2500, 28x FY25E EPS.

### Key triggers for future price performance:

- RMTL's order book as on February 1, 2023 was at ₹ 3102 crore (₹ 3244 crore as on November 1, 2022). As on February 1, 2023, stainless steel (SS) order book was at ₹ 747 crore (₹ 765 crore as on November 1, 2022) while carbon steel (CS) orders were at ₹ 2355 crore (₹ 2479 crore as on November 1, 2022)
- Over FY22-25E, we expect the topline to grow at a CAGR of 18% while EBITDA, PAT are expected to register CAGR of 21%, 25%, 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

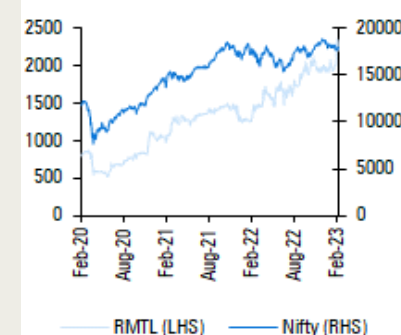
#### Particulars

Market Capitalisation (₹ crore)	15,360
Total Debt (FY22) (₹ crore)	148
Cash & Cash Eq (FY22) (₹ crore)	151
EV (₹ crore)	15,357
52 week H/L (₹)	2511 /1348
Equity Capital (₹ crore)	14.0
Face Value (₹)	₹ 2

### Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	60.2	60.2	60.1	60.1
FIs	12.1	12.3	12.5	12.5
DIs	16.3	16.4	16.3	16.3
Public	11.5	11.2	11.1	11.1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

### 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

### Research Analyst

Dewang Sanghavi  
dewang.sanghavi@icicisecurities.com

### Key Financial Summary

(Year-end March)	FY20	FY21	FY22	CAGR (17-22) in %	FY23E	FY24E	FY25E	CAGR (22-25E) in %
Total Operating Income (₹ crore)	2,583	2,298	3,139	17	3,965	4,601	5,218	18
EBITDA (₹ crore)	424	400	495	14	634	748	880	21
EBITDA Margin	16.4%	17.4%	15.8%		16.0%	16.3%	16.9%	
Net Profit (₹ crore)	307	276	322	17	427	531	626	25
EPS (₹)	65.8	39.4	46.0		61.0	75.8	89.3	
P/E (x)	32.9	36.7	31.4		35.5	28.6	24.2	
RoCE (%)	19.0	15.7	17.3		19.8	20.3	20.4	
RoE (%)	18.0	13.9	14.3		16.4	17.2	17.2	

Source: Company, ICICI Direct Research

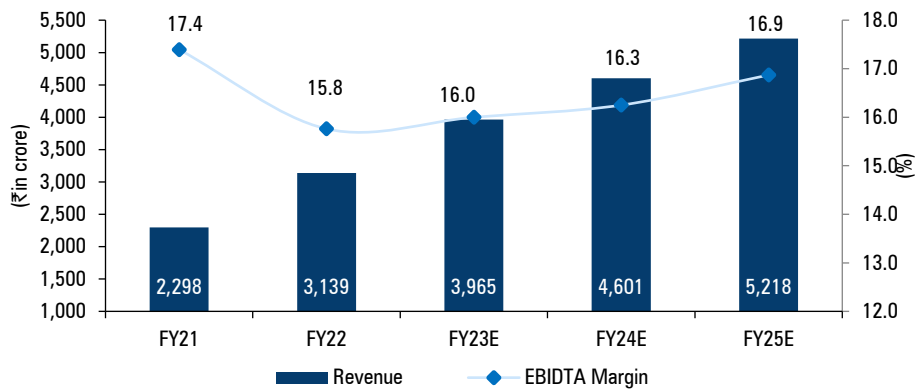
**Exhibit 1: Variance Analysis**

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Operating Income	1057	1029	927	14%	900	18%	Topline came in higher than our estimate
Other Income	6	12	11	-40%	10	-37%	
Raw Material Expense	685	682	661	4%	592	16%	
Employee Expense	51	48	42	22%	47	9%	
Other Expenses	126	145	94	34%	117	8%	
Total Operating Expenses	863	876	797	8%	755	14%	
EBITDA	195	154	130	50%	145	34%	EBITDA came in higher than our estimate
EBITDA Margin (%)	18.4	14.9	14.0	440 Bps	16.1	230 Bps	EBITDA margin came in higher than our estimate
Depreciation	19	20	19	0%	19	1%	
Finance cost	6	5	4	61%	5	29%	
Exceptional Items	0	0	0	NA	0	NA	
PBT	176	141	118	50%	132	34%	
Tax Outgo	44	35	29	52%	33	33%	
PAT	132	105	89	49%	99	34%	PAT came in higher than our estimate
<b>Key Metrics (Volume in tonne)</b>							
Total Sales volumes (Carbon Steel +Stainless Steel)	66314	67500	72002	-8%	56378	18%	Sales volume came in broadly in line with our estimate

Source: Company, ICICI Direct Research

## Financial story in charts

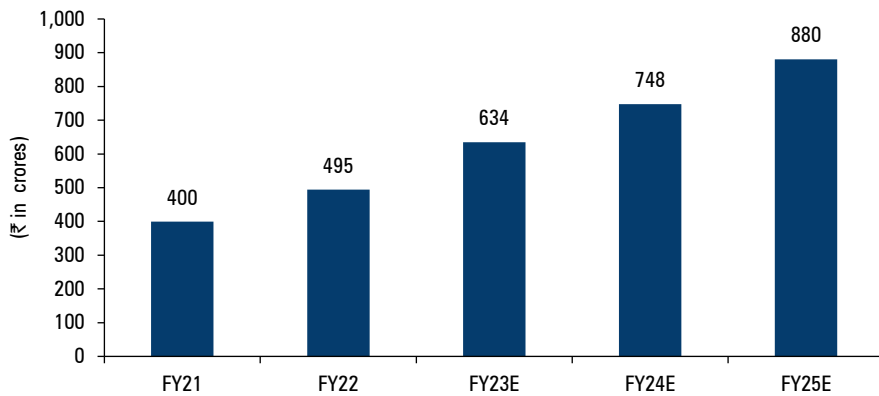
Exhibit 2: Trend in revenue (in ₹ crore) & EBITDA margin (in %)



Source: Company, ICICI Direct Research

We expect topline to grow at a CAGR of 18% during FY22-FY25E. For RMTL, we model EBITDA margin of 16% for FY23E, 16.3% for FY24E and 16.9% for FY25E

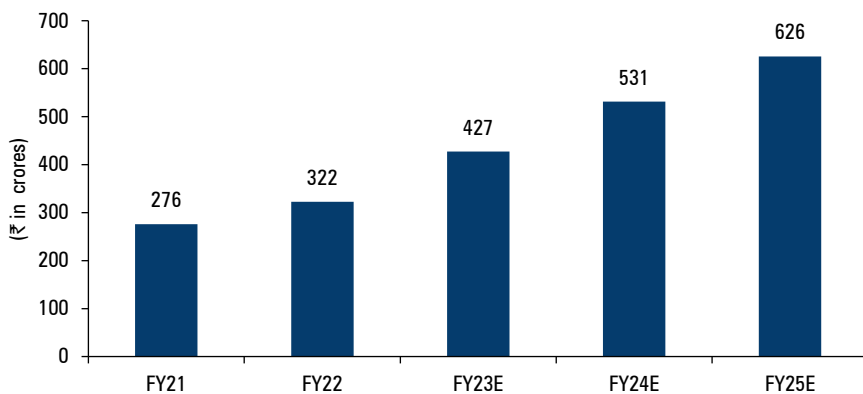
Exhibit 3: Trend in EBITDA (in ₹ crore)



Source: Company, ICICI Direct Research

We expect EBITDA to grow at a CAGR of 21% during FY22-25E

Exhibit 4: Trend in PAT (in ₹ crore)



Source: Company, ICICI Direct Research

We expect PAT to grow at a CAGR of 25% during FY22-25E

Exhibit 5: Valuation Matrix

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	P/BV (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	2,583	(6)	66	22	33	5.9	23.6	18.0	19.0
FY21	2,298	(11)	39	(40)	55	7.6	24.1	13.9	15.7
FY22	3,139	37	46	17	47	6.8	20.4	14.3	17.3
FY23E	3,965	26	61	33	35	5.8	23.7	16.4	19.8
FY24E	4,601	16	76	24	29	4.9	19.6	17.2	20.3
FY25E	5,218	13	89	18	24	4.2	16.3	17.2	20.4

Source: ICICI Direct Research, Company

## Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Total Operating Income</b>	<b>3,139</b>	<b>3,965</b>	<b>4,601</b>	<b>5,218</b>
Growth (%)	37%	26%	16%	13%
Raw Material Expenses	2,104	2,636	3,083	3,466
Employee Expenses	158	198	219	245
Other Mfg. Expenses	382	496	552	626
Total Operating Expenditure	2,644	3,330	3,853	4,337
<b>EBITDA</b>	<b>495</b>	<b>634</b>	<b>748</b>	<b>880</b>
Growth (%)	24%	28%	18%	18%
Interest & Finance Cost	21	20	14	14
Depreciation	80	88	91	109
Other Income	38	45	67	79
PBT before Exceptional Items	431	571	710	836
Less: Exceptional Items	0	0	0	0
PBT	431	571	710	836
Total Tax	108	144	179	210
<b>PAT</b>	<b>322</b>	<b>427</b>	<b>531</b>	<b>626</b>
Growth (%)	17%	33%	24%	18%
<b>EPS</b>	<b>46.0</b>	<b>61.0</b>	<b>75.8</b>	<b>89.3</b>

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Profit/(Loss) after taxation</b>	<b>322</b>	<b>427</b>	<b>531</b>	<b>626</b>
Add: Depreciation & Amortization	80	88	91	109
Net (Inc) / dec in Current Assets	-845	-285	-249	-295
Net Inc / (dec) in Current Liabilities	138	111	181	139
<b>CF from operating activities</b>	<b>-305</b>	<b>342</b>	<b>555</b>	<b>579</b>
(Inc)/dec in Investments	528	-150	-275	-275
(Inc)/dec in Fixed Assets	-120	-125	-175	-175
Others	0	0	0	0
<b>CF from investing activities</b>	<b>408</b>	<b>-275</b>	<b>-450</b>	<b>-450</b>
Inc / (Dec) in Equity Capital	0	5	0	0
Inc / (Dec) in Loans	-48	0	0	0
Dividend & Dividend Tax	-65	-65	-65	-65
Others	-1	3	5	6
<b>CF from financing activities</b>	<b>-114</b>	<b>-57</b>	<b>-61</b>	<b>-59</b>
Net Cash flow	-11	10	44	70
Opening Cash	54	42	52	96
<b>Closing Cash</b>	<b>42</b>	<b>52</b>	<b>96</b>	<b>165</b>

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	9	14	14	14
Reserve and Surplus	2,238	2,600	3,065	3,626
Total Shareholders funds	2,247	2,614	3,079	3,640
Total Debt	148	148	148	148
Deferred Tax Liability	42	42	42	41
Other Non Current Liabilities	10	14	19	25
<b>Source of Funds</b>	<b>2,447</b>	<b>2,817</b>	<b>3,288</b>	<b>3,854</b>
Gross Block - Fixed Assets	1,665	1,765	1,965	2,165
Accumulated Depreciation	790	878	969	1,078
Net Block	875	886	995	1,086
Capital WIP	107	132	107	82
Net Fixed Assets	981	1,018	1,102	1,168
Investments	109	259	534	809
Inventory	1,112	1,303	1,513	1,715
Cash	42	52	96	165
Debtors	601	706	756	858
Loans & Advances & Other C/	116	104	94	85
Total Current Assets	1,871	2,166	2,459	2,823
Creditors	315	380	504	572
Provisions & Other CL	199	245	302	373
Total Current Liabilities	514	625	807	945
Net Current Assets	1,357	1,541	1,652	1,878
Other Assets	0	0	0	0
<b>Application of Funds</b>	<b>2,447</b>	<b>2,817</b>	<b>3,288</b>	<b>3,854</b>

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	46.0	61.0	75.8	89.3
Cash EPS	57.4	73.6	88.8	104.9
BV	321	373	439	519
DPS	9	9	9	9
Cash Per Share	6.1	7.4	13.7	23.6
<b>Operating Ratios (%)</b>				
EBITDA margins	15.8	16.0	16.3	16.9
PBT margins	13.7	14.4	15.4	16.0
Net Profit margins	10.3	10.8	11.5	12.0
Inventory days	129	120	120	120
Debtor days	70	65	60	60
Creditor days	37	35	40	40
<b>Return Ratios (%)</b>				
RoE	14.3	16.4	17.2	17.2
RoCE	17.3	19.8	20.3	20.4
RoIC	17.6	20.2	21.0	21.3
<b>Valuation Ratios (x)</b>				
P/E	31.4	35.5	28.6	24.2
EV / EBITDA	20.4	23.7	19.6	16.3
EV / Revenues	3.2	3.8	3.2	2.7
Market Cap / Revenues	3.2	3.8	3.3	2.9
Price to Book Value	6.8	5.8	4.9	4.2
<b>Solvency Ratios</b>				
Debt / Equity	0.1	0.1	0.0	0.0
Debt/EBITDA	0.3	0.2	0.2	0.2
Current Ratio	3.6	3.4	2.9	2.8
Quick Ratio	1.4	1.3	1.1	1.0

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

## ANALYST CERTIFICATION

I/We, Dewang Sanghavi MBA (Finance), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock broking and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.