MORNING FARSIGHT

Friday, August 24, 2018

RATNAMANI METALS & TUBES	CMP:RS 864	TRGT:RS 1050	TIME HORIZON: 1 YEAR

Ratnamani Metals & Tubes, a niche player with superior capabilities in the domestic industrial pipes domain, having stainless steel (SS) capacity of 28,000 TPA and carbon steel (CS) capacity of 350,000 TPA tonnes, with 40% domestic market share of SS tubes/pipes, is looking a good buy, post good Q1FY19 performance, healthy order book and interesting high margin capacity expansion on the verge of completion, strong balance-sheet and diverse esteemed clientele with very clean management track record. For Q1FY19, company has achieved massive 106% YoY Revenue growth at Rs 609 cr, EBITDA has risen by 114% YoY to Rs 107 cr from Rs 50 cr, with EBITDA margin of 17.6% against 16.9% a year ago. This has resulted in PAT of Rs 57.6 cr against Rs 23 cr YoY, registering a growth of 1.5x with an EPS of Rs 12.34 , which was at Rs 32.48 in FY18. Now, going ahead, company has chalked out a capex plan of Rs —400 cr to set up a hot extrusion facility for large diameter (dia) seamless stainless steel pipes with capacity of 20,000 TPA and matching cold finishing capacity, which is expected to be commissioned in Q4FY19. This facility will make Ratnamani Metals the only player in India with the capability to extrude mother hollow pipes of up to 8 inch in diameter against the company's current capability of extruding tubes up to only 2 inch diameter. After commissioning this new facility, company will be able to manufacture large dia pipes, which will ensure import substitution as well as further penetration of export market. Besides this, company is planning to set up a Greenfield LSAW capacity of 120,000 TPA, which is likely to be commissioned by July 2020 with contribution coming in from H2FY20. The Indian oil & gas sector is at the cusp of a capex revival on the back of a) enhancement of domestic refining capacity and b) up gradation of refineries to meet BS-VI standard by 2020. Furthermore, in the medium to long term horizon, a notable capex is planned in nuclear power plant, fertiliser, city gas distribution (CGD), cross country pipes lines, etc. This is expected to enhance overall demand for pipes. Currently, Ratnamani's order book is at Rs 1,690 cr (as on June 1, 2018). The order book for high value stainless steel segment was at Rs 431cr (domestic: Rs 334 cr, exports: Rs 97 cr) while the order book of carbon steel was at Rs 1,259 cr (domestic: Rs 928 cr, exports: Rs 330 cr). Further, company is totally insulated from US Commerce Department's recent move imposing preliminary anti-subsidy duties on imports of pipe from India of upto 541.15%, as company had no sales to US markets in FY18 and there are no US related orders even in the current order book. Company's products have witnessed near zero rejections in the past, boding well in terms of repeat orders and thus, established position +superior product offering (compared to its peers) enables it to command higher realisation, which positively flows down to its EBITDA thereby garnering —25%of EBITDA margin in SS Pipes segment. Company has strong balance-sheet with Net Debt of just Rs 75 cr on Net Worth of Rs 1,308 cr. Promoters are holding 60% stake in the company while Institutional Holding is over 20%. Share ruling at Rs 864 can move to Rs 1050 in 1 year timeframe. Buy as an investor.

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.