Ratnamani Metals & Tubes

Initiating Coverage **10 March 2015**

Plenty in store in this pipeline

We initiate coverage on Ratnamani Metals & Tubes (RMTL) with Buy on the back of proven track record of superior earnings trajectory - best in industry, robust margins and strong return ratios driven by sustainable competitive strength of its niche business of stainless steel (SS) pipes and tubes. RMTL is poised to benefit from a pick-up in domestic investment cycle and significant entry barriers and expertise required in SS business puts it in a sweet spot. Superior capital allocation record and a proactive management provide the icing on the cake and make RMTL an attractive investment for long term growth investors.

- **Competition-beating capabilities in niche business of SS pipes and tubes:** RMTL is the market leader (~45% market share) in the niche business of SS pipes and tubes. Its sustainable competitive strengths, developed painstakingly over the past three decades, help it command sector-beating margins of ~25%. SS tubes are used in critical applications and RMTL focuses on high-end application products. We expect ~Rs12bn annual business opportunity in the SS segment for RMTL (vs. current annual revenues of ~Rs8bn) from the domestic market over the next five years led by pickup in investments in user industries, with segment revenues expected to grow at a CAGR of 15.3% during FY14-17E.
- **Carbon steel pipes business to gain from operating leverage:** RMTL's carbon steel (CS) business is compact in size with 0.35mtpa capacity spread across various sub-segments and though low on margins, complements the SS business and accounts for 45-50% of RMTL's revenues. Capital allocated to the business has been limited on account of prudence followed by the management on expansion and focus on operating leverage. Order inflow has been gradually increasing in CS business and we expect capacity utilization of 50% in FY17E, led by a pick-up in orders from both domestic and export markets.
- **Consistently strong return ratios through efficient capital allocation:** While RMTL's gross block expanded by 6.7x during FY05-14, revenue, EBITDA and PAT rose 7.3x, 8.8x and 10.8x respectively. With sensible capital allocation for expansion of its niche business, strengthening quality checks, developing new products and building an efficient supply chain, *the strong growth has come along with margins and return ratios rising by 200-300bps*. A commendable combination of strong growth and increase in margins makes RMTL fall under the club of small but well-run companies focussed on creating shareholder value.
- **Valuation and risks:** We expect EBITDA/PAT CAGR of 17.3%/17.4% during FY14-17E led by strong traction in SS segment and operating leverage from CS business. We value the stock at 20x FY17E EPS of Rs49.5 and believe that implied PEG of 1.2x is justified on account of well managed business delivering strong growth and returns, strong track record with EBITDA/PAT CAGR of 27%/30% in last 10 years. This is one of the better options in the otherwise debt-ridden industrial pipes segment and a key beneficiary of likely capex revival. Key risks are a slow pick up in capex in user industries and margin pressure due to raw material volatility. The stock has limited institutional sell side coverage.

Target Price	Rs990
CMP*	Rs767
Upside	29.1%

*Price Performance (%)**

	1M	6M	1Yr
RMT IN	7.0	71.8	371.5
Nifty	1.1	8.3	36.8

Key Data	
Bloomberg Code	RMT IN
Curr Shares O/S (mn)	46.7
Diluted Shares O/S(mn)	46.7
Mkt Cap (Rsbn/USDmn)	35.7/570.8
52 Wk H / L (Rs)	806.3/162.3
5 Year H / L (Rs)	806.3/76.6
Daily Vol. (3M NSE Avg.)	30395

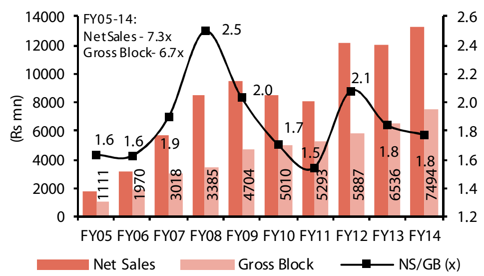
**as on 9 March 2015; Source: Bloomberg, Centrum Research*

Shareholding pattern (%) *

	Dec-14	Sep-14	Jun-14	Mar-14
Promoter	59.9	59.9	59.9	59.9
FIIs	12.3	13.1	13.1	13.0
DIIs	0.5	0.1	0.3	0.3
Others	27.3	26.9	26.7	26.8

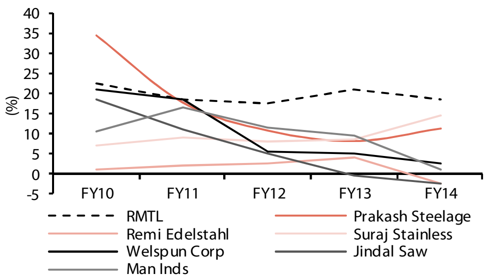
*Source: BSE, *as on 9 March 2015*

Superior capital allocation drives strong growth



Source: Company, Centrum Research

ROCE well above peers



*Source: Company, Centrum Research, * CY07 = FY08*

Read the inside pages for:

- *Sustainable strengths of SS business – entry barriers, strong margins – comparison with peers*
- *Strong domestic business opportunity for SS segment (exhibits 9-12)*
- *Efficient capital allocation – past track record of strong growth coupled with increase in margins*

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Y/E Mar(Rs mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY13	12,011	(1.7)	2,379	19.8	1,360	44.1	29.3	21.0	17.5	26.2	15.2
FY14	13,261	10.4	2,567	19.4	1,428	5.0	30.6	18.6	16.7	25.1	13.9
FY15E	16,533	24.7	3,227	19.5	1,799	26.0	38.5	19.7	18.4	19.9	11.0
FY16E	18,068	9.3	3,525	19.5	1,952	8.5	41.8	18.1	17.4	18.4	10.0
FY17E	21,515	19.1	4,147	19.3	2,313	18.5	49.5	18.3	17.6	15.5	8.6

Source: Company, Centrum Research Estimates

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

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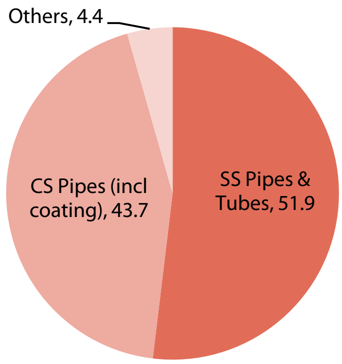
Competition beating capabilities in niche business of SS pipes & tubes

Sustainable competitive strength of SS pipes & tubes business

Sustainable competitive advantage of SS pipes business leads to higher & consistent EBITDA margins for RMTL.

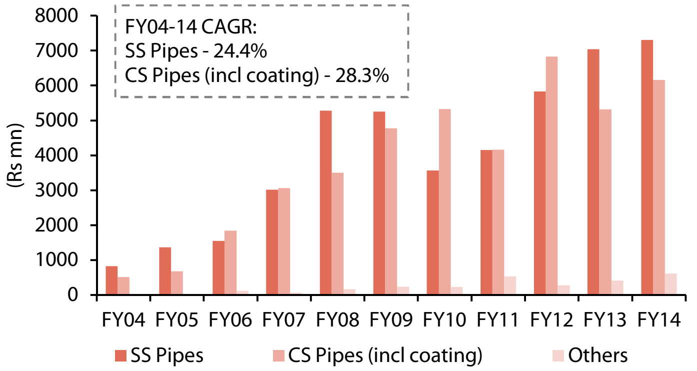
RMTL is the leading domestic producer of stainless steel (SS) pipes & tubes with a capacity of 28ktpa and has been in the business for 3 decades. SS segment accounts for ~50% revenue share and has grown at a CAGR of 24.4% during FY04-14. SS pipes & tubes are mainly used for critical applications with requirements of low failure rate and long life in key industries like oil & gas, petrochemicals, refineries and power (see annexure on page 21 for details on SS pipes & tubes). RMTL has been able to establish sustainable competitive strength in this business which helps it in generating strong margins of 25%+ and it is a market leader with focus on high end application products.

Exhibit 1: SS business revenue share at ~52% (FY14)



Source: Company, Centrum Research

Exhibit 2: Strong revenue growth



Source: Company, Centrum Research

Entry barriers in SS pipes & tubes business

RMTL's competitive advantage over its peers is partly driven by huge entry barriers in the form of:

- **High initial capital outlay required to set up the business:** Stainless steel pipes & tubes manufacturing business is capital intensive. The cost of setting up a Greenfield SS plant similar to that of RMTL (30,000 MTPA) is ~Rs12bn. RMTL has spent the past three decades in progressively building its asset base in the SS segment. For a new entrant high capex coupled with long payback period is a major deterrent.

- **Superior technology requirement:** Investment in hi-tech machines and expertise in developing customized products are key requirements of the business.

- **Requisite customer approvals & EPC contract approvals**: RMTL's products have gone through a time consuming approval process. This is required as customers & EPC contractors verify quality & other features of the product which has to match stiff standards set by customers/ EPC contractors.

- **Development of strong relationships with clients:** RMTL caters to a diverse network of clients ranging from private entities like Reliance Industries, Essar, L&T to PSU companies like BHEL, IOCL, BPCL & HPCL. In the past 3 decades, RMTL has managed to build and develop its relationship with key clients by producing customized & superior quality products. The time taken to build & develop strong relationships with clients is a major entry barrier.

- **Critical applications & low failure rate require focus on quality:** Stringent standards needed to produce SS pipes & tubes free of any errors and with a very low failure rate serves as a barrier to entry as it is quite challenging to maintain high product quality standards and conform to a client's customized requirement. The product has to go through rigorous quality checks as it finds application in critical production processes of various industries.

- **Customization and quick delivery key requirements:** The need to produce customized SS pipes & tubes as per client specifications on a consistent basis without compromising on quality and the task of delivering goods on time to clients also serve as a barrier to entry.

RMTL is market leader with ~45% share; focus on high end products, quality, customization & quick delivery are its key hallmarks

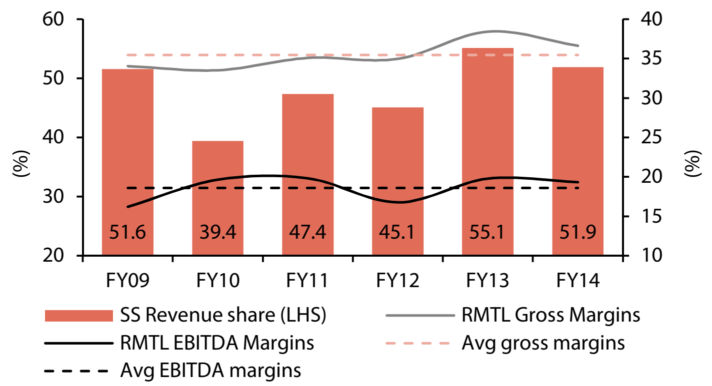
RMTL is the largest player in the domestic market in the stainless steel pipes & tubes segment with ~45% market share. SS segment also accounts for ~50% of RMTL's revenues. Company focuses on delivering high quality products to its customers with a high level of customization (as per customer's requirements and project related needs) and ensures quick delivery times through efficient operational processes. This helps RMTL to stand out vis-à-vis its peers and coupled with strong relationships and approvals acquired over the years, the company has been able to maintain its leadership position in the market. RMTL focuses largely on high end application products vis-à-vis its peers which supply low end products which are easier to make and have lower margins.

High margin business – beats domestic peers by a long way

Margins in SS business are ~25% and well above peers due to high end product basket of RMTL.

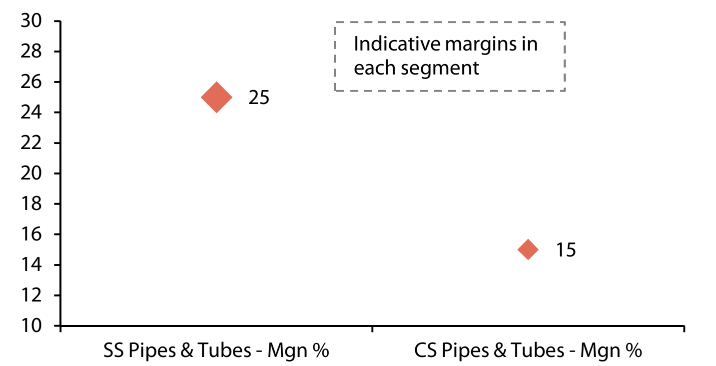
The stated entry barriers provide significant protection to RMTL's SS business from competition and coupled with the company's high end application product basket, leaves enough room for it to command higher premiums for its stainless steel products which earn an EBITDA margin of 25%+. The resultant effect of this is clearly evident in consistent & higher EBITDA margins the company has reported in the past. Compared to its peers, overall margins for RMTL are consistently higher in the range of 16-19%.

Exhibit 3: SS business drives strong margins for RMTL…



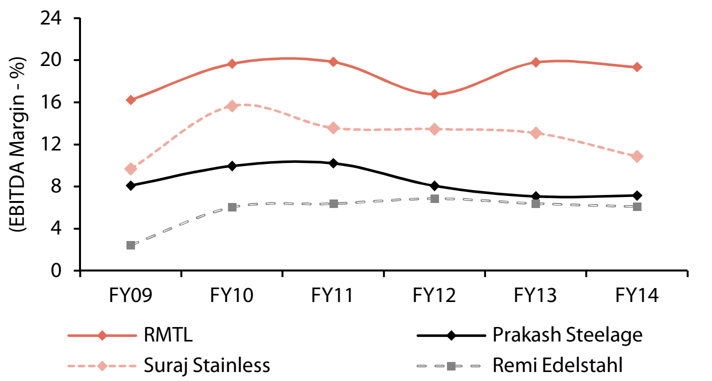
Source: Company, Centrum Research

Exhibit 4: …as SS business has margins of 25%+



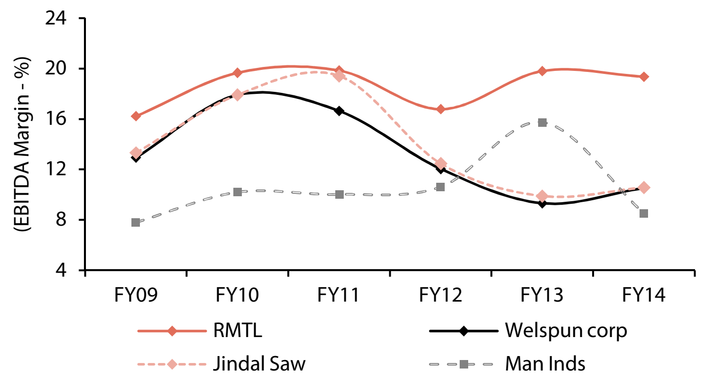
Source: Company, Centrum Research

Exhibit 5: RMTL EBITDA margins well above SS peers…



Source: Company, Centrum Research

Exhibit 6: …as well as CS peers



Source: Company, Centrum Research

RMTL's margins (despite including carbon steel business which has lower margin) are well above that of its peers in the SS pipes & tubes and this is mainly on account of benefits of scale, strong relationships and better product basket as other domestic SS pipe producers offer products for low end applications. RMTL's margins remain well above those of peers in the CS pipes like Welspun, Jindal Saw and Man Inds on account of contribution from high margin niche segment of SS pipes & tubes. Large CS players did not enter the SS business in the past due to entry barriers, lower scale of opportunity and high initial capex with long payback period. Also, balance sheets of large CS players are already stretched due to overcapacity & past expansions in the line pipe segment.

Business opportunity remains large in SS segment, capex revival key

RMTL's business opportunity remains large in the niche segment of SS pipes & tubes but would depend on quick revival of capex in key industries like refineries, thermal and nuclear power plants and chemicals & fertiliser units.

Refineries & petchem, power plants account for the majority of demand for SS pipes & tubes

SS pipes & tubes are used in refineries and power plants set up and account for 4-5% of overall capex

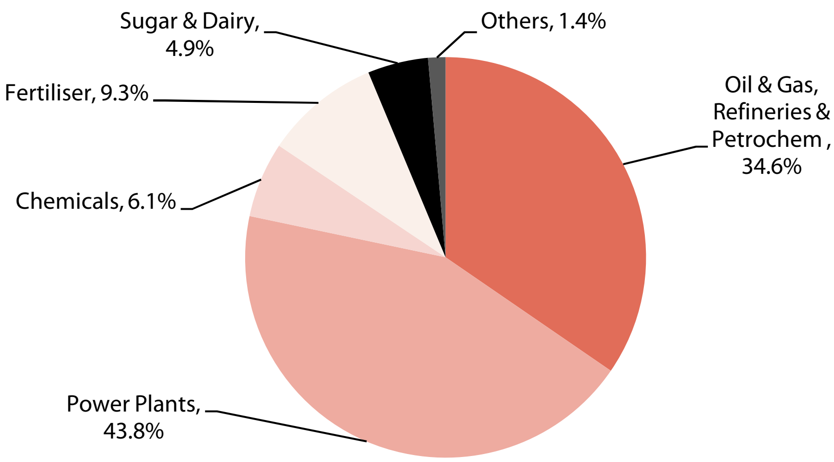
SS pipes & tubes produced by RMTL find application in various critical industries like Oil & Gas exploration, Power (Nuclear & Thermal), Refineries, Petrochemicals, Fertilizers, Chemicals, Sugar, Pharma and other small industries. Although, in value terms SS pipes & tubes form a very small portion of the total investment made (cost of SS pipes and tubes in proportion to the total capex cost is quite low and varies between 4-6% of the total expansion cost), they form an integral part of the whole production process and are used in critical conversion processes.

Exhibit 7: SS pipes & tubes demand driven by capex in various industries

Project/Sector	Capacity	Capex (Rs bn)	*Stainless steel pipes & tubes (% share)*	*Carbon Steel pipes (% share)*	*Total Pipes (% share)*
Refinery	1 mtpa	15	*4-5*	*4-5*	*9-10*
Thermal Power Plant	100 MW	6	*2-3*	*2*	*4-5*
Nuclear Power Plant	100 MW	8	*3-4*	*1-2*	*5-6*
Fertiliser	1 mtpa	50	*2-3*	*2-3*	*4-5*

Source: Company, Centrum Research Estimates

Exhibit 8: User industry share in SS revenues of RMTL (FY14)



Source: Company, Centrum Research

Capacity addition of ~74mtpa expected in refineries, 60GW+ in power during FY15-20

Upcoming project capex in user industries remains large

Capex in upcoming projects in user industries remains large with i) ~74 mtpa of refinery capacity expected to be added in the next five years, ii) ~25GW of thermal power capacity addition by FY17E and ~10GW+ annual addition thereafter, iii) 4.5GW of nuclear power capacity addition in next five years and iv) 6 mtpa capacity addition in fertiliser industry in next five years.

Exhibit 9: Under implementation capex in Refineries

Company	Project Name	Capacity (mtpa)	Capex (Rs bn)	Commissioning Date
HPCL	Mumbai plant	3.5	170	By FY18-end
	Vizag plant	6.7		
	Rajasthan, Barmer	9	370	
BPCL	Bina	9	230	By FY18-end
	Kochi	6	142.2	By FY18-end
IOCL	Gujarat	4.3	50	
	Paradip	15	350	From FY16 onwards
RIL	Refining	10.3	155	By FY16-end
		5.4	80.6	By FY16-end
		0.8	12.4	By FY17-end
Essar Oil	Vadinar	4	60	
Total		**74.0**	**1,620.2**	

Source: Companies annual reports, Centrum Research

Exhibit 10: Under implementation capex in other user industries

Industry	Capacity (MW)	Capex (Rs bn)	Period of completion
Thermal Power	25,000	1,500	FY15-17
Nuclear Power	4,500	360	FY15-17
Fertilizer (mtpa)	6	300	FY15-20

Source: Industry sources, Centrum Research

Planned capex in user industries points towards large domestic opportunity for SS segment of RMTL

Domestic business opportunity for SS segment at ~Rs134bn during FY16-20E

We estimate domestic business opportunity for SS pipes & tubes at ~Rs134bn during FY16-20E based on already announced capacity addition plans from producers in various user industries. We have assumed that ~70% of the announced capex would be implemented over FY16-20E for our calculations. As RMTL enjoys ~45% market share in the SS pipes & tubes business, we expect business opportunity of ~Rs60bn for RMTL (~Rs12bn annually). This provides huge scope for RMTL's niche business of SS pipes & tubes in which the company is currently generating annual revenues of ~Rs8bn and where it enjoys sustainable competitive advantages. Business opportunity remains large (~Rs8bn annually) even in our worst case scenario.

Exhibit 11: Business opportunity for SS pipes & tubes at ~Rs134bn during FY16-20E

Base Case	FY16-20E			Business Opportunity - FY16-20E	
Project/Sector	**Planned Capacity Addition***	**Capex (Rs bn)**	***SS pipes & tubes (% share)***	**Stainless steel pipes (Rs bn)**	**Ratnamani's SS business opportunity - @45% mkt share (Rs bn)**
Refinery (MTPA)	54.8	822.5	*4*	32.9	14.8
Petrochem		313.5	*3*	9.4	4.2
Thermal Power Plant (MW)	40000	2400	*3*	72.0	32.4
Nuclear Power Plant (MW)	4300	344	*4*	13.8	6.2
Fertiliser (MTPA)	4	200	*3*	6.0	2.7
Total				**134.1**	**60.3**

*Source: Company, Centrum Research Estimates, *assuming 70% of planned capex is spent*

Exhibit 12: Business opportunity for SS pipes & tubes during FY16-20E under various scenarios

	Business Opportunity - FY16-20E		Capex spent by user industries (% vs planned)
	Stainless steel pipes (Rs bn)	Ratnamani's SS business opportunity - @45% mkt share (Rs bn)	
Best Case	188.1	84.6	100%
Base Case	**134.1**	**60.3**	**70%**
Worst Case	90.7	40.8	50%

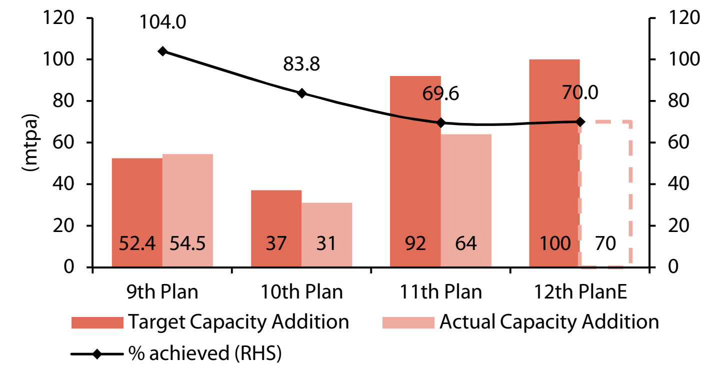
Source: Company, Centrum Research Estimates

Capacity addition implementation has remained strong in refining, increased in power

Aggressive planned capacity additions in refining & thermal sector coupled with higher execution rate to boost demand for SS pipes & tubes.

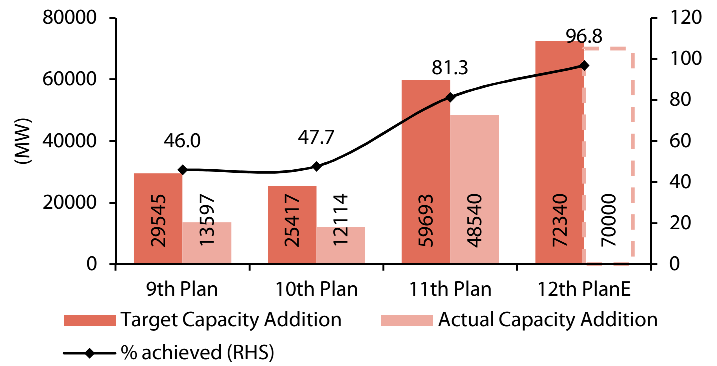
Analysis of the capacity addition in the refining sector and thermal power sector in last few five year plan documents reveal that the execution of planned capacity additions in refining has remained strong at 104% (9th plan) & 83.8%(10th plan). Targeted capacity additions in the 11th & 12th plans have been quite aggressive in refining with an implementation rate of 70% in 11th plan which we expect to continue in the 12th plan as well. This will lead to a capacity addition of ~70mt over the next 4-5 years which is closer to our estimate of 74mt (refer exhibit 9). In the thermal power sector, the targeted capacity additions & corresponding execution rate have increased materially, planned addition in capacity has gone up ~ 2.5x (from 9th plan to 12th plan) and the implementation rate, which was quite low at 46-48% (9th & 10th plan) increased to 81% in 11th plan and is 95%+ in the 12th plan. All this augurs well for the demand of SS pipes & tubes segment.

Exhibit 13: High implementation rate in refining capacity addition during five year plans



Source: Planning commission, Centrum Research Estimates

Exhibit 14: Power capacity implementation rate has increased materially over last two five year plans



Source: Planning commission, Centrum Research Estimates

Upgradation of refineries could be a big opportunity

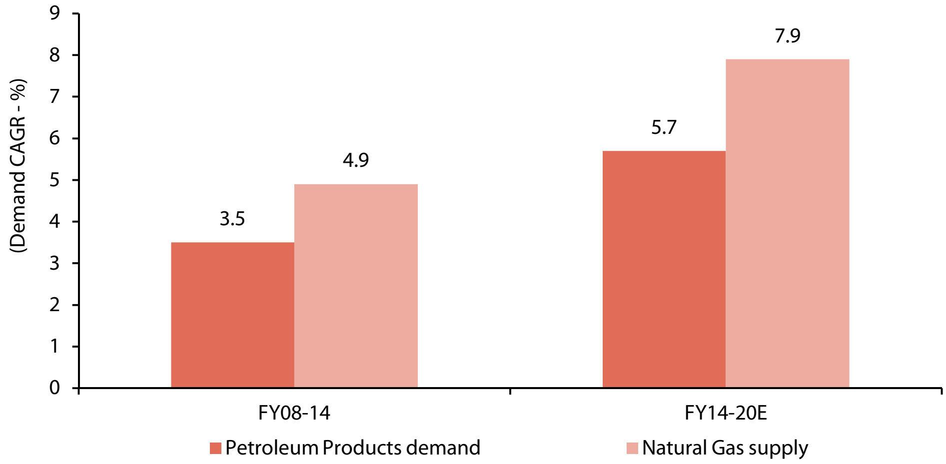
GoI has indicated in the recent past that existing refineries need to upgrade to be able to produce Euro V-type fuels from CY19 in order to reduce the carbon footprint and emissions. Capex of ~US$13bn could be spent for this upgradation of existing refineries in India over the next 5 years for installation of new secondary units like desulphurisers, hydrotreaters etc. There is also need for some very old PSU refineries to upgrade their plants for competing better with private players. Though no concrete announcements have been made for plant upgradations by any major PSU refiners we believe the likelihood of the same in near future could provide a big opportunity for players like RMTL who would be key suppliers of various high end application products and equipment for up gradation of refineries. We have currently not factored in refinery upgradation capex in our estimates for demand opportunity for RMTL.

Demand for underlying petroleum products expected to increase, could spur capex

Underlying products demand expected to be higher going forward

According to Petroleum planning and analysis cell, the demand for petroleum products in domestic market is expected to grow at a CAGR of 5.7% during FY14-20E (vs 3.5% during FY08-14). Similarly, supply of natural gas is also expected to grow at a fast pace. Though we note that natural gas supply is plagued by pricing issues and refining capacity for petroleum products is already in excess of demand, we expect higher demand growth to spur capex in key user industries of oil & gas and refineries & petchem which in turn would drive the demand for steel pipes.

Exhibit 15: Higher demand of underlying products could spur capex in user industries



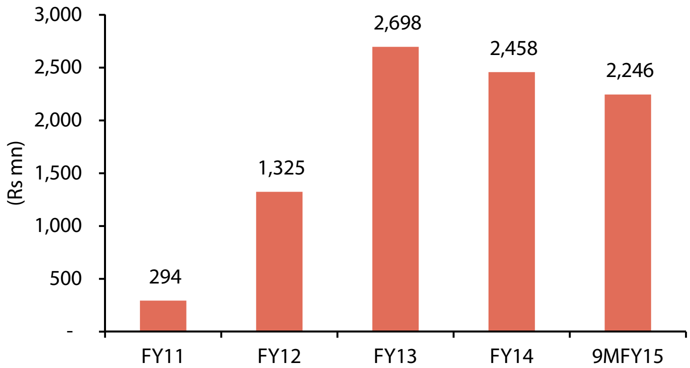
Source: PPAC, Centrum Research

Exports account for ~40% share in SS segment; global opportunity remains strong

RMTL exports its high end application products to Korea and Middle-east and has achieved strong growth in exports

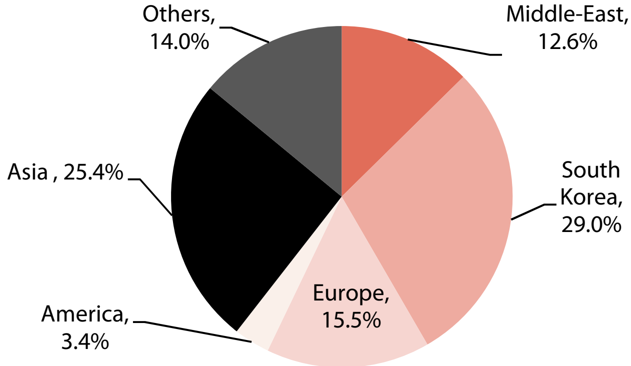
Exports account for ~40% share of revenues in SS pipes & tubes segment for RMTL. Korea, Asia and Middle-east account for the majority of exports as refining and power capacity set-up has been strong at these locations. RMTL has been mainly supplying high end application products in the export market like LP heater tubes, instrumentation tubes, ASTM grade pipes and has been focussing on value addition. The market for such high end products is dominated by a few large players globally including RMTL and thus the company has a strong growth trajectory in the same.

Exhibit 16: Exports in SS segment have grown at a fast clip



Source: Company, Centrum Research

Exhibit 17: Geography wise SS export share - % (FY14)



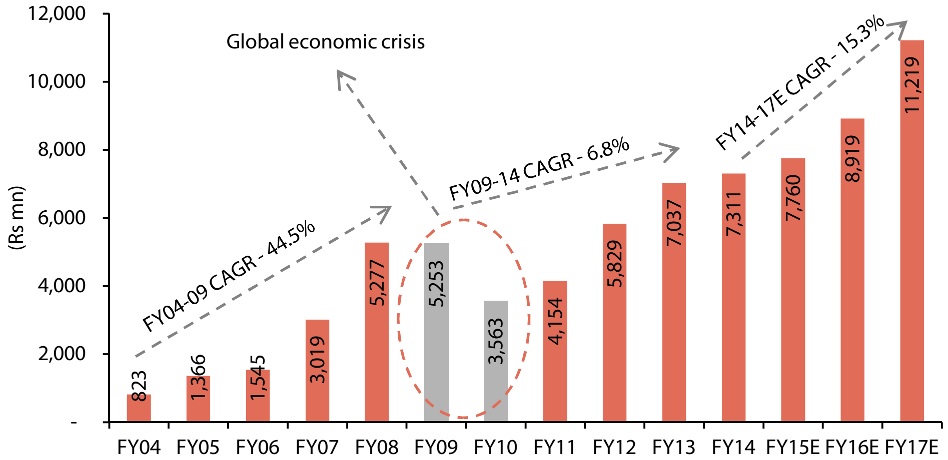
Source: Company, Centrum Research

Envious growth track record, mean reversion on the cards in next 5 years

We expect SS segment revenue CAGR of 15.3% during FY14-17E vs 6.8% during FY09-14 and 24.4% during FY04-14

RMTL's revenues from SS pipes & tubes segment have grown at a CAGR of 24.4% during FY04-14 but growth has been moderate during FY09-14 with CAGR of 6.8% as domestic demand has been impacted by slower growth and subdued capex spends in user industries. We expect the revenue from SS segment to start showing mean reversion going ahead with expected pick up in capex in user industries which in turn would be driven by higher GDP growth, lower interest rates and revival of investment cycle. We expect SS segment revenues to grow at a CAGR of 15.3% during FY14-17E.

Exhibit 18: SS segment revenue trend – CAGR of 15.3% expected during FY14-17E



Source: Company, Centrum Research Estimates

Capacity expansion targeted in seamless tubes in SS segment

Capacity expansion of 20ktpa planned in seamless stainless steel tubes to be completed in two phases by FY19

RMTL is expected to increase capacity in seamless stainless steel tubes from 8ktpa to 28ktpa in two phases at a capex of ~Rs4bn over the next 4 years. The capex is expected to be funded by internal accruals and capacity expansion is expected to take place at its facility in Chhatral where existing 8ktpa line is functioning. The company plans to set-up a hot extrusion line of 20ktpa for seamless tubes in the next two years at a capex of ~Rs2bn which would provide integration for manufacturing seamless tubes and also allow manufacturing of higher diameter tubes (up to 8" from current 2"). Post expansion, company's SS pipes & tubes capacity would get enhanced to 48ktpa by FY18E (from current 28ktpa).

Exhibit 19: Capacity expansion plans in seamless tubes in SS segment

(tpa)	Current Capacity	Expansion	Location	Capex (Rs mn)	Completion Date
Welded	20,000		Kutch		
Seamless	8,000	20,000	Chhatral	4,000	Hot Extrusion Phase1 by FY17E

Source: Company, Centrum Research

Carbon steel business to gain from operating leverage

Well distributed asset base with limited capacity

CS business has capacity of 3.5 lakh tpa and is well distributed with various product offerings

Apart from manufacturing stainless steel tubes & pipes, RMTL is also present in the carbon steel pipes business producing LSAW, HSAW, ERW and coated pipes mainly catering to the Oil & Gas, Power, water and other small industries. RMTL's total capacity in CS business is 3.5 lakh tpa and is spread across various product segments.

Exhibit 20: RMTL's carbon steel pipes portfolio

Pipe Type	Capacity (tpa)	Dia Range	Thickness Range	Applications	Expansion	Completion date
LSAW	30,000	12" to 48"	5mm to 28mm	Line pipe - water, oil&gas, city gas distribution	20,000	H1FY16
HSAW	180,000	16" to 142"	4mm to 20mm	Line pipe - water, oil&gas, city gas distribution		
ERW	70,000	4" to 18"	3.2mm to 12.7mm	Oil & gas transportation, plumbing, water supply		
LCSSAW	60,000	32" to 150"	5mm to 65mm	Water distribution, drainage		

Source: Company, Centrum Research

LSAW segment caters to customized demand, enjoys strong margins

RMTL has its LSAW manufacturing unit in Ahmedabad, Chhatral with a limited capacity of (30,000 MTPA) catering to customized demand of its clients. LSAW pipes are more robust and command a premium as compared to HSAW and ERW pipes and are used purely in industrial applications. RMTL enjoys 20-25% EBITDA margins in the LSAW segment, and given the high margins in this segment RMTL has plans to increase its LSAW capacity by 20ktpa at a capex of Rs120mn by H1FY16E.

Mobile pipe plant

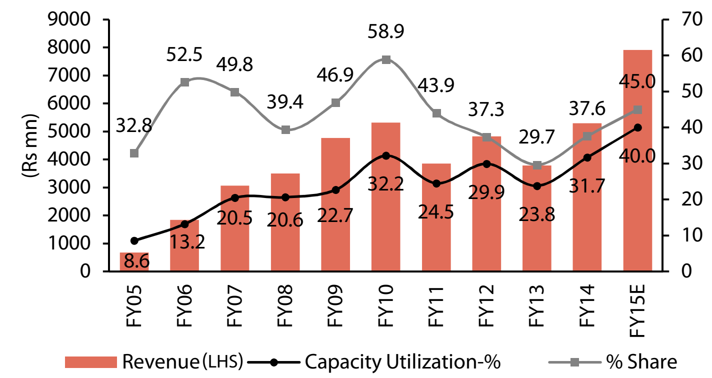
RMTL ventured into manufacturing pipes at the site by way of mobile plant with a production capacity of 24,000 MTPA. The mobile plant caters to customer requirement on location. This plant can be dismantled and re-erected within a short span of time. This unique feature helps in easy handling of pipes at site, meeting delivery schedules and cut down transportation cost thus making the project economical and viable. At site the mobile plant can produce HSAW pipes having diameter in excess of 18" up to 150" in various thicknesses, in single random length or double random length depending upon project requirements.

Utilization between 25-30%, revenue share at 40-45%

CS business has seen increase in utilizations due to better order inflow

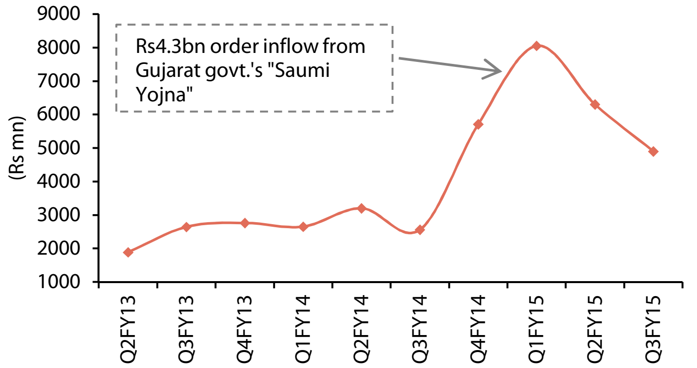
RMTL's carbon steel business has seen capacity utilization in the range of 25-30% and accounts for 40-45% of overall revenues (excluding coating revenues which is another 5-6%). Margins in the business are in the range of 14-15% and remain subdued due to high competition. The business is largely driven by order book and company won a large order of ~Rs4.3bn from Gujarat govt. in FY14 related to its 'Saumi Yojna' which pushed up the order book as well as revenues from CS segment for RMTL in FY15E. Management expects another order for phase 2 of the same scheme in FY16E which can help it to maintain revenue traction in FY16E.

Exhibit 21: CS revenue and utilization trend



Source: Company, Centrum Research Estimates

Exhibit 22: CS order book trend



Source: Company, Centrum Research

Large opportunity likely but strong competition to limit benefits

Low penetration of pipes in the various sectors like oil and gas transportation coupled with new discoveries currently provides a huge scope for the growth of the pipe industry. The Indian pipe industry is one of the top three manufacturing zones after Europe and Japan. There are four major sectors – oil & gas transportation, sewerage and plumbing, water distribution and irrigation.

Opportunity from future global pipeline projects remains strong

Opportunity from global pipeline projects remains large at ~81 MT over the next 5-10 years

According to Simdex's projections of CY14, 776 global pipeline projects are planned which involves setting up of more than 2.7 lakh kms of pipelines. This is expected to generate business opportunity of ~80 MT and ~US$70bn over the next five years. More than 30% of the opportunity is expected in Asia and Middle-east and thus provides good scope of line pipe orders for Indian line pipe players. In addition, replacement demand from USA & Europe is likely to be a big demand driver over the next 5-10 years.

Exhibit 23: Future global pipeline projects

Region	No of Projects	Total Length (Kms)	Tonnage (MT)*	Value (US$ bn)#
North America	257	58,000	17.4	14.8
Latin America	65	39,000	11.7	9.9
Europe	129	40,000	12	10.2
Africa	87	29,000	8.7	7.4
Middle-East	108	31,000	9.3	7.9
Asia	76	53,000	15.9	13.5
Australasia	54	21,000	6.3	5.4
Total	**776**	**271,000**	**81.3**	**69.1**

*Source: SIMDEX, Centrum Research, *Ikm=300 tonnes, #Realization/t=US$850*

Spending on building gas and water distribution infrastructure in India on the rise

Spending on building pipeline infrastructure for distribution of gas as well as water is on the rise and various projects are being planned. For gas distribution, major players like GAIL, GSPL and RGTIL have announced projects for building pipelines with a total length of ~14000kms.

Exhibit 24: Major gas pipeline projects

Company/Project	Length (Kms)	Appx. Tonnage (MT)
GAIL		
Jagdishpur-Haldia	1,860	0.6
Surat-Paradip	2,112	0.6
Kochi-Mangalore-Bangalore	1,104	0.3
Dhabhol-Bangalore	1,414	0.4
RGTIL		
Kakinada-Haldia	928	0.3
Kakinada-Chennai	577	0.2
Chennai-Tuticorin	585	0.2
Chennai-Banglore-Mangalore	538	0.2
GSPL		
Mallavaram-Bhopal-Bhilwara-Vijaipur	2,042	0.6
Mehsana-Bhatinda	2,052	0.6
Bhatinda-Jammu-Srinaagar	725	0.2
APGDC		
Kakinada-Srikakulam	391	0.1
Total	**14,328**	**4.3**

Source: PPAC, PNGRB, Centrum Research, 1km=300 tonne

Low pipeline penetration in India provides huge potential

Indian pipeline network is one of the least penetrated in the world. The current gas pipeline in India is ~15,000 km, while that of United States is 1.83 million kms and even Pakistan has pipelines of 56,000 km, which is nearly three and half times more than that of India. The current status of pipelines offers a huge scope for the pipe industry to grow at a faster rate, considering the investments that Oil and Gas sector is attracting. With the setting up of the Petroleum & Natural Gas Regulatory Board (PNGRB) and new gas finds on India's eastern coast, heavy investment is being lined up for laying pipelines across the country. With the GoI focusing on providing increased drinking water supply and irrigation for agriculture across India, there is a huge scope for growth for water pipelines also.

Overcapacity in industry makes competitive landscape weak

The carbon steel pipes business is flooded with many domestic and overseas players and currently there is oversupply of these pipes from RMTL's nearest competitors in the organised sector as well as unorganised sector. Competitive landscape remains weak due to overcapacity and considering the same, RMTL has strategically built a small capacity base for HSAW & LSAW pipes.

Exhibit 25: Domestic carbon steel producers

(in ktpa)	HSAW	LSAW	ERW	Seamless	Total
Welspun Corp	700	700	200		1,600
Jindal SAW	550	1,100			1,650
Maharashtra Seamless			200	550	750
Man Inds	500	500			1,000
RMTL	180	100	70		350

Source: Company, Centrum Research

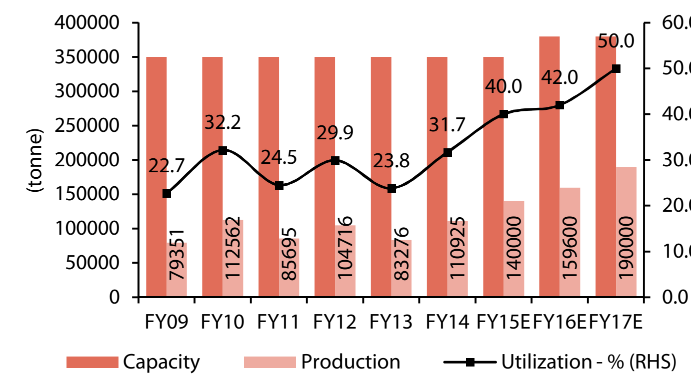
Higher operational efficiencies targeted

CS business has seen increase in capacity utilization led by better order inflow and is expected to see further increase driven by operating leverage

RMTL's CS pipes capacity has remained largely stagnant as utilization levels have been quite low at ~ 25%, which is partly explained by low order inflows on the back of slow build-up of pipe line network in India and severe competition from both organised & un-organised players. However, in the last 3-4 years utilization levels have gone up in the range of 30-35% suggesting a spike in the pipeline activity and inflow of water pipeline orders. With enough capacity available RMTL is all set to gain from any increase in pipeline network in India and thereby improve its utilizations through increase in operating leverage.

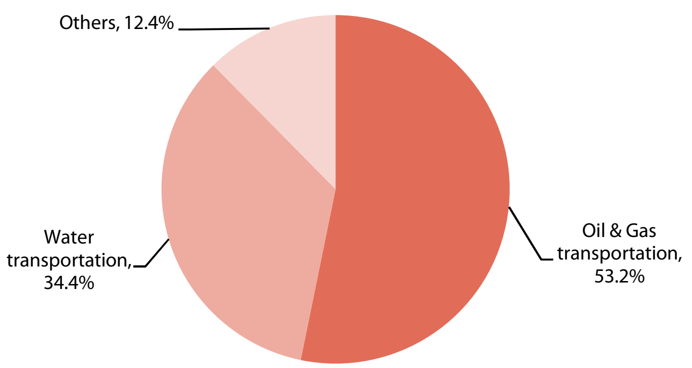
We expect capacity utilization in company's CS business to increase to 50% by FY17E. On account of overcapacity in the carbon steel pipe industry and less than 50% capacity utilization for RMTL, the company has no plans to expand significantly, but to just do some modification to its LSAW facility in Chattral, Ahmedabad. This would take the existing capacity of its LSAW pipes from 30,000 MT to 50,000 MT. The company has enough capacity in place to cater to the new demand and hence has not chalked out any plan to increase its present capacity for SAW pipes.

Exhibit 26: Capacity utilization in CS business picking up



Source: Company, Centrum Research Estimates

Exhibit 27: User industry share in CS revenues (FY14)



Source: Company, Centrum Research

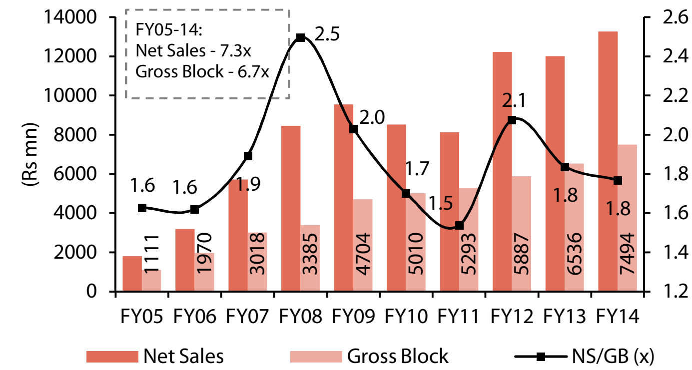
Consistently strong return ratios through efficient capital allocation

Efficient capital allocation – key hallmark of management

Sales/EBITDA/PAT has expanded by 7.3x/8.8x/10.8x on the back of gross block expansion of 6.7x during FY05-14

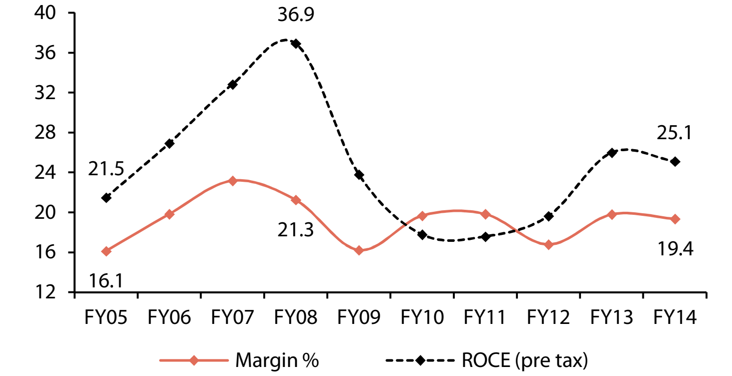
Efficient capital allocation by RMTL management has been one of the key contributors of superlative growth delivered by the company. We note that gross block has expanded by 6.7x in last 10 years (FY05-14) while revenue, EBITDA and PAT have expanded by 7.3x, 8.8x and 10.8x respectively (all of them well above the expansion in gross block). Incremental capital allocated by the management has not only led to expansion of net sales/gross block ratio but also resulted in higher margins and return ratios. We believe that this indicates superior capital allocation capabilities of the management over long periods of time.

Exhibit 28: Net sales growth led by gross block expansion



Source: Company, Centrum Research

Exhibit 29: Margins and ROCE improvement shown



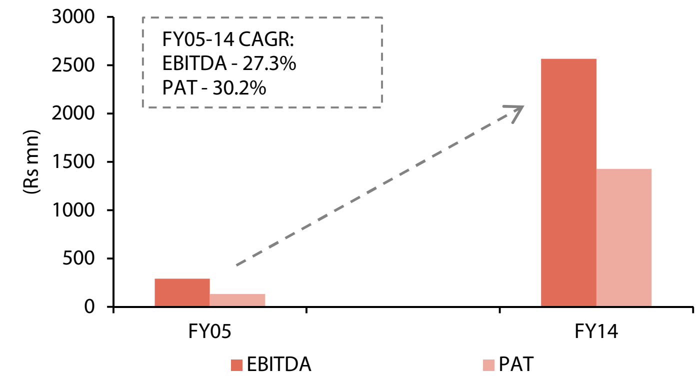
Source: Company, Centrum Research

Delivered strong growth coupled with margin expansion => great company run by good management

RMTL has achieved strong growth coupled with margin expansion which is rare to find

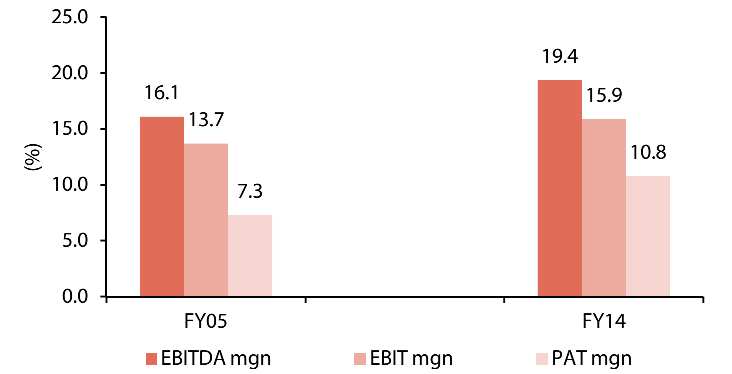
On account of efficient capital allocation for expansion of its niche business, strengthening quality checks, developing new products and building efficient supply chain, RMTL has been successful in delivering superlative EBITDA/PAT CAGR of 27%/30% during FY05-14. Also, the margin profile has improved by 200-300bps during this period thus signalling higher operational efficiency. We believe that the combination of strong growth and increase in margins is generally very rare to find and is a key attribute of great companies run by extremely good managements and RMTL falls under this category.

Exhibit 30: Strong EBITDA/PAT growth



Source: Company, Centrum Research

Exhibit 31: Coupled with expansion in margins

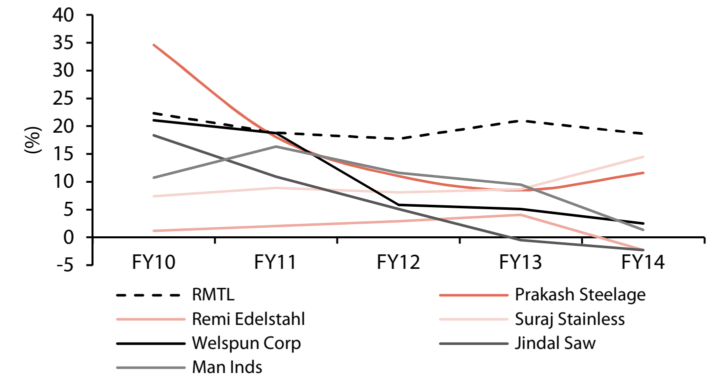


Source: Company, Centrum Research

Return ratios well ahead of peers'

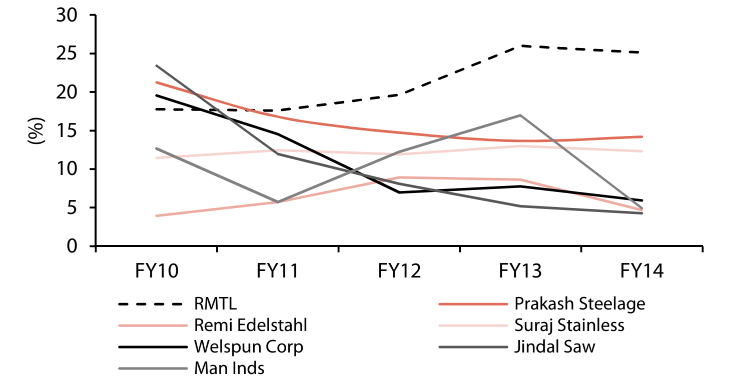
RMTL surpasses peers in terms of return ratios due to presence in niche business of SS pipes, superior capital allocation and strong margins in its product segment. While ROE for RMTL is ~20% and has remained well above 15% consistently in the last 10 years, other domestic peers lag far behind with figures below 15%. In terms of ROCE also, RMTL stands out with pre-tax ROCE at ~25% while domestic peers have ROCE in the range of 5-15%.

Exhibit 32: ROE well above peers



Source: Company, Centrum Research

Exhibit 33: ROCE (pre-tax) much higher than peers



Source: Company, Centrum Research

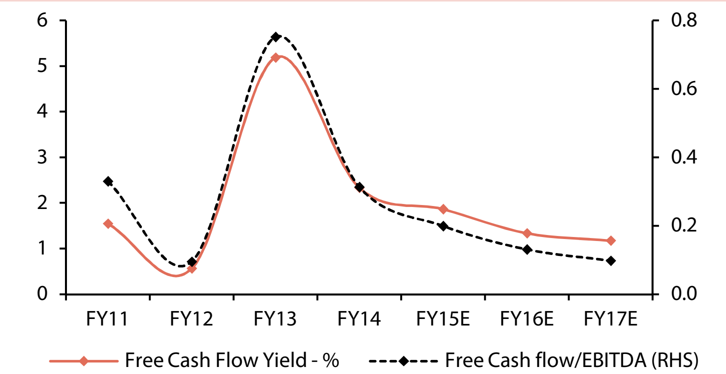
Free cash flow generation to remain strong

RMTL has been a consistent free cash flow generating company and we expect the trend to continue with free cash flow generation going forward despite capex for expansion in SS pipes & tubes segment. We expect free cash flow yield of 1.2% in FY17E.

Exhibit 34: FCF to remain positive despite higher capex

Source: Company, Centrum Research Estimates

Exhibit 35: Free cash flow yield and FCF/EBITDA



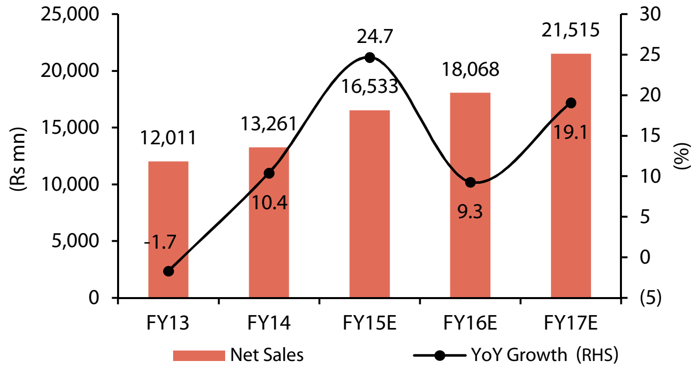
Source: Company, Centrum Research Estimates

Financials

Revenue growth to be led by continued traction in SS pipes segment

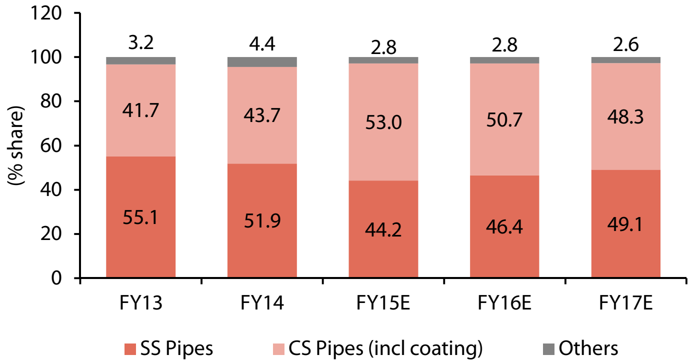
We expect net sales CAGR of 17.5% for RMTL during FY14-17E. CS segment contributed more in FY15E on account of higher orders but we expect revenue share of SS segment to go up from FY16E and see ~49% share of SS segment in FY17E.

Exhibit 36: Revenue CAGR of 17.5% during FY14-17E



Source: Company, Centrum Research Estimates

Exhibit 37: Led by strong traction from SS pipes segment

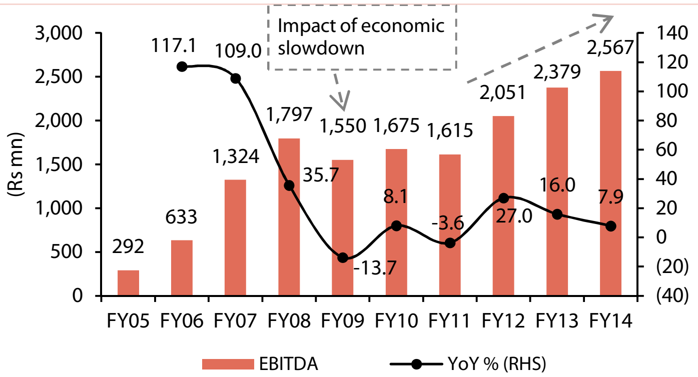


Source: Company, Centrum Research Estimates

EBITDA growth to remain strong

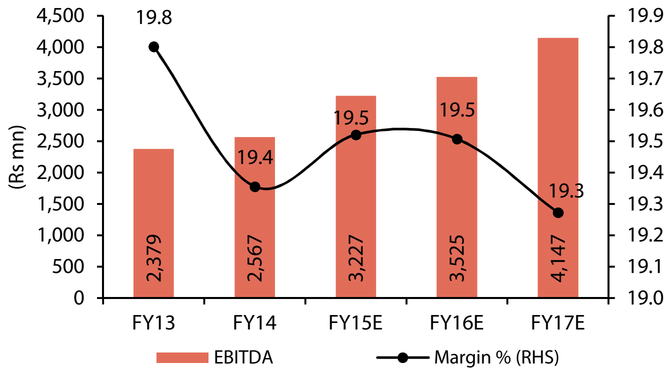
We expect RMTL to maintain its strong traction in EBITDA with a CAGR of 17.3% during FY14-17E. With gradual increase in share of high margin SS segment, we expect EBITDA margins to remain strong (above 19%). We note that EBITDA growth has remained very strong across cycles and even during the economic crisis of FY08-09, the fall in EBITDA was limited to ~14%. Though RMTL took some time to recover from loss in business and profitability during the economic crisis, recovery since FY11 has been very strong and FY15E EBITDA is expected to be almost double that of FY11.

Exhibit 38: EBITDA growth strong except economic crisis



Source: Company, Centrum Research Estimates

Exhibit 39: EBITDA traction and margins to remain strong



Source: Company, Centrum Research Estimates

Key Assumptions and Sensitivity

Exhibit 40: Key Assumptions

	FY12	FY13	FY14	FY15E	FY16E	FY17E
Revenue (Rs mn)						
Stainless Steel Pipes & Tubes	5,829	7,037	7,311	7,760	8,919	11,219
Carbon Steel Pipes & Tubes	4,830	3,785	5,299	7,911	8,197	9,351
Coating	2,001	1,530	866	1,400	1,540	1,694
Others	275	409	616	498	546	600
Volumes (incl scrap) - tonne						
Stainless Steel Pipes & Tubes	17,260	18,001	18,910	22,067	24,864	30,370
Carbon Steel Pies & Tubes	112,330	86,489	116,496	145,600	165,984	197,600

Source: Company, Centrum Research Estimates

Exhibit 41: EPS sensitivity to stainless steel pipes & tubes segment

EPS - FY16E (Rs)		Realizations				
		-10%	***-5%***	***Base***	***5%***	***10%***
Volumes	***-10%***	29.4	30.7	32.0	33.4	34.7
	-5%	33.8	35.3	36.9	38.5	40.0
	Base	38.2	40.0	**41.8**	43.6	45.4
	5%	42.5	44.6	46.6	48.7	50.8
	10%	42.5	44.6	46.6	48.7	50.8

Source: Centrum Research Estimates

Exhibit 42: EPS sensitivity to carbon steel pipes & tubes segment

EPS - FY16E (Rs)		Realizations				
		-10%	***-5%***	***Base***	***5%***	***10%***
Volumes	***-10%***	35.0	34.0	33.0	32.0	31.0
	-5%	38.9	38.2	37.4	36.6	35.9
	Base	42.9	42.3	**41.8**	41.2	40.7
	5%	46.8	46.5	46.2	45.8	45.5
	10%	50.8	50.6	50.5	50.4	50.3

Source: Centrum Research Estimates

Valuation - Initiate with a Buy, TP of Rs990

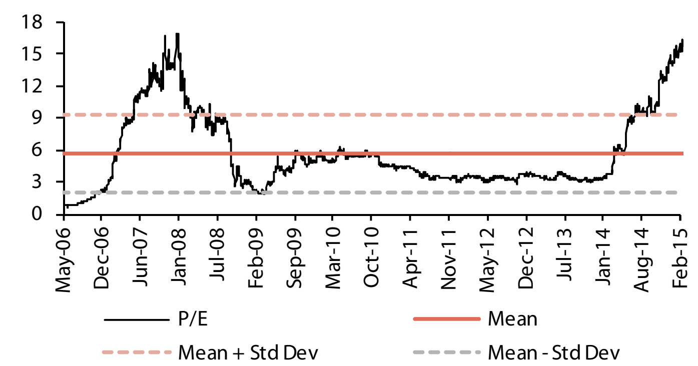
We initiate coverage on RMTL with a Buy rating and target price of Rs990 based on 20x FY17E EPS of Rs49.5. The valuation multiple assigned by us implies a PEG of 1.2x which is justified according to us on account of the following:-

PEG of 1.2x for RMTL is appropriate on account of high growth profile, strong management, MNC type character in various aspects and market leadership position with performance well above peers

- RMTL is a very well-managed company which has a strong track record of delivering high growth and strong return ratios. We expect EBITDA/PAT CAGR of 17.3%/17.4% during FY14-17E and continuation of strong return rations (post tax ROCE of ~18%).
- RMTL has been a consistent high tax paying company with average tax rate of 33.7% during FY07-14. This demonstrates MNC type of character and is generally very hard to find in industrial/metal companies. We see parallel to companies like Vesuvius/Orient Refractories in the metals space for RMTL in terms of its tax payments. Needless to mention but RMTL would also be one of the biggest beneficiaries of corporate tax reduction over the next four years as announced in the budget.
- Management compensation at RMTL has been linked to company's performance and this has remained one of the powerful drivers of superior performance.
- In the domestic pipes & tubes space, other listed companies are not comparable enough to be recognised as investment alternatives due to poor track records, stretched balance sheets, corporate governance issues and inferior return metrics.

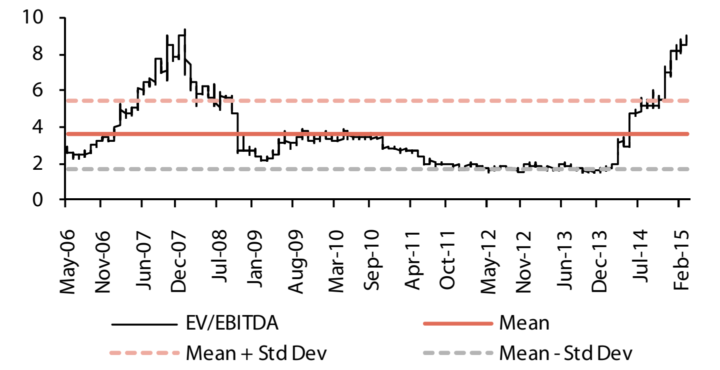
We note that the P/E multiple ascribed by us is well ahead of RMTL's historical average and also well above that of domestic peers but is justified on account of superior fundamentals, future growth opportunity and strong management capabilities. We believe that the stock has largely remained undiscovered and out of radar of institutional investors for long and this could be one of the reasons for low valuations in the past.

Exhibit 43: P/E band for RMTL



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 44: EV/EBITDA band for RMTL



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 45: Valuation– Peer comparison

Company	Mkt. Cap (US$ mn)	CAGR FY14-FY16E (%)			EBITDA Margin (%)			P/E (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E
RMTL#	**570.8**	**16.7**	**17.2**	**16.9**	**19.4**	**19.5**	**19.5**	**25.1**	**19.9**	**18.4**	**13.9**	**11.0**	**10.0**	**18.6**	**19.7**	**18.1**	**0.5**	**0.8**	**0.8**
Prakash Steelage	37.3	14.9	24.4	37.5	7.0	8.0	8.2	14.1	9.5	7.5	7.2	NA	NA	9.6	12.0	13.3	0.8	NA	NA
Man Industries	51.5	21.1	54.4	141.9	5.5	7.2	8.9	36.2	14.5	6.2	11.0	NA	NA	1.3	3.3	7.3	1.7	2.7	3.2
Jindal Saw	331.0	22.2	45.3	NA	9.7	12.4	13.7	(33.8)	9.6	4.7	11.7	8.1	5.9	(1.7)	5.8	11.2	1.8	1.4	1.8
Welspun Corp	270.1	8.5	(7.2)	88.6	13.4	8.2	9.8	23.0	22.3	6.5	4.3	6.2	4.8	1.7	4.7	8.3	0.7	1.0	0.9
Global Peers*																			
Tubacex SA	446.8	5.8	18.4	46.6	9.3	11.7	11.6	26.6	14.4	13.2	11.4	7.9	6.6	5.9	10.1	9.7	1.2	2.2	2.2

*Source: Bloomberg Estimates, #Centrum Research Estimates, *FY14=CY13 and so on for global peers, NA-Not available on bbg*

Key risks to our thesis

- **Lower than expected pick up in capex:** Capex spends in some key user industries (especially Refineries and petchem) of RMTL has slowed down in the last few years and we expect a pick up ahead on account of pricing deregulation and higher demand. However, lower than expected pick up in capex could lead to lower volumes and revenues from the SS segment for RMTL. According to our calculations, if only 50% of the planned capex is spent in user industries, growth in company's SS segment would be affected materially.

- **Margin pressure due to higher competition from global peers:** RMTL has been able to maintain high margins in SS business led by sustainable competitive advantages. Though we don't expect any change to that situation, higher aggression by global players for gaining market share could lead to lower than expected margins.

- **High volatility in raw material prices:** RMTL's key raw materials are stainless steel and carbon steel coils & plates. Though the company enters into back to back arrangement for its input requirements, any major volatility in raw material prices may have some impact on its gross margins and profitability.

Exhibit 46: Shareholding pattern (%)

	Q3FY15	Q2FY15	Q1FY15	Q4FY14
Promoter	*59.9*	*59.9*	*59.9*	*59.9*
FIIs	*12.3*	*13.1*	*13.1*	*13.0*
DIIs	*0.5*	*0.1*	*0.3*	*0.3*
Others	*27.3*	*26.9*	*26.7*	*26.8*

Source: BSE

Company Background

Ratnamani Metals & Tubes Ltd, RMTL was incorporated as a public limited company Sep'1983 and over the span of nearly 3 decades, it has grown to become a multi-location, multi-product company providing critical tubing and piping solutions to diverse range of industries & niche markets in core sectors like Petro-chemical, Refinery, Fertilizer, Thermal Power, Nuclear Power, Oil & Gas, Water Distribution, Chemical, Sugar, Food & Dairy, Paper, Pharmaceutical, Automobile, Aeronautics & Space. RMTL has an impressive clientele comprising major public, private and joint sector companies in the country who are leaders in their respective segments. RMTL is the market leader in stainless steel pipes & tubes with ~45% market share and is also a leading supplier of carbon steel pipes.

RMTL's manufacturing facilities, located at Chhatral and Indrad on Ahmedabad – Mehsana Highway and at Bhimasar, Kutch, on Bachau – Anjar Road, employ state-of-the-art manufacturing & inspection/testing technologies to produce a wide range of stainless steel welded & seamless pipes & tubes, heat exchanger tubes and carbon steel welded pipes.

Exhibit 47: RMTL's product profile

Segment	Products	Sub-product type	Capacity	FY14 Revenues	*% Share*
		Seamless tubes			
	Heat Exchanger Tubes	Welded tubes			
		Titanium welded tubes			
Stainless Steel	Seamless Instrumentation tubes	Seamless tubes	Welded - 20ktpa Seamless - 8ktpa	7,311	*51.9*
		Seamless pipes			
	Pipes	Welded pipes			
		3 layer coated pipes			
		LSAW	30ktpa		
	SAW Pipes	HSAW	180ktpa		
Carbon Steel		LCSSAW (Mobile plant)	60ktpa	6,164	*43.7*
	ERW Pipes		70ktpa		
	Coating Lines				

Source: Company

Exhibit 48: Key management personnel

Name	Position	Profile
Mr. Prakash Sanghvi	Chairman & Managing Director	Mr. Prakash Sanghvi is the Founder of RMTL. He started his successful journey in the year 1985. He is the driving force of the core team of RMTL and is involved in taking all strategic decisions, leading RMTL towards its vision to become a technology-led global engineering company.
Mr. Jayanti Sanghvi	Whole Time Director	One of the key members of the Core Team of RMTL management, Mr. Jayanti Sanghvi has transformed RMTL in to a major global player with its footprints in many countries today and still counting. Being a core team member his role has been instrumental and the company has truly relished its growth and establishment under his unmatched leadership. RMTL's overall business growth, product & process innovation, human resource management and facility management.
Mr. Shanti Sanghvi	Whole Time Director	As a proficient leader and a mentor too, Mr. Shanti Sanghvi has nurtured RMTL with his experience in Metal Industry. He has directed the organization to its current position at international level. His innovative and aggressive strategies in marketing different steel products have given the winning position to RMTL. He has high-end marketing team, responsible for all Business Development and Marketing Operations.

Source: Company

Exhibit 49: Quarterly financials

Particulars (Rs mn)	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15
Net sales	**3,353**	**2,753**	**2,739**	**3,344**	**3,884**	**3,306**	**4,177**	**4,872**
Other Operating Income	99.1	157.6	136.2	122.7	124.4	188.5	203.9	123.4
Total Income	**3,452**	**2,911**	**2,875**	**3,467**	**4,009**	**3,494**	**4,381**	**4,995**
Accretion to Stocks in trade & work in progress	51.2	(20.8)	(274.5)	(71.6)	446.1	(303.3)	(413.6)	62.8
Cost of Raw materials consumed	2,154	1,781	1,924	2,369	2,024	2,565	3,218	3,277
Purchase of traded goods	18.6	22.9	78.9	29	98	7.75	1.3	0.9
Staff cost	205	198	188	202	203	212	250	244
Other operational expenses	342	362	458	294	385	325	443	463
Operating Profit (Core EBITDA)	**680**	**568**	**501**	**645**	**854**	**689**	**882**	**948**
Depreciation	111	108	110	122	119	127	162	135
EBIT	**569**	**461**	**391**	**523**	**734**	**562**	**720**	**813**
Interest	27	20	21	26	37	14	13	36
Other Revenue/Income	47	30	31	40	36	36	43	14
Profit Before Tax	**589**	**471**	**401**	**536**	**734**	**583**	**750**	**790**
Tax	195	171	141	177	226	199	257	265
Profit After Tax	**394**	**300**	**260**	**360**	**508**	**385**	**492**	**525**
Growth (%)								
Revenue	*(2.3)*	*(2.5)*	*(9.3)*	*23.0*	*15.9*	*20.1*	*52.5*	*45.7*
EBITDA	*23.7*	*(4.8)*	*(15.4)*	*13.7*	*25.5*	*21.2*	*76.2*	*47.0*
PAT	*64.1*	*47.7*	*(41.4)*	*13.6*	*29.0*	*28.2*	*89.0*	*46.1*
Margin (%)								
EBITDA	*19.7*	*19.5*	*17.4*	*18.6*	*21.3*	*19.7*	*20.1*	*19.0*
EBIT	*16.5*	*15.8*	*13.6*	*15.1*	*18.3*	*16.1*	*16.4*	*16.3*
PAT	*11.4*	*10.3*	*9.1*	*10.4*	*12.7*	*11.0*	*11.2*	*10.5*
Key Performance Indicators								
Revenue (Rs mn)								
Stainless steel pipes	1,826	1,510	1,386	1,677	2,345	1,936	2,058	2,122
Carbon Steel pipes	1,678	1,270	1,263	1,614	1,538	1,440	2,283	2,824
Others	(4)	326	442	531	162	299	158	63
Volumes (Tonne)								
Stainless steel pipes (tonne)	4,588	3,909	3,913	5,158	6,092	5,375	6,012	6,427
Carbon steel pipes (tonne)	33,959	24,826	26,176	35,835	30,375	26,624	41,032	52,168

Source: Company, Centrum Research

Comments on recent quarterly results

Q3FY15 witnessed healthy growth with revenue up by 45.7% YoY led by execution of carbon steel order received from Gujarat govt. earlier. EBITDA went up by 47% YoY and margins remained strong at 19% despite higher proportion of lower margin carbon steel sales. PAT growth was also strong at 46.1%.

Annexure – Pipes & Tubes Industry

Steel pipes & tubes – An economical way to transport fluids

Pipelines are generally the most economical way to transport large quantities of oil, refined oil products, water and other fluids over land. Compared to shipping by railroad, they have lower cost per unit and higher capacity. Pipes are generally classified into two major categories of Carbon steel pipes and Stainless steel pipes & tubes and applications in the two categories vary widely. Carbon steel pipes are further divided into various types based on need of transportation or exploration. They are used for Oil & gas and water transportation while seamless carbon steel pipes are used for exploration and general engineering. Stainless steel pipes & tubes are costlier and long lasting with low failure rate and generally find their use in industrial applications and are used for critical applications in industries such as Oil & Gas, Petrochemicals and Refineries, Thermal, Nuclear and Solar Power Plants, Atomic Energy, Defence, Aerospace etc.

Carbon steel segment has a big market but is highly competitive with large number of players and surplus capacity whereas Stainless steel segment is a small and niche market where there are limited players who have developed expertise in making and selling those products.

Exhibit 50: Pipes & Tubes – Key characteristics

	Carbon Steel Pipes				Stainless Steel Tubes Welded/Seamless
	Longitudinal Saw Pipes (LSAW)	Spiral/Helical Saw Pipes (HSAW)	Electrical Resistant Welded	Seamless	
Application	Oil & Gas transportation, water transportation	Oil & Gas transportation, water transportation	Oil & Gas/ Water distribution Sanitation & Housing	Petroleum, Exploration general engineering boilers	Oil & Gas Refineries, Petrochem units, Heat exchanger tubes in process plants , Nuclear plants, Thermal plants, fertilizer plants etc
Key Differentiator	Suited for offshore pipeline due to higher wall thickness capability	can go upto any diameter up to 120"	Limitation on size & thickness	Find application in branch lines	Highly anti corrosive
Size of the market	Large	Large	Large	Large	Small & Niche market
Demand Driver	Investments in Oil & Gas and water sector to drive growth	Demand related to water & oil pipeline projects. New cross country pipeline network to drive demand	Gas pipelines in smart cities. Offers huge opportunity	Pick up in exploration activities to drive demand	Demand will come from expansion across Refineries, Petrochemical & Power industries
Life cycle	Long lasting	Long lasting	Long lasting	Long lasting	Very Long lasting, low failure rate
Margins	Low	Low	Low	High	High
Industry penetration	High	High	High	Medium	Low

Source: Industry, Centrum Research

Stainless steel pipes & tubes

Stainless steel pipes and tubes are used for a variety of reasons: to resist corrosion and oxidation, to resist high temperatures, for cleanliness and low maintenance costs, and to maintain the purity of materials which come in contact with stainless steel. The inherent characteristics of stainless steel permit the design of thin wall piping systems without fear of early failure due to corrosion. The use of fusion welding to join such piping eliminates the need for threading.

SS pipes & tubes are further divided into three major types:-

- Heat Exchanger Tubes
- Seamless instrumentation tubes
- Stainless steel pipes

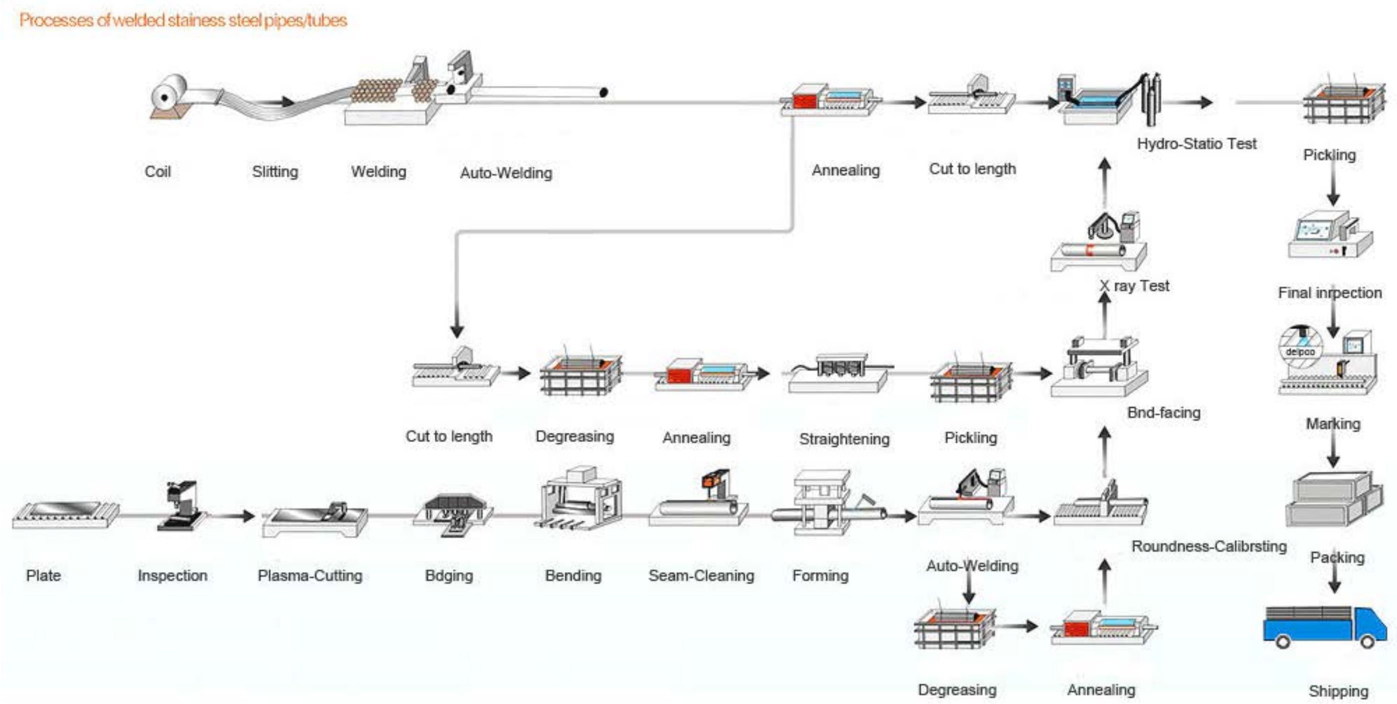
Exhibit 51: Heat Exchanger U-tube

Source: Centrum Research

Exhibit 52: Seamless instrumentation tube

Source: Centrum Research

Exhibit 53: Stainless steel pipes & tubes – manufacturing process



Source: Industry, Centrum Research

Financials (Historical)

Exhibit 54: Income Statement

Y/E Mar(Rs mn)	FY08	FY09	FY10	FY11	FY12
Revenues from Operations	**8,451**	**9,552**	**8,520**	**8,137**	**12,217**
Raw Materials consumed	5,369	6,298	5,663	5,282	7,945
% of net sales	*64*	*66*	*67*	*65*	*65*
Employee expenses	362	383	474	493	568
% of net sales	*4.3*	*4.0*	*5.6*	*6.1*	*4.6*
Other operational expenses	924	1,321	708	748	1,654
% of net sales	*10.9*	*13.8*	*8.3*	*9.2*	*13.5*
Total expenses	**6,654**	**8,002**	**6,844**	**6,522**	**10,167**
% of net sales	*78.7*	*83.8*	*80.3*	*80.2*	*83.2*
EBITDA	**1,797**	**1,550**	**1,675**	**1,615**	**2,051**
EBITDA Margin (%)	*21.3*	*16.2*	*19.7*	*19.8*	*16.8*
Depreciation & Amortisation	238	297	369	400	425
EBIT	**1,559**	**1,253**	**1,307**	**1,215**	**1,626**
Interest expenses	184	167	18	184	293
Other Income	19.0	14.0	15.0	97.0	58.0
EBT	**1,394**	**1,100**	**1,304**	**1,127**	**1,392**
Provision for tax	494	388	490	306	449
Effective tax rate (%)	*35.0*	*35.0*	*38.0*	*27.0*	*32.0*
Net Profit	**900**	**712**	**814**	**821**	**943**

Source: Company, Centrum Research

Exhibit 55: Key Ratios

Y/E Mar	FY08	FY09	FY10	FY11	FY12
Growth Ratio (%)					
Revenue	*47.9*	*13.0*	*(10.8)*	*(4.5)*	*50.2*
EBITDA	*35.7*	*(13.7)*	*8.1*	*(3.6)*	*27.0*
PAT	*40.3*	*(20.9)*	*14.4*	*0.8*	*14.9*
Margin Ratios (%)					
PBIT Margin	*18.4*	*13.1*	*15.3*	*14.9*	*13.3*
PBT Margin	*16.5*	*11.5*	*15.3*	*13.9*	*11.4*
PAT Margin	*10.7*	*7.5*	*9.6*	*10.1*	*7.7*
Return Ratios (%)					
ROE	*39.1*	*24.7*	*22.3*	*18.8*	*17.7*
ROCE	*23.8*	*15.4*	*11.1*	*12.8*	*13.3*
ROIC	*28.1*	*19.2*	*12.5*	*14.8*	*15.2*
Turnover Ratios (days)					
Asset turnover ratio (x)	2.0	1.8	1.1	1.1	1.4
Debtors	49	47	71	78	68
Inventory	65	39	72	158	85
Creditors	52	57	32	89	29
Net Working capital	62	29	111	147	125
Gearing Ratio (x)					
Debt-equity	0.7	0.7	0.9	0.6	0.5
Net debt-equity	0.6	0.5	0.7	0.5	0.4
Current ratio	1.8	1.7	4.1	2.5	4.3
Dividend					
Dividend per share	7.0	1.8	2.2	2.2	2.5
Dividend Payout (%)	*7.0*	*11.4*	*12.4*	*12.4*	*12.2*
Dividend Yield (%)	*0.9*	*0.2*	*0.3*	*0.3*	*0.3*
Per share Ratios (Rs)					
Basic EPS	100.0	15.8	17.7	17.7	20.3
Fully diluted EPS	100.0	15.8	17.7	17.7	20.3
Book value	255.7	64.0	79.4	94.2	114.8
Cash earnings per share	126.5	22.4	25.8	26.3	29.5
Valuation (x)					
P/E	7.7	48.5	43.3	43.3	37.7
P/BV	3.0	12.0	9.7	8.1	6.7
EV/EBITDA	4.6	23.2	22.5	23.3	18.4
EV/Sales	1.0	3.8	4.4	4.6	3.1
M-Cap/Sales	0.8	3.6	4.1	4.4	2.9

Source: Company, Centrum Research

Exhibit 56: Balance Sheet

Y/E Mar(Rs mn)	FY08	FY09	FY10	FY11	FY12
Equity share capital	90	90	92	93	93
Reserves & surplus	2,169	2,792	3,555	4,277	5,232
Shareholders' fund	2,301	2,882	3,647	4,370	5,325
Total debt	1,518	1,907	3,202	2,553	2,898
Deferred tax liabilities	455	536	581	537	357
Total Liabilities	**4,274**	**5,324**	**7,430**	**7,460**	**8,579**
Gross block	3,385	4,704	5,010	5,293	5,887
Less: accumulated depreciation	750	1,045	1,410	1,807	2,219
Net block	2,635	3,659	3,599	3,486	3,668
Capital work in progress	218	200	30	122	283
Goodwill	0	0	0	0	0
Investments	0	0	501	70	65
Inventories	1,503	1,010	1,676	3,518	2,838
Trade Recievables	1,140	1,231	1,663	1,747	2,289
Cash & cash equivalents	198	521	243	474	707
Loans & advances	293	528	814	533	271
Trade payables	1,213	1,485	740	1,979	955
Other current liabilities	368	187	135	357	397
Provisions	133	152	221	154	213
Total Assets	**4,274**	**5,324**	**7,430**	**7,460**	**8,579**

Source: Company, Centrum Research

Exhibit 57: Cash Flow

Y/E Mar(Rs mn)	FY08	FY09	FY10	FY11	FY12
PBT	**1,394**	**1,100**	**1,304**	**1,127**	**1,392**
Interest	189	207	105	102	130
Depreciation	265	310	382	400	425
Increase in debtors	(623)	(316)	(724)	1,239	(587)
Increase in inventories	146	493	(666)	(1,842)	680
Increase in current liab & payables	118	84	(794)	(84)	(1,024)
Tax	377	306	403	454	435
Cash flow from operations	**923**	**1,361**	**(893)**	**919**	**913**
Change in fixed assets	(503)	(1,182)	(288)	(388)	(724)
Cash flow from investments	**(502)**	**(1,180)**	**(785)**	**227**	**(672)**
Change in debt	(326)	215	1,439	(637)	258
Dividends paid	(53)	(74)	(95)	(119)	(135)
Interest paid	0	0	0	(98)	(133)
Cash flow from financing	**(335)**	**142**	**1,400**	**(829)**	**(8)**
Net cash flow	85	323	(278)	316	233
Opening cash balance	113	198	521	156	473
Closing cash balance	**198**	**521**	**243**	**473**	**706**
Free Cash Flow	**421**	**181**	**(1,177)**	**533**	**195**

Source: Company, Centrum Research

Financials

Exhibit 58: Income Statement

Y/E Mar(Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Revenues from Operations	**12,011**	**13,261**	**16,533**	**18,068**	**21,515**
Raw Materials consumed	7,398	8,406	10,611	11,598	13,883
% of net sales	*61.6*	*63.4*	*64.2*	*64.2*	*64.5*
Employee expenses	721	789	959	1,048	1,226
% of net sales	*6.0*	*6.0*	*5.8*	*5.8*	*5.7*
Other operational expenses	1,513	1,499	1,736	1,897	2,259
% of net sales	*12.6*	*11.3*	*10.5*	*10.5*	*10.5*
Total expenses	**9,633**	**10,694**	**13,306**	**14,544**	**17,368**
% of net sales	*80.2*	*80.6*	*80.5*	*80.5*	*80.7*
EBITDA	**2,379**	**2,567**	**3,227**	**3,525**	**4,147**
EBITDA Margin (%)	*19.8*	*19.4*	*19.5*	*19.5*	*19.3*
Depreciation & Amortisation	425	459	534	639	745
EBIT	**1,954**	**2,108**	**2,694**	**2,886**	**3,402**
Interest expenses	121	103	103	77	62
Other Income	183	137	115	127	139
EBT	**2,015**	**2,142**	**2,706**	**2,935**	**3,479**
Provision for tax	656	714	906	983	1,165
Effective tax rate (%)	33.0	33.0	34.0	34.0	34.0
Net Profit	**1,360**	**1,428**	**1,799**	**1,952**	**2,313**

Source: Company, Centrum Research Estimates

Exhibit 59: Key Ratios

Y/E Mar	FY13	FY14	FY15E	FY16E	FY17E
Growth Ratio (%)					
Revenue	*(1.7)*	*10.4*	*24.7*	*9.3*	*19.1*
EBITDA	*16.0*	*7.9*	*25.7*	*9.2*	*17.6*
PAT	*44.1*	*5.0*	*26.0*	*8.5*	*18.5*
Margin Ratios (%)					
PBIT Margin	*16.3*	*15.9*	*16.3*	*16.0*	*15.8*
PBT Margin	*16.8*	*16.2*	*16.4*	*16.2*	*16.2*
PAT Margin	*11.3*	*10.8*	*10.9*	*10.8*	*10.8*
Return Ratios (%)					
ROE	*21.0*	*18.6*	*19.7*	*18.1*	*18.3*
ROCE	*17.5*	*16.7*	*18.4*	*17.4*	*17.6*
ROIC	*20.0*	*18.6*	*20.5*	*18.8*	*18.6*
Turnover Ratios (days)					
Asset turnover ratio (x)	1.5	1.5	1.6	1.6	1.6
Debtors	76	77	80	80	80
Inventory	71	69	70	70	70
Creditors	31	42	40	40	40
Net Working capital	116	104	110	110	110
Gearing Ratio (x)					
Debt-equity	0.2	0.1	0.1	0.0	0.0
Net debt-equity	0.1	0.0	0.0	0.0	0.0
Current ratio	3.1	2.6	2.7	2.6	2.6
Dividend					
Dividend per share	3.0	4.0	5.8	6.3	7.4
Dividend Payout (%)	*10.2*	*13.0*	*15.0*	*15.0*	*15.0*
Dividend Yield (%)	*0.4*	*0.5*	*0.8*	*0.8*	*1.0*
Per share Ratios (Rs)					
Basic EPS	29.3	30.6	38.5	41.8	49.5
Fully diluted EPS	29.3	30.6	38.5	41.8	49.5
Book value	139.4	164.1	195.8	230.2	271.1
Cash earnings per share	38.5	40.4	49.9	55.5	65.4
Valuation (x)					
P/E	26.2	25.1	19.9	18.4	15.5
P/BV	5.5	4.7	3.9	3.3	2.8
EV/EBITDA	15.2	13.9	11.0	10.0	8.6
EV/Sales	3.0	2.7	2.1	2.0	1.6
M-Cap/Sales	3.0	2.7	2.2	2.0	1.7

Source: Company, Centrum Research Estimates

Exhibit 60: Balance Sheet

Y/E Mar(Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Equity share capital	93	93	93	93	93
Reserves & surplus	6,374	7,572	9,056	10,665	12,573
Shareholders' fund	6,467	7,665	9,149	10,759	12,666
Total debt	1,355	811	511	261	211
Deferred tax liabilities	400	467	467	467	467
Total Liabilities	**8,222**	**8,943**	**10,126**	**11,486**	**13,343**
Gross block	6,536	7,494	8,214	9,834	11,454
Less: accumulated depreciation	2,631	3,076	3,610	4,249	4,994
Net block	3,905	4,418	4,604	5,585	6,461
Capital work in progress	229	130	210	390	570
Goodwill	0	0	0	0	0
Investments	291	541	341	341	341
Inventories	2,327	2,517	3,171	3,465	4,126
Trade Receivables	2,512	2,781	3,624	3,960	4,716
Cash & cash equivalents	601	434	558	349	235
Loans & advances	405	637	770	842	1,002
Trade payables	1,006	1,531	1,812	1,980	2,358
Other current liabilities	728	656	906	990	1,179
Provisions	331	346	453	495	589
Total Assets	**8,222**	**8,943**	**10,126**	**11,486**	**13,343**

Source: Company, Centrum Research Estimates

Exhibit 61: Cash Flow

Y/E Mar(Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
PBT	**2,015**	**2,142**	**2,706**	**2,935**	**3,479**
Interest	90	58	103	77	62
Depreciation	425	459	534	639	745
Increase in debtors	(234)	(303)	(843)	(336)	(755)
Increase in inventories	511	(190)	(654)	(294)	(661)
Increase in current liab & payables	51	525	281	168	378
Tax	547	648	906	983	1,165
Cash flow from operations	**2,359**	**1,595**	**1,442**	**2,260**	**2,204**
Change in fixed assets	(577)	(796)	(800)	(1,800)	(1,800)
Cash flow from investments	**(629)**	**(1,085)**	**(600)**	**(1,800)**	**(1,800)**
Change in debt	(1,595)	(591)	(300)	(250)	(50)
Dividends paid	(162)	(217)	(316)	(343)	(406)
Interest paid	(79)	(60)	(103)	(77)	(62)
Cash flow from financing	**(1,836)**	**(852)**	**(719)**	**(669)**	**(518)**
Net cash flow	(106)	(342)	124	(209)	(114)
Opening cash balance	706	600	250	373	164
Closing cash balance	**600**	**250**	**373**	**164**	**50**
Free Cash Flow	**1,787**	**804**	**642**	**460**	**404**

Source: Company, Centrum Research Estimates

Appendix A

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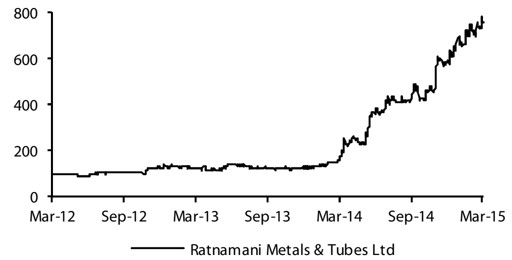
Ratnamani Metals & Tubes price chart



Source: Bloomberg, Centrum Research

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		Ratnamani Metals & Tubes
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