

Strong growth momentum to continue...

About stock: Ratnaveer Precision Engineering (RPEL), is a Gujarat based stainless steel (SS) product manufacturer focused on producing finished sheets, washers, solar roofing hooks, pipes and tubes

- The company operates out of four manufacturing units in Gujarat with total manufacturing capacity stood at 30000 tonnes as of FY24. SS finishing line sheets contributed ~47% to total revenues in FY24 followed by SS washers (~23%), tubes & pipes (~17%), sheet metal components (~8%) and SS fasteners & components (~5%)

Q1FY25 Results: Operational performance remained strong during the quarter. Revenue increased significantly by 73.6% YoY (+43.8% QoQ) to ₹ 204.2 crore. EBITDA margin stood at 12% (flat YoY). Sequentially, the margin improved substantially by 888 bps. Subsequently, EBITDA was up 68.2% YoY (+5.5x QoQ) to ₹ 24.6 crore. PAT increased by 52.4% YoY (+123% QoQ) to ₹ 12.5 crore

Investment Rationale

- Capacity expansions, buoyant demand to drive growth:** RPEL is strongly positioned to benefit significantly from the buoyant industrial capex cycle led by strong product portfolio of stainless steel (SS) finished sheets, washers, solar roofing hooks, pipes & tubes etc. With a planned capex of ~₹ 106 crore over the next one year for capacity additions in the existing product lines and product portfolio expansion (with value-added products like circlips, electro-polished and seamless tubes & pipes and nuts & bolts), we believe that company is well placed to increase its market share in both domestic and export markets and to cater higher growth segments. Company targets revenue of ₹ 1150 crore by FY27E (which implies 25% CAGR) with EBITDA margin improvement to 14% (from 8.4% in FY24)
- Multiple drivers for margins expansion in place:** Company's expansion into new lines of value-added products (like circlips, electro-polishing tubes & pipes, nuts & bolts) and higher-margin segments like railways, defence, energy etc would help in better volumes growth & realisations. Moreover, the backward integration of manufacturing and usage of captive solar power would help the company in achieving efficiency in the production process, reducing overall production costs and gaining competitive advantage

Rating and Target Price

- We maintain our positive stance on RPEL considering the significant improvement in operational performance in the coming period. We revise upwards our EBITDA margin estimates by ~80 bps each for FY25E/FY26E, factoring in strong Q1FY25 performance
- We expect strong earnings growth of ~55% CAGR over FY24-26E, driving improvement in return ratios over the same period. We maintain Buy on RPEL and assign a **target price of ₹ 245** (valuing it at 18x FY26 P/E)



Particulars

Particular	Amount
Market Capitalisation (Rs Crore)	888
FY24 Gross Debt (Rs Crore)	207
FY24 Cash (Rs Crore)	60
EV (Rs Crore)	1,035
52 Week H/L (Rs)	205 / 107
Equity Capital	48.7
Face Value	10.0

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	55.5	55.5	55.5	55.5
FII	10.5	3.8	0.2	1.2
DII	0.0	0.0	0.0	0.0
Others	34.0	40.7	44.4	43.3

Price Chart



Key risks

- Key Risk: (i) Availability of raw materials (ii) Slowdown in industrial capex (iii) High working capital requirement (iv) High competitive environment

Research Analyst

Chirag Shah
Shah.chirag@icicisecurities.com

Vijay Goel
Vijay.goel@icicisecurities.com

Key Financial Summary

Rs crore	FY21	FY22	FY23	FY24	3 Year CAGR (FY21-24)	FY25E	FY26E	2 Year CAGR (FY24-26E)
Revenues	360	427	480	595	18.3	719	921	24.4
EBITDA	20	28	46	50	35.9	75	110	48.3
EBITDA margin (%)	5.5	6.4	9.5	8.4		10.4	11.9	
Net Profit	5	9	25	31	78.5	49	74	54.8
Diluted EPS (Rs)	1.0	1.7	4.5	5.6		8.9	13.5	
P/E (x)	184.9	106.5	40.3	32.5		20.5	13.6	
EV/EBITDA (x)	51.2	38.5	23.8	20.7		13.2	8.9	
RoCE (%)	10.4	9.8	12.8	11.1		12.3	15.4	
RoE (%)	9.6	14.4	23.6	12.3		12.4	15.8	

Q1FY25 Result Highlights

- Revenue increased significantly by 73.6% YoY (+43.8% QoQ) to ₹ 204.2 crore in Q1FY25, possibly led by volume growth & better realisations
- EBIDTA margin stood at 12% during the quarter (flat YoY, +888 bps QoQ). Sequential improvement in margins is primarily led by lower raw material cost and positive operating leverage
- Subsequently, EBIDTA was up 68.2% YoY to ₹ 24.6 crore. Sequentially, EBITDA increased by 5.5x QoQ led by substantial improvement in margins
- PAT increased by 52.4% YoY (+123% QoQ) to ₹ 12.5 crore

Exhibit 1: Quarterly Analysis

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
Revenue from Operations	204.2	117.7	73.6	142.0	43.8	Revenue grew significantly on both YoY and QoQ, led by improvement in utilisation of existing capacities
Raw Material Expenses	169.7	96.1	76.7	126.2	34.4	
Employee Expenses	2.0	1.7	15.3	1.4	40.3	
Other Expenses	8.0	5.3	50.9	9.9	-19.5	
EBITDA	24.6	14.6	68.2	4.5	447.8	Sequential improvement in margins was primarily led by lower RM cost and positive operating leverage
EBITDA Margin (%)	12.0	12.4	-38 bps	3.2	+888 bps	
Other Income	0.6	0.5	18.3	4.6	-86.8	
Depreciation	3.0	1.0	189.2	1.6	89.9	
Interest	4.8	3.4	39.1	2.0	141.4	
PBT	17.4	10.7	63.5	5.6	212.5	
Tax	4.9	2.5	100.4	0.0	-18392.6	
Reported PAT	12.5	8.2	52.4	5.6	123.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

Rs Crore	FY25E			FY26E			Comments
	Old	New	Change (%)	Old	New	Change (%)	
Revenue	718.9	718.9	0.0	905.8	920.9	1.7	
EBITDA	69.2	74.7	8.1	100.5	110.0	9.4	
EBITDA Margin (%)	9.6	10.4	+78 bps	11.1	11.9	+84 bps	Margins are revised upwards by ~80 bps, factoring in better operational performance in Q1FY25 and management's guidance
PAT	44.0	49.2	11.8	64.4	74.4	15.5	
Diluted EPS (Rs)	9.1	8.9	-1.7	13.3	13.5	1.5	Factoring in EPS dilution on account of fund raising of ~Rs 95 crore through preferential allotment

Source: ICICI Direct Research

Growth outlook remains strong: With the focus on capacity expansions (capex plan of Rs 106 crore over the next one year) with augmenting product portfolio of value-added products, company aims to strengthen its presence in key domestic and international markets. During the quarter, the company has implemented capital expenditure for phase 1 to the extent of 60% and is expected to commission by Sept 2024. The company has further planned phase 2 of capital expenditure for which land is identified and implementation to begin from October 2024 onwards. For this capex, the company is also raising funds to the extent of Rs 95 crore via preferential allotment of equity shares and warrants. Going ahead, company is confident of achieving healthy growth in revenues with improvement in margins (led by increasing share of value-added products (circlips, electro-polished and seamless tubes & pipes and nuts & bolts), focus on backward integration, increasing share into better-margin segments like (railways, defence, energy etc.) and usage of captive solar power

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

Year-End March	FY23	FY24	FY25E	FY26E
Revenue	479.7	595.4	718.9	920.9
% Growth	12.4	24.1	20.8	28.1
Other income	1.4	7.0	8.2	8.2
Total Revenue	479.7	595.4	718.9	920.9
% Growth	12.4	24.1	20.8	28.1
Total Raw Material Costs	392.3	512.2	605.5	764.6
Employee Expenses	7.9	6.8	8.3	10.0
other expenses	33.9	26.4	30.3	36.4
Total Operating Expenditure	434.1	545.4	644.2	811.0
Operating Profit (EBITDA)	45.6	50.0	74.7	110.0
% Growth	65.8	9.6	49.5	47.1
Interest	12.3	12.1	12.0	10.2
PBDT	34.7	44.9	70.9	108.0
Depreciation	4.0	5.8	8.6	13.8
PBT before Exceptional Items	30.7	39.1	62.3	94.1
Total Tax	5.7	8.0	13.1	19.8
PAT before MI	25.0	31.1	49.2	74.4
PAT	25.0	31.1	49.2	74.4
% Growth	164.3	24.0	58.6	51.1
Diluted EPS	5.2	6.4	8.9	13.5

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

Year-End March	FY23	FY24	FY25E	FY26E
Profit after Tax	25.0	31.1	49.2	74.4
Depreciation	4.0	5.8	8.6	13.8
Interest	12.3	12.1	12.0	10.2
Cash Flow before WC changes	41.4	49.0	69.9	98.4
Changes in inventory	(34.5)	(39.1)	(30.8)	(64.9)
Changes in debtors	(23.1)	18.6	(10.4)	(13.0)
Changes in loans & Advances	-	-	-	-
Changes in other current assets	1.2	(16.3)	(3.6)	(12.9)
Net Increase in Current Assets	(56.3)	(36.7)	(44.8)	(90.7)
Changes in creditors	(3.8)	6.5	9.2	14.9
Changes in provisions	0.6	(1.1)	0.2	0.4
Net Inc in Current Liabilities	(0.5)	2.7	10.7	17.6
Net CF from Operating activities	(15.4)	15.0	35.8	25.2
Changes in deferred tax assets	-	-	-	-
(Purchase)/Sale of Fixed Assets	(18.4)	(66.0)	(70.7)	(10.0)
Net CF from Investing activities	(15.9)	(66.0)	(70.4)	(11.2)
Dividend and Dividend Tax	-	-	-	-
Net CF from Financing Activities	42.0	80.2	83.0	(10.2)
Net Cash flow	10.6	29.2	48.4	3.8
Opening Cash/Cash Equivalent	19.7	30.3	59.5	108.0
Closing Cash/ Cash Equivalent	30.3	59.5	108.0	111.8

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

Year-End March	FY23	FY24	FY25E	FY26E
Equity Capital	34.9	48.7	48.7	48.7
Reserve and Surplus	71.1	203.4	347.6	422.0
Total Shareholders funds	106.0	252.1	396.3	470.7
Total Debt	230.0	207.2	207.2	207.2
Deferred tax Liab	4.7	5.7	5.7	5.7
Total Liabilities	340.7	465.1	609.3	683.7
Gross Block	58.6	69.7	115.7	180.7
Acc. Depreciation	23.7	29.6	38.2	52.0
Net Block	34.9	40.1	77.5	128.6
Capital WIP	8.8	45.3	70.0	15.0
Total Fixed Assets	58.9	119.0	181.1	177.3
Non Current Assets	3.2	4.2	3.9	5.1
Inventory	205.8	244.9	275.8	340.6
Debtors	63.4	44.8	55.2	68.1
Other Current Assets	27.2	43.5	47.1	60.0
Cash	30.3	59.5	108.0	111.8
Total Current Assets	326.9	392.8	486.0	580.6
Current Liabilities	37.4	44.0	53.2	68.1
Other Current Liab	10.9	7.1	8.6	11.2
Total Current Liabilities	48.3	51.0	61.8	79.3
Net Current Assets	278.6	341.8	424.3	501.3
Total Assets	340.7	465.1	609.3	683.7

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

Year-End March	FY23	FY24	FY25E	FY26E
Diluted EPS	4.5	5.6	8.9	13.5
Cash per Share	6.3	12.3	22.3	23.1
BV	21.9	52.0	81.7	97.1
EBITDA Margin	9.5	8.4	10.4	11.9
PAT Margin	5.2	5.2	6.8	8.1
RoE	23.6	12.3	12.4	15.8
RoCE	12.8	11.1	12.3	15.4
RoC	13.6	11.0	13.3	17.0
EV / EBITDA	23.8	20.7	13.2	8.9
P/E	40.3	32.5	20.5	13.6
EV / Net Sales	2.3	1.7	1.4	1.1
Sales / Equity	4.5	2.4	1.8	2.0
Market Cap / Sales	1.8	1.5	1.2	1.0
Price to Book Value	8.4	3.5	2.2	1.9
Asset turnover	1.4	1.3	1.2	1.4
Debtors Turnover Ratio	9.3	11.0	14.4	14.9
Creditors Turnover Ratio	12.2	14.6	14.8	15.2
Debt / Equity	2.2	0.8	0.5	0.4
Current Ratio	6.8	7.3	6.8	6.6
Quick Ratio	2.1	1.9	1.8	1.8

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agarwal
Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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