# Ratnamani Metals & Tubes

MOTILAL OSWAL
Solid research. Solid advice.

## Buy

19 September 2006

**Rs376**

*Initiating Coverage*

## Piping hot

We estimate projects pipes demand of Rs51b in the domestic market over the next five years. We are convinced of Ratnamani's competitive edge in project pipes. Its timely capex plans will help drive EPS CAGR of 25% through FY08E. **BUY.**

| YEAR END | NET SALES (Rs M) | PAT (Rs M) | EPS (Rs) | EPS GROWTH (%) | P/E (X) | P/BV (X) | ROE (%) | ROCE (%) | EV/ SALES (X) | EV/ EBITDA (X) |
|---|---|---|---|---|---|---|---|---|---|---|
| 3/06A | 3,191 | 335 | 37.3 | 153.1 | 10.1 | 4.1 | 41.1 | 27.4 | 1.4 | 7.0 |
| 3/07E | 4,454 | 417 | 46.3 | 24.3 | 8.1 | 2.8 | 34.8 | 27.9 | 1.0 | 5.4 |
| 3/08E | 5,443 | 528 | 58.6 | 26.5 | 6.4 | 2.0 | 31.5 | 32.0 | 0.8 | 4.1 |

- **Beneficiary of demand for project pipes**
  We estimate projects pipes demand of Rs51b in the domestic market over the next five years. This is on the back of power, oil refining, and petrochemical projects worth Rs3,350b (pipe requirement ~1.5%). We expect Ratnamani to enjoy a healthy share of this demand pie.

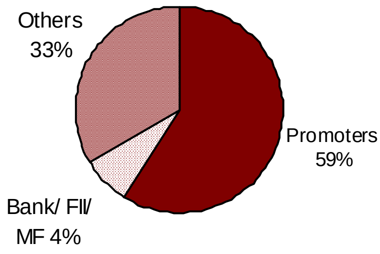
- **Ratnamani has competitive edge in project pipes**
  Ratnamani is a leading manufacturer of carbon steel pipes (SP) and stainless steel tubes and pipes (SSTP). It is the sole domestic vendor to BHEL for projects of over 500mw. It is also an approved vendor with global petrochemical majors, which has helped exports grow from Rs138m in FY04 to Rs544m in FY06. Overall, we are convinced of Ratnamani's competitive edge.

- **Timely capex to sustain growth and margins**
  In FY06, Ratnamani commissioned its Rs1.1b facility in Kutch, substantially expanding its SP and SSTP capacities. Moreover, its Rs200m backward integration project for mother pipes is scheduled to commission in October 2006. We expect the expansion to help drive growth and the backward integration to help sustain margins, going forward.

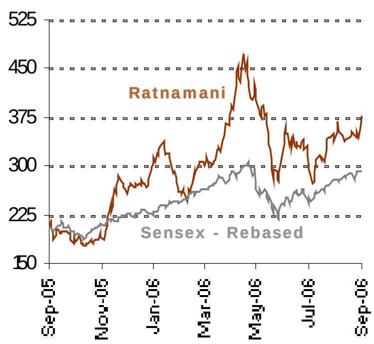
- **EPS CAGR of 25% through FY08E, valuation reasonable, BUY**
  Ratnamani's order book stood at Rs3.5b as on September 1, 2006; this should help the company easily achieve our FY07 sales estimate of Rs4.45b. We expect 31% CAGR in sales, and 25% CAGR in PAT and EPS through FY08E. The stock trades at an attractive 6.4x FY08E EPS of Rs59. Our 18-month target price is **Rs555** (9.5x FY08E), yielding a return CAGR of 30%. **We recommend BUY.**

| Sector | Pipes |
|---|---|
| Bloomberg | RMT IN |
| Reuters code | RMT.BO |
| BSE Sensex | 11,970 |
| S&P CNX | 3,457 |
| Equity Shares (m) | 9.0 |
| 52-Week H/L (Rs) | 498/172 |
| 1,6,12 Rel. Perf. (%) | 7,16,42 |
| M.Cap. (Rs b) | 3.39 |
| Avg. Daily Vol. ('000) | 13.9 |

**SHAREHOLDING PATTERN**




**RATNAMANI VS SENSEX - PAST ONE YEAR**

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# Investment Argument

We initiate coverage on Ratnamani Metals & Tubes with a **Buy**. Our 18-month target price is Rs555, yielding a return CAGR of 30% from current levels.

## Beneficiary of demand for project pipes

**We estimate projects pipes demand of Rs51b in the domestic market over the next five years. The main demand drivers are power and oil refining projects worth Rs3,350b (pipe requirement ~1.5%). We expect Ratnamani to enjoy a healthy share of this demand pie.**

### Power projects

The 11th Five-Year Plan (FY08-13) targets additional thermal power capacity of 46,500mw at an investment of Rs1,860b. At 1.5%, the pipes and tubes demand works out to Rs28b over five years.

*Pipes demand from power projects estimated at Rs28b over next five years*

Power projects generate demand for pipes from two sources:

- Direct - process pipes from the power generating company (approx. 0.75% of project cost), and
- Indirect - heat exchanger pipes from power equipment manufacturers such as BHEL (0.75% of project cost).

### Oil refining projects

Oil refining investments of Rs840b are planned through FY11. At 1.5%, the pipes and tubes demand works out to Rs13b over the next four years.

*Pipes demand from oil refining projects estimated at Rs13b over next four years*

Oil refineries require a wide variety of pipes and tubes, accounting for as high as 10% of the project cost. Refining companies have several sources for the same, including much of it as part of project imports. We have assumed only 1.5% of the project cost as the addressable market for Ratnamani.

### Petrochemical, steel, and others

Various continuous process industries like petrochemicals, distilleries, steel, etc require pipes and tubes of varying value. (For instance, in the steel sector, stainless steel pipes are required for gas transportation and also for heat exchangers in captive power plants.) We estimate Rs10b of pipes demand over the next five years.

*Pipes demand from petrochemical, steel, and other projects estimated at Rs10b over next five years*

In sum, we expect domestic pipes demand of over Rs51b over the next five years. We believe Ratnamani has the competitive edge to gain a healthy share of this demand pie.

**Addressable market for Ratnamani**

| Sector/Company | Project cost (Rs b) | | Commissioning |
|---|---|---|---|
| **Refining** | | | |
| BPCL | | 83 | |
| Bina | 63 | | 2010-11 |
| Kochi Refineries | 20 | | 2010-11 |
| HPCL | | 140 | |
| Mumbai | 12 | | 2007-08 |
| Vizag | 30 | | 2008-09 |
| Bhatinda | 98 | | 2011-12 |
| IOC | | 278 | |
| Paradip | 150 | | 2010-11 |
| Panipat | 8 | | 2008-09 |
| Panipat - Petrochem complex | 120 | | 2009-10 |
| MRPL | | 79 | 2009-10 |
| Reliance Petroleum | | 260 | 2008-09 |
| Total Refining Project cost | | 840 | |
| **Pipes demand @ 1.5% [A]** | | **13** | |
| **Power** | | | |
| 46,500 mw capacity addition in 11th plan | | 1,860 | 2007-12 |
| **Pipes demand @ 1.5% [B]** | | **28** | |
| **Pipes - Petrochem, steel, etc [C]** | | **10** | |
| **TOTAL PIPES DEMAND [A] + [B] + [C]** | | **51** | **2007-12** |

## Exports to Middle East: a potential opportunity

Various estimates suggest Rs2,700b worth of oil and petrochemical projects planned in the Middle East over the medium term. Going by the same thumb rule of 1.5%, this adds Rs40b to the addressable market.

## Company background

Ratnamani Metals and Tubes Ltd is a leading supplier of project pipes, used primarily in continuous process industries such as power, oil refining, and petrochemicals. Incorporated in 1966, Ratnamani has two major divisions: (1) Saw pipes (SP) and (2) Stainless steel tubes and pipes (SSTP), both seamless and welded.

The company has its facilities at Chhatral and Kutch, both in Gujarat. Besides project pipes, the SP division also operates two mobile plants for making large-diameter SAW (submerged arc-welded) pipes at the customer's site. Ratnamani also operates a wind-mill division, with current capacity of 8.5mw. The entire power generated is used only for captive consumption.

# Competitive edge in project pipes

**Ratnamani is the sole domestic vendor to BHEL for projects of over 500mw. It is also an approved vendor with global petrochemical majors. We are convinced of Ratnamani's competitive edge.**

We believe Ratnamani derives its competitive edge from three major factors:

- Wide product profile
- Established track record in the domestic market
- Approval from global vendors.

## Wide product profile helps serve various industries

*Wide product profile helps Ratnamani to cater to diverse industries*

Ratnamani focuses on the niche segment of project pipes and tubes. However, within this niche, it has a wide product profile -

- SS pipes & tubes
  - Seamless
  - Welded
- Large diameter EFSW SS pipes
- Carbon steel SAW pipes.

This helps the company manufacture highly customised pipes for various applications across industries.

**Ratnamani's product profile**

| Product segment | Major applications | User segments |
|---|---|---|
| SS pipes & tubes<br>- Seamless<br>- Welded | SS Pipes - conveying fluids for critical high temperature and general corrosion service applications<br><br>SS tubes - heat transfer process equipment (boilers, super heaters, heat exchangers, etc), general engineering and process instrumentation. | Chemicals, petrochemicals, refineries, nuclear, power, space engineering, dairy, and food-processing |
| Large diameter EFSW SS pipes | Suitable for corrosive and/or high-temperature service | Chemicals, petrochemicals, power, dairy, food-processing, sugar, sanitary applications, LNG terminals, corrosive chemicals etc |
| Carbon steel SAW pipes | • Water and sewage conveyance<br>• High-pressure pipes for high or moderate temperature applications<br>• Oil and gas conveyance<br>• Structurals | Water supply, Oil and gas, process industries, and ports (as jetty pile pipes) |

*Source: Company website*

Ratnamani's leadership position, wide product profile, and superior product mix is also reflected in its sales volume and average sales realisation compared to some of its competitors.

**Competitive edge**

| | Ratnamani | Suraj Stainless | Rajendra Mechanical |
|---|---|---|---|
| Capacity (tons) | | | |
| FY06 | 14,360 | 8,800 | 6,045 |
| FY05 | 10,160 | 4,900 | 4,845 |
| FY04 | 6,960 | 4,350 | 4,545 |
| Sales volume (tons) | | | |
| FY06 | 4,739 | 4,320 | 3,591 |
| FY05 | 4,293 | 4,542 | 3,962 |
| FY04 | 3,382 | 4,224 | 3,694 |
| Sales (Rs m) | | | |
| FY06 | 1,466 | 1,104 | 857 |
| FY05 | 1,327 | 960 | 844 |
| FY04 | 812 | 656 | 632 |
| Realisation (Rs/ton) | | | |
| FY06 | 309,411 | 255,529 | 238,699 |
| FY05 | 309,084 | 211,401 | 213,087 |
| FY04 | 240,095 | 155,313 | 171,188 |

*Source: Company Annual Reports / MOSt*

## Established track record ensures repeat orders

*Ratnamani is the only Indian vendor approved by BHEL to supply tubes for +500mw power projects*

Ratnamani has a well-established track record in the Indian market of supplying quality products on schedule.

Ratnamani is one of the largest suppliers of condenser tubes to BHEL for its power projects. It is the only Indian vendor approved by BHEL to supply tubes for +500mw power projects. (Incidentally, BHEL itself has a three-year order book of around Rs375b.) We are confident that Ratnamani's status as a BHEL-approved supplier will also help it garner orders from other power equipment manufacturers.

The performance of project/in-plant pipes is critical for the smooth operation of a continuous process plant. However, pipes cost is just 1-2% of the overall project cost. Hence, customers prefer quality products regardless of the price. Thus, we believe Ratnamani's successful track record to give it some pricing power as well, sustaining margins.

Finally, an established track record significantly improves the chances of getting replacement orders from existing customers.

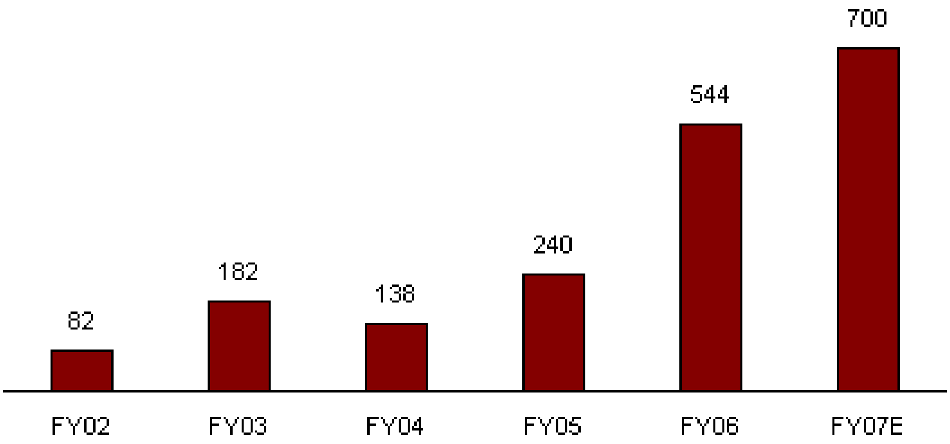
## Approval from global vendors drives export growth

*Approval from global vendors like Chevron and Exxon-Mobil will help exports*

Ratnamani is on the approved vendor list of hydrocarbon majors like Shell, Chevron, Exxon-Mobil, and Dow Chemicals. The company is focused on exports (Rs544m in FY06, expected to increase to Rs700m in FY07E), and has accreditations from various international EPC contractors.

Recently, the company received a Rs200m stainless steel tubes order for a de-salination plant in the Middle East. With investments of $60b planned in the Caspian Sea basin over the next 10 years, exports are a potential growth driver for the company.

**Exports (Rs m)**




*Source: Company Annual Reports; E-MOSt Estimate*

# Timely capex to sustain growth and margins

**In FY06, Ratnamani commissioned its new Rs1.1b facility in Kutch. Its Rs200m backward integration project for mother pipes is scheduled to commission in October 2006.**

## Kutch facility has significantly expanded capacities

In September 2005, Ratnamani commissioned its new Rs1.1b facility in Kutch. The facility expanded Ratnamani's capacity as tabled below.

*Full benefits of Kutch facility FY07 onwards*

**Plant Capacity (tons)**

| Location | SSTP | SP |
|---|---|---|
| Chhatral | 6,960 | 1,00,000 |
| Kutch | 7,400 | 2,00,000 |
| **Total** | **14,360** | **3,00,000** |

This expansion enables the company to scale up its operations, as its old plant at Chhatral is already at full capacity. The full benefits of the Kutch facility will be reflected FY07 onwards. The company claims that the expanded capacity will help it scale up to a turnover of Rs10b, its FY09 target.

## Backward integration to help sustain margins

Ratnamani is setting up a Rs200m plant with a capacity of 7,000 tons of stainless steel mother pipes. This project is scheduled to commission in October 2006. However, the management feels it may take 9-12 months before this technology-sensitive project is fully stabilised. This project is expected to meet 50-70% of Ratnamani's mother pipes requirement.

*Full benefits of backward integration mid-FY08 onwards*

Traditionally, the company has imported mother tubes from Japan, Europe, and Korea. Ratnamani will be manufacturing mother pipes from stainless steel billets, and expects a 7-8% higher value-add. The projected payback period for the project is about three years.

# Financials & Projections

**Ratnamani's financials have improved considerably from FY04 - strong topline growth, healthy margins, and robust profitability. We expect 31% CAGR in sales, and 25% CAGR in PAT and EPS through FY08E.**

## Major improvement in financials FY04 onwards

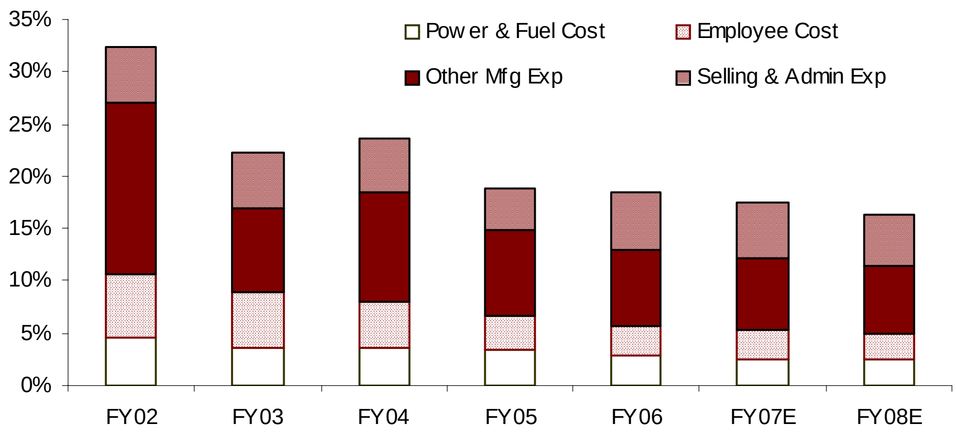
*All round improvement in profitability*

Over FY03-06, Ratnamani has recorded 56% CAGR is sales and 149% CAGR in PAT. For FY06:

- Net sales was Rs3.19b, up 76%
- EBITDA margins increased 370bps to 19.8%; EBITDA was at Rs633m
- PAT was Rs335m, up 153%
- Profitability was robust - RoCE 27% and RoE 41%.

Margins have been improving steadily over the past three years, with the increase in turnover. The decreasing ratio of several expense heads to sales indicates an all-round improvement in profitability. We expect Ratnamani to broadly maintain its margins going forward.

**Expenses (excluding raw material costs) as % of sales**




*Source: Company Annual Reports; E-MOSt Estimate*

## 1QFY07 performance is on track

In 1QFY07, Ratnamani's revenue grew 60% to Rs881m. EBITDA was at Rs190m (EBITDA margins of 21.6% are significantly higher than our projected margin of 19.3% for FY07). Reported PAT at Rs83m is up 103% YoY.

## Order book healthy at Rs3.5b

Ratnamani's current order book is around Rs3.5b (SP - Rs1.8b and SSTP - Rs1.7b), which places it in a comfortable position to achieve a turnover of Rs4.35b in FY07.

*Order book of Rs3.5b comfortably covers FY07E sales*

**Order Book (Rs m)**

| | Domestic | Exports* | Total |
|---|---|---|---|
| SP | 190 | 1,400 | 1,590 |
| SSTP | 1,310 | 470 | 1,780 |
| **Total** | **1,500** | **1,870** | **3,370** |

** Exports include deemed exports of around Rs1.5b*

## EPS CAGR of 25% through FY08E

*We expect Ratnamani to sustain its strong financial performance through FY08E*

Going forward, our key assumptions are -

- Sales growth of 40% in FY07 and 22% in FY08
- Small decline in EBITDA margins to 19.3% in FY07 (due to expected higher raw material cost), improving to 19.5% in FY08 (also reflecting benefit of mother pipes project).

Based on this, we expect PAT to grow 24% in FY07 and 26% in FY08. With no dilution in equity, FY06-08 EPS CAGR works out to a healthy 25%.

## Valuation & Recommendation

**The stock trades at an attractive 6.4x FY08E EPS of Rs59. Our 18-month target price is Rs555 (9.5x FY08E), yielding a return CAGR of 30%. We recommend BUY.**

### Stock is attractively valued

In absolute terms, Ratnamani is currently trading at a PE of 8x FY07E EPS of Rs46 and 6.4x FY08E EPS of Rs59. This we believe is attractive when juxtaposed with our estimated EPS CAGR of 25%.

Ratnamani's valuation compares well relative to peers as tabled below. While its business profile is closer to that of Maharashtra Seamless (captured in margins, RoCE, and RoE), its valuations match Man Industries.

**Peer Group Valuation**

| | | Ratnamani | Maharashtra Seamless | Man Industries |
|---|---|---|---|---|
| EBITDA margin (%) | FY07E | 19.3 | 24.9 | 10.5 |
| | FY08E | 19.5 | 21.9 | 10.5 |
| RoCE (%) | FY07E | 27.9 | 27.4 | 21.6 |
| | FY08E | 32.0 | 22.5 | 24.5 |
| EV/ EBITDA (x) | FY07E | 5.3 | 8.3 | 4.3 |
| | FY08E | 4.0 | 8.2 | 3.4 |
| PE (x) | FY07E | 8.1 | 11.3 | 6.6 |
| | FY08E | 6.4 | 11.2 | 5.2 |
| RoE (%) | FY07E | 41.4 | 24.5 | 20.0 |
| | FY08E | 36.7 | 20.0 | 20.8 |

### 3-pronged basis for target price

We have valued Ratnamani at Rs555 based on the average of three valuation metrics - EV/EBITDA, PE, and Price to book.

| Metric | Multiple | Target |
|---|---|---|
| EV/EBITDA | 6x | 615 |
| PE | 10x | 586 |
| PB | 2.5x | 465 |
| **Avg target price (Rs)** | | **555** |

*All multiples for FY08E*

**EV/EBITDA** - At an EV/EBITDA of 6x FY08E, the fair value for Ratnamani works out to Rs615. Maharashtra Seamless currently trades at 8x FY08E and Man at 3.4x FY08E. We believe 6x for Ratnamani is a fair mean.

**PE** - At 10x FY08E, the fair value for Ratnamani works out to Rs586. Here too, we have assigned the same target PE which we have for Man, although Ratnamani's numbers are superior.

**Price to book** - At 2.5x FY08E, the fair value works out to Rs465. The 2.5x multiple takes into account Ratnamani's superior RoE of over 30% in FY08E.

Averaging the above three values, our FY08E target price for Ratnamani is Rs555. From current levels, this translates into a return CAGR of 30% over the next 18 months. **We recommend Buy**.

# Investment Concerns

**Ratnamani's revenue and profits are exposed to user industry cycles, import threat, and bunching of orders.**

## Slow down in investments

Ratnamani's profitability is directly linked to the investment cycle of its end-user industries. Hence any decline in investments in industries like power or oil and gas can lead to a decline in revenue and profitability for the company.

*Despite investment concerns, Ratnamani should maintain its revenue and profits over the next three years*

***Mitigant:*** Over next five years, we expect Ratnamani's end-industries to be in the up-cycle, given GoI's stress on infrastructure development. Hence, we expect the company to sustain its revenue and profits over the next three years at least.

## Import threat

Ratnamani's revenue can decline if its clients opt to import pipes; various infrastructure projects can import equipment duty-free.

***Mitigant:*** We believe Ratnamani's products are competitive even at international rates. Moreover, the company also exports its products extensively to the Middle East; this ensures that its products conform to high quality standards.

## Bunching of orders

Ratnamani's sales are dependent on orders for projects. Moreover, the order book is prone to bunching because of a variable flow in orders from Ratnamani's major clients.

***Mitigant:*** Over the next three years, we expect Ratnamani to acquire many orders, given its diverse customer base. This reduces the company's exposure to a few big clients for orders and order bunching.

## Financials and Projections

| INCOME STATEMENT | | | | | | (Rs M) |
|---|---|---|---|---|---|---|
| **Y/E MARCH** | **2003** | **2004** | **2005** | **2006** | **2007E** | **2008E** |
| **Net Sales** | **847** | **1,187** | **1,808** | **3,191** | **4,454** | **5,443** |
| *Change (%)* | *19.3* | *40.1* | *52.3* | *76.5* | *39.6* | *22.2* |
| | | | | | | |
| Raw Materials | 576 | 780 | 1,166 | 1,959 | 2,783 | 3,402 |
| *% of net sales* | *68.0* | *65.7* | *64.5* | *61.4* | *62.5* | *62.5* |
| Power & Fuel Cost | 30 | 44 | 61 | 89 | 116 | 131 |
| *% of net sales* | *3.5* | *3.7* | *3.4* | *2.8* | *2.6* | *2.4* |
| Employee Cost | 45 | 51 | 58 | 94 | 122 | 153 |
| *% of net sales* | *5.4* | *4.3* | *3.2* | *2.9* | *2.7* | *2.8* |
| Other Mfg. Expenses | 68 | 125 | 150 | 232 | 316 | 381 |
| *% of net sales* | *8.0* | *10.5* | *8.3* | *7.3* | *7.1* | *7.0* |
| Selling & Admin costs | 46 | 60 | 70 | 175 | 244 | 298 |
| *% of net sales* | *5.4* | *5.0* | *3.9* | *5.5* | *5.5* | *5.5* |
| Miscellaneous expenses | 1 | 5 | 11 | 9 | 13 | 16 |
| *% of net sales* | *0.1* | *0.4* | *0.6* | *0.3* | *0.3* | *0.3* |
| | | | | | | |
| **EBITDA** | **82** | **124** | **292** | **633** | **859** | **1,063** |
| *Change (%)* | *0.7* | *51.7* | *135.9* | *117.2* | *35.6* | *23.7* |
| Depreciation | 32 | 36 | 44 | 74 | 133 | 156 |
| **EBIT** | **50** | **88** | **248** | **559** | **726** | **907** |
| Interest | 23 | 30 | 44 | 98 | 140 | 163 |
| Other Income | 6 | 4 | 6 | 10 | 10 | 10 |
| **PBT & EO items** | **32** | **63** | **210** | **471** | **596** | **754** |
| Extra-ordinary Inc/ (loss) | 0 | 0 | 0 | 0 | 0 | 0 |
| **PBT & after EO Items** | **32** | **63** | **210** | **471** | **596** | **754** |
| Tax | 11 | 22 | 78 | 136 | 179 | 226 |
| *Rate (%)* | *33.3* | *35.4* | *37.0* | *28.8* | *30.0* | *30.0* |
| **REPORTED PAT** | **21** | **40** | **132** | **336** | **417** | **528** |
| **ADJUSTED PAT** | **22** | **41** | **133** | **335** | **417** | **528** |
| *Change (%)* | *9.0* | *87.1* | *226.4* | *153.1* | *24.3* | *26.5* |
| | | | | | | |
| *EBITDA Margin (%)* | *9.6* | *10.4* | *16.1* | *19.8* | *19.3* | *19.5* |
| *PAT Margin (%)* | *2.6* | *3.4* | *7.3* | *10.5* | *9.4* | *9.7* |

*31% CAGR in sales up to FY08E*

*Margins to remain steady*

## Financials and Projections (contd...)

| BALANCE SHEET | | | | | | (Rs M) |
|---|---|---|---|---|---|---|
| Y/E MARCH | 2003 | 2004 | 2005 | 2006 | 2007E | 2008E |
| **Networth** | **319** | **395** | **507** | **817** | **1,198** | **1,675** |
| Equity Share Capital | 67 | 90 | 90 | 90 | 90 | 90 |
| Reserves | 252 | 305 | 417 | 727 | 1,108 | 1,585 |
| | | | | | | |
| Loans | 117 | 130 | 504 | 1,061 | 1,233 | 964 |
| Net Deferred Tax Liability | 73 | 88 | 144 | 203 | 210 | 230 |
| **Capital Employed** | **508** | **613** | **1,155** | **2,080** | **2,641** | **2,869** |
| | | | | | | |
| Gross Fixed Assets | 555 | 672 | 1,111 | 1,970 | 2,470 | 2,717 |
| Less: Depreciation | 215 | 250 | 291 | 364 | 497 | 652 |
| **Net Fixed Assets** | **341** | **423** | **820** | **1,606** | **1,973** | **2,064** |
| Capital WIP | 4 | 10 | 248 | 2 | 15 | 10 |
| Investments | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | |
| **Curr. Assets** | **423** | **490** | **605** | **1,184** | **1,643** | **2,015** |
| Interest Accrued | | | | | | |
| Inventory | 172 | 258 | 235 | 588 | 749 | 940 |
| Debtors | 199 | 156 | 216 | 347 | 604 | 755 |
| Cash & Bank Balance | 22 | 36 | 80 | 101 | 100 | 120 |
| Loans & Advances | 31 | 40 | 75 | 148 | 190 | 200 |
| | | | | | | |
| **Current Liab. & Prov.** | **260** | **309** | **518** | **712** | **991** | **1,220** |
| Creditors | 241 | 261 | 431 | 508 | 739 | 900 |
| Other Liabilities | 11 | 38 | 56 | 107 | 127 | 165 |
| Provisions | 8 | 10 | 32 | 97 | 125 | 155 |
| | | | | | | |
| **Net Current Assets** | **164** | **181** | **87** | **472** | **653** | **795** |
| Misc. Exp. (not written off) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Application of Funds** | **508** | **613** | **1,155** | **2,080** | **2,641** | **2,869** |

*E: Inquire Estimates*

***Rs1.1b Kutch facility commissioned in FY06. Mother tubes plant in FY07E***

## Financials and Projections (contd...)

| RATIOS | | | | | | |
|---|---|---|---|---|---|---|
| **Y/E MARCH** | **2003** | **2004** | **2005** | **2006** | **2007E** | **2008E** |
| **Basic (Rs)** | | | | | | |
| EPS | 3.2 | 4.5 | 14.7 | 37.3 | 46.3 | 58.6 |
| *growth (%)* | *9.0* | *40.1* | *226.4* | *153.1* | *24.3* | *26.5* |
| Cash EPS | 7.9 | 8.5 | 19.6 | 45.5 | 61.1 | 75.9 |
| Book Value | 47.3 | 43.9 | 56.3 | 90.7 | 133.1 | 186.1 |
| DPS | 1.0 | 1.0 | 2.0 | 2.5 | 3.5 | 5.0 |
| Payout (incl. Div. Tax.) (%) | 31.5 | 22.3 | 13.6 | 6.7 | 7.6 | 8.5 |
| **Valuation (X)** | | | | | | |
| P/E | 116.9 | 83.4 | 25.6 | 10.1 | 8.1 | 6.4 |
| Cash P/E | 47.4 | 44.4 | 19.2 | 8.3 | 6.2 | 5.0 |
| Price/Book Value | 7.9 | 8.6 | 6.7 | 4.1 | 2.8 | 2.0 |
| EV/Sales | 6.1 | 5.8 | 2.2 | 1.4 | 1.0 | 0.8 |
| EV/EBITDA | 63.7 | 55.9 | 13.3 | 7.0 | 5.4 | 4.1 |
| Dividend Yield (%) | 0.3 | 0.3 | 0.5 | 0.7 | 0.9 | 1.3 |
| **Profitability Ratios (%)** | | | | | | |
| RoE | 6.8 | 10.3 | 26.1 | 41.1 | 34.8 | 31.5 |
| RoCE | 10.9 | 15.0 | 22.0 | 27.4 | 27.9 | 32.0 |
| **Turnover Ratios** | | | | | | |
| Debtors (Days) | 86 | 48 | 44 | 40 | 50 | 51 |
| Inventory (Days) | 109 | 121 | 74 | 110 | 98 | 101 |
| Creditors. (Days) | 103 | 83 | 98 | 70 | 73 | 74 |
| Asset Turnover (x) | 1.7 | 1.9 | 1.6 | 1.5 | 1.7 | 1.9 |
| **Leverage Ratio** | | | | | | |
| Debt/Equity (x) | 0.4 | 0.3 | 1.0 | 1.3 | 1.0 | 0.6 |

***25% CAGR in EPS through FY08E***

***Robust profitability***

## Financials and Projections (contd...)

| CASH FLOW STATEMENT | | | | | | (Rs M) |
|---|---|---|---|---|---|---|
| **Y/E MARCH** | **2003** | **2004** | **2005** | **2006** | **2007E** | **2008E** |
| **PBT before EO Items** | **32** | **63** | **210** | **471** | **596** | **754** |
| Add : Depreciation | 32 | 36 | 44 | 74 | 133 | 156 |
| Interest | 23 | 30 | 44 | 98 | 140 | 163 |
| Less : Direct taxes paid | 11 | 22 | 78 | 136 | 179 | 226 |
| (Inc)/Dec in WC | 33 | -3 | 138 | -364 | -182 | -122 |
| **CF from operations** | **110** | **103** | **358** | **144** | **508** | **724** |
| | | | | | | |
| EO and Misc. Items | 0 | 0 | 0 | 0 | 0 | 0 |
| **CF from Oper. incl. EO Items** | **109** | **103** | **357** | **144** | **508** | **724** |
| | | | | | | |
| (Inc)/Dec in FA | -54 | -123 | -679 | -614 | -513 | -242 |
| (Pur)/Sale of Investments | 0 | 0 | 0 | 0 | 0 | 0 |
| **CF from investments** | **-54** | **-123** | **-679** | **-614** | **-513** | **-242** |
| | | | | | | |
| (Inc)/Dec in Networth | 4 | 60 | 53 | 58 | 7 | 20 |
| Inc/(Dec) in Debt | -20 | 14 | 374 | 556 | 172 | -268 |
| Less : Interest Paid | -23 | -30 | -44 | -98 | -140 | -163 |
| Dividend Paid | -7 | -9 | -18 | -25 | -35 | -50 |
| **CF from Fin. Activity** | **-45** | **35** | **365** | **492** | **4** | **-462** |
| | | | | | | |
| **Inc/Dec of Cash** | **10** | **14** | **44** | **22** | **-1** | **20** |
| Add: Beginning Balance | 11 | 22 | 36 | 80 | 101 | 100 |
| **Closing Balance** | **22** | **36** | **80** | **101** | **100** | **120** |

*Strong cash flows from operations*

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| Disclosure of Interest Statement | Ratnamani Metals & Tubes |
|---|---|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |

MOSt is not engaged in providing investment-banking services.