

STOCK DATA

Market Cap	Rs3.6bn.
Book Value per share	Rs253
Eq Shares O/S (F.V. Rs.10)	90mn
Median Vol (12 mths)	2,930(BSE+NSE)
52 Week High/Low	Rs 1,508 / 335
Bloomberg Code	RMT IN
Reuters Code	RMT.BO

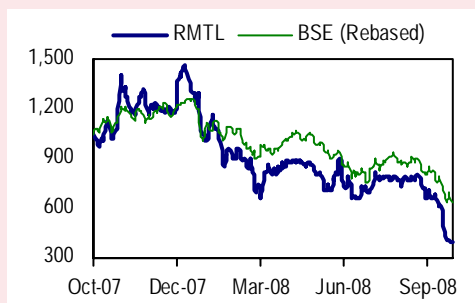
SHAREHOLDING PATTERN (%)

Qtr. Ended	Mar-08	Jun-08	Sep-08
Promoters	58.8	58.8	58.8
MFs/FIs	3.2	2.8	1.7
FIIIs	10.0	9.7	9.7
PCBs	3.0	3.3	4.4
Indian Public	25.2	25.4	25.4

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	(44.8)	15.1	(64.6)
Relative	(29.5)	36.8	(36.2)

STOCK PRICE PERFORMANCE



KEY HIGHLIGHTS

Ratnamani Metals & Tubes Ltd. (RMTL) reported a 21% YoY growth in net sales to Rs2.5bn in Q2FY09, on back of robust sales of its carbon steel (CS) product profile (+56% YoY at 18k mt).

● **Margins decline to use of high cost inventories**

The use of higher cost inventory, stockpiled over previous quarters resulted in an escalation in its bill of material for Q2FY09. Also, import of specialised grades of stainless steel, in conjunction with the depreciating INR resulted in material costs rising 250bps YoY to 67.2%. This, coupled with the jump in payroll expenditure impacted margins. Thus, OPM shrank 310bps to 18.4% in Q2FY09. As a result, growth in op. profit in the quarter was subdued at 4% YoY to Rs466mn.

● **Lower other income & higher tax outflow dampen net profits**

Other income, at Rs11mn (v/s Rs60mn in Q2FY08) was lower due to absence of forex gains. Also, higher tax provisioning of 36% (v/s 32% in Q2FY08) in the quarter constricted profit growth. As a result, net profits of the company dipped 13% YoY to Rs234mn.

● **Capacity expansion**

RMTL recently set up a 3 Layer Polyethylene (3-LPE) coating line with capacity of 2.7mn sq.metres at a cost of Rs250mn. Additionally, it has also added infrastructure for off-line welding, and augmented its HSAW pipe by 100k tpa while also expanding its SS capacity by 3k tpa through the addition of a welded tube mill. The company has outlined capex of Rs900mn in FY10, which includes setting up a new SS line of 2k tpa and re-organisation of the existing plant at Chhatral.

VALUATIONS AND RECOMMENDATION

We remain confident about the company's ability to capitalise on the ongoing nationwide capex cycle in the heavy engineering, oil & gas and power sectors. However, we have moderated our FY09E & FY10E numbers on back of impact of currency fluctuation and higher working capital borrowings.

We reiterate our 'BUY' recommendation and revise downwards our price target to Rs1,480 with an 18 month investment horizon.

KEY FINANCIALS (STANDALONE)

Rs mn	Quarter Ended			Yr Ended (March)				
	Mar-08	Jun-08	Sep-08	2006	2007	2008	2009E	2010E
Net Sales	2,315	2,497	2,539	3,191	5,712	8,451	10,837	12,784
YoY Gr (%)	51.8	31.4	21.4	76.5	79.0	47.9	28.2	18.0
Op. Profits	319	485	466	633	1,277	1,797	2,200	2,685
Op. Marg.(%)	13.8	19.4	18.4	20.0	22.6	21.3	20.4	21.1
Net Profits	134	255	234	335	642	900	1,059	1,273
Eq Capital	90	90	90	90	90	90	95	95

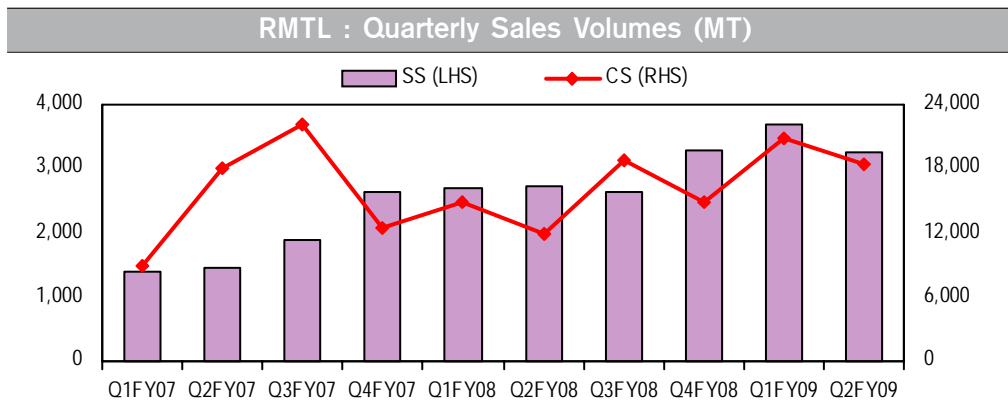
KEY RATIOS

	Yr Ended (March)				
	2006	2007	2008E	2009E	2010E
Dil. EPS (Rs)	35.5	69.0	95.2	112.0	134.7
ROCE (%)	37.5	42.1	40.7	39.0	37.7
RONW (%)	50.7	57.8	48.9	35.8	30.2
P/E(x)	9.7	5.0	3.6	3.2	2.7
EV/Sales (x)	1.3	0.9	0.6	0.5	0.4
EV/EBDIT (x)	6.6	3.7	2.9	2.5	1.8

PERFORMANCE OVERVIEW

Higher despatches in carbon steel drive YoY revenue growth...

RMTL's Q2FY09 revenue growth stemmed from the superlative performance by its carbon steel (CS) product line. While despatches for CS rose to ~19k mt (+56% YoY), gross revenues from the division rose 64% to ~Rs1.1bn. Gross realisations for the CS product profile were higher by 5% YoY at ~Rs62/kg, on account of a tilt in the product mix in favour of high realisation pipes.



Source: PINC Research & Company Data

SS volumes also jumped appreciably in this quarter with offtake higher by 19% YoY at ~3.3k mt. However, average realisations, at ~Rs420/kg were lower by 8% YoY on account of pass through of softening SS prices and higher share of lower value SS products in despatches.

Escalation in bill of material, along with staff costs dampened margins...

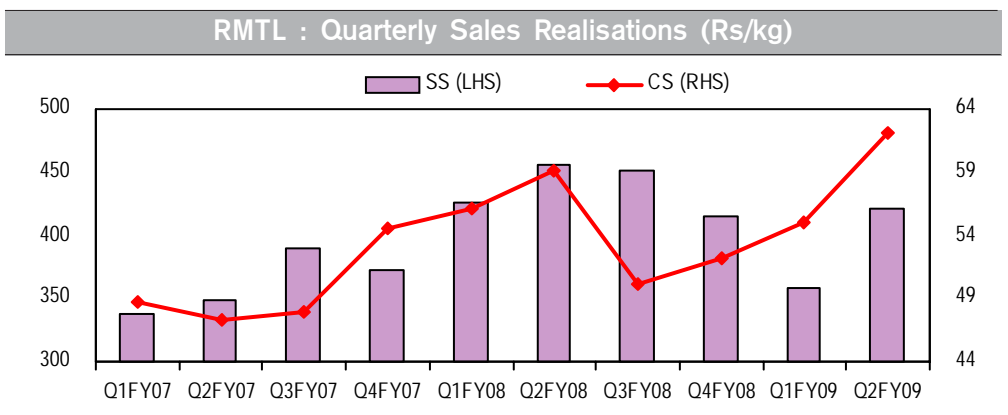
On the operations front, the use of higher cost inventory, stockpiled over previous quarters resulted in an escalation in RMTL's bill of material (as a % of sales), as realisations were pegged to prevailing raw material prices. Import of certain specialised grades of SS in conjunction with the depreciating INR also led to a jump in material cost, which rose by 250bps YoY to ~Rs1.7bn. A jump in payroll costs to Rs357mn also contributed to the decline in OPM by 310bps YoY to 18.4%. Consequently, operating profit growth was muted at 4% YoY to Rs466mn.

Other income receipts for the quarter stood at Rs11mn (v/s Rs60mn) due to absence of any gains on forex positions. Interest outflow was lower by 18% at Rs45mn on account repayment of debt and utilisation of buyer's credit to effect raw material purchases. However, lower other incidence of other income coupled with higher tax provisioning in the quarter resulted in de-growth of 13% in net profits of the company to Rs234mn.

Expansion Plans & Capex

Capex targeted at augmenting existing capacities and broadening product profile...

RMTL recently added a 3 Layer Polyethylene (3-LPE) coating line with a capacity of 2.7mn metres p.a. at a cost of Rs250mn. It has targeted commercial operations from the same within the next month. The coating line will enable the company to offer its customers a wider product profile in its CS range.



Source: PINC Research & Company Data

Existing capacity break-up for RMTL			
(MT)	Chhatral	Kutch	Total
Steel Pipes			
LSAW	30,000	10,000	40,000
HSAW	-	100,000	100,000
C-Sec	60,000	-	60,000
ERW	-	100,000	100,000
Sub-Total - (A)	90,000	210,000	300,000
Stainless Steel Pipes			
Seamless	2,700	1,800	4,500
Welded	3,600	9,000	12,600
Mother Tubes	-	7,200	7,200
Sub-Total - (B)	6,300	18,000	24,300
Total - (A+B)	96,300	228,000	324,300

Source: Company

RMTL also added off-line welding facilities, thus augmenting its HSAW capacity by 100k tpa. At Rs550mn, this expansion will enable the company to tap the booming market for large-dia pipes used in projects and line pipe networks.

Lastly, it has also ordered for a SS welded tube mill, which will augment its current SS welded capacity by ~3k tpa, taking its total capacity for the product line to 14.6k tpa by the end of Q2FY09. The cost of this expansion is ~Rs130mn, which is being undertaken with an eye on the burgeoning demand from the power & heavy engineering sectors.

Going forward, in FY10, RMTL has outlined capex of ~Rs900mn. This includes setting up 2k mtpa of SS seamless HP Heater Tubes and re-organisation of the plant at Chhatral for process optimisation.

Capex in FY10 to be funded largely through internal accruals...

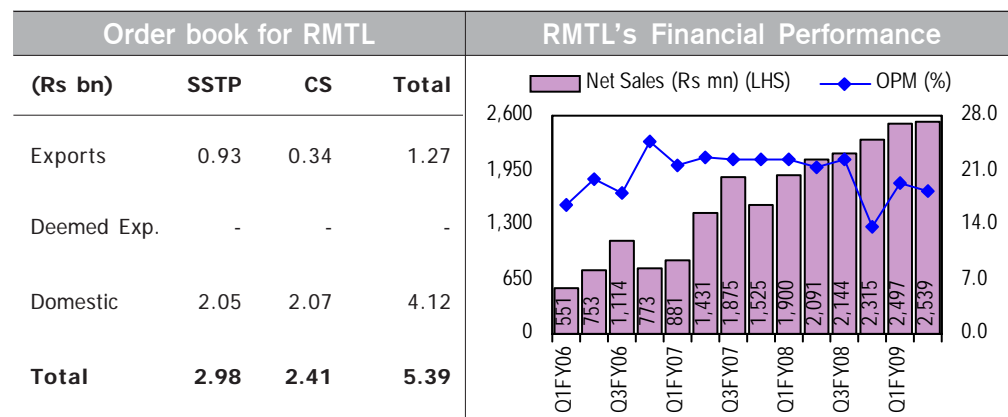
In order to fund this expansion, the company issued warrants to the promoters (450k warrants @ Rs 950/ warrant). Upon conversion, this should result in a dilution of 5% of RMTL's equity current capital. However, in light of the improving CUF at Kutch and robust order book position, we believe the dilutory effect of the warrants issue will be mitigated by the ramp up in sales and the corresponding jump in profits.

Order Book

RMTL's order book currently stands at ~Rs5.4bn, which is executable over the next 6-8 months. Details of the same are provided in the table below.

The company has also indicated that it is in the process of securing critical customer approvals for its API grade HSAW pipes. Upon securing these approvals in Nov'09, RMTL expects to receive orders of 70k tpa for its HSAW pipe facility, which would contribute significantly to revenue and profit growth.

Domestic orders account for bulk of order book...



Source: Company

OUTLOOK

We believe that the ongoing nationwide capex cycle will generate robust demand on the following counts:

Capex cycle lends scalability to uptrend in revenues and steady profits...

1) RMTL's export revenues (i.e. deemed exports to SEZ) in FY07 & FY08 were generated by supplies to Reliance's Jamnagar Expansion Refinery Project. Going forward, we anticipate demand to be driven by the establishment of several greenfield refineries viz. HPCL at Bhatinda (Punjab), IOC at Paradip (Orissa), Ennore (T.N.) & Baroda (M.P.), BPCL at Bina (M.P.) and Essar (Vadinar). This is in addition to the planned maintenance at existing refineries which would entail replacement demand.

2) Capex in the fertiliser sector also holds the promise of generating demand for project based fabrication work. Plants by RCF in Orissa & West Bengal, apart from those lined up by Coromandel Fertilisers in Andhra Pradesh lend credence to RMTL's plans to focus aggressively on this segment.

Other expansions in the sector include additional capacities by RCF in Maharashtra and Tata Chemicals in U.P. These projects hold potential for generating significant demand for RMTL, for both, its CS & SS product portfolio.

3) The XIth Five Year Plan has proposed an addition of ~ 78k MW of power generating capacity. This will necessitate large scale investment in capital goods equipment like boilers, turbines etc, which in turn would form a ready market for RMTL's SSTP products. RMTL is already in talks for supplies to capital goods manufacturers like *L&T Mitsubishi, BGR Energy & Bharat Forge-Toshiba*.

While we remain confident about the company's ability to capitalise on the opportunities at hand, we feel that currency fluctuations and higher working capital borrowings might dent overall profitability. Accordingly, we have modified our estimates for FY09 & FY10.

Earnings Estimates for RMTL				
	Previous Estimates		Revised Estimates	
	FY09E	FY10E	FY09E	FY10E
Net Sales	10,853	12,799	10,837	12,784
OPM	22.7	22.6	20.4	21.1
Net Profits	1,267	1,553	1,059	1,273
E.P.S. (Rs)	133.4	161.1	112.0	134.7

VALUATIONS AND RECOMMENDATION

At the CMP of Rs360 RMTL is trading at a P/E of 2.7x, EV/Sales of 0.4x and EV/EBIDT of 1.8x, discounting its FY10E earnings, post dilution. With production in full swing at its Kutch facility, the benefits of this expansion are steadily accruing to it and we foresee a jump in revenues accompanied by steady profitability over the next 2 years.

We reiterate our 'BUY' recommendation and revise our price target to Rs1,480...

The ongoing nationwide capex cycle and sustainability of the same over the next few years lends credence to RMTL's growth prospects. In our opinion, the company offers dual advantages of scalability of operations and revenues, along with safety of margins. Having tempered our numbers for FY09E & FY10E, we reiterate our 'BUY' recommendation and revise downwards our price target to Rs1,480 with an 18 month investment perspective.

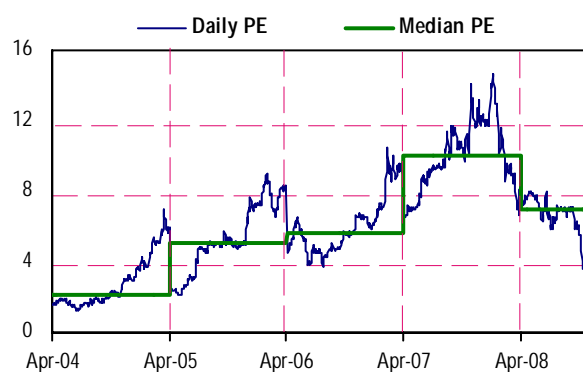
Company description

Ratnamani Metals & Tubes Ltd is a leading Indian manufacturer of stainless steel seamless pipes and welded tubes, which find application in the engineering space. The company's other products include carbon steel large diameter pipes which are customised and supplied on a project basis.

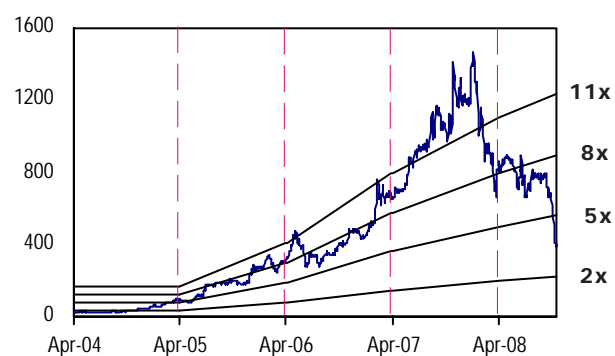
Financial Results for the quarter & half year ended 30 September 2008 (Standalone)

Particulars (Rs mn)	Quarter Ended			Half Year Ended			Year Ended
	30/09/08	30/09/07	Gr %	30/09/08	30/09/07	Gr %	31/03/08
Net Sales	2,539	2,091	21.4	5,035	3,991	26.2	8,451
Total Expenditure	2,072	1,643	26.2	4,084	3,088	32.2	6,654
(Inc)/Dec in Stock	10	(22)		(204)	12		207
Consumption of RM	1,695	1,376	26.0	3,463	2,577	25.9	5,161
Staff cost	109	47	130.9	209	113	85.0	362
Other Expenditure	259	242	6.9	616	387	59.2	924
Operating Profit	466	449	3.9	952	903	5.4	1,797
Other income	11	60		14	60		19
PBIDT	478	508	(6.0)	965	963	0.2	1,816
Interest (Net)	45	54	(17.6)	81	106	(23.6)	184
Depreciation	65	59	9.4	129	113	14.8	238
PBT	368	395	(6.8)	755	745	1.4	1,394
Provision for tax (incl. Def Tax & FBT)	134	127		266	250		494
Net Profit	234	268	(12.7)	489	494	(1.1)	900
Equity Capital (F.V. Rs 10)	90	90		90	90		90
Reserves(excl rev res)	-	-		-	-		2,186
EPS (Rs.)	26.0	29.8		54.3	54.9		100.0
Book Value (Rs)	-	-		-	-		252.9
OPM (%)	18.4	21.5		18.9	22.6		21.3
NPM (%)	9.2	12.8		9.7	12.4		10.7
Expenditure as % of Net Sales							
RM Consumed	67.2	64.7		64.7	64.9		63.5
Staff cost	4.3	2.3		4.1	2.8		4.3
Other Expenditure	10.2	11.6		12.2	9.7		10.9

Median PE v/s Daily PE



PE Band



Year Ended March (Figures in Rs mn)

Income Statement	2005	2006	2007	2008	2009E	2010E
Revenues	1,808	3,191	5,712	8,451	10,837	12,784
<i>Growth (%)</i>	52.4	76.5	79.0	47.9	28.2	18.0
Total Expenditure	1,517	2,558	4,435	6,654	8,637	10,099
Operating Profit	292	633	1,277	1,797	2,200	2,685
Interest & dividend income	0	1	50	19	6	6
PBIDT	292	634	1,327	1,816	2,206	2,691
(-) Interest	38	89	164	184	305	254
(-) Depreciation	44	74	156	238	250	351
PBT & extraordinary items	210	471	1,007	1,394	1,652	2,087
(-) Tax provision	78	136	355	494	593	814
Net Profits	132	335	652	900	1,059	1,273
<i>Growth (%)</i>	226.2	153.3	94.3	39.6	17.6	20.2
Fully diluted Eq. sh. O/s (mn no)	9.0	9.0	9.0	9.0	9.5	9.5
Book Value (Rs)	56.3	90.7	156.2	252.9	384.4	507.6
Basic EPS (Rs)	14.7	37.3	72.4	100.0	112.0	134.7
Diluted EPS (Rs)	14.0	35.5	69.0	95.2	112.0	134.7

Balance Sheet	2005	2006	2007	2008E	2009E	2010E
<i>Equity Share Capital</i>	90	90	90	90	95	95
<i>Reserves & Surplus</i>	417	727	1,316	2,186	3,538	4,703
Net worth	507	817	1,406	2,276	3,633	4,797
Total Debt	504	1,061	1,843	2,153	2,200	1,700
Deferred Tax liability	144	203	320	320	430	560
Capital Employed	1,155	2,080	3,569	4,749	6,263	7,057
Fixed Assets	1,068	1,608	2,589	3,349	4,199	4,498
Net current assets	87	472	980	1,400	2,064	2,558
Total Assets	1,155	2,080	3,569	4,749	6,263	7,057

Cash Flow Statement	2005	2006	2007	2008E	2009E	2010E
PBT & extra-ordinary items	210	471	1,007	1,394	1,652	2,087
Depreciation	44	74	156	238	250	351
Interest & dividend inc.	-	(9)	(8)	(19)	(6)	(6)
Interest paid	38	98	164	184	305	254
Tax paid	(7)	(24)	193	(494)	(483)	(684)
(Inc) / Dec in working capital	112	(421)	(965)	(460)	(650)	(421)
Cash from operations	397	189	548	843	1,067	1,580
Net capital expenditure	(674)	(614)	(1,137)	(998)	(1,100)	(650)
Net investments	(1)	-	-	-	-	-
Interest recd	-	9	8	19	6	6
Cash from investing activities	(675)	(605)	(1,129)	(979)	(1,094)	(644)
Issue of eq. shares	-	-	-	43	385	-
Change in debt	374	556	783	310	47	(500)
Dividend paid	(10)	(21)	(26)	(72)	(87)	(108)
Interest paid	(44)	(98)	(164)	(184)	(305)	(254)
Cash from financing activities	320	438	593	96	40	(862)
Inc/Dec. in cash	43	22	11	(39)	13	74

Key Ratios	2005	2006	2007	2008E	2009E	2010E
OPM (%)	16.3	20.0	22.6	21.3	20.4	21.1
ROACE (%)	32.8	37.5	42.1	40.7	39.0	37.7
ROANW (%)	29.4	50.7	57.8	48.9	35.8	30.2
Sales/Total Assets (x)	1.5	1.5	1.6	1.8	1.7	1.8
Debt:Equity (x)	0.9	1.1	1.1	0.7	0.4	0.2
Current Ratio (x)	1.2	1.7	1.6	1.7	1.8	1.8
Interest Cover (x)	5.6	5.6	5.9	7.2	5.3	7.4
Debtors (days)	38	36	39	45	47	54
Inventory (days)	56	83	136	115	115	115
Creditors (days)	117	86	119	84	80	80
Net working capital (days)	15	50	56	76	82	89
EV/Sales (x)	2.1	1.3	0.9	0.6	0.5	0.4
EV/EBIDT (x)	12.6	6.6	3.7	2.9	2.5	1.8
P/E (x)	24.5	9.7	5.0	3.6	3.2	2.7
P/BV (x)	6.4	4.0	2.3	1.4	0.9	0.7

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