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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Bajaj Auto	15-Nov-05	1,873	2,280	3,500
♦ BHEL	11-Nov-05	1,203	1,605	2,650
♦ Infosys	30-Dec-03	1,378	2,483	3,324
♦ Ranbaxy	23-Dec-03	534	348	600
♦ TV18	23-May-05	280	355	704

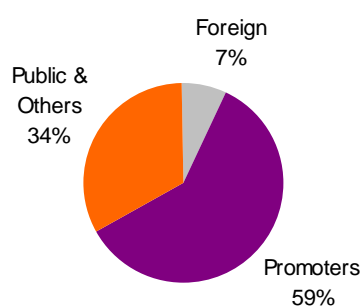
Ratnamani Metals and Tubes

Ugly Duckling
Stock Update
Q4FY2006 numbers shine
Buy; CMP: Rs275

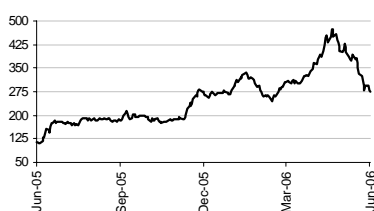
Company details

Price target:	Rs520
Market cap:	Rs247.5 cr
52 week high/low:	Rs498/104
BSE volume: (No of shares)	20,689
BSE code:	520111
NSE code:	RATNAMANI
Sharekhan code:	RATNMET
Free float: (No of shares)	37 lakh

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-31.3	-8.8	0.7	150.8
Relative to Sensex	-7.1	8.2	2.3	86.0

Result highlights

- ◆ The Q4FY2006 numbers of Ratnamani Metals and Tubes Ltd (RMTL) are above our expectations.
- ◆ During the quarter the company's revenues grew by a strong 50.5% year on year (yoy) to Rs77.3 crore on the back of a strong order book.
- ◆ The operating profit grew by 105% yoy to Rs19.1crore, as the operating profit margin (OPM) improved by 657 basis points.
- ◆ The profit before tax (PBT) increased by 125% yoy to Rs15.4 crore. The net profit almost tripled to Rs12.6 crore as the effective tax rate for the quarter came down to 17.8% from 37.8% in Q4FY2005.
- ◆ RMTL's order book stands at Rs350 crore currently, with orders worth Rs240 crore for exports and export equivalents.
- ◆ In view of the strong ramp-up in the order book and the company's excellent performance for FY2006, we have upgraded our earnings per share (EPS) estimates for FY2007 and FY2008 by 12% and 10% to Rs46.8 and Rs57.2 respectively.
- ◆ At the current market price of Rs275, the stock is trading at 4.8x its FY2008E EPS and 3.1x its FY2008E enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA). We reiterate our Buy recommendation on the stock with a price target of Rs520.

Strong order book drives the revenues

RMTL's revenues for Q4FY2006 grew by 50.5% yoy, driven by a strong order book. The order book has shown a healthy growth trend over the last couple of quarters. It currently stands at Rs350 crore. Remarkably, almost two-third of the order book is for exports and export equivalents. During the year RMTL booked export revenues worth Rs77 crore.

Result table

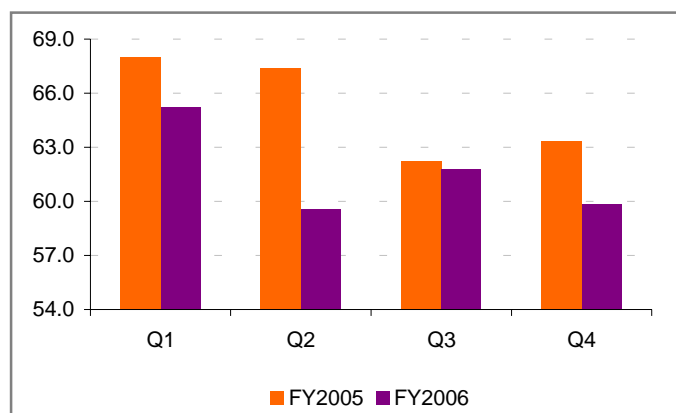
Particulars	Rs (cr)					
	FY2006	FY2005	% yoy chg	Q4FY2006	Q4FY2005	% yoy chg
Net sales	319.1	179.6	77.7	77.3	51.4	50.5
Other income	0.1	1.4	-95.2	0.0	0.0	416.7
Total income	281.1	167.0	68.4	75.4	42.5	77.3
Total expenditure	255.8	151.8	68.5	58.2	42.0	38.4
Operating profit	63.3	27.8	128.1	19.1	9.3	104.8
Interest	8.9	3.8	135.4	2.3	1.7	33.8
Depreciation	7.4	4.4	69.3	1.5	0.8	91.3
Profit before tax	47.1	21.0		15.4	6.8	124.5
Tax	13.6	7.7		2.7	2.6	
Profit after tax	33.5	13.2	153.2	12.6	4.3	196.7

Break-up of order book (Rs crore)

Total - 350.0			
	By markets	By products	
Exports	240.0	Stainless steel pipes	130.0
Local	110.0	Saw pipes	220.0

Operating profit grows by 105%

RMTL's operating profit for the quarter grew by 105% to Rs19.1 crore as its OPM improved by 657 basis points, thanks to lower raw material and other costs as a percentage of sales.

Raw material cost as % of sales

Source: Company, Sharekhan research

Net profit triples to Rs12.6 crore

The PBT grew by 124.5% to Rs15.4 crore during the quarter. At the same time the net profit almost tripled to Rs12.6 crore as the effective tax rate for the quarter came down to 17.6% from 37.8% in the same quarter last year.

Valuation and view

We expect RMTL's order book to remain strong with the surge in the demand for both of its products, ie stainless steel (SS) pipes and carbon steel (CS) pipes.

The SS pipes primarily find application in steam boilers in power plants as well as in heat exchangers in the oil & gas and petrochemical sectors. India is expected to add approximately 19,000 megawatt of power generation capacity in FY2007 and another 6,000 megawatt of the

same in FY2008. This would drive the demand for the SS pipes.

The CS pipes (mainly submerged arc welded pipes and seamless pipes) find application in the petrochemical sector and refining complexes for transporting feedstock and steam. Indian refining and petrochemical majors have lined up a capital expenditure (capex) of Rs80,000-100,000 over the next two to three years which would result in a strong demand for the CS pipes. While RMTL has already received orders worth Rs180 crore from Reliance Petroleum (subsidiary of Reliance Industries), more orders of such size are expected to flow over the next few quarters.

Capex plans of major Indian refiners

Company	Place of expansion	Capex (Rs crore)
HPCL	Vizag	18,000.0
	Bhatinda	13,000.0
BPCL	Bina	5,000.0
IOC	Panipat	22,000.0
RPL		27,000.0
Total		85,000.0

In view of the strong ramp-up in the order book and the company's excellent performance for FY2006, we have upgraded our EPS estimates for FY2007 and FY2008 by 12% and 10% to Rs46.8 and Rs57.2 respectively. At the current market price of Rs275, the stock is trading at 4.8x its FY2008E EPS and 3.1x its FY2008E EV/EBIDTA. We reiterate our Buy recommendation on the stock with the price target of Rs520.

Valuations table

Year ended Mar 31	FY2005	FY2006P	FY2007E	FY2008E
Net profit (Rs cr)	13.3	33.5	42.1	51.5
Shares in issue (cr)	0.9	0.9	0.9	0.9
EPS (Rs)	14.7	37.2	46.8	57.2
PER (x)	19.4	7.4	5.9	4.8
Book value (Rs)	56.3	91.0	134.8	188.5
P/BV (x)	5.1	3.0	2.0	1.5
EV/EBIDTA (x)	10.3	5.4	3.6	3.1
EV/Sales (x)	1.7	1.1	0.7	0.6
RoCE (%)	49.1	37.0	36.4	36.8
RoNW (%)	52.3	50.5	41.4	35.4

The author doesn't hold any investment in any of the companies mentioned in the article.

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HDFC Bank
 Infosys Technologies
 Reliance Industries
 Tata Consultancy Services

Apple Green

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