

**Umesh Karne**

**Ratnamani Metals & Tubes Limited**

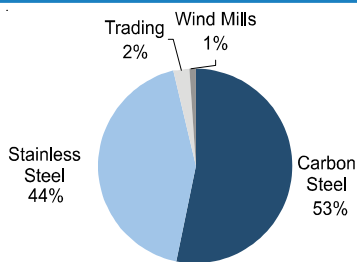
(Rs. 1006, FY09E - P/E 7x, BUY with a Target Price of Rs. 1361)

**Business Background**

RMTL incorporated in September 1983 was promoted by Mr. Prakash Sanghvi. RMTL is engaged in the manufacturing and marketing of stainless steel seamless and welded tubes, and pipes for domestic and export markets and it enjoys 30% market share in domestic market. RMTL also operates another division which manufactures carbon steel tubes and pipes. It consists of two separate units, one for welded stainless steel pipes and tubes, and the other for seamless stainless steel pipes and tubes. The carbon steel pipes (SAW Pipes) division operates two mobile plants for manufacturing MS SAW large diameter pipes for water supply pipelines. RMTL manufactures its steel seamless and welded tubes and pipes in various stainless steel grades, conforming to different ASTM and DIN standards. The company's large diameter EFW pipe range extends up to 1500mm diameter and 20mm wall thickness. The SAW Pipe Division of RMTL manufactures long seam and circ-seam large diameter pipes from 16" OD to 102" OD. RMTL uses green power which it generates from its owned wind mills, with an installed capacity to generate power up to 8.5MW.

*RMTL is a supplier to large domestic and international oil & gas, power, refinery companies*

**Revenue Break-up**



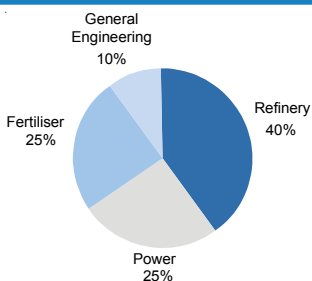
Source: Company, Reliance Money Research

*RMTL is a Tier I supplier to customers like BHEL, IOCL, Reliance Industries etc*

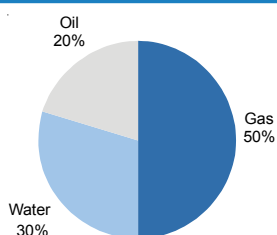
RMTL has its facilities located at Chhatral and Kutch and apart from these two plants, its projects pipe division operates two mobile plants for making large diameter SAW pipes at the customer's site.

RMTL is a Tier I supplier of project pipes which have applications mainly in petrochemicals, oil refineries, power plants, sugar refineries, water projects, fertilizer industry, and core engineering industries and enjoys a large domestic customer base like BHEL, Larsen & Toubro, Reliance Industries, IOCL, HPCL, BPCL, GAIL, Alfa Laval, Alstom Power Projects and NTPC. It manufactures carbon steel and stainless steel pipes. In addition RMTL undertakes job-working for drawing pipes and also earns small revenue from its own wind mills. In the Export area, RMTL has been exporting Stainless Steel tubes to markets like USA, Europe, Asia and Far East and the Middle East. RMTL is also an approved vendor of hydrocarbon majors like Shell, Total, Chevron, Exxon Mobil, Agip KCO, Bechtel, BASF, TOYO Eng., Aker Kvaerner, Linde, Chiyoda, Dow Chemicals, BTT France etc.

**Application - Stainless Steel Pipes**



**Application - Carbon Steel Pipes**



Source: Company, Reliance Money Research

Products	Applications	User Industries
Stainless Steel Tubes & Pipes	Heat Exchangers, Boilers, Condensers Refrigeration, Instrumentation, Hydraulics Fuel Injection, Exhaust Systems for Automobiles General piping for power plants, Space Applications Special piping for nuclear applications,	Petrochemicals, Fertiliser, Sugar Refinery, Chemical, Power Plants Pump, Automobiles, Food & Dairy Paper, Pharma, Nuclear, Aeronautics Space Research, Atomic Energy, Ship Building, Railway etc.
Carbon Steel Tubes & Pipes	Continuous transportation of large quantities of oil, natural gas and water over the long distance On shore and off shore drilling platforms, Casing pipes, structural, Project piping in petrochemical and refinery projects	Petrochemicals, Oil Refineries Water Supply & SewageProjects

Source: Company, Reliance Money Research

**Q1FY08 Performance**

*Net sales grew by 116% YoY in Q1FY08*

*EBITDA margins improved by 72bps YoY in Q1FY08*

*Net profit increased by 174% YoY in Q1FY08*

(Rs Mn)	Q1FY08	Q1FY07	YoY %	FY07	FY06	YoY %
Net Sales	1,900.10	880.9	115.7	5,712.50	3,191.30	79
Other Income	31.2	-	-	50.3	0.7	7,291.2
Total Income	1,931.30	880.9	119.2	5,762.70	3,191.90	80.5
Total Expenditure	1,476.80	691	113.7	4,435.30	2,558.10	73.4
EBIDTA	423.3	189.9	122.9	1,277.10	633.2	101.7
EBIDTA (%)	22.3	21.6	3.3	22.4	19.8	12.7
Interest	51.6	37.7	37	164.4	89	84.7
Depreciation	53.2	27.1	96.3	155.9	73.9	110.9
PBT	349.7	125.2	179.3	1,007.10	470.9	113.8
Provision for Tax	123.8	42.6	190.5	365.3	135.5	169.6
PAT	225.9	82.6	173.5	641.8	335.4	91.3
Equity Capital	90	90	-	90	90	-
EPS (Rs)	25.1	9.2	173.5	71.3	37.3	91.3

Source: Company

**Strong users demand drives topline growth in Q1FY08**

*Heavy capex by user industries drove the sales*

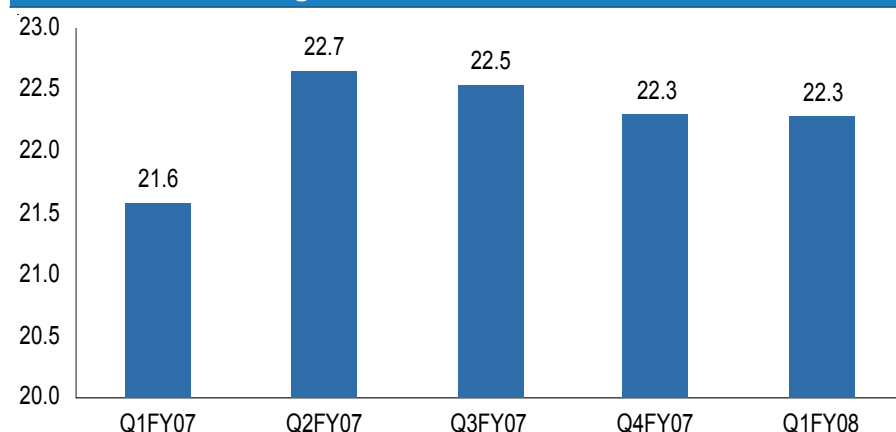
*Currently RMTL is sitting on an unexecuted order book of Rs.4.3bn*

*RMTL improves EBITDA margins despite the rise in raw material costs*

Ratnamani Metal & Tubes Ltd (RMTL) reported impressive results for Q1FY08. Net sales for Q1FY08 grew by 116% YoY to Rs.1,900mn backed by partial execution of healthy order book and higher capital expenditures incurred in oil & gas industry. We assess the impressive jump in sales in Q1FY08 was mainly because of strong growth in exports from Kutch SEZ which reported export revenue to the tune of Rs.793mn. The net sales growth was driven by both the segments, stainless steel pipes and carbon steel pipes reported strong growth of 142% YoY to Rs.1135mn and 93% YoY to Rs836mn. RMTL is currently sitting on an order book of around Rs.4.31bn (65% - stainless steel pipes and 35% - carbon steel pipes) which will be executed within next 6-8 months. We believe, RMTL continue to get healthy order book in FY08E and FY09E as well mainly because of big capex plans announced by oil and gas industry players.

**Impressive improvement in EBITDA margins**

During Q1FY08, RMTL's EBITDA grew by 123% YoY to Rs423mn and its EBITDA margins improved by 72bps YoY to 22.3%. We assess RMTL was able to improve its EBITDA margins mainly due to favorable product mix, higher volumes and lower fixed cost. We believe RMTL would be able to maintain its EBITDA margins in the range of 21-22% in FY08E & FY09E as well.

**EBITDA Margin Movement over last Five Quarters**

Source: Company, Reliance Money Research

**Net profit grows strongly by 174% YoY**

*RMTL reported EPS of Rs.25 in Q1FY08*

Net profit of RMTL for Q1FY08, boosted by 174% YoY to Rs.226mn and it reported the EPS of Rs.25.1 for the quarter. Going ahead, we expect with the ramp of expanded capacity, the top line as well as the bottom line would continue to grow at a CAGR of 35% and 39% respectively over FY07-09E.

Contd..

## Business Outlook and Valuation -

RMTL is a leading player in stainless steel tubes & pipes and carbon steel pipes. RMTL currently commands 30% domestic market share in stainless steel tubes & pipes segment. Stainless steel tubes & pipes have critical applications in the industries like petrochemicals, fertilizer, chemical, power, nuclear etc which requires pre-approval from the customers.

*We assess heavy capex by user industries to drive order book of RMTL*

Considering the high demand from oil consumers and sharp increase in oil prices, globally major oil players have announced the big capital expenditure plans. The strong capex cycle witnessed within the Refineries and Petrochemical sectors both within India, Asia Pacific and the Middle East markets, are likely to throw open a large growing business opportunity for RMTL. This is clearly reflected from the fact that the unexecuted order book pipeline currently stands at Rs.4.3 bn. We believe RMTL would also be beneficiary of growing economy as it serves to fast growing industries like power, sugar, chemical, pump, automobiles, nuclear etc.

Recently RMTL has allotted 450,000 warrants at Rs. 950 per share to its promoters on preferential basis and raised Rs.427.5mn through it. The company plans to utilize these funds to fund its expansion program. RMTL new equity after conversion of these warrants would go up to Rs94.5mn (5% equity dilution). Our EPS calculations are based on the fully diluted equity.

*Currently Kutch SEZ plant operates at 30-35% of installed capacity*

Currently RMTL's Kutch plant operates at 30-35% capacity and it plans to increase it to 50% in FY08E. Further it plans to spend Rs500mn in FY08E on capacity expansion which would take care of Rs11bn turnover targeted by the RMTL management by FY2009. Kutch plant itself can offer a turnover of Rs7.5 bn at full operational capacity. We believe strong capex cycle by oil majors, higher order inflows, stable margin outlook and higher asset turnover ratios expected for next two years gives us comfort while recommending the stock.

## Financial Estimates –

Year Ended	Mar08E	Mar09E
Net Sales (Rs Mn)	8,701	10,653
EBITDA (Rs Mn)	1,873	2,267
EBITDA (%)	21.5	21.3
PAT (Rs Mn)	1,040	1,325
EPS (Rs)	110.1	140.2
P/E (x) At Rs.1006	9.1	7.2

Source: Reliance Money Research

We believe that RMTL's earnings over the next 2-3 years would be entirely volume driven and despite rising raw material pressures, RMTL is all set to report a significant jump in profits which the markets have not yet fully discounted in the present share price.

*We recommend a BUY with a target price of Rs.1361*

The RMTL stock currently trades at 9x FY08E and 7x FY09E which we believe is attractive. We are positive on the stock and believe RMTL stock has good potential upside from this level and recommend a BUY with target price of Rs 1361 based on DCF approach, which gives an upside of 35% from current level. At our target price the stock would trade at a P/E multiple of 10x on FY09E earnings.

Contd..

## Profit &amp; loss statement (Rs mn)

Year to Mar	FY06A	FY07A	FY08E	FY09E
Net Sales	3,191.2	5,712.4	8,700.8	10,635.5
% Growth	76.5	79.0	52.3	22.2
EBIDTA	633.3	1,277.1	1,873.3	2,267.0
% Growth	117.2	101.7	46.7	21.0
Other Income	9.6	50.3	35.0	31.8
Interest	98.0	164.4	180.8	136.8
Depreciation	73.9	155.9	209.8	242.0
PBT	471.0	1,007.1	1,517.7	1,920.0
% Growth	124.0	113.8	50.7	26.5
Tax	76.3	365.3	478.1	595.2
Deferred Tax	59.3	-	-	-
Adj PAT	335.4	641.8	1,039.6	1,324.8
% Growth	153.1	91.3	62.0	27.4
Extra-ordinary	(0.2)	-	-	-
Reported PAT	335.2	641.8	1,039.6	1,324.8
% Growth	152.4	91.5	62.0	27.4
Dividend (%)	22.5	22.5	47.3	47.3
EPS (Rs)	37.2	71.3	110.0	140.2
BVPS (Rs)	90.7	159.2	301.1	435.5

## Balance sheet (Rs mn)

Year to Mar	FY06A	FY07E	FY08E	FY09E
Equity Capital	90.0	90.0	94.5	94.5
Reserves	726.6	1,342.5	2,750.8	4,021.2
Networth	816.6	1,432.5	2,845.3	4,115.7
Secured loans	766.2	1,548.9	1,248.9	948.9
Unsecured loans	294.4	294.4	194.4	94.4
Total loans	1,060.6	1,843.3	1,443.3	1,043.3
Total Liability	1,877.2	3,275.8	4,288.6	5,159.0
Net Block	1,607.7	2,584.9	2,855.1	2,993.1
Investments	0.1	0.1	0.1	0.1
Deffered Tax Assets	(202.8)	(202.8)	(202.8)	(202.8)
Inventory	588.0	853.9	1,280.0	1,535.6
Debtors	346.6	642.6	947.4	1,152.2
Cash balance	101.4	634.6	1,285.2	1,990.1
Other CA	148.0	264.9	403.5	493.2
Current Liabilities	614.7	1,108.8	1,744.8	2,150.3
Provisions	97.1	393.7	535.2	652.3
NCA	472.2	893.6	1,636.2	2,368.6
Total Assets	1,877.2	3,275.8	4,288.6	5,159.0

## Ratio Analysis

Year to Mar	FY06A	FY07E	FY08E	FY09E
OPM %	19.8	22.4	21.5	21.3
NPM %	10.5	11.2	11.9	12.5
ROE %	50.7	57.1	48.6	38.1
ROCE %	39.4	45.5	44.9	43.5
Int. Cover (x)	5.8	7.1	9.4	15.0
D/E (x)	1.3	1.3	0.5	0.3
Asset Turnover (x)	1.6	1.8	2.4	2.7
Debtors Days	39.1	40.5	39.2	39.0
Inventory Days	108.1	85.0	82.0	80.0
<b>Valuation ratios</b>				
P/E (x)	27.0	14.1	9.1	7.2
P/CF per share (x)	19.3	11.4	7.6	6.1
EV/EBIDTA (x)	15.8	8.0	5.2	3.8
EV/Sales (x)	3.1	1.8	1.1	0.8
Mkt Cap/Sales(x)	2.8	1.6	1.1	0.9
CEPS (Rs)	52.1	88.6	132.2	165.8
P/ BV (x)	11.1	6.3	3.3	2.3

## Cash Flow Statement (Rs mn)

Year to Mar	FY06A	FY07E	FY08E	FY09E
PAT	335.4	641.8	1,039.6	1,324.8
Depreciation	73.9	155.9	209.8	242.0
Change in WC	(363.6)	111.8	(91.9)	(27.6)
Operating CF	45.7	909.4	1,157.5	1,539.2
Capex	(613.0)	(1,133.1)	(480.0)	(380.0)
Misc Exp	55.1	-	-	-
Investing CF	(557.9)	(1,133.1)	(480.0)	(380.0)
Dividends	(22.5)	(25.9)	(54.3)	(54.3)
Equity			427.5	
Debt	556.2	782.7	(400.0)	(400.0)
Investments	0.3	-	-	-
Financing CF	534.0	756.8	(26.8)	(454.3)
Net Change	21.8	533.2	650.7	704.9
Opening Cash	79.6	101.4	634.6	1,285.2
Closing Cash	101.4	634.6	1,285.2	1,990.1

Source: Reliance Money Research

**RELIANCE Money**  
Anil Dhirubhai Ambani Group

**Regd. Office**

6th Floor, Nagin Mahal, 82 Veer Nariman Road, Churchgate, Mumbai- 400020

Tel: 91-22-22790410, Fax: 91-22-22790433

**Corporate Office:**

570, Rectifier House, Naigaum Cross Road,

Next to Royal Industrial Estate, Wadala (W), Mumbai – 400031.

Equities: Trading through Reliance Securities Limited | NSE SEBI Registration Number Capital Market :- INB 231234833 |  
BSE SEBI Registration Number Capital Market :- INB 011234839 | NSE SEBI Registration Number Derivatives :- INF 231234833  
Commodities : Trading through Reliance Commodities Limited | MCX member code: 29030 | NCDEX member code: NCDEX-CO-05-00647 |  
NMCE member code: CL0120 Mutual Funds : Reliance Securities Limited | AMFI ARN No.29889

**DISCLAIMER:** This document has been prepared by Reliance Money Limited, Mumbai and is to be used by the recipient and not to be circulated. The information provided should not be reproduced, distributed or published, in whole or in part without prior permission from the company. The information and the opinions contained in the document have been compiled from source believed to be reliable. The company does not warrant its accuracy, completeness and correctness. This document is not and should not be construed as an offer to sell or solicitation to buy any securities.