RATNAMANI
METALS & TUBES LTD.

Ratnamani's Credo - *Prosperity through Performance*

Ratnamani Metals and Tubes Ltd (NSE Code: RATNAMANI) – Alpha/Alpha + stock recommendation for Oct'14

Content Index

Company Snapshot (As on 12th Oct'14)

Current Market Price – Rs 421.5

Dividend yield – 1.07%

BSE Code – 520111

NSE Code – RATNAMANI

Market capitalization – Rs 1,967 cr.

Total Equity shares – 4.668 cr.

Face Value – Rs 2.00

52 Weeks High/Low – Rs 520.10/116.05

Particulars (in cr.)	FY 10	FY 11	FY 12	FY 13	FY 14
Income from operations	851.95	813.67	1221.74	1201.13	1326.10
Gross profit	285.68	285.48	427.22	461.31	485.5
Gross Profit margin (%)	33.53%	35.09%	34.97%	38.41%	36.61%
EBITDA	152.17	148.48	209.54	240.15	263.19
EBITDA margin (%)	17.86%	18.25%	17.15%	19.99%	19.85%
Foreign exchange fluctuation gain/(loss)	15.35	12.97	-4.47	-2.3	-6.51
Foreign exchange effect on borrowing	0	-4.89	-12.69		
Other Income					
Div from LT trade investments	1.48	9.69	5.83	18.27	13.74
Interest on FD Loans and Misc.					
Depreciation	-36.88	-39.99	-42.49	-42.47	-45.86
Interest	-1.75	-13.56	-16.56	-12.14	-10.34
PBT	130.37	112.69	139.16	201.51	214.22
ROAE	25.21%	20.83%	22.99%	23.06%	20.21%
Cash flows from operations	-89.30	91.85	91.31	235.89	159.54
Net debt	245.81	201.24	212.59	46.37	-16.39

Introduction

We have always believed that it's not about the size of operations of the company; it's rather about the quality of business operations of the company. So, while Ratnamani (RMTL) is not the largest company in India in tubes and pipes segment, it is the best performing and best managed company in its space.

There's a very famous quote from Mr. Warren Buffett, "Only when the tide goes out do you discover who's been swimming naked" and the same finds its apt meaning when considered with respect to tubes and pipes industry. 2003-2009 was a great period for the industry and all the players like Jindal Saw, Welspun Corp, Maharashtra Seamless, Man Industries, RMTL, etc did well, however post 2008-09 financial crisis, all other Indian pipe manufacturers started reporting lower profits or losses and even plunged in CDR (corporate debt restructuring), while RMTL has not only almost doubled its profits, it has emerged debt free with surplus cash and all this while maintained its return ratios in excess of 20%.

During the last few years the demand was low, however, as per the management, the company is now experiencing strong traction in the oil & gas sector and export markets, and expects strong order flows in the coming years. Further, as per SIMDEX, global demand for pipelines, between FY13 & FY17, could amount to $356 billion opportunity spread over 673 projects.

Over the next five years demand for SAW pipes (excluding replacement demand) is estimated at 16 million tonnes from the oil & gas sector alone. In addition to this, demand from replacement market is expected to be around 10.4 million tonnes. Moreover with cost of exploration rising and scanty oil reserves in some parts of the world, oil/gas transportation activity should increase going forward. Last but not the least India's pipeline density at 3 Km per 1000 Km of area is the lowest in the world…compare this to 50 Km per 1000 square Km in the USA.

Also, the announcement of 15,000 Km of gas pipeline in its maiden budget by NDA also supports the 'Brighter Future' theory for Indian pipes companies.

So, while at one end we expect improvement in sales growth of RMT, what is important to note is that since the last few years the company has been running its SS Tubes plant at ~60% and Carbon Steel tubes plant at ~30% capacity utilization and therefore with improvement in capacity utilization, the scope for growth in profits is much higher.

At the same time, for a debt free company with good growth outlook and strong return ratios, we believe the current valuations of 13 times TTM (trailing twelve months) earnings are very reasonable.

Ratnamani Metals and Tubes – digging deeper

Ratnamani Metals & Tubes Limited (RMTL) was established by the Sanghvi family in 1985. In around three decades, Ratnamani has grown to become a multi-product, multi location public limited company providing total piping solutions to a diverse range of industries.

RMTL is a leading manufacturer and exporter of Stainless Steel Seamless and Welded Tubes & Pipes with an installed capacity of 27,000 TPA (estimated). RMTL also has presence in Carbon Steel Welded Pipes segment with an installed capacity of 350,000 TPA (estimated). The Company possesses three state-of-art manufacturing facilities (Indrad, Chhatral and Kutch) and two mobile plants.

The company caters to the niche markets of almost all the emerging sectors like oil and gas, refineries, petrochemicals process industries, power plants and water distribution. Ratnamani ensures high degree of flexibility in production and planning, making possible economical manufacturing of small and medium sized production lots.

Product Profile:

- Stainless steel seamless tubes and pipes
- Stainless steel welded tubes and pipes
- Carbon steel pipes – High Frequency Electric Resistance Welded (HF-ERW) pipes; Submerged Arc Welded (SAW) pipes, namely HSAW and LSAW pipes

- External and internal coating solutions

RMTL manufactures Stainless Steel Tubes & Pipes in the range of 0.25" to 60" OD. It also manufactures Carbon Steel pipes in the range of 6" to 110" NB and circumferential LSAW pipes which have the diameter of up to 147". These pipes are used in water, sewage & power project segments.

Focus on niche applications, less competitive and high margin products – Ratnamani's focus has always been on high margin niche applications. As a result it is the only one in India to manufacture titanium welded tubes used in thermal power plants, nuclear power plants, desalination plants, chemical plants and reactors – which are sunrise spaces in our country.

Besides, Ratnamani enjoys more than 40% market share of critical SS Tubes used in the refinery, fertilizer and power plants sector. It is the largest Indian manufacturer of stainless steel tubes and pipes and the company is the only one in its industry to have invested in back-end hot extrusion, which makes it possible to roll out more mother hollows to produce a large volume of SS tubes.

The Company manufactures value-added products (stainless steel tubes); within the stainless steel tube segment, the Company is among few in the world to manufacture duplex, super-duplex tubes and pipes, while in the carbon steel segment, the Company possesses the capability to manufacture pipes of higher thickness and longer diameters.

As a result of its focus on SS tubes segment, RMTL enjoys attractive profit margins as compared to its competitors. Also the SS pipes manufactured by RMTL are used in critical part of plants and carry very high failure costs. Thus, the process of vendor selection by the companies is stringent and there's certain degree of client stickiness.

As per the management, the business needs multiple approvals from project owner, consultants, EPC contractors, which is a time consuming process for a new player. More importantly RMTLs products are tried and tested by most of the major oil refineries and leading power players, who have used them for over two decades. This gives RMTL a significant competitive advantage.

Improvement in order book of the company – RMTL's order book as on 1st August 2014 stood at Rs 1340 cr. In Q1 FY15 RMTL reported strong order intake of Rs 540 cr. driven by robust order inflows in the carbon steel pipes business.

Meanwhile on the export market front, RMTL gets 25% of its business from the overseas market, which is far bigger than the domestic market in the stainless steel pipes segment. RMTL has a presence in over 20 countries, which includes Japan, South Korea, Middle East, Europe, North America and South America. RMTL has also received approvals from players like Mitsubishi, Toshiba, IHI, Saudi Aramco, etc. With increasing approvals from major players RMTL intends to grow its revenue share from the international markets to 50% in the next 3 years.

Sufficient capacity for fulfilling order book – As indicated in one of the sections above, since the last few years the company has been running its SS tubes plant at 60% capacity utilization and CS tubes plant at ~30% capacity utilization.

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Stainless steel tubes and Pipes						
SS Capacity (in MT)	21900	21900	21900	21900	27000	27000
Sales (in MT)	11908	10349	12397	15816	16118	16785
Avg. Selling price (Rs/Ton)	429568	338036	326293	361150	424508	422878
Capacity utilization (%)	54.37%	47.26%	56.61%	72.22%	59.70%	62.17%
Carbon Steel pipes						
CS Capacity (in MT)	350000	350000	350000	350000	350000	350000
Sales (in MT)	77921	113305	83850	107479	83311	109691
Avg. Selling price (Rs/Ton)	57377	45360	43296	60448	58448	53468
Capacity utilizaation (%)	22.26%	32.37%	23.96%	30.71%	23.80%	31.34%

With the company experiencing strong order inflows, RMTL is well placed with sufficient capacity at its disposal to take care of expected improvement in order in-take.

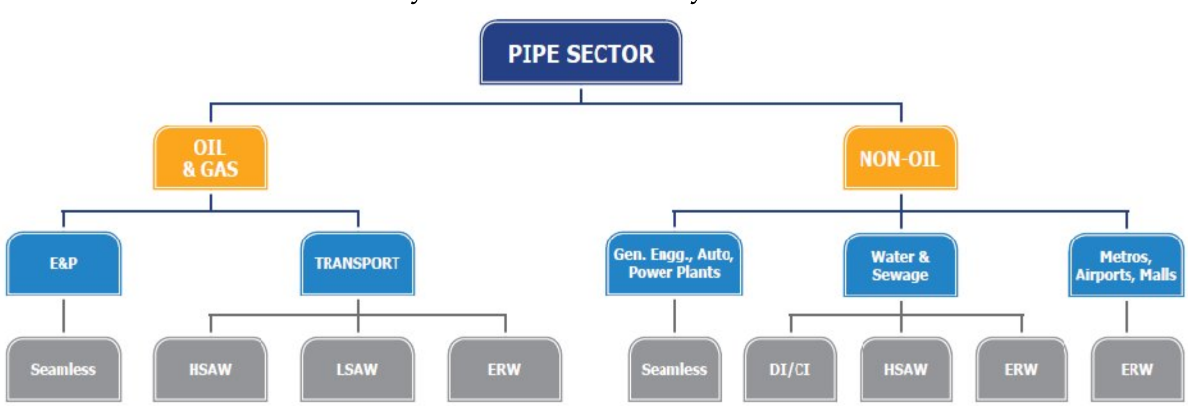
Mobile plants: Innovative approach to business – RMTL was presented the problem of manufacturing carbon steel pipes of more than 48” diameter and transporting them across long distances to the customer’s manufacturing plants. This raised a number of challenges: long distances, challenging terrain and high transportation cost.

RMTL responded laterally: the Company reversed the proposition; if it was challenging to get the pipes to the customer’s site, Ratnamani decided to transport its pipe manufacturing facility to the customer’s premises.

The result of this unusual approach was that Ratnamani emerged as the first Indian company to introduce mobile plant manufacturing facilities in 2001. Following the success of this unusual response, the Company commissioned a second mobile plant as well.

Industry Overview

In the steel pipes space, Ratnamani has been preferred supplier for many leading companies and has been involved in several national and international projects. The company has emerged as a one stop source of tubes and pipes for an array of Industrial applications, however its fortunes are linked directly to CAPEX in industries like Refineries, Petrochemicals, Power, Fertilizer, etc where investment on continuous basis has been there within the country and internationally also.



Product Summary	LSAW	HSAW	ERW	Seamless
Size	16" to 50" diameter	18" to 120" diameter	0.5" to 22" diameter	0.5" to 14" diameter
Key Raw Material	Steel Plates	HR Coils	HR Coils	Steel Billets
Manufacturing Process	Longitudunally submerged arc welding of steel plates	Spirally Welding HR Coils	Hot Rolled steel coils using electrical resistance welding process	Piercing ingots/ billets of steel at high temperatures
Key Difference	High Pressure conditions	Low Pressure conditions	Limitations in size, thickness and grade	High Pressure conditions
	Demand is directly related to Oil & Gas Sector	Demand is directly related to Oil & Gas Sector, Water and Sanitation Sector	Suitable for branch lines in oil & gas distribution	Application in oil and non-oil related industries
Application	Oil & Gas Transportation	Oil & Gas/Water Transportation	Oil & Gas/Water Distribution, Metros, Airports, Malls	Petroleum , Exploration, General Engg., Boilers

The last few years have been challenging for the pipes industry, however there are signs of revival in the medium term.

The North American market is already showing signs of bouncing back as it is planning several LNG terminals to export LNG to South East Asia and Europe and also develop internal infrastructure to leverage the vast production of Natural Gas liquids and Shale liquids, which should translate into pipeline demand in a couple of years.

Europe promises to be a large potential market going forward as it looks to diversify its gas sources with projects like TANAP to source gas from CIS and Africa. Middle East will continue to remain strong with demand from Saudi Arabia, UAE and even Iraq, a country which is steadily coming up on the path of recovery and stability.

In the Asia-Pacific region, potential demand from Thailand, Malaysia, Vietnam, Myanmar and Indonesia could boost the regional demand. As far as India is concerned, FY15 should present opportunities in the water pipeline segment. The domestic oil and gas pipeline market would be under close watch with large cross country gas pipelines planned for FY16.

The union budget did not have any direct schemes for pipe industry, but several measures announced in the oil & gas, solar power, water and sanitation space are likely to drive domestic pipe demand.

Most significantly, the FM proposed to create additional 15,000 kilometres of pipelines using PPP (public-private partnership) model to complete the gas grid across the country and increase the usage of domestic as well as imported gas.

Apart from this, investment linked deduction allowed to slurry pipelines for the transportation of iron ore is likely to boost investment in this sector and in turn demand for Submerged Arc Welded (SAW) pipes.

Global Steel Pipe industry

World's transmission pipeline network for crude oil, natural gas and others have grown significantly in the last 20 years. The length of all transmission pipelines has increased by 67% over this period (a CAGR of 2.5%). Natural gas pipelines have increased 80% (a CAGR of 3%); crude oil pipelines 63% (a CAGR of 2.5%) and other pipelines by 35% (a CAGR of 1.5%). (Source: MBR report 2013)

In total, almost 2.2 million km of transmission pipeline is present worldwide, half of which is in two countries - USA and Russia. A further 8 countries (Canada, China, Ukraine, Argentina, UK, Iran, Mexico, and India) take the cumulative total to 70% of the world network by length. (Source: MBR study 2013 report).

With rising cost of exploration along with uneven and scanty oil reserves in some parts of the world, we could see increase in transportation activities from one part to another. Global energy demand is expected to increase by over one-third by 2035 and emerging economies are expected to be at the forefront to drive global energy markets with the share of non-OECD energy demand rising from 55% in 2010 to 65% in 2035.

In India, the demand is expected to more than double from existing levels which will be second only to China, followed by Middle East. This will help in giving a boost to Cross Country Pipeline projects.

The substantial increase of oil and gas production in the Caspian area, particularly in Azerbaijan and Turkmenistan (for gas) and in Kazakhstan (for oil) should result into expansion of existing pipeline systems or the implementation of new pipelines as a logical consequence. These projects would give opportunities to many pipe manufacturers across the world. With the satisfactory records and dedicated management, RMTL is in a good shape to capitalize on the opportunity.

Several large projects in the pipeline – Steel pipes market, though encountering overcapacity conditions for the past few years is expected to witness steady growth in the upcoming years driven by the implementation of new pipeline projects. The global pipeline demand as per SIMDEX for the projects starting from 2014 to 2019 is about 716 projects resulting in an opportunity for supplies of more than US$ 403 billion across geographies as presented in the table below.

Several large projects are in an advanced stage, which should convert to orders over the next couple of years.

Geographical Zone	Number of projects	Total Length in Kms (km in '000)	Business value (billon USD)
North America	231	55	65
Latin America	53	35	55
Europe	119	33	60
Africa	87	30	39
Middle East	105	31	52
Asia	67	48	93
Australasia	54	21	39
TOTAL	**716**	**253**	**403**

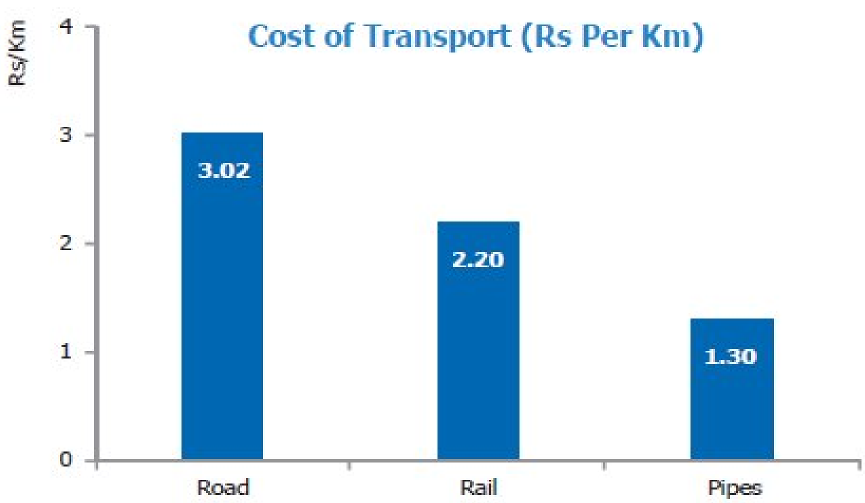
Source : Simdex data as on January 2014.

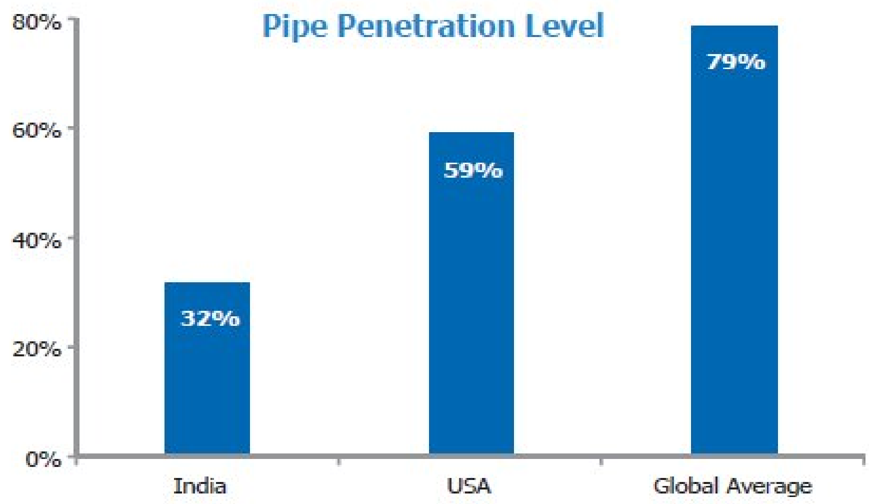
As per industry reports, Indian line pipes players have over 8 million tonnes saw pipe capacity. Over the next five years, global and domestic SAW pipe demand (excluding replacement demand) for Indian manufacturers is estimated at 16 million tonnes from the oil and gas sector alone. Besides, demand from the replacement market is also likely to be 10.4 million tonnes over the next five years. Thus, average annual demand for the line pipes from oil and gas sector is estimated at 5 MTPA per annum, which should help improve the capacity utilization of Indian line pipes players like RMTL.

Domestic Pipe demand

The Indian Pipe Industry is among the top three manufacturing hubs after Japan and Europe. However, the penetration level of pipelines in oil & gas transportation is quite low at 32% in India as compared to 59% in USA and 79% globally. The low penetration of pipes in the domestic market provides a huge business opportunity.

Pipelines are also the economical mode of transport as compared to roads and rail. The Indian government is encouraging the use of pipes as this will reduce the costs of transportation and assist the Oil Marketing Companies (OMCs) like HPCL, BPCL, IOC etc. to trim their under recoveries and the government will save in the form of lesser subsidy outgo.





India at present has a network of about ~13,000 km of natural gas transmission pipelines with a capacity of around 337 MMSCMD. However, the pipeline density in country is still amongst the lowest in the world with onshore natural gas pipeline density being 3 km per 1,000 km of area as compared to 50 km per 1000 sq. Km in the USA.

This pipeline network is expected to expand to around 28,000 Km with a total capacity of around 721 MMSCMD in next 5-6 years. This includes most of the National Gas Grid that would connect all major demand and supply centre in India. The planned additions to the natural gas infrastructure in India during the projected period have been provided below:

Summary of Planned Addition to Pipeline Infrastructure

Pipelines	Design Capacity (mmscmd)	Length (Kms)
Existing till 2012	306	12,144
Expected addition in the 12th plan	416	15,928
Expected addition in the 13th plan	60	3,360
Capacity addition MBBVPL/MBPL/Surat Paradip/pipelines beyond 13th plan & till 2030	33	1,295
TOTAL	**815**	**32,727**

Source : MoPNG

The capacity of pipeline network in India is planned to reach 815 MMSCMD in 2029-30. However, considering the addition of capacity directly linked to the existing/planned sources of natural gas in the country, the gas grid capacity in India (pipeline emanating from source) is expected to reach 582 MMSCMD in 2029-30 from the present 274 MMSCMD. This capacity is expected to take care of the natural gas supply scenario in the projected period.

It is important to note here that industrial sector remains crucial for the development of natural gas market in India due to it affordability. It is expected that a major portion of the incremental future demand for natural gas would come from the industrial sector which is expected to have positive impact on gas pipeline industry. The announcement of 15,000 km of gas pipeline in the recent budget proposals is a step in that direction.

Further, off-late the scenario has been optimistic in India with water projects of GWIL and projects like PHDPL from major oil companies like IOCL coming up in the year 2014-15. Other project like Kochi – Coimbatore pipeline from BPCL/IOCL is also expected in near future. There are also other IOCL projects such as Paradip – Raipur pipeline, Ennore – Trichy – Madurai pipeline under construction.

There is good demand potential from projects such as Mehsana – Bhatinada pipeline project, Mallavaram – Bhopal – Bhilwara – Vijaipur (MBBVPL) Natural Gas Pipeline project, Bhatinda – Jammu Pipeline of GTIL. These are expected to be finalized in the year 2014-15 adding a boost to the domestic projects and giving a positive hope to the domestic pipe manufacturers.

City gas distribution – The total demand from City Gas Distribution (CGD) sector is expected to grow from 15.3 MMSCMD in 2012-13 to 85.6 MMSCMD in 2029-30 at a CAGR of 10.7%. (Source: Report – Vision 2030 Natural Gas infrastructure in India, May 2013 for PNGRB)

City Gas Distribution (CGD) offers great potential. In terms of the natural gas market, India is at nascent stage as compared to other matured gas based economies including America, Europe, Japan and Korea. The share of gas in India's energy portfolio was at 10%

in FY 10, as compared to global average of 25%. To meet the rapidly increasing demand for energy, natural gas is emerging as a potent source. To meet this demand it is vital to have sufficient gas distribution infrastructure. Currently, the CGD segment constitutes 10% of the total gas consumption in India and is expected to reach a share of 20% by 2020. The supply of natural gas for CGD was around 13 MMSCMD in FY 11 against the demand of 15.83 MMSCMD in the country with an estimated demand of 100 MMSCMD by FY 20.

Being one of the largest players in CS tubes and pipes along with loyal customer base (GAIL India, ONGC, EIL and OIL India), going ahead, we expect RMTL to be one of the beneficiaries of rapidly increasing gas distribution infrastructure.

Oil and Gas/Petrochemical and Refineries sector – SS Tubes and pipes are used in critical oil and gas and refineries projects and there has been quite a revival in the demand in the developed nations, particularly in USA and Canada, which have seen large investments in Oil and Gas sector in particular, both downstream and upstream.

Added to the above, a large amount of investments have been promised and are under-way in the Middle East, particularly in countries like Saudi Arabia, Abu Dhabhi, Kuwait and Oman. These investments are primarily either in up-gradation of present refineries or as green field projects to enhance capacity. These investments in Middle East and North America have given a lot of hope in the Oil and Gas sector.

Domestically also, the Oil and Gas sector are not lagging behind. The investments in the Reliance J3 projects are continuing in this year too and BPCL and HPCL are also investing. Two more green-field refineries in Barmer (Rajasthan) and Konkan (Maharashtra) have already been planned with 18 million ton refining capacity and may start procurement during FY 2015-16.

In view of these positive investments in Oil and Gas sector in India, Middle East and North America, a steady growth is expected in the sales of SS Tubes and pipes which account for around 50% of the revenue of the company.

Nuclear Power – As far as this niche sector is concerned, RMTL has been already doing a fairly good job in Nuclear/Atomic Energy and Aerospace sectors. The Government has now cleared two units in Haryana for 700 MW and the management expects good demand for critical grade tubes. Further, the company is also working on to get qualified for the supply of steam generated tubes for nuclear power plants.

As per the management, with various infrastructural sectors in domestic arena getting a boost because of the stable government, economy in Europe/North America picking up and Middle East investments in Oil and Gas sector as per schedule, they foresee a steady growth for Stainless Steel tubes and pipes.

Water Pipeline demand in India – The water sector provides an additional opportunity for the pipes sector, especially HSAW pipes. The water resource potential in India is 186.9 million ha mtr, mostly from rainfall. Though the annual availability of water is more than utilization, there is a rising demand to fully utilize this potential. Recognizing the criticality, the Centre in its 12th Five Year Plan, has indicated gross budgetary support for development of water resources to Rs. 1,096 billion as against Rs 414 billion allocated in the 11th Plan.

Replacement demand – the potential upside

As per MBR study 2013, over 38% of the World's transmission pipeline network is less than 20 years old, a further 25% is between 20 and 40 years old and 37% is over 40 years old. In the USA, federal data indicates that over half the transmission pipe network for Oil and gas is over 50 years old, with an estimated 80,000 km of transmission pipelines built before 1970 suffering from faulty welds and posing a major safety risk.

Although there have been discussions on replacing these pipelines, there has been no concrete action from the governments or the pipeline operators. This demand, if it materialises, would provide significant growth opportunity for pipeline manufacturers around the world, for many years.

Ratnamani Metals and Tubes – Performance Snapshot

Ratnamani Metals started out as a manufacturer of stainless steel tubes in October 1985 and gradually diversified into carbon steel in 1994. During the period of 2004-09 the company performed exceedingly well and the performance of the other companies was also good, however it was during the subsequent low-growth period of 2009-2014 that Ratnamani stood out from its competitors.

Particulars (in cr.)	FY 10	FY 11	FY 12	FY 13	FY 14
Income from operations	851.95	813.67	1221.74	1201.13	1326.10
Gross profit	285.68	285.48	427.22	461.31	485.5
Gross Profit margin (%)	33.53%	35.09%	34.97%	38.41%	36.61%
EBITDA	152.17	148.48	209.54	240.15	263.19
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Interest	-1.75	-13.56	-16.56	-12.14	-10.34
PBT	130.37	112.69	139.16	201.51	214.22
ROAE	25.21%	20.83%	22.99%	23.06%	20.21%
Cash flows from operations	-89.30	91.85	91.31	235.89	159.54
Net debt	245.81	201.24	212.59	46.37	-16.39

As per the management, they had a good time back in 2004-09 as the petroleum sector was going through a boom phase and the crude prices kept hitting new highs. It was around this time that they started adding more capacity in the carbon steel segment, even as the other domestic players were far more aggressive in their approach.

However, aggressive capacity expansion, which until 2009 was appearing to be a recipe for success soon turned out to be a disaster for the pipeline industry. The global contagion took the wind out of effervescent crude prices, forcing global majors in the petroleum sector, the biggest demand driver for pipelines, to shelve their expansion plans. The net effect: the domestic pipe industry was left grappling with overcapacity, which was compounded by the fact that a lot of it was funded by leverage, taking a heavy toll on the bottom-line.

But that's not the case with Ratnamani. The company refrained from undertaking reckless/unnecessary expansions, conserved cash and repaid debt. As a result, unlike others which are saddled with huge amounts of debt and have had to dilute equity, RMTL is now debt-free on net basis.

Besides not indulging in the rat race of reckless expansions, the management also started focusing more on the stainless-steel segment and high-value products to ensure healthy margins and return ratios. As per the management, they sell highly customized niche value-added products. For instance, they are one of the few manufacturers in the world who make long tubes, up to 36 m in length, for the oil and gas and petrochemical industry and are also the only makers of titanium welded steel tubes used in desalination plants and UMPP power plants located along the shores.

As a result, the company has consistently been able to maintain 15% + EBITDA margins and 20% + return on equity.

As far as working capital management and cash flows from operations is concerned, here again RMTL has performed really well as it does not hoard raw materials unless there is a clear visibility on orders. As per the management they don't speculate because they are in a business that is largely of a made-to-order nature and book materials as and when the order is ready to be executed. The company also gets 10-30% advance from the customers for certain orders and all these factors have helped RMTL maintain a very good control on working capital and generate strong cash flows from operations.

Future outlook – As discussed in the introduction section of the report, the company is now experiencing strong traction in the oil & gas sector and export markets, and expects strong order flows in the coming years.

On the export market front, which is far bigger than the domestic market in the stainless steel pipes segment, RMTL has received approvals from players like Mitsubishi, Toshiba, IHI, Saudi Aramco, etc and with increasing approvals from major players RMTL intends to grow its revenue share from the international markets to 50% from the current 25% in the next 3 years.

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A glimpse of what is expected to follow over the course of next 2 years can probably be gauged from Q1 FY 15 results of the company in which it reported:

- 20.10% growth in sales over Q1 FY 14
- 21.21% growth in EBITDA with EBITDA margins of 19.71%
- 31% reduction in interest cost, and

- 24% growth in net profit of the company

Peer Comparison

Return on Net Worth (%)	3 Yrs Avg. RONW	5 Yrs Avg. RONW	10 Yrs Avg. RONW
Ratnamani Metals	21.93%	22.20%	26.90%
Welspun Corp	1.79%	9.04%	11.02%
Jindal Saw	0.70%	7.13%	15.86%
Maharashtra Seamless	7.46%	11.09%	15.12%

Debt Equity ratio	Mar'09	Mar'10	Mar'11	Mar' 12	Mar' 13	Mar' 14
Ratnamani Metals	0.49	0.68	0.46	0.40	0.07	0.00
Welspun Corp	1.73	0.84	1.03	1.35	0.91	1.13
Jindal Saw	0.74	0.21	0.40	0.70	0.87	0.88
Maharashtra Seamless	0.06	0.05	0.04	0.01	0.00	0.00

Particulars	3 Yr Sales CAGR	5 Yr Sales CAGR	10 Yr Sales CAGR	3 Yr Profit CAGR	5 Yr Profit CAGR	10 Yr Profit CAGR
Ratnamani Metals	17.75%	6.78%	24.77%	25.42%	5.32%	30.15%
Welspun Corp	-1.23%	6.19%	NA	-46.61%	-10.27%	NA
Jindal Saw	9.61%	1.95%	19.82%	-25.67%	-8.44%	16.42%
Maharashtra Seamless	-11.81%	-10.06%	5.11%	-30.36%	-16.40%	2.43%

As can be observed from the above illustrations, RMTL has been the most consistent performer across all the operating parameters. The company's growth in sales and profits has been both consistent and higher across 3, 5 and 10 years segments, it commands higher margins in comparison to its peers and has delivered higher return on shareholder's equity.

Shareholding pattern

	Sep'14	Jun'14	Mar'14	Dec'13	Sep'13
Promoter and Promoter Group	**59.92%**	**59.92%**	**59.92%**	**60.22%**	**60.22%**
India	59.92%	59.92%	59.92%	60.22%	60.22%
Foreign					
Public	**40.08%**	**40.08%**	**40.08%**	**39.78%**	**39.78%**
Institutions	13.21%	13.40%	13.25%	13.02%	13.06%
FII	13.07%	13.08%	13.00%	12.77%	12.03%
DII	0.14%	0.32%	0.25%	0.25%	1.03%
Non-Institutions	26.87%	26.68%	26.83%	26.76%	26.72%
Bodies Corporate	2.39%	1.81%	1.82%	2.01%	1.99%
Custodians	--	--	--	--	--
Total	**4,66,83,450**	**4,66,83,450**	**4,66,83,450**	**4,64,15,609**	**4,64,15,609**

From a passive investor's perspective it's important for the ones running the company to have high ownership as it aligns their interest in line with those of minority shareholders and in the case of Ratnamani Metals the promoters own 59.92% equity stake.

In fact, in the last 15 months the promoters have added further to their holding in the company by purchasing more than 1.05 lakh shares from the market.

RMTL is largely a family owned-family run business with the three brothers Prakash Sanghvi, Jayanti Sanghvi and Shanti Sanghvi actively involved in the day-to-day operations of the company and are also on the board in the capacity of executive directors. Children of the promoters have also been inducted into the business.

Besides high ownership of promoters, Nalanda India Fund holds more than 11% stake in the company. Nalanda has a history of successful investments and in general looks for companies with high return ratios, good management, proven track record and robust business model.

As on 30th Sep'14, the major shareholders of the company and their stakes are as below:

Name of the shareholder	Category	% stake in Ratnamani Metals
Sanghvi Family	Promoters	59.92%
Nalanda India Fund	Public	11.50%
Pukhraj H. Bhansali	Public	3.21%
Champalal Bachraj Bhansali	Public	3.21%
Darshana R. Shah	Public	1.85%

Dividend Policy

Dividend Payout ratio						
	FY 09	**FY 10**	**FY 11**	**FY 12**	**FY 13**	**FY 14**
Dividend Payout ratio	11.38%	12.22%	14.08%	12.49%	13.66%	14.64%

Ratnamani Metals has an uninterrupted history of dividends for the past more than 15 years.

Further, as can be observed above, the company has consistently been paying out 10-15% of its profits in the form of dividends and we believe the payout policy of the company is good as the management has been good with capital allocation and at the same time they have also attained debt free status in an industry which is saddled with high levels of debt.

Valuations

Before discussing valuations, let's recall all that we have learnt about Ratnamani Metals in the above sections:

- Ratnamani Metals is among the leading manufacturers of steel pipes and tubes in India. It commands more than 40% market share in the high end stainless steel tubes and pipes segment and is also the only manufacturer of titanium welded tubes and pipes in India.

- The entire tubes and pipes industry had a great run from 2004 to 2009 and during the period RMTL grew its revenue 8X from 117 crores to 956 crores and profits 17X from 4.06 crores to 71.20 crores.
- Post 2008-09 the entire industry was hit by the slowdown and was left grappling with over-capacity funded by huge amount of leverage. This forced many companies into losses, CDR and equity dilution, however RMTL faced none of these issues as it didn't resort to reckless expansions and thereby conserved cash and re-paid debt.
- Besides, management's focus on efficient working capital management and high end niche application products enabled the company to consistently generate strong cash flows from operations, strong EBITDA margins of 15% + and 20% + return on equity.
- While other industry players are grappling with huge levels of debt, RMTL is now debt-free on net basis.
- The last few years have been challenging for the pipes business, however there are signs of revival in the medium term. Export markets are showing signs of bouncing back with North America planning several LNG terminals to export LNG to South East Asia and Europe and also develop internal infrastructure to leverage the vast production of Natural Gas liquids and Shale liquids, which should translate into pipeline demand in a couple of years.
- Similarly, Europe promises to be a large potential market going forward as it looks to diversify its gas sources with projects like TANAP to source gas from CIS and Africa.
- As far as India is concerned, FY15 should present opportunities in the water pipeline segment. Most significantly, the FM proposed to create additional 15,000 kilometres of pipelines using PPP (public-private partnership) model to complete the gas grid across the country and increase the usage of domestic as well as imported gas.
- For the last few years the company was running its plants at low capacity utilization (60% for SS plants and 30% for CS plants), though was still generating good returns. With the improvement in industry outlook and order flows, the capacity utilization of the company should improve, thereby resulting in operating leverage and further improvement in EBITDA margins and ROE from current levels of 20%.

- Last but not the least, the company has a strong team with experienced promoters at the helm and their interests are directly aligned with those of minority shareholders.

Coming back to valuations, for an extremely well-managed debt free company with good growth outlook and strong return ratios, we believe the current valuations of 13 times TTM (trailing twelve months) earnings are very reasonable.

Considering the quality of operations, limited investment opportunities (from the perspective of equity investments) in the sector and very good growth prospects, we believe there's scope for re-rating of Ratnamani Metals stock to 18-20 times earnings.

Risks & Concerns

- We believe the major concern with Ratnamani Metals would be the continuance of slowdown in the Oil and Gas sector which are the major users of steel pipes and tubes.

- Secondly, steel is the major raw material for the company and any abrupt movement in the same can affect the realizations and the profitability of the company.

- The overall industry is grappling with over-capacity, especially in the carbon-steel pipes segment, and that will limit the ability of the company to improve it's per MT sales realization.

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E-mail: info@katalystwealth.com Ph: 0512-6050062, Mob: +91-9818866676

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Mittal Consulting

7, Panch Ratan, 7/128
Swaroop Nagar, Kanpur – 208002

Ph.: +91-512-6050062
Mob: +91-98188 66676
Email: info@katalystwealth.com