Ratnamani Metals & Tubes Ltd. INR 100

Growth not just a Pipe Dream BUY

Gateway to Prosperity

Oct 16, 2009

Company Background

Promoted by Mr P. Sanghvi along with his brothers in 1985, Ratnamani Metals & Tubes Ltd. (Ratnamani) is engaged in the manufacture & sale of stainless steel welded/seamless tubes & pipes & carbon steel welded pipes. Ratnamani is India's largest manufacturer of stainless steel pipes & tubes & is a preferred supplier of various EPC contractors (like L&T, BHEL), fabricators & engineering consultants worldwide. It has been gradually expanding its production from welded pipes to seamless pipes & currently has a SS pipes & tubes capacity of 23,000 tn & a carbon steel pipe capacity of 3,50,000 tn. Over the years, Ratnamani has created its global presence with sales encompassing more than 20 countries in all the continents.

Investment Rationale

Financial performance

In Q1FY10, Ratnamani reported Net Sales of INR 1914 mn as against INR 2497 mn an decline of 26%, while its Net Profit was INR 182 mn as against INR 254 mn, during the same period a year ago. Its Operating Profit was INR 369 mn whereas its OPM was at 19.26%. With the end of recession, capex plans for thermal power projects are on its track a big way & also refinery capex activity gradually picking up & Ratnamani is expected to be one of the beneficiary companies, which can be seen through growing its revenues in the near terms.

One of the player across the globe

Ratnamani is India's largest & a globally recognized company in the high margin stainless steel tubing business & is among the few players across the globe. Even its has presence in over 20 countries. Expansion in its related sector across the globe would help it to gain maximum orders thus helping to remain strong.

Catering to wide range of industries

Ratnamani is a Tier I supplier of project pipes which have applications mainly in petrochemicals, oil refineries, power plants, sugar refineries, water projects, fertilizer industry & core engineering industries. It manufactures carbon steel & stainless steel pipes & in addition it undertakes job-working for drawing pipes & also earns small revenue from its own wind mills. Thus providing its products to wide range of industries help it to reduce its risk to some extent.

Healthy Order books

Ratnamani has an order backlog of INR 4 bn, which major of the contract from the EPC contractors. It is also executing the projects from the field of power & hydrocarbon sector. The company intends to increase it production capacity of its Gandhidham manufacturing units, with infusing an capex of INR 400 mn.

Future Outlook

Considering the high demand from oil consumers & sharp increase in oil prices, major oil players across the globe has announced big capital expenditure in order to tap this increasing demand. The strong capex cycle is witnessed within the Refineries & Petrochemical sectors both within India, Asia Pacific. The Middle East markets, are likely to throw open a large growing business opportunity for Ratnamani. This upcoming opportunity would help to acquire clients not only from the domestic market but also from the international markets too.

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Info Codes

Reuters	:	RMT.BO
Bloomberg	:	RMT@IN
NSE	:	RATNAMANI
BSE	:	520111

Market Data

52 Wk Range (INR)	:	400 / 32
Shares in Issue (mn)	:	45.0
Mkt. Cap (INR bn)	:	4.5
BSE 2 Wk Avg Vol	:	61325

Share Holding Pattern (%)

Promoters	:	59.16
MFs, FIs & Banks	:	0.66
FIIs	:	3.52
Others	:	36.66

Investment Theme

Ratnamani is one of the leading player in stainless steel tubes & pipes & carbon steel pipes & holds 40% share in it, catering to wide range of industries including petrochemicals, power, infrastructure, sugar, desalination & others. The company has its footprint in over 20 countries, providing its services not only to the domestic players but to international players too. With the companies planning to incur capex in oil & gas & petrochemical transmission sector, Ratnamani is likely to be benefited as its caters to this sector & is among the few players to provide this service across the globe, along with increasing demand from Power sector.

Ready to Prove its Metal

Scenario of Pipe Industry

Global Outlook

➡Demand driver growth to continue

The global pipeline requirements is expected to be ~98 mn tn with a total of 710 projects & an opportunity of more than USD 117 bn across the globe for the next five years. Thus the addressable market for the pipe manufacturers is pegged at USD 23.4 bn p.a, while the tonnage requirement is estimated at 19.6 mntn p.a.

➡International demand Outlook

To meet the increasing energy needs of global economies, oil & gas companies are investing in laying huge pipelines spanning 1000's of kms. The following table indicates that more than 325,000 kms of pipeline projects would be laid down in the next 4 to 5 years.

Region	Projects	Lengths (kms)	Qty (Mn MT)	Cost (USD bn)
North America	192	73,736	22.1	26.5
Latin America	56	35,053	10.5	12.6
Europe	101	44,784	13.4	16.1
Africa	49	17,452	5.2	6.3
Middle East	111	43,626	13.1	15.7
Asia	142	95,003	28.5	34.2
Australia	59	16,339	4.9	5.9
Total	**710**	**325,974**	**97.7**	**117.3**

(Source:- Simdex, US, May 09 Update)

Indian Outlook

➡Demand driver growth to continue

The domestic demand scenario for pipes is expected to remain firm over the next few years. The demand is expected to rise due to the following reasons

1. Lower penetration of pipeline in oil & gas transportation
2. High transportation cost via rail & road
3. New projects announced by oil & gas transmission companies

➡Lower penetration of pipeline in oil & gas transportation

The pipeline network in India for oil & gas transportation is approx. 13,517 kms with a penetration level of 32% which is much below the global standards. With large investments by both public & private players in India, the share of transportation of oil & gas through pipeline is expected to increase in future.

Pipe Line Penetration

Countries	Percent
Global	79%
France	75%
USA	59%
India	32%

➡Transportation Costs & new Projects to play a role

Globally, the transportation of petroleum products & natural gas are preferred by pipeline rather than other modes of transportation, due to its low costs, along with other operational economies, coupled with benefits of a cleaner distribution chain. It costs approx INR 1.30/km as compared to Rail of INR 2.2/km & Road of INR 3.02/Km. India has relatively underdeveloped gas pipeline infrastructure which is rapidly scaling up in tandem with the increasing demand & ramp up in supplies. With the various projects announced by different players for oil & gas transmission purpose, Indian pipeline manufacturers are likely to view some great demand for transmission of this products due to its low costs.

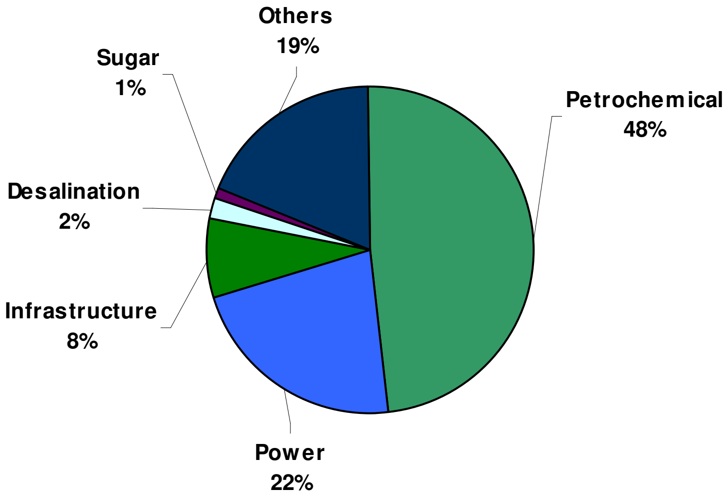
Outlook of Seamless Pipes

Seamless pipes & tubes are used both in oil & non-oil sector. Nearly 65% of the demand for these pipes comes from the oil & gas sector (E&P activities in particular) alone while the balance comes from shipbuilding, chemical, general engineering & automobile industries. Seamless pipe market is far more consolidated than welded pipe market (top 5 catering to almost 60% of the demand worldwide). This has led to greater pricing power for the seamless pipe manufacturers. USA is by far the largest consumer of the Seamless pipes. However the current economic meltdown had a material impact on the demand for seamless pipes. The slump in E&P activities world wide (on account of stupendous fall in crude prices) over the last year has resulted in steep fall in demand for seamless pipes. The resultant inventory pile up of seamless pipes had pushed prices to USD 1,000 per ton after having touched a high of USD 1,800 per ton. However in the last three months prices have recovered to USD 1,200 per ton on account of resurgence in E&P activities in Middle East & Asia. Indian manufacturers are now eyeing Middle East, Asian & North American market for supply of Seamless pipes. Even though there is a huge fall in demand in the North American market, it still remains a major market contributing nearly 40% of the total seamless pipe demand globally. In the domestic market, over the years, ONGC has been only source of demand for the seamless pipes. However with RIL & Cairn India increasing their E&P activities, there has been a spurt in demand for these pipes. Thus the demand for these pipes in India is likely to increase going forward. However, the global demand is likely take nearly 6-9 months to stabilize.

➡Ratnamani serves to wide range of Industries along with having strong base of clientele.

Ratnamani is India's largest manufacturer in stainless steel pipes & tubes. Ratnamani caters to wide range of industries including Petrochemicals, Power, Infrastructure, Sugar, Desalination & Others. It has created its global presence with sales encompassing to more than 20 countries. The company has a long list of clientele including the giant companies like RIL, ONGC, Indian Oil, BHEL, TOSHIBA etc to name a few. While most of its clients are from oil & gas exploration, refineries & petrochemicals, LNG & power generation industry, it also supplies its products to fertilizer plants, pharmaceutical industry & dairy sector.

Clientele Industries Breakup



(Source: Company)

Its Business Models

➡Stainless Steel division

Ratnamani manufactures heat exchanger tubes, instrumentation tubes & pipes which find applications in multiple industries. The demand for its SS pipes largely originates out of the tubings needed in the plant & machinery of refineries, thermal power plants, fertilizer plants, LNG terminals, water desalination plants etc. Typically huge orders for tubes & pipes are placed by the EPC contractors (like L&T, BHEL etc) for the projects they are executing. Also the sale takes place in the international market through independent stockists & distributors who procure it for their clients abroad. The requirement for these pipes is highly customised in nature & depending on the number of processes (heat treatment, machining, cold drawing, pickling, testing etc) the buyer wants. Even the company plans to increase the production capacity of power plant application stainless steel tubes by 2000 MTPA, with an capex of INR 400 mn. In order to meet the demands of power plant application stainless tubes happening in power sector, the company has decided to hike its capacity.

➡Stainless Steel division

Carbon Pipes are mainly used for the transmission of oil & gas products. Crude oil prices have more than quadrupled in the past five years & this has increased Exploration & Production (E&P) activities around the world. These activities have generated huge demand for this division. For its carbon pipes division, its main clientele includes companies such as GAIL India, GSPL, other pipe manufacturers (for job work) etc & various EPC contractors for their project pipes.

Outlook of SAW Pipes

Submerged arc-welded (SAW) pipes are widely used in the hydrocarbon sector for oil & gas transportation. The setting up of transportation infrastructure in the wake of rising demand for oil & gas is increasing the demand for SAW pipes. SAW pipe demand is likely to remain robust due to the gradual recovery in crude oil and gas prices thereby necessitating the need to pump up funds for exploration and transportation infrastructure creation. Indian pipe manufacturers have the advantage of being in the close proximity to Middle East vis-à-vis other major pipe manufacturers in Japan or Europe. Moreover, the domestic demand is also high with various players having plans to lay pipeline infrastructure for oil transportation. As a result, the Indian pipe manufacturing industry, comprising LSAW pipes, HSAW pipes & ERW pipes, is in the midst of a major boom in demand. Besides transportation, the use of pipes in water and sewage transportation is also on an upswing. Global markets are predicted to see a demand for pipes worth US 84 bn spread over the next 5 years (61 mn tn at an average realization of USD 1300 - 1400 per tn) & this figure is likely to be achieved considering the projects being initiated at the global level.

Ratnamani

➡Orders remain strong

Ratnamani has an order backlog of INR 4 bn, while large chunk of orders are from EPC contractors like L&T, BHEL,RIL etc & is also executing the projects pertaining to power & hydrocarbon sector too. The company has also bagged an INR 1.52 bn order for gas transmission & distribution from Gas Authority of India. The management expects of mproving order intake from power sector, however orders from oil & gas space are likely to pick up only gradually. The company has bid for an order from Bhatinda Refinery too.

➡SAW pipe division to help to contribute growth

Ratnamani has been new entrant in the Indian pipe industry, when compared to other players engaged in the same. In the short time, the company has acquired good clients not only from the domestic markets but also from international markets too. It is also well placed to run its operation smoothly & is also well geared to bid for large ticket orders from companies like GAIL,GSPL etc. Going forward Ratnamani is looking at large scale manufacturing of line pipes (LSAW, HSAW & ERW) which is high volume. Its recently commissioned 3 layer PE Coating plant would result in higher value add of products thereby benefiting the carbon pipe realisations. With the company entering into new divisions it is likely to contribute revenues in the near terms.

➡List of products & its users

Products	Applications	User Industries
Stainless Steel Tubes & Pipes	Heat Exchangers, Boilers, Condensors Refrigration, 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 & off shore drilling platforms, Casing pipes etc	Petrochemicals, Oil Refineries, Water Supply & SewageProjects

Key Financials

Year Ended Mar 31st	FY 07	FY 08	FY 09
Revenue (INR mn)	5770.8	8494.7	9606.6
Rev. growth (%)	**80.29**	**47.20**	**13.09**
EBITDA (INR mn)	1283.4	1805.6	1534.6
Net profit (INR mn)	641.8	900.3	712.0
Shares outstanding (mn)	9.0	9.0	45.0
EPS (INR)	71.3	100.0	15.8
EPS growth (%)	**91.35**	**40.28**	**(84.18)**
P/E (x)	1.9	1.6	2.3
EV/ EBITDA	10.7	8.9	11.8
ROCE (%)	**26.92**	**28.77**	**19.28**

Future Outlook

Ratnamani is a leading player in stainless steel tubes & pipes and carbon steel pipes & holds 40% share in it. Stainless steel tubes & pipes have critical applications in the industries like petrochemicals, fertilizer, chemical, power, nuclear etc which requires pre-approval from the customers. 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 & the Middle East markets, are likely to throw open a large growing business opportunity for Ratnamani, which can be reflected from the current fact that the unexecuted order book pipeline stands to INR 4 bn. The company would also be beneficial from the growing Indian economy as it serves to fast growing industries like power, sugar, chemical, pump, automobiles, nuclear etc. Ratnamani operates three manufacturing facilities in Gujarat, which include two at Chhatral near Ahmedabad and one at Gandhidham in Kutch district. The company intends to raise the capacity of power plant application stainless tubes with an capex of INR 400 mn, which would take place at its Gandhidham manufacturing unit, which has a capacity of 17,000 MT. Huge capex plans are going on in the power sector, & so in order to meet this increasing demand the company has planned to raise capacity. Currently the total production of the company in this category is 23,000 Mt & in case of carbon steel pipes, its production capacity is 3,50,000 MT, which expected to raise further with the growing demands.

Financial Statements

Income Statement

(INR mn)

Year end Mar 31st	FY 07	FY 08	% Chg	FY 09	% Chg
Operating Income	6147.3	8895.0	44.70	10188.1	14.54
Other Income	58.4	43.8	(25.00)	54.5	24.43
Change in Stocks	525.4	(207.3)	(139.46)	(0.5)	(99.76)
Raw Material Con.	4344.2	5421.4	24.80	6601.1	21.76
Employee Exp.	238.8	361.7	51.47	383.0	5.89
Excise	434.9	444.1	2.12	636.0	43.21
Other Exp.	429.8	698.7	62.56	1087.4	55.63
Operating Exp.	4922.3	7133.2	44.92	8708.0	22.08
Operating Profit	1225.0	1761.8	43.82	1480.1	(15.99)
Total Interest	130.2	154.0	18.28	144.5	(6.17)
Gross Profit	1153.2	1651.6	43.22	1390.1	(15.83)
Net Dep.	155.9	238.3	52.85	297.2	24.72
Total Taxation	355.5	513.0	44.30	380.9	(25.75)
Net Profit/Loss	641.8	900.3	40.28	712.0	(20.92)

4 Years Balance Sheets

(INR mn)

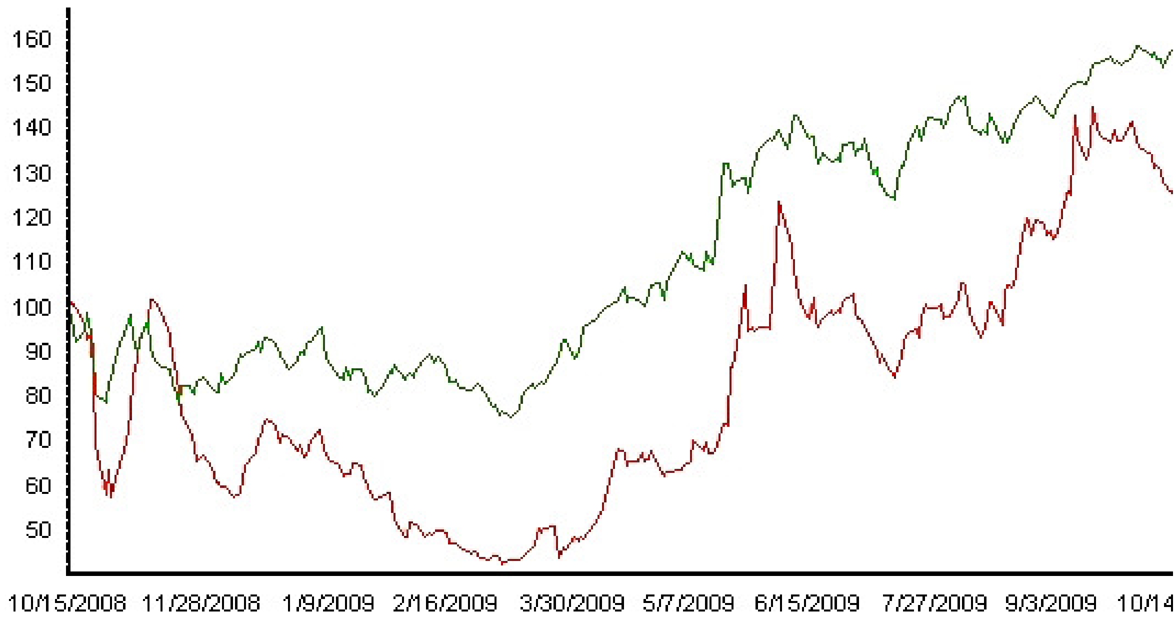
Balance Sheet as on 31st	Mar 2006	Mar 2007	Mar 2008	Mar 2009
SOURCES OF FUNDS	**1877.2**	**3249.1**	**3819.0**	**4788.6**
Equity Share capital	90.0	90.0	90.0	90.0
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	726.6	1315.7	2168.5	2792.0
Loan Funds	766.2	1293.8	1305.0	1272.5
Unsecured Loans	294.4	549.6	255.5	634.1
USES OF FUNDS	**1877.2**	**3249.1**	**3819.0**	**4788.6**
Gross Block	1967.0	3018.3	3385.2	4704.1
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	361.1	513.4	750.4	1045.3
Net Block	**1605.9**	**2504.9**	**2634.8**	**3658.8**
Capital Work in Progress	1.8	83.7	217.5	199.8
Investments	0.1	0.1	0.1	0.1
Current Assets	1184.0	2748.5	3469.9	3543.2
Less : Current Liabilities	914.6	2088.1	2503.3	2613.3
Net Current Assets	**269.4**	**660.4**	**966.6**	**929.9**
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	0.1	0.1	0.1	0.1
Mkt Val. Quoted Investments	0	0	0	0
Contingent Liabilities	862.7	1928.1	2335.3	1306.1
Dividend (%)	25	50	70	90

Quarterly Income Sheets

(INR mn)

Quarter Ended	Sep 08	Dec 08	Mar 09	Jun 09
Net Sales	2538.5	1907.5	2590.1	1913.8
Cost Of Sales	1813.6	1479.3	1906.7	1301.1
Operating Profit	724.9	428.2	683.4	612.7
Recurring Income	11.5	2.8	0.0	1.4
Adjusted PBDIT	736.4	431.0	683.4	614.1
Financial Expenses	44.6	49.8	36.7	4.1
Depreciation	65.1	79.0	88.9	89.8
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	626.7	302.2	557.8	520.2
Tax Charges	133.9	34.6	86.8	92.6
Adjusted PAT	492.8	267.6	471.0	427.6
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	258.5	201.2	314.2	245.4
Net Profit	234.3	66.4	156.8	182.2

52 Week Index Relative Percentage Appreciation



Ratnamani with Sensex

Risks Associated related to its segments

EPC contracts a concern

A large chunk of revenues are generated from EPC contractors like BHEL, L&T, RIL etc & has maximum orders from this segment. Any push back or delay in orders plans from its contractors would affect its growth plans.

Lower capex spends in key sectors may affect topline growth

Since the revenues of the company are linked to the capital expenditure of sectors like oil & gas refining & transportation, thermal power generation etc, any slowdown in the capex of these sectors would affect Ratnamani's growth.

Higher competition

Due to the slowdown in the capex activity globally, the companies catering to these product lines are operating at sub-optimal capacities which may increase competitive pressure on the new orders.

In a Nutshell

Ratnamani's principal activities are to manufacture and market stainless steel tubes and pipes and generation of power from windmill. The Company operates in two segments: Steel Tubes and Pipes and Windmill.The products include stainless steel seamless & welded tubes and pipes, carbon steel ERW and SAW pipes of different size. It caters to the market of oil and gas, refineries, petrochemicals, process industries, power plants and water distribution sectors. Company's maximum revenue is been conbtributed by its oil, gas, petrochemical industry followed by power industry. Apart from exports to SEZ, it also exports to European nations, Japan, Korea, etc. Besides imports, it also procures raw materials from its domestic players. Looking at the kind of investment in these sectors in future, the demands for its products are likely to see a huge growth thus helping the company to perform well in the near future.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	**Reduce**	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate up to 20% over 12-months	**Sell**	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	**Trade Sell**	: Expected to depreciate more than 10% over 45-days

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