

Growth visibility remains strong...

About stock: Ratnaveer Precision Engineering (RPEL), is a Gujarat based stainless steel (SS) product manufacturer focused on producing finished sheets, washers, solar roofing hooks, pipes and tubes

- The company operates out of four manufacturing units in Gujarat with total manufacturing capacity stood at 30000 tonnes as of FY24. SS finishing line sheets contributed ~47% to total revenues in FY24 followed by SS washers (~23%), tubes & pipes (~17%), sheet metal components (~8%) and SS fasteners & components (~5%)

Q2FY25 Results: Operational performance remained strong during the quarter. Revenue increased significantly by 61.4% YoY (+12.6% QoQ) to ₹ 230 crore. EBIDTA margin stood at 10.6% (+140 YoY, -139 bps QoQ). Subsequently, EBIDTA was up 85.8% YoY (flat QoQ) to ₹ 24.5 crore. PAT increased by 54% YoY (-1.8% QoQ) to ₹ 12.3 crore. For H1FY25, revenue is up 66.9% YoY with EBITDA margin stands at 11.3% (vs 10.7% in H1FY24). PAT is up 74.8% YoY to ₹ 24.8 crore in H1FY25

Investment Rationale

- Capacity expansions to drive growth; demand remains buoyant from domestic and export markets:** We believe that the company is well positioned to capitalize on the large industrial capex pipeline in India with having strong portfolio of products like stainless steel (SS) finished sheets, washers, solar roofing hooks, pipes & tubes etc. Company is in process of implementing capacity additions in existing product lines & enhancing portfolio with value-added products (circlips, electro-polished and seamless tubes & pipes and nuts & bolts). We believe that the company would be able to strengthen its position in both domestic and export markets in coming periods. Company aims to achieve ₹ 1150 crore revenue by FY27E (implies ~25% CAGR) with EBITDA margin improving to ~14% (from 8.4% in FY24)
- Backward integration, favourable product mix to help margins improvement:** Company's expansion into new lines of value-added products (like circlips, electro-polishing tubes & pipes, nuts & bolts) and higher-margin segments like railways, defence, energy etc would help in better volumes growth & realisations. Moreover, the backward integration of manufacturing and usage of captive solar power would help the company in achieving efficiency in the production process, reducing overall production costs and gaining competitive advantage

Rating and Target Price

- With strong demand traction, capacity expansions and favourable product mix, we expect company's operational performance to improve significantly over the next 2-3 years. We estimate revenue CAGR at ~24% CAGR over FY24-27E while EBITDA/PAT to grow at ~45%/~47% CAGR over the same period, led by improvement in margins
- We maintain Buy rating on RPEL with a revised target price of ₹ 290 (based on 20x P/E to FY26E EPS)



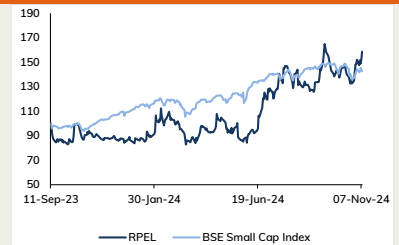
Particulars

Particular	Amount
Market Capitalisation (Rs Crore)	1,033
FY24 Gross Debt (Rs Crore)	207
FY24 Cash (Rs Crore)	60
EV (Rs Crore)	1,181
52 Week H/L (Rs)	224 / 107
Equity Capital	48.7
Face Value	10.0

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	55.5	55.5	55.5	50.7
FII	3.8	0.2	1.2	0.7
DII	0.0	0.0	0.0	0.4
Others	40.7	44.4	43.3	48.2

Price Chart



Key risks

- Key Risk: (i) Availability of raw materials (ii) Slowdown in industrial capex (iii) High working capital requirement (iv) High competitive environment

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Key Financial Summary

Rs crore	FY21	FY22	FY23	FY24	3 Year CAGR (FY21-24)	FY25E	FY26E	FY27E	3 Year CAGR (FY24-27E)
Revenues	360	427	480	595	18.3	801	968	1,146	24.4
EBITDA	20	28	46	50	35.9	94	122	153	45.1
EBITDA margin (%)	5.5	6.4	9.5	8.4		11.7	12.6	13.3	
Net Profit	5	9	25	31	78.5	50	77	98	46.6
Diluted EPS (Rs)	1.0	1.8	4.7	5.9		9.4	14.5	18.5	
P/E (x)	207.0	119.2	45.1	36.4		22.7	14.7	11.5	
EV/EBITDA (x)	58.5	43.7	27.0	23.6		12.1	9.3	7.2	
RoCE (%)	10.4	9.8	12.8	11.1		15.6	18.7	20.9	
RoE (%)	9.6	14.4	23.6	12.3		12.2	15.8	16.8	

Q2FY25 Result Highlights

- Revenue increased significantly by 61.4% YoY (+12.6% QoQ) to Rs 230 crore, driven by expansion of capacities with increasing mix of value-added products
- EBIDTA margin stood at 10.6% (+140 YoY, -139 bps QoQ), primarily on positive operating leverage. Subsequently, EBIDTA was up 85.8% YoY (flat QoQ) to Rs 24.5 crore.
- PAT increased by 54% YoY (-1.8% QoQ) to Rs 12.3 crore.
- For H1FY25, revenue is up 66.9% YoY with EBITDA margin stands at 11.3% (vs 10.7% in H1FY24). PAT is up 74.8% YoY to Rs 24.8 crore in H1FY25

Exhibit 1: Quarterly Analysis

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
Revenue from Operations	230.0	142.5	61.4	204.2	12.6	Revenue grew significantly YoY led by driven by expansion of capacities with increasing mix of value-added products
Raw Material Expenses	195.1	121.9	60.0	169.7	15.0	
Employee Expenses	2.4	1.9	27.2	2.0	22.2	
Other Expenses	8.0	5.5	45.1	8.0	0.1	
EBITDA	24.5	13.2	85.8	24.6	-0.4	
EBITDA Margin (%)	10.6	9.3	+140 bps	12.0	-139 bps	Improvement in margins was primarily led by lower RM cost and positive operating leverage
Other Income	1.3	0.9	49.5	0.6	111.4	
Depreciation	3.5	1.4	150.3	3.0	16.5	
Interest	4.1	3.2	26.9	4.8	-13.9	
PBT	18.2	9.4	93.1	17.4	4.3	
Tax	5.9	1.4	309.0	4.9	19.7	
Reported PAT	12.3	8.0	54.0	12.5	-1.8	

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

Rs Crore	FY25E			FY26E			FY27E	Comments
	Old	New	Change (%)	Old	New	Change (%)	New	
Revenue	718.9	800.5	11.4	920.9	968.3	5.1	1146.3	Revenue is revised upwards for FY25E/FY26E, factoring in better-than-expected performance in Q2FY25
EBITDA	74.7	93.7	25.5	110.0	121.8	10.7	152.5	
EBITDA Margin (%)	10.4	11.7	+131 bps	11.1	12.6	+132 bps	13.3	Margins are revised upwards, factoring in better operational performance in Q2FY25 and management's guidance
PAT	49.2	49.8	1.2	74.4	76.8	3.2	97.9	
Diluted EPS (Rs)	9.3	9.4	1.2	14.0	14.5	3.2	18.5	

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

Year-End March	FY24	FY25E	FY26E	FY27E
Revenue	595.4	800.5	968.3	1,146.3
% Growth	24.1	34.5	21.0	18.4
Other income	7.0	8.2	9.0	9.6
Total Revenue	595.4	800.5	968.3	1,146.3
% Growth	24.1	34.5	21.0	18.4
Total Raw Material Costs	512.2	665.1	800.5	943.1
Employee Expenses	6.8	9.0	10.0	11.1
other expenses	26.4	32.7	36.0	39.6
Total Operating Expenditure	545.4	706.8	846.5	993.8
Operating Profit (EBITDA)	50.0	93.7	121.8	152.5
% Growth	9.6	87.5	29.9	25.3
Interest	12.1	17.2	13.9	12.0
PBDT	44.9	84.7	116.9	150.1
Depreciation	5.8	13.6	14.5	16.0
PBT before Exceptional Items	39.1	71.1	102.4	134.1
Total Tax	8.0	21.3	25.6	36.2
PAT before MI	31.1	49.8	76.8	97.9
PAT	31.1	49.8	76.8	97.9
% Growth	24.0	60.3	54.2	27.5
Diluted EPS	6.4	9.4	14.5	18.5

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

Year-End March	FY24	FY25E	FY26E	FY27E
Profit after Tax	31.1	49.8	76.8	97.9
Depreciation	5.8	13.6	14.5	16.0
Interest	12.1	17.2	13.9	12.0
Cash Flow before WC changes	49.0	80.6	105.2	125.9
Changes in inventory	(39.1)	(51.2)	(62.0)	(65.9)
Changes in debtors	18.6	(14.5)	(12.4)	(13.2)
Changes in loans & Advances	-	-	-	-
Changes in other current assets	(16.3)	(8.9)	(10.6)	(14.8)
Net Increase in Current Assets	(36.7)	(74.5)	(85.1)	(93.8)
Changes in creditors	6.5	15.3	12.4	13.2
Changes in provisions	(1.1)	0.4	0.4	0.4
Net Inc in Current Liabilities	2.7	17.7	14.7	14.8
Net CF from Operating activities	15.0	23.8	34.8	46.9
Changes in deferred tax assets	-	-	-	-
(Purchase)/Sale of Fixed Assets	(66.0)	(70.7)	(10.0)	(5.0)
Net CF from Investing activities	(66.0)	(70.8)	(11.0)	(6.2)
Dividend and Dividend Tax	-	-	-	-
Net CF from Financing Activities	80.2	39.6	(33.9)	(32.0)
Net Cash flow	29.2	(7.4)	(10.1)	8.8
Opening Cash/Cash Equivalent	30.3	59.5	52.1	42.0
Closing Cash/ Cash Equivalent	59.5	52.1	42.0	50.7

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

Year-End March	FY24	FY25E	FY26E	FY27E
Equity Capital	48.7	60.5	60.5	60.5
Reserve and Surplus	203.4	348.2	425.0	522.9
Total Shareholders funds	252.1	408.7	485.5	583.3
Total Debt	207.2	157.2	137.2	117.2
Deferred tax Liab	5.7	5.7	5.7	5.7
Total Liabilities	465.1	571.6	628.4	706.3
Gross Block	69.7	115.7	180.7	190.7
Acc. Depreciation	29.6	43.2	57.7	73.7
Net Block	40.1	72.5	123.0	116.9
Capital WIP	45.3	70.0	15.0	10.0
Total Fixed Assets	119.0	176.1	171.6	160.5
Non Current Assets	4.2	4.3	5.3	6.5
Inventory	244.9	296.1	358.1	424.0
Debtors	44.8	59.2	71.6	84.8
Other Current Assets	43.5	52.4	63.1	77.9
Cash	59.5	52.1	42.0	50.7
Total Current Assets	392.8	459.9	534.9	637.4
Current Liabilities	44.0	59.2	71.6	84.8
Other Current Liab	7.1	9.5	11.7	13.4
Total Current Liabilities	51.0	68.7	83.4	98.2
Net Current Assets	341.8	391.2	451.5	539.3
Total Assets	465.1	571.6	628.4	706.3

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

Year-End March	FY24	FY25E	FY26E	FY27E
Diluted EPS	5.9	9.4	14.5	18.5
Cash per Share	12.3	10.7	8.7	10.5
BV	52.0	84.3	100.1	120.3
EBITDA Margin	8.4	11.7	12.6	13.3
PAT Margin	5.2	6.2	7.9	8.5
RoE	12.3	12.2	15.8	16.8
RoCE	11.1	15.6	18.7	20.9
RoIC	11.0	15.6	18.5	21.0
EV / EBITDA	23.6	12.1	9.3	7.2
P/E	36.4	22.7	14.7	11.5
EV / Net Sales	2.0	1.4	1.2	1.0
Sales / Equity	2.4	2.0	2.0	2.0
Market Cap / Sales	1.7	1.3	1.1	0.9
Price to Book Value	4.1	2.5	2.1	1.8
Asset turnover	1.3	1.4	1.6	1.6
Debtors Turnover Ratio	11.0	15.4	14.8	14.7
Creditors Turnover Ratio	14.6	15.5	14.8	14.7
Debt / Equity	0.8	0.4	0.3	0.2
Current Ratio	7.3	6.6	6.6	6.7
Quick Ratio	1.9	1.8	1.8	1.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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