

RATANPUR STEEL RE-ROLLING MILLS LIMITED

DSE: **RSRMSTEEL**
BLOOMBERG: **RSRM:BD**

Company Overview

Ratanpur Steel Re-Rolling Mills Limited (RSRM) was incorporated on 22 April 1986 & commenced its commercial production on 01 July 1986. The principal activities of the Company are to manufacture and sale of M.S. Deformed Bar of various grades (500W/TMT, 400W/60 and 300W/40) from M.S. Billet. The Company is also engaged in manufacturing of M.S. Rod of various grades (40 grade, 60 grade and 500W) from M.S Billet. TMT (Thermo Mechanically Treated) bars are made from good quality plain carbon mild steel billets. The use of TMT rebar's in place of CTD (cold twisted deformed) saves steel consumption around 15-20% and saves more than 30% consumption over the bars made from ship breaking scraps. The Company has its re-rolling mills factory at Nasirabad, Chittagong.

Revenue Composition & Growth

Particulars (BDT mn)	2013-14	2014-15	2015-16	2016-17
Sales of Rod	4,704	5,434	5,227	7,168
Misroll & others	96	111	193	373
Contribution				
Sales of Rod	98.0%	98.0%	96.4%	95.1%
Misroll & others	2.0%	2.0%	3.6%	4.9%
Growth				
Sales of Rod		15.5%	-3.8%	37.2%
Misroll & others		15.5%	74.4%	92.9%

In 2016-17, revenue of the Company has increased by 39% over the same period of last year due to the increase in sales volumes by 33% resulting from increased demand for the products in the market. Gross profit margin has increased to 16.8% in the period from 12.1% than that of last year due to prices of raw materials was lower in this year. Net profit increased by 161% in 2016-17 over last year due to sales, decrease of COGS to sales, operating and finance expenses.

Installed Capacity & utilization

Particulars (MT)	2013-14	2014-15	2015-16	2016-17
Production Capacity	187,200	187,200	187,200	187,200
Actual Production	85,398	103,402	106,831	136,664
Utilization (%)	46%	55%	57%	73%
Sale Qty (MT)	80,081	101,142	105,150	139,380
Growth (%)	-5.8%	26.3%	4.0%	32.6%

The main raw materials of the Company are M.S. Billet. For M.S. Billet, it has agreement with Modern Steel Mills Ltd. & M/S Dynamic Steel Corporation which is under common directorship. The Company has also bilateral arrangement with a group of independent suppliers of raw materials.

Shareholding Structure

The Company became enlisted with the Dhaka Stock Exchange and Chittagong Stock Exchange in 2014. Historical shareholding status:

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Dec-17	48.13%	0.00%	15.42%	0.00%	36.45%
31-Dec-16	47.14%	0.00%	19.98%	0.00%	32.88%
30-Jun-16	47.14%	0.00%	19.94%	0.00%	32.92%
31-Dec-15	47.13%	0.00%	18.20%	0.00%	34.35%

Company Fundamentals

Market Cap (BDT mn)	5,777.9
Market weight	0.2%
No. of Shares (mn)	101.2
Free-float	53.2%
Paid-up Capital (BDT mn)	1,011.9
3 Months Average Turnover (BDT mn)	17.6
3 Months Return	-13.9%
Current Price (BDT)	57.1
52-week price range (BDT)	55.0 - 96.3
Sector Forward P/E	19.5

	2014-15	2015-16	2016-17	2017-18 (HY Annu.)
Financial Information (BDT mn):				
Sales	5,503	5,377	7,489	7,874
Gross Profit	549	651	1,257	1,282
Operating Profit	469	90	1,178	1,203
Profit After Tax	273	271	708	745
Assets	4,803	4,996	5,862	6,266
Long Term Debt	29	9	0	0
Short Term Debt	1,405	1,408	1,471	1,486
Equity	2,990	3,228	3,857	4,186
Margin:				
Gross Profit	10.0%	12.1%	16.8%	16.3%
Operating Profit	8.5%	10.9%	15.7%	15.3%
Pretax Profit	4.9%	6.9%	12.5%	12.6%
Net Profit	5.0%	5.0%	9.5%	9.5%
Growth:				
Sales	15.4%	-2.3%	39.3%	5.1%
Gross Profit	18.2%	18.4%	93.3%	2.0%
Operating Profit	20.6%	24.9%	101.0%	2.1%
Net Profit	75.9%	-0.5%	161.0%	5.2%
Profitability:				
ROA	5.7%	5.5%	13.0%	12.3%
ROE	11.5%	8.7%	20.0%	18.5%
Operating Efficiency Ratio:				
Inventory Turnover	3.2	3.2	4.3	4.0
Receivable Turnover	6.5	4.9	4.9	4.5
A/C Payable Turnover	7.2	29.6	51.6	83.2
Total Asset Turnover	1.2	1.1	1.4	1.3
Fixed Asset Turnover	2.7	2.7	3.7	3.8
Leverage:				
Debt Ratio	28.8%	27.7%	24.8%	23.6%
Debt-Equity	46%	43%	38%	35%
Int. Coverage	2.5	3.0	6.1	7.5
Dividend History				
Dividend (C/B)%	5/20	10/10	5/17	-/-
Dividend Yield	0.9%	2.3%	0.6%	-/-
Dividend Payout	18.6%	37.3%	56.6%	-/-
Valuation:				
Price/Earnings	21.0	21.3	8.2	7.8
Price/BV	1.9	1.8	1.5	1.4
EPS (BDT)	2.7	2.7	7.0	7.4
NAVPS (BDT)	29.5	31.9	38.1	41.4

Industry Overview

Bangladesh has more than 400 steel, re-rolling and auto-re-rolling mills with a combined annual production capacity of 0.8 mn tones, against the total demand of only 0.4 mn tones (market value of BDT 300 bn). The government projects account for nearly 40% of total steel consumption.

Bangladesh is one of the lowest consumers of steel products in the world. The per capita steel consumption is only around 35 kg, which is 65-70 kg in India and 200-250 kg in Thailand, and the world average per capita steel consumption is over 200 kg.

Although a number of companies of the sector, including BSRM, GPH, RSRM, Rahim Steel and Bashundhara Steel are producing the raw material, billet, locally, around 1.5 mn tones are still imported every year.

At present, three big steelmakers -- BSRM, Abul Khair Steel and KSRM -- supply more than 50% of the country's annual need for 3.5 - 4.0 mn tonnes of steel. Besides the competition from big players, the smaller mills are also facing challenges such as price fall in international steel market and a decline in domestic demand for construction materials, which are forcing them out of the market.

The steel sector in Bangladesh has recorded a 15% growth in 2015. Riding on government programs centering vision for 2021, the local manufacturers believe that steel industry would continue to grow above 12% in the next few years. The ongoing major projects like 'Padma Bridge', 'Dhaka-Chittagong Access Control Highway' and the upcoming major projects like 'Dhaka Elevated Expressway' and the 'Deep Sea Port' would be requiring huge quantity of quality construction materials.

Over capacity of the steel industry also indicates enormous export potential, though the option is yet to explore.

Since steel demand is derived from other sectors like construction buildings, roads, consumer durables and infrastructure, its fortune is dependent on the growth of these user industries. However, implementation of the Government's big infrastructure projects under Annual Development Program (ADP) and revival of the local real-estate industry will undoubtedly boost-up the steel consumption locally.

Bangladesh has more than 400 steel, re-rolling and auto-re-rolling mills with a combined annual production capacity of 8.0 million tons. At present Bangladesh has a demand for roughly 4 million tons of metal / steels as per the market players. Within this Bangladesh's annual demand for quality rod is estimated at more than 2.5 million MT, where country usually consumes over 70% of its annual demand in the peak season. The expected growth rate is approximately 10%. The government projects account for nearly 40% of total steel consumption.

Bangladesh is one of the lowest consumers of steel products in the world. Per capita steel consumption in Bangladesh now stands at only 26 kilograms, while it is 55 Kilograms in India, 324 kilograms in developed nations. A number of companies of the sector, including BSRM, GPH, RSRM, Rahim Steel and Bashundhara Steel, are producing the raw material billet locally. Currently at least 70% of raw materials are imported. However, Bangladesh will fully depend on locally manufactured billets within 2016 as large investments have been made by some leading market players.

According to the market players, presently 65% of the country's annual need is met by the graded millers, such as BSRM, AKS, RSRM, and GPH Ispat. The smaller mills in Bangladesh are facing challenges such as price fall in international steel market and a decline in domestic demand for construction materials, which are forcing them out of the market.

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Investment Positives

- **The Company is increasing the production capacity to 3,57,200 metric ton per annum (90.8% enhancement) to meet the demand for RSRM X POWER TMT 500W re-bars.** The approximate cost to complete the project would be BDT 900 million (Source: CSE Website, news published on Aug 13, 2015). Meanwhile, it has made BDT 209.76 million for acquisition of property, plant and equipment since July 2014 to December 2017.
- **The Board of Directors has decided to raise BDT 1.35 billion through issuance of rights share of 2R:3 (2 Rights Share for every 3 shares held) at an issue price of BDT 20.0 including a premium of BDT 10.0** subject to approval of the Shareholders and Bangladesh Securities and Exchange Commission. The Company will go for BMRE (Balancing, Modernizing, Rehabilitation and Expansion) of its existing plant from the proceeds of rights issuance.
- The Company is expanding its capacity riding on the government undertaking big projects like multipurpose bridges, metro rail and fly overs, tunnels, concrete casting roads and highways, power plants and sub-regional transport facilities etc. Successful implementation of these projects will stimulate the topline growth of the Company.
- The Company has been doing business with some reputed multinational construction and engineering companies i.e. Taeyoung E&C (Korea), Kolon Global Corporation (Korea), Euro Petro Product Ltd, Royal Associate, Chowdhury Builders etc.
- The Company is focusing on brand promotional activities to reach wide range of customers from urban to rural areas of the country to keep the sustainability with the competitors in the market. For this, it incurred BDT 13.25 million and BDT 11.81 million in 2016-17 & 2015-16 respectively. This will bring more customers and business in the coming days.

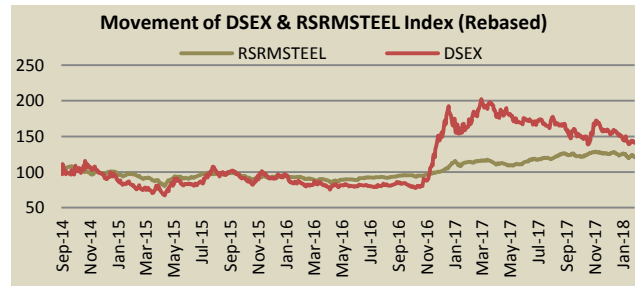
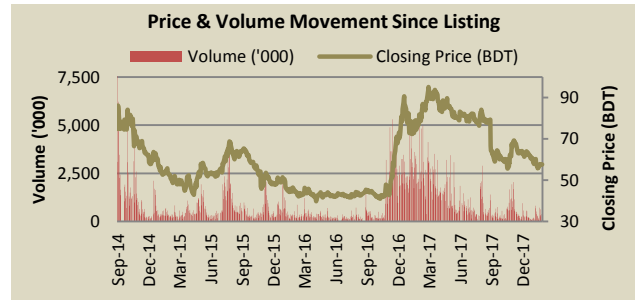
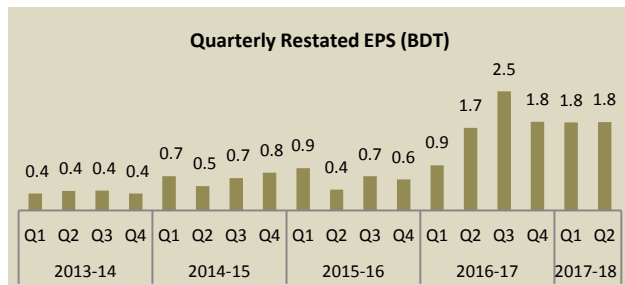
Investment Negatives

- The Company has high dependency on a single supplier for its raw materials (M.S. Billet). It procures major portion of its raw materials from Modern Steel Mills Limited, an affiliated company.
- Emerging Credit Rating Limited (ECRL) has assigned the rating of the Company as "A-" in the long term and "ST-2" in the short term along with a Stable outlook of the Company based on audited financials up to June 30, 2017.

Latest Quarter Update

Particulars (BDT mn)	Jul-Dec 2017	Jul-Dec 2016	Oct-Dec 2017	Oct-Dec 2016
Net Turnover	3,937	3,546	1,918	2,188
<i>Growth</i>	11.0%	--	-12.3%	--
Gross Profit	641	503	299	312
<i>Margin</i>	16.3%	14.2%	15.6%	14.3%
<i>Growth</i>	27.5%	--	-4.3%	--
Operating Profit	601	472	277	297
<i>Margin</i>	15.3%	13.3%	14.5%	13.6%
<i>Growth</i>	27.3%	--	-6.5%	--
Net Profit	372	270	187	174
<i>Margin</i>	9.5%	7.6%	9.7%	7.9%
<i>Growth</i>	37.9%	--	7.2%	--

- Turnover of the Company has increased by 11.0% in the Jul-Dec of 2017-18 over the same period of last year due to increased sales volume of the products for higher demand.
- Net profit margin has increased to 9.5% in the Jul-Dec of 2017-18 from 7.6% over the same period of last year because of increase in turnover, decreased COGS to sales (from 85.8% to 83.7%) and finance expenses.


Concluding Remark

RSRM is one of the leading steel manufacturers in the country and has embarked upon a series of initiatives aimed at increasing its production capacity to produce world class products. Increasing demand for the Company's product in the market and supply of MS bar and Rod for the government infrastructural development projects will help to boost the Company's performance in the coming years.

Source: Annual Reports, DSE news, Company website, the newspaper news, ILSL Research

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