

Company Overview

Ratanpur Steel Re-Rolling Mills Limited (RSRM) was incorporated on 22 April 1986 & commenced its commercial production in 01 July 1986. The Company is engaged in manufacturing and selling of various graded of M.S Deformed Bar (500W /TMT, 400 W and 300W) from M.S. Billet.

The principal product of the company is M. S. Rod 60 Grade. 88% of the revenue generated from M. S. Rod 60 Grade, 10% revenue originated from M. S. Rod 40 Grade and rest 2% revenue generated by cut piece rod, Misroll, Scraps and Rubbish in FY 2013-14.

RSRM has installed production capacity of producing 187,200 MT annually of which 46% is utilized during the year 2013-14. The main raw materials of the company are M.S. Billet. The company has bilateral arrangement with a group of independent suppliers of raw materials. For M.S. Billet, it has agreement with Modern Steel Mills Ltd., Chittagong.

The company was listed in DSE and CSE in 2014. At present, 54.21% of total shares of RSRM are held by the sponsors/directors 4.58% by institutional investors and rest 41.21% by general public as per the DSE website.

Industry Overview

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.

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, Initiation of Padma Bridge construction, acceleration of 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.

Company Fundamentals	
Market Cap (BDT mn)	3,525.0
Market weight	0.11%
Free-float (Public +Inst.)	45.8%
Paid-up Capital (BDT mn)	655.2
3 Months Average Turnover (BDT mn)	31.0
3 Months Return	10.6%
Current Price (BDT)	53.8
52-week price range (BDT)	42.4-91.9
Sector Forward P/E	30.1

	2011-12	2012-13	2013-14	2014-15 (Q3 Ann)
Financial Information (BDT mn):				
Sales	5,936	5,254	4,767	5,376
PAT	156	167	155	257
Assets	3,799	4,311	4,750	4,916
LT Debt	117	247	219	163
Equity	1,423	1,589	1,744	2,910
Div. % (C/B)	156	167	155	257
Margin:				
Gross Profit	9.8%	9.8%	9.8%	9.8%
Operating Profit	8.8%	8.6%	8.2%	8.3%
Pretax Profit	6.3%	5.3%	4.4%	4.8%
Net Profit	2.6%	3.2%	3.3%	4.8%
Growth:				
Sales	49.5%	-11.5%	-9.3%	12.8%
Gross Profit	58.1%	-11.7%	-9.8%	13.8%
Operating Profit	71.9%	-13.6%	-14.2%	15.2%
Net Profit	-4.9%	6.9%	-7.1%	65.8%
Profitability:				
ROA	4.5%	4.1%	3.4%	5.3%
ROE	17.9%	11.1%	9.3%	11.0%
Leverage:				
Debt Ratio	28.3	31.7%	27.9%	27.1%
Debt-Equity Ratio	0.76	0.86	0.76	0.46
Interest Coverage	3.9	2.8	2.3	2.5
Valuation:				
Price/Earnings*	22.6	21.1	22.7	13.7
Price/BV*	2.5	2.2	2.0	1.2
Restated EPS	2.4	2.5	2.4	3.9
NAVPS (BDT)	21.7	24.3	26.6	44.4

*Based on the current market price

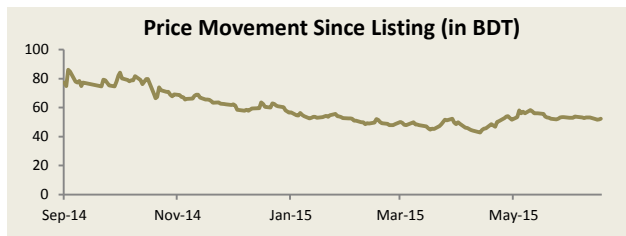
Investment Positives

- RSRM has an agreement with MAX Group from January 2015 for exclusively supplying 10,000 MT MS deformed bar (X power TMT 500W) which is equivalent to 10% of the yearly sales volume of the Company for constructing 5.2 Km long flyover at Chittagong. The construction work is now under process and this project is enhancing the company's revenue as well as profitably of the company.

- The company had 54% unutilized capacity in hand, with which the company can meet incremental demand for MS Deformed Bar without making any further expansion.
- Steel industry requires uninterrupted power supply. The company has 16 MW power load connection from PDB and gas connection is connected with main distribution line of Chittagong zone. So, the company has sufficient electricity and gas supply.
- The government of Bangladesh increased the import duty on Billet from BDT 5,000 per MT to BDT 7,000 per MT. As RSRM procures its entire raw materials from domestic sources, it will enjoy a competitive edge over its rivals who are dependent on imported raw materials.

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.



Pricing Based on Relative Valuation:

	Multiple	Value (BDT)
Peer Forward P/E*	18.7	73.4
Peer Trailing P/E*	22.1	52.3
Market Forward P/E	17.8	69.8
Market Trailing P/E	16.7	39.5

* BSRMSTEEL, GPHISPAT, SALAMCRST and APOLOISPAT have been considered as peer group.
Source: ILSL Research

Concluding Remark

RSRM witnessed lucrative 27.06% CAGR in topline over the year 2010 to 2014. The company experienced 9.3% decline in the revenue during the year 2013-14 due to decline in the average price of finished products and countrywide political unrest. However, up to the 9 monthly financial performance of the company in 2014-15, RSRM enjoyed 11.5% YoY growth in revenue and 55.62% YoY growth in the net profit after tax from the same period of the previous year. Increased demand for the company's product in the market and supply of MS bar and Rod for the government infrastructural development project mainly boosted the company's performance despite the average market price decline during the year.

Source: Annual Reports, DSE news, Company website, the Financial Express, the Daily Star, ILSL Research

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