

Rating: Buy

Target Price:1,700

Current market price:1,350

Venus Pipes and Tubes

Reaping the benefits of shift from unorganized to organized

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Key data	VENUSPIP IN
52-week high / low	Rs1579 / 674
Sensex / Nifty	71484 / 21457
3-m average volume	\$3.9m
Market cap	Rs27bn / \$329.1m
Shares outstanding	20m

Shareholding (%)	Sep'23	Jun'23	Mar'22
Promoters	48.6	48.2	48.2
- of which, Pledged	-	-	-
Free float	51.4	51.8	51.8
- Foreign institutions	6.6	6.5	5.8
- Domestic institutions	7.2	8.7	8.6
- Public	37.5	36.6	37.4

Investment summary; Key highlights



Summary. One of the growing stainless-steel pipe and tube manufacturers and exporters in India, the company is involved in the production of stainless steel welded and seamless pipes & tubes. These are used in various industries incl. oil and gas, fertilizers, pharma, F&B, engineering & chemicals. The company has a strong focus on research and development, with its in-house R&D centre continuously working on developing products and improving existing ones. This has helped it retain its position as one of the leading players in the stainless-steel pipe and tube segment



Incessant capacity expansion and backward integration would lead to strong revenue growth, margin expansion.

Revenue recorded a robust 46.9% CAGR over FY19-FY23, largely led by more capacity (a 14.8%+ CAGR, from 6,900 tonnes to 12,000), ramping-up of operations and greater demand for its products. Further in H1 FY24, it raised capacity 2.8x compared to H1 FY23, leading to revenue growth rising ~55% for the same period. In FY25, capacity would further increase 14.3% y/y to 38,400 tonnes from 33,600 in FY24. With this capacity expansion, we expect revenue to register a 31.5% CAGR over FY23-FY26, largely led by volume growth, which we expect to clock a 36.2% CAGR. We expect a 680bps EBITDA margin expansion from 12.6% to 19.4% over FY23-FY26 due to backward integration, scaling up of direct sales and a ramp-up in exports – all bolstering financials



Favourable government policies. The centre has imposed an anti-dumping duty (ADD) on stainless steel seamless tubes and pipes imported from China up to 2028 to prevent harm to the domestic industry. The recommended anti-dumping duty ranges from \$114 - 3,801 per tonne of stainless-steel pipes and tubes of different grades. The company is set to benefit from this favorable government policy and the expansion of a number of products. In addition, import substitution will help in capturing market share from unorganized players

Investment summary; Key highlights

Valuation. We expect revenue/EBITDA to register 31.5%/51.9% CAGRs over FY23-FY26 and initiate coverage on the company with a Buy rating and a target price of Rs.1,700, 25% potential (23x FY26e P/E). The PE multiple attributed to value the company is on par with peer Ratnamani Metals' five-year average P/E, which we believe is fair due to excellent return ratios and structural rise in margins

Key risks. Export-related weakness due to ongoing war, tough peer competition, policy change shocks

Key financials (YE Mar)

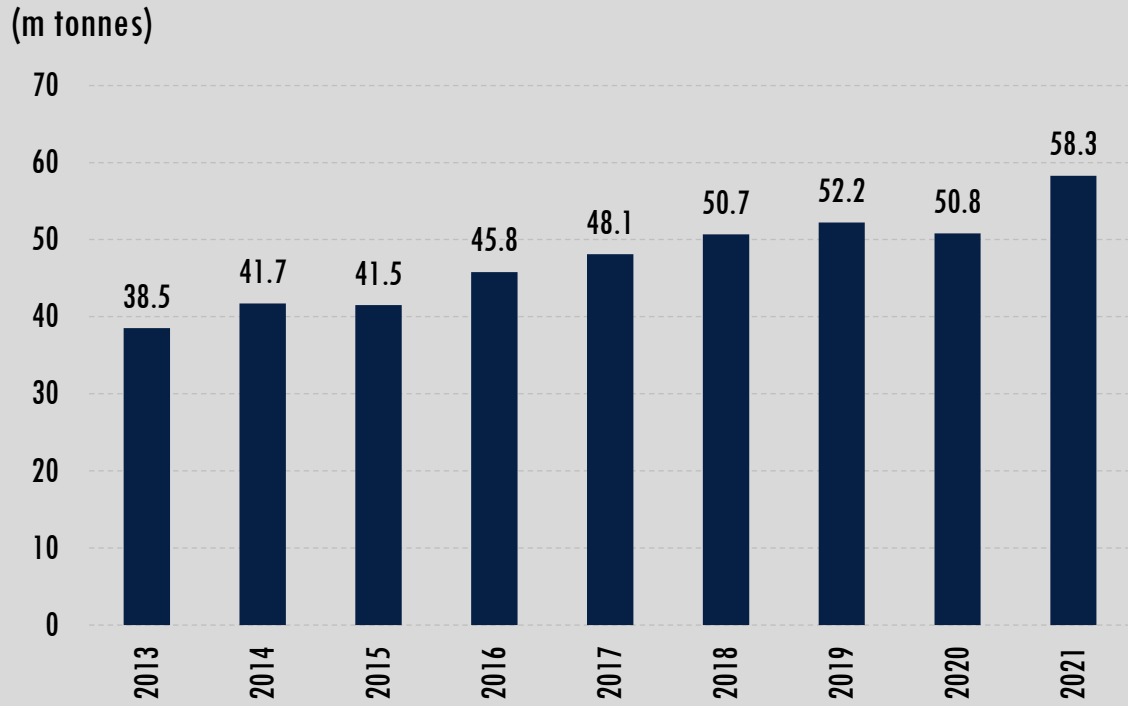
Particulars	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rs m)	3,870	5,530	8,715	11,110	12,568
Net profit (Rs m)	317	448	847	1,199	1,494
EPS (Rs)	22.6	22.6	41.7	59.1	73.6
PE (x)	81.4	57.5	30.4	21.5	17.3
EV / EBITDA (x)	53.7	37.9	18.4	13.3	10.8
P/BV (x)	20.1	8.0	6.4	4.9	3.9
RoE (%)	37.6	19.9	23.3	25.9	25.1
RoCE (%)	26.0	16.6	19.8	21.5	22.0
Dividend yield (%)	-	0.1	0.1	0.1	0.1
Net debt / equity (x)	0.4	0.2	0.3	0.3	0.2

1**The Pipes Segment**

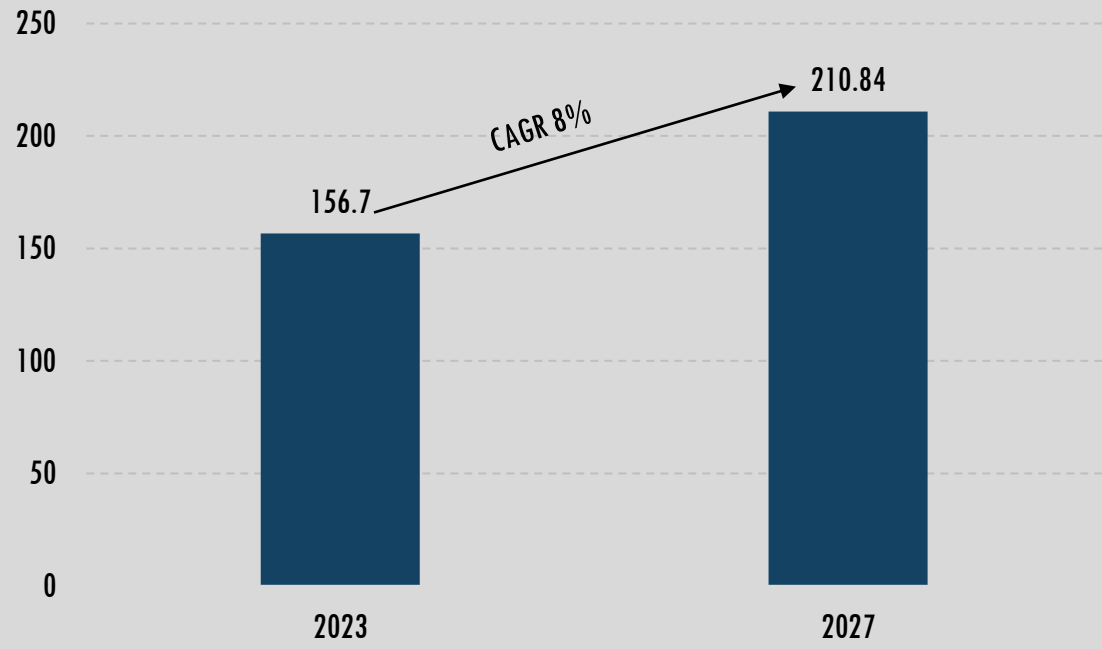
Global scenario

The global stainless-steel pipes & tubes market is anticipated to grow from \$156.7bn to \$210.8bn over 2023-2027, registering an 8% CAGR. In other words, 10% of global steel produced will likely be converted to tubes. These promising growth figures are largely driven by expansion of production capacities and high growth potential in the emerging markets of India and China, with rising inclination for sustainability and development of new, improved alloys

Global Stainless-Steel Production



Global Stainless-Steel Pipes and Tubes Market (\$ bn)

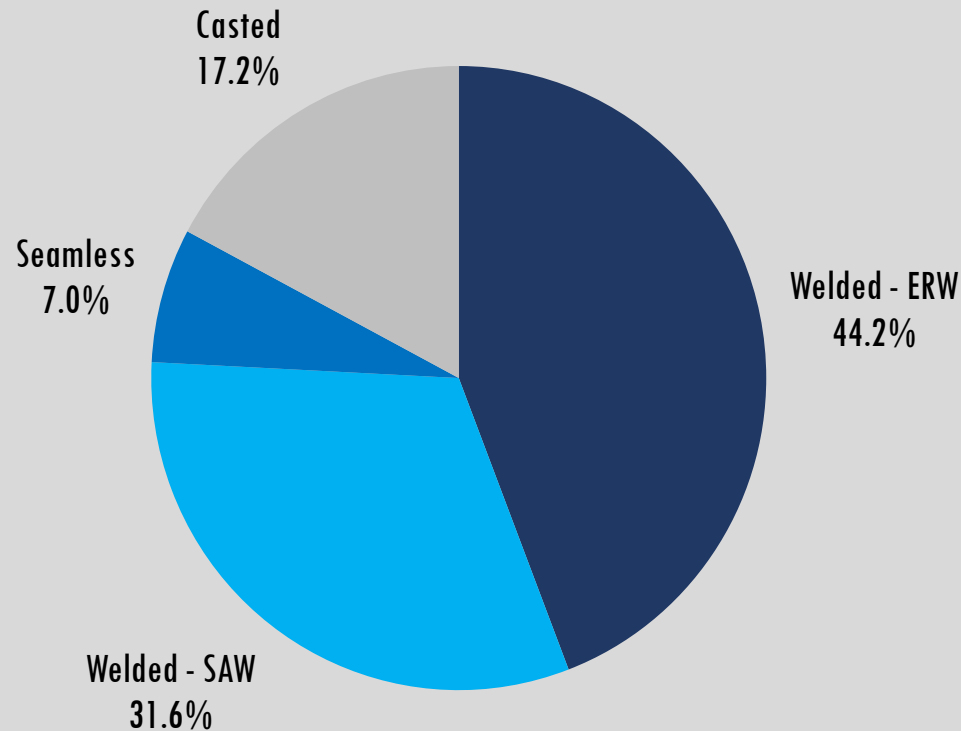


Source: Venus Pipes & Tubes Annual Report 2022-23

Domestic Scenario

Annual demand in India for stainless steel pipes and tubes is ~300,000 tonnes (~30-40% seamless; the rest, welded). At present, the company supplies high-quality pipes for industrial use (B2B) and does not cater to the lower-end market segments like domestic furniture, retail, etc. Of the ~300,000 tonnes of domestic consumption, majority goes to the industry itself. Ratnamani is the leader with ~50,000 tonnes. Till Dec'22, most of the demand for seamless pipes was met by China. However, the Indian government has now imposed import duties, which would benefit domestic players like Venus

India - Manufacturing Capacity - Steel Pipes & Tubes (FY22)



Policies

- Strengthening of the raw-material-supply chain to build India's position as the world's manufacturing hub
- Mandating stainless steel pipes and tubes to conform to Indian standards specified under the steel quality control order, prioritizing quality control
- Enacting a five-year anti-dumping duty on Chinese (and other) steel imports believed to be priced below a fair-market value
- Implementing the domestically manufactured iron & steel products (DMI&SP) policy to promote procurement of "Make in India" products from respective metals
- Exemption of raw materials for the steel sector from basic customs duty to ease availability

Government initiatives

- Incl. domestic specialty steel sector under India's Rs1.97trn production-linked incentive (PLI) scheme to boost manufacturing and generate employment
- Other initiatives incl. national manufacturing policy (aiming to increase manufacturing to 25% of GDP), national infrastructure pipeline (boosting infrastructure development), etc. All these policies together work to incentivize the country's steel production and consumption of metal derivatives

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Company Section

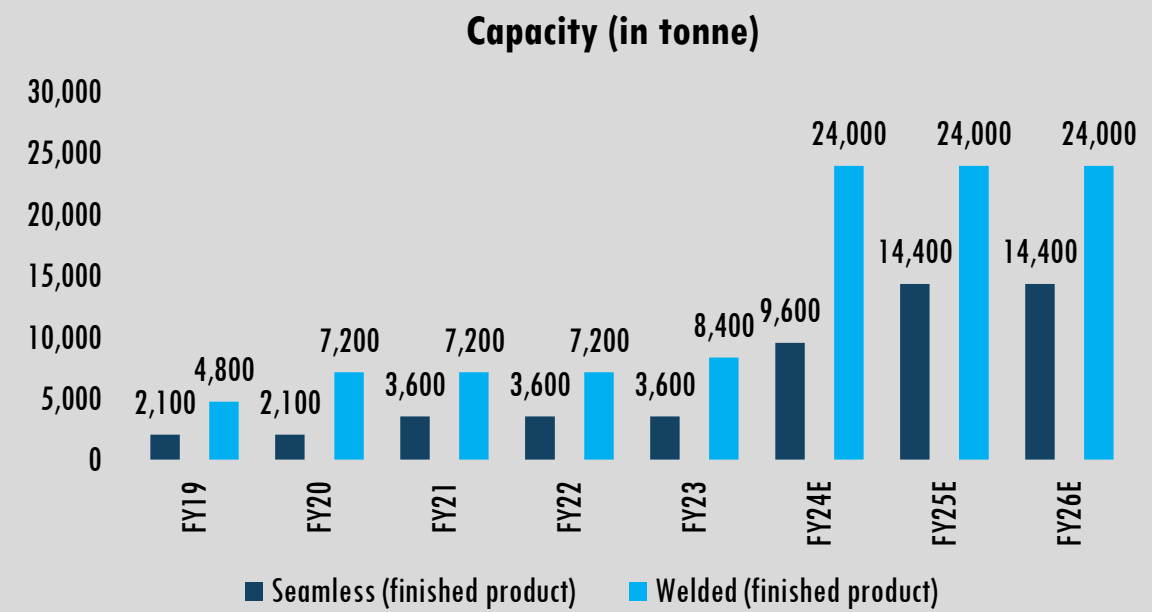
Revenue and capacity trend

Increase in capacity to meet future demand. In FY23, the company was manufacturing welded pipes and tubes of 0.5-8 inches and seamless pipes and tubes of 0-4 inches. In FY24, it expanded its manufacturing capacity for both welded and seamless variants to manufacture greater diameter welded (up to 56 inches) and seamless (up to six inches) pipes and tubes through increased capacity from 12,000 tpa in FY23 to 33,600 tpa now

Backward Integration & Cost Optimization. The basic raw material to manufacture seamless pipe is hollow pipe, which the company procured from the open market (national and international). The cost varied based on size, quality and quantity. Further, such raw materials required additional processing to bring them in conformity with applicable standards. Recently, the company installed a piercing plant of 800 tonnes per month for its in-house manufacturing of mother hollow pipes as part of its backward integration strategy. This is expected to significantly improve operating margins through cost optimization and insulate the company from raw material price fluctuations and disruptions in the supply chain

Product	FY23		FY24		FY25		FY26	
	Size (mm)	Capacity (tpa)	Size (mm)	Capacity (tpa)	Size (mm)	Capacity (tpa)	Size (mm)	Capacity (tpa)
Seamless	6-114.3	3,600	6-168.3	9,600	6-168.3	14,400	6-168.3	14,400
Welded	6-219.3	8,400	6-1,422.4	24,000	6-1,422.4	24,000	6-1,422.4	24,000
Mother Hollow*	NA	0	NA	9,600	NA	12,000	NA	12,000
Total		12,000		43,200		50,400		50,400

* Backward integration capacity

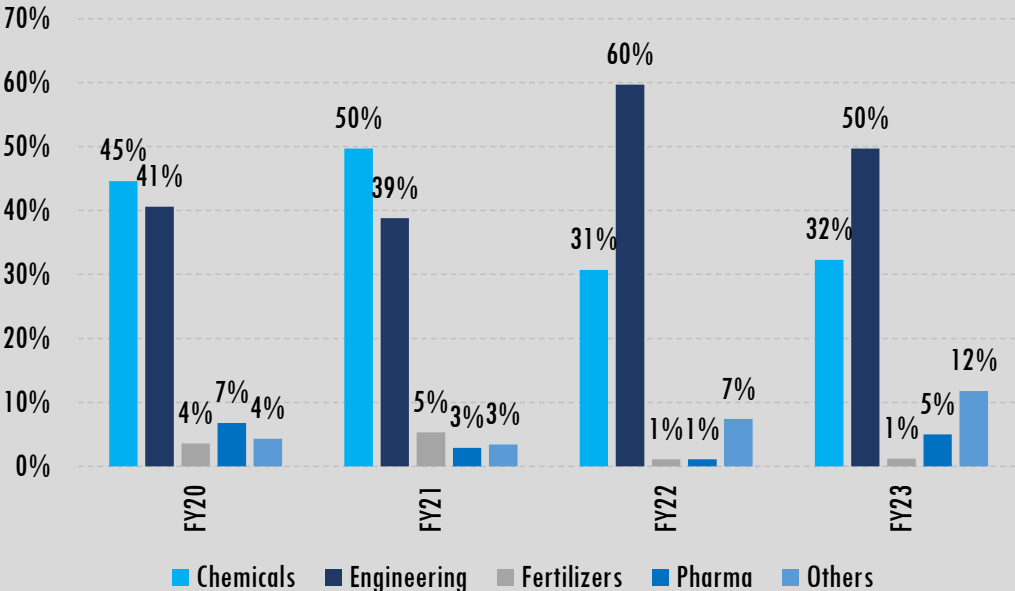


Insights on revenue bifurcation

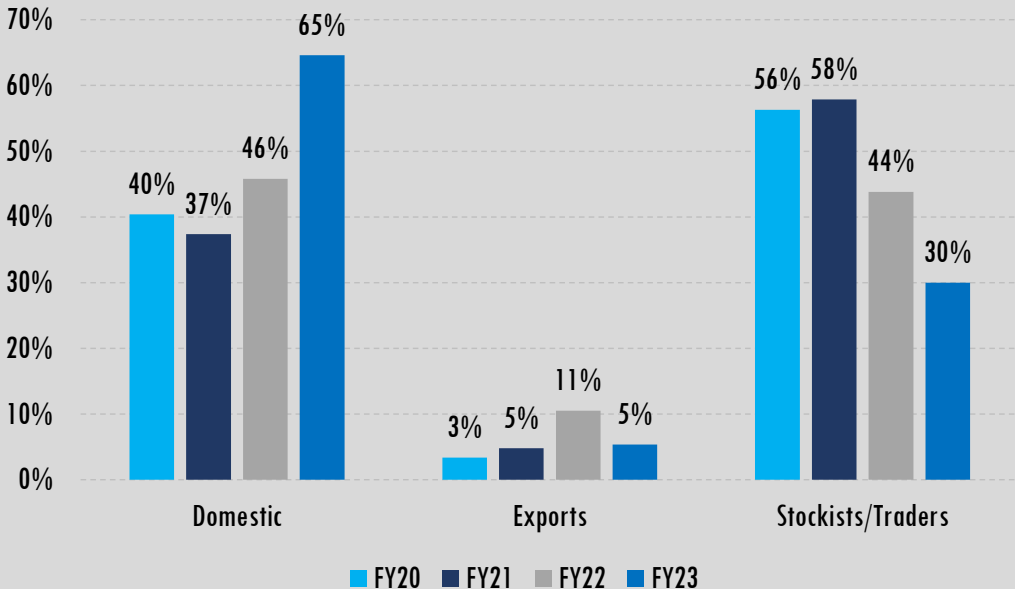
VENUS' end consumers are aptly diversified for it to handle the cyclicity of certain sectors while ensuring volume growth. Although the heavy concentration on chemicals sector has been reduced in the last two years, dependence on engineering, which is faced with strong tailwinds, has increased. This is due to heavy capex in sectors such as infrastructure, real estate, auto and auto-ancillary and industrial goods, which drive demand for engineering goods. The company is expected to ramp up its offtake to the oil & gas sector, which is expected to house strong demand drivers for the next five years

Exports brought ~10% to total revenue i.e., Rs362m in H1 FY24 from Rs157m a year ago. In the present order book of Rs2.1bn, exports constitute ~25%. The company is constantly attempting to ramp up exports to North America and Europe

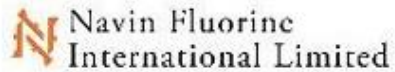
Domestic sales split, sector-wise (%)



Revenue split, channel-wise (%)



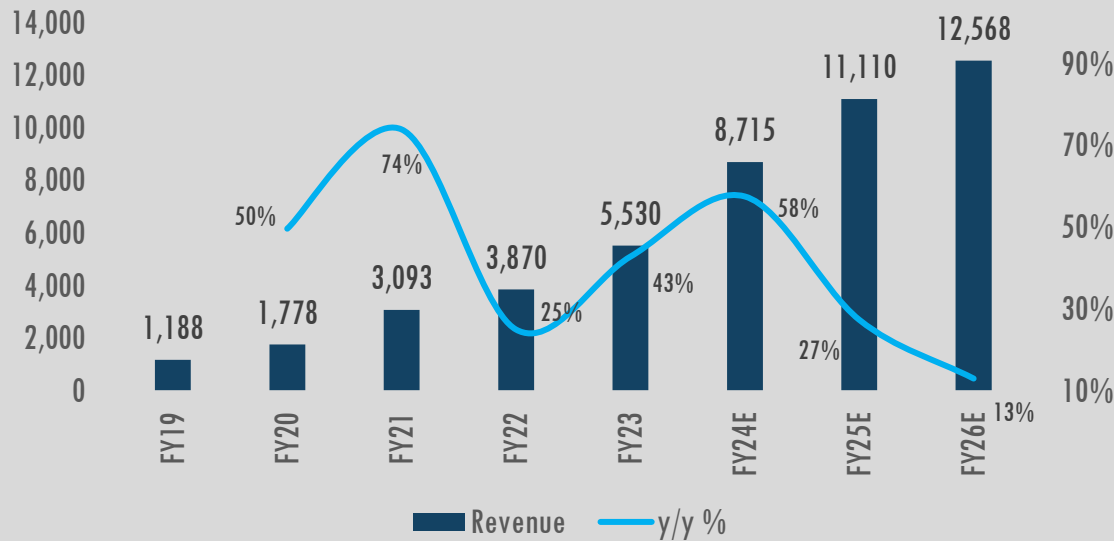
Marquee Clientele



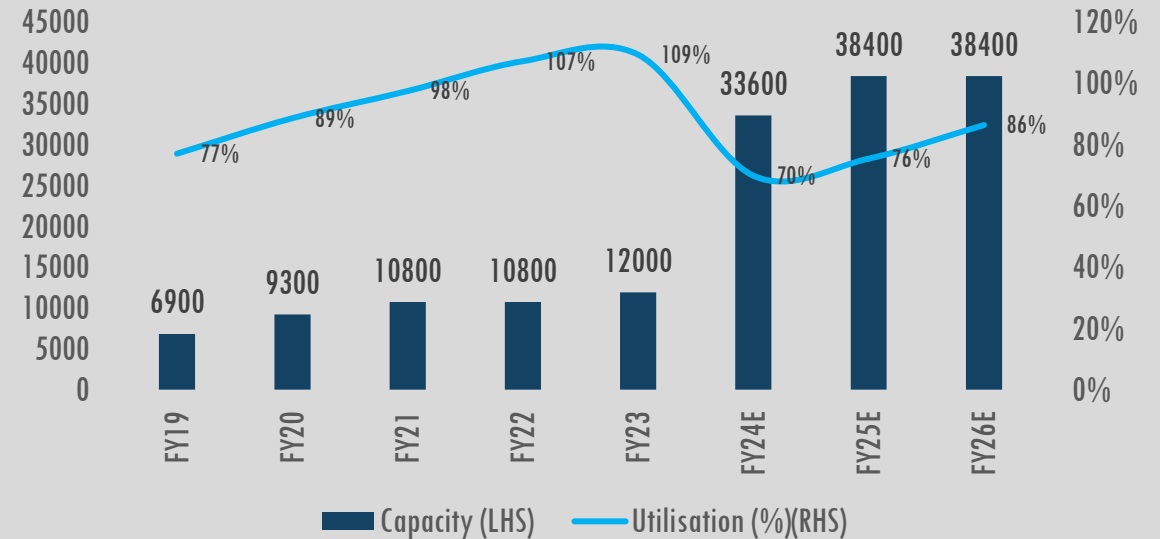
Robust capacity expansion and backward integration will lead to strong revenue growth and margin expansion

Revenue clocked a robust 46.9% CAGR over FY19-FY23, largely led by the expanded capacity (a 14.8%+ CAGR from 6,900 to 12,000 tonnes), the successful ramp-up of operations and greater demand for its products. Further in H1 FY24, the company increased capacity 2.8x compared to FY23, which led to revenue growth increasing 55% y/y in H1 FY24. In FY25 capacity would be further increased by 14.3% y/y to 38,400 tonnes, from 33,600 tonnes in FY24. With this, we expect revenues to register a 31.5% CAGR over FY23-FY26, largely led by volume growth, which we expect to come at a 36.2% CAGR. Further, the 680bp EBITDA margin expansion from 12.6% in FY23 to 19.4% by FY26 due to backward integration, scaling up of direct sales and the export ramp-up would bolster financials further

Revenue trend (Rs m)



Capacity (mtpa) vs Utilisation



*Utilisation exceeding capacity for FY22 and FY23 owing to jobwork

Key Financials Pertaining to Operations

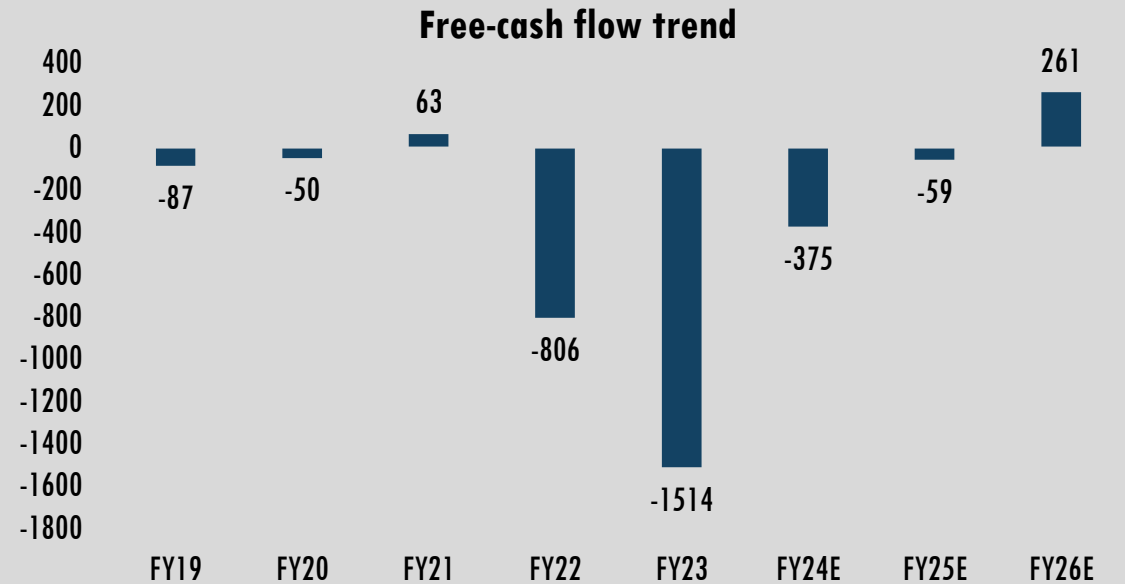
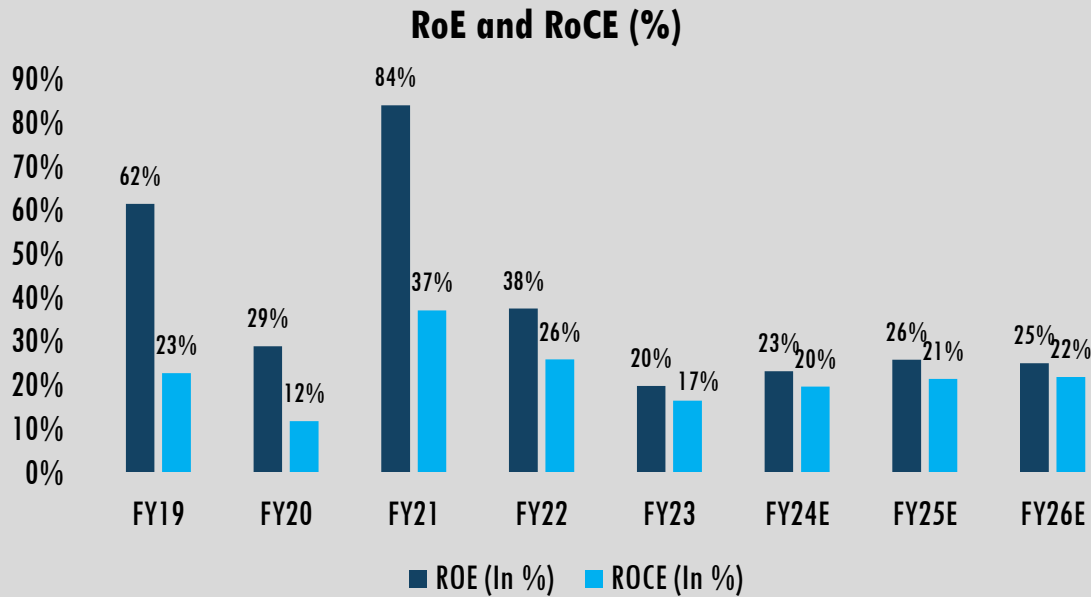
Cost of operations

Particulars	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e	CAGR % (FY19-23)	CAGR % (FY23-26)
Revenue	1,188	1,778	3,093	3,870	5,530	8,715	11,110	12,568	46.9	31
Revenue growth, %	NA	49.7	74.0	25.1	42.9	57.6	27.5	13.1		
Cost of goods sold	1,016	1,570	2,615	3,150	4,446	6,493	8,166	9,112	44.6	27
As % of revenue	85.6	88.3	84.5	81.4	80.4	74.5	73.5	72.5		
Employee benefits	25	27	32	62	102	227	289	327	41.6	48
As % of revenue	2.1	1.5	1.0	1.6	1.8	2.6	2.6	2.6		
Operating expenses	25	27	37	60	108	170	217	246	44.2	32
As % of revenue	2.1	1.5	1.2	1.6	2.0	2.0	2.0	2.0		
Other expenses	38	38	62	104	177	392	444	440	47.0	35
As % of revenue	3.2	2.2	2.0	2.7	3.2	4.5	4.0	3.5		
EBITDA	83	116	348	492	697	1,433	1,994	2,444	70.3	52
EBITDA margins %	7.0	6.5	11.2	12.7	12.6	16.4	17.9	19.4		
EBITDA / kg (Rs)	15.6	14.1	33.0	42.5	53.1	61.0	68.8	73.6	35.8	11.5

Source: Company

Return ratios to be steady, comfortably above 20% for the estimated years

Return ratios will be comfortably higher than 20% for the estimated periods due to the rise in margins, which should gradually improve



Source: Company, Anand Rathi Research

Key financials

Particulars	FY22	FY23	FY24e	FY25e	FY26e
Net revenues (Rs m)	3,870	5,530	8,715	11,110	12,568
Growth (%)	25	43	58	27	13
Direct costs	3,150	4,446	6,493	8,166	9,112
Gross Profit	719	1,084	2,222	2,944	3,456
Gross Margin %	18.6	19.6	25.5	26.5	27.5
SG&A	227	387	789	950	1,012
EBITDA	492	697	1,433	1,994	2,444
EBITDA margins (%)	12.7	12.6	16.4	17.9	19.4
- Depreciation	-14	-20	-100	-127	-144
Other income (incl. exceptional)	21	24	24	24	24
Interest Exp	-71	-98	-218	-278	-314
PBT	429	603	1,139	1,612	2,009
Effective tax rate (%)	26	26	26	26	26
+ Associates / (Minorities)	-	-	-	-	-
Net Income	317	448	847	1,199	1,494
WANS	14.0	19.8	20.3	20.3	20.3
FDEPS (Rs / sh)	22.6	22.6	41.7	59.1	73.6

Balance Sheet (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Share capital	152	203	203	203	203
Net worth	1,285	3,222	4,044	5,218	6,688
Total debt (including Pref)	636	905	1,800	1,800	1,800
Minority interest	-	-	-	-	-
Deferred tax liability / (asset)	7	15	15	15	15
Lease & LT liabilities	6	6	6	6	6
Capital employed	1,935	4,147	5,865	7,039	8,508
Net tangible assets	213	598	1,498	2,570	3,926
Net intangible assets	1	1	1	1	1
Goodwill	-	-	-	-	-
Right of use assets	-	-	-	-	-
CWIP (tangible and intangible)	74	1,216	1,216	1,216	1,216
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	17	21	21	21	21
Current assets (exc; cash) incl LT assets	2,101	2,979	4,187	5,171	5,770
Cash	73	260	562	225	171
Current liabilities	544	927	1,619	2,165	2,596
Working capital	1,557	2,052	2,568	3,006	3,174
Capital deployed	1,935	4,147	5,865	7,039	8,508
Contingent liabilities	260.31	415.22	-	-	-

Ratio Analysis

Cash-flow statement (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
PBT	429	603	1,139	1,612	2,009
+ Non-cash items	56	83	294	381	434
Operating profit before WC changes	485	686	1,433	1,994	2,444
- Incr. / (decr.) in WC	974	394	516	438	167
Others, incl. taxes	-110	-187	-292	-414	-516
Operating cash-flow	-600	105	625	1,141	1,761
- Capex (tangible + intangible)	206	1,619	1,000	1,200	1,500
Free cash-flow	-806	-1,514	-375	-59	261
Acquisitions	-14	-15	-	-	-
- Dividend (incl. buyback & taxes)	-	-10	-24	-24	-24
+ Equity raised	569	1,505	-0	0	-0
+ Debt raised	311	268	895	-	-
- Financial investments	-14	-61	-	-	-
- Misc. items (CFI + CFF)	-19	14	-194	-254	-290
Net cash-flow	28.90	187	302.03	-336.85	-54.06

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	81.4	57.5	30.4	21.5	17.3
EV / EBITDA (x)	53.7	37.9	18.4	13.3	10.8
EV / sales (x)	6.8	4.8	3.0	2.4	2.1
P/B (x)	20.1	8.0	6.4	4.9	3.9
RoE (%)	37.6	19.9	23.3	25.9	25.1
RoCE (%) - after tax	26.0	16.6	19.8	21.5	22.0
RoIC (%) - after tax	27.2	17.5	21.6	22.9	22.6
DPS (Rs / sh)	0.0	1.0	1.0	1.0	1.0
Dividend yield (%)	0.0	0.1	0.1	0.1	0.1
Dividend payout (%) -	-	4	2.9	2.0	2
Net debt / equity (x)	0.4	0.2	0.3	0.3	0.2
Receivables (days)	69.3	46.5	60.0	60.0	60.0
Inventory (days)	88	110	90	90	90
Payables (days)	36	49	60	65	70
CFO : PAT, %	-189	23	74	95	118

Competition analysis

Jindal SAW, Ratnamani Metals & Tubes, Maharashtra Seamless, Man Industries and Welspun Corp are some key manufacturers in India's steel pipe and tube segment, specialising in a diverse product portfolio, incl. ERW, DI, SAW, seamless and stainless-steel pipes. Of these, Jindal SAW and Ratnamani have an established SS pipe and tube business, becoming direct competitors of Venus, with Ratnamani being the market leader

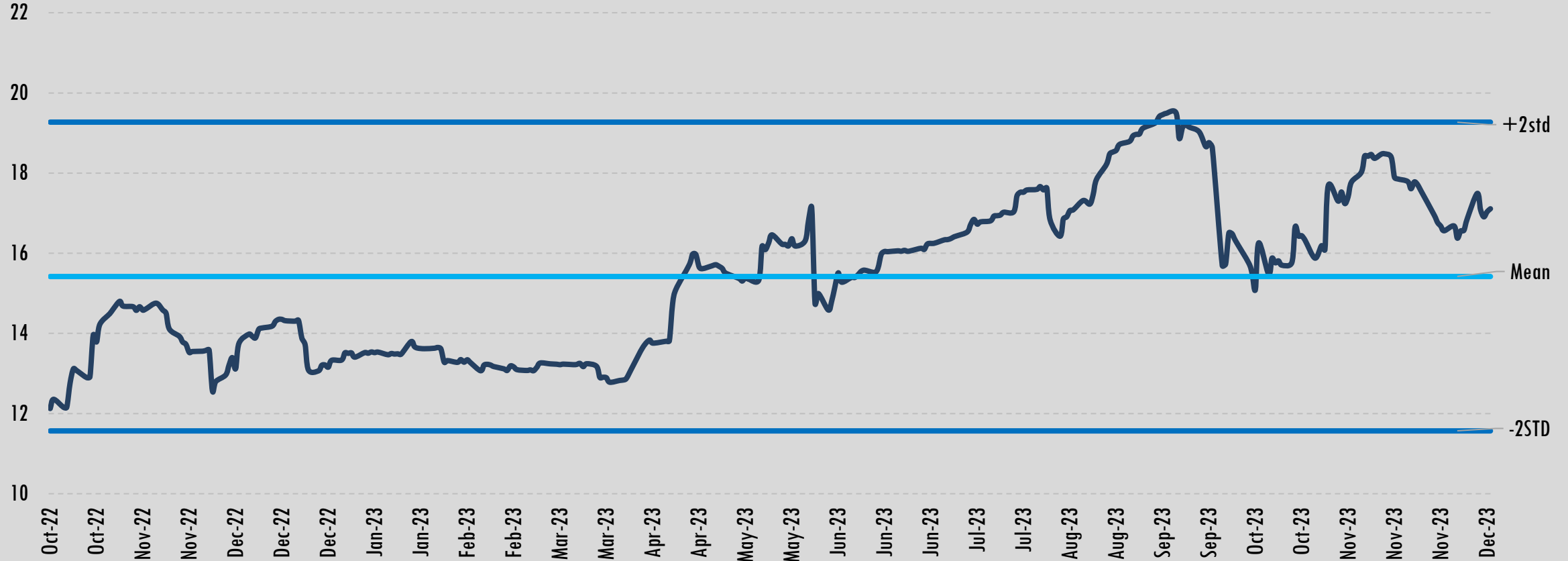
Key competitors

Company name	M.Cap (\$ mn)	Revenue						EBITDA						EV/EBITDA						PE				
		FY21	FY22	FY23	FY24e	FY25e	FY26e	FY21	FY22	FY23	FY24e	FY25e	FY26e	FY22	FY23	FY24e	FY25e	FY26e	FY22	FY23	FY24e	FY25e	FY26e	
*Venus Pipes	335	37	47	67	105	134	151	4	6	8	17	24	29	53.7	37.9	18.4	13.3	10.8	81.4	57.5	30.4	21.5	17.3	
Ratnamani Metals	2999	277	378	539	634	710	794	48.2	59.6	93.4	114.1	126.0	144.4	24.5	18.1	26.2	23.8	20.7	37.6	27.2	40.0	35.1	29.3	
Jindal Saw	1702	1283	1602	2150	2568	2433	2564	149.6	168.9	200.6	334.2	317.9	295.2	5.5	5.2	7.0	7.3	7.9	7.0	7.3	7.3	7.5	9.3	

Other domestic pipe players

Astral Pipes	6335	383	529	622	710	855	1002	77.7	89.4	96.9	122.3	151.4	181.2	54.1	44.2	51.5	41.6	34.8	84.0	81.0	83.3	64.9	52.6
Prince Pipes	939	249	319	326	340	405	481	43.6	50.1	30.2	43.1	57.0	70.4	17.1	23.3	21.3	16.1	13.1	28.0	49.4	37.8	27.2	21.2
Finolex	1581	414	556	525	552	618	660	119.2	123.3	35.2	75.3	93.4	107.8	8.0	31.7	19.0	15.3	13.3	9.1	42.2	26.5	21.4	18.3
Man Industries	196	247	256	267	NA	NA	NA	21.4	20.2	14.7	NA	NA	NA	2.3	5.6	NA	NA	NA	5.4	8.2	NA	NA	NA
Welspun	1696	862	784	1176	1764	2021	2287	95.8	56.8	58.4	167.4	195.0	235.0	9.2	13.5	10.4	8.9	7.4	10.0	25.3	16.4	13.9	11.2
Apollo Pipes & Tubes	5398	990	1521	1888	2376	3046	3679	81.8	113.9	123.1	166.4	228.1	282.0	24.4	33.2	32.8	23.9	19.3	36.9	52.1	49.3	34.6	26.9
Maharashtra Seamless	1546	278	507	689	711	761	858	56.1	73.8	125.3	138.6	130.2	157.1	6.9	4.2	10.4	11.1	9.2	5.3	6.3	15.1	16.0	13.2

Venus Valuation (PE)



Source: Bloomberg, Anand Rathi Research

Ratnamani Valuation (PE)



Source: Bloomberg, Anand Rathi Research

About Company

Established in 2015, Venus Pipes & Tubes Pvt. Ltd. enjoys a considerable market with respect to manufacturing stainless-steel tubular products. Now with ~33,600 tonnes capacity, it is operative in over 20 countries, specialising in pilgers, expanders, tube-mills with plasma welders, draw benches, annealing furnaces, among other ancillary equipment

Year	Milestone
2015	Incorporated as private limited company under The Companies Act, 2013
2015	Established key manufacturing plant at Dhaneti, Bhuj-Bhachau highway, near Mundar and Kandla ports
2015	Commenced production of stainless steel welded pipes, stainless steel high -precision and heat-exchanger tubes, stainless steel hydraulic & instrumentation tubes and stainless steel box pipes at manufacturing plant at Dhaneti
2016	Manufacturing facilities at Dhaneti accredited with management system standards certificate for compliance with ISO 9001:2015, ISO 14001:2015 requirements
2017	Stainless steel pipes added to production line
2017	Began exporting stainless steel welded and seamless pipe variants to countries in the European Union (EU), Brazil, the UK, Israel, etc.
2017	Verified and recognised as material manufacturer per AD 2000 - Merkblatt W0 by The TÜV NORD Systems GmbH & Co. KG
2017	Certified as quality-assurance system related to the material by The TÜV NORD Systems GmbH & Co. KG
2017	Registered trademark under Class 6 of The Trademarks Act in respect of “manufacturer of stainless steel and carbon steel pipes and fittings” valid till 2027
2018	Received approval of The Indian Boiler Regulations, 1950, from The Office of the Director of Boilers, Gujarat
2021	Transitioned from a private limited company to a public limited firm
2022	Received approval of The Bureau of Indian Standards (BIS) for stainless steel seamless and welded pipes & tubes

Name	Designation	Description
Arun Axaykumar Kothari	Chairman and MD	Associated with the firm since Sep'21' B.Com., Rajasthan University; chartered accountant since 1998
		Responsible for managing accounting and financial operations
Jayantiram Motiram Choudhary	Whole-time director	Associated with the company since its incorporation in the capacity of director
		10+ years' experience in the steel industry ; 4+ years' experience as director of Accuracy Shipping
Megharam Sagramji Choudhary	Whole-time director	15+ years' experience in stainless steel welded pipes and tubes
		Responsible for several company verticals, incl. sales and marketing, customer relationship management, procurement, and HR
Dhruv Mahendrakumar Patel	Whole-time director	BE, Pune University; Master's in Technology from CEPT University
		6+ years' experience in the steel industry; oversees entire production and exports of the company
Shyam Agrawal	Independent director	PhD in Law from the University of Rajasthan
		Commendable 15+ years' experience as practicing company secretary.
		Former member of the appellate authority of the ICSI, New Delhi
		Member of the quality review board of the ICAI, New Delhi; chairman and independent director of ICMAI Registered Valuers Organization, New Delhi
Kailash Nath Bhandari	Independent director	LIB, Jodhpur University. 18+ years' experience in the insurance sector
Pranay Ashok Surana	Independent director	Bachelor's and Master's in Technology (Mechanical Engineering), IIT Bombay; 5+ years' experience in the tech sector
		Founded Flyrobe (Bloomberg top 50 global start-ups 2017) after working as an analyst at Deutsche Bank.
		Featured on the coveted 'Forbes 30 Under 30' in Asia list (2017) and India list (2019)
Komal Lokesh Khadaria	Independent director	B.Com., Member of The Institute of Company Secretaries of India
		9+ years' experience as company secretary, with key positions such as chairperson of the Surat Chapter of the ICSI and vice-chairperson and member of various committees of the Surat Chapter and Western India Regional Council of the ICSI
Kunal Bubna	Chief financial officer (CFO)	Fellow of The Institute of Chartered Accountants of India (ICAI) with 14 years' experience
Pavan Kumar Jain	Company secretary, Compliance officer	4 years of experience as Company Secretary

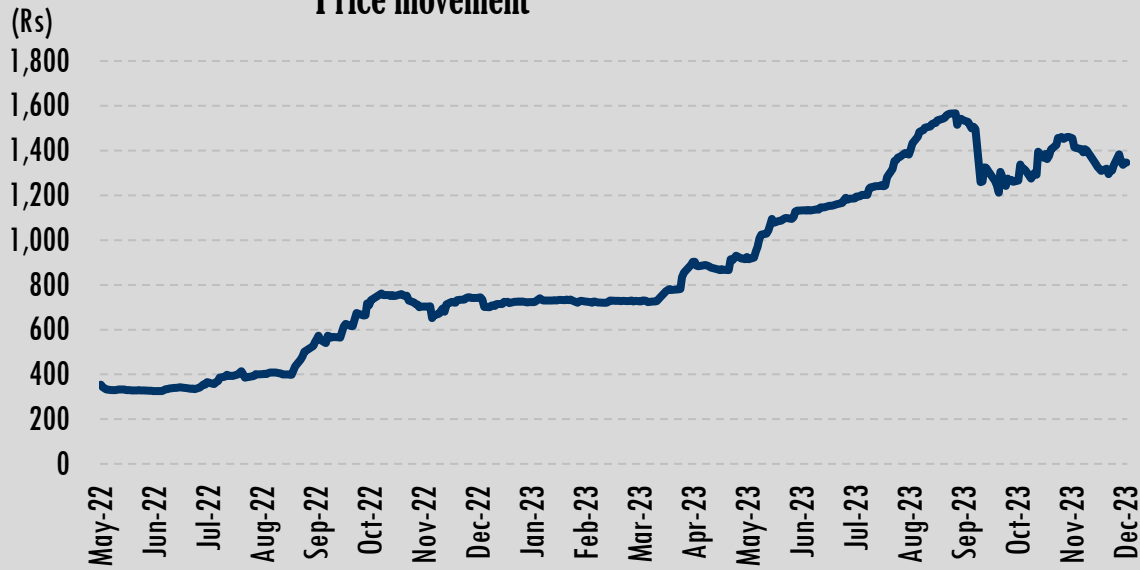
Auditors

Statutory: M/s Maheshwari & Co., Chartered Accountants, Surat

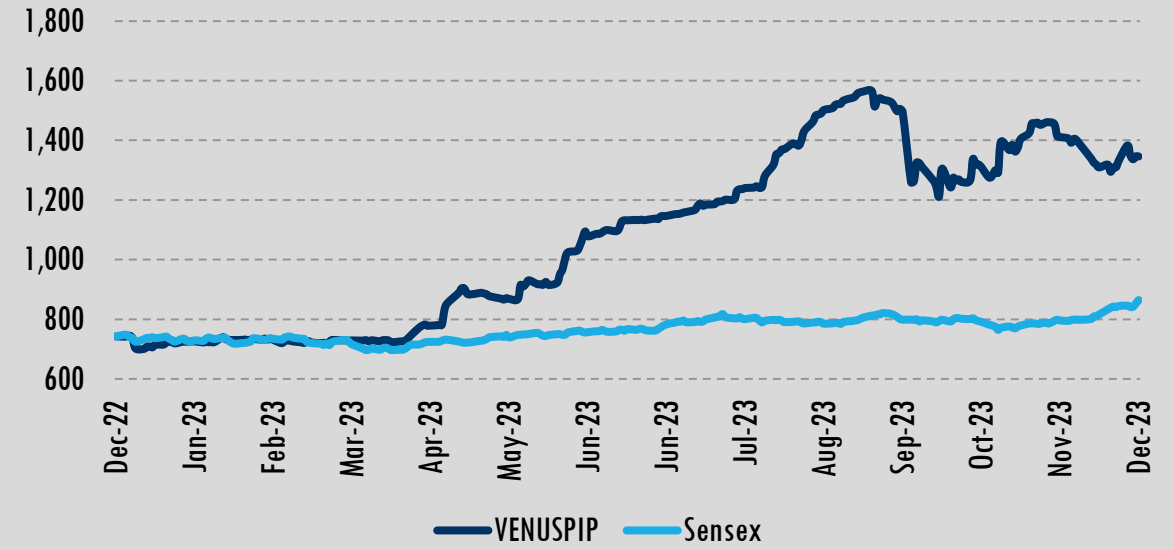
Secretarial: M/s. Agrawal Mundra & Associates, Company Secretaries, Indore

Internal: Goyal Swati & Co., Chartered Accountants, Ahmedabad

Price movement



Relative price performance



Appendix

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