

# Venus Pipes & Tubes

## An evolving growth story

Venus Pipes and Tubes (VENUSPIP), incorporated in 2015 and located at Kutch, Gujarat, is a manufacturer and exporter of stainless steel (SS) pipes and tubes. It manufactures seamless and welded tubes/pipes and has an installed capacity of 12ktpa. During FY19-22, it has witnessed good growth with sales CAGR of 48% and EBITDA CAGR of 61%. The future growth lies in backward integration as well as volume expansion. Venus Pipes is in process of increasing capacity by 2.8x to 33.6ktpa (to become 2<sup>nd</sup> largest SS producer) as well as backward integrating by Q1FY24E, which will aid margin expansion. Currently, blended EBITDA margins are ~1,000bps lower vs. Ratnamani Pipes (RMTL, market leader). Post ramp up, we estimate the gap will gradually shrink and drive EBITDA at 46% CAGR to Rs15.2bn in FY25E (~3x from FY22). We initiate coverage on Venus Pipes with BUY rating and a Target Price of Rs764, assigning 18x (~30-40% discount to RMTL FY24E consensus P/E) average of FY24E/FY25E EPS of Rs42.4.

### Capex cycle upswing and industry tailwinds to drive demand

The demand sectors like oil refinery, petrochemicals, chemicals, and pharmaceuticals are in major capex cycle upswing with estimated investments of Rs3.3tn (based on announcements made by major players) over FY23E-25E. This would roughly translate ~Rs330bn of incremental opportunity for SS pipes. Besides, revoke of export rebates by China and use of only BIS certified products, will likely aid Venus Pipes to strengthen its market share through import substitution.

### Expansion projects to enable 32% volume CAGR and cost savings

Venus Pipes is set to expand its capacity to 33.6ktpa, expected commission by Q1FY24E end. The capital outlay required for expansion project is ~Rs1.6bn funded largely through IPO proceeds. Future growth will be fueled from both volume expansion at 32% CAGR over FY22-25E as well as cost savings on account of backward integration as it is setting up 9.6ktpa piercing plant for seamless pipes which can help in saving Rs25-35k/t (at full capacity utilization can save ~Rs240-335mn).

### EBITDA to see 46% CAGR over FY22-25E; RoE to moderate at ~23%

Venus Pipes has the potential to generate ~46% EBITDA CAGR over FY22-25E at ~Rs15bn in FY25E (~3x from FY22 EBITDA) based on volume expansion, improved customer mix by shifting sales from stockists to direct sales/tender based, backward integration and improving operational efficiencies. The EBITDA margins are expected to improve from ~13% in FY22 to ~17% in FY25E. Blended EBITDA/t inched up sharply from ~Rs42,500/t in FY22 to ~Rs56,796/t in FY25E. Post IPO, ~25% of equity is diluted, hence return ratios are likely to moderate from superior RoE of 38% in FY22 to 23.2% in FY25E.

### Best play on SS pipe growth story

With new capacities, Venus Pipes is set to become the 2<sup>nd</sup> largest player in India. It is well equipped to exploit emerging opportunities in the form of import substitution, higher exports and huge capex upswing in demand markets. We expect Revenue/EBITDA/PAT to grow at CAGR of 32%/46%/48%, respectively over FY22-25E, keeping the balance sheet strong with Net Debt/EBITDA of 0.59x, high RoE of ~23% and ROCE of 20% in FY25E. **We recommend BUY on Venus Pipes with Target Price of Rs764.**

### Financial and valuation summary

YE Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenues	3,093	3,870	4,172	6,777	8,907
EBITDA	348	492	476	1,068	1,520
EBITDA margin (%)	11.2	12.7	11.4	15.8	17.1
Adj. Net profit	236	317	283	692	1,029
Adj. EPS (Rs)	27.1	20.8	13.9	34.1	50.7
EPS growth (%)	472.5	(23.1)	(33.1)	145.0	48.7
PE (x)	0.0	0.0	40.7	16.6	11.2
EV/EBITDA (x)	0.0	0.0	25.1	11.5	8.2
PBV (x)	0.0	0.0	3.6	2.9	2.3
RoE (%)	84.1	37.6	12.5	19.4	23.2
RoCE (%)	40.9	26.9	11.5	16.8	20.4

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

### Initiating Coverage

### India I Metals & Mining

06 October, 2022

**BUY**

Price: Rs567

Target Price: Rs764

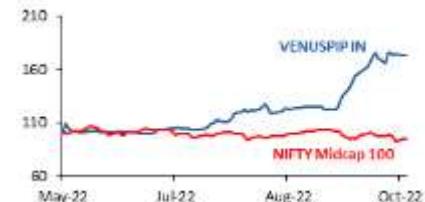
Forecast return: 35%

### Market Data

Bloomberg:	VENUSPIP IN
52 week H/L:	588/316
Market cap:	Rs11.5bn
Shares Outstanding:	20.3mn
Free float:	51.8%
Avg. daily vol. 3mth:	183,429

Source: Bloomberg

### VENUSPIP relative to Nifty Midcap 100



Source: Bloomberg

### Shareholding pattern

	Jun-22
Promoter	48.2
FII	2.2
DII	4.2
Public/other	45.4

Source: BSE



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## Thesis Snapshot

### VENUSPIP vs. Nifty Midcap 100

	1m	6m	1 year
VENUSPIP IN	41.7	-	-
Nifty Midcap 100	(1.4)	0.1	0.3

Source: Bloomberg, NSE

### Key assumptions

	FY21	FY22	FY23E	FY24E	FY25E
Sales Volume (tpa)	10,534	11,585	11,746	19,920	26,760
Blended EBITDA/t	33,014	42,500	40,553	53,615	56,796

Source: Centrum Broking

### Valuations

We initiate coverage on Venus Pipes with BUY rating and a Target Price of Rs764, assigning 18x (30-40% discount to RMTL FY24E consensus P/E) average of FY24E/FY25E EPS of Rs42.4.

Particulars	FY24E	FY25E
EPS	34.1	50.7
PE (x)	18	18
Target Price (Rs/sh)	614	913
<b>Average of FY24 &amp; FY25</b>	<b>764</b>	

### Peer comparison

Company	Mkt Cap (Rs mn)	CAGR (FY22-25E) %			P/E (x)			EV/EBITDA (x)				FY22A	
		Sales	EBITDA	PAT	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	RoE (%)	RoCE (%)	Div yield (%)
Venus Pipes & Tubes	11,568	32.0	45.6	48.1	40.9	16.7	11.2	25.2	11.6	8.2	37.6	26.9	-
Ratnamani Metals	1,32,484	18.2	19.4	13.8	32.0	25.7	21.4	21.9	17.9	15.7	15.2	14.9	0.5
Jindal Saw	26,444	1.0	3.6	21.1	5.2	4.4	-	5.3	5.4	-	5.7	7.3	2.4

Source: Company, Centrum Broking Note: Jindal Saw FY25 consensus estimates not available

## Investment Arguments

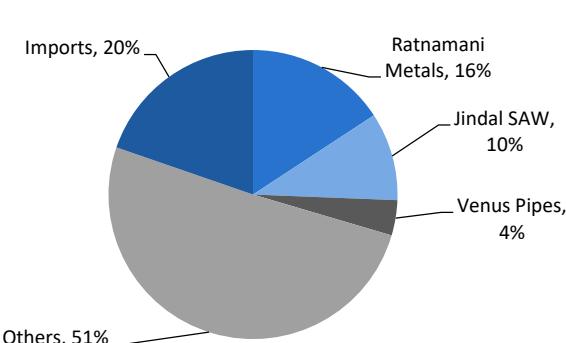
- Venus Pipes is set to become the 2<sup>nd</sup> largest stainless steel (SS) pipes producer in India after completion of capacity expansion from ~12ktpa to ~33.6ktpa by Q1FY24 end.
- The company is expected to post ~32% volume CAGR over FY22-25E, once expanded capacity is ramped up.
- Increasing in-house capability of manufacturing pipes of higher diameter; upto 48" inch for welded pipes and upto 6" inch for seamless pipes.
- Backward integration by setting piercing line of 9.6ktpa capacity to enable in-house manufacturing of hollow pipes (forms >90% of CoP for seamless pipes). We believe it will result in margin expansion for seamless pipes from ~13% to ~23%.
- EBITDA estimated to register ~46% CAGR over FY22-25E to ~Rs15.2bn on volume growth, cost savings and high margin sales mix.
- Industry tailwinds: (1) Government of India mandating use of BIS certified SS pipes, (2) China revoking export rebate to make imports costlier, and (3) Ministry of Commerce considering imposition of anti-dumping duty on import of SS pipes in India.
- Balance sheet remains strong with Net Debt/EBITDA declining from ~3.3x in FY19 to 0.59x in FY25E.
- Post IPO, equity is diluted by ~25%, hence return ratios are likely to moderate compared to superior RoE of 45% average during FY19-22. Further, with higher earnings, RoE is expected to improve from 12.5% in FY23E to 23.2% in FY25E.
- Currently, the stock trades at 16.7x FY24E and 11.2x FY25E. We initiate coverage on Venus Pipes with BUY rating and a Target Price of Rs764, valuing the stock at 18x average of FY24E/FY25E EPS.

## Industry Overview

### SS pipe market in India – Venus Pipes to become the 2nd largest producer

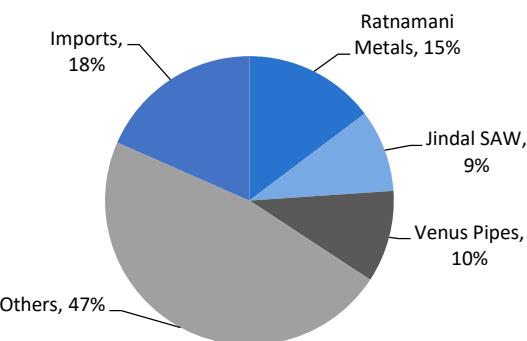
The addressable domestic SS pipe market is ~305kt – out of 1.1mt, which are primarily used in process industries. The niche market is distributed between few producers. Ratnamani Metals & Tubes Ltd with 48ktpa capacity is the market leader (~16% market share) followed by Jindal SAW with 30ktpa capacity (~10% market share). Notably, imports from major global players like Vallourec, Centravis, Sandvik, Tubacex, etc. and unorganised sector with 80ktpa capacity scattered between small players together hold lion's share of 46% in overall market.

**Exhibit 1: Current SS market distribution**



Source: Centrum Broking, Company Data

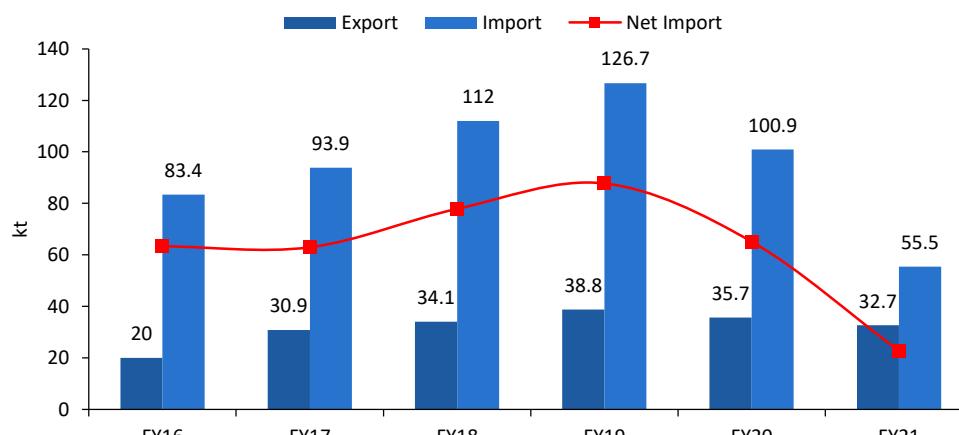
**Exhibit 2: Post expansion; Share of Venus Pipes to rise**



Source: Centrum Broking, Company Data

As of 2019, the global SS pipe and tube industry was estimated at USD32.4bn. The market size is expected to increase at 4% CAGR over FY19-25E to >USD40bn. India is major producer and consumer of SS pipes; it imports ~60ktpa, largely from China (54% share as on CY2021). On May 01, 2021, China revoked VAT rebates (13%) to encourage producers to supply more in domestic market. Besides, given the ongoing Russia Ukraine conflict, the SS pipes supply disruption is aggravated in global market. This move will benefit domestic producers to target import substitution and gain share in export markets.

**Exhibit 3: SS pipe import export trade balance**



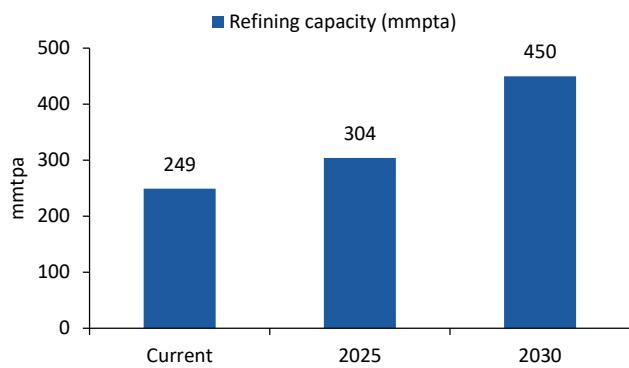
Source: Centrum Broking, Company Data

## Demand Drivers

### Oil & Gas sector

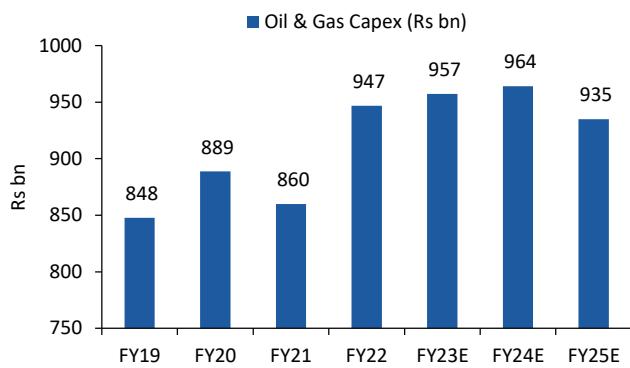
India is projected to be a refining hub in future. The government plans to expand oil refining capacity from 249mmtpa to ~304mmtpa by 2025 and thereafter to ~450mmtpa by 2030. The sector is expected to receive ~USD2856bn in investment over FY23-25E. Typically, 10% is attributed for SS pipes and tubes, which translates to ~Rs285bn opportunity from this sector.

**Exhibit 4: Refining capacity expansion**



Source: Centrum Broking

**Exhibit 5: Oil & Gas sector - capex trend of major companies**

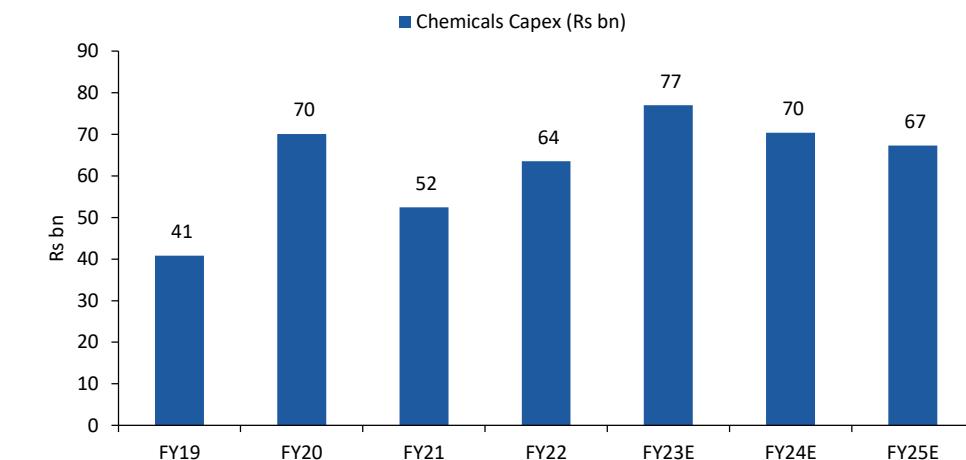


Source: Centrum Broking

### Chemical Sector

Venus Pipes derives significant revenue (~19% of FY21 sales) from chemical industry. The chemical industry is estimated to be valued at USD178bn in FY19, which is expected to grow at 9% CAGR to USD300bn by 2025. The sector is expected to receive ~USD215bn in investment from major companies over FY23-25E. Typically, 10% of capex is estimated in form of SS pipes and tubes.

**Exhibit 6: Chemical sector – capex trend of major companies**

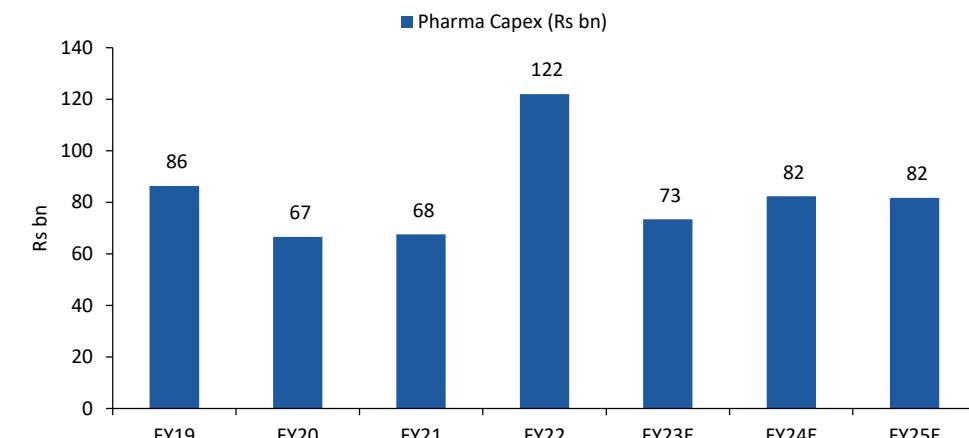


Source: Centrum Broking

## Pharmaceutical sector

The Covid-19 pandemic had significant impact on domestic pharmaceutical industry. Understanding the importance of having strong manufacturing capabilities, investments in the sector increased sharply during FY22. The sector is expected to receive ~USD215bn in investment over FY22-25E. Typically, 10% of capex is estimated in form of SS pipes and tubes.

**Exhibit 7: Pharmaceutical sector - capex trend of major companies**



Source: Centrum Broking, Company Data

## Investment Thesis

### Capacity to increase ~2.8x by Q1FY24E

Venus Pipes installed capacity is ~12ktpa of which ~8.4ktpa is SS welded pipes and ~3.6ktpa is SS seamless pipes. Currently, it manufactures welded pipes upto 8" inch diameter and seamless pipes upto 4' inch diameter. The capacity is fully utilised at optimum levels (>90%) but the company has to rely on contractors for higher diameter orders. To manage flexibility between small to large diameter size vis-à-vis small to large quantity, Venus Pipes initiated capacity expansion project at capex cost of ~Rs1.6bn, which is expected to complete by Q1FY24E end. The capex also includes investment in setting piercing line to manufacture hollow pipes, which is the raw material for SS seamless pipes.

#### Exhibit 8: Capacity utilisation at >90%; Production volume increased at 33% CAGR over FY19-22

	FY19	FY20	FY21	FY22
<b>Capacity (tpa)</b>				
Seamless Pipe	2,100	2,100	3,600	3,600
Welded Pipe	4,800	7,200	7,200	7,200
<b>Total</b>	<b>6,900</b>	<b>9,300</b>	<b>10,800</b>	<b>10,800</b>
<b>Production (tpa)</b>				
Seamless Pipe	903	1,250	3,311	3,324
Welded Pipe	3,283	6,436	6,590	6,598
<b>Total</b>	<b>4,186</b>	<b>7,686</b>	<b>9,901</b>	<b>9,922</b>
<b>Capacity Utilisation (%)</b>				
Seamless Pipe	43	60	92	92
Welded Pipe	68	89	92	92
<b>Total</b>	<b>61</b>	<b>83</b>	<b>92</b>	<b>92</b>

Source: Centrum Broking, Company Data

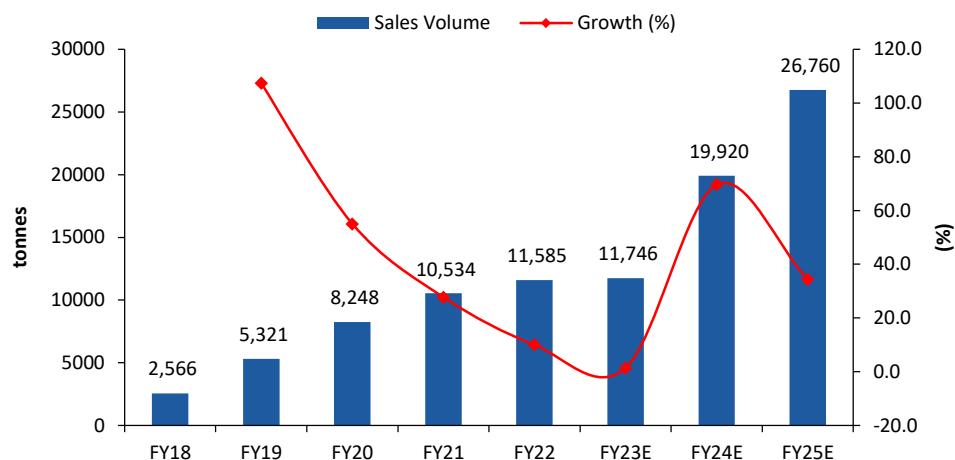
#### Exhibit 9: Capacity expansion details

	Current Capacity		Post expansion capacity	
	Size	tpa	Size	tpa
Seamless Pipe	6mm (0.125 inch) - 114.3mm (4 inch) diameter	3,600	6mm (0.125 inch) - 168.3mm (6 inch) diameter	9,600
Welded Pipe	6mm (0.125 inch) – 219.3mm (8 inch) diameter	8,400	6mm (0.125 inch) – 1219.3mm (48 inch) diameter	24,000
Hollow Pipe				9,600
<b>Total</b>		<b>12,000</b>		<b>43,200</b>

Source: Centrum Broking, Company Data

### Volume to grow at 32% CAGR over FY22-25E

Venus Pipes has been on expansion mode and has recorded 30% sales volume CAGR over FY19-22 to 11,746 tonnes. We expect FY23E volumes to increase marginally as the plant is operating at above 90%, which is optimum level. With new capacity commissioning by Q1FY24E, sales volume is estimated to register 32% CAGR over FY22-25E driven by market share gain from unorganised sector, tapping new geographies and increasing sales in demand sectors like Oil & Gas, Chemicals, Pharmaceuticals, Food Processing, Defence, Power, etc.

**Exhibit 10: Sales volume to grow at 32% CAGR over FY22-25E**

Source: Centrum Broking, Company Data

**Well positioned to gain market share**

Venus Pipes, through stringent quality control measures, is able to get critical clients' approval, which is a pre-requisite for business relationship. In FY22, it has added many marquee clients like Asian Paints, Dalmia Bharat Sugar, Praj Industries, Toyo Engineering, Tata Projects (ISRO Project), MRPL (Subsidiary of ONGC), etc. Venus Pipes, with comprehensive array of products, presents itself as one stop solution to meet every requirement. With higher capacities and product offerings, it can target vast import (~20% market share) substitution opportunity in petrochemicals, aerospace and nuclear plants as well as gain market share from unorganised sector (26% market share). Possible anti-dumping duty on stainless steel pipes can create further opportunity for the company.

**Exhibit 11: Venus Pipes and Tubes vs. Ratnamani Metals and Tubes**

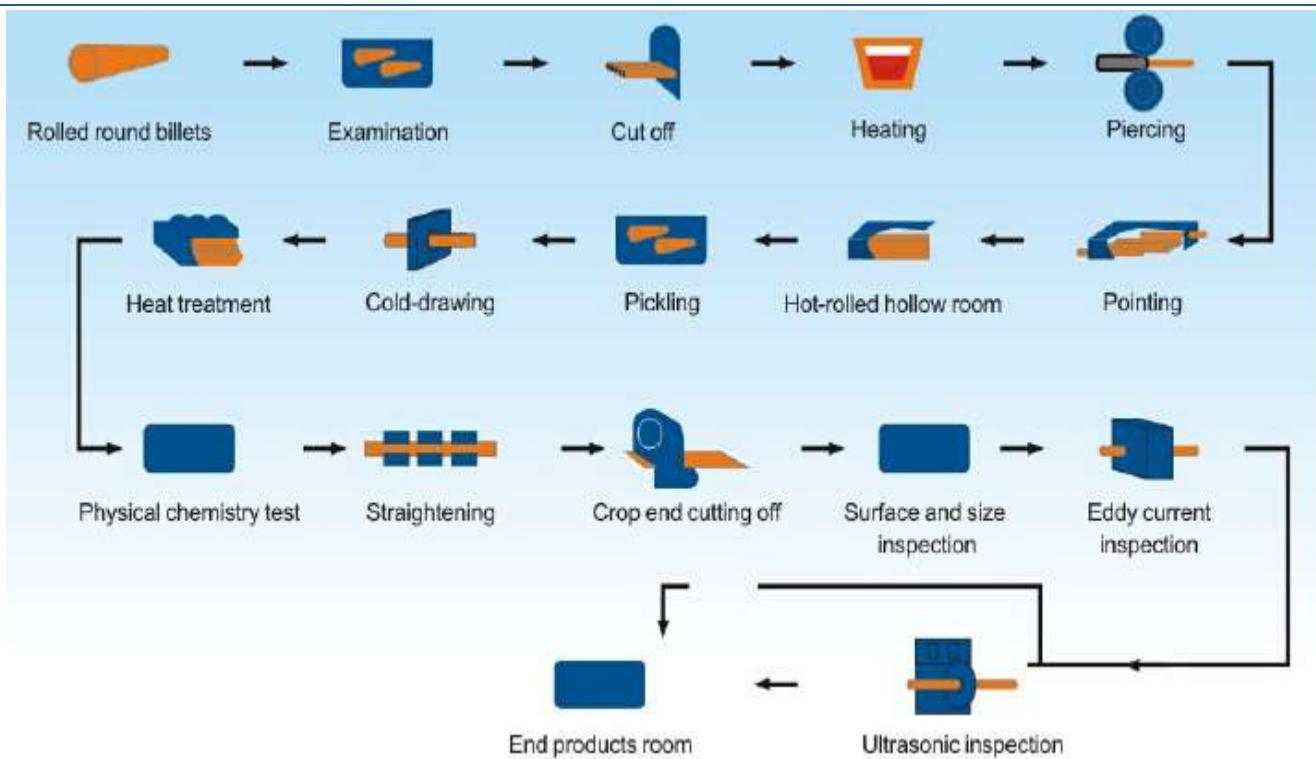
	Venus Pipes & Tubes Ltd	Ratnamani Metals & Tubes Ltd
<b>Incorporation</b>	It was incorporated on February 17, 2015 and has 7 years of operational history.	It was incorporated on September 15, 1983. It is market leader and has 40 years of operational history.
<b>Products</b>	Stainless Steel Pipes comprises of Seamless, Welded, Heat Tubes & Pipes, Stainless Steel Welded Tubes & Pipes, Titanium Welded Tubes, Carbon Steel Welded Pipes, and Stainless Steel/Carbon Steel Pipes with Coating.	Diverse portfolio comprises Nickel Alloy/Stainless Steel Seamless
<b>Capacity</b>	SS Welded Pipe – 8.4ktpa (post expansion: 24ktpa) SS Seamless Pipe – 3.6ktpa (post expansion: 9.6ktpa)	Carbon Steel pipes – ~500ktpa Stainless Steel pipes: (1) Welded – 20ktpa, (2) Seamless – 28ktpa
<b>Market Share</b>	~4% market share	~16% market share
<b>Clientele</b>	Adani, EIL, Bharat Petroleum, Hindustan Petroleum, ITC, L&T, QatarGas, Petrofac, Saudi Aramco, Samsung, Dredging International & Linde BHEL & Tata	
<b>Backward integration</b>	Setting 9.6ktpa Piercing line to manufacture hollow pipe, which will be used for seamless pipes.	Hot extrusion facility of 20ktpa to manufacture hollow pipe. The risk of developing cracks through this method is less, and hence more reliable.

Source: Centrum Broking, Company Data

## Setting up piercing mill for backward integration

In order to enhance 100% backward integration of SS seamless pipes, Venus Pipes is setting up 9.6ktpa hollow pipe manufacturing capacity. It will install piercing machinery, which will help in manufacturing of hollow pipes from SS billets, which is raw material for SS seamless pipes. Currently, it buys hollow pipes largely from China. It also plans to set up slitting machine for backend process of cutting steel strips/coils for welded pipes. As part of technological enhancement, it will set up acid regeneration plant to reduce acid usage, which will help to lower down time and enhance productivity.

**Exhibit 12: Seamless pipe manufacturing process with backward integration**



Source: Centrum Broking, Company Data

## Backward integration will lead to cost savings and higher margins

The SS coils are procured domestically as well as imported from Malaysia and Indonesia, while SS hollow pipes are largely imported from China. There is heightened reduction in availability of hollow pipe from China given necessary BIS certification. Besides, Department of Commerce has initiated anti-dumping investigation concerning imports of SS pipes from China and further clarification is awaited. This could affect the companies that depended on imported hollow pipes. The capacity expansion and backward integration of SS seamless pipes will add new product offerings of varied diameters and better quality due to in-house manufacturing of hollow pipes. Besides, backward integration will enable cost saving of net Rs25,000-35,000/t by switching to SS billets as raw material and significantly increase margins from ~13% to ~23%.

**Exhibit 13: Margin accretion post expansion**

Seamless Per tonne Analysis	Pre-Expansion	Post-Expansion
Realisation/t	3,85,000	3,85,000
Hollow pipe cost/t	3,10,000	
SS billet Cost/t		2,40,000
Gross Margin/t	75,000	1,45,000
Operational expenses/t	25,300	22,600
Hollow pipe conversion cost/t		35,000
<b>EBITDA/t</b>	<b>49,700</b>	<b>87,400</b>
<b>Incremental EBITDA/t</b>		<b>37,700</b>

Source: Centrum Broking, Company Data

**GST reimbursement to accrue post capex completion**

The Gujarat Government introduced Gujarat Industrial Policy 2015 to promote industrial development in the state of Gujarat.

As per policy, Venus Pipes is classified as large industrial undertaking with proposed capex of ~Rs1.6bn.

**Exhibit 14: Classification of enterprise**

Sr no.	Type of Enterprise	Capital investment
1)	MSME	Upto Rs0.1bn
2)	<b>Large Industrial Undertaking</b>	<b>Above Rs0.1bn to Rs10bn</b>
3)	Mega Industrial undertaking	Above Rs10bn to Rs40bn
4)	Ultra Mega Industrial undertaking	Above Rs40bn

Source: Centrum Broking, Company Data

The capital investment made by Venus Pipes in expansion projects will be eligible to avail tax incentives.

**Exhibit 15: Time period for consideration of eligible fixed capital investment**

Type of enterprise	Period under consideration
Ultra Mega Industrial undertaking	24 months from DOCP
Mega Industrial undertaking	18 months from DOCP
<b>Large Industrial Undertaking</b>	<b>15 months from DOCP</b>
MSME	12 months from DOCP

Source: Centrum Broking, Company Data, \* DOCP – Date of Commercial production

Venus Pipes comes in 3<sup>rd</sup> category where it can avail 70% of net SGST paid as reimbursement for next 10 years from the date of commercial production from plant. We expect net SGST reimbursement of Rs50mn and Rs70mn to accrue in FY24E and FY25E, respectively.

**Exhibit 16: Criteria to calculate quantum of incentive**

Category of taluka	% of eligible fixed capital investment entitled for incentive	% of net SGST reimbursement to the unit	% of net SGST to be paid to government	Incentive period (no. of years)
1	100	90	10	10
2	80	80	20	10
<b>3</b>	<b>70</b>	<b>70</b>	<b>30</b>	<b>10</b>

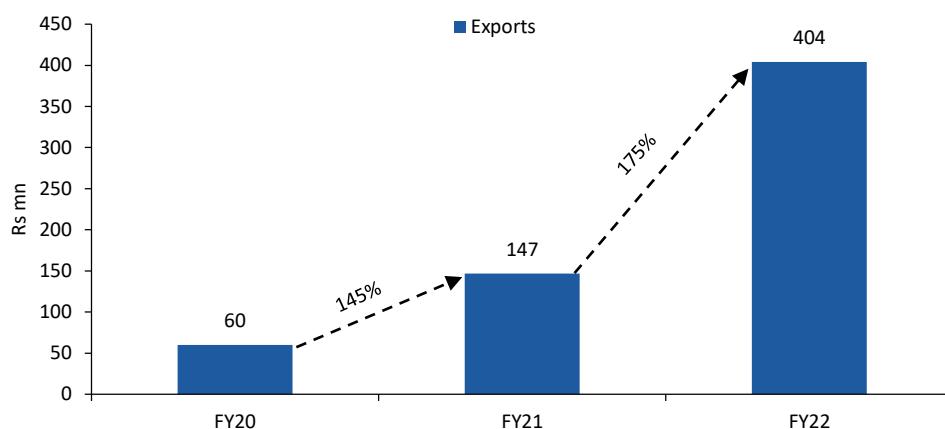
Source: Centrum Broking, Company Data

## Industry Tailwinds

### Revoke of export rebate by China and Russia Ukraine war acted as tailwinds to tap export markets

On May 01, 2021, China revoked tax rebates (13%) to encourage producers to supply more in domestic market. Besides, due to the ongoing Russia Ukraine conflict, the SS pipes supply disruption is aggravated in global market. The supply gap scenario and pricing advantage is favourable for domestic producers to inch up exports in global markets. The exports sales of Venus Pipes increased substantially to Rs404mn in FY22 (vs. Rs147mn in FY21 and Rs60mn in FY20).

**Exhibit 17: Exports up 145% YoY in FY21 and further grew 175% YoY in FY22**

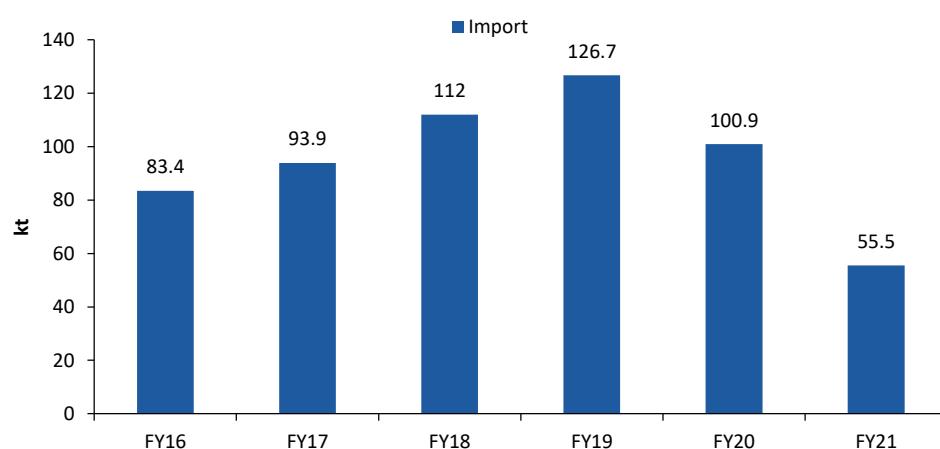


Source: Centrum Broking, Company Data

### BIS certification paved way for higher import substitution

Government of India, in its notification on May 27, 2020, announced compulsory use of input materials which has BIS standard mark accompanied with test certificate for manufacturing of SS pipes. The costlier imports from China and BIS certification requirement are providing competitive advantage to companies having in-house hollow pipe manufacturing capacity to tap import substitution opportunity. Venus Pipes has initiated 100% backward integration capex by setting 9.6ktpa hollow pipe manufacturing plant.

**Exhibit 18: SS pipes imports decreased in FY20 and FY21 due to Covid restrictions**

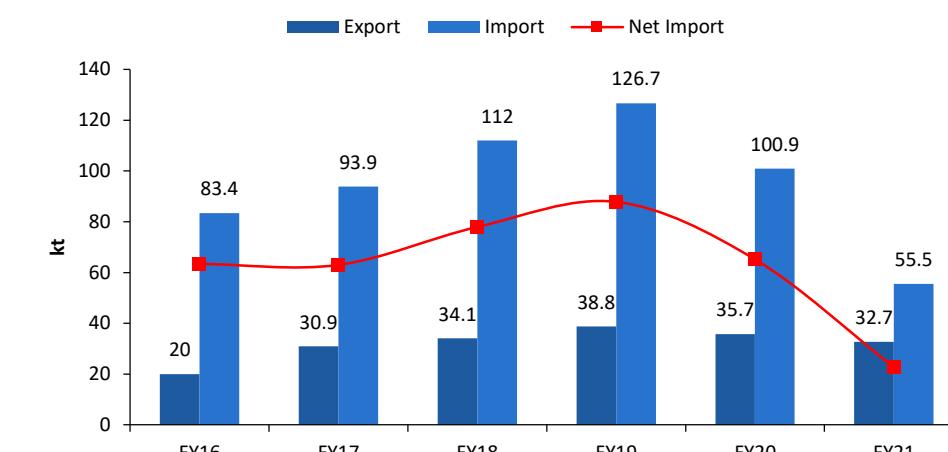


Source: Centrum Broking, Company Data

## DGTR recommends ADD on imports from China for 5 years

Directorate General of Trade Remedies (DGTR) under Ministry of Commerce and Industry has conducted investigation following a complaint from Chandan Steel, Tubacex Prakash India and Welspun Speciality Solutions over dumping of stainless steel tubes and pipes in India. The recommended duty ranges between USD114-3801/t. If anti-dumping duty imposed on China SS pipe export will be major tailwind for industry.

### Exhibit 19: India continue to remain net importer of SS pipes and tubes



Source: Centrum Broking, Company Data

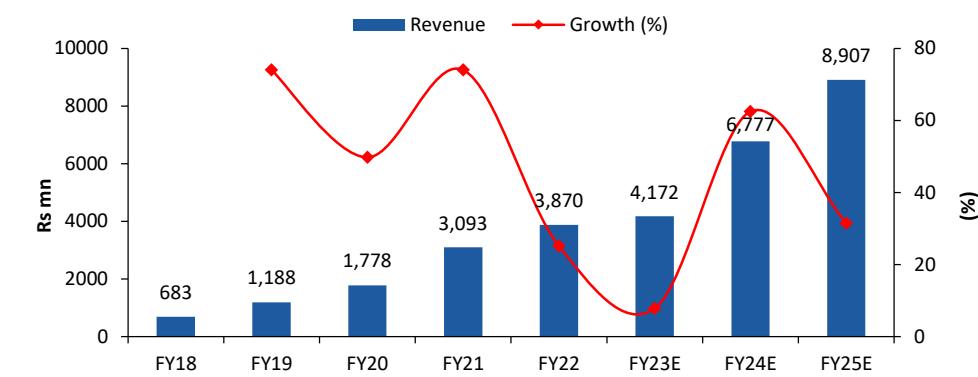
## Financial Analysis

The capacity expansion will enhance product offerings up to higher diameter size and backward integration in seamless pipes will aid higher margins and profitability for the company. Venus Pipes is estimated to record 32% CAGR in net sales and 31% CAGR EBITDA over FY22-25E. Post IPO, equity is diluted by 25% leading to lower return ratios from ~38% RoE and ~27% RoCE in FY22 to 23% RoE and 20% RoCE, respectively in FY25E. Company books 80-85% back-to-back inventory of order backlog, hence we expect WC cycle to remain stretched at 130-150 days.

### Revenue CAGR of 32% over FY22-25E driven by higher volumes

Venus Pipes capacity expansion from 12ktpa to 33.6ktpa will help the company post 32% sales volume CAGR over FY12-25E to 26.8kt. Further, the change in product mix will improve margins. As a result, we estimate revenue CAGR of 32% over FY22-25E to Rs89bn.

**Exhibit 20: Revenue CAGR of 32% over FY22-25E**

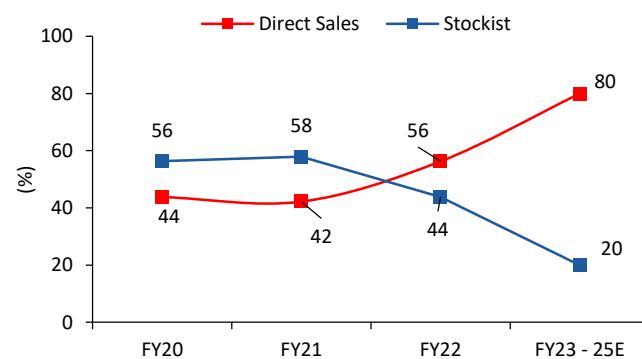


Source: Company Data, Centrum Broking

### EBITDA CAGR of 46% over FY22-25E

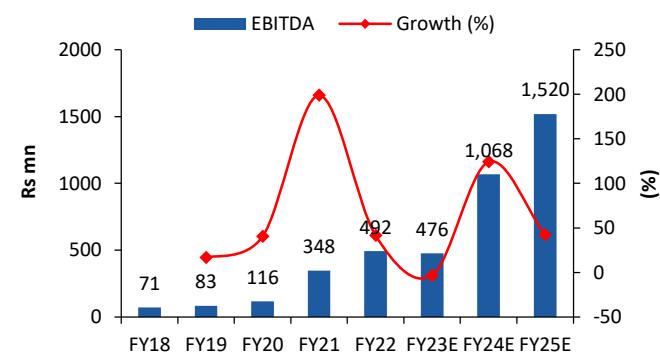
We attribute 81% EBITDA CAGR during FY19-FY22 primarily to the company's volume growth (30% sales volume CAGR) and better sales mix. Venus Pipes focussed on increasing direct and export sales leading from 44% of sales in FY20 to 56% in FY22, while dependence on stockists reduced from 56% in FY20 to ~44% in FY22. We expect direct sales and exports to turn majority of sales mix with 80% and sales to stockists expected to reduce to 20%. Further, in-house manufacturing of high diameter pipes will no longer be required to get done by third party and backward integration into manufacturing of hollow pipes in turn to manufacture seamless pipes will lead to margins expanding by >400bps over FY22-25E. Higher margins of ~17% along with 32% sales volume CAGR will help Venus Pipes to post 46% CAGR over FY22-25E to Rs15.2bn, in our estimate.

**Exhibit 21: Higher share of direct sales to increase margins**

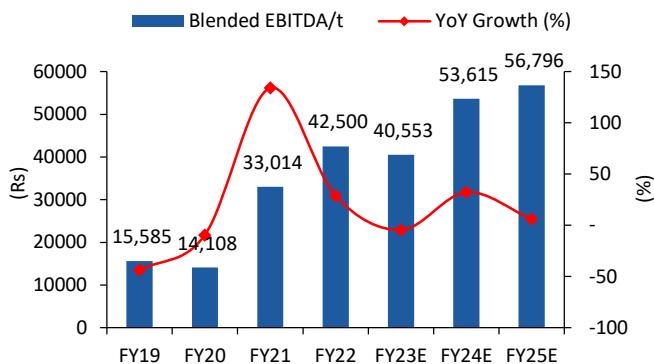


Source: Centrum Broking, Company Data

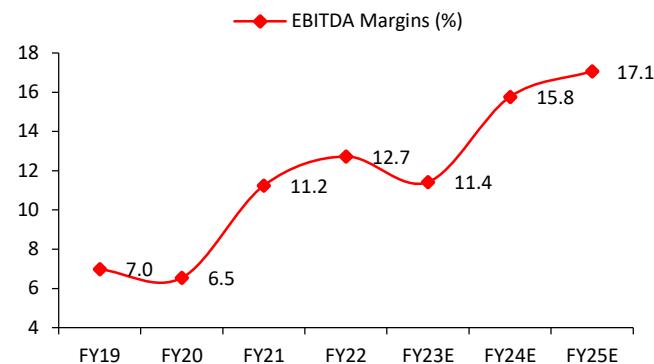
**Exhibit 22: EBITDA to grow at 46% CAGR over FY22-25E**



Source: Centrum Broking, Company Data

**Exhibit 23: EBITDA/t to inch higher**

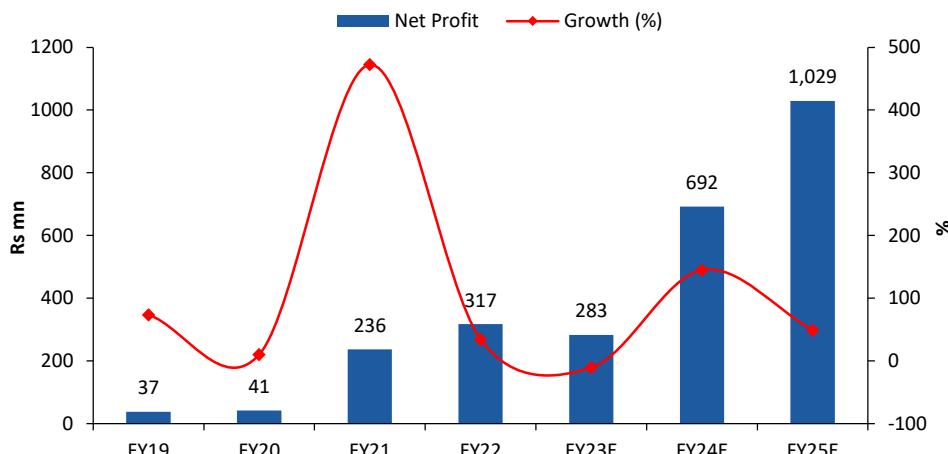
Source: Centrum Broking, Company Data

**Exhibit 24: EBITDA margins rose from 7% to 17% in FY25E**

Source: Centrum Broking, Company Data

**Earnings CAGR of 48% over FY22-25E**

Venus Pipes recorded 104% PAT CAGR over FY19-22, driven by higher operating profits. As the company will increase debt to support capex, interest cost is expected to increase in future. Notably, the tax incentives in form of reimbursement of net SGST to boost other income significantly in FY24E and FY25E. Overall, we expect higher capex related expenses in FY23E while commissioning is expected in Q1FY24, which will lead to ~11% YoY lower profits to Rs283mn in FY23E. Post ramping up, higher operating profit would propel earnings growth at 48% CAGR over FY22-25E to Rs10.3bn.

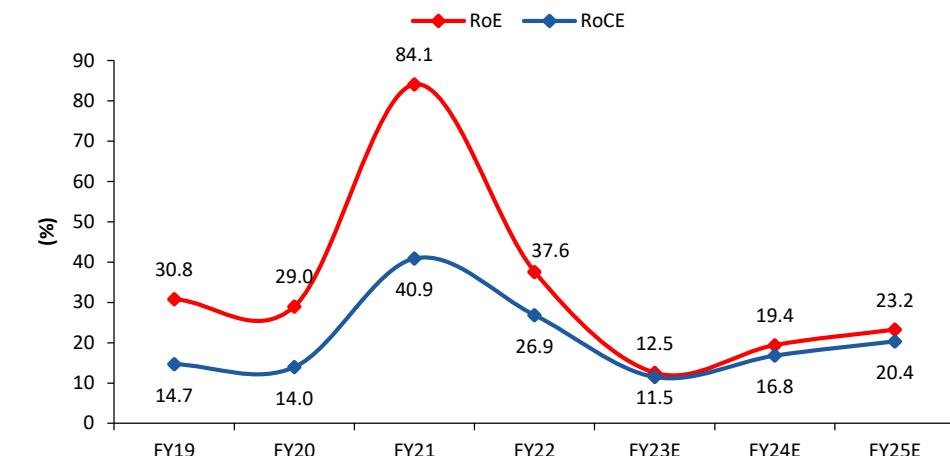
**Exhibit 25: PAT to increase at 48% CAGR over FY22-25E**

Source: Centrum Broking, Company Data

## Despite superior profitability return ratios to moderate due to equity dilution

Venus Pipes has been generating superior RoE of average ~45% over FY19-22 and ~38% in FY22. Steady volume growth, margin expansion and low base are key factors that have enabled such return ratios. Barring FY23E RoE to slide to 12.5% due to equity dilution for raising funds through IPO, we expect Venus Pipes to generate RoE of 19.4% in FY24E and 23.2% in FY25E. We also expect Venus Pipes to clock RoCE of 16.8% in FY24E and 20.4% in FY25E, a substantial surge over 11.5% in FY23E.

**Exhibit 26: ROE and ROCE trend**

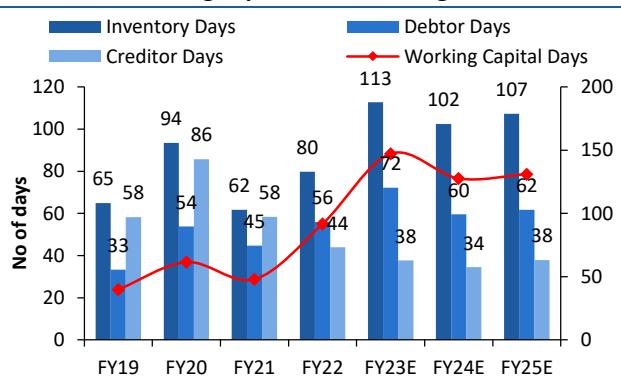


Source: Centrum Broking, Company Data

## Strong balance sheet, capex to be funded via IPO proceeds

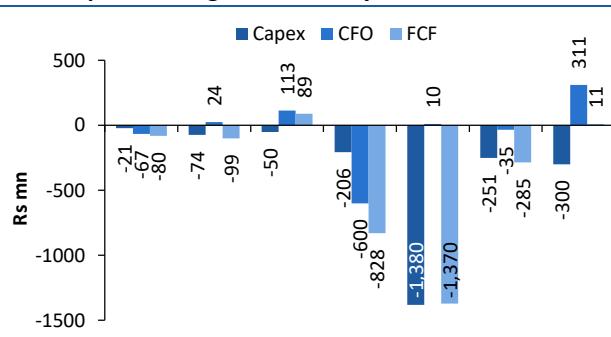
The strong sectoral tailwinds brought improvement in profitability and improved net debt to EBITDA from 3.33x in FY19 to 0.57x in FY25. The company is set to expand capacity by 21.6ktpa and backward integration of 9.6ktpa (capex of Rs1.6bn to be incurred in FY23 and 24E). The company expects to fund this capex largely through IPO proceeds (Rs1.6bn). The working capital days to remain stretched at 130-150 days due to high inventory days of 90-100 days, which remains a concern for the company.

**Exhibit 27: Working capital to remain high at 130-150 days**



Source: Centrum Broking, Company Data

**Exhibit 28: High capex and working capital requirement to keep FCF in negative territory**



Source: Centrum Broking, Company Data

## Funds raised through IPO lead to increase in outstanding shares by 25%

Venus Pipes incorporated with share capital of Rs10 lakhs. For further proceeds, promoters infused capital in company in initial years and later through private placements in Oct-21 and IPO in May-22, which added Rs2336mn largely for business expansion. The IPO led to 25% dilution of the company's outstanding shares.

### Exhibit 29: Timeline of change in outstanding equity shares

Equity Capital	No of shares allotted (in mn)	Nature of allotment	Nature of consideration	Issue price (Rs/sh)	Cumulative no of shares ( in mn)
17-02-2015	0.01	Subscription to MoA	Cash	10	0.01
18-03-2016	2.99		Cash	10	3.00
26-08-2016	2.00		Cash	10	5.00
31-03-2017	1.00		Cash	10	6.00
31-03-2018	2.73		Cash	10	8.73
10-09-2021	4.37	Bonus	Other than cash	0	13.10
21-10-2021	2.12	Private Placement	Cash	280	15.22
24-05-2022	5.07	IPO	Cash	326	20.30

Source: Centrum Broking, Company Data

## Company Background

Venus Pipes & Tubes Ltd (VENUSPIP IN), incorporated in 2015, is a manufacturer and exporter of stainless steel (SS) welded and seamless pipes. It is headquartered at Gandhidham, Gujarat, with ~12,000tpa SS pipe manufacturing plant at Daheti (Kutch), Gujarat. The plant is strategically located which is in close proximity of 50-70km to Mundra and Kandla Ports. The products offered cater to diverse industries like Engineering, Chemicals, Pharmaceuticals, etc.

The company is on expansion spree to become 2<sup>nd</sup> largest player in India by FY24E. The significant increase of ~2.8x in capacity, backward integration into hollow pipes for SS seamless pipe manufacturing and expanding offerings to higher diameter pipes will lead to blended margin expansion of 400-450bps and enable to generate 46% EBITDA CAGR over FY22-25E.

### Exhibit 30: History of the company

Calendar Year	Details
2015	Incorporated on February 17, 2015 as Venus Pipes & Tubes Private Limited.
2015	Established manufacturing plant at Dhaneti, close to Mundra and Kandla Ports.
2015	Commenced the production of stainless steel welded pipes, stainless steel high precision & heat exchanger tubes, stainless steel hydraulic & instrumentation tubes and stainless steel box pipes at our manufacturing plant located at Dhaneti, Kutch, Gujarat.
2017	Addition of stainless steel seamless pipes to production line.
2017	Started exporting stainless steel welded and stainless steel seamless pipes to countries in the European Union, Brazil, UK, Israel, etc.
2017	Registered trademark under Class 6 of Trademarks Act in respect of "manufacturer of stainless steel and carbon steel pipes and fittings" which is valid till 2027.
2021	Conversion from a private limited company to public limited company.
2022	Raised funds through IPO and got listed on stock exchanges on May 24, 2022.

Source: Company, Centrum Broking

## Large marquee clientele

Stainless Steel (SS) is an alloy steel which contains minimum 10.5% chromium. SS pipes are mostly notable for their corrosion resistance, strength and formability. Hence, in highly corrosive and chemical environments, SS pipes form a critical part of the process which carries high failure cost. Therefore, approval from customers is a pre-requisite for this sector and acts as entry barrier in the industry. Venus Pipes, with its capabilities and global accreditations for quality products has emerged to be the leading producer in the industry. It caters to various marquee clientele like EIL, BPCL, BHEL, L&T, ISRO, Tata Projects, etc.

### Exhibit 31: Marquee customers



Source: Centrum Broking, Company Data

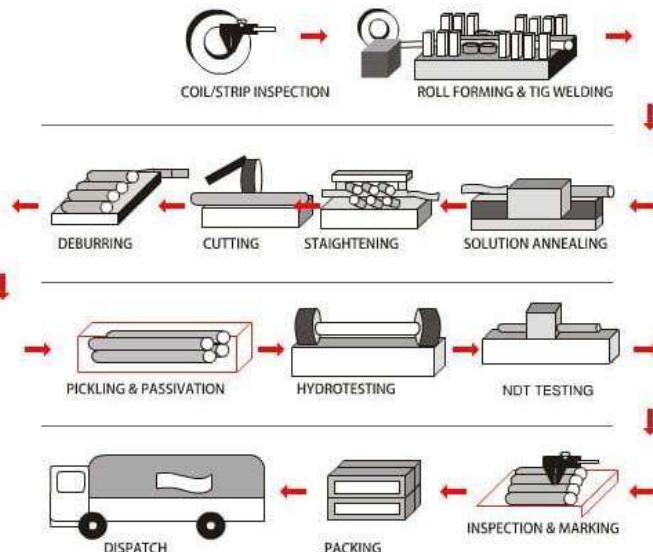
## A niche product portfolio

SS Pipes are mainly used in critical applications mandating low failure rate and long life. It is corrosion resistant, high durable and low on maintenance, hence finds no substitute and fits ideal for critical process areas like high pressure, high temperature and prone to corrosion. The key raw material used in SS welded and seamless pipes are SS Coils and SS hollow pipes/billets. Any increase or decrease in raw material prices is passed on to customers.

### SS welded pipes

SS welded pipes are produced from SS Coils. The coils are processed into plate which is rolled and welded to form welded pipes. Venus Pipes has installed capacity of ~8.4ktpa (1.2ktpa commissioned in June 2022) and manufactures up to 8" inch diameter.

**Exhibit 32: Welded pipe manufacturing process**

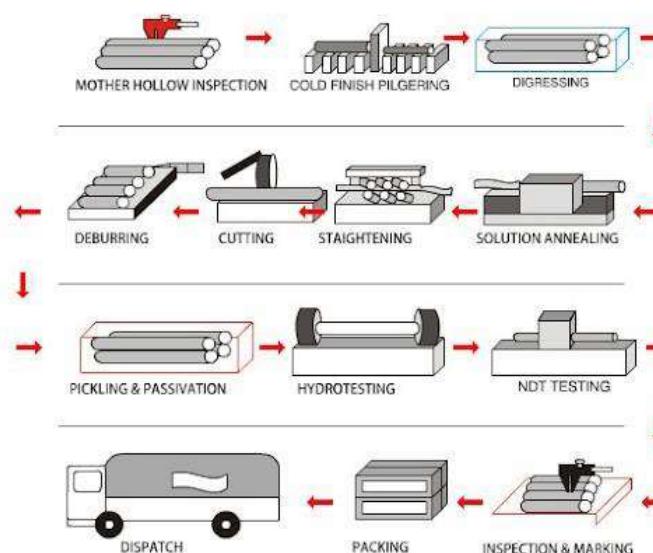


Source: Centrum Broking, Company Data

### SS Seamless pipes

SS Seamless pipes are produced from a SS round bar (billet) which is pierced into a hollow pipe. Venus Pipes has ~3,600tpa capacity and manufactures up to 4" inch diameter.

**Exhibit 33: Stainless Steel Seamless pipe manufacturing process**



Source: Company Data, Centrum Broking

## A dynamic and diversified team

Mr Jayantiram, Mr Arun, Mr Megharam and Mr Dhruv are promoters of Venus Pipes Ltd. Mr Jayantiram (Chairman) and Mr Megharam (Whole Time Director) have deep experience in stainless steel business and look after day-to-day business. Mr Aurn (Managing Director and CFO) looks after financial accounting while Mr Dhruv (Whole Time Director) oversees manufacturing process operations and exports business of company. Under their leadership and rich pool of diversified professionals, Venus Pipes, in a short span of 7 years since incorporation has become prominent player in the industry.

### Exhibit 34: Management Details

Jayantiram Motiram Choudhary	Chairman and Non-Executive Director	Mr Jayantiram, 38 years, is the Chairman, Non-Executive Director and one of the promoters of the company. He has over 10 years of experience in the steel industry and over 4 years of experience as director of Accuracy Shipping Limited.
Arun Axaykumar Kothari	Managing Director & CFO	Mr Arun, 44 years, is the Promoter, Managing Director and CFO of the company. He holds a bachelor's degree in commerce from Rajasthan University and is a qualified chartered accountant since 1998 with ranks in all stages. He manages the entire accounting and financial operations of the Company.
Dhruv Mahendrakumar Patel	Whole Time Director	Mr Dhruv, 36 years, is the Promoter and Whole Time Director of company. He holds a bachelor's degree in engineering from University of Pune and a master's degree in technology from CEPT University. He has over 6 years of experience in the steel industry and overlooks the entire production and export business of company.
Megharam Sagramji Chaudhary	Whole Time Director	Mr Megharam, 39 years, is the promoter and Whole Time Director of company. He has over 15 years of experience in the stainless steel industry.
Kunal Bubna	President (Finance & Accounts)	Mr Kunal is fellow member of ICAI and ICSI. He has over 14 years of experience in accounting and secretarial work.
Shishir Sinha	President (Marketing)	Mr Shishir holds Bachelor in Arts from Magadh University. He has over 30 years experience in stainless steel industry and previously worked as Sr Vice President (Marketing) at Prakash Steelage Ltd.
Bharat Kumar Prajapati	Production – Head	Mr Bharat holds Diploma in Mechanical Engineering. He has over 20 years of experience in pipe industry and previously worked with Tubacex Prakash India Pvt Ltd.
Om Prakash Mishra	Vice President – Operations	Mr Om holds bachelors in engineering from University of North Bengal. He has over 23 years of experience in manufacturing industry and previously worked as a Head (Operations) in Apollo Tricoat Tubes Ltd.

Source: Company, Centrum Broking

P&L					
YE Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenues</b>	<b>3,093</b>	<b>3,870</b>	<b>4,172</b>	<b>6,777</b>	<b>8,907</b>
Operating Expense	2,615	3,150	3,364	5,015	6,579
Employee cost	32	62	91	100	110
Others	99	164	241	594	698
<b>EBITDA</b>	<b>348</b>	<b>492</b>	<b>476</b>	<b>1,068</b>	<b>1,520</b>
Depreciation & Amortisation	10	14	18	102	117
<b>EBIT</b>	<b>338</b>	<b>478</b>	<b>458</b>	<b>966</b>	<b>1,403</b>
Interest expenses	56	71	99	99	99
Other income	27	21	23	70	90
<b>PBT</b>	<b>310</b>	<b>429</b>	<b>383</b>	<b>937</b>	<b>1,394</b>
Taxes	73	112	100	245	364
Effective tax rate (%)	23.6	26.1	26.1	26.1	26.1
<b>PAT</b>	<b>236</b>	<b>317</b>	<b>283</b>	<b>692</b>	<b>1,029</b>
Minority/Associates	0	0	0	0	0
<b>Recurring PAT</b>	<b>236</b>	<b>317</b>	<b>283</b>	<b>692</b>	<b>1,029</b>
Extraordinary items	0	0	0	0	0
<b>Reported PAT</b>	<b>236</b>	<b>317</b>	<b>283</b>	<b>692</b>	<b>1,029</b>
Ratios					
YE Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Growth (%)</b>					
Revenue	74.0	25.1	7.8	62.5	31.4
EBITDA	198.9	41.6	(3.3)	124.2	42.3
Adj. EPS	472.5	(23.1)	(33.1)	145.0	48.7
<b>Margins (%)</b>					
Gross	15.5	18.6	19.4	26.0	26.1
EBITDA	11.2	12.7	11.4	15.8	17.1
EBIT	10.9	12.4	11.0	14.3	15.7
Adjusted PAT	7.6	8.2	6.8	10.2	11.6
<b>Returns (%)</b>					
ROE	84.1	37.6	12.5	19.4	23.2
ROCE	40.9	26.9	11.5	16.8	20.4
ROIC	40.8	26.9	12.2	17.0	19.6
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	12.6	14.0	11.9	3.4	3.9
Debtors	45	56	72	60	62
Inventory	62	80	113	102	107
Creditors	58	44	38	34	38
Net working capital	69	160	225	168	162
<b>Solvency (x)</b>					
Net debt/equity	0.8	0.5	0.1	0.2	0.2
Interest coverage ratio	6.3	7.0	4.8	10.8	15.4
Net debt/EBITDA	1.0	1.2	0.9	0.8	0.6
<b>Per share (Rs)</b>					
Adjusted EPS	27.1	20.8	13.9	34.1	50.7
BVPS	45.7	84.4	158.8	192.9	243.6
CEPS	28.2	21.7	14.8	39.1	56.5
DPS	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
<b>Valuation (x)</b>					
P/E	0.0	0.0	40.7	16.6	11.2
P/BV	0.0	0.0	3.6	2.9	2.3
EV/EBITDA	0.0	0.0	25.1	11.5	8.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Equity share capital	87	152	203	203	203
Reserves & surplus	312	1,133	3,019	3,712	4,741
Shareholders fund	399	1,285	3,222	3,914	4,944
Minority Interest	0	0	0	0	0
Total debt	375	686	986	986	986
Non Current Liabilities	5	6	6	6	6
Def tax liab. (net)	4	7	7	7	7
<b>Total liabilities</b>	<b>784</b>	<b>1,985</b>	<b>4,222</b>	<b>4,914</b>	<b>5,943</b>
Gross block	246	277	351	1,981	2,281
Less: acc. Depreciation	(51)	(65)	(83)	(184)	(302)
Net block	195	213	268	1,797	1,979
Capital WIP	0	74	1,380	0	0
Net fixed assets	196	287	1,649	1,798	1,980
Non Current Assets	3	3	3	3	3
Investments	0	0	0	0	0
Inventories	442	935	1,143	1,671	2,196
Sundry debtors	451	735	914	1,300	1,708
Cash & Cash Equivalents	45	73	559	175	88
Loans & advances	0	0	0	0	0
Other current assets	239	445	477	754	980
Trade payables	424	335	361	586	781
Other current liab.	167	159	164	201	231
Provisions	0	0	0	0	0
Net current assets	585	1,694	2,569	3,113	3,960
<b>Total assets</b>	<b>784</b>	<b>1,985</b>	<b>4,222</b>	<b>4,914</b>	<b>5,943</b>
Cashflow					
YE Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Profit Before Tax	310	429	383	937	1,394
Depreciation & Amortisation	10	14	18	102	117
Net Interest	37	49	99	99	99
Net Change – WC	(240)	(974)	(389)	(928)	(934)
Direct taxes	(7)	(110)	(100)	(245)	(364)
<b>Net cash from operations</b>	<b>113</b>	<b>(600)</b>	<b>10</b>	<b>(35)</b>	<b>311</b>
Capital expenditure	(50)	(206)	(1,380)	(251)	(300)
Acquisitions, net	0	(14)	0	0	0
Investments	14	(14)	0	0	0
Others	12	5	0	0	0
<b>Net cash from investing</b>	<b>(24)</b>	<b>(228)</b>	<b>(1,380)</b>	<b>(251)</b>	<b>(300)</b>
FCF	89	(828)	(1,370)	(285)	11
Issue of share capital	0	569	1,654	0	0
Increase/(decrease) in debt	(51)	311	300	0	0
Dividend paid	0	0	0	0	0
Interest paid	(41)	(53)	(99)	(99)	(99)
Others	0	0	0	0	0
<b>Net cash from financing</b>	<b>(92)</b>	<b>828</b>	<b>1,856</b>	<b>(99)</b>	<b>(99)</b>
Net change in Cash	(3)	(1)	486	(384)	(87)

Source: Company, Centrum Broking

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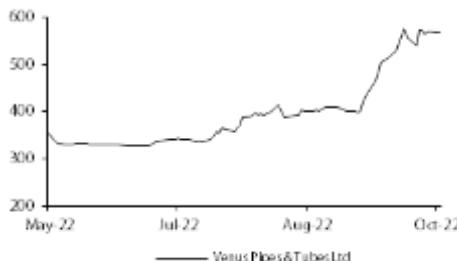
Buy – The stock is expected to return above 15%.

Add – The stock is expected to return 5-15%.

Reduce – The stock is expected to deliver -5-+5% returns.

Sell – The stock is expected to deliver <-5% returns.

#### Venus Pipes & Tubes



Source: Bloomberg

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