

09 May 2022

## Venus Pipes & Tubes – SUBSCRIBE

### Investment Thesis

Venus Pipes & Tubes Ltd. (Venus Pipes & Tubes) is coming out with an initial public offering (IPO) on May 11, 2022. The issue comprises of fresh issue of 5,074,100 equity share. Objective of the issue is to finance capacity expansion, technological upgradation, cost optimization and backward integration for manufacturing of hollow pipes.

Venus Pipes & Tubes is one of the growing stainless steel pipes and tubes manufacturers and exporters in India having over six years of experience in manufacturing stainless steel tubular products in two broad categories, viz, seamless SS pipes & tubes and welded SS pipes & tubes. Currently, Venus Pipes & Tubes manufacturing five product lines, namely, stainless steel high precision & heat exchanger tubes, stainless steel hydraulic & instrumentation tubes, stainless steel seamless pipes, stainless steel welded pipes and stainless steel box pipes. Its products comes under brand name 'Venus', which are used in diverse sectors including chemicals, engineering, fertilizers, pharmaceuticals, power, food processing, paper, oil and gas, etc.. It has one manufacturing plant which is strategically located at Bhuj-Bhachau highway, Dhaneti (Kutch, Gujarat) having a capacity of 10,800 Metric Tons Per Annum (MTPA).

Venus Pipes & Tubes has current production capacity of 10,800 MTPA, of which 3,600 MTPA is dedicated to seamless SS pipes and 7,200 MTPA for welded SS pipes. It has plans to expand its seamless capacity to 9,600 MTPA and welded capacity to 14,400 MTPA. As a result, total capacity would increase by more than double from 10,800 MTPA to 24,000 MTPA. In addition to 9,600 MTPA of new capacity, the company is also looking for backward integration to manufacture hollow pipes. Venus Pipes & Tubes is expanding its existing manufacturing capacity for welded pipes & tubes and seamless pipes & tubes for manufacturing higher diameter welded pipes/ tubes (upto 1219.2 mm) and seamless pipes/ tubes (upto 168.3 mm), to gain competitive advantage over its peers.

### Financials

- During the past 2 years, revenue of Venus Pipes & Tubes grew at a CAGR of 61.4% while PAT grew at a CAGR of 151.0% in same period.

| Standal. (Rs.Mn.) | FY19  | FY20  | FY21  | FY22E | FY23E |
|-------------------|-------|-------|-------|-------|-------|
| Revenue           | 1,188 | 1,778 | 3,093 | 3,557 | 4,091 |
| EBITDA            | 83    | 116   | 348   | 400   | 460   |
| % growth          | NA    | 40.3  | 198.8 | 15.0  | 15.0  |
| PAT               | 38    | 41    | 236   | 272   | 313   |
| EPS (Rs.) #       | 1.8   | 2.0   | 11.6  | 13.4  | 15.4  |
| P/E (x) *#        | 176.4 | 160.3 | 28.0  | 24.3  | 21.2  |
| RoE (%) #         | 15.8% | 14.8% | 45.9% | 49.8% | 53.8% |

\* At highest price band # Post listing

### IPO Details

|                      |                  |
|----------------------|------------------|
| Issue Open Date      | 11 May 2022      |
| Issue Close Date     | 13 May 2022      |
| Price Band (Rs.)     | 310.00 to 326.00 |
| Issue Size (Rs. Mn)* | 1,654.2          |
| Issue Size (Shares)  | 5,074,100        |
| Market Lot           | 46 Equity Share  |
| Listing Exchanges    | BSE and NSE      |
| Face Value (Rs.)     | 10.0/-           |

\* At highest price band

### Key Details

|                                   |   |
|-----------------------------------|---|
| Fresh Issue*                      | 5,074,100 Equity Shares                             |
| Offer for Sales*                  | NIL   |
| Issue Type                        | 100% Book Built Issue                               |
| Book Running Lead Manager         | SMC Capitals Limited                                |
| Issue Structure                   | QIB: 50%<br>Retail: 35%<br>Non – Institutional: 15% |
| Credit of Shares to Demat Account | 23 May 2022   |
| Issue Listing Date                | 24 May 2022   |

\* At highest price band

## Key Business Highlights

- Venus Pipes & Tubes manufactures and exports stainless steel pipes and tubes. It has current production capacity of 10,800 MT per annum in its manufacturing facility located in Dhaneti (Kutch, Gujarat), which is strategically located at around 55 KMs and 75 KMs from Kandla and Mundra ports, respectively.
- Venus Pipes & Tubes has separate divisions for production of seamless and welded stainless steel pipes and tubes. Out of which, 3,600 MTPA is dedicated to seamless SS pipes and 7,200 MTPA to welded SS pipes.
- Due to close proximity to the Kandla and Mundra ports, Venus Pipes & Tubes can procure raw materials and export the products at low logistic costs. It is exporting its products to 18 countries, including Brazil, the UK, Israel, and countries in the European Union.

## Valuation

- Venus Pipes & Tubes procures hollow pipes for manufacturing of seamless stainless steel pipes and apply further processing with applicable standards. Thus, Venus Pipes & Tubes plans to do backward integration and setup 9,600 MTPA piercing line for manufacturing of hollow pipes, which will help in cost saving as well as decrease dependency on open market also. For this facility, it has earmarked fund requirement of Rs.106.21mn from the issue proceeds. This backward integration is expected to help the company to reduce cost by ~Rs.150mn every year at full capacity utilization.
- Central Government has recently announced PLI Schemes which is expected to boost domestic production in the pharmaceuticals, food processing and automobiles sectors translating into a better order book for Venus Pipes & Tubes. From demand perspective, India's growth scenario for steel pipes and tube including SS pipes and tubes remains intact on the back of substantial government expenditure planned in major end user industries under National Infrastructure Pipeline and recently announced PM Gati Shakti project. The various initiatives for infrastructure development under the PM Gati Shakti will propel the demand of steel in various sectors thereby enhancing steel usage and growth of the SS pipes & Tubes. This will help domestic SS pipes & tube industry to grow from about 1.1 Mn tonnes currently to 1.6 Mn Tonnes by 2026, growing at CAGR 8.5%.
- Venus Pipes & Tubes has started exporting its products in 2017 and to increase share in the international market, it has appointed sole distributors in Italy and Kuwait and a marketing representative for servicing European market. Chinese Government's announcement on cancellation of the export rebates on several steel products including welded and seamless steel pipes is expected to benefit domestic pipes and tubes manufacturers like Venus Pipes & Tubes.
- With one of the growing SS pipes and tubes manufacturers and exporters in India, production capacity increase to 24,000 MTPA, backward integration to manufacture hollow pipes and government initiative to boost demand, we are recommending **SUBSCRIBE** to the IPO of Venus Pipes & Tubes Ltd.

## Risk & Concern

- Any further competition from existing or new players may lead to reduced prices which consecutively affect operating margins and market share of Venus Pipes & Tubes negatively.
- Venus Pipes & Tubes generate major share of revenue from its top-10 customers, any loss of 1-2 top-10 customer may negatively impact business growth of the company.
- Venus Pipes & Tubes has not entered into long-term agreements for supply of raw materials, which may lead to uncertainty for raw materials in future.

## Graphs & Charts

Figure 1: Net Sales Trend

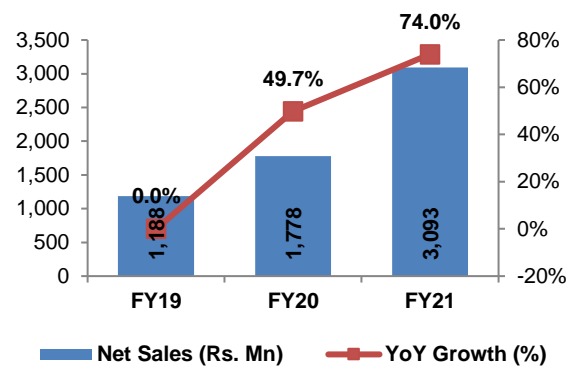


Figure 2: EBITDA & EBITDA Margin Trend

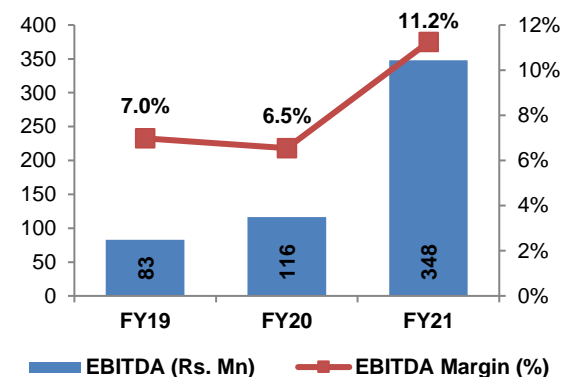


Figure 3: PAT Trend

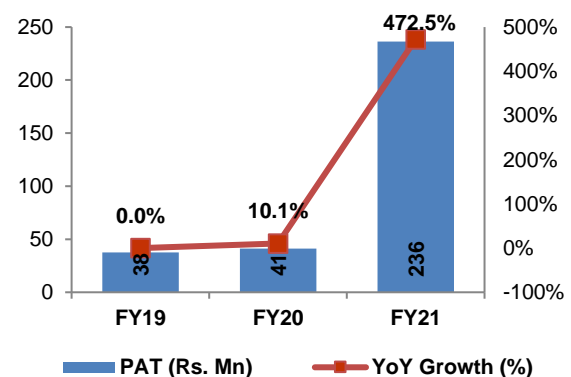
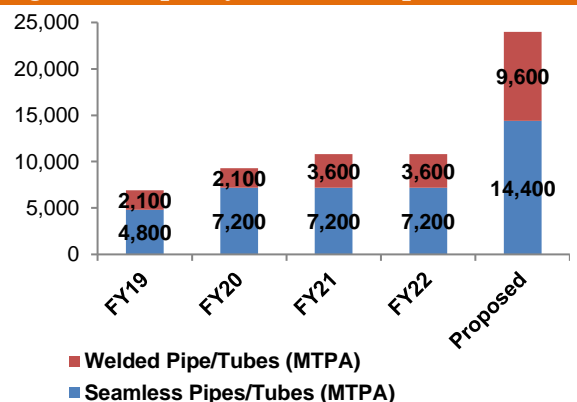


Figure 4: Capacity Trend & Expansion Plan



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