



SUBSCRIBE

IPO Report

07th May' 22

Snapshot

Venus Pipes & Tubes Ltd is one of the growing stainless steel pipes and tubes manufacturer and exporter in India having over six years of experience in manufacturing of stainless steel tubular products in two broad categories: (i) seamless tubes/pipes; and (ii) welded tubes/pipes, under which company is currently manufacturing five product lines.

VALUATION

Company is bringing the issue at price band of Rs 310-326 per share at p/e multiple of 21x on 9Months FY22 eps basis.

Company with international Accreditations and product approvals is specialized in production of Stainless-Steel Pipes and Tubes with multi-fold demand of its Products & Customer Diversification. Hence we recommend "Subscribe" on issue .

Price Band (Rs./Share)	310-326
Opening date of the issue	11th May 2022
Closing Date of the issue	13th May 2022
No of shares pre issue	15,222,010 Eq Shares
No of shares post issue	20,296,110 Eq Shares
Issue Size	50,74,100 Equity Shares
Fresh Issue	50,74,100 Equity Shares
Face Value (Rs/ share)	10
Bid Lot	46

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 2537050 Eq Shares)
Non-Institutional	15% of the offer (Approx 761115 Eq Shares)
Retail	35 % of the offer (Approx 1775935 Eq Shares)
Lead managers	SMC Capitals
Registrar to the issue	KFin Technologies Ltd.

WHAT WE LIKE

Customer Diversification

Company sell its products both in the domestic as well as the international markets. In the domestic market, company sell its products to the end customers as well as traders/stockists while in the international market company supply its products through traders/stockists, authorized distributors and through certain marketing representatives in the European Union market. Company started exporting its products in the year 2017 and as on February 28, 2022 company have exported to 20 countries including countries in European Union, Brazil, UK, Israel etc. In order to increase share in the international market, company have appointed sole distributors in markets like Italy and Kuwait in addition to appointing marketing representatives for the European market.

International Accreditations and product approvals

Company follow international standard manufacturing practises and its manufacturing facility benefits from the quality benchmarking certifications such as (i) ISO 9001:2015, ISO 14001:2015, ISO 45001:2018 from Bureau Veritas, a third-party inspection organization accredited by the United Kingdom Accreditation Service; (ii) certification under the Indian Boiler Regulation ("IBR") for manufacturing and supply of stainless steel seamless and welded pipes; and (iii) PED 2014/68/EU and ADW/AD 2000 –Merkblatt W0 from TUV, which is a requirement for supply in the European Union countries. Such practices and accreditations, coupled with technical capabilities and know-how enable company to manufacture products for both domestic and international customers as per ASTM (US), EN (Europe), JIS (Japan) and DIN (Germany) standards.

Specialised production of Stainless Steel Pipes and Tubes

As company have been catering to customers (both domestic and international) in only one metal segment since its inception, over the years company have built expertise in terms of production process, inventory management and marketing of products in the stainless steel pipes and tubes segment. This gives company the benefit of segment expertise thereby placing company in a position of advantage vis-à-vis its competitors in accurately assessing and responding to customer preferences in this segment as there are very few manufacturers in this single metal product segment.



COMPANY BACKGROUND

Under its brand name “Venus”, company supply its products for applications in diverse sectors including (i) chemicals, (ii) engineering; (iii) fertilizers; (iv) pharmaceuticals, (v) power, (vi) food processing; (vii) paper; and (viii) oil and gas. Company have one manufacturing plant which is strategically located at Bhuj-Bhachau highway, Dhaneti (Kutch, Gujarat) (“Manufacturing Facility”) in close proximity, around 55 kilometers and 75 from the ports of Kandla and Mundra, respectively, that helps in reducing its logistic costs on procurement of raw materials and imports and export of company’s products. Company’s manufacturing Facility has separate seamless and welded divisions with latest product-specific equipment and machineries including tube mills, pilger mills, draw benches, swaging machines, pipe straightening machines, TIG/MIG welding systems, plasma welding systems, etc. As of February 28, 2022, company’s manufacturing facility has a total installed capacity of 10,800 MT per annum. Further, company have a storage facility at its manufacturing facility for the purposes of holding inventories of raw material as well as finished products, in addition to a warehouse facility located at Ahmedabad, which ensures stability of operations.

Company sell its products both in the domestic as well as the international markets. In the domestic market, company sell its products to customers as well as traders/stockists while in the international market company supply its products through traders/stockists and authorized distributors that engage with company on an exclusive basis and certain marketing representatives. Company started exporting its products in the year 2017 and as on February 28, 2022 company have exported to 20 countries including Brazil, UK, Israel and countries in the European Union, etc. In order to increase share in the international market, company have appointed sole distributors in overseas markets like Italy and Kuwait in addition to appointing marketing representatives for the European market.

Details of customer across sectors for the nine-month period ended December 31, 2021 and Fiscals 2021, 2020 and 2019, respectively are as below:

	9months ended Dec'21		FY21		FY20		FY19	
	Rev (in Rs Mn)	% of Revenue	Rev (in Rs Mn)	% of Revenue	Rev (in Rs Mn)	% of Revenue	Rev (in Rs Mn)	% of Revenue
Chemicals	310.47	11.22	573.75	18.55	320.24	18.01	183.99	15.49
Engineering	734.81	26.55	448.22	14.49	291.49	16.39	247.10	20.81
Fertilizers	13.24	0.48	60.94	1.97	26.02	1.46	3.33	0.28
Pharma	10.62	0.38	33.69	1.09	49.16	2.76	26	2.19
Power	4.30	0.16	17.4	0.56	2.29	0.13	6.9	0.58
Food Processing	41.44	1.50	7.58	0.25	12.54	0.7	8.7	0.73
Paper	20.85	0.75	3.11	0.1	0.98	0.06	1.27	0.11
Oil& Gas	2.13	0.08	0.36	0.01	0.82	0.05	1.01	0.09
Others	26.84	0.97	10.41	0.34	14.16	0.8	24.95	2.1
Export	264.06	9.54	147.95	4.78	60.1	3.38	133.95	11.28
Stockist/Traders	1338.93	48.37	1789.90	57.86	1000.28	56.26	550.32	46.34
Grand Total	2767.69	100	3093.31	100	1778.08	100	1187.52	100

Source:RHP



INVESTMENT RATIONALE

<p>Wide international presence</p>	<p>Since inception of business in 2015, company have exported to 20 countries including Brazil, UK, Israel, and countries in the European Union, etc. The revenues from exports aggregated to ₹ 264.06 million, ₹ 147.95 since inception of company's business in 2015, company have exported to 20 countries including Brazil, UK, Israel, and countries in the European Union, etc.</p>
<p>Multi-fold demand of company's products</p>	<p>The demand for company's products in ordinary course of business is generated from three broad categories:</p> <ul style="list-style-type: none"> i. New projects: Company supply its products for new projects across a diversified range of sectors, including but not limited to, oil and gas, pharmaceuticals, engineering, chemical, etc., on a regular basis throughout the year. Company have maintained its presence in these sectors on a consistent basis in the last three financial years and have continued to secure orders both from existing and new customers. ii. Repair and maintenance: Company regularly supply its products to existing / new customers consequent to normal wear and tear of the products being used by them. The frequency of such orders is dependent on the relevant sector and typically an instruction / order is raised to supply a specific number of pieces in order to rectify the deficiency. iii. Replacement: Most of company's products are used in the transportation of highly corrosive fluids, requiring production in compliance with applicable quality standards. Due to their application in highly corrosive environment, these products slowly corrode throughout their calculated design life. After the designed service life of a particular piping bundle of any project is over, it is essential to replace the entire piping with new pipes.
<p>Specialised production of Stainless Steel Pipes and Tubes</p>	<p>As company have been catering to customers (both domestic and international) in only one metal segment since its inception, over the years company have built expertise in terms of production process, inventory management and marketing of products in the stainless steel pipes and tubes segment. This gives company the benefit of segment expertise thereby placing company in a position of advantage vis-à-vis its competitors in accurately assessing and responding to customer preferences in this segment as there are very few manufacturers in this single metal product segment. This focus has well positioned company in attracting and retaining customers with requirements for specialised stainless steel pipes and tubes including continued client interest from emerging sectors like chemical, petrochemicals, engineering, oil and gas, fertilizers, food processing, pharmaceuticals, power etc.</p>



OBJECTS OF ISSUE

Company proposes to utilize the Net Proceeds raised through the Issue for the following objects:

1. Financing the project cost towards capacity expansion, technological upgradation, cost optimization of operations and support to the manufacturing facility and backward integration for manufacturing of hollow pipes;
2. To meet long-term working capital requirements; and
3. General corporate purposes, subject to the applicable laws

RISKS

Company have a diversified customer base and although company do not currently have any material dependency on a single or few customers, its top 10 customers constitute 32.45%, 37.49%, 44.51% and 35.52% of total sales for the nine-months ended December 31, 2021 and for Fiscal 2021, Fiscal 2020 and Fiscal 2019, respectively.

Source:RHP

INDUSTRY OVERVIEW

Indian Steel Pipes and Tubes Industry

Since 2000, steel production in the country has seen a phenomenal increase as the sector witnessed high investments in capacity addition as well as technology upgradation. In 2018, India surpassed Japan to become the second largest steel producer in the world, after China. According to World Steel Association (WSA), India produced 118.13 Mn tons of crude steel in CY 2021 and accounted for 6.1% share in global crude steel production. In 2021, India's crude steel production registered a robust y-o-y growth of 18% against 10% contraction in the previous year while it grew at a CAGR of 4% between 2017-21. On consumption side, India is also the second largest consumer of finished steel. The emergence of a middle-class consumer segment has altered the consumption landscape in India, and with it the industrial production. The country's overall finished steel consumption in India is estimated to have been growing at 7% per annum since 2016 till 2019 to reach 102.6 Mn Tonnes but in 2020, it dropped by 14% against 6% y-o-y growth in 2019. International statistics indicates steel pipes & tube segment constitute ~8% share of the total steel consumption. Subdued industrial activity, and economic uncertainty have dampened the demand scenario, leading to lower consumption. However, economic recovery in 2021 points towards rising consumption of finished steel, consequently driving the steel production. During 10M FY 2022, the country's finished steel production was 21.06% higher than previous year output and it stood at 93.3 Mn tonnes while its consumption was ~15% higher and stood at 86.83 Mn tonnes. Presence of such a vast primary steel manufacturing infrastructure has also helped in the growth of secondary and finished steel products. In pipes& tubes segment, India has emerged as one of the major producers of steel pipes, after Europe and China. The country has a well-developed steel manufacturing industry capable of manufacturing crude steel to value added steel products, including pipes & tubes. Availability of raw material, cheap labor, and ability to produce steel at a low cost have supported India's progress in the steel pipes and tubes industry. As per industry sources, the country's current manufacturing capacity of steel pipes and tubes stands at around 21.5 million tons which is further split into welded, seamless, and casted pipes with respective capacities of 16.3 million tons, 1.5 million tons and 3.7 million tons. Within welded pipes segment, ERW capacity is estimated at 9.5milliontons and SAW pipes at 6.80 million tons.

Growth Outlook

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. It is expected that 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%. This couple with supportive policy reform through scheme like Atmanirbhar Bharat, PLI, amended DMISP policy and Make in India will give push to domestic manufacturing and strengthen the supply side dynamics. However, domestic SS face a major downside risk from rising imports, mainly from low-cost destination like China which is creating material harm to the domestic industry. Given the higher input cost and other overheads, domestic manufacturers find it difficult to compete with Chinese imports based on price. Only government level initiatives, to create a level playing field would help in nullifying this challenge. In addition to above, the high probability of RBI moving away from maintaining accommodative monetary policy amidst rising inflationary pressure may further intense the fresh capital investment in the sector.

(Source:RHP)



(Rs in Mn)

Financials	FY19	FY20	FY21	As at 31 Dec'21
Total Revenue (A)	1187.52	1778.08	3093.31	2767.69
Total Expenditure (B)	1104.59	1661.71	2745.54	2412.57
EBIDTA	82.93	116.37	347.77	355.12
EBIDTA Margin	6.98	6.54	11.24	12.83
Other Income	17.54	15.14	27.00	15.11
Depreciation	19.93	21.10	9.65	10.58
EBIT	80.54	110.41	365.12	359.65
Interest	31.09	45.54	55.61	42.61
PBIT	49.45	64.87	309.51	317.04
E/O Items	0.00	0.00	0.00	0.00
PBT	49.45	64.87	309.51	317.04
Tax	11.96	23.58	73.18	81.09
PAT	37.49	41.29	236.33	235.95
NPM	11.96	23.58	73.18	81.09
ROE %	30.80	25.37	59.18	19.58
EPS	4.29	4.73	27.06	15.50
Eq Cap	87.33	87.33	87.33	152.22
Net Worth	121.74	162.76	399.32	1204.82
EPS	2.46	2.71	15.53	15.50
BV	13.94	18.64	45.73	79.15

(Source:RHP)

Peer Comparison

Company Name	OPM%	ROE %	PE	PBV
Jindal Saw	11.65	4.77	6.12	4.68
Ratnamani Metals	17.39	14.93	32.09	4.82
Venus Pipes	12.83	19.58	---	---

(Source:Ace Equity database as on 05th May'22)



DISCLAIMER

HEM Securities Limited ("Research Entity or HSL") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services, merchant banking services, Portfolio Management Services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.