

## Venus Pipes and Tubes Ltd

### An evolving growth story

Venus Pipes and Tubes (Venus), incorporated in 2015, is the growing manufacturer and exporter of stainless steel (SS) pipes and tubes located at Kutch, Gujarat. It manufactures seamless and welded tubes/pipes and has an installed capacity of 10,800tpa. During FY19-21, it has grown well with sales CAGR of 61% to Rs3.09bn and EBITDA CAGR of 105% to Rs348mn in FY21. The future growth lies in backward integration as well as volume expansion. Venus is in the process of increasing SS pipes capacity from 10,800tpa to 24,000tpa as well as backward integrating too which will help in cost saving. The plant is expected to be commissioned by FY23-end via proceeds from fresh issue.

#### Details of the issue

The company proposed to raise Rs1.57-1.65bn by issuing fresh shares (upto 5.074mn). Management indicated the IPO price band of Rs310-326/share, implying market cap of Rs6.3bn-6.9bn. Out of the net proceeds, Venus intends to use ~Rs1.08bn to fund ongoing capacity expansion and ~Rs250mn for working capital requirement and general corporate purposes.

#### Impressive growth in short term; operating performance to improve further

During FY19-21, it has grown well with sales CAGR of 61% to Rs3.09bn and EBITDA CAGR of 105% to Rs348mn in FY21. During 9MFY22, it has already surpassed FY21 numbers and recorded EBITDA of Rs355mn. The EBITDA margins improved from ~7% in FY19 to ~12.8% in 9MFY22. Blended EBITDA/t inched up sharply from ~Rs19,813/t in FY19 to ~Rs38,906/t in Q1FY22. As a result, PAT increased by ~94% CAGR to Rs272mn. Significant higher earnings improved return ratios. ROE improved sharply from 31% in FY19 to 59% in FY21 while ROCE improved from 14.7% in FY19 to 36% in FY21.

#### Doubling SS pipes capacity by FY23 end, backward integrating helps in securing growth

Venus has a manufacturing plant having installed capacity of 10,800tpa of SS pipes and tubes at Kutch, Gujarat. It has high diameter welded pipes of 7,200tpa (66%) and high diameter seamless pipes of 3,600tpa (33%). The capacity utilization has improved from average 61% in FY19 to 92% in FY21. Venus has embarked to expand capacity to 24,000tpa, expected to be commissioned by FY23 end. Post commissioning, welded pipes will be 14,400tpa (60%) and seamless pipes 9,600tpa (40%). The capital outlay required for expansion project is ~Rs1060mn funded through IPO proceeds. Future growth will be fueled from both volume expansion as well as cost saving on account of backward integration as it is setting up 9,600tpa piercing plant for seamless pipes which can help in saving Rs15-20k/t (at full capacity utilization, can save ~Rs150mn).

#### Our view: Rough calculation suggests ~20% upside to IPO price

The balance sheet is strong with net debt/EBITDA of 1x (FY19: 3.5x). Venus has the potential to generate EBITDA of Rs900mn-1bn/year (~2x from FY22 annualized EBITDA) at full capacity which can happen in FY25. The EBITDA increase should happen on volume expansion (capacity increasing from 10,800tpa to 24,000 tpa), improved customer mix by shifting sales from stockiest to direct sales/tender based, backward integration and improving operating efficiencies. It can generate net profits of ~Rs600mn (assuming EBITDA of ~Rs900mn). Assigning 14x (30% discount to Ratnamani Metal and Tubes's FY24 consensus P/E), potential market cap could be ~Rs8.4bn, providing ~20% upside.

IPO Note

India I Metals & Mining

5 May 2022

Not Rated

Price: NA

Target Price: NA

Institutional Research

#### Details of offer

Particulars	Details
Price Band (Rs/sh)	Rs310-326
Opening date of the issue	11 <sup>th</sup> May 2022
Closing date of the issue	13 <sup>th</sup> May 2022
No. of shares pre issue	15.2mn
No. of shares post issue	~20.3mn
Fresh Issue	Upto 5.074mn
Offer for Sale	
Issue Size	Rs 1.57-1.65bn
Book Building QIBs	50%
Non-Institutional	15%
Retail	35%
Source: Company	

Shareholding Pattern	Pre Issue	Post Issue
Promoter %	64.27	47.35
Public %	35.73	52.65
Total	100	100

Source: Centrum Broking

Metals & Mining

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## Venus existing capacity and expansion plans

Venus has manufacturing plant at Dhaneti, Kutch in Gujarat, having installed capacity of SS pipes and tubes of 10,800tpa. It manufactures welded as well as seamless SS pipes. Venus is amid increasing the overall SS pipes capacity to 24,000tpa and increase product offerings of different sizes and higher diameter. Welded pipes capacity is proposed to increase from existing 7,200tpa to 14,400tpa and seamless pipes from 3,600tpa to 9,600tpa. It is expected to be completed by FY23 end at total capex of Rs1060mn.

### Exhibit 1: Capacity expansion

Capacity (tpa)	Current Capacity	Capacity Addition	Total
<b>Total</b>	<b>10,800</b>	<b>13,200</b>	<b>24,000</b>
High diameter welded pipe	7,200	7,200	14,400
High diameter seamless pipe	3,600	6,000	9,600
Piercing plant	-	9,600	9,600

Source: Company, Centrum Broking

### Exhibit 2: Capex Estimate

Particulars	Estimated cost (in Rs mn)
Civil and covered structure	226.53
Plant and machineries	781.62
Contingency	51.75
<b>Total</b>	<b>1,059.9</b>

Source: Company, Centrum Broking

## Setting up piercing mill for backward integration

In order to enhance backward integration, Venus is setting up piercing plant with capacity of 9600tpa. This will help in manufacturing of hollow pipes from SS round bars which is raw material for seamless pipes. Currently it buys hollow pipes from market. 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 reduce down time and enhance productivity. With increase in existing capacity, Venus intend to setup additional effluent facility along with existing plant to ensure compliance with pollution norms.

### Exhibit 3: Raw material sourcing

Raw Material sourcing	FY19	FY20	FY21
Domestic %	77.6	88.4	74.5
International %	12.9	5.5	14.3
High Seas %	9.5	6.2	11.2

Source: Company, Centrum Broking

## Margins can improve from high direct orders

Venus's majorly sells their products via stockist/ traders with it contributing ~48% of revenue in 9MFY22. With expansion in high diameter pipes and its growing acceptance in market, we expect direct orders will increase in future and reduce dependence on stockist and hence may aid in margin expansion.

### Exhibit 4: Revenue bifurcation

Sector	FY19 % of Revenue		FY20 % of Revenue		FY21 % of Revenue		9MFY22 % of Revenue	
Chemicals	184	15.5	320	18.0	574	18.5	310	11.2
Engineering	247	20.8	291	16.4	448	14.5	735	26.6
Fertilizers	3	0.3	26	1.5	61	2.0	13	0.5
Pharma	26	2.2	49	2.8	34	1.1	11	0.4
Power	7	0.6	2	0.1	17	0.6	4	0.2
Food Processing	9	0.7	13	0.7	8	0.2	41	1.5
Paper	1	0.1	1	0.1	3	0.1	21	0.8
Oil & Gas	1	0.1	1	0.0	0	0.0	2	0.1
Others	25	2.1	14	0.8	10	0.3	27	1.0
Export	134	11.3	60	3.4	148	4.8	264	9.5
Stockist/ traders	550	46.3	1000	56.3	1790	57.9	1,339	48.4
<b>Total</b>	<b>1,188</b>		<b>1,778</b>		<b>3,093</b>		<b>2,768</b>	

Source: Company, Centrum Broking

## Earnings growth led by capacity ramp up

Venus has been consistently adding capacities albeit at a slower pace as they were new and were in the process of establishing themselves. During FY19, total capacity of SS pipes was 6,900tpa, which increased by 2,400tpa to 9,300tpa in FY20 and by 1,500tpa to 10,800 tpa in FY21. Venus tapped new demand markets and exports opportunities and quickly ramped-up capacity utilisation from 68% in FY19 to ~90% in FY21 despite addition to capacity levels in welded pipes. Similarly, it ramped up capacity utilisation in seamless pipes from 43% in FY19 to 92% in FY21. As a result, total pipes production increased significantly by 54% CAGR over FY19-FY21 to 9,901t. With further capacity expansion to 24,000 tpa by FY23-end, we see volume growth from FY24 onwards.

### Exhibit 5: Volume data

(tpa)	FY19	FY20	FY21	Q1FY22	FY22E (Annualised)
<b>Capacity</b>					
Seamless Pipe	2,100	2,100	3,600	3,600	9,600
Welded Pipe	4,800	7,200	7,200	7,200	14,400
<b>Total</b>	<b>6,900</b>	<b>9,300</b>	<b>10,800</b>	<b>10,800</b>	<b>24,000</b>
<b>Production</b>					
Seamless Pipe	903	1,250	3,311	767	8,181
Welded Pipe	3,283	6,436	6,590	1,636	13,088
<b>Total</b>	<b>4,186</b>	<b>7,686</b>	<b>9,901</b>	<b>2,403</b>	<b>21,360</b>
<b>Capacity Utilisation %</b>					
Seamless Pipe	43	60	92	85	85
Welded Pipe	68	89	92	91	91
<b>Total</b>	<b>61</b>	<b>83</b>	<b>92</b>	<b>89</b>	<b>89</b>

Source: Company, Centrum Broking

## Backward integration and cost optimisation to improve margins

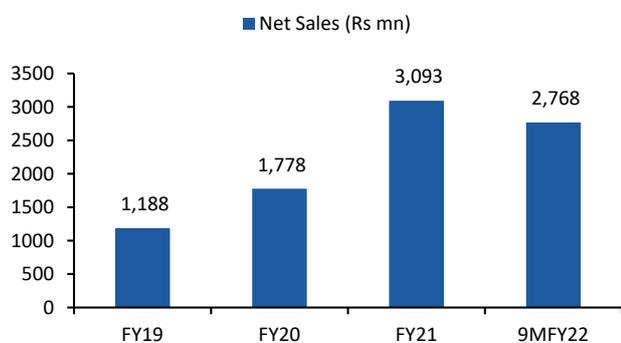
Presently, Venus procures hollow pipes for manufacturing of seamless stainless steel pipes. It requires further processing for bringing in conformity with applicable standards. Hence as cost saving strategy, company intends to setup 9,600tpa piercing line for manufacturing of hollow pipes. With this facility, it can produce hollow pipes from SS round bars. The capex to be spend is Rs113.64mn on it. This will help to reduce cost by Rs15-20k/t (at full capacity utilization, can save ~Rs150mn).

## 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 3.51x in FY19 to 0.99x in Q1FY22. ROE also witnessed improvement from 30.8% in FY19 to 59% in FY21. Further, focusing on expanding capacity, Venus has undertaken capex of Rs1,060mn primarily through IPO proceeds in FY23.

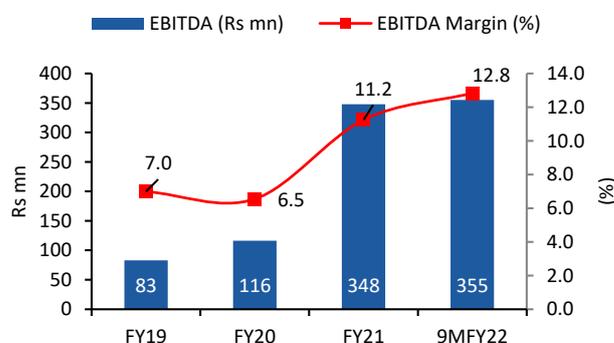
The Cash conversion cycle is stressed at 72 days in Q1FY22 vs 55 days in FY21 due to high inventory level of 68 days in Q1FY22 which remains concern for the company.

**Exhibit 6: Sales grew by 61% CAGR over FY19-FY21**



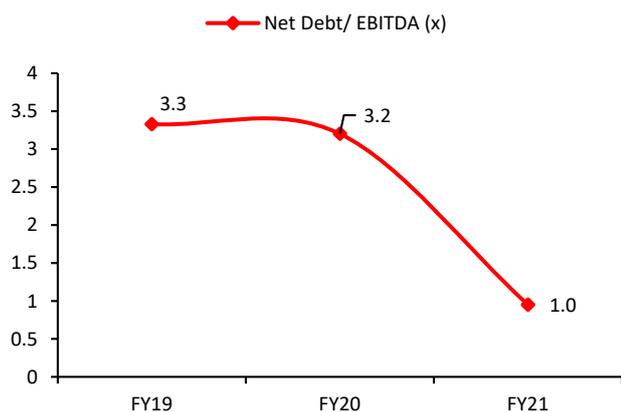
Source: Centrum Broking, Company Data

**Exhibit 7: EBITDA rose by 105% CAGR over FY19-FY21**



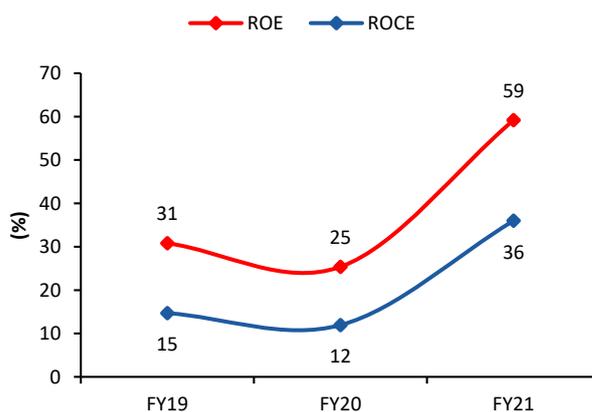
Source: Centrum Broking, Company Data

**Exhibit 8: Higher profits improving leverage ratio**



Source: Centrum Broking, Company Data

**Exhibit 9: Robust return ratios**



Source: Centrum Broking, Company Data

**Exhibit 10: Financial Snapshot**

Particulars (Rs mn)	FY19	FY20	FY21	9MFY22	CAGR FY19-FY21
<b>Revenue</b>	<b>1,188</b>	<b>1,778</b>	<b>3,093</b>	<b>2,768</b>	<b>61.4</b>
Other Income	17	15	27	15	
Total Income	1,205	1,793	3,120	2,783	
<b>EBITDA</b>	<b>83</b>	<b>116</b>	<b>348</b>	<b>355</b>	<b>104.8</b>
EBITDA Margin %	7.0	6.5	11.2	12.8	
<b>EBITDA/t</b>	<b>19,814</b>	<b>15,139</b>	<b>35,124</b>		
Depreciation	20	21	10	11	
EBIT	80	110	365	360	
Interest Cost	31	46	56	43	
PBT	49	65	310	317	
Tax	12	24	73	81	
<b>Net profit after tax</b>	<b>38</b>	<b>41</b>	<b>236</b>	<b>236</b>	<b>151.0</b>
<b>Earnings per share</b>					
<b>Basic</b>	4.3	4.7	27.1	15.5	
<b>Diluted</b>	4.3	4.7	27.1	15.5	
<b>Share capital</b>	87	87	87	87	
<b>Net worth</b>	<b>122</b>	<b>163</b>	<b>399</b>	<b>635</b>	
Total Borrowings	294	426	375	500	
Cash flow from operating activities	-67	24	113	-580	
Cash flow from investing activities	-14	-124	-24	485	
Cash flow from financing activities	77	100	-92	95	
Net increase/ (decrease) in cash & cash equivalent	-3	1	-3	-0	
Cash & cash equivalents	18	54	45	73	
<b>Net Debt</b>	<b>276</b>	<b>373</b>	<b>330</b>	<b>427</b>	
<b>Net Debt/EBITDA(x)</b>	3.3	3.2	1.0		
<b>ROE %</b>	31	25	59		
<b>ROCE %</b>	14.7	11.9	36.0		

Source: Company Data, Centrum Broking

**Exhibit 11: Management Profile**

<b>Jayantiram Motiram Choudhary</b>	Chairman and Non-Executive Director	He has been associated with our Company since its incorporation as a Director. He does not have any formal education degree. He has over ten (10) years of experience in the steel industry and over four (4) experience as a director of Accuracy Shipping Limited.
<b>Arun Axaykumar patel</b>	Managing Director & CFO	He has been associated with our Company since September 14, 2021 as a Director. He holds a bachelor’s degree in commerce from Rajasthan University and has been a qualified chartered accountant since 1998. He looks after and manages the entire accounting and financial operations of our Company
<b>Dhruv Mahendrakumar Patel</b>	Whole Time Director	He has been associated with our Company since 2015. 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 six (6) years of experience in the steel industry. He manages the entire production and also looks after the export of our Company.
<b>Kailash Nath Bhandari</b>	Independent Director	He has been associated with our Company since October 19, 2021. He holds a bachelor’s degree in law from Jodhpur University. He has over eighteen (18) years of experience in the insurance sector. He is also on the Board of Hindalco Industries Limited as an independent director among others.
<b>Shyam Agrawal</b>	Independent Director	He has been associated with our Company since October 19, 2021. He also holds a doctorate in law from University of Rajasthan. He was the national president of the ICSI, New Delhi in the year 2017 and International Secretary of Corporate Secretaries International Association (“CSIA”), Hong Kong for the year 2017–18. He has over fifteen (15) years of experience as a practicing company secretary.
<b>Komal Lokesh Khaderia</b>	Independent Director	She has been associated with our Company since October 19, 2021. She has over nine (9) years of experience as a qualified company secretary.
<b>Pranay Ashok Surana</b>	Independent Director	He holds a bachelor’s in technology and master’s in technology degree in mechanical engineering from the Indian Institute of Technology, Bombay. He has over five (5) years of experience in the technology sector.

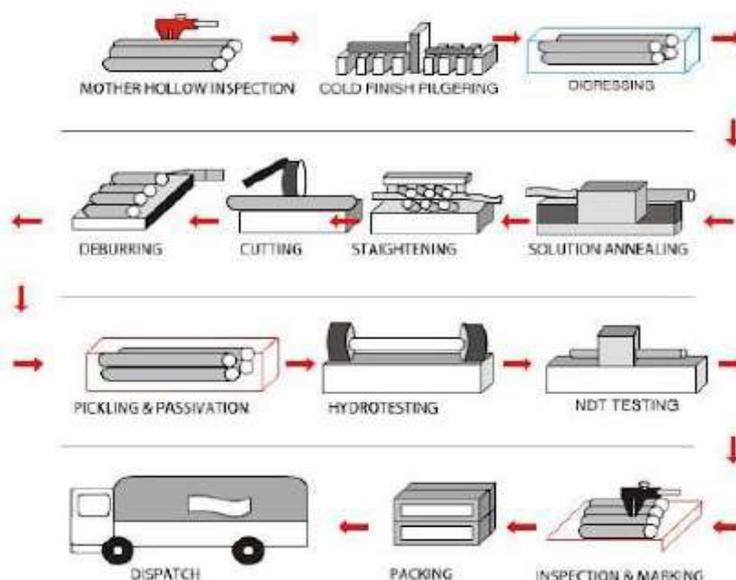
Source: Company, Centrum Broking

**Exhibit 12: History of the company**

Calendar Year	Details
2015	Incorporation of our Company
2015	Established manufacturing plant at Dhaneti, Bhuj-Bhachau highway, close to Mundar 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 our 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.

Source: Company, Centrum Broking

**Exhibit 13: Seamless pipes manufacturing process**



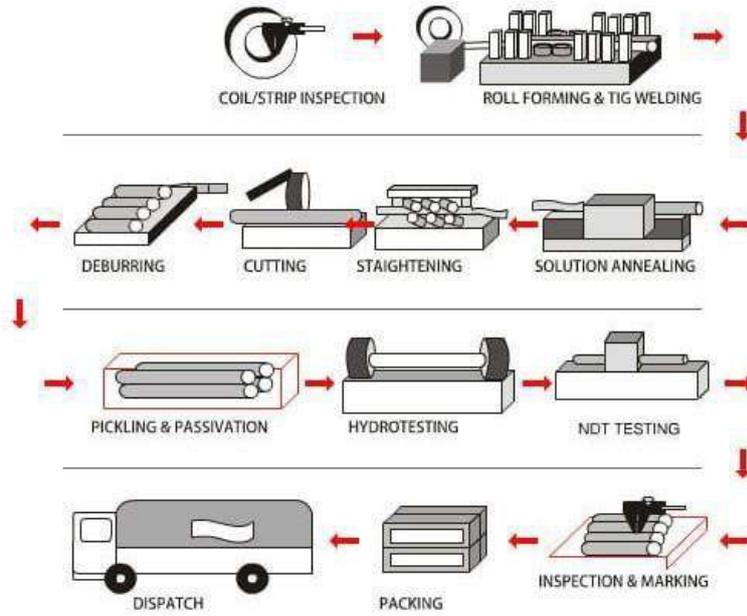
Source: Company, Centrum Broking

**Exhibit 14: Seamless pipes manufacturing process details**

Step	Reference	Applicable Method	Process Description
Step 1	Mother Hollow Inspection		A hollow pipe is the raw material used for the production of seamless pipes and tubes. Prior to processing, a basic inspection is done for the purposes of approving the usage of the hollow pipe in the production process, in which the same is inspected for its mechanical and chemical properties. Further, it is also visually checked for any surface defects, and if found acceptable, is sent for further processing.
Step 2	Cold Finish Pilgering	<b>Method 1</b>	It is a longitudinal cold-rolling process for reduction of the diameter and wall thickness of metal tube in one process step. Depending on the material, the cold pilger process achieves cross-section reductions of more than 90 percent in a single working cycle.
	Coating	<b>Method 2</b>	An oxalate coating operation is carried out by dipping the hollow pipe in oxalate at a prescribed temperature/time (as per applicable product standards) This operation is carried out for formation of a lubrication film on the hollow pipe for the purposes of easing the cold drawing process.
Step 3	Degreasing	<b>Method 1</b>	The pilgered tubes/pipes undergo degreasing and cleaning for the purposes of removing oil, grease and other foreign particles from such tubes/pipes.
	Cold Drawing	<b>Method 2</b>	The cold drawing process is carried out for the purposes of reducing the cross-sectional diameter and thickness of the tubes/pipes (as required) and increasing the tensile strength of the product by drawing through successively smaller dies.
Step 4	Solution Annealing		Solution annealing, a common heat-treatment process for different families of metals (including stainless steel) is carried out for the purposes of dissolving any precipitates present in the material and transforming the material into a single phase structure. This process is commonly used for the purposes of removing internal stress, restoring ductility, softening the metal for cold working and enhancing electrical conductivity, which can improve machinability and properties of stainless steel.
Step 5	Cutting and Straightening		Pipes are cut in desired specifications using a straightening machine/hydraulic press for the purposes of applying pressure points and straightening any unwanted bent areas, including deformations occurring during the heat treatment process.
Step 6	Deburring		A secondary process of deburring is undertaken for the purposes of enhancing the final product quality by removing raised edges and unwanted pieces of material, known as burrs, left by the initial machining processes including shearing, bending, cutting, piercing, and compressing materials. The process polishes the edges and the surface of the work piece for achieving a completely smooth finish.
Step 7	Pickling and Passivation		<i><b>Pickling:</b></i> A series of surface treatment processes, known as pickling, are carried out on the inner and outer surface of the pipes using a combination of acids with a small addition of a corrosion inhibitor or active agent, for the purposes of removing oxides scales and grease from the surface of the pipe by chemical action in order to obtain a clean and shiny metal surface.  <i><b>Passivation:</b></i> A non-electrolytic finishing process known as Passivation is carried out for the purposes of improving the corrosion and rust resistance properties of stainless steel  manufacturing subsequent to manufacturing. Corrosion resistance is critical for metal used in a variety of applications where contamination may have a destructive impact during production or during a product's end use. Though raw stainless steel begins with a high level of corrosion resistance, surface contamination from grease and oil, debris, and chemicals are usually present on parts and components after machining. The Passivation process clears away these contaminants and enhances the corrosion resistance of stainless steel.
Step 8	Hydrotesting		A pressure test known as the Hydrostatic (HYDRO) test is carried out for testing the products for their strength and leaks. The procedure involves filling the test product with a liquid (water) and pressurising it to a specified pressure (as per applicable product standards), subsequent to which the pressure is held for a specific amount of time to visually inspect the system for any leaks.
Step 9	NDT Testing		A testing/analysis technique, namely Non-destructive testing (NDT) is applied for the purposes of evaluating the properties of the materials, components, structures or systems for identification of characteristic differences/welding defects/discontinuities.
Step 10	Inspection and Marking		A physical inspection of the products is carried out and subsequently product markings are applied on each pipe/tube by way of stenciling/inkjet. Further, additional markings are applied as per the customer purchase orders and specifications. Subsequent to the markings, a tag is applied to the lot of tubes/pipes and the materials inspected are hard stamped/electro-etched, as applicable on pipes/tubes or on tag of the bundle.
Step 11	Packing		On receipt of the final product from the quality department, the packaging department verifies the tag and matches the same with the size and quantity of the product to be packed. Thereafter, the product is packed in a wooden box/hessian cloth/plastic wrapping based on packaging instructions and a copy of the packing list is kept inside the packaging.
Step 12	Dispatch		The details of the products are then entered in the dispatch register as per the applicable delivery schedule and thereafter the products are loaded into transportation for delivery.

Source: Company, Centrum Broking

**Exhibit 15: Welded pipes manufacturing process**



Source: Company, Centrum Broking

**Exhibit 16: Welded pipes manufacturing process details**

Step	Reference	Process Description
Step 1	Coil/Strip Inspection	On receipt of the raw material, a sample testing typically called the coil/strip inspection is carried out as per ordered specifications. In case the raw material passes the test the same is segregated basis its quality and standards and thereafter utilized for manufacturing the final product as per customer specification.
Step 2	Roll Forming and TIG Welding	Subsequent to the coil/strip inspection, the following two process are carried on the coil/strip: <u>Roll Forming</u> : In this process, incremental bending to a continuous fed strip of metal is carried out by using a set of precisely placed rollers (which are mounted in sets on a consecutive stand). The process begins with a large coil of sheet metal that can be from 50 mm to 700 mm wide with a thickness of 1mm to 8 mm.
		<u>TIG Welding</u> : The Tungsten Inert Gas (“TIG”) is an inert gas welding process used to join metals by creating a weld in a roll formed shape by way of heat being generated by an electric arc between the metals to be joined and an infusible tungsten-based electrode, located in the welding torch. The arc area is shrouded in an inert or reducing gas shield to protect the weld pool and the tungsten electrode. The filler metal as a rod (if required) is applied automatically by the welder into the weld pool and as the rolled form exits the rollers, and before it is cut, it is automatically welded.
Step 3	Solution Annealing	Solution annealing, a common heat-treatment process for different families of metals (including stainless steel) is carried out for the purposes of dissolving any precipitates present in the material and transforming the material into a single phase structure. This process is commonly used for the purposes of removing internal stress, restoring ductility, softening the metal for cold working and enhancing electrical conductivity, which can improve machinability and properties of stainless steel.
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Step 6	Pickling and Passivation	<u>Pickling</u> : A series of surface treatment processes, known as pickling, are carried out on the inner and outer surface of the pipes using a combination of acids with a small addition of a corrosion inhibitor or active agent, for the purposes of removing oxides scales and grease from the surface of the pipe by chemical action in order to obtain a clean and shiny metal surface.
		<u>Passivation</u> : A non-electrolytic finishing process known as Passivation is carried out for the purposes of improving the corrosion and rust resistance properties of stainless steel manufacturing subsequent to manufacturing. Corrosion resistance is critical for metal used in a variety of applications where contamination may have a destructive impact during production or during a product’s end use. Though raw stainless steel begins with a high level of corrosion resistance, surface contamination from grease and oil, debris, and chemicals are usually present on parts and components after machining. The Passivation process clears away these contaminants and enhances the corrosion resistance of stainless steel.
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Source: Company, Centrum Broking

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PORTFOLIO MANAGER

SEBI REGN NO.: INP000004383

Research Analyst

SEBI Registration No. INH000001469

Mutual Fund Distributor

AMFI REGN No. ARN- 147569

**Website:** www.centrum.co.in

**Investor Grievance Email ID:** investor.grievances@centrum.co.in

**Compliance Officer Details:**

Ajay S Bendkhale

(022) 4215 9000/9023; Email ID: compliance@centrum.co.in

**Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)****Registered Office Address**

Bombay Mutual Building,  
2nd Floor, Dr. D. N. Road,  
Fort, Mumbai - 400 001

**Corporate Office & Correspondence Address**

Centrum House  
6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E),  
Mumbai 400 098.  
Tel: (022) 4215 9000 Fax: +91 22 4215 9344