

Venus Pipes & Tubes

Stellar performance; Remarkable growth in exports

During Q2FY24, VENUSPIP reported highest ever EBITDA of Rs347mn (vs CentrumE: Rs312mn) up 26% QoQ. Despite stainless steel pipes realisation decline by 5-10% QoQ, ramp up of piercing facility aided in higher cost saving. Further, exports sales jumped significantly to 15% of total (vs ~5% of sales mix in FY23) supporting growth of 7% QoQ in total sales. Currently, it has total order book of Rs2.1bn which is equally between among welded and seamless pipes and 25% share is export orders. As a result, operating margins reported improved by 277bps QoQ to 18.1%. We expect faster ramp up in volumes and hence increase sales volume estimate by 3-3.5% for FY24 & FY25 respectively and also lowered realisation by ~9% in FY24 and 4% in FY25. We revise our earnings estimate downwards by 14% and 4% for FY24 and FY25 respectively. Also, we roll over our valuation to 25x PE to mid-FY26E EPS of 74/sh and arrive at target price of Rs1844/sh (Earlier: Rs1809/sh). Reiterate BUY rating on the stock.

Higher exports and ramp up lead to Revenue growth and margin expansion

Venus Pipe reported revenue of Rs11914mn, up 6.5% QoQ/ 51% YoY. The sequential increase is largely on account of higher volume and higher exports. The share of exports improved significantly to 15% (vs ~5% in FY23) of sales mix. The seamless pipes sales share stood at 57% (vs 62% in Q1) with revenue of Rs1083mn down 3% QoQ/ up 153% YoY. The blended realisation declined by ~7% QoQ. The newly commissioned capacities is ramping up faster with 80% in seamless pipes, 75% in mother hollow pipes and welded at 55%. EBITDA stood at Rs357mn up 26% QoQ and margin expanded by 277bps QoQ to 18.1%.

3x capacity expansion completed; further capacity addition in progress

Currently, total capacity stands at 33600tpa which includes 24000tpa capacity of welded pipes and 9600tpa capacity of seamless pipes. Further, also commissioned piercing mill to manufacture hollow pipe of 9600tpa which will help to 100% replace imports from china to manufacture seamless pipes. During installation of piercing mill, a few modifications were made to enhance efficiency as well as productivity. Moreover, the LSAW pipe earlier proposed to manufacture upto 48 inch diameter has been increased to 56 inch diameter. Venus pipe is in progress to add further 4800tpa capacity of seamless pipes which will be installed in next 6 months. Total capex will be ~Rs400-450mn.

Best play on SS growth story; Reiterate BUY

Venus Pipes is ramping up volumes faster and gaining market share in key export markets where margins are higher. In domestic market, VENUSPIP is gaining market share from unorganised sector as well as import substitution. The demand has remained robust in India and unaffected in Europe despite global headwinds. In future, with increasing acceptance will be able to have higher sales mix from oil and gas sector. **We have high conviction on company and expect Revenue/EBITDA/PAT to grow by 31%/49%/53% CAGR over FY23-26E along with margin expansion from 12.5% in FY23 to 18.5% in FY26. We recommend BUY on Venus Pipes with target price of Rs1844.**

Financial and valuation summary

| YE Mar (Rs mn) | 2QFY24A | 2QFY23A | YoY (%) | 1QFY24A | QoQ (%) | FY24E | FY25E | FY26E |
|-------------------|---------|---------|---------|---------|---------|-------|--------|--------|
| Revenues | 1,914 | 1,264 | 51.4 | 1,796 | 6.5 | 8,339 | 11,632 | 12,290 |
| EBITDA | 347 | 155 | 123.6 | 276 | 25.8 | 1,396 | 2,171 | 2,277 |
| EBITDA margin (%) | 18.1 | 12.3 | 47.7 | 15.4 | 18.0 | 16.7 | 18.7 | 18.5 |
| Adj. Net profit | 203 | 104 | 95.1 | 174 | 16.4 | 872 | 1,401 | 1,593 |
| Adj. EPS (Rs) | 10.0 | 5.1 | 95.1 | 8.6 | 16.4 | 43.0 | 69.0 | 78.5 |
| EPS growth (%) | | | | | | 97.3 | 60.6 | 13.7 |
| PE (x) | | | | | | 32.5 | 20.2 | 17.8 |
| EV/EBITDA (x) | | | | | | 21.5 | 13.9 | 12.8 |
| PBV (x) | | | | | | 7.0 | 5.2 | 4.0 |
| RoE (%) | | | | | | 23.9 | 29.3 | 25.4 |
| RoCE (%) | | | | | | 20.2 | 23.7 | 21.6 |

Source: Company, Centrum Broking

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

Result Update

India I Metals & Mining

30 October, 2023

BUY

Price: Rs1,395

Target Price: Rs1,844

Forecast return: 32%

Institutional Research

Market Data

| | |
|-----------------------|-------------|
| Bloomberg: | VENUSPIP IN |
| 52 week H/L: | 1,579/645 |
| Market cap: | Rs28.3bn |
| Shares Outstanding: | 20.3mn |
| Free float: | 40.5% |
| Avg. daily vol. 3mth: | 2,34,275 |

Source: Bloomberg

Changes in the report

| | |
|---------------|---|
| Rating: | BUY; no change |
| Target price: | Rs1844, up 2% |
| EPS: | FY24 EPS: Rs43, down 14% and FY25 EPS: Rs69, down 4.6% |

Source: Centrum Broking

Shareholding pattern

| | Sep-23 | Jun-23 | Mar-23 | Dec-22 |
|--------------|--------|--------|--------|--------|
| Promoter | 48.6 | 48.2 | 48.2 | 48.2 |
| FIIIs | 6.6 | 6.5 | 5.8 | 5.8 |
| DIIIs | 7.1 | 8.6 | 8.7 | 8.6 |
| Public/other | 37.7 | 36.7 | 37.3 | 37.4 |

Source: BSE

Centrum estimates vs Actual results

| YE Mar (Rs mn) | Centrum Q2FY24E | Actual Q2FY24 | Variance (%) |
|-----------------|-----------------|---------------|--------------|
| Revenue | 1,894 | 1,914 | 1.0 |
| EBITDA | 312 | 347 | 11.1 |
| EBITDA margin % | 16.5 | 18.1 | - |
| Adj. PAT | 200 | 203 | 1.1 |

Source: Bloomberg, Centrum Broking

Metals & Mining



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Thesis Snapshot

Venus Pipes & Tubes versus Nifty Midcap 100

| | 1m | 6m | 1 year |
|------------------|-------|------|--------|
| VENUSPIP IN | 5.3 | 57.9 | 83.1 |
| Nifty Midcap 100 | (4.5) | 21.7 | 24.8 |

Source: Bloomberg, NSE

Key assumptions

| Particulars | FY23 | FY24E | FY25E | FY25E |
|-----------------------|--------|--------|--------|--------|
| Sales volume (tonnes) | 13,127 | 22,515 | 30,160 | 31,920 |

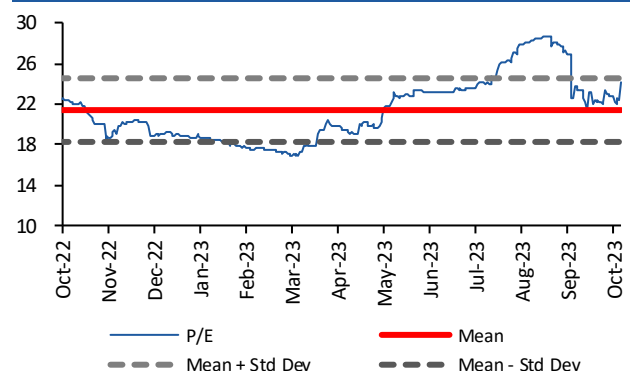
Source: Centrum Broking

Valuations

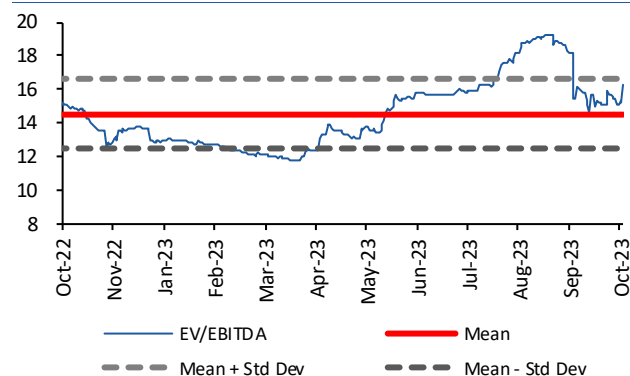
We increase our TP to Rs1844, valuing company at PE of 25x to mid-FY26 EPS of Rs74.

| Particulars (Rs m) | FY25E | FY26E |
|----------------------|---------|---------|
| EPS (Rs) | 69.0 | 78.5 |
| PE (x) | 25.0 | 25.0 |
| Target Price (Rs/sh) | 1,725.8 | 1,962.2 |
| Avg Target Price | | 1,844.0 |

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Key Concall Highlights

Market Outlook is stable despite economic headwinds faced by developed nations

- There is robust demand of stainless steel pipes in domestic demand. The seamless pipes demand especially have witnessed tremendous growth after imposition of import duty in Dec-22.
- Despite Europe facing economic slowdown, demand for stainless steel pipes have remained firm.

Order book consistent at 90-100days of sales

- Order book currently stands at Rs2100mn i.e approximately sales visibility of 90-100 days.
- Export orders consists of ~Rs500mn. Company target to complete in Q3FY24.
- The order book in value terms is equally distributed between welded and seamless pipes. While on tonnage terms, welded mix is 55-60% and seamless is 40-45%.

Ramp up of newly functional capacities aided in margin expansion

- The mother hollow pipe capacity of 9600t was commissioned in Q1FY24. It is currently ramped up to 75% capacity utilisation run rate which has helped in import substitution of raw material and cost saving.
- The seamless pipes expanded from 3600t to 9600t is also being ramped to >80% run rate. As a result, the job work volume done earlier due to capacity constraint is replaced by own processes helping to further cost saving.
- While, welded pipes utilisation rate has improved to 50% and expect further ramp up with manufacturing of high diameter pipes to begin from Q3FY24 onwards.

Borrowings increased to fund higher WC requirement

- Gross borrowings increased by Rs551mn to Rs1456mn largely to fund working capital requirements. Management guided with futher ramp up of capacity is expected in H2FY24, the gross debt could increase by Rs200-250mn to ~Rs1600mn. Despite, net debt/EBITDA is expected to remain <1x in FY24.

Capex

- Debottlenecking in mother hollow pipe will increase capacity from 9600tpa to 10500tpa
- Seamless pipes capacity to further add nearly 4800tpa. Total seamless capacity will increase to 14400tpa. It is expected to complete by FY24 end.

Working capital

- The working capital days remain stable at 109 days and expected to remain in range of 100-110 in FY24.

| P&L | | | | | |
|--------------------------------|--------------|--------------|--------------|---------------|---------------|
| YE Mar (Rs mn) | FY22A | FY23A | FY24E | FY25E | FY26E |
| Revenues | 3,870 | 5,524 | 8,339 | 11,632 | 12,290 |
| Operating Expense | 3,150 | 4,446 | 6,039 | 8,464 | 8,962 |
| Employee cost | 62 | 102 | 122 | 134 | 148 |
| Others | 164 | 285 | 782 | 862 | 902 |
| EBITDA | 492 | 691 | 1,396 | 2,171 | 2,277 |
| Depreciation & Amortisation | 14 | 20 | 100 | 110 | 80 |
| EBIT | 478 | 671 | 1,296 | 2,061 | 2,197 |
| Interest expenses | 71 | 98 | 185 | 254 | 130 |
| Other income | 21 | 24 | 70 | 90 | 90 |
| PBT | 429 | 597 | 1,181 | 1,897 | 2,157 |
| Taxes | 112 | 155 | 309 | 496 | 564 |
| Effective tax rate (%) | 26.1 | 25.9 | 26.1 | 26.1 | 26.1 |
| PAT | 317 | 442 | 872 | 1,401 | 1,593 |
| Minority/Associates | 0 | 0 | 0 | 0 | 0 |
| Recurring PAT | 317 | 442 | 872 | 1,401 | 1,593 |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Reported PAT | 317 | 442 | 872 | 1,401 | 1,593 |
| Ratios | | | | | |
| YE Mar | FY22A | FY23A | FY24E | FY25E | FY26E |
| Growth (%) | | | | | |
| Revenue | 25.1 | 42.8 | 51.0 | 39.5 | 5.7 |
| EBITDA | 41.6 | 40.4 | 102.0 | 55.6 | 4.9 |
| Adj. EPS | (23.1) | 4.7 | 97.3 | 60.6 | 13.7 |
| Margins (%) | | | | | |
| Gross | 18.6 | 19.5 | 27.6 | 27.2 | 27.1 |
| EBITDA | 12.7 | 12.5 | 16.7 | 18.7 | 18.5 |
| EBIT | 12.4 | 12.2 | 15.5 | 17.7 | 17.9 |
| Adjusted PAT | 8.2 | 8.0 | 10.5 | 12.0 | 13.0 |
| Returns (%) | | | | | |
| ROE | 37.6 | 19.6 | 23.9 | 29.3 | 25.4 |
| ROCE | 26.9 | 16.9 | 20.2 | 23.7 | 21.6 |
| ROIC | 26.9 | 17.2 | 20.0 | 23.3 | 21.5 |
| Turnover (days) | | | | | |
| Gross block turnover ratio (x) | 14.0 | 8.1 | 2.8 | 3.5 | 3.4 |
| Debtors | 56 | 48 | 39 | 40 | 45 |
| Inventory | 80 | 107 | 119 | 111 | 120 |
| Creditors | 44 | 44 | 56 | 46 | 43 |
| Net working capital | 160 | 153 | 134 | 142 | 145 |
| Solvency (x) | | | | | |
| Net debt-equity | 0.5 | 0.2 | 0.4 | 0.3 | 0.1 |
| Interest coverage ratio | 7.0 | 7.0 | 7.6 | 8.5 | 17.5 |
| Net debt/EBITDA | 1.2 | 0.9 | 1.2 | 0.9 | 0.3 |
| Per share (Rs) | | | | | |
| Adjusted EPS | 20.8 | 21.8 | 43.0 | 69.0 | 78.5 |
| BVPS | 84.4 | 158.8 | 200.7 | 269.8 | 348.3 |
| CEPS | 21.7 | 22.8 | 47.9 | 74.5 | 82.4 |
| DPS | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend payout (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Valuation (x) | | | | | |
| P/E | 0.0 | 64.1 | 32.5 | 20.2 | 17.8 |
| P/BV | 0.0 | 8.8 | 7.0 | 5.2 | 4.0 |
| EV/EBITDA | 0.0 | 41.9 | 21.5 | 13.9 | 12.8 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Company, Centrum Broking

| Balance sheet | | | | | |
|---------------------------------|--------------|----------------|----------------|--------------|----------------|
| YE Mar (Rs mn) | FY22A | FY23A | FY24E | FY25E | FY26E |
| Equity share capital | 152 | 203 | 203 | 203 | 203 |
| Reserves & surplus | 1,133 | 3,019 | 3,871 | 5,272 | 6,865 |
| Shareholders fund | 1,285 | 3,222 | 4,074 | 5,475 | 7,068 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Total debt | 686 | 905 | 1,805 | 2,055 | 1,055 |
| Non Current Liabilities | 6 | 6 | 6 | 6 | 6 |
| Def tax liab. (net) | 7 | 15 | 15 | 15 | 15 |
| Total liabilities | 1,985 | 4,147 | 5,899 | 7,550 | 8,143 |
| Gross block | 277 | 682 | 2,982 | 3,282 | 3,582 |
| Less: acc. Depreciation | (65) | (84) | (184) | (294) | (374) |
| Net block | 213 | 598 | 2,798 | 2,988 | 3,208 |
| Capital WIP | 74 | 1,216 | 16 | 16 | 16 |
| Net fixed assets | 287 | 1,815 | 2,815 | 3,004 | 3,224 |
| Non Current Assets | 3 | 21 | 21 | 21 | 21 |
| Investments | 0 | 0 | 0 | 0 | 0 |
| Inventories | 935 | 1,669 | 2,285 | 2,868 | 3,030 |
| Sundry debtors | 735 | 705 | 1,064 | 1,484 | 1,568 |
| Cash & Cash Equivalents | 73 | 260 | 153 | 204 | 327 |
| Loans & advances | 0 | 0 | 0 | 0 | 0 |
| Other current assets | 445 | 605 | 898 | 1,241 | 1,310 |
| Trade payables | 335 | 741 | 1,119 | 1,020 | 1,077 |
| Other current liab. | 159 | 186 | 217 | 253 | 260 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Net current assets | 1,694 | 2,312 | 3,064 | 4,525 | 4,898 |
| Total assets | 1,985 | 4,147 | 5,899 | 7,550 | 8,143 |
| Cashflow | | | | | |
| YE Mar (Rs mn) | FY22A | FY23A | FY24E | FY25E | FY26E |
| Profit Before Tax | 429 | 597 | 1,181 | 1,897 | 2,157 |
| Depreciation & Amortisation | 14 | 20 | 100 | 110 | 80 |
| Net Interest | 49 | 62 | 185 | 254 | 130 |
| Net Change – WC | (974) | (404) | (859) | (1,409) | (250) |
| Direct taxes | (110) | (187) | (309) | (496) | (564) |
| Net cash from operations | (600) | 89 | 298 | 356 | 1,553 |
| Capital expenditure | (206) | (1,619) | (1,100) | (300) | (300) |
| Acquisitions, net | (14) | (15) | 0 | 0 | 0 |
| Investments | (14) | (161) | 0 | 0 | 0 |
| Others | 5 | 20 | 0 | 0 | 0 |
| Net cash from investing | (228) | (1,775) | (1,100) | (300) | (300) |
| FCF | (828) | (1,686) | (802) | 56 | 1,253 |
| Issue of share capital | 569 | 1,505 | 0 | 0 | 0 |
| Increase/(decrease) in debt | 311 | 268 | 900 | 250 | (1,000) |
| Dividend paid | 0 | 0 | 0 | 0 | 0 |
| Interest paid | (53) | (79) | (185) | (254) | (130) |
| Others | 0 | 0 | 0 | 0 | 0 |
| Net cash from financing | 828 | 1,694 | 715 | (4) | (1,130) |
| Net change in Cash | (1) | 8 | (87) | 52 | 123 |

Source: Company, Centrum Broking

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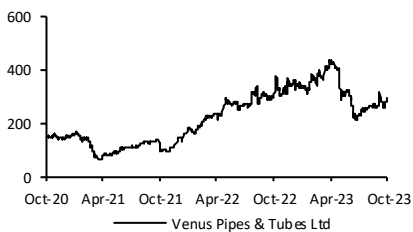
Buy – The stock is expected to return above 15%.

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

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

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Venus Pipes & Tubes



Source: Bloomberg

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| 8 | Whether the Research Analyst has received any compensation or any other benefits from the subject company or third party in connection with the research report | No |
| 9 | Whether Research Analysts has served as an officer, director or employee of the subject company | No |
| 10 | Whether the Research Analyst has been engaged in market making activity of the subject company. | No |
| 11 | Whether it or its associates have managed or co-managed public offering of securities for the subject company in the past twelve months; | No |
| 12 | Whether it or its associates have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; | No |
| 13 | Whether it or its associates have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; | No |

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