

26th November 2024

Venus Pipes and Tubes – BUY

CMP : Rs. 1,664
Target Price : Rs. 2,055
Upside : 23%+
Stop Loss : Rs. 1,511(Closing basis)

Investment Thesis

- Venus Pipes and Tubes has announced additional capex of Rs175 Cr. for venturing into higher profitable fitting solutions, welded tubes and titanium tubes with a capacity expansion of 7200t in two phases; phase 1 (3600t) will commission by Mar 25 and phase 2 (3600t) by Dec 25. The capex will be funded through equity warrants (40%), debt (30%) and internal accruals (30%).
- Venus Pipes has successfully penetrated new markets, including Europe, the US, and the Middle East. Europe accounts for over 65% of exports, the US for 20-25%, and the remainder to the Middle East and other regions. In exports, 80% of the products are seamless pipes, which generally have higher margins than welded pipe
- Exports mix in total sales stood at 33%, which management is confident on achieving more than 25% export growth in FY25 and 30-35% in FY26. Exports have 2-4% higher margin compared to domestic sales and hence will enhance overall margins going forward. Management is expecting oil and gas sector to contribute maximum in sales volume growth in FY25. It will drive higher sales of welded pipes resulting in higher utilisation as well as overall contribution rise from 40-45% to 55-60%
- Capacity utilisation of seamless pipe stood at around 85% and welded pipes at around 60%. Management is expecting the utilisation rate to increase to 89% in seamless and 70% in welded pipes in upcoming quarters.
- The current order book has reached all time high at Rs.340 Cr., this robust performance has been primarily driven by exceptional export market demand, with export revenues increasing more than 2.5 times over the previous year, fueled by high demand for our products in Europe, US and Middle Eastern markets. we expect this growth momentum to continue as conditions in the Red Sea region improve. Domestically, while heavy rainfall in certain regions led to a spillover of orders, however demand outlook and our order pipeline is expected to remain robust as ever.

Financials

- Venus Pipes reported robust revenue growth of 19.6%, standing at Rs. 228.9 Cr. with EBITDA margins of 17.9%. For H1FY25, the revenues stood at Rs. 469.1 Cr. (volume growth of 30%+ for Seamless and Welded) witnessing a growth of 26.4% YoY with robust margins of 19.0%.

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	552.4	802.2	1068	1495	1792
EBITDA	69.0	146.3	205.9	258.3	327.0
EBITDA margins	13.00%	18.20%	19.30%	17.30%	18.20%
PAT	44.21	86.00	128.00	169.00	220.00
EPS (Rs/share)	21.78	42.4	62.7	82.8	107.8
PE	77.1	39.6	26.8	20.3	15.6

Stock Data

Market Cap (Rs. Crs)	3,389
Market Cap (\$ Mn)	402
Shares O/S (in Cr)	2.04
Avg. Volume (3 month)	71,400
52-Week Range (Rs.)	2,490/1,290

Shareholding Pattern

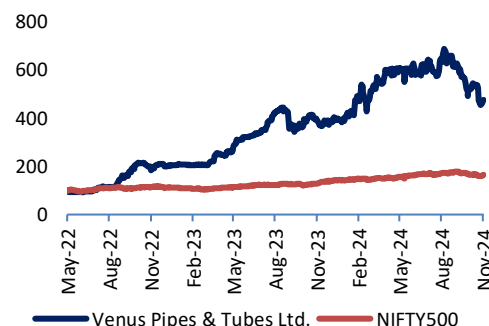
Promoter	47.94 %
FII's	5.25 %
Institutions	14.15 %
Public	32.66 %

Key Ratios

Div Yield (%)	0.06
TTM PE (x)	34
ROE (%)	23.6
PB (x)	6.99

Stock Performance

Performance (%)	1M	6M	1Yr
Absolute	(8.5%)	(22.0%)	20.8%
Relative	(8.7%)	(26.9%)	(7.0%)



- The above growth was achieved despite domestic sales being impacted due to the spill over of orders to next quarters, primarily due to heavy rainfall in certain regions of the country. However, the overall demand outlook remains strong.

Key Business Highlights

- The location of the Venus pipes near Mundra port is strategically advantageous for both imports and exports. Being close to the port facilitates easier import of raw materials and export of finished products. This proximity reduces logistics costs and ensures timely deliveries, contributing to the overall efficiency of the operations.
- Venus Pipes is introducing a specialised product line of stainless and titanium welded tubes aimed at enhancing competitive edge and profitability. These specialized tubes represent critical innovation in an industry where such products are manufactured by only a select few players. High precision engineering which makes it difficult for other players to enter the market. These value-added tubes are crafted to meet the demanding industrial requirements, boasting exceptional strength, precision, and resistance to corrosion. Venus Pipes will manufacture both – Hygienic SS & Titanium grade of Tubes allowing us to diversify into sectors requiring critical application such as food processing, pharma along with nuclear and power sector as well

Valuation

We are positive on the Venus pipes long term growth prospects given its ongoing capacity expansion to increase production and its ability to build new relationships with customers as well as managing to retain the existing ones. The thrust of the Government of India to improve infrastructure as well as safeguarding the interests of the domestic players from cheap imports bodes well for the company and the industry as a whole.

We would value the Venus pipes at PE of 25x FY26E EPS and assign a target of Rs. 2,055 implying a 23% rise from the current levels.

Risk & Concern

- Increase in price of metal because of growth in steel consumption by China can impact margins adversely.
- Global crisis can impact domestic and international demand of pipes.

Graphs & Charts

Figure 1: Revenue (Rs. Cr)

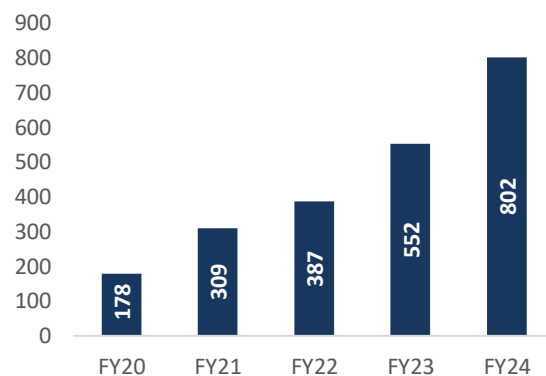


Figure 2: EBITDA Margin

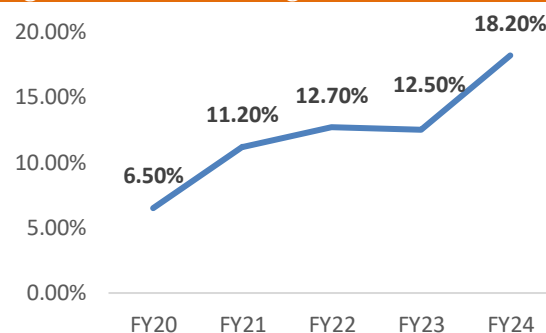


Figure 3: Geographical revenue split: H1FY25

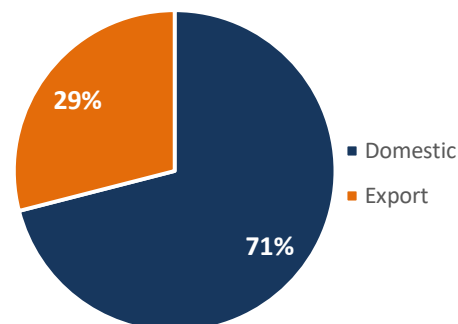
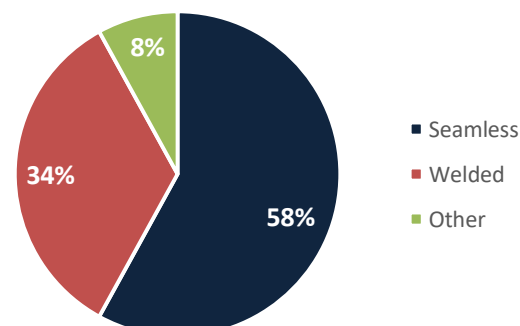


Figure 4: Revenue Split across Segment



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