

31th January 2024

Venus Pipes and Tubes – BUY

CMP : Rs. 1456
Target Price : Rs. 1827
Upside : 25%+
Stop Loss : Rs. 1290(Closing basis)

Investment Thesis

- Strong demand in domestic market: Venus Pipes and Tubes Limited (Venus pipes), operates in the pipes and tubes industry, which is currently experiencing robust growth in the domestic market. The expanding pipeline and tube business in India is a result of the country's growing need for steel, which is being driven by the country's developing infrastructure and capital expenditure cycles in the railway, food processing, chemical, cement, and engineering sectors. Venus pipes has positioned itself well to cater to this growing demand by expanding its capacity by 3.2X by FY25E and investing in backward integration for seamless pipes.
- FY25E growth trajectory: The management expect 30-40% revenue growth for the FY25E, emphasizing a balanced and sustainable growth plan. Venus pipes aims to continue benefiting from the anti-dumping duty regulations, strategic location, and expanded capacities to drive both volume and margin growth.
- Margin expansion through backward Integration: Management guided that the significant margin expansion achieved through backward integration, particularly in the seamless pipe segment. The manufacturing of mother hollow pipes as part of the backward integration plan has contributed to improved margins. The company's focus on higher quality, specialized products, and efficient operations which resulted in margin growth.
- Diversification and new client acquisition: Venus pipes is actively targeting new sectors and geographies to diversify its client base. The management mentioned new client additions in sectors such as oil and gas, chemical, pharmaceutical, railway, and others. This diversification strategy aims to enhance the utility of products within existing supply sectors and cater to evolving industry needs.

Financials

- During Q3FY24, Venus pipes witnessed highest ever quarterly revenue of Rs 207.1 crores with EBITDA margins standing at 18.9%. For 9M FY24, the revenues stood at Rs. 578.1 crores witnessing a growth of 53.7% YoY with EBITDA margins of 17.5% respectively.

Particulars	FY21	FY22	FY23	FY24E	FY25E
Revenue	309.30	387.00	552.40	847.93	1,144.71
EBITDA	34.80	49.20	69.00	148.39	200.3
EBITDA margins	11.2%	12.7%	13.0%	17.5%	17.5%
PAT	23.60	31.70	44.21	93.27	114.47
EPS (Rs/share)	27.00	20.80	21.78	45.95	56.39
PE	55.74	72.36	69.10	32.76	26.69

Stock Data

Market Cap (Rs. Crs)	2,959
Market Cap (\$ Mn)	356.3
Shares O/S (in Cr)	2.03
Avg. Volume (3 month)	1,27,460
52-Week Range (Rs.)	1579/679

Shareholding Pattern

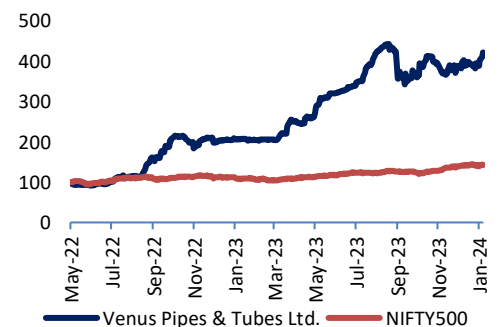
Promoter	48.68 %
FII's	4.81 %
Institutions	8.26 %
Public	38.26 %

Key Ratios

Div Yield (%)	0.07
TTM PE (x)	41.3
ROE (%)	19.6
PB (x)	8.58

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	6.4%	20.0%	103.9%
NIFTYBANK	5.7%	5.3%	72.1%



- Revenues for Q3FY24 from Stainless steel seamless and Welded pipes witnessed a growth of 89% and 39% YoY respectively.
- Venus Pipes has achieved strong sales growth and better margins, which has supported growth in net profitability, thanks to their outstanding operational and management efficiency. PAT climbed by 98% to Rs. 60.9 crore in 9MFY24, while gross profit margins improved by 703 bps and EBITDA margins by 487bps in 9MFY24.

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 current order book stands at Rs. 230 crores, reflecting strong demand and a positive outlook. Additionally, the ongoing capacity expansion of 400 MTM for seamless pipes is on track out of which 200 MT is added in Q3FY24 and remaining is expected to be completed by Q4FY24. This expansion not only underscores the commitment to meeting growing demand but also positions the Venus pipes strategically for future opportunities.
- Venus pipes has almost tripled its capacity of Seamless Pipes from 3,600 MTPA in FY23 to 12000 MTPA in FY24. For welded pipes also the Venus pipes has tripled its capacity from 8,400 MTPA in FY23 to 24,000 MTPA FY24.
- Volume for Seamless Pipes witnessed a YoY growth of more than 100% and Welded Pipes witnessed a YoY growth of more than 50% for Q3FY24.
- Venus Pipes has increased the size of seamless pipes and can now manufacture higher diameter pipes ranging from 6 to 168.3 mm. For welded pipes Venus pipes has increased the size and now they can manufacture higher diameter pipes ranging from 6 to 1,422.4 mm.

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 27x FY25E EPS and assign a target of Rs 1827, implying a 25% 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 crises can impact domestic and international demand of pipes.

Graphs & Charts

Figure 1: Revenue (Rs. Cr) and EBITDA Margin (%)

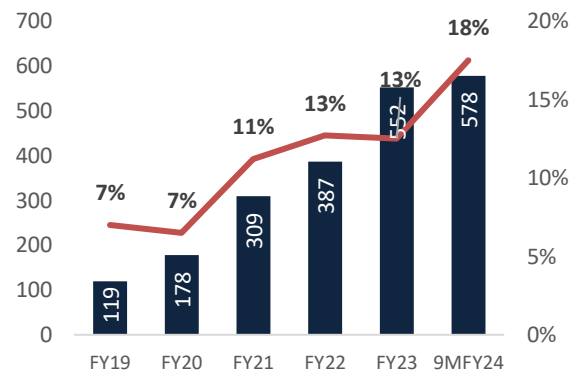


Figure 2: Capacity (MTPA)

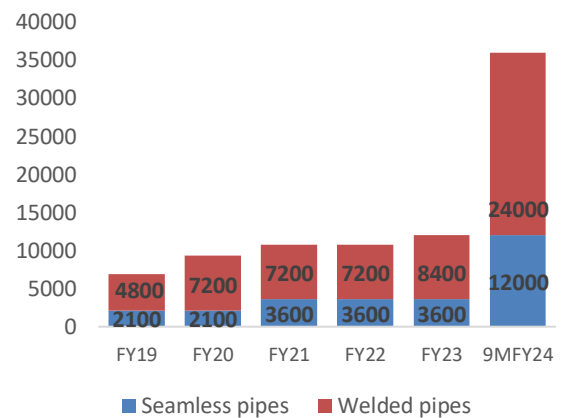


Figure 3: Volume Delivered (MTPA)

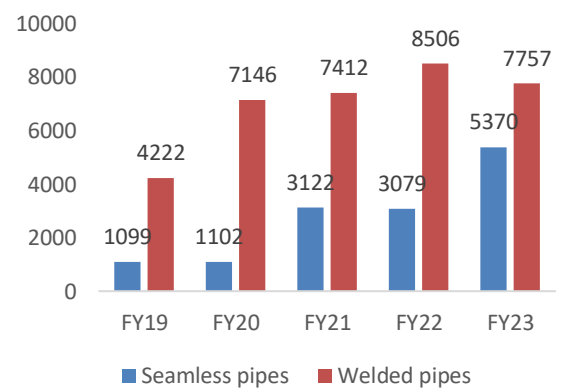
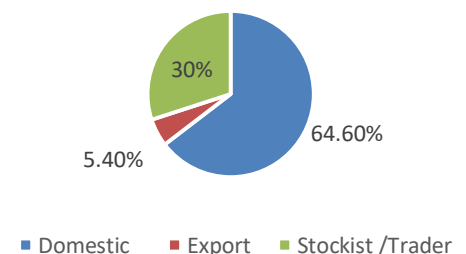


Figure 4: GNPA/NNPA



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