

14<sup>th</sup> February 2024

## Vibhor Steel Tubes – SUBSCRIBE

### Investment Thesis

Vibhor Steel Tubes Ltd. (Vibhor Steel) is coming out with an initial public offering (IPO) on February 13, 2024. The issue comprises of fresh issue of 47,79,444 equity shares at highest price band worth Rs.721.7mn. Objective of the issue is to funding working capital requirements and for general corporate purposes.

Vibhor Steel manufacture and export mild steel / carbon steel ERW (electric resistance welded) black and galvanized pipes, hallow steel pipe and cold rolled steel (CR) strips and coils. It operates through two manufacturing facilities located at Raigad, Maharashtra and Mehboob Nagar, Telangana with a production capacity of 221,000tpa. In November 2023, Vibhor Steel received an allotment letter for land to set up a new facility in Odisha as the state is the biggest market of iron. This will help it to reduce the cost of raw material and improve the margins in future. The company expects to start production in FY25.

Vibhor Steel is associated with Jindal Pipes since 2003 and renewed its agreement in April 2023 for the next 6 years. Under the agreement, Jindal Pipes will provide orders with a minimum quantity of 1,00,000 tpa to fill majority of capacity of Unit I and Unit II of the company. In the event of any shortfall in offtake by Jindal Pipes or in supply by Vibhor Steel Tubes, compensation at Rs 2,000 per tonne of shortfall will be paid by the erring party. However, there are no restrictions on selling products in the open market without the brand name of Jindal Star.

Vibhor Steel exported its finished goods under the brand name 'Jindal Star' to around 10 countries including Italy, Netherlands, Belgium, etc. It plans to continue its strategy of diversify and expand its presence in these regions. It is also planning to expand its presence to new geographies where it can deliver quality products without experiencing significant interruptions. Through diversification of geographical presence, Vibhor Steel will be able to hedge against risks of operations in any specific areas and protection from fluctuations resulting from business concentration in limited geographies.

### Financials

- During the past 2 years, revenue of Vibhor Steel grew at a CAGR of 47.7% while PAT grew at CAGR of 452.6% in same period.

Standal. (Rs.Mn.)	FY21	FY22	FY23	H1FY24
Revenue	5,105	8,180	11,131	5,312
EBITDA	189	294	456	230
EBITDA Margin(%)	3.7%	3.6%	4.1%	4.3%
PAT	7	113	211	85
EPS (Rs.) #	0.5	8.0	14.9	4.5
P/E (x) *#	310.3	18.9	10.2	
RoE (%) #	0.1%	1.5%	2.9%	

\* At highest price band # Post listing

### IPO Details

Issue Open Date	13 February 2024
Issue Close Date	15 February 2024
Price Band (Rs.)	Rs. 141 – Rs. 151
Issue Size*	Rs. 721.7 Mn
Issue Size (Shares)	47,79,444
Market Lot	99 Shares
Listing Exchanges	BSE and NSE
Face Value (Rs.)	Rs. 10/-

\* At highest price band

### Key Details

Fresh Issue*	Rs. 721.7 Mn
Issue Type	Book Building
Book Running Lead Manager	Khambatta Securities
Issue structure	QIB: 20% Non Institutional: 15% Retail: 35% Anchor Investors: 30%
Credit of Shares to Demat Account	19 February 2024
Issue Listing Date	20 February 2024

\* At highest price band

## Key Business Highlights

- Vibhor Steel manufacture and export mild steel / carbon steel ERW (electric resistance welded) black and galvanized pipes, hallow steel pipe and cold rolled steel (CR) strips and coils.
- Vibhor Steel manufacture steel pipes and tubes in various shapes and sizes such square, round, rectangular and elliptical or any special shape. Its steel pipes and tubes are used for many purposes such as steel pipes for frames and shafts, steel pipes for bicycle frames, steel pipes for furniture, cold drawn welded pipes for shockers, steel pipes for various structural purposes, steel pipes for various engineering purposes etc.
- Vibhor Steel operates through two manufacturing facilities, first is located at Sukheli, Maharashtra, with a production capacity of 125,000 tonnes per annum (tpa) while second is located at Mehboob Nagar, Telangana with a production capacity of 96,000 tpa. It also has installed 2-MW solar rooftop solar power units (1 MW each at both the units) for captive consumption.

## Valuation

- Vibhor Steel is in the process of enhancing its manufacturing and galvanising capacity at the Telangana plant and is setting up new plant in Odisha. Also, it added new products such as crash barriers and square pipes to its product portfolio. The planned capex is ~ Rs.600mn (Rs.200mn for Telangana and Rs.400mn for setting up the Odisha facility) is expected to be incurred over FY24-25.
- With the help of Jindal Pipes, Vibhor Steel has developed a wide range of networking channels throughout the industry and strengthen the scope of identifying core customer base to design right marketing strategies to deliver customized solutions for clients. Its distribution and marketing network ensure product availability to its customers translating into efficient supply chain, focused customer service and short turnaround times for product delivery.
- Vibhor Steel has strategically chosen location for its manufacturing facilities. Its first facility is located at Raigad, Maharashtra, which is the best place for export of goods and it export 100% of export sales from this facility only. Whereas second facility is located around 70kms from Hyderabad in the Mahabub Nagar District of Telangana and close to Jadcherla industrial area. This proximity enables ease of logistics, power, water supply and raw materials for this facility. Vibhor Steel has allotted land to set up a new facility in Odisha as the state is the biggest market of iron. This will help it to reduce the cost of raw material and improve the margins in future.
- With manufacturer and exporter of various steel tubes and pipes, production capacity of 221,000tpa at Raigad, Maharashtra and Mehboob Nagar, Telangana, associated with Jindal Pipes since 2003, Jindal Pipes will provide orders with a minimum quantity of 1,00,000 tpa and enhancement of its manufacturing and galvanising capacity at the Telangana plant and is setting up new plant in Odisha, we are recommending **SUBSCRIBE** rating to the IPO of Vibhor Steel Tubes Ltd. (Vibhor Steel) for medium to long term perspective.

## Risk & Concern

- Vibhor Steel derives ~90% of revenue from sales to Jindal Pipes. Higher dependence on a single customer exposes it to customer concentration risk, which is partly mitigated by minimum offtake clause.
- Pricing in the steel industry is subject to market demand, volatility and economic conditions. Any fluctuations in steel prices may have adverse impact on margin of Vibhor Steel.
- Vibhor Steel operates in the steel pipes and tubes manufacturing industry, which is highly fragmented in nature with presence of many unorganised players. Operating in the fragmented industry with low entry barriers restricts bargaining power, resulting in lower profitability.

## Graphs & Charts

Figure 1: Net Sales Trend

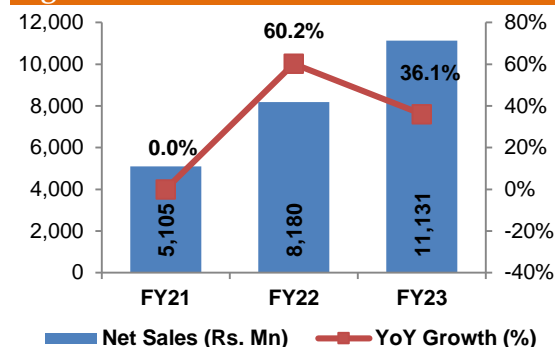


Figure 2: EBITDA & EBITDA Margin Trend

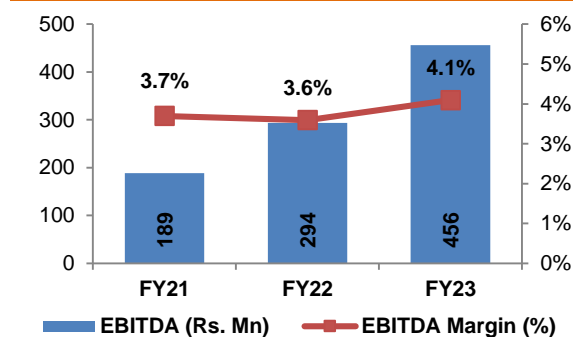


Figure 3: PAT & PAT Margins

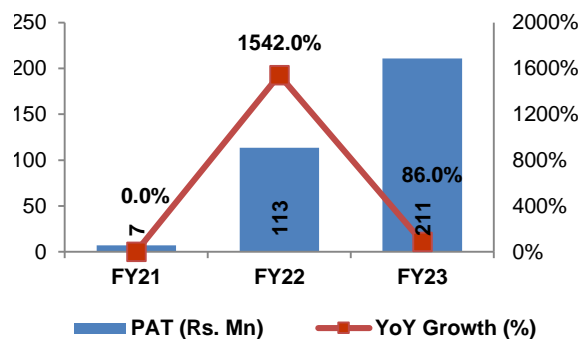
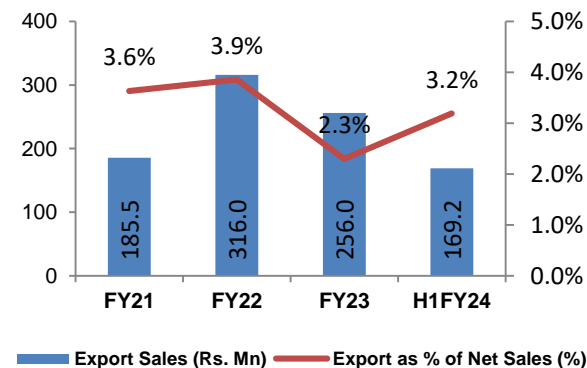


Figure 4: Export Sales Trend



**Name**  
**Rajesh Sinha**

**Designation**  
**Sr. Research Analyst**

**Disclosure:** M/s. Bonanza Portfolio Ltd here by declares that views expressed in this report accurately reflect view point with subject to companies/securities. M/s. Bonanza Portfolio Ltd has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations. The Analysts engaged in preparation of this Report or his/her relative: - (a) do not have any financial interests in the subject company mentioned in this Report; (b) do not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) do not have any material conflict of interest at the time of publication of the Report. The Analysts engaged in preparation of this Report:- (a) have not received any compensation from the subject company in the past twelve months; (b) have not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) have not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) have not 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; (e) has not received any compensation or other benefits from the subject company or third party in connection with the Report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

M/s. Bonanza Portfolio Ltd is a registered Research Analyst under the regulation of SEBI, the year 2014. The Regn No. INH100001666 and research analyst engaged in preparing reports is qualified as per the regulation's provision.

**Disclaimer:** This research report has been published by M/s. Bonanza portfolio Ltd and is meant solely for use by the recipient and is not for circulation. This document is for information purposes only and information / opinions / views are not meant to serve as a professional investment guide for the readers. Reasonable care has been taken to ensure that information given at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. If this report is inadvertently send or has reached to any individual, same may be ignored and brought to the attention of the sender. Preparation of this research report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide for future performance. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by Bonanza portfolio Ltd to be reliable. This report should not be taken as the only base for any market transaction; however this data is representation of one of the support document among other market risk criterion. The market participant can have an idea of risk involved to use this information as the only source for any market related activity. The distribution of this report in definite jurisdictions may be restricted by law, and persons in whose custody this report comes, should observe, any such restrictions. The revelation of interest statements integrated in this analysis are provided exclusively to improve & enhance the transparency and should not be treated as endorsement of the views expressed in the analysis. The price and value of the investments referred to in this report and the income from them may go down as well as up. Bonanza portfolio Ltd or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of M/s. Bonanza portfolio Ltd shall be liable. Research report may differ between M/s. Bonanza portfolio Ltd RAs and other companies on account of differences in, personal judgment and difference in time horizons for which recommendations are made. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. Research analyst have not received any compensation/benefits from the Subject Company or third party in connection with the research report.

M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate, Walbhat Road, Goregaon (E), Mumbai – 400063  
Web site: <https://www.bonanzaonline.com>

Research Analyst Regn No. INH100001666

SEBI Regn. No.: INZ000212137

BSE /NSE/MCX : | CASH | DERIVATIVE | CURRENCY DERIVATIVE | COMMODITY SEGMENT |

| CDSL: | 120 33500 | NSDL: | IN 301477 | | PMS: INP 000000985 | AMFI: ARN -0186