

Research Team

Issue Details

Issue Details	
Issue Size (Value in Rs. million, Upper Band)	1,654
Fresh Issue (No. of Shares in Lakhs)	50.74
Offer for Sale (No. of Shares in Lakhs)	Nil
Bid/Issue opens on	11-May-22
Bid/Issue closes on	13-May-22
Face Value	Rs. 10
Price Band	310-326
Minimum Lot	46

Objects of the Issue

The Fresh Issue: Rs. 1,654 Million

- Financing the project cost towards capacity expansion, technological upgradation, cost optimization of operations and support the manufacturing facility and backward integration for manufacturing of hollow pipes.
- To meet long-term working capital requirements; and
- General corporate purposes, subject to the applicable laws.

Offer for Sale: Nil

Book Running Lead Managers	
SMC Capitals Limited	
Registrar to the Offer	
KFIN TECHNOLOGIES LIMITED	

Capital Structure (Million)	Aggregate Value
Authorised share Capital	250.00
Subscribed paid up Capital (Pre-Offer)	152.22
Paid up capital (Post - Offer)	202.96

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	64.3	48.2
Public	35.7	51.8
Total	100	100

Financials

Particulars (Rs. In million)	9M- FY22	FY21	FY20	FY19
Revenue from operations	2,767.7	3,093.3	1,778.1	1,187.5
Operating expenses	2,412.6	2,745.5	1,661.7	1,104.6
EBITDA	355.1	347.8	116.4	82.9
Other Income	15.1	27.0	15.1	17.5
EBIDT	370.2	374.8	131.5	100.5
Interest	42.6	55.6	45.5	31.1
Depreciation	10.6	9.7	21.1	19.9
PBT	317.0	309.5	64.9	49.5
Tax	81.1	73.2	23.6	12.0
Consolidated PAT	236.0	236.3	41.3	37.5
Minority/other adj.	-	-	-	-
Consolidated PAT	236.0	236.3	41.3	37.5
EPS	15.5	18.0	3.2	2.9
Ratio	9M- FY22	FY21	FY20	FY19
EBITDAM	12.8%	11.2%	6.5%	7.0%
PATM	8.5%	7.6%	2.3%	3.2%
Sales growth	-	74.0%	49.7%	-

Company Description

Venus Pipes and Tubes Ltd is one of the growing stainless steel pipes and tubes manufacturer and exporter in India having over six years of experience in manufacturing of stainless steel tubular products in two broad categories: (i) seamless tubes/pipes and (ii) welded tubes/pipes, under which they are currently manufacturing five product lines, namely, (i) stainless steel high precision & heat exchanger tubes (ii) stainless steel hydraulic & instrumentation tubes (iii) stainless steel seamless pipes (iv) stainless steel welded pipes and (v) stainless steel box pipes. Under their brand name "Venus", the company supply their Products for applications in diverse sectors including (i) chemicals (ii) engineering (iii) fertilizers (iv) pharmaceuticals (v) power (vi) food processing (vii) paper and (viii) oil and gas.

The Company have one manufacturing plant which is strategically located at Bhuj-Bhachau highway, Dhaneti (Kutch, Gujarat) in close proximity, around 55 kilometers and 75 from the ports of Kandla and Mundra, respectively, that helps the company in reducing their logistic costs on procurement of raw materials and imports and export of their products. Their manufacturing facility has separate seamless and welded divisions with latest product-specific equipment and machineries including tube mills, pilger mills, draw benches, swaging machines, pipe straightening machines, TIG/MIG welding systems, plasma welding systems etc. As of February 28, 2022, their manufacturing facility has a total installed capacity of 10,800 MT per annum. Further, they have a storage facility at their manufacturing facility for the purposes of holding inventories of raw material as well as finished products, in addition to a warehouse facility located at Ahmedabad, which ensures stability of operations.

The Company's basic raw material includes SS coils and hollow pipes and they procure their raw materials based on market availability, pricing and quality through three main channels: (i) domestic suppliers such as steel manufacturers, stockists and traders (ii) international suppliers from China, Indonesia, Malaysia and Singapore and (iii) highsea purchases. The cost of materials consumed (including purchase of stock in trade and changes in inventory) by the company in their operations accounted for 82.09%, 84.53%, 88.29% and 85.58% of their revenue from operations for the nine-month period ended December 31, 2021 and Fiscals 2021, 2020 and 2019, respectively.

Valuation

Venus Pipes and Tubes Ltd is a manufacturer of pipes and tubes with the sole focus on manufacturing of welded and seamless pipes in a single metal category i.e. stainless steel. Being present in only one metal segment since inception, the company have gained segment expertise. The Company supply their Products across a diversified range of sectors and the demand for their product is also expected to increase with growth in downstream sector. The Company is planning to double its capacity and backward integrate with the help of IPO proceeds which will help it to increase its revenue and margins.

The company is available at the upper end of the IPO price band at 21x its FY22 annualized earnings attributable to post issue equity demanding a market cap of Rs. 6,617 million. At the upper end of the IPO price band, the issue is priced at a P/BV of 10.7x based on its NAV of Rs. 30.5 as of March 31, 2021.

The Company has delivered good growth in Sales over past few years along with increasing margin profile. However, Venus faces competition from its peers who hold substantial market share in the SS pipes and tubes market. When compared to its listed peers, Venus seems to be richly priced. We recommend an "Avoid" rating to this IPO.

The Company sell their Products both in the domestic as well as the international markets. In the domestic market, they sell their Products to customers as well as traders/stockists while in the international market they supply their products through traders/stockists and authorized distributors that engage with them on an exclusive basis and certain marketing representatives. The Company started exporting their Products in the year 2017 and as on February 28, 2022 they have exported to 20 countries including Brazil, UK, Israel and countries in the European Union etc. In order to increase the company's share in the international market, they have appointed sole distributors in overseas markets like Italy and Kuwait in addition to appointing marketing representatives for the European market. The revenues from exports aggregated to ₹ 264.06 million, ₹147.95 million, ₹ 60.10 million and ₹ 133.95 million for the nine month period ended December 31, 2021 and Fiscals 2021, 2020 and 2019, respectively, and as a percentage of their revenue from operations, were 9.54%, 4.78%, 3.38% and 11.28%, respectively.

They are ISO 9001:2015, ISO 14001:2015, ISO 45001:2018, certified by Bureau Veritas and holding accreditation from UK Accreditation Service. Further, their products sold to the European market are certified under PED 2014/68/EU and ADW/AD 2000 – Merkblatt – WO from TUV which is a requirement for supply in the European Union countries. Further, they are an IBR certified manufacturer and supplier of stainless steel seamless and welded pipes/tubes.

The Company have an in-house quality team comprising of 27 dedicated personnel working under the overall supervision of the board of directors. Their quality control team ensures that their raw materials as well as end products are tested on all quality parameters to ensure that the company is compliant with the international product standards.

The Company's Promoters, Megharam Sagramji Choudhary, Jayantiram Motiram Choudhary, Dhruv Mahendrakumar Patel and Arun Axaykumar Kothari are first generation entrepreneurs, and have an average experience of approximately eight years in stainless steel welded pipes and tubes industry in addition to expertise in marketing, procurement, finance, accounting and customer relationship management.

Some of the company's financial details for the nine-month period ended December 31, 2021, Fiscal 2021, Fiscal 2020 and Fiscal 2019, respectively, are set out below:

Particulars	As of December 31, 2021	Fiscal 2021	Fiscal 2020	Fiscal 2019
Total Income	2782.8	3120.31	1793.22	1205.06
EBITDA (excluding other income)	355.12	347.76	116.36	82.94
EBITDA Margin (in %)	12.83	11.24	6.54	6.98
Profit for the year/period ("PAT")	235.95	236.32	41.28	37.5
PAT Margin (in %)	8.48	7.57	2.3	3.11

Strengths:

➤ **International Accreditations and product approvals**

The Company is one of the growing brands in stainless steel pipes/tubes having presence in both seamless pipes and welded pipes/tubes segments. They follow international standard manufacturing practises and their manufacturing facility benefits from the quality benchmarking certifications such as (i) ISO 9001:2015, ISO 14001:2015, ISO 45001:2018 from Bureau Veritas, a third-party inspection organization accredited by the United Kingdom Accreditation Service (ii) certification under the Indian Boiler Regulation ("IBR") for manufacturing and supply of stainless steel seamless and welded pipes and (iii) PED 2014/68/EU and ADW/AD 2000 –Merkblatt WO from TUV, which is a requirement for supply in the European Union countries. Such practices and accreditations, coupled with their technical capabilities and know-how enable the company to manufacture products for both domestic and international customers as per ASTM (US), EN (Europe), JIS (Japan) and DIN (Germany) standards, the company's capabilities and accreditations have enabled them to supply their products to 57 Fortune India 500 companies in the past across sectors, including chemicals, engineering, pharmaceuticals, oil & gas, etc., and as of February 28, 2022, the company have orders for supplying their Products to 16 Fortune India 500 companies along with orders with other market players and business entities that follow stringent quality standards. They believe that their certifications and industrial expertise favourably position the company in servicing client requirements across all segments of the stainless steel seamless and welded pipes/tubes market.

➤ **Specialised production of Stainless Steel Pipes and Tubes**

The Company is a pipes and tubes manufacturer with the sole focus on manufacturing of welded and seamless pipes in a single metal category, i.e., stainless steel. As they have been catering to customers (both domestic and international) in only one metal segment since their inception, over the years the company have built expertise in terms of production process, inventory management and marketing of products in the stainless steel pipes and tubes segment. This gives the company the benefit of segment expertise thereby placing them in a position of advantage vis-à-vis their competitors in accurately assessing and responding to customer preferences in this segment as there are very few manufacturers in this single metal product segment. The Company believe that this focus has well positioned the company in attracting and retaining customers with requirements for specialised stainless steel pipes and tubes including continued client interest from emerging sectors like chemical, petrochemicals, engineering, oil and gas, fertilizers, food processing, pharmaceuticals, power etc.

➤ **Multi-fold demand of the company's Products**

The demand for the company's Products in their ordinary course of business is generated from three broad categories:

- New projects: The Company supply their Products for new projects across a diversified range of sectors, including but not limited to, oil and gas, pharmaceuticals, engineering, chemical, etc., on a regular basis throughout the year. They have

maintained their presence in these sectors on a consistent basis in the last three financial years and have continued to secure orders both from existing and new customers.

- ii. Repair and maintenance: The Company regularly supply their Products to existing / new customers consequent to normal wear and tear of the products being used by them. The frequency of such orders is dependent on the relevant sector and typically an instruction / order is raised to supply a specific number of pieces in order to rectify the deficiency.
- iii. Replacement: Most of their products are used in the transportation of highly corrosive fluids, requiring production in compliance with applicable quality standards. Due to their application in highly corrosive environment, these Products slowly corrode throughout their calculated design life. After the designed service life of a particular piping bundle of any project is over, it is essential to replace the entire piping with new pipes. The Company believe that the demand from the aforesaid categories ensures a strong order book on a year-on-year basis. Further, considering the number of sectors serviced by them, they believe that the demand for their Products shall increase in the future placing them in a competitive position. Considering the nature of their Products and their demand, the company further believe that they shall be in a position to create new customer relationships and strengthen the existing ones due to repeat orders.

➤ Customer Diversification

The Company sell their Products both in the domestic as well as the international markets. In the domestic market, they sell their Products to the end customers as well as traders/stockists while in the international market they supply their Products through traders/stockists, authorized distributors and through certain marketing representatives in the European Union market. The Company started exporting their Products in the year 2017 and as on February 28, 2022 they e have exported to 20 countries including countries in European Union, Brazil, UK, Israel etc. In order to increase the share in the international market, the company have appointed sole distributors in markets like Italy and Kuwait in addition to appointing marketing representatives for the European market.

Further, the details of their customer across sectors for the nine-month period ended December 31, 2021 and Fiscals 2021, 2020 and 2019, respectively are as below:

Sector	Nine (9) months period ended December 31, 2021		Fiscal 2021		Fiscal 2020		Fiscal 2019	
	Revenue (in mn₹)	% of revenue	Revenue (in mn₹)	% of revenue	Revenue (in mn₹)	% of revenue	Revenue (in mn₹)	% of revenue
Chemicals	310.47	11.22	573.75	18.55	320.24	18.01	183.99	15.49
Engineering	734.81	26.55	448.22	14.49	291.49	16.39	247.1	20.81
Fertilizers	13.24	0.48	60.94	1.97	26.02	1.46	3.33	0.28
Pharma	10.62	0.38	33.69	1.09	49.16	2.76	26	2.19
Power	4.3	0.16	17.4	0.56	2.29	0.13	6.9	0.58
Food Processing	41.44	1.5	7.58	0.25	12.54	0.7	8.7	0.73
Paper	20.85	0.75	3.11	0.1	0.98	0.06	1.27	0.11
Oil & Gas	2.13	0.08	0.36	0.01	0.82	0.05	1.01	0.09
Others	26.84	0.97	10.41	0.34	14.16	0.8	24.95	2.1
Export	264.06	9.54	147.95	4.78	60.1	3.38	133.95	11.28
Stockist / Traders	1338.93	48.37	1,789.90	57.86	1,000.28	56.26	550.32	46.34
Grand Total	2767.69	100	3093.31	100	1778.08	100	1187.52	100

➤ Experienced and Qualified Team

The Company's Promoters and senior management team is well experienced in this industry both from marketing and distribution of products in this sector. Their Promoters, Megharam Sagramji Choudhary, Jayantiram Motiram Choudhary, Dhruv Mahendrakumar Patel and Arun Axaykumar Kothari are first generation entrepreneurs, and have an average experience of approximately 8 years in stainless steel welded/seamless pipes and tubes industry in addition to expertise in marketing, procurement, finance, accounting and customer relationship management.

The Company believes that it benefits from the vision, leadership, skills, experience, commitment and relationships of its Promoters Arun Axaykumar Kothari, Megharam Sagramji Choudhary, and Dhruv Mahendrakumar Patel. Their Promoters Megharam Sagramji Choudhary and Dhruv Mahendrakumar Patel, in aggregate, have more than 21 years of experience in relation to manufacturing and trading of iron, steel and SS pipe related products, in addition to having expertise in marketing. Further, their Promoter Arun Axaykumar Kothari, is actively involved in managing the day-to-day affairs of the Company, in addition to having expertise in finance and accounting. The Company's success has been, and will continue to be, dependent on their senior management team. Their senior management team comprises of professionally qualified members with experience and knowledge in the pipe industry and regulatory environment. The

Company believe that their management team's experience and their understanding of the industry will enable them to continue to take advantage of both current and future opportunities. A large number of their senior management personnel have worked with them for a significant period of time, resulting in effective operational coordination and continuity of business strategies.

Key Strategies:

➤ **Increasing existing capacity**

The Company is currently manufacturing welded pipes/tubes with size 6 mm - 219.3 mm and seamless pipes/tubes with size of 6 mm - 114.3 mm diameters. The Company is proposing to expand its existing manufacturing capacity for welded pipes/tubes and seamless pipes/tubes for manufacturing higher diameter welded pipes/tubes (up to 1219.2 mm) and seamless pipes/tubes (up to 168.3 mm). They believe that the additional production capacities will place the company in a competitive position to cater to the demands of their existing clients as well as the new customers they intend to acquire in the future. The following is a brief description of the machineries that are proposed to be procured for the purposes of increasing the production capacity of the welded as well as seamless pipes:

S.No.	Plant	Category	Purpose
1	LSAW(A358) Plant	Welded Pipes	To increase production capacity from 600 MT per month to 1200 MT per month of Welded Pipes by manufacturing higher diameter welded pipes.
2	Pilger Plant	Seamless Pipes	To increase production capacity from 300 MT per month to 800 MT of higher diameter Seamless Pipes.

The Company's Products are largely used in industries like pharmaceuticals, food processing, etc. The Government of India has announced Production Linked Incentive ("PLI") schemes for boosting the domestic manufacturing in certain sectors, which they believe shall have a consequent positive impact on their order book:

Moreover, since the Government of India has decided to disallow international/global tenders in government procurement tenders up to the value of ₹ 2 Billion, the company firmly believe that such a move shall boost the demand for indigenously manufactured products in their sector. Further, the public sector undertakings restricting local traders of foreign pipe manufacturers for participation in their tenders shall encourage the growth of domestic players in the Indian market.

Further, on May 8, 2017, the Government of India released a Domestically Manufactured Iron and Steel Products Policy ("DMISP") to prefer the domestically manufactured iron and steel products in Government procurement. To align with the Government's "Atmanirbhar Bharat" scheme, the Ministry of Steel notified amendments / additions to the DMISP Policy in December, 2020 whereby the amended policy further broadened the scope of the policy to promote domestic manufacturing in the steel sector. It is likely that these policy initiatives would give push to domestic manufacturing and strengthen the supply side dynamics along with supporting a favorable demand scenario from the various end user industries. Besides, a substantial investment worth ₹111 trillion planned under National Infrastructure Pipeline and other sector specific policies reforms is expected to support steel pipes and tubes demand from major end user industries. With government continuing to maintain accommodative monetary policy, it is likely to have a gradual impact on improving capital investment scenario that would have a trickle-down impact on several industries including steel pipes and tubes sector. On the back of gradual improvement in industrial demand, the company expect domestic SS pipes and tube industry to grow from about 1.1 million tonnes currently to 1.6 million tonnes by 2026, growing at CAGR 8.5%.

In light of the above, the company believe that they are well positioned to strengthen their competitive position by increasing their manufacturing capacities and thereby increase their market share in the segments in which they operate.

➤ **Backward integration and cost optimization to improve margins**

The Company's sale of finished goods increased by ₹763.23 million, or 48.05%, to ₹2,351.68 million for Fiscal 2021 from ₹1,588.45 million for Fiscal 2020, which increase was primarily due to an increase of 188.74% in revenue from the sale of goods in the seamless pipes/tubes category. In addition, the company's sales of welded pipes products increased by ₹ 133.84, million or 10.66% in Fiscal 2021 as compared to Fiscal 2020. Considering the revenue generating potential of this product segment, in the future they intend to further consolidate their production of seamless pipes/tubes. Presently, the company procure hollow pipes, the raw material required for manufacturing of seamless pipes/tubes, from the open market (both domestic and international markets) whose cost varies basis the size, quality and quantity. Further, such raw materials require additional processing for bringing them in conformity with applicable standards. The Company plan to set up a piercing line for manufacturing of hollow pipes with the capacity of 800 MT per month, as their backward integration strategy. With the piercing plant, the company will be able to produce hollow pipes from SS round bar, for which they have earmarked fund requirement of ₹ 106.21 million from the Issue Proceeds.

The Company believe that the setting-up of the in-house piercing line for manufacturing of hollow pipes shall assist the company in achieving seamless backward integration of their processes and shall have a positive impact on improving their manufacturing control over the production of seamless pipes and reduce their dependence on raw material imports. The Company further believe that this shall have a significant impact on improving their operating margins which shall lead to cost optimization, thereby improving the profitability and results of operations.

➤ **Tap new geographies to increase export**

The Company started exporting their Products in the year 2017 and as on February 28, 2022 they have exported to 20 countries including Brazil, UK, Israel and countries in the European Union, etc. In order to increase their share in the international market, in addition to selling their Products through stockists/traders, they have appointed sole distributors in Italy and Kuwait and a marketing representative for

servicing the European market. The revenues from exports aggregated to ₹264.06 million, ₹147.95 million, ₹60.10 million and ₹133.95 million for the nine-month period ended December 31, 2021 and Fiscals 2021, 2020 and 2019, respectively, and as a percentage of their revenue from operations, were 9.54%, 4.78%, 3.38% and 11.28%, respectively. Although the Company does not have a long operating history and their revenues from exports have not been significant historically, the company have established their credentials in the international market with stockist/traders and sole distributors in a short span of four years and they intend to leverage their existing relationships to further deepen their presence in the international market, particularly in the European Union. Further, the announcement by the Chinese Government on April 28, 2021 with respect to cancellation of the export rebates on several steel products including welded and seamless steel pipes with effect from May 1, 2021 is expected to benefit domestic pipes and tubes manufacturers in India. The cancellation of export tax rebates would encourage Chinese steel manufacturers to turn to the domestic market and would reduce the domestic production of various steel products for export. Due to this development, the demand for seamless pipes in international market is expected to increase and the company believe they are well-positioned to take the benefit of the aforesaid regulatory announcement by the Chinese Government.

➤ **Continue to improve operating efficiencies through technology enhancements**

The Company's production process is completely automated with their Manufacturing Facility, housing latest product specific equipment and machineries that support them in manufacturing of their Products in accordance with their customer requirements. In line with their proposed expansion plans, the company intend to further develop their technology systems in order to increase asset productivity, operating efficiencies and strengthening their competitive position.

They believe that their in-house technology capabilities shall continue to play a key role in effectively managing and expanding their operations, maintain strict operational and fiscal controls and continue to enhance customer service levels.

Acid Regeneration Plant

The Company is proposing to install an acid regeneration plant ("ARP") wherein the consumption of acid in their manufacturing process shall be reduced substantially and they believe that the same shall help them in improving their operating margins.

Function of the ARP: During the manufacturing process, a series of surface treatment processes, known as pickling and passivation, 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. This is done for the purpose 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.

The Company believe that significant environmental and economic advantages shall follow from reduced usage of raw acids and chemicals, used in the neutralization plant along with reduction of sludge production. They also believe that the plant productivity shall increase with the implementation of ARP by fewer stoppages for dumping and reduced down time for cleaning of sludge filled pickling tanks.

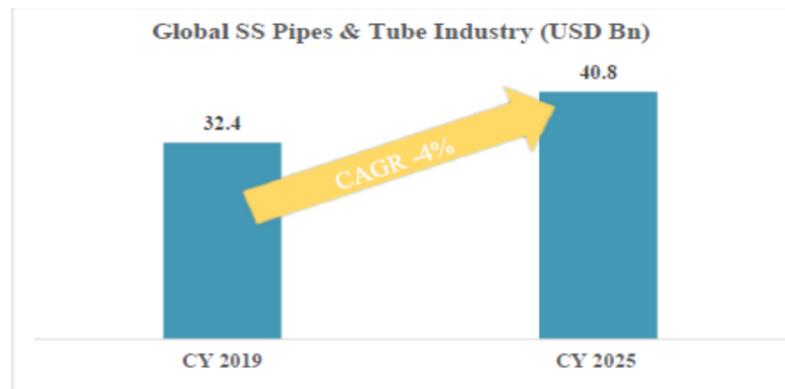
Further, they intend to introduce Enterprise Resource Planning ("ERP") system for efficient control over their manufacturing process which shall provide them benefits including improved productivity, increased efficiency, reduced cost, and streamlined processes. The company believe that such technological enhancements shall improve their competitiveness vis-à-vis their peer group/competitors and place them in a competitive position.

➤ **Strengthen their brand value**

The Company is in the business of manufacturing of stainless steel pipes/tubes since approximately six years whereas their peer group industry players/competitors have the benefit of longer operating history in comparison with the company, and therefore, their brand development is at a relatively nascent stage. Considering the company's current market presence with their customers in diversified sectors and geographies in order to further penetrate the market, they intend to make consistent efforts to strengthen their brand "Venus" and enhance their brand visibility for attaining parity with their industry peers. Towards this end, the company intend to undertake various marketing initiatives including participation in industrial trade fares, exhibitions, and digital marketing. The Company believe that such initiatives shall improve their brand positioning, overall brand recall value and support the company in their growth strategy.

Industry Snapshot:**➤ Global Stainless - Steel Pipes & Tubes Industry**

Globally, the SS pipes and Tube industry was estimated to be valued at nearly USD 32.4 billion in 2019 contributing 23% share in global pipes& tubes industry. In coming years too, the SS pipe & tube is expected to observe a stable growth of 4% through 2025 with the total market size estimated to cross USD 40 billion.

**Demand Scenario**

The oil & gas industry is among the major consumer segments for steel pipes and tubes used for transportation of gas & liquid as well as for upstream, midstream, and downstream processing of crude oil. With global economies gradually recovering from the pandemic impact, the demand for oil & gas is expected to resume quickly. Spreading Covid-19 cases at the start of 2022 once again shed some uncertainty over the economic recovery but this time the surge in infection caused muted impact on oil demand. Moreover, mobility indicator continued to remain strong lending the positive outlook for the Oil demand in 2022. According to the International Energy Agency (IEA), from 97 Mn barrels per day (BPD) in 2018, the oil demand is expected to increase by 5.5 mb/d in 2021 and by 3.3 mb/d in 2022 while it is estimated to return to the pre-pandemic level at around 99.7mb/d in 2022 projected to reach 103 mbd by 2030. However, the current Russia-Ukraine conflict could change the demand-supply dynamics between various countries in the coming years.

According to the International Energy Agency (IEA), from 97 Million barrels per day (BPD) in 2018, the oil demand is expected to increase by around 1 Million barrels per day (BPD) on an average every year till 2025. As a result, new pipelines projects are being commissioned, pipelines capacities are being expanded and offshore activities such as deep and ultra-deep-water production and development are increased which is having a positive impact on the steel pipe segment.

Few industry-specific research analysis highlights that the steel tube market dominates the overall industrial tubes market where the overall global industrial tube market was estimated to be valued at ~USD 478 billion in 2018 and is further slated to observe a decent 5.8% CAGR between 2018-23. Attributed to its metal properties, SS tubes is expected to witness growing application in global petrochemical, chemical, energy & power and automotive industries. Stainless steel is widely used in manufacturing of SS pipes, mechanical tubes, heat exchanger tubes, structural tubes, hydraulic & instrumentation tubes and others (capillary tubes, boiler tubes, precision tubes).

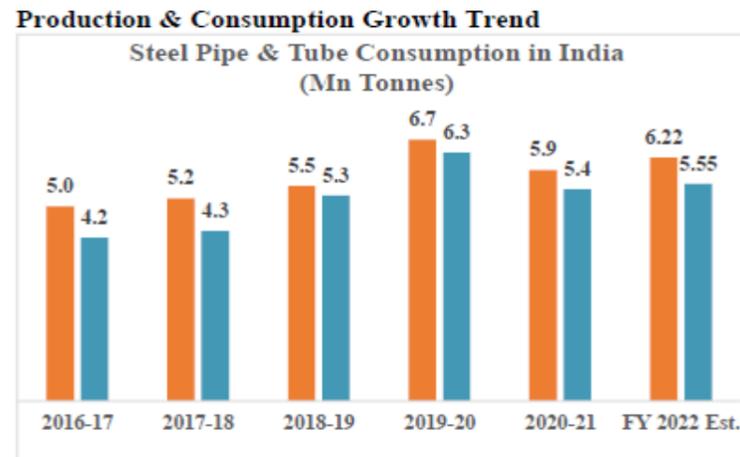
The pipeline segment is expected to register a steady growth within the US, which being a leading producer of oil& gas, accounts for nearly 23% and 17% share, respectively, in global gas and oil production. According to Global Data's latest report, 'North America Oil and Gas Projects Outlook to 2025 – Development Stage, Capacity, Capex, and Contractor Details of All New Build and Expansion Projects', North America is expected to witness the operational commencement of 603 projects during 2021-2025. The US dominates the upcoming project landscape in North America, with nearly 70% share of the total projects which are expected to start operations by 2025. Out of these, newly announced projects dominate with 83% while the remaining are expansion projects mainly in the upstream sector. Major upcoming projects in the US, such as the Alaska LNG liquefaction plant worth USD 43 billion and Cameron LNG Liquefaction Plant worth USD 33 billion, are expected to drive the need for oil & gas equipment including steel pipes & tubes.

➤ Indian Steel Pipes and Tubes Industry

Since 2000, steel production in the country has seen a phenomenal increase as the sector witnessed high investments in capacity addition as well as technology upgradation. In 2018, India surpassed Japan to become the second largest steel producer in the world, after China. According to World Steel Association (WSA), India produced 118.13 Mn tons of crude steel in CY 2021 and accounted for 6.1% share in global crude steel production. In 2021, India's crude steel production registered a robust y-o-y growth of 18% against 10% contraction in the previous year while it grew at a CAGR of 4% between 2017-21. On consumption side, India is also the second largest consumer of finished steel. The emergence of a middle-class consumer segment has altered the consumption landscape in India, and with it the industrial production. The country's overall finished steel consumption in India is estimated to have been growing at 7% per annum since 2016 till 2019 to reach 102.6 Mn Tonnes but in 2020, it dropped by 14% against 6% y-o-y growth in 2019. International statistics indicates steel pipes & tube segment constitute ~8% share of the total steel consumption. Subdued industrial activity, and economic uncertainty have dampened the demand scenario, leading to lower consumption. However, economic recovery in 2021 points towards rising consumption of finished steel, consequently driving the steel production. During 10M FY 2022, the country's finished steel production was 21.06% higher than previous year output and it stood at 93.3 Mn tonnes while its consumption was ~15% higher and stood at 86.83 Mn tonnes.

Presence of such a vast primary steel manufacturing infrastructure has also helped in the growth of secondary and finished steel products. In pipes& tubes segment, India has emerged as one of the major producers of steel pipes, after Europe and China. The country has a well-

developed steel manufacturing industry capable of manufacturing crude steel to value added steel products, including pipes & tubes. Availability of raw material, cheap labor, and ability to produce steel at a low cost have supported India's progress in the steel pipes and tubes industry. The country's current manufacturing capacity of steel pipes and tubes stands at around 21.5 million tons which is further split into welded, seamless, and casted pipes with respective capacities of 16.3 million tons, 1.5 million tons and 3.7 million tons. Within welded pipes segment, ERW capacity is estimated at 9.5milliontons and SAW pipes at 6.80 million tons.



Source: Center for Monitoring Indian Economy

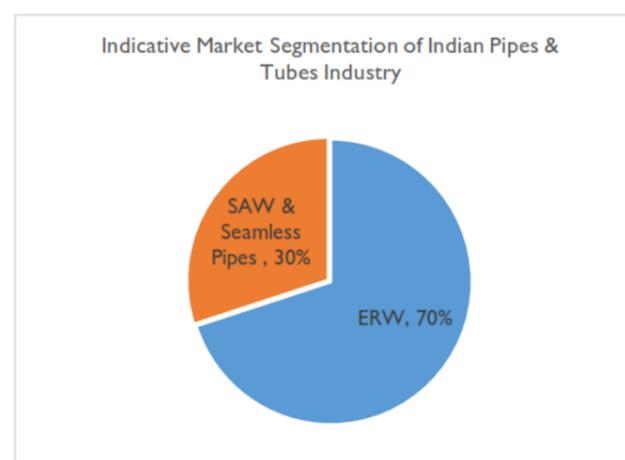
Annual production of steel tubes & pipes in India is estimated to reach 6.22 Mn Tonnes in FY 2022 while apparent consumption is estimated at 5.55 Mn Tonnes, but it continued to remain lower compared to the prepandemic level (FY 2020). Rising output is backed by resuming demand recovery in the major end user industry demand. The country's 10M FY 2022 steel pipes & tubes output was up by 8% while its consumption was up by 4% on y-o-y basis to reach 5.18 Mn Tonnes and 4.63 Mn Tonnes, respectively. In the previous year, both the output and consumption of steel pipes & tubes in India observed decline on the back of spread of covid- 19 pandemic. Excluding FY 2021, the production and consumption of steel pipes& tubes in India has steadily grown at a CAGR of 5.8% and 7.4%, respectively. Incremental demand originating from infrastructure, water transportation mainly driven by Jal Jeevan Mission, construction, oil exploration, industrial application, and expansion of gas pipelines such as city gas distribution and national gas grid, amongst others has supported the growth of Indian pipes & tubes industry.

Domestic Industry Size

Due to diversified application in several industries, steel pipes and tubes industry is one of the important segments of the Indian steel sector. However, it accounts for just 8% share in the overall steel consumption basket which translate into consumption ranging from nearly 6.7 million tons to 8 million tons in the last five years while a few industry experts also suggest the actual usage of steel pipes & tubes in India to be about 12-13 million tons. In value terms, the size of the Indian steel pipes & tube industry is estimated at nearly INR 550- 600 billion. With nearly 10 kg per capita consumption (PCC), steel pipes & tubes consumption in India is less than half of the global average(21-22 kg PCC) and about one fifth of the Chinese (55-60 kg PCC) which indicates huge opportunities for growing penetration of steel pipes & tubes in the Indian market.

Market Segmentation

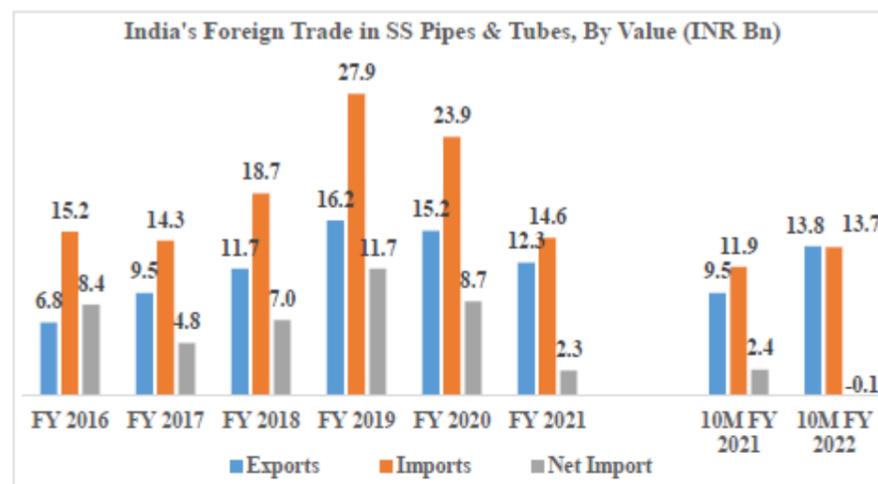
In terms of market segmentation, steel pipes & tube industry is equally split between ERW and SAW & Seamless pipes (S&S pipes) while by volume the ratio stands at 70:30, respectively. ERW pipes find prominence because of their diverse applications as well as implementation of advanced technology such as the Direct Forming Technology which allows for customized sizes and cost savings on raw material



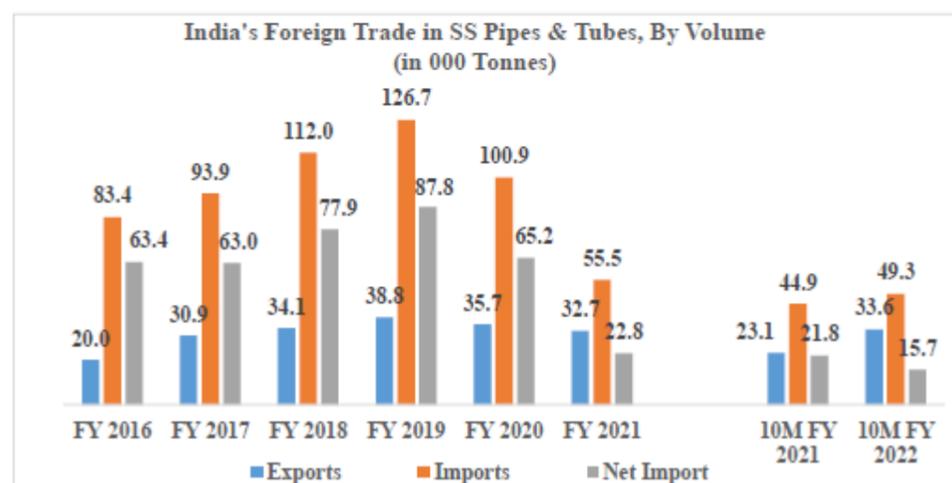
Basis raw material segmentation, the domestic demand for Stainless steel pipes & tubes is currently estimated at nearly 1.1Mn Tonnes in 2021.

Export and Import of SS Pipes & Tubes

India has continued to remain a net importer of SS pipes and tubes during the years 2016-21 where import value observed uneven growth in response to domestic demand scenario. Consequently, SS pipes & tubes import value declined at 1% CAGR during FY2016-21 to settle at INR 14.6 billion in FY 2021 while import volume declined at 8% CAGR to settle at 55.5 thousand tons in FY 2021. During 10M FY 2022, India continued to remain a net importer by volume but by value it emerged as net exporter which depicts the influence of mild appreciation in rupee value that translated in lower import bills.



Source: Ministry of Commerce



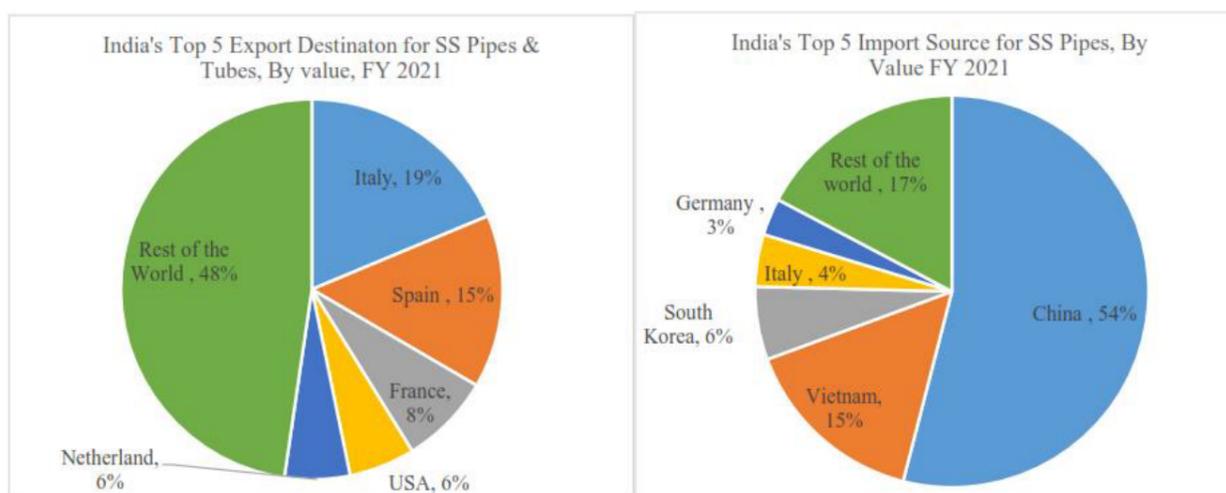
Source: Ministry of Commerce

Annually, import observed decline for the two consecutive years in FY 2020 and FY 2021 where it declined by 14% and 39% in value terms and by 20% and 45% in volume terms, respectively. Contraction in industrial growth in India, leading to lower demand for SS pipes and tubes could be the major reason behind this drop-in import. It will be noteworthy to highlight that decline in volume was sharper than value which implies higher landed cost amidst depreciating rupee value. Falling imports in FY 2020 can be attributed to widespread moderation in economic activity while in FY 2021 it was largely due to Covid-19 pandemic induced market sentiments which impacted domestic consumption. During 10M FY 2022, India's SS pipes & tubes import observed 16% y-o-y growth in value terms and 9.7% increase by volume which point out revival in domestic end user industries in the last financial year.

Major Trading Partners

China is the largest exporter of SS pipes and tubes to India and accounted for 54% of India's total imports in FY 2021. The cost advantage enjoyed by Chinese manufacturers, who operate at a lower cost as compared to Indian manufacturers, has helped in this high percentage of Chinese imports in the Indian SS steel pipes & tube imports.

However, the cancellation of the export rebates on several steel products including ERW and seamless steel pipes as announced by the Chinese government on April 28, 2021 w.e.f. May 1, 2021 is expected to benefit domestic pipes and tubes manufacturers. The cancellation of export tax rebates would encourage Chinese steel manufacturers to turn to the domestic market and would reduce the domestic production of various steel products for export. Vietnam and South Korea were other major exports of SS pipes & tubes to India and accounting for 15% and 6% of total imports in FY 2021.



India's export of SS pipes & tubes is quite diversified where Indian manufactured products are supplied to more than 130 countries spread across the world. In FY 2021, Italy followed by Spain, France, USA, and Netherlands remained India's top five market for SS pipes and tubes. Together, these top 5 countries accounted for 52% share in India's total export earnings generated against SS pipes & Tubes.

➤ Competitive Landscape

Nature of Competition

Compared to carbon steel pipes, SS pipes & tube manufacturing sector is consolidated in nature, with few major players accounting for majority market share. Capital intensive nature of the industry coupled with challenging operating environment has erected steep entry barriers in SS pipes & tube sector, handing incumbents a definite advantage. It is estimated that the capex required to set up a SS pipe & tube manufacturing facility is ~15 times that required to set up a carbon steel pipe manufacturing facility of similar capacity. Such a high capital requirement translates into higher upfront investment, which dampens the interest of smaller players.

SS pipes & tubes are used in harsh environment as well as for specialized application in mature sectors like oil & gas, petroleum refining, chemical, pharmaceutical, and other similar process industries. Compared to carbon steel pipes, the volume requirement is higher while breaking into large consumer segment is challenging and time consuming. Since, SS tubes form an integral part of any new expansion project in the above-mentioned consumer industries, products are subject to rigorous testing for technical competence post which price comes in.

Although this increases the time required for a manufacturer to bag new orders, a successful track-record provides an advantage which can be leveraged in future contracts & requirements. Any new player entering this industry will have to invest considerable time and capital to develop products that meet the customer standards as well as prove their superiority over existing players.

All these attributes have resulted in creating a high entry barrier in the domestic SS pipes & tubes industry, resulting in a consolidated market. This consolidated nature augurs well for incumbent players as they are well placed to exploit the opportunities arising because of capital investment across key end user consumer segments.

Major Players

Ratnamani Metals & Tubes Limited, Jindal SAW, Maharashtra Seamless Limited, Man Industries and Welspun Corp are few of the major players in the Indian steel pipe & tube segment. All these companies have a wide product portfolio, offering SAW, ERW, seamless and stainless steel pipes & tubes. Among these, Ratnamani and Jindal SAW have an established SS pipes & tubes business, placing them as market leaders in this segment.

Notable Players in Indian Steel Pipe & Tube Industry							
Company	By Variety-Type				By Raw Material Type		
	ERW	SAW	Seamless	DI	Carbon Steel	Mild Steel	SS
Ratnamani Metals & Tubes Limited	✓	✓	✓	✗	✓	✗	✓
Jindal SAW Limited	✗	✓	✓	✓	✓	✗	✓
Maharashtra Seamless Limited	✓	✗	✓	✗	✓	✓	✗
Welspun Corp	✓	✓	✗ ⁴	✗ ⁵	✗	✓	✗
Man Industries Limited	✗	✓	✗	✗	✓	✓	✗

Dun & Bradstreet Research, Company Websites

Key Risk:

- The Company have historically derived, and may continue to derive, a significant portion of their income from their top 10 customers.
- The Company face competition, including from other large and established competitors, and they may fail to compete successfully against existing or new competitors, which may reduce the demand for their Products which may lead to reduced prices, operating margins, profits and further result in loss of market share.
- The Company has not entered into long-term agreements with their customers for purchasing their Products nor for the supply of raw materials with their suppliers. They are subject to uncertainties in demand and there is no assurance that these customers and suppliers shall continue to purchase their Products or sell raw materials to them or that they shall not scale down their orders. This could impact the business and financial performance of their Company.
- The Company is required to obtain consents under certain environmental laws, which are critical for operating their Manufacturing Facility. They have in the past been non-compliant with the requirements under environmental law for their operations and there is no assurance that in the future the company would be able to obtain such consent in a timely manner or at all.
- They face certain challenges because of their limited operating history in the highly competitive stainless steel pipes and tubes market, which may affect their future performance
- The demand in the steel and steel products industry is volatile and a decrease in demand of steel may have a material adverse effect on the business, results of operations, prospects and financial condition.
- The pricing in the steel industry is subject to market demand, volatility and economic conditions. Fluctuations in steel prices may have a material adverse impact on their business, results of operations, prospects and financial conditions.
- A portion of the company's revenues and expenses are denominated in foreign currencies. As a result, they are exposed to foreign currency exchange risks and regulatory changes in foreign exchange management which may adversely impact the results of operations.
- Their raw material cost constitutes a significant percentage of the total expenses.
- The Company rely on their Manufacturing Facility in Kutch, Gujarat, India as their only Manufacturing Facility and any adverse developments affecting this facility and the region could have an adverse effect on their business, results of operations and financial condition.

Valuation:

Venus Pipes and Tubes Ltd is a manufacturer of pipes and tubes with the sole focus on manufacturing of welded and seamless pipes in a single metal category i.e. stainless steel. Being present in only one metal segment since inception, the company have gained segment expertise. The Company supply their Products across a diversified range of sectors and the demand for their product is also expected to increase with growth in downstream sector. The Company is planning to double its capacity and backward integrate with the help of IPO proceeds which will help it to increase its revenue and margins.

The company is available at the upper end of the IPO price band at 21x its FY22 annualized earnings attributable to post issue equity demanding a market cap of Rs. 6,617 million. At the upper end of the IPO price band, the issue is priced at a P/BV of 10.7x based on its NAV of Rs. 30.5 as of March 31, 2021.

The Company has delivered good growth in Sales over past few years along with increasing margin profile. However, Venus faces competition from its peers who hold substantial market share in the SS pipes and tubes market. When compared to its listed peers, Venus seems to be richly priced. We recommend an "Avoid" rating to this IPO.

Peer Comparison:

Name of the company	Total Income for the year end 31st March 2021 (₹ in million)	Face value (₹ per share)	P/E	EPS for Fiscal Year 21		Return on net worth (%)	NAV (Rs per share)
				Basic	Diluted		
Venus Pipes and Tubes Ltd	3,120	10.0	21	18.04	18.04	59.18%	30.48
PEER GROUP							
Jindal Saw Ltd	1,08,720	2.0	8.69	10.02	10.02	4.69%	218.39
Ratnamani Metal & Tubes Ltd	23,415	2.0	37.71	59.07	59.07	13.9%	425.35

P/E Ratio has been computed based on the closing market price of equity shares on NSE on May 9, 2022

P/E Ratio of Venus Pipes and Tubes Ltd is calculated taking FY22 annualized earnings attributable to post issue equity

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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