



IPO Report

12th Feb'24

Snapshot

Vibhor Steel Tubes Limited is manufacturers and exporters of Mild Steel/Carbon Steel ERW Black and Galvanized Pipes, Hallow Steel Pipe, Cold rolled Steel (CR) Strips/ Coils. Company is 2 decades old manufacturer, exporter and supplier of steel pipes and tubes to various heavy engineering industries in India. Steel pipes and tubes can be used for many purposes such as steel pipes for frames and shafts, steel pipes for bicycle frames, steel pipes for furniture, CDW pipes for shockers, steel pipes for various structural purposes, steel pipes for various engineering purposes etc. Company have a very wide range of steel pipes and tubes products.

VALUATION

Company is bringing the issue at price band of Rs 141-151 per share at p/e multiple of 13.5x on post issue annualized H1FY24 PAT basis.

Company has in house designing, engineering and execution team along with strategic location of manufacturing units with strong execution capabilities with industry experience and established track record. Company has experienced promoters and management team with specialised production of stainless-steel Pipes and Tubes.

Hence ,looking after all above we recommend “Subscribe” on issue.

Price Band (Rs./Share)	141-151
Opening date of the issue	13 th Feb '2024
Closing Date of the issue	15 th Feb '2024
No of shares pre issue	14183000 Eq Shares
Issue Size	Rs 72.17 Cr
Fresh issue	Rs 72.17 Cr
No of Shares	5118411-4779444 Eq Shares
Face Value (Rs/ share)	Rs 10/share
Bid Lot	99

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 2374971 Eq Shares)
Non-Institutional	15% of the offer (Approx 712491 Eq Shares)
Retail	35% of the offer (Approx 1662479 Eq Shares)
Employee	29503 Eq Shares
Lead managers	Khambatta Securities Ltd
Registrar to the issue	KFin Technologies Ltd

WHAT WE LIKE

Association with Jindal Pipes Limited

Company benefits from a long-standing relationship with JPL. It started with Job work activity which has now translated into full time production of pipes (0.5 inch to 12 inch) for JPL under brand “Jindal Star” . As per the business agreement dated renewed April 01, 2023, the Company sells all its finished product under brand name “Jindal Star” to JPL and its approved customers based on monthly card rates.

Well-developed distribution and marketing network

With the help of Jindal Pipes Limited, company has developed and implemented a wide range of networking channels throughout the industry and society to strengthen the scope of identifying core customer base and designing right marketing strategies for procurement and liaising of projects to deliver customized solutions for clients. Company’s 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.

Strategic location of manufacturing units

Unit I is located at located Raigad, Maharashtra, which is the best place for export of goods, company export 100% of export sales from Unit I only. Unit II is located around seventy (70) kms from Hyderabad in the Mahabubnagar District, State of Telangana and close to Jadcherla industrial area. This proximity enables ease of logistics, power, water supply and raw materials for company’s operations in Unit I. Skilled personnel for Unit I also come from Hyderabad



COMPANY BACKGROUND

The lengths of the steel pipes & tubes in different ranges unless otherwise specified by the customers. Company manufacture steel pipes and tubes in various shapes and size such square, round, rectangular and elliptical or any special shape. Company is working with Jindal Pipes Limited since 2003. Company manufacture & supply the finished goods for “Jindal Pipes Limited” (“Jindal”) vide the renewed agreement dated April 01, 2023 under the brand name “Jindal Star”. Company have a long term agreement for the six (6) years with the Jindal. Under the agreement Jindal will provide orders with a minimum quantity of 1,00,000 MT per annum to fill majority capacity of Unit I & Unit II of the Company.

Important terms of the Agreement:

- As per the agreement selling price shall be fixed time to time as per mutual agreement depending on the prevailing market price for the end product. However, at no point in time be lower than the raw material price (steel plus consumables) plus variable costs (labour & power).
- Minimum Order: JPL will provide orders with a minimum quantity of 1,00,000 MT per annum to fill majority capacity of Unit I & Unit II of Company.
- In the event of any shortfall in off take by the Jindal Pipes Limited or in supply by the Vibhor Steel Tubes Limited, compensation at Rs. 2,000 per MT of shortfall will be paid by the arring party. However, there will be no compensation liability once the minimum quantity of orders is achieved.
- Vibhor Steel Tubes Limited will allow turnover discount 2% of net sales price to Jindal Pipes Limited.
- The tenure of this agreement is for six years from April 01, 2023 and can be further renewed if required by both the parties.

A brief discussion about the continuity of the business in case of any disruption in agreement:

Company understand that there is risk involves that if there is any change or disruption in agreement, company’s business will affect accordingly for the short period but not effect significantly due to the following reasons:

1. The industry under which company operate i.e. “Steel Pipes & Tubes Industry” is so huge and there are so many organised & unorganised players in the market. In case of disruption in agreement company’s margins will affect slightly for a shorter tenure but its revenue will not affect as company have strong connections in the market & have a good customer base.

Currently company’s margins are in line with the margins of listed industry players such as Rama Steel Tubes Limited, Hi-Tech Pipes Limited etc. Company have a big opportunity as a manufactures of steel Pipes & Tubes products in the domestic market as well as in export market. There is huge demand in the market so if the agreement will get disrupt, company should not face any problem in maintaining company’s production volume. The production of steel tubes and pipes grew at a CAGR of about 10% in the past 5 years from FY19-FY23. Of these years, the industry has witnessed a decline only in FY21 due to the outbreak of Covid-19. During FY23, the production increased by 27.3% y-o-y backed by healthy domestic demand. During YTD FY24, the production of steel tubes and pipes increased by 16.2% on a y-o-y.

The consumption of steel tubes and pipes in India has grown steadily at a CAGR of 8.5% from 5,253 thousand tonne in FY19 to 7,282 thousand tonne in FY23. After witnessing an uptrend till FY20, the industry observed a de-growth of 14.7% in consumption during FY21 due to the pandemic. During FY23, the industry witnessed a strong growth of around 29.3% y-o-y in consumption on account of the factors such as improvement in construction and real estate activities, continuous investment in infrastructure and policy support by the government.



INVESTMENT RATIONALE

<p><i>Experienced promoters and senior management team</i></p>	<p>Company’s two Promoters, Mr. Vijay Kaushik and Mr. Vibhor Kaushik are qualified professionals with an individual experience of more than 4 & 2 decades respectively in the Steel Pipes & Tubes industry and have been instrumental in driving company’s growth since inception of company’s business. Company’s management team's experience and their understanding of the industry will enable company to continue to take advantage of both current and future opportunities. A large number of company’s senior management personnel have worked with company for a significant period of time, resulting in effective operational coordination and continuity of business strategies. They have led the organization through acquisitions, development of new systems and components etc</p>
<p><i>International Accreditations</i></p>	<p>As company sell its product under the brand name “Jindal Star” for Jindal Pipes Limited. Company follow international standard manufacturing practises and company’s Manufacturing Facility benefits from the quality benchmarking certifications such as (i) ISO 9001:2015 for manufacturing & supply of ERW Steel Pipes-Black & Galvanized with certificate number 10116-AQMS-0216 approved by Global Accreditation Board and International Council of Accreditation Bodies issued by Acerna Management Systems Private Limited, a third party (ii) IS 1239:2004, IS 3601:2006, IS 3589:2001 from Bureau of Indian Standards Such practices and accreditations, coupled with company’s technical capabilities and know-how enable company to manufacture products for both domestic and international customers</p>
<p><i>Export of finished goods</i></p>	<p>Company export its manufactured goods for the Jindal Pipes Limited under the brand of Jindal to the overseas customers. Company directly deal with its foreign customers & deliver the products directly to customers and also invoice them directly instead of Jindal. Currently company is focusing to increase its export sales.</p>



OBJECTS OF OFFER

Fresh Issue

The net proceeds of the Issue, i.e. gross proceeds of the Issue less the issue related expenses (“Net Proceeds”) are proposed to be utilised in the following manner:

- i. Funding of working capital requirements of Company; and
- ii. General corporate purposes

RISKS

Company has entered into long-term agreements with Jindal Pipes Limited purchasing its Products, in case of any disruption in agreement, company’s business, revenue & result will affect accordingly.

Source:RHP

INDUSTRY OVERVIEW

Outlook

The growth momentum of the steel pipes and tubes is expected to continue in the medium term backed by rising demand from key end-user industries including oil & gas, infrastructure, real estate, etc.

•**Oil and gas:**It is expected that an increase in the length of Natural Gas pipelines by 2024-2025 will contribute towards expansion of steel pipe production. The natural gas sector that already has seen the announcement of ‘One nation, one gas grid’ initiative, will attract new investments in India’s natural gas infrastructure. It is expected that the gas pipeline network which has already crossed 23,000 km currently, will reach to 35,000 km in the coming 4-5 years. The efforts of moving towards the gas based economy along with implementation of city gas distribution networks is expected to augment the demand for pipes going forward. Along with this, the increase in CNG stations, bio-refineries, bio plants etc will support the infrastructure for gas.

•**Housing development:** The trend for affordable housing is picking up in India along with an increase in urban infrastructure. Rising income and employment opportunities have led to migration to urban areas thereby creating greater need for real estate in major Indian cities. There is significant thrust on providing housing for all under the Pradhan Mantri Awas Yojana (PMAY) scheme, an initiative taken by the Government to provide affordable housing to the urban poor and the scheme has been getting steady allocation under the union budget.

In the latest budget 2023-24, there has been increase in allocation towards PMAY scheme to Rs. 79,590 crore from Rs. 77,130 crore in 2022-23. Further, the sustained efforts in sanctioning and completing a substantial number of houses under both PMAY-Urban and PMAY- Gramin schemes demonstrates the government's commitment towards promoting affordable housing and improving living conditions for individuals and families across the country.

•**Water and irrigation:**The demand for steel tubes and pipes will expand as there is vast usage from agriculture sector especially, for use of irrigation.The ‘Atal Mission for Rejuvenation and Urban Transformation’ (AMRUT) scheme, which focuses on the development of basic infrastructure in selected cities and towns, focuses on the development of water infrastructure in the sectors such as water supply, storm water drainage, sewerage and septage management, green spaces and parks, and non-motorized urban transport. In addition to that, the ‘Atal Bhujal Yojana’ (Atal Jal) scheme which is focused on improving ground water management through community, will also lead to infrastructure development. Another initiative ‘Jal Jeevan Mission’, to provide safe and adequate drinking water to all households in rural India by 2024, launched by the Government will also contribute towards the development of water infrastructure. This programme has already covered nearly 65% rural households in past 4 years. The mission has always seen a consistent allocation in budget every year. In the Union budget 2023-24, the allocation has increased to Rs. 70,000 crore from Rs. 55,000 crore(Revised estimate of 2022-23).



Consolidated Financials

(Rs in Mn)

	FY21	FY22	FY23	H1FY24
Total Revenue (A)	51046.68	81799.60	111311.90	53051.10
Total Expenditure (B)	49159.22	78829.96	106753.38	50755.15
EBIDTA	1887.46	2969.64	4558.52	2295.95
EBIDTA Margin	3.70	3.63	4.10	4.33
Other Income	104.29	48.46	125.92	73.23
Depreciation	658.46	612.09	636.51	358.94
EBIT	1333.29	2406.01	4047.93	2010.24
Interest	917.29	869.80	1225.57	874.96
PBT	416.00	1536.21	2822.36	1135.28
Tax	347.17	403.10	715.74	283.06
PAT	68.83	1133.11	2106.62	852.22
NPM	0.13	1.39	1.89	1.61
ROE%	1.14	15.74	22.60	8.37
EPS	0.49	7.99	14.85	6.01
Eq Cap	1,418.30	1,418.30	1,418.30	1,418.30
Net Worth	6,048.99	7,197.29	9,319.79	10,175.54

(Source: RHP)

Peer Comparison

Company Name	Face value	P/E	Total Income (Rs in Lakhs)	EPS	NAV	ROE %
<i>Vibhor Steel Tubes Limited</i>	<i>10</i>	<i>NA</i>	<i>111437.82</i>	<i>14.85</i>	<i>65.71</i>	<i>22.60</i>
Peers						
APL Apollo Tubes Limited	2	64.88	1621313	23.14	108.37	21.36
Hi-Tech Pipes Limited	1	47.91	238810.94	2.18	32.71	9.01
Goodluck India Limited	2	31.01	308680.16	33.31	227.47	14.16
Rama Steel Tubes Limited	1	37.75	133675.42	1.16	5.37	10.97

(Source: RHP)



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