Venus Pipes and Tubes Limited
Oct 01, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term bank Facilities	149.63 (reduced from Rs 160.22 Crore)	IVR A/Stable (IVR Single A with Stable Outlook)	IVR A-/ Stable (IVR Single A Minus with Stable Outlook)	Upgraded	**Simple**
Short Term bank Facilities	22.00	IVR A1 (IVR A One)	IVR A2+ (IVR A Two Plus)	Upgraded	**Simple**
Total	**171.63**	**Rupees One Hundred Seventy One Crores and Sixty Three Lakh Only**			

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings (IVR) has upgraded the long-term rating to IVR A with Stable Outlook and short-term rating to IVR A1 for the bank loan facilities of Venus Pipes and Tubes Limited (VPTL).

The rating upgrade takes into consideration the improvement in scale of operations & profit margins on account of backward integration and capacity enhancement. Further financial risk profile continues to remain healthy albeit elongated operating cycle, besides company benefits from experienced management & long-standing Relationships with the clients. However, these strengths are partially offset by project execution risk on account of inherent risk associated with capex of Rs 175 crore to set up fittings and wielded tubes capacities, including titanium grade which will increase its overall manufacturing capacity in two phases by 7,200 MTPA, competitive, fragmented & cyclic nature of industry coupled with susceptibility of operating margins to any adverse movement in the raw materials

The stable outlook indicates a low likelihood of rating change in the medium term. IVR believes that the VPTL's business & financials risk profile will be maintained over the medium term. The company scale of operations has improved in FY24 and registered improved revenue in Q1FY25 against Q1FY24.

IVR has principally relied on the standalone audited financial results of VPTL up to FY24 (refers to 1 April 2023 to 31 March 2024), Q1FY25 (refers to 1 April 2024 to 30 June 2024) & projected financials from FY25 to FY27 (refers to 1 April 2024 to 31 March 2027), and publicly available information/clarifications provided by the company's management.

Key Rating Sensitivities:
Upward Factors

- Sustained growth in revenue while maintaining healthy profitability, debt protection metrics & liquidity profile of the company.
- Improvement in working capital cycle on sustained basis.

Downward Factors

- Significant reduction in the scale of operations & profitability impacting the debt coverage indicators along with deterioration in overall gearing.
- Elongation of operating cycle beyond 120 days on sustained basis.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Management and long-standing Relationships with the clients
The top management consisting of the promoters Mr. Megharam Chaudhary, Mr. Jayantiram Chaudhary, Mr. Arun Kothari and Mr. Dhruv Patel have extensive experience in the industry of steel pipes and tubes manufacturing for more than a decade. They have developed long standing relations with the both the customer & Supplier side clients leading to growth in the recent years.

Improved scale of operations & profit margins
The company has shown improved performance over the past years, having CAGR of ~37% during FY21-FY24. Total revenue of the company has improved significantly by ~45% i..e from Rs 554.79 Crore in FY23 to Rs 805.37 Crore in FY24. The revenue is mainly consisted of the seamless pipes & tubes ~57% while welded pipes & tubes contributed ~39% and rest from others. Volume wise seamless pipes registered growth of 87% on a Y-o-Y basis with revenue of Rs. 459.7 Crore in FY24 as compared to Rs. 245.93 Crore in FY23, whereas welded pipes segment grew by 24% from Rs 252.51 Crore in FY23 to Rs 313.2 Crore in FY24 on Y-o-Y basis. The company had outstanding orderbook of Rs 260.94 Crore as on 1.07.2024 indicates short to medium-term revenue visibility. The company has done well in Q1FY25 and registered improved sales by ~34% of Rs 241.15 Crore in Q1FY25 against Rs 180.16 Crore in Q1FY24 whereas absolute EBITDA improved from Rs 28.10 Crore in Q1FY24 to Rs 48.88 Crore in Q1FY25. The company has improved profit margins in FY24 i.e. operating margins of the company improved to 18.24% in FY24 against 12.51% in FY23, whereas PAT margins improved to 10.68% in FY24 against 7.97% in FY24. Improvement in margins is driven by backward integration and improved production efficiency coupled with a greater share of high-margin orders from value-added products.

Healthy financial risk profile

VPTL's has comfortable capital structure, with overall gearing stood at 0.37x in FY24 against 0.28x in FY23 owing to good net-worth (TNW) of ~Rs 405 in FY24 (PY: ~Rs 322 Crore) as compared to the total debt. The long-term debt equity ratio and TOL/TNW ratio is comfortable at 0.12x in FY24 (PY: 0.11x) and 0.87x in FY24 (PY: 0.58x) respectively. The current ratio of the company remains comfortable at 1.47x in FY24 (PY: 1.90x) indicates the company ability to meets current liabilities from its current assets comfortably. The company has strong debt protection matrices with interest service coverage ratio (ISCR) of 6.63x in FY24 (PY: 7.02x) and debt service coverage ratio (DSCR) is strong at 4.01x in FY24 (PY: 3.74). The financials risk profile continues to be strong albeit high operating cycle, which remains on the higher side at 97 days in FY24 (PY: 103 days) mainly due to elongated inventory period of 109 days in FY24 (PY to 98 days) To mitigate the risk, VPTL has also increased their working capital limit considering the incremental working capital requirement owing to the increase in the scale of operations.

Key Rating Weaknesses

Project execution risk

In order to strengthen its market position, product diversification & achieve better economies of scale and profitability, company has planned Capex of Rs 175 crore over the next two fiscals to set up fittings and wielded tubes capacities, including titanium grade which will increase its overall manufacturing capacity in two phases by 7,200 MTPA. The capex will be funded through a mix of equity, internal accrual and debt, with marginal impact on gearing, considering the strong net worth and healthy internal accrual. However, company is exposed to inherent risk in terms of delays in project execution, cost & time overrun which may arise due to arranging infrastructure, timely clearances and other external factors. Timely completion of capex with no major cost overrun & time over will be key monitorable.

Competitive, fragmented and cyclic nature of industry

The steel industry is highly fragmented and competitive in nature with direct competition from several players from various organised and unorganised players. Intense competition from the peers could exsert pressure on the pricing of the products which could affect the profit margins of the company. In addition to that, steel industry is cycle in nature i.e. sensitive to the business cycles, economy growth and any changes in the demand & supply conditions in the sectors like real estate, construction, and infrastructure mainly. Revenue growth of the company likely to be affected in the periods of economy slowdown & contraction and vice versa. which directly expose the company's cash flows and profitability to volatility of the steel industry. However, VPIL's long-established track record of operations mitigates the risk to an extent.

Susceptibility of operating margins to any adverse movement in the raw materials

The major raw material like HR Coils, round bars are the major contributor of the overall raw material cost and have shown volatile price trends in the past. Since the raw material is the major contributor in the overall cost, so any adverse change in the prices of raw materials can affect the operating margins of the company. Volatility in prices of raw materials and company ability to pass the same to the customers will remain the key monitorable.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria for assigning Rating outlook.
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The company had generated gross cash accruals (GCA) of Rs. 103.76 crore against repayment maintain of Rs. 9.30 crore in FY24 and expecting to generate cash accruals of more than Rs. 100 crores against repayment maintain of Rs. 15.20 crore for FY25 The average working capital utilization of the company remained comfortable at ~55% for last 12 months till Aug 2024, which provides cushion to the company to use unused working capital limits in case of any requirement while scaling up its operations. The company also has a comfortable current ratio of 1.47 in FY24 & expected to remain comfortable in next FYs. As of March 31, 2024, free cash and cash equivalents amounting to ~Rs 4 Cr., which increased to around Rs 16 Cr. by June 30, 2024. Liquidity is expected to remain adequate

About the Company

Incorporated in 2015, Venus Pipes and Tubes Limited (VPTL) is a growing seamless and welded stainless steel pipes & tubes manufacturer. The company is engaged in manufacturing of all kinds of pipes & tubes including stainless steel tubes. VPTL is promoted by Mr. Megharam Choudhary, Mr. Jayantiram Choudhary, Mr. Arun Kothari, Mr. Dhruv Patel. VPTL had started its commercial operations from January 2016 from its manufacturing unit located in Dhaneti. Currently the company has capacity of 14,400 MTPA of seamless pipes, 24,000 MTPA for Welded pipes makes combined total capacity of 38,400 MTPA, whereas 9,600 MTPA capacity of manufacturing of mother hollow pipes provides strategic backward integration. The company is an ISO 9001:2015, 14001:2015 and BS OHSAS 18001:2007, PED 2014/68/EU & ADW / AD 2000 - Merkblatt WO certified company.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	552.39	802.20
EBITDA	69.10	146.30
PAT	44.20	85.98
Total Debt	90.46	149.32
Tangible Net Worth	322.10	405.25
EBITDA Margin (%)	12.51	18.24
PAT Margin (%)	7.97	10.68
Overall Gearing Ratio (x)	0.28	0.37
Interest Coverage (x)	7.02	6.63

** Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Security /Facilities	Ratings (2024-25)			Rating History for the past 3 years		
		Type (Long Term/ Short Term)	Amount outstanding (Rs. Crore)	Current Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Long Term bank Facilities	Long Term	149.63	IVR A/ Stable	IVR A-/ Stable (Aug 18, 2023)	IVR BBB+/ Stable (July 22, 2022) IVR BBB/ Stable (April 19,2022)	-
2.	Short Term bank Facilities	Short Term	22.00	IVR A1	IVR A2+ (Aug 18, 2023)	IVR A2 (July 22, 2022) IVR A3+ (April 19,2022)	-

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About Infomerics:
Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).
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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Fund-Based Bank Facilities – Term Loan/GECL	-	-	-	TL1 by Nov,2025 TL2 by Aug,2027 GECL1 by Aug,2024 GECL2 by Dec,2025	0.41 32.47 0.38 1.37	IVR A/ Stable
Fund-Based Bank Facilities – CC	-	-	-	-	115.00	IVR A/ Stable
Non-Fund-Based Bank Facilities – LC	-	-	-	-	22.00	IVR A1

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-VPTL-oct24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.