

Company Overview

Incorporated in 2003, Vibhor Steel Tubes Limited is a manufacturer and exporter of Mild Steel/Carbon Steel ERW Black and Galvanized Pipes, Hollow Steel Pipe, and Cold rolled Steel (CR) Strips/Coils to various heavy engineering industries in India. Its product portfolio comprises of ERW pipes which find application in water transport, oil, gas, and other non-toxic supplies, while hot-dipped galvanized pipes find extensive application in agriculture and infrastructure. In addition, the company makes hollow section pipes in square and rectangular forms, primer-painted pipes as well as crash barriers for application in railways, highways, and roads. The company has established a longstanding partnership with Jindal Pipes Limited since 2003. It has a contract to manufacture and supply 100,000 MT of pipes for Jindal Pipes annually till 2029 starting April 2023, under the renowned brand name 'Jindal Star'. Currently, the company has two manufacturing facilities located at Raigad in the state of Maharashtra and Mahabubnagar district in the state of Telangana. The total capacity of the company combining the two plants is at 2.21 MTPA, which the company plans to expand by 1.2 MTPA to 3.41 MTPA in the next few years. For storing its products, VSTL also has a warehouse in Hisar in the state of Haryana. The Maharashtra unit's stability is ensured by the company's existing presence in the export market, while the Hyderabad unit is safeguarded by the company's experience in producing highway guardrail products. The company has been granted an allotment letter for land to establish a new facility of Vibhor Steel Tubes Limited in Odisha. Given that Odisha is the largest iron market, this move is poised to reduce the company's raw material costs and enhance profit margins in future. As on 30 September 2023, the company had a total of 636 employees on its rolls.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Funding of long-term working capital requirements of the Company;
- ⇒ General corporate purposes.

Investment Rationale

Strategic alliances and efficient operations driving growth

The association between VSTL and Jindal Pipes Limited (JPL) underscores a strategic partnership that has propelled the company's growth trajectory. Leveraging a long-standing relationship between the promoters of both entities, VSTL benefits from a seamless business relationship with JPL, marked by transparency in pricing and effective procurement processes. Through the production of pipes under the renowned brand "Jindal Star," VSTL not only secures a steady stream of orders but also taps into JPL's extensive network of customers. This symbiotic alliance not only ensures consistent demand but also fosters trust and reliability in the market. Additionally, VSTL's strategic manufacturing locations in Raigad, Maharashtra, and Mahabubnagar district, Telangana, further optimize operational efficiency. The proximity to key industrial areas facilitates streamlined logistics, access to essential resources, and a skilled workforce, thereby enabling the company to meet customer demand effectively. The combined expertise of the promoters, Mr. Vijay Kaushik and Mr. Vibhor Kaushik, with decades of experience in the steel pipes and tubes industry, underscores VSTL's commitment to excellence and innovation. Through strategic alliances, efficient operations, and experienced leadership, VSTL is poised for sustained growth and market leadership in the steel tubes segment.

Global expansion strategy and diversified operations enhance resilience

VSTL's commitment to diversification and global expansion positions the company for long-term success and resilience in the competitive marketplace. By leveraging its partnership with Jindal Pipes Limited and capitalizing on established networking channels, VSTL has successfully exported its products to ten countries worldwide under the prestigious brand "Jindal Star." This strategic approach not only enhances the company's brand visibility but also mitigates risks associated with operating in limited geographical areas. By diversifying its operational footprint, the company guards against the impact of localized economic fluctuations and ensures sustained revenue streams. Furthermore, VSTL's distribution and marketing network, coupled with a focus on customer service excellence, facilitate efficient supply chain management and short turnaround times for product delivery.

Issue Details

Offer Period	13 th Feb 2024 - 15 th Feb 2024
Price Band	Rs. 141 to Rs. 151
Bid Lot	99
Listing	BSE & NSE
Issue Size (no. of shares in mn)	4.78
Issue Size (Rs. in mn)	721.7
Face Value (Rs.)	10
Issue Structure	
QIB	75%
NIB	15%
Retail	10%

BRLM	Khambatta Securities Ltd.
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Registrar	Kfin Technologies Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoter and Promoter group	98.2	73.5
Public	1.8	26.5
Total	100.00	100.00

(Assuming issue subscribed at higher band)

Research Team - 022-61596138

Vibhor Steel Tubes Ltd.

Valuation

VSTL emerges as a pivotal player within the Indian steel industry, set against the backdrop of a burgeoning demand landscape and ambitious national targets for per capita steel consumption. Despite India's per capita finished steel consumption standing at 81 kg, significantly below the global average of 222 kg, the National Steel Policy 2017 envisions a substantial increase to 158-160 kg per capita by FY31, highlighting the sector's significant domestic potential in driving economic growth. The qualitative advantages of VSTL underscore its competitive positioning and operational strengths. With an integrated in-house design, engineering, and execution team, the company maintains meticulous control over quality and costs, enhancing its ability to meet client requirements efficiently. Moreover, its longstanding client relationships, built on a foundation of strong execution and quality, further reinforce its market standing. Notably, the company's specialization in certain products has established it as a preferred supplier, fostering an advantage within a limited competitive landscape. Delving into the financials of VSTL reveals a pattern of robust and stable revenue growth, with sales nearly doubling over the past three years. Despite relatively lower net profit margins compared to industry peers, attributed to a lack of pricing power, extra discounts to their largest customer, and front-loading of costs, the company maintains attractive returns on equity of 25.5% and return on capital employed of 16.5%, supported by lean equity and asset base. Of particular note is the company's commendable asset turnover rate, averaging around 3.8X in the latest fiscal year, signifying efficient asset utilization and operational excellence. However, the rising debt cost in the last two years need to be monitored going forward. While the value-added steel products business entails front-loaded costs, the trajectory suggests higher risks in the initial phases, gradually transitioning to lower risks as operations mature. **In terms of valuation, the upper band pricing translates to a P/E of 10.2x based on FY23 EPS. This valuation appears attractive, especially considering the company's outperformance compared to its listed peers by a considerable margin in terms of both valuation and returns. We, therefore, give a "SUBSCRIBE" rating to the IPO.**

Key Risks

- ⇒ The company is dependent on Jindal's success and reputation, potential insolvency, market fluctuations, and regulatory changes. Legal proceedings pose further threats, with adverse decisions impacting business stability and financial condition.
- ⇒ The company has renewed agreement with Jindal Pipes Ltd., ensuring a fixed selling price, a minimum of 100,000 MT orders annually, and compensation for shortfalls along with a 2% turnover discount. Any disruption of this agreement would affect revenue and reduce profitability significantly.
- ⇒ The company has entered into long-term agreements with Steel Authority of India Ltd. and JSW Steel Ltd. for the supply of raw materials. In case of any disruption in the agreement, VSTL's cost, revenue and profits will be heavily impacted.
- ⇒ Legal proceedings involving the company, its promoters, the directors, and group companies pose risks. Any adverse decisions could materially impact business, operations, and financial conditions, highlighting vulnerability to legal outcomes.

Vibhor Steel Tubes Ltd.

Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
Revenue				
Revenue from Operations	5,105	8,180	11,131	5,305
Total Revenue	5,105	8,180	11,131	5,305
Expenses				
Cost of Raw material consumed	4,173	7,518	10,651	4,864
Changes in inventories of finished goods	363	(67)	(523)	(67)
Employee benefit expenses	136	150	175	92
Other expenses	243	282	372	186
Total Operating Expenses	4,916	7,883	10,675	5,076
EBITDA	189	297	456	230
Depreciation and Amortization expenses	66	61	64	36
Other income	10	5	13	7
EBIT	133	241	405	201
Finance costs	92	87	123	87
PBT	42	154	282	114
Current tax	17	42	72	31
Deferred Tax charge/ (credit)	18	(2)	(1)	(3)
Total tax	35	40	72	28
PAT	7	113	211	85
Diluted EPS	0.49	7.99	14.85	6.01

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
Cash flow from operating activities	454	-345	70	-82
Cash flow from investing activities	-9	-41	-155	-165
Cash flow from financing activities	-365	441	131	255
Net increase/(decrease) in cash and cash equivalents	80	55	46	9
Cash and cash equivalents at the beginning of the period	74	155	210	256
Cash and cash equivalents at the end of the period	155	210	256	264

Source: RHP, BP Equities Research

Vibhor Steel Tubes Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
Equity and Liabilities				
Equity Share Capital	142	142	142	142
Other Equity	463	578	790	876
Instruments entirely equity in nature	0	0	0	0
Non-controlling interest	0	0	0	0
Total Equity	605	720	932	1,018
Non-Current Liabilities				
Financial Liabilities				
(i) Long term Borrowings	76	142	135	194
(ii) Lease liabilities	0	0	0	0
Provisions	8	8	9	11
Deferred tax liabilities (net)	18	16	16	12
Current Liabilities				
Financial Liabilities				
(i) Short Term Borrowings	666	1,128	1,389	1,672
(ii) Lease liabilities	0	0	0	0
(iii) Trade Payable	329	426	416	783
(iv) Other financial liabilities	11	17	13	24
Current tax liabilities (net)	-	4	7	-
Provisions	1	1	1	1
Contract Liabilities				
Other current liabilities	16	22	18	49
Total Current Liabilities	1,023	1,598	1,844	2,530
Total liabilities	1,124	1,766	2,004	2,747
Total Equity and Liabilities	1,729	2,485	2,936	3,765
Assets				
Non-Current Assets				
Property, plant and equipment	520	499	543	629
Capital work in Progress	-	-	-	8
Goodwill	0	0	0	0
Right of Use assets	0	0	0	0
Intangible assets	0	0	0	0
Other Intangible Assets	0	0	0	0
Intangible assets under development	0	0	0	0
Deferred tax assets (net)	0	0	0	0
Financial Assets				
Other financial assets	6	5	7	11
Non Current tax assets(net)	0	0	0	0
Other non current assets	4	14	71	111
Total Non current assets	530	518	622	759
Current Assets				
Inventories	511	1,012	1,203	1,499
Financial Assets				
(i) Trade Receivables	393	448	544	736
(ii) Cash and cash equivalents	58	126	94	60
(iii) Loans and Advances	0	0	0	0
(iv) Balance other than bank	97	84	161	204
(v) Other financial assets	79	61	89	99
Other current assets	58	236	222	399
Current Tax Assets (net)	4	-	-	9
Total Current Assets	1,199	1,967	2,315	3,006
Total Assets	1,729	2,485	2,936	3,765

Source: RHP, BP Equities Research



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Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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