"Venus Pipes and Tubes Limited

Q3 FY '23 Earnings Conference Call"

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MODERATOR: **MR. PALLAV AGARWAL – ANTIQUE STOCK BROKING**

Moderator: Ladies and gentlemen, welcome to the Q3 and 9 months FY '23 Earnings Conference Call of Venus Pipes and Tubes Limited hosted by Antique Stock Broking. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements do not guarantee the future performance of the company, and it may involve risks and uncertainties that are difficult to predict.

I now hand the conference over to Mr. Pallav Agarwal from Antique Stock Broking. Thank you, and over to you, sir.

Pallav Agarwal: Yes. Thank you, Dorwin, and good afternoon, everyone. On behalf of Antique Stock Broking, I welcome you all to the third quarter earnings conference call of Venus Pipes and Tubes Limited. We are pleased to have the senior management team represented by Mr. Arun Kothari, the Managing Director and CFO, Mr. Dhruv Patel, who is the Whole Time Director, and Mr. Kunal Bubna, President, Finance and Accounts. So we will start with opening remarks from the management, followed by a question-and-answer session.

So now I would like to hand over to Arun ji for his opening remarks. Over to you, Arun ji.

Arun Kothari: Good afternoon, and a warm welcome to everyone on the Q3 and nine months FY '23 earning call for Venus Pipes and Tubes Limited. Today, I have been joined by Mr. Dhruv Patel, our Whole Time Director, Mr. Kunal Bubna, President for Finance and SGA, our Investor Relations advisor. We have uploaded our Q3 and nine months FY '23 investor presentation on stock exchanges and company's websiteand I hope you had an opportunity to go through the same. To begin with, I will take you all through the major development in Q3, after which we'll give the operational and financial highlights. Post these, we'll open the floor for question and answers.

During the quarter ended December '22, we saw a major reform in the industry, which was the approval of Anti-Dumping Duty by the Ministry of Finance on seamless stainless steel pipes and tubes imported from China. The duty on seamless pipe is in addition to already existing ADD on welded pipe. Mother hollow pipes are also under the purview of this, which is the key raw material to manufacture seamless pipes. The ADD will boost the domestic manufacturing for our industry and will help in import substitution. With scale and operating leverage, we will be perfectly placed for exports.

This ADD will also be a catalyst for the market share expansion of the organized player as the RM cost will go up and the unorganized sector will have to either import at higher cost or procure from the organized players. We are amid our capacity and hence are better placed to capture more market share from the unorganized sector. The BSE Capital Goods Index has grown 19% during April to December '22, beating the benchmark Sensex 7.9% increase. The growth of this industry is driven by the private capex flow, which is led by government orders and infrastructure push. With capex cycle on revival stand, multiple opportunities will be open to us.

India’s attractive, attractiveness as a manufacturing destination has been rising because of competitive labor costs and its ability to build manufacturing units at less cost than the developed nation. Once our capacity expansion plans get commissioned in Q1 FY '24, we will have an edge in this multiple growth setup.

During the quarter, the company has upgraded the tube mill, which will increase its efficiency. It's due to this focus on efficiency, quality and better client relationship, which has resulted in our direct domestic sales growing by 107% year-on-year in nine months, FY '23. Export growth slowed down during the quarter due to impact by inflationary environment and geopolitical tension in the EU. However, due to economic slowdown and inflationary environment in Europe, some effect can be expected in Q4 as well. We expect this to recover in the coming quarter in FY '24.

The company has already set up market for higher capacity of the pipe. As our samples are approved, by the time we start steel production we will have a customer base ready to supply and also we will have new customers, in this quarter in different sectors including engineering, chemical, pharma, fertilizer, etcetera. Slitting mill wherein the coils are slitted have become operational in this quarter.

Machines for manufacturing of hollow pipes and few of the seamless pipes have arrived on site and installation is under process. We target to start both piercing machine for the hollow pipe and for the seamless pipe region by March '23. For the major machine for the welded pipe region, like JSW Press and Tube Mill has also been dispatched by the supplier and will be soon received at plant site. And Tube Mill and LSaw division is expected to begin by Q1FY '24.

Now I am handing over to Mr. Kunal Bhumna, President, Finance and Accounts to take you through the operation and financial highlights of the quarter.

Kunal Bubna: Good afternoon, everyone, and a very warm welcome to our earning conference call. I will start with the topline. Revenue from operations for Q3 FY '23 stood at INR 136 crores as compared to INR 106 crore in Q3 FY '22, and it is INR 126 crores in Q2 FY '23, a growth of 28% on a year-to-year basis and 8% on quarter-to-quarter basis. Revenue from operations for nine months of FY '23 stood at INR 376 crores as compared to INR 277 crores during the same period of FY '22, achieving a growth of 36%. Revenue bifurcation for the quarter was 45% for welded, 45% for seamless and 10% from others. Growth in seamless segment was 82% for Q3 FY '23 on yearly basis.

The dependency on stockiest trader has gone down substantially from 36% in Q3 FY '22 to 30% in Q3 FY '23. This channel continues to be a stable supply source but due to low margin we have reduced its share in the total pie. Our domestic sales to brands are up by 72% Y-on-Y in Q3 FY '23 and 107% Y-on-Y in 9MFY '23. On the gross profit margin for the quarter, for that 19.7% as compared to 18.6% in Q3 FY '22, a jump of 111 BPS on Y-on-Y basis.

On the EBITDA front, EBITDA stood at INR 17.5 crores in Q3 FY '23 as against INR 12.8 crores in Q3 FY '22 and INR 15.5 crores in Q2 FY '23, a year-on-year growth of 37% and a Q-on-Q growth of 13%. EBITDA is INR 47.5 crore for 9MFY '23 as against INR 35.5 crores in 9MFY '22 to a growth of 34%. On the PAT front, PAT for the quarter is INR 11.2 crore as compared to INR 7.9 crore in Q3 FY '22, a growth of 42% year-on-year. For 9MFY '23 is INR

30.74 versus INR 23.6 crore in 9MFY '22, a growth of 30%. The demand scenario going forward looks robust. We are targeting new sectors, new geographies, and I think that our products will have more utility within our existing supply sectors.

With this, I would like to open the floor for the Q&A round.

Moderator: The first question is from the line of Karan Mehraj from Mehta Investments.

Karan Mehraj So I have a few questions. Can you give any guidance as to how much market share can be captured from unorganized sector, post this ad completely?

Kunal Bubna: Yes, see we believe definitely, with this expansion of increase of 1,000 ton in welded and basically 1,300 ton in welded and 500 ton in seamless. We will be having incremental capacity of 1800 tons and we believe with this expansion our direct clienteles and all where we are going with and you would have also seen the percentage of direct supply has been increasing. We believe we will be able to take around at least 4% to 5% further share from the market.

Karan Mehraj So sir, will we see a reduction in the working capital cycle post the backward integration is commissioned?

Kunal Bubna: Yes, if you see, the working capital cycle for this quarter was around 120 to 125 days. But even if you look at the run rate of sales, what we have achieved in this quarter is around 45 crore. And if I postulate that for the annual basis, it will be less than 110 days. The whole objective is that the forward going there will be increasing the order book as compared to what it is currently around 100 days or something sort of that. But the whole target will be not to increase those working capital cycle, keep it increasing the order book but keeping it intact around 100, 110 days only.

Moderator: The next question is from the line of Darshil Pandya from Finterest Capital.

Darshil Pandya: Sir, I have two questions for you. What is the debt level as on December 2022?

Kunal Bubna: Around INR 95 crores.

Darshil Pandya: INR 95 crores. And sir, one was I was going to the state-wise revenue split. So on Q2 to Q3 basis, there has been a steep increase in Gujarat -- that's only in the Gujarat state, in Q2, we are seeing 28% of revenues split, this time it's 39%. So why has there been so much changes in the revenue split? Is there anything special, what is it?

Kunal Bubna: See, if you see on a such on a Q3 basis for a nine-month basis, our share from Gujarat portion has decreased from 55.7%. I'm telling for 9MFY '22 to 9MFY ’23, because quarter-to-quarter, it can vary. But after nine months basis, if you see, it was 55.7 for Gujarat region which has reduced to 36.9%. But those gaps have been fill in other states, like I would like to tell you from 4.7% from Telangana to 10.1% for nine months ended FY '23. Similarly, for other states, which was 9.4%, it increased to 20.4%. And also, there has been a marginal increase in Maharashtra state from 30% to 32.6%.

Darshil Pandya: And one final question, sir. So the capacity expansion, which we are planning out. So is there, we've made any predictions as to what the incremental revenue will be and the incremental probably, utilization?

Kunal Bubna: See, what we believe the -- you will be starting up the seamless capacity by -- in the month of -- March '23 and the leftover welded that is tube mill & LSAW so both the capacity in the first quarter of FY '24. So if you see post first quarter, the entire plant would be operational. But definitely, the capacity would be jumping up on each quarter basis. So we believe definitely whatever volume and sales topline, what we have achieved, it will definitely be at least plus 50% or more than that in the coming FY '24.

Darshil Pandya: And just one final question sir. So by, , when will this plant be completely operational?

Kunal Bubna: Yes, it will be, as I said, the entire capacity would be operational by the first quarter of FY '24. And post that I mean to say, that the capacity utilization will definitely on the first day will not come in entirety, but over each quarter, those capacities would be increasing.

Moderator: We have the next question from the line of Nirav Shah from GeeCee Investments.

Nirav Shah: Congratulations on a steady-state of numbers. I have a couple of questions, sir. So first is, post the imposition of ADD, how have the market reacted in terms of how are the spreads between round bars and hollow pipes been, because if they have increased and we are commissioning of piercing millers at an opportune time, so how do we expect to benefit from that? So what were the historical spreads between the round bars and hollow pipes and what are they currently at?

Kunal Bubna: Definitely there was a good amount of anticipation in the market that these things will definitely come up and which ultimately ended up in December. So see what we have seen the round bar manufacturing of round bar to hollow pipe and the hollow pipe what we procured. Generally we have seen the gap has always around 5% at least, but with this anti-dumping being implemented we have seen those gaps increasing at least by further 3% to 4%.

But again see, it will 3% to 4% or 3% to 5% you can also say, but it is only a one month data what we have seen as and when it comes. So once it gets stabilized, we will come to know what actually the data is. But see, it will definitely be a good amount of gap as it used to be earlier.

Nirav Shah: It just helps us reduce the payback time for the KPI.

Kunal Bubna: Definitely.

Nirav Shah: I mean right now the exports of seamless pipes is almost at a grounding halt because our source of raw material is from China. But once this picks up, I mean the plant starts, how do we expect the export traction to be in first half and second half? How quickly we can go back to, say, 10% of overall exports if our target is higher. I mean what is that number?

Kunal Bubna: Yes. It's very true that with this anti-dumping coming into play and also the -- we started with our piercing line, the entire Europe will be open to us, wherein, currently they don't take from us is the reason that the hollow pipe we procure is from China. So definitely those traction would be there in the larger term. And we believe, we are targeting definitely an increase in our export revenue, at least 15% to 20% in the coming FY 2024 and more than that in FY 2025. And definitely, we will be starting this business by March. So definitely, the entire year would be available to us. I believe, as you said, first and second quarter, we will definitely be jumping on those percentages.

Nirav Shah: Got it, got it. And then lastly, sir, I mean, just a clarification. You mentioned the debt number at INR95 crores. Is that the gross debt number, or it's a net debt number?

Kunal Bubna: No, it's a gross debt number, wherein, around INR35 crores is towards long-term debt and -- INR30 crores is towards long-term debt, and INR65 for working capital.

Nirav Shah: Okay. And what would be the net debt be, sir?

Kunal Bubnal See, net debt -- keeping -- we had INR45 crores bank balances, including FD and margin money, so it was around INR50 crores.

Nirav Shah: Okay. So INR45 crores is the cash and INR50 crores is the net debt?

Kunal Bubna: Yes. Net debt.

Nirav Shah: Got it, sir. Great. Sir, I'll come back and look if I have more questions. Thank you.

Kunal Bubna: Sure.

Moderator: The next question is from the line of Kunal Kothari from Centrum Broking.

Kunal Kothari: Yes. Hi. Thank you for the opportunity, and congrats to management team for great set of numbers. Sir, my question is that I want to know about the market landscape right now, how much is organized sector and how much is the unorganized sector, first of all?

And I believe the customers of the unorganized sector must be having some low purchasing capacity being they sell at a lower price compared to the organized sector? And how you see them to moving towards the organized sector?

Arun Kothari: Kunalji, there is no much data available about the organized and unorganized sector, but what we have gathered from the market source, what we have gathered from the market. Definitely in the seamlesssegment, almost unknown player will be wiped out who doesn't have the piercing mill facility, because they can't import the hollow pipes from China since already anti-dumping duty has been placed. So they have to either procure the raw material from the existing piercing mill players, which is very limited in India right now. Along with the VENUS, there will be four to five players only in India who will be having capacity to manufacture the hollow pipes. So at least for the similar section, similar sub-division there will be removal of the unorganized player will be very soon, very fast.

In the case of the welded pipe also, in the Venus plant first , we are going to the most bigger die of the pipe, which is up to 20 inch dia of the pipe. In India, only few places will be having a tube mill up to 14inch dia of the pipe, so we will get that benefit also. So in that we will be able to easily compete with the unorganized player or we will take the share of the unorganized player as well as the organized player also.

So if such a focus is there, winners will definitely gain the market share of the organized player or unorganized player both, once our infrastructure will be in place.

Kunal Kothari: Right, sir. Got it. Sir, I want a little bit more on granular understanding that the buyers who are having -- buying from the unorganized sector must be having low purchasing power, right? And organized sector having the higher selling price compared to them. So do you -- how you see them moving from unorganized sector to organized sector?

Arun Kothari: There is a pricing difference between unorganized and organized player. There is a pricing difference between 3% to 4% only. But all the buyers who purchase the SS type, already SS type is a very costly item. It is used in the critical operation. So all the buyers and all the end users, they want quality to be better, delivery time should be better, and everyone wants to witness the quality inspection, production inspection, everything. So unorganized playerscan't provide all these things. For example, if we talk about the seamless section, the seamless channel will be in the backward integration facility from the bright bar to hollow pipes and small dia of the pipes.

So everyone who purchases the seamless pipe, the buyers want to witness the whole process. So in only seamless pipes division, he will be able to see only who is the owner of the piercing mill and who has installed the piercing mill. They will be able to see there only.

So, price difference does not matter much in the SS type industry, because if you see, the organized players are very limited in SS type. There are many good players. And there are unorganized players too. Their capacity is also very low. So, as the requirements of clients are increasing in India and the usage of SS type is also increasing in India, so buyers focus there should be the quality manufacturers only, their first preference only. If they don't get supply from those, then they go for the unorganized sector.

Kunal Kothari: Okay, sir. Got it. Thank you, sir. Thank you for elaborate answer.

Moderator: We have the next question from the line of Tushar Sarda from Athena Investments.

Tushar Sarda: Yes. Thank you for the opportunity. I have two questions. Now your operations are based out of Gujarat. So you are catering mostly to the west market and a little bit to Telangana. So in the long run, how do you become a national player? Will you put up plants in other parts of the country, because I assume the cost of transportation will be high? That is one.

And second question is I wanted to understand your employee costs. There seem to be low, the pace at which you are growing in size. It's less than 2%. And also in absolute terms, it looks low, not only percentage but even absolute. So if you can break up the employee cost into the cost for managerial staff and worker, how do you compensate employees so that you can build a good organization?

Kunal Bubna: Yes. From the perspective of the general cushion, if you see, we have been increasing our share to other state of, as I said, MP, UP, that form 20.4%, wherein, other state competing, which used to be earlier 9.4%.

But see, from the freight perspective, if you see it's item, which cost you INR350 to INR400 a kilo. So from my location to supplying extreme south would be INR7 to INR8 a kilo, which will be hardly 1% to 1.5% of the total cost. And majority of the seamless or welded pipe assets manufacturer are located in Gujrat region. So as such, those location-wise advantage for keeping the high cost of the supply is not as such matter in this industry. And we are definitely trying to be a pan-India that's why those share of Telangana and other states have been increasing. And you don't have to put plant in all those locations. As I said, it's not very costly from the perspective of the finished good price. It's basically what we believe.

And second, from the perspective of, as you said, from the employee perspective, we have around -- on our payroll, it is 270 number of employees, and we have a contractor employee of 160 numbers. And if you see it's basically, it has been increasing and it is around INR70 to INR80 lakhs per month for our current employee cost and around 25 lakhs for contractor expenses, which are from part of other expenses.

It is really the current cost what we have. And definitely, with this all projects coming in underway, it will definitely be increased. The manpower side would be at least a bit of doubling from this side.

Tushar Sarda: Okay. Thank you. But can you break up your employee cost, INR 80 lakhs into what is the cost for management staff and what is for the worker?

Kunal Bubna: You see, worker, is another INR 25 lakhs. So entire INR 25 lakhs is the worker-employees, basically, they are the contractor employed. They are not literate. They do shifting and other work. And INR 77 lakhs or INR 80 lakhs is, what I said is basically our payroll employee who are basically operators and fitters and all, and again, managerial and we all basically.

Tushar Sarda: So that comes to only INR30,000 per head, isn't that low? I mean even a good manager will cost you INR10 lakh-plus a month?

Kunal Bubna: No, see seniorlevel of employees are also there like VP operation, quality heads. So their costings are high, but there are number of operator and other fitters and all whose costs are not as such in the value term. So that's why you can spread those in that case.

Tushar Sarda: That's why I'm asking, if you separate out the senior management staff and the other factory staff, because INR80 lakhs on an absolute basis also looks very low?

Kunal Bubna: See as such in our industry what we have seen, we are working with this -- definitely it has increased with our capacity and will be increasing, so we are able to serve this quite easily we have quality team of more than 30 numbers ,dispatch, everything, these stores, HR etc. And definitely, with this entire capacity into 1.8 times those numbers will increase at least up to 500 numbers or more than that.

Tushar Sarda: Okay. Thank you.

Moderator: The next question is from the line of Alisha Mahawla from Envision Capital.

Alisha Mahawla: Hi, sir, good afternoon. Thank you for taking my question. Sir, can you give me the nine-month volume number for seamless and welded?

Kunal Bubna: See, as such -- we generally keep the annual volume number, but definitely those volume have increased by 7% to 9% for nine months basis as compared to last nine months. And on the annual basis also, we believe that there will be 10%, 12% incremental in the volume level.

Alisha Mahawla: And this is largely because currently the capacity constrained, once the capacity, which will come by Q4, Q1, then we are aspiring for much stronger volume growth?

Kunal Bubna: Absolutely. Definitely as I said in the next FY 2024, we aspire for around at least 50% growth in the quantity -- value and quantityboth.

Alisha Mahawla: Sorry, just to clarify you are saying FY 2024, we are expecting a 50% growth in volume, which will be largely driven by volume growth?

Kunal Bubna: Absolutely.

Alisha Mahawla: Understood. Sure. Is it possible to share the current realizations for seamless and welded?

Kunal Bubna: See, on a blended basis, if you see for nine months ended, it was around INR372.

Alisha Mahawla: INR372 for seamless and welded?

Kunal Bubna: It was on a blended basis, I said.

Alisha Mahawla: Okay. Understood. Sure. Got it. And the decline that we have seen in exports, is this only due to not being able to procure the hollow pipes from China, because of the ban in Europe, or is there a slowdown in demand?

Kunal Bubna: See, it's basically, both basically. And importantly, they are really not taking the hollow pipes if it is procure from China, so that is one of the predominant reason. And there is also a slowdown in Europe what we have seen currently, so that is also one of the reasons.

Alisha Mahawla: Okay. But you mentioned in the previous calls that large part of the capacity expansion goes to cater to the export demand, which currently seems to be a slowdown. Backward integration will come by end of this year, so is there any change in the utilization levels because you're still talking of 50% volume growth despite a slowdown in the export demand?

Kunal Bubna: Yes, we believe definitely by this quarter of -- this March 2024 quarter definitely the export will be again on damping side. But definitely, we believe with this FY 2024 first quarter, we are feeling there are demand from Europe. And as and when we start with the piercing line, those quantitative -- what we believe -- what we have reserved for exports will definitely be able to deploy there, so we don't feel as such a major issue going ahead in the quarter.

Arun Kothari: Further I would like to add this, regarding the export demand, all the European markets who are buying the steel from India they want that the piercing facility should bein-house. They want that the raw material procurement from India only. They don't accept the raw material procurement from China, so they don't accept the order in Europe. So once our piercing will be placed, our Europe supply will be started, and in anticipation of thethat, we havealready started to take orders from the Europe market.

So we already have the export order of almost 500 metric ton to supply once our piercing mill is started. So we are very bullish about the European market. Once our piercing mill is started, we'll be able to easily start to supply in the European market. Just we are waiting to infra about our piercing mill only.

We had line up with the number of clients also in the Europe. They are visiting our facility in the next two months to develop the Europe market. For the especially develop the Europe market, we already employed the one very senior person in the Europe, in the Germany who is the marketing our Venus's 'project.

Alisha Mahawla: Fine, I understand that currently, the restriction is because you can't took it from China and -- what is the time once the new facility comes on board, I think we'll still need to get pre-approved, whether it is on domestic or export side. So how much time do we think because the...

Arun Kothari: For thepiercing mill, we don't require any furtherapprovals. We require the approval for the price for the seamless pipe or for all the seamless pipes in India, as well in the Europe market. We are already approved player. Since the last 1 year, we are not supplying the seamless pipe in Europe, early in the year 2019, FY '19 and FY 2020, we had with a lot of supply in the Europe. So Venus product is already approved there. Their concern is only the raw material should be from the India, but they want to witness the raw material process in our plant. Once they will witness the raw material, once the piercing mill will start, they can easily witness the raw material production.

So they will start to place the orders we had already anticipated of the -- our existing client -- previous existing client already has placed orders in anticipation of the piercing mill to supply the material in Europe. So we have now almost -- 1 month once the pace will start, we have the export order of the at least 1 month production for the European market already in our hand.

Alisha Mahawla: So we are not going to need any incremental time to get a facilities approved?

Arun Kothari: Yes. We'll not have to wait.

Moderator: The next question is from the line of Sahil Sanghvi from Monarch Networth Capital.

Sahil Sanghvi: My first question is regarding this 1% export incentives that you've put in the presentation, which the government has given from 16 December. So can you just give me some more colour on what kind of pipes will be there? And I mean, is there any rules on this? I mean will it apply to all of our exports? Is it to any countries particular?

Kunal Bubna: No. See, it's open-ended because it's on steel basically, and the tariff in which we supply both welded and seamless, both come under the tariffs which is 1% -- to any country you supply from India, it is basically a RODTEP scheme ofduty. It was not there in this product. It was there prior to when RODTEP was not there. As and when RODTEP was implemented, this was not there in ST. But it has again been implemented from 15th December. So it's not specific to any country.

Sahil Sanghvi: Secondly, we used to give order book number in terms of rupeescrores. So what is that right now?

Kunal Bubna: Around INR 145 crores.

Sahil Sanghvi: Yes. So I'm just trying to understand that supposingly if we want to achieve that kind of 45%, 50% growth on, say, volumes and a similar number on the revenue front,will we be in a position to achieve that kind of number in Q1 or there will be a slight -- slow transition towards that kind of number, maybe a little bit less in Q1 and then Q2 onwards, we'll pick up that kind of pace?

Kunal Bubna: Absolutely. As I said, it's very much correct. Those pace would be like that only. Q1 would be slightly -- it will be growth, but not that much growth, but Q2 would be the second growth and Q3 and Q4, we definitely see a much higher growth as compared to first half of FY '24.

Sahil Sanghvi: And on the export front, I mean, our order book right now as the number was mentioned, right now of this INR 135 crores, INR 140 crore order book that you've mentioned, how much would be exports roughly as a percent?

Kunal Bubna: It's not that high as it should be, but it is around 15% to 20%.

Sahil Sanghvi: And this is majorly Europe?

Kunal Bubna: Yes.

Sahil Sanghvi: So just any kind of -- I mean, any kind of more direction, if you gave us in what kind of traction you're seeing from Europe? I mean, is there a stark improvement you have seen or I mean from the demand perspective, what is the scenario there.

Dhruv Patel: So from the demand perspective in Europe, we are not able to supply currently because of, as Kunal earlier said that because of the Chinese for the whole or the raw material is from China. But we get a feel of the market and when we visit and when we visit the European market or there are -- in past some months, there are many clients who have already visited our plant to see the progress of the mill of the new installations and everything and there will be -- again, there will be many more visits coming in the coming months when the installation is complete.

So yes, when we get a sense of the market, it's a very good traction, and we feel the demand will be very good from these countries.

Sahil Sanghvi: And lastly, my last question would be on the domestic front. If you can draw more light on what kind of demand you're seeing, which are some of these customers and projects, which -- or maybe industries which are the major contributor for your demand? If you can just give us some more understanding on that front?

Kunal Bubna: What we have been witnessing is that a good amount of demand is there from engineering, chemical, pharmaceutical, fertilizer and oil and gas. And we are trying to increase our share towards oil and gas and these sectors. But a good amount of demands are there as I said before from engineering, chemical, pharma and fertilizer side.

Moderator: We have the next question from Keshav from RakSan Investors.

Keshav: So with the commissioning of capacities, are we not being over-optimistic in getting 40 to 50 kind of utilization in the first year because we'll be handling the piercing plant for the first time and I've heard that it's not very straightforward to get all sorts of SKUs done with precision. So teething, balancing, scaling issues might come. So your customer visits and approvals, you've mentioned that they are in place, but would we be able to, are we confident that 40%, 50% kind of utilizations we can still achieve without any….

Kunal Bubna: Yes, see and this piercing technology, what had been implementing by us is there in many of the plant in India, and it had been a successful one. And the key persons who have worked there, or the key consultant, who had been there that has been only we had kept strategically in our project only so that we don't face these teething issues.

So I think that is our belief. That is the reason why we are slightly more confident we will be able to run the piercing. Definitely there can be some hiccups when you start but not on a major site. And again, as we said earlier also, we do a slight bit of 10 to 15% of job work for both welded and seamless so that that capacity is built up in the market as and when we come up with our new capacity. And from the customer perspective, definitely there are visits being done.

We have been supplying to them. There would be more visits when our plant started. So as I said, you could definitely then first quarter will definitely see a jump. It will not be that entire jump. But first and second quarter will give us a time wherein we will be able to fill the missing link in this entire circle. And third and fourth quarter we will be able to penetrate more in this market.

Keshav: And sir, I have read that the customers might have a preference for the hot extruded pipes instead of pierced pipes. So just trying to understand the differentiation between the two and as China is also predominantly piercing based capacity. So is there a difference in quality or anything like that?

Dhruv Patel: Yes, sir. The standard from which we manufacture is same for extrusion and it is exactly same for piercing. The values, the mechanical parameters, the mechanical strength and everything and all these parameters are very very similar to either the mother hollow is produced by piercing method or extrusion method. So, and we have seen in the market that the customer, leave alone very specific few customers, but majority of the customers, so they are not demanding for the type of mother hollow which is being used to manufacture this pipe.

Keshav: Sure, so basically the acceptance, especially in EU would not be a problem because we plan to scale that to 40% kind of a market, right?

Kunal Bubna: Absolutely. Yes...

Keshav: Okay. And sir, you had also alluded previously that for SS coils there are dependencies on imports, but one of our peers had mentioned about issues sourcing only certain grades of SS raw material and the rest of it is pretty much domestically sourced. So could you help understand the dynamics for coils?

Kunal Bubna: See 304 and 316 which is a predominant grade being supplied in these industries and for both for welded and seamless we don't find any issue with it. In fact the domestic prices have slightly become more competitive along with import. So we don't feel, but definitely there can be a very specific type of grade where you can feel but those form a very low volume of your content. So we are not much affected by that.

Keshav: Sure sir. And sir, lastly if I may, could you please subdivide the engineering vertical into what all industries we are catering to maybe if you could sort of quantify in percentages?

Kunal Bubna: See, essentially percentage wise it's not but I can give you mix like a distillery plant, it can be a EPC company, It can be boilers for power plants or engineering goods. There's a mix, heat exchangers. So all of the components we generally form part of it.

Moderator: Ladies and gentlemen, at this time. The next question is from the line of Vivek Gautam from GS Investments.

Vivek Gautam: Sir, could you just tell something about the opportunity size and CAGR are expected, both for exports and Indian market for the next few years, sir. Hello. That's the question number one. Should I go ahead with the second question, sir?

Kunal Bubna: Yes, can you repeat the first question?

Vivek Gautam: Yes. I wanted to have an idea about the opportunity size for our company, both in India and in exports and the growth rate expected and any USP which our company is offering, which makes us different from the competition, sir?

Kunal Bubna: Yes basically, essentially two or three larger competitors who we face competition they also have this entire facility but one thing is that we have this entire capacity at one place only. So there is a lot of TPI inspection being visited at our site. So they can entirely see the from initial raw material level to the FG level. And we generally have a good, always try to supply within the timeline of what we forecast.

So we generally shorten time as compared to our competitors. So that gives us a slight bit of edge and the growth. See, we have been seeing the growth. In engineering, chemical, pharmaceutical, oil and gas, four to five major sector wherein we supply. And it's a good amount of capex also and our product also found usage in their replacement cycle. So we see a good amount of traction in all these sectors and which should lead our order book going ahead. –

Keshav: And basically the, so what growth rate we can expect? 25, 30% or less than that, sir?

Kunal Bubna: Yes, our volume will definitely be more than that and the industry-wiseit should be there.

Keshav: Okay sir, and the second thing is the exports have they started improving in the recent quarter and the China plus one strategy which was supposed to help out India instead it has boomeranged on us in the sense that China is able to supply the material at such a cost that we Indian companies are not able to supply, is it true? Is the market now improving in Europe, Germany especially? What's the situation? –

Arun Kothari: Previously it was like that only. Previously China was providing the SS pipe product, all the SS pipe product, China was providing the export rebates of the 13% till last year. In the almost in the month of May 2022, China has scraped the 13% export benefit, to all the export of the SS pipe. So after the export benefit was withdrawn by China, almost Indian product and the China product is almost at par, in the quality wise in the overall world or in India. The Indian products are best expected compared to the Chinese products. So definitely, India will be having more edge in the at least seamless side section in seamless sub-division or as well as welded pipe section also compared to China. Where is there some low grade is expected in some different markets.

We can say in Africa market in Vietnam and other places, where Chinese products are more accepted, normally, China supply over there. In Europe market also in the seamless division, they express the seamless pipes from the India only or India or other countries, they expect pipes for seamless pipes from the Korea, Japan, which is very costly compared to India.

So India is a very good and in the seamless pipes section in European market or in domestic market, most of the manufacturers wants to keep their pipe supply from the Indian player only or who is doing all type of infra. So Venus and very few players in India, once our capacity we put in place, Venus all, very few player will be in India, who will be in all type of infra.

So all customer demand in there should be all type of infra, if any industry is having. So they prefer to get this material because this quantum is the very small in their projects, but this is old items, SS pipe items are very critical in their operational parts. So they prefer, it should be from the organized player or better market player.

Kunal Bubna: And just to add up here, as you say, China plus 1 country, were definitely working if we see for our revenue for the FY '21- '22, was INR 40 crore from the export side. So definitely those things there working but to some sluggishness in Europe, this export has been dampened. And also, as we said, many times, they want hollow pipes from Indian origin. Those are the factors, which have dampen our export.

Vivek Gautam: Sir, one more thing, sir. I just recently started tracking the company. Could you tell something about the promoter and the background. What they believe they were in the trading business of the steel pipes and they have come into manufacturing business and…?

Kunal Bubna: Just to brief you, there are four promoters in the company, Mr. Kothari. Two of the promoter, Mr. Megharam Choudhary and Jayantiram Choudhary, were in the trading of steel and pipe products. So they know the business side of it, Mr. Kothari was chartered accountant and know the finance and purchase side, Mr. Dhruv Patel is a technical engineer byqualification , the fourth promoters will look the technical side. So they come together and form Venus Pipes with a, 4 can handle a 4 different verticals of the business and they can lead it.

Vivek Guatam They are all from Gandhidham side, Kutch side only, Rajasthan, Gujarat side only.

Kunal Bubna: Sir, they are from somebody from starts show Rajasthan, but since last more than 15 to 20 years, they have in Gandhidham only, so now, they are from Gandhidham only.

Moderator: We have the next question from the line of Vignesh Iyer from Sequent Investments.

Vignesh Iyer: Congratulations on good sets of numbers. I just joined the call late. So if the question is a repetitive, I apologize for that Sir, just wanted to know this, what is your utilization level for quarter 3 and nine months FY '23. If you could give me separately?

Kunal Bubna: See, it was basically the utilization production level was around 90% to 92% for both quarter and nine months ended.

Vignesh Iyer: Yes. I just wanted to know, and your realization is blended realization is around INR 372 per kg, right?

Kunal Bubna: Yes, for nine months ended, yes.

Vignesh Iyer: So that gives me a volume of around 10,000 tonnes for nine months ended. So is my calculation correct or...?

Kunal Bubna: Yes, slightly lower than that, but above 9,000.

Moderator: The next question is from the line of Kunal Kothari from Centrum Broking.

Kunal Kothari: Yes. Thank you for follow-up opportunity. Sir, I wanted to know on the strategy part. As we are seeing the good traction in the seamless pipe after import duty, and they just apply crunchin the market as there are limited suppliers. So overall, the strategy will be more focused on the seamless pipes than welded pipes A matter of fact that after completion of our expansion project, would you -- will be more focused towards ramping up your high-margin seamless pipe first rather than and welded on the secondary part. I just want to know your strategy on this?

Arun Kothari: Kunal ji, Is not like that. Starting from Venus Pipes focus, we are in balance in both the welded as well as the seamless also. So on the parallel, we have developed a team like that only will focus parallelly in both the market because in welded pipe also, we will be installing the tube mill, which will be India, which will be having with a very few players.

So Venus will be getting benefit from those also as well as the seamless pipe benefit will also, due to this anti-dumping duty, will get the additional benefits or we develop team in -- for both the segments, there's a different thing for the marketing also, we have put the -- in the all over India in the Bombay, Delhi in the South, we have put the marketing team to market our product to market. So we'll go for parallelly in both the sections, seamless as well as welded.

Kunal Kothari: Okay. So there is not...

Arun Kothari: Definitely, we'll get the more benefit in seamless, right? -- margin-wise, but Venus will balance will focus on both the way we'll get the margins from welded as well as seamless. But better money will be from the stemless

Kunal Kothari: And in current situation, as we are seeing tightness in the market, while the demand is robust, both on the domestic part as well as the exports should also do well in coming time. So do you see your competitors in organized or else having a capex plan and for the FY '24, apart from our capacity expansion of around from 12,000 to 33,000. There are other players, capacities also will be increasing. So how much the overall market capacity we can see in FY '24 and having any color on FY '25 as well?

Arun Kothari: Right now, what we have from the market, although our competitor, all the organized and all the unorganized players, there will be not much more capacity expansion. And right now, we have not heard from the market or we don't think there will be much capacity expansion. If any expense will be put in place, definitely, it will take time to say, 1.5 years to two years. to set up the plant, any expansion plan because machinery lead time, installation time, already all things take time.

We had also ordered our mills in the month of October 2021 and now almost after the 18 month, we're able to start the production. So definitely, no new capacity will not come that much fast. It will take time. Or right now, we are not on if there will be much capacity expense will be in market.

Moderator: The next question is from the line of Keshav from RekSan Investors.

Keshav: Yes. Sir, with the overall expansions we are currently implementing INR 110 crore plus INR 50-odd crore. So is it a fair assessment we might be looking at INR 800 crore kind of incremental revenue at full scale maybe three, four years out?

Kunal Bubna: No, see. At a full scale, you say?

Keshav: Pardon?

Kunal Bubna: At a full scale?

Keshav: Yes.

Kunal Bubna: No, it will definitely be much higher than that by FY '25 definitely. As I said, we are expecting around roughly around more than 45% to 50% of volume growth in FY '24. But FY '25 would be a year when this impact we will be up there in the market supply to...

Keshav: I meant incremental revenues? Basically, whatever we are doing, plus INR 800 crore kind of a scale?

Kunal Bubna: It's not exactly you can link that number, but it will definitely be closer to those numbers.

Keshav: So sir, are these kinds of asset turns usual with the stainless steel seamless and welded business because one of our peers has had much lower turns, when they scaled. So is there some...?

Kunal Bubna: They -- basically, extrusion mill is very costly to many of them have those extrusion mill wherein those good amount of funds are involved. But for other -- our type of capacity of piercing, welded and seamless, you can have those asset turns.

Keshav: So is there a difference in application areas as well? I mean...

Kunal Bubna: We explained that the -- it's not on a major side, but there can be some specific contracts or orders wherein they can specify and they require those extrusion for seamless pipes, but majority or you can say a good number of orders for contracts don't have such clause because technology is very well accepted in India and also in Europe.

Keshav: Sure. So basically, we don't foresee any issue in utilizing our capacity, say, from a three-year horizon?

Kunal Bubna: Absolutely, yes.

Keshav And sir, lastly, so on a blended basis, we have scaled our EBITDA per ton to more than twice in the last two to three years. And we -- and even currently, our realizations per ton are scaling faster than the capacity. So for these increments, would there be an element of certifications and client clocking, kicking in? Or it was broadly because of higher baseline steel prices and the demand being higher?

Kunal Bubna: It's more towards the shift into more to direct supply. We being a regular supplier to a few of them. And again the portion of seamless increasing as compared welded, it also adds to our more towards our bottom line. And going forward, also, definitely, there would be incremental keeping backward integration come into play. We're going towards more towards direct suppliers compared to and also a portion of export also getting increased. And for welded also higher size of 18 inch, there will be only two to three manufactures in the country, that will also give us an edge. So these all three to four factors will be helping us going ahead years.

Moderator: Thank you very much -- ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Arun Kothari: I take this opportunity to thank everyone for joining the call. We will keep updating the investor community on a regular basis for incremental updates of our company, your company. I hope we have been able to address all our query. For any further information kindly contact SGA, the Investor Relations Adviser for your company. Thank you once again.

Moderator: Thank you. On behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us. You may now disconnect your lines.