Assignment:

Please write a note on the business risk profile of the company mentioned in the Case Study). Please elaborate the industry risk, Market Position and Operating Efficiency

The company derives its strength from strong revenue growth reflected over a shot period of 6 years in a sector owned by established players with 2 to 3 decades of experience, like Welspun, TATA, Birla, Jindal, Apollo, etc. followed by lot of unorganised players. It shows better growth opportunity going further with improvement in operating efficiencies and has shown huge resilience to restrictions imposed by COVID.

Industry Risk:

The industry is characterised by commoditised nature of products, giving less bargaining power on both buyers and suppliers with thin margins to operate. Raw material, i.e steel prices are highly volatile and depends on lot of inter- & intra- governmental regulations and demand & supply in International markets. India, though being the second largest manufacturer of steel, it still depends on imports of China as it has 9x more industrial production of steel than India.

The demand for steel pipes & tubes is expected to continue growing, with its requirement growing in industries like oil & gas, Chemicals and engineering sector, it also has its application in Industries like pharma, power and food processing. Inventory and working capital management has been considered as top most concern, and it is looked to be taken care with utmost importance for profitability and loss minimisation. Concern on passing on price volatility to customers can have huge impacts on the profitability margins.

Steel pipe industry has high threat of new entrants due to less capital-intensive manufacturing process and has lot of un-organised players in the market, along with established organised players. Logistic cost also adds a perspective of having a strategic location of Manufacturing plant.

Strongly growing market position amid intense competition

XXX Company has established a strong market position in a competition intensive industry, where generally lot of contribution comes from Oil & Gas. XXX has more contribution from Engineering & Chemicals sector and it has doubled its revenue from these sectors over years. Company revenue is contributed by more than 8 Industries offering more diversified customer base and these industries including exports contribute to approx.52% of revenue in FY-21, Stockist and traders has consistently contributed around 50% of revenue during the last 4 years.

While the scaling of revenue is evident from 161% growth from FY-19 sustainability of growth might be affected with more & more contribution from third party agents like stockist and traders(48% for period ended dec'22 and 56% out of total sales in FY-20) buying from the company impacting the margin, though it might be considered as threat they reduce the price risk on the manufacturer given the earlier growth stage of the entity and absence of long terms contracts to buffer the price volatility.

Absence of long-term contract and depending solely on customer relationship continues to pose a threat in highly volatile market from a long run perspective.

Repeated orders from existing customers and Improving customer base, 32 % of revenue contribution came from top 10 customer in YTD Dec'22, which was 35% in FY-19, brings in more diversity to the top line.

Improved operating efficiency:

XXX has improved its operating efficiency by improving its EBITDA and PAT margin from 8% and 3% in FY-19 to 12% and 7.6% in FY-21 and its YTD FY-22 no's (up to decemeber'22) shows further improvements to 13.3% and 8.48%.

The entity has been observed to play to its strength of geographical advantage, with more share coming from locations(Gujarat, Maharashtra) nearer to the manufacturing plant and export destination favouring sea transport, it is in the right direction with strategies in place to increase the margin by reducing revenue, contribution from third party agents and more focus on exports by appointing sole distributorships overseas which has great potential to improve margin, further local geographical expansion is not in the preview of the company due to associated logistic cost which will further affect the margin increasing the product cost from buyers perspective.

Most of the raw material procurement is sourced domestically with imports being only 13% of total procurement guards the company from high inventory holding and volatile steel prices as any drop in steel price associated with high inventory holding will bring in huge losses to the company in absence of sale & Procurement contracts.