Welspun Special.Soln

Operator: Good day and welcome to Welspun Specialty Solutions Limited Q1 FY27 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded. I now hand over the call to Mr. Shailesh Raja from 361 Capital Market Limited. Thank you and over to you, Mr. Shailesh.

Shailesh Raja – 361 Capital Market Limited: Thank you so much and welcome everyone to the call. We would like to thank the Welspun Specialty Solutions team for giving 361 Capital the opportunity to host this interaction today. Without taking much time, I would now like to invite Mr. Gautam to introduce the management team. Over to you, Gautam.

Management: Thank you, Shailesh, and good evening everyone. On behalf of Welspun Specialty Solutions Limited, I welcome all of you to the company's Q1 FY27 results call. Along with me, we have Mr. Anuj Burakia, Chief Executive Officer and Whole-Time Director; Mr. Navin Agarwal, Chief Financial Officer; and Mr. Harsh Rungta, Group Head Industrial Relations, Welspun World.

I hope you have had a chance to review the investor presentation that was filed with the exchanges. The presentation is also available on the company's website. During today's discussion, we may be making references to this presentation. I request all of you to please refer to the safe harbor statement mentioned in our presentation. We will start the forum with opening remarks by Mr. Burakia and then we will open the floor for the Q&A. Let me hand over the floor to Mr. Burakia now. Over to you, sir.

Management: Thank you, Gautam. Good evening, everyone. Let me extend a warm welcome to all of you to the Q1 FY27 earnings conference call of Welspun Specialty Solutions Limited. Thank you for joining us today. I will begin with a brief overview of the global macroeconomic environment followed by insights into the industry landscape and our company's performance for the quarter. After that, we will open the floor for an interactive question and answer session.

According to the International Monetary Fund's latest World Economic Outlook report, global economic growth is projected at 3% for 2026 and 3.4% for 2027, compared with 3.5% recorded in 2025. The report highlights that the global economic outlook is currently being shaped by two powerful forces moving in opposite directions. On one hand, the conflict in the Middle East has created a negative supply shock, adding to uncertainty and disrupting global trade flows. On the other hand, the rapid acceleration of the global technology cycle, driven primarily by large-scale investments in artificial intelligence, is providing a meaningful boost to economic activity. Overall, the global environment continues to be characterized by heightened uncertainty and cautious business sentiment.

For India, the Reserve Bank of India has projected GDP growth of 6.6% for the current financial year, supported by robust monetary and fiscal policies. Against this backdrop, the operating environment in international markets remained challenging during the quarter. Export volumes declined primarily due to ongoing geopolitical conflicts, supply chain disruptions, and tariff-related measures, all of which continue to weigh on demand and customer sentiment across key overseas markets. In addition, the reduction in the European Union's tariff rate quota for certain categories of steel products, including stainless steel, posed an additional headwind for exports.

The domestic market, however, continued to provide a strong growth runway. As India's only integrated manufacturer of extruded stainless steel pipes and tubes, we are well positioned to address the growing demand for complex value-added products across industries such as oil and gas, petrochemicals, fertilizers, thermal and nuclear power, defense, and infrastructure. With the government's continued emphasis on infrastructure building, energy transition, and Make in India import substitution initiatives, we believe this opportunity will continue to expand over the coming years and remain central to our growth strategy alongside our export business.

Coming to the performance for the quarter, our total income for Q1 FY27 stood at 197.5 crores with total product sales volume of approximately 6,300 metric tons. While stainless steel bar sales were impacted by the factors discussed earlier, tubes and pipes registered healthy growth driven by strong domestic demand. The operating EBITDA of 10.5 crores increased by nearly 2.5 times compared to the same quarter last year. The improvement in EBITDA per ton reflects the benefit of operating leverage as capacity utilization continues to improve, and also reflects the product mix. Cash Profit After Tax of 9.1 crores increased nearly threefold over the corresponding quarter of the previous year.

We continue to focus on new product development and expanding our customer base. During the quarter, we added 13 new customers across our business. We have also intensified our focus on the Middle East and are actively pursuing key customer approvals. The SIRIM certification process is progressing well, which will enable us to commence business in the Malaysian market. I am pleased to share that the company has successfully received approvals from NTPC for grade T91 supercritical boiler tubes. We have also received the Indian Boiler Regulation (IBR) approval for the same product, further strengthening our position in this critical application segment. In addition, we have received our first trial order for city gas distribution (CGD) instrumentation tubing. Successful execution of this is expected to open up opportunities in this high value-added segment.

I am also pleased to inform you that the installation of our bright bar project has been successfully completed and the facility is currently undergoing stabilization and ramp-up. Looking ahead, while near-term macroeconomic uncertainties are likely to persist, we remain confident about our long-term growth prospects. Our priorities will continue to be improving capacity utilization, increasing the share of value-added products, strengthening customer relationships, and creating sustainable value for all our stakeholders.

At the same time, we remain focused on expanding our customer base across both domestic and international markets. The growing emphasis on supply chain diversification and India's emergence as a preferred global manufacturing destination present significant long-term opportunities for specialty steel producers with strong technical capabilities. We believe Welspun Specialty is well positioned to capitalize on these structural growth drivers. Our disciplined execution, focus on cost optimization, prudent risk management, and continuous improvement in asset utilization have enabled us to deliver a resilient performance despite a challenging operating environment. We remain committed to executing our strategy with agility and operational excellence.

Sustainability continues to be one of our key business priorities. We remain committed to improving our environment performance and building on progress achieved over the previous financial year. Going forward, we aim to further increase the share of renewable electricity in our operations while improving our emission intensity through enhanced operational efficiency and higher production levels. With that, I would now like to open the floor for questions. Thank you.

Operator: Thank you very much. We will now begin the question and answer session. The first question comes from the line of Parth Bhavsar from Investec. Please go ahead.

Parth Bhavsar – Investec: Thank you for the opportunity and congratulations on a good set of numbers. I have a couple of questions regarding exports. What was our export share this quarter, and what was it last quarter and in the previous year?

Management: Thank you for the question, Parth. As I was mentioning in my opening remarks, exports have definitely been hit by the current situation. Exports have now reduced to approximately 20-25% of our total steel sales, which has been the case in the last 3 to 4 quarters. In the case of pipes and tubes, exports are minimal now. We are very focused on the Indian strategic requirements. We only have a few close customers who still buy from us. Other than that, pipe sales are almost entirely domestic and high value-add.

Parth Bhavsar – Investec: What was the share last year? Was it 25%?

Management: In FY26, total pipe exports were about 8-10% in volume. Steel was nearly 20%. So it is similar now.

Parth Bhavsar – Investec: I wanted to understand our outstanding order book for both businesses put together.

Management: We are consistently maintaining a healthy order book. Normally, that would be about 3 months for steel and 5 to 6 months for pipes and tubes. Given the current situation, we are working with about 3 months for pipes and tubes and a couple of months for steel. As the markets and the overall situation improve, I think we will be back to our normal operating level of 3 months for steel and 6 or more months for pipes and tubes.

Parth Bhavsar – Investec: Regarding bar sales specifically, what is the share of captive volumes?

Management: Whatever bar sales we discuss are all to third parties. Whatever goes to captive use is not considered as a sale in the first place. That volume is over and above the sales figures.

Parth Bhavsar – Investec: How do you see power and fuel costs faring in the coming quarters?

Management: We cannot predict how oil or gas marketing companies will price their products, though we monitor their inputs. This quarter, Q1, saw a significant impact due to a 40-45% increase in gas prices. They have now settled the price at a certain level, which is high compared to what it was before the issues in the Strait of Hormuz. Hereon, fuel prices will be determined by what happens in the Strait of Hormuz. At this point, we are not seeing a reduction in gas prices, but we are also not anticipating further increases. This quarter might see the same price level as the last quarter.

Parth Bhavsar – Investec: Are we able to pass this on for existing orders?

Management: That is not the trend in this business, Parth. As costs go up, everyone starts to build these costs into their production calculations for future business.

Parth Bhavsar – Investec: So in incremental orders?

Management: Yes. It gets passed on for future business. But obviously, when costs increase, margins get squeezed before those new prices take effect.

Parth Bhavsar – Investec: You received a trial order for city gas distribution (CGD) instrumentation tubing this quarter. How big is this opportunity?

Management: It is difficult for us to size this accurately right now, but this is a very regular product considered to be value-added. Instrumentation tubing is small in size and precision-engineered. It fits well into our strategy because extrusion is a preferred manufacturing route for it. It is important to add such segments to our offerings. This will be another category of products we will offer going forward.

Operator: Thank you. The next question comes from the line of Rahil Dasani from AMAPL. Please go ahead.

Rahil Dasani – AMAPL: Good afternoon and thank you for the opportunity. My questions are primarily around the tubes and pipes segment. What is the overall demand situation in India? Our volumes grew 60%. What led to this growth and how will this continue?

Management: Thank you, Rahil. One factor is the growth itself, but I must also clarify that in Q1 of last year, we had a planned maintenance shutdown, so our volume was low in that particular quarter. That said, in the last 4 to 6 quarters, exports have continued to decline for reasons beyond our control. During that time, we focused on getting more approvals and entering newer segments. While we were losing on the export front, we added these domestic sectors to our portfolio, keeping our volume consistent. I am very confident that for the foreseeable next 5 to 6 years, there is a huge opportunity within India. As an integrated setup, we are very strongly positioned to grab those opportunities.

Rahil Dasani – AMAPL: Which segments lead this growth? Where is the demand coming from that absorbs the export loss and helps us grow?

Management: There is a wide spectrum of applications. Three or four important ones include critical grade tubing within oil and gas, especially refineries and LNG setups. The situation in the Middle East has renewed the focus to invest in oil and gas assets. For India, the story of energy security is very strong. We are seeing major investments in thermal power and large-scale nuclear power plants announced by both government and private players. We believe we will see huge activity in nuclear power over the next 4 to 6 quarters.

Rahil Dasani – AMAPL: Regarding exports, could you provide more detail on the European quota situation? What volumes are getting cut? Do you think we are losing exports because we are focused on extrusion while piercing players are 30% cheaper?

Management: We need to understand that both products are acceptable for certain applications. However, for plain vanilla line pipes, which are generally at the lower end of the criticality graph, that market has moved toward the piercing route over the last 2 to 3 years. A very large portion of exports used to be that low-end line pipe. The situation was different 3 or 4 years ago when we also exported those products through extrusion. For the last 2 years, we have stated we are focused only on high value-add products. Extrusion is either preferred or mandatory for critical designs or complex grades. We have our strategy in place for at least the next 2 years regarding where we fit.

Rahil Dasani – AMAPL: So the bigger requirement in Europe was for line pipes, which is more commoditized, and we faced competition from piercing players while shifting our own focus to higher value products?

Management: Yes, and our exports to Europe have reduced over the last 2 years, not just this quarter. A large proportion of that market is line pipe and general tubes sold to stockholders. High-value tube proportions are much smaller. Now the quota has been reduced significantly. Overshooting the quota leads to an increase in duty from 25% to 50%. Previously, the average duty applied to all imports into Europe was between 6% and 10% based on a specific formula. With these new rules, that might become 30% or 35%, which is prohibitive.

Rahil Dasani – AMAPL: Regarding the thermal power opportunity, specifically with BHEL, there is a new tranche of orders expected. How many approved players are there for this specific grade for BHEL?

Management: The thermal power sector in India has a planned build-out of approximately 80 gigawatts over the next 8 years. Most of these plans are for supercritical plants. Earlier, BHEL was the primary player in boiler manufacturing, but now other players like L&T MHI and Thermax are becoming active. For supply, there is no single answer because there are different grades and categories of tubes. Some manufacturers are approved for certain categories but not others. Further, owners like NTPC, Adani Power, or Reliance have their own lists of approved suppliers. As far as we are concerned, we are approved for almost all of these projects.

Rahil Dasani – AMAPL: Is there a reason we haven't won a thermal project recently while competitors have? Is it due to extrusion versus piercing competitiveness?

Management: It would not be right to say we have not been able to win. We must look at the specific grades, projects, and delivery timelines. Execution had been a challenge in the sector recently because the supply flow was getting choked with only one main player in the market. We wanted to have a steady, diversified flow rather than being dependent on only one customer segment. We have a healthy mix of business so that our operations do not get choked by specific project delays.

Rahil Dasani – AMAPL: Which specific piping requires an extrusion player over a piercing player?

Management: Generally, at the same price, every customer prefers extrusion. There are no major stainless steel categories left where piercing is strictly impossible, but acceptance varies by project owner. Some owners still do not accept the piercing route for certain applications.

Operator: Thank you. The next question comes from the line of Parikshit Gujarati from New Asia. Please go ahead.

Parikshit Gujarati – New Asia: Thank you for the opportunity. As new sectors like oil and gas, data centers, and power open up, can you break down the unit economics? For example, how many tons of stainless steel seamless pipes are required per gigawatt of thermal or nuclear power?

Management: Some of these segments are emerging, so it is early to give matured quantity forecasts, but the opportunities are huge. For thermal power, a single 800 megawatt supercritical project would consume approximately 4,000 to 5,000 tons of tubes that are of interest to us. That is for stainless steel seamless tubing. Nuclear power is far more complex; it involves different designs and heat exchangers requiring stainless steel as well as high-nickel alloys. It is difficult to generalize volumes for nuclear power on this call.

Operator: Thank you. The next question comes from the line of Shaurya Shah from Equirus Securities Private Limited. Please go ahead.

Shaurya Shah – Equirus Securities Private Limited: You mentioned increased focus on the Middle East with key approvals. Which end-use sectors and product categories are you targeting? How do margins on these orders compare with existing export and domestic business?

Management: Our focus is primarily on oil and gas, as it is the biggest segment in the Middle East. It is very general to discuss margins as a single number because we sell many different products. Our goal is to expand our customer base for tubing. Major volumes come from oil and gas, thermal power, and nuclear power. In the Middle East, we are not only selling directly but also to Indian fabricators who build equipment for Middle Eastern refineries. We are approaching it as an overall strategic presence rather than just direct sales.

Shaurya Shah – Equirus Securities Private Limited: Our share of renewable energy reached approximately 60% last year. What are our targets and cost savings for this?

Management: Renewable energy is comparative. In this particular year, we believe we may reach 70% share. Since the supply setup is fixed, we view this from the standpoint of the efficiency we can bring to the system as our business volumes grow.

Shaurya Shah – Equirus Securities Private Limited: Material costs declined considerably in Q1. Was this driven by lower input costs, product mix, or inventory?

Management: We have robust internal systems so that we don't overexpose ourselves to raw material price swings. What you see is a mix of ferrous alloy efficiency and a better value-added product mix. Raw materials are priced according to the market, but we had a better mix of grades and sizes on the sales side.

Operator: Thank you. The next question comes from the line of Jignesh from Jeeva Capital. Please go ahead.

Jignesh – Jeeva Capital: Regarding the thermal sector and players like BHEL, L&T, and Thermax, how will we participate? Will we tender directly?

Management: Success in thermal power is a key interest, but to clarify, we are not in the EPC business. We do not participate in tenders for the power plants themselves. We supply seamless tubes and forged steel for ingots to whoever wins the EPC contract to build the plant.

Jignesh – Jeeva Capital: Can we expect supply to the thermal segment to reach 25-30% of revenue in the next 2 to 3 years?

Management: It is one of our important segments, so we will have a material share of revenue from it. Whether it reaches 20%, 30%, or 40% is difficult to say because it depends on order timing. We could even reach 50% or 80%, but our goal is to maximize value addition. We choose businesses that offer the best value rather than loading the plant with a specific percentage of thermal business by design.

Operator: Thank you. The next question comes from the line of Srushti from Adical Ventures LLP. Please go ahead.

Srushti – Adical Ventures LLP: Congratulations on a great set of numbers. You mentioned in the last call that you expect to grow volumes by 25%. Does that stay for FY27?

Management: You are right. For the last financial year, we guided for 20-30% growth and actually exceeded that. We are absolutely on the path we projected. Quarterly situations might bring short-term headwinds, but we are sharply focused on value addition. We will not choose volume-heavy business if it lacks value, even if that means a slight drop in volume. I remain confident that we will deliver according to our previous guidance.

Srushti – Adical Ventures LLP: What are our current utilization levels and what is the capacity of the newly commercialized bright bar facility?

Management: Bright bar is first and foremost a value addition to our steel capacity. Most of our exports are bright bars, so this new facility ensures we can handle any volume without the bright bar process becoming a bottleneck. For overall utilization, the current run rate is approximately 40-45% on the steel side and 60-65% on the pipe and tube side. We have headroom to grow in both cases.

Srushti – Adical Ventures LLP: How should we expect realizations to move? Average realizations improved this quarter due to the higher share of pipes and tubes.

Management: We are not specifically focused on the realization figure because we sell hundreds of different combinations of grades and sizes. Realization is a function of the mix between steel and pipe, and the grades within those categories. What matters most to us is the material margin and overall value addition our decisions yield.

Operator: Thank you. The next question comes from the line of Anant Darshan. Please go ahead.

Anant Darshan: You added 43 customers last year and 13 this quarter. However, growth seems lower due to macro headwinds. If things normalize, what utilization levels do you expect? Can we reach 8,000 metric tons in SS pipes and 40,000 metric tons in SS bars by FY28?

Management: This quarter, the majority of new customers were from the domestic market, where we are very bullish. We aspire to grow 20-25% this year as we did last year. It is easy to fill capacity without making a margin, but we are not interested in segments that do not add value. Our ramp-up has been moderated by the decline in export markets; otherwise, we might have reached those targets already. I expect we will exceed the volumes you mentioned by FY28.

Anant Darshan: How big is the Malaysian and Middle East market for us?

Management: Every market we add provides meaningful incremental business. The stainless steel market is smaller than carbon steel, and within that, we are focused on specific products. Adding even a few thousand tons from a specific regional market like Malaysia adds up when your total volume is around 35,000 tons.

Anant Darshan: In the pipe segment, what is the value-added mix?

Management: Extrusion players generally cannot compete in standard, low-value products because the piercing route is cheaper. Therefore, almost everything we produce via extrusion is high value-add. We focus on products that offer healthy double-digit margins.

Anant Darshan: When will the bright bar capacity start contributing meaningfully?

Management: Bright bar utilization will grow in proportion to our overall steel utilization. The 50,000 ton capacity is designed so that the bright bar process never becomes a bottleneck when we need to churn out high volumes quickly for specific customers.

Anant Darshan: With surplus capacity in the market for stainless steel pipes, how difficult is it to pass through cost inflation?

Management: As an industry trend, sharp increases like the recent gas price hike cannot be passed on for existing orders. However, all new quotes for new projects reflect the higher costs. It takes a little time for the market to sync with those new price levels, but price pass-through is a normal phenomenon for new business.

Operator: Thank you. The next question comes from the line of Jitesh Shah from Financial Research. Please go ahead.

Jitesh Shah - Financial Research: Can the company reach a turnover of 2,000 crores in the next 3 to 5 years?

Management: Yes, we must hit those levels. Over that timeframe, our focus is on reaching 80-90% utilization of our capacity. Turnover can vary based on market pricing, but hitting high utilization will naturally lead us toward that growth.

Jitesh Shah - Financial Research: Do you look at any major capex over the next 1 to 2 years?

Management: Our capital allocation is very disciplined. Previous capex was to debottleneck or upgrade technology. I do not see major capex for increasing capacity for at least the next 3 years. We might add capabilities for specific new products if requested by customers, but those investments will not be significant.

Operator: Thank you. Ladies and gentlemen, that was the last question. I will now hand over to management for closing comments.

Management: Thank you. Our strategic priorities remain focused on enhancing operational excellence, improving efficiency, strengthening our customer value proposition, and sustaining our leadership through participation in emerging opportunities. We remain committed to expanding our customer base across both existing and new markets to drive sustainable long-term growth. We hope we have addressed your questions satisfactorily. If you have further queries, please reach out to our investor relations team. Thank you for joining us today and for your continued interest in Welspun Specialty Solutions Limited. We look forward to speaking with you again next quarter.

Operator: On behalf of 361 Capital Market Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.