Welspun Specialty Solutions Limited

Q3&9MFY '25 Earnings Conference Call

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MODERATOR:	**MR. ASHUTOSH SOMANI – JM FINANCIAL INSTITUTIONAL SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Welspun Specialty Solutions Limited Q3 FY '25 Earnings Conference Call. As a reminder, all participant lines will remain 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 the operator by pressing star then zero on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashutosh Somani from JM Financial Institutional Securities. Thank you, and over to you, sir.

Ashutosh Somani: Yes. Thanks, Operator, and welcome, everyone, to the call. I will first thank Welspun management for giving JM the opportunity to host today's call. Without much ado, I'll hand over the call to Mr. Salil Bawa, Head, Investor Relations, Welspun Group, to introduce the management. Over to you, Salil.

Salil Bawa: Thank you, Ashutosh. Good morning, and welcome to all of you. On behalf of Welspun Specialty Solutions Limited, I welcome all of you to the company's Q3 and 9-month FY '25 Results Earnings Call. Along with me, we have with us today Mr. Anuj Burakia, Chief Executive Officer and Whole Time Director. I have Navin Agarwal, who is the Chief Financial Officer; and Goutam, who heads Investor Relations for Welspun Corp.

We hope you have had a chance to review the investor presentation. This was filed yesterday 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 you to take a moment to review the Safe Harbor statement in the presentation.

As usual, we will start the forum with opening remarks by Anuj, and then we will open the floor for your questions. Once the call gets over, should you have any further queries that remain unanswered, post the earnings call, please feel free to reach out to any one of us.

With that, I would now like to hand over the floor to Anuj Burakia, Chief Executive Officer and Whole Time Director. Over to you, Anuj.

Anuj Burakia: Thank you, Salil. Good morning, everyone. I extend a very warm welcome to all of you for joining us in Quarter 3 and 9 Months Financial Year '25 Earnings Call of Welspun Specialty Solutions Limited. Today, I'll briefly share insights into the global macroeconomic environment, our industry scenario and the company's performance before we move into an interactive session.

Let me start with the macroeconomic outlook. According to latest world economic outlook by IMF, GDP growth -- global GDP growth is projected at 3.3%, both for 2025 and 2026. This is primarily unchanged as higher projection for US has offset the downward revision in some major European economies.

Forecast for India's growth rate remained unchanged at 6.5%, both for financial year '25 and financial year '26. Meanwhile, Reserve Bank of India in its latest announcement has projected real GDP growth at 6.6% for financial year '25, backed by revival in rural consumption, a pickup in government consumption and investment and strong services export.

Continuing with the trend in the previous quarter, quarter 3 financial year '25 also witnessed slow demand with very competitive margins primarily owing to weak economic activity in major global economies and continued geopolitical events. Demand remained low in aerospace, oil and gas, petrochemicals and automotive industry, etcetera, which adversely impacted our business potential and performance.

Looking at our financials, for 9 months FY '25 period, we have reported a revenue of INR541 crores and an EBITDA of INR38 crores. Stainless steel, steel products sales volume during this period stood at approx 14,000 tons, while pipe and tubes volumes stood at about 3,500 tons.

Similarly, for quarter 3 financial year '25, total income stood at INR199 crores, up 15% quarter-on-quarter, and an EBITDA of about INR13 crores, which is 56% up quarter-on-quarter. During quarter 3, PAT stood at around INR3.5 crores negative at against INR6 crores loss in quarter 2. Cash PAT turned positive during quarter 3.

The order book of the company at the end of quarter 3 stood at about 4,200 tons valued at approximately INR185 crores. Owing to some positive developments with respect to gradual easing of Middle East tensions, expected boost in USA. oil and gas investments, as announced by the new regime, we are anticipating revival of stainless steel demand in high-consumption Western Hemisphere.

The company remains sharply focused on domestic Indian market, which is steadily growing and offering significant opportunities especially in value segments like energy, defense, outer space, power gen, shipbuilding, public infrastructure, etcetera. These spends on various strategic sectors combined with preference for domestic manufacturing under Make in India policy is creating a demand thrust in the country. The growth spend is expected to continue and increase further in times to come with significant potential of benefit to the company's business, especially the pipe business.

Friends, you would be happy to know WSSL got felicitated at BHEL's Samvaad 4 event for developing Super 304 H and T91 SS boiler tubes for supercritical power plants. This further reinforces our commitment to develop and deliver high-value grades for critical applications. It also paves the way for our expansion into attractive power gen segment.

I am pleased to inform you that we have also received approval from Engineers India Limited, EIL, for supply of duplex and super duplex grade steel bars for EIL project applications. This will now be followed with evaluation of duplex grade seamless pipes and tubes. I wish to mention here that we are in the advanced stages for our other important certifications, including AS9100D for aerospace and NORSOK 650M for North Sea applications. After developing, delivering and commercializing our new product offerings such as 13 chrome and 9 chrome bars for oil and gas sector applications and niche Welsonic 50.

We are in discussion with our customers for further new grade businesses, a trial order for Nitronic 60 has already been booked. With strategic growth objectives, we are preparing to explore new markets, including South American region and South Africa, while continuing our strong marketing efforts in the EU, Turkey, USA, etcetera.

Talking about sustainability, I'm happy that we could report a 13% reduction in overall energy intensity during 9 months financial year '25 compared to financial year '24. Sharing of -- share of renewable energy stood at 32% of our total electricity consumption during 9 months of financial year '25 as compared to 24% during the same period last year.

It gives me immense pleasure to apprize that WSSL is now certified as Great Place to Work by GPTW Institute, highlighting our focus on our people. In the face of currently challenged macroeconomic scenario, we continue to rely and harness our core competencies, that is focusing on developing and delivering value-added products, greater market penetration, strong customer relationships and securing further approvals and accreditations.

Before I end my discussion, I also wish to inform that company Board has approved raising of funds up to INR350 crores by way of issuance of equity shares through rights issue. The funds are intended to be used for debottlenecking and certain capability upgradations, etcetera, augmentation of working capital, repayment of debt and general corporate purposes or any other purpose as may be determined appropriate by the Board or committee.

With this, I'd like to open the floor to your questions. Thank you.

Moderator: The first question comes from the line of Muskan Rastogi from B&K Securities.

Muskan Rastogi: Sir, in the last con call you did mention that in second quarter that we have guided strong performance in SS pipes. However, it decreased 8% year-on-year and 16% quarter-on-quarter. What would be the reason for this, sir?

Anuj Burakia: See, in the last call, what we had discussed was we expect the pipe performance to improve during quarter 3 and onwards. And here, if you see, which is also getting reflected in our bottom line, see, it is not really important as to 100, 200 ton volume, whether we'll do less or more. What is more important is whether we have been able to retain the value out of it. If you really see pipe had been the -- like compared to quarter 2, absolutely stronger, and we expect this to be continuing going forward.

Muskan Rastogi: Okay. Sir, also, like in the last con call, you mentioned that you see FY '26 as a positive year. So from where is this visibility coming from? Is it from export -- since you mentioned you're seeing good traction from the domestic market. So our focus is to -- is focus is more on value growth or more on volume growth?

Anuj Burakia: You see, Muskan, it is really -- it's a very complex business environment and, you see, there are two things that are happening here. One is our own capabilities and second is how markets are moving. It is very, very clear that currently, the domestic market is offering the maximum opportunities to a business like us by way of a lot of spend that's happening, and as I was mentioning in my opening remarks as well.

Having said that, we cannot lose our focus on our export markets. I mean, maybe they are slow, maybe they are not doing that well at this point in time, but that's not going to remain forever. The large manufacturers that are using our steel or the fabricators that are using our pipes and tubes in these export markets are going to be there.

So maybe there is a slowdown at this point in time but then our focus remains equally there. Having said that, we expect that the overall volume or the overall business in very near term looks to be coming more from domestic in proportion than from export.

Moderator: The next question comes from the line of Nirav Shah from GeeCee Holdings.

Nirav Shah: Sir, just one question. I mean on the -- we had INR100-odd crores of BHEL order, net BHEL order post the GST. How much of that was executed in the current quarter? How much is pending? Because that was supposedly a very high value-added product order with decent margins. So just want to understand how much did we execute out of the total pipe sales?

Anuj Burakia: I will not have exact here that what went up to 31st of December, but only partially would have executed in 31st -- in this quarter and the balance will be spilling over in quarter 4. I would also like to mention, Niravji, it is not just one order or let's say, one particular business, which is bringing the whole value, let's say.

There are other products also, and some of them are going into the export markets, which are equally high value and equally better value. So it's a mix, and we are very confident that quarter 4 will be sustained as quarter 3 or even better.

Nirav Shah: Okay. So that -- I mean, just to be on that order specific, that will be completed in Q4, that order?

Anuj Burakia: That one, yes. I mean that one definitely will get completed in Q4. Yes.

Nirav Shah: Okay. And sir, just how is the pricing for the SS bars in export market? I mean, when do you see any recovery? And any guidance you would like to put it for this year, next year? That is my question, sir. That's from my side.

Anuj Burakia: Yes. We would love to give -- put some guidance. But you see, here, when we understand clearly that not one, but so many factors out there are not behaving the right way. It will be probably not really appropriate to give a guidance.

Only what I can say and what we can see is when we speak to a lot of market participants and our customers, one thing is clear that this lull had remained for very long. And at the same time, you see the confidence in the market is low because there are still geopolitical issues out there which have not been settled completely.

The new regime in US is yet to get settled and the world will come to know as to how things pan out. So while these are the factors which are bringing in some kind of a caution, but at the same time, these people are also very clear that there is not much material in the pipelines, so which means the moment there is a little uptick, there is a little optimism coming in, there will be a pent-up demand.

So we are also taking things very cautiously at the same time remaining quite optimistic that in -- over next one or two quarters, things will start improving. And I can also say that we are seeing a little uptick in our inquiry book also. So we are sort of keeping a watch and driving it that way.

Moderator: The next question comes from the line of Parth Bhavsar from Investec.

Parth Bhavsar: Sir, I have a few questions on growth. So in terms of order book, we have outstanding order book of about INR185 crores. So I wanted to understand like what sort of projects or what is the potent -- what is the pipeline that we've bidded for? And what is our hit ratio? Like are there any projects that we've bidded for? And what is the value of that project? And what is our hit ratio?

Anuj Burakia: So Parth, first of all, you see, we are doing two products, two different businesses. One is selling the steel and the other is selling pipes and tubes. By the nature, the steel business is something which is more of a spot business, which means that you don't bid for a long term and generally, it happens -- once the offers are made and the negotiations and the finalization happens very fast.

So in steel, normally, unless there is a big boom for some reason, the order book would normally not be more than 3 months, 4 months. And that is how it is, so which at this point in time is a bit lower than what ideal order book should be. At the same time, on the pipe side, of course, we have a strong bid book, as I was also mentioning before. And we are very, very confident that we will be able to again refill our order book on the pipe.

Parth Bhavsar: Sir, any number over here on pipe side?

Anuj Burakia: It's not there with me right now, but you see, there are multiple projects across domestic as well as export segments. So I think we are good at -- good in that area.

Parth Bhavsar: Got it. And sir, this INR185 crores of order book. And what is the timeline we can execute this?

Anuj Burakia: Well, you see, some of these will have orders with specific timelines and some are like ASAP. So it's a mix. But I would say that -- and this is as of 31st of December, so obviously, during January also, this would have undergone a change. So I think we are working steadily with 2 months -- 2.5 months of order book. And as the things start to improve, the first thing that's going to happen is how these 2 months become a 4 months kind of a visibility.

Parth Bhavsar: Got it. Sir, is there any revenue or volume guidance that we've gone out for '25 and also profitability guidance?

Anuj Burakia: Well, 3 quarters have already gone. So I believe we would be able to sustain quarter 3 and build over it. I would definitely hope that quarter 4 is better. And next year, of course, much better than financial year '24.

Parth Bhavsar: Okay. And sir, on profitability, do we have any benchmark-like thing where you think that it would be the bottom and things were going to look up from there?

Anuj Burakia: See, right now, I think what the whole market, the whole world and especially this asset creation segment is going through the lows that could be possible, probably is the bottom. This is what everybody genuinely feels because now mill margins are wiped out. When you look at the minerals cost or the scrap cost, they are nearing their collection cost. I mean the whole value chain, no one is actually making margins or money.

So if you just leave the exceptions aside, I mean, right now, probably is the bottom of the whole value creation curve. So we can always expect things to be better from here. Now whether in this quarter, next quarter, I mean, that is something we need to see.

Moderator: We have follow-up questions from Parth Bhavsar from Investec.

Parth Bhavsar: Yes. Sir, we indicated that Board has approved INR350 crores of rights issue. So wanted to understand what sort of money would be spent towards capex? And what's -- on debottlenecking and how much capacity expansion or capacity addition can we expect from this?

Anuj Burakia: So Parth, on this, I'd like to clarify that -- I've been also telling this in our earlier calls that we are not envisaging any capacity expansion. We have enough capacity. And currently, we have not been utilizing our capacity to its fullest. So first is no capacity expansion.

But what we have been doing and what we intend to do with the -- in the next term and also utilizing some funds out of the issue that we are bringing in is the debottlenecking processes to be able to -- which will further aid utilization of our overall capacity. Then some upgradations and modernization, which is required in certain processes, certain equipment and all and beyond that, I mean, we are not envisaging any capacity expansion.

Parth Bhavsar: Sir, how much of the INR350 crores will be utilized towards this debottlenecking upgradation and modernization?

Anuj Burakia: So that is still a WIP, Parth. I think the committee appointed by the Board is still working on it. And this is the approval by the Board to go for a raise by using right issue as a route and the appointed committee is working on the next level detailing and things.

Moderator: The next question comes from the line of Bimal Sampath, an Individual Investor.

Bimal Sampath: Yes. So just wanted to understand these new products and great development and all what we are doing, do we have a specific customer who is guiding us that you make this for us? Or how is it? I mean, are we doing it on our own or some technical help from somebody?

Anuj Burakia: So you asked two different questions. One is you see we have that know-how, that market intelligence as to for which applications, what kind of grades are used. And it's a natural progression that the -- from the difficulty level, so you do one level of grade or a product and then you switch to the next and to the next and this is how we are going.

And obviously, we follow a strategy where when we have to develop something new, we always try to find a customer first who is a buyer for that, not just develop and keep it with us and so that it also goes into the market simultaneously and others also come to know of it. And then we start commercializing, we start getting more orders around it. And which has happened with almost every new product that we have developed.

Obviously, every product will have its own size of market, some has big markets, some has small market, some sells more in domestic, some sells more in export. So it's a mix. And as far as development is, we have the in-house new product development team, there is a team of metallurgist as well as the experienced people who normally plan well in advance and then execute also that way.

Yes, sometimes, if there is some aspect wherein we require some expertise or some particular help, we obviously reach out to external expertise for getting those things cleared before we go for actual production. So this is how normally it is done in the industry.

Bimal Sampath: Yes. And on this aerospace certification process, how long will it take? And for that, do we have some prospective customer lined up? And what is the size of that opportunity?

Anuj Burakia: The global aerospace market is very, very big. Let's understand it's -- certification is something like a base certification, which is called AS9100D, without which you cannot supply for aerospace, which means your facility is having all those necessary capabilities to be able to produce materials for aerospace. That is the first thing.

And we have come a long way. I think we are very near to getting this completed. I would hope, if not in this quarter, very early next quarter, this certification will be over and is, by the way, one of the toughest to really pass -- get through. There is a huge size of market, as I said. But at the same time, you see, a customer would not just start buying because you have...

Bimal Sampath: Yes, sampling, they will start sampling.

Anuj Burakia: Yes, they will start sampling and then one customer, which is, let's say, for passenger planes, it is the most tough to really get in. So one starts with cargo, then gets to the, let's say, the lower critical -- criticality components and then higher critical. So it's a journey. But there is a huge scope. And I think adding of aerospace will definitely add a lot of value to the overall business.

Moderator: The next question comes from the line of Parth Bhavsar from Investec.

Parth Bhavsar: So sir, I wanted to understand the sector and I'm very sorry, pardon me for my ignorance, I just started tracking this space. So I wanted to understand a few things in terms of how should we -- one look at demand both in terms of steel as well as pipes and tubes?

I believe that pipes and tubes is a much more critical component that would go for industrial applications like, as you said, aerospace, O&G and all. So I wanted to understand like in terms of steel, who would be our customers and in pipes and tubes who would be our customer. Like if you could name like just 2 to 3 of your customers, if it's possible.

Anuj Burakia: Customer we have, I mean, a whole flurry of customers, but I can give you a very broad differentiation, Parth. See, first of all, stainless steel is not cheap, right? It's a value product. Now within stainless steel, you can have low value, high value, but it is a value product in first place.

You put nickel and you put chrome into it. So the application that stainless steel goes in for is a value application or a specialized application.

And especially when it comes to the heavy bars or the product range that we produce, we end up selling either to the reprocessors who are maybe the forgers, the machinists, the flange manufacturers, the other pipe manufacturers and so on and so forth.

And also a lot of steel gets sold to the stockholders, which are large stockholders and some of them holding as high as like a $1 billion inventory or a EUR 2 billion inventory across the whole continent. They are very large. And what they do is they stock a lot of different grade sizes and they package it in a sense that if there is a requirement coming in, so they have everything available with them to be readily sold.

And again, the application in the end is going to be either a production of a shaft, boat shaft and things like that or reprocessing by way of machining into various components or a reforging or a drawing or -- I mean, there are a lot of applications. But in the end, it goes for something -- some or the other value application.

Parth Bhavsar: Got it. And in terms of the pipes and tubes, it would be like for like all these nuclear players or O&G players, all of those, right?

Anuj Burakia: Yes. I mean nuclear power is one of the applications. There is a big application, which is called heat exchanger, where we sell to heat exchanger fabricators. And then after the heat exchanger is made, they sell it to, let's say, the OEMs for oil and gas, for nuclear power, for so many other applications. So there are various channels, various ways, pipes get sold.

Parth Bhavsar: And when we -- like I understand that right now, we are not putting up any capacity, but if you had to put up capacity, so how would you look at your return ratios? What is our company threshold ROCs that we would like to attain over a period? And what sort of payback period also we target usually?

Anuj Burakia: For a new capacity, I think it will be difficult to say, Parth, because, you see, there's not a straight, simple answer to that. As far as we are concerned, our internal target, if I have to say something, I mean, I can tell you, below 25% is not something that we consider as something as a target for ourselves. So the ROCE for the business must be 25%. Of course, you not always achieve it, but yes, I mean, we are on that path very, very clearly.

Parth Bhavsar: So there would be years where -- there will be the years of down, where the cycle is not in your favor. And -- but usually, we target 25% plus ROCE.

Anuj Burakia: Yes.

Parth Bhavsar: And sir, if you had to put up a capacity, I understand that steel would be one of your raw material for -- that you use for pipes and tubes. But if you definitely -- there would be two ways. One is you take your material from someone else or you manufacture it in-house. So if you had to put up capacity right now, so would it be pipes and tubes is more favorable or steel is more favorable for you?

Anuj Burakia: Well, if you are talking in a hypothetical manner as a new investor, I would always look at bridging the lower capacity with whatever high capacity you already have. So let's say, if the steel capacity is much higher than pipe, right? So one would always tend to add to the pipe capacity.

Now that doesn't mean that we are finding for this business a need to add at this point in time. For the next 2 years, our focus, and we spoke about also in the previous and the previous call that for next 2 years, our focus is to reach to the capacity utilization of 90% plus for the existing assets that we have.

Parth Bhavsar: And sir, if I just had to like compare margins without backward integration versus, so what would be the delta like? Like if suppose you didn't have -- if you didn't have a steel manufacturing capacity and you had to buy it from outside, so what would be the delta when you manufacture pipes and tubes...

Anuj Burakia: Delta -- Parth, let's understand the steel capacity, not the capacity, having a steel plant is a biggest enabler, I can tell you, for our business. As the customer expectation increases, as you see, there are riders coming in, in the market for the right quality and the customer wants to control even the steel quality, right?

And also clubbed with, let's say, the preference for domestic manufacturing. And when you do high class pipe and tube products by extrusion route, you require big-sized bars. And if you really ask me, I mean, probably we would not have been able to do this good or build plants around pipe and tube if we didn't have this backward integration in form of a steel manufacturing facility of our own.

If you see some of the projects which are already there in the public domain, and you'll see in future, I'm sure more of such will come, our biggest advantage or the biggest strength is to have our own captive steel. We have much better predictability, we have much better control on our cost and quality and which is giving an advantage for sure.

Moderator: The next question comes from the line of Rajvi from JM Financial.

Rajvi: So can you please give some outline on the demand scenario, especially if you can give some sense around the order book and how does it compare Y-o-Y?

Anuj Burakia: So Rajvi, I was just saying a few minutes before that, of course, the market is slow at this point in time. The demand is also a little tepid. But if you ask me the last year, year-on-year, if you see, I think we are at the same order book level, though, I would say, if market scenario would have been better, we could have also done much better. Because our internal capability, our deliverance competence has increased much more what it was 1 year back.

At the same time, since the market remains slow, the order book also has not grown the way we would like to. But at the same time, it is very clear the moment we have some uptick, we'll certainly have a much, much better order book. Currently, we are operating at, I would say, about 2 months, 2.5 months. And the desire is -- or the ideal order book for this kind of a business is something like a 3 month plus, 4 months is the best.

Moderator: As there are no further questions, I now hand the conference over to Mr. Anuj Burakia for his closing comments.

Anuj Burakia: Thank you. At the cost of repetition, I wish to mention, in the backdrop of external challenges, we are keeping steadfast focus on our core competencies and strategy to -- strategy of value over volume. We remain ready and well positioned to deliver superior performance as we expect revival in demand and consumption during next quarters.

We are continuing to work on increasing our basket of offerings by adding newer and innovative products, building strategic partnerships by securing approvals and accreditations to enhance our capabilities, embracing technology and fostering innovation and digitization, which will be crucial to drive growth.

I hope we have addressed your queries well. If you have any further queries, please don't hesitate to reach out to our Investor Relations team. Thank you once again for joining us, and I look forward to reconnecting with you soon. Thank you very much.

Moderator: Thank you. On behalf of JM Financial Institutional Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.