Sambhv Steel Tubes

Operator: Q2 FY27 earnings conference call hosted by Monarch Networth Capital Limited.

As a reminder, all participants' lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sahil Sanghvi from Monarch Networth Capital Limited. Thank you, and over to you, sir.

Sahil Sanghvi – Monarch Networth Capital: Thank you, Ekta. Good evening, everyone. Welcome to Sambhv Steel Tubes Ltd. earnings call to discuss the Q2 and first half FY27 performance. Before we begin, we would like to remind you that today's discussion may include certain forward-looking statements, which should be considered in light of the risks and uncertainties outlined by the company.

Joining us on the call today, we have Mr. Vikas Kumar Goyal, Managing Director and CEO; Ms. Anup Garg, Chief Financial Officer; Mr. Vikas Agarwal, Executive Director; and Mr. Pratham Kothari, Senior Manager, IR and CEO Office.

Before we start the call, we would like to congratulate the entire management and team at Sambhv for a very impressive set of numbers. I now invite Mr. Vikas Goyal to take us through the business outlook and key financial highlights, following which we will open the floor for questions and answers. Thank you. Vikas, over to you.

Vikas Kumar Goyal – MD & CEO: Thank you, Sahil. Good evening, everyone. Thank you for joining our earnings call. I hope you have reviewed our financial results. Today, I will share operational progress and financial performance, followed by a Q&A session.

As we progress towards our Vision 2030, I would like to highlight key developments related to our growth and long-term vision. We aim to scale our finished product capacity from 0.6 million tons to over 2 million tons, while aiming to meet 90% of our energy needs through green power by 2030.

Our expansion at Kheda and Sikandrabad is on track for on-time commissioning. We are now entering the high-growth, high-margin business of stainless steel seamless pipes and tubes, with an investment of 148 crores and a production capacity of 14,400 tons per annum.

Coming to our operational performance for Q2 FY27, the sales volume of value-added products increased by 27% year-on-year, reflecting our continued focus on improving the product mix.

We achieved revenue of 840 crores, total EBITDA of 105 crores, and PAT of 61 crores. We achieved an EBITDA margin of more than 12% and a PAT margin of more than 7%. We generated operating cash flow of 213 crores during this quarter, reflecting healthy cash generation.

We remain committed to sustainable growth and long-term value creation for our stakeholders. As we always say, Sambhav hai toh sab sambhav hai. I would now request that we open the floor for Q&A. Thank you.

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Operator: Thank you very much. We will now begin with the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Sohan Jain from Dalal & Broacha Stock Broking Private Limited. Please go ahead.

Sohan Jain – Dalal & Broacha Stock Broking Private Limited: Thank you for giving me the opportunity, and congratulations to the management on a good set of numbers. My first question is, our EBITDA per ton came down from about 8,800 in Q1 to about 8,200 this quarter. Over the same period, the value-added share of volume declined to about 93% from 94%, as intermediate sales rose to roughly 9,100 from 6,600. I also want to understand how much of the decline came from the mix shift and how much came from pricing and costs.

Management: [pause] Hi, Sohan. Thank you for asking this question. There are multiple factors that affected the numbers we have posted in terms of EBITDA per ton vis-à-vis the Q1 number. In terms of product mix, the major increase in both mix and volume came from the MS pipes and tubes segment. In terms of product mix, this is the only product for which we have posted a majority contribution. The rest are almost identical to the Q1 number.

In terms of EBITDA, the absolute EBITDA decrease of around {? 600 ?} rupees per ton on a value-added product basis is predominantly attributed to 2 or 3 factors. First, our raw material cost goes up during the monsoon because of the yield factor and the moisture content in the raw material.

Secondly, in terms of the EBITDA margin that we achieved in stainless steel, because of the relaxation of QCO and heavy imports from China, or rather heavy dumping from China, on 200-series and 300-series coils in India, our margin shrank a bit to the tune of {? 12,000 to 13,000 rupees ?} per ton for MS, whereas my EBITDA per ton in MS and coated products increased to 8,000 and 7,000. On a weighted-average basis, my absolute EBITDA per ton on a blended basis dipped slightly in Q2 FY27.

Third, Q1 was absolutely a black-swan event for us. There was a war situation, there was a lot of price increase, and the abnormal price was high, which has now normalized, and is also continuing to normalize slightly. That abnormal price increase vis-à-vis my raw material cost was much higher in Q1. That is why I believe the EBITDA number in Q1 was an outlier for us, whereas Q2 is practically a good EBITDA number that we have posted, and it is practically a sustainable number given the situation in Q2 and Q3.

Sohan Jain – Dalal & Broacha Stock Broking Private Limited: Got it, sir. Thank you. I have a follow-up question. You rightly identified the QCO exemption. I wanted to know whether domestic demand is holding up for our stainless steel, and whether you can give the mix of 200 and 300 series for this quarter.

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Management: Sohan, in terms of demand, ultimately India is an import-dependent country in terms of stainless steel consumption. That is why the government wanted to balance imports and domestic production. If the government completely bans or restricts imports of stainless steel, India will see an abnormal price increase because domestic production cannot cater to the demand that is currently present.

The government is therefore walking a very thin rope in terms of finely balancing imports and domestic production. As you can see, under the PLI scheme, they have given a lot of thrust to alloy and stainless steel production. Vision 2047 is also giving a lot of thrust to stainless steel and alloy production. The government is also trying to push production in the domestic market.

Once we achieve domestic production at a level that meets the current demand of around 4 to 5 million tons of stainless steel coil, the government might start looking at restricting a few things.

In terms of demand, there is good demand. Growth is also in double digits. There is no problem in terms of the supply side. We are not producing at the level that we are supposed to. Now people have started entering this segment, and the future looks brighter.

That is why I said that even if the QCO norm is relaxed, China is still selling, but the price at which China is selling in the market means that they are undercutting even their production cost and selling into the market. That is why I said this is dumping, and because of that we have to lower our price.

Even with the lower price, in a scenario where China is sending a lot of 200-series and 300-series coils to India, we have still managed to achieve around 12,000 to 13,000 rupees per ton of EBITDA margin.

I believe this is very sustainable, even if the QCO norms are relaxed for China. In March 27, the government has to take a hard call and stop allowing low-priced imports. As per our best knowledge, the government is also evaluating the import price for 200 series, anti-dumping measures for 200 series and 300 series, and certain restrictions on other stainless steel raw materials that are currently being produced in India and that the government overlooked during the QCO norm relaxation notification.

Sohan Jain – Dalal & Broacha Stock Broking Private Limited: Got it, sir. The answer was quite insightful. I have one more question. As an analyst, how do we track our intermediate sales? I wanted to understand what usually makes you sell more intermediate products in a quarter.

Management: If you see, vis-à-vis FY26, we have sold a very small amount of intermediate products so far. Most intermediate sales consist of rejection-grade or B-grade products that we produce, which cannot be used in our downstream production cycle.

Whatever we are selling in terms of intermediate products is basically the product that we cannot use in our downstream processes, so we sell it in the open market. In terms of volume percentage, it is very low, at about 2%.

Sohan Jain – Dalal & Broacha Stock Broking Private Limited: Got it, sir. Thank you. I will get back in the queue.

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Operator: Thank you. Anyone who wishes to ask a question may press star and one. Participants who wish to ask a question may press star and one now.

The next question is from the line of Devesh Vakharia from Shikharaya Asset Managers. Please go ahead.

Devesh Vakharia – Shikharaya Asset Managers: Hi, sir. Good afternoon. Congratulations on the results. I have a couple of questions. One is on the project that we have announced on the seamless side. Could you provide more detail in terms of which technology we are using within seamless—piercing or extrusion? What will be our target market? In terms of upstream sourcing of stainless steel, would it be sourced in-house, or will it be sourced from outside? Right now, we are into flats and coils and are selling coils. [cut off]

Management: Hello.

Devesh Vakharia – Shikharaya Asset Managers: Hello. Am I audible?

Management: Yes, Devesh. I think the last sentence was not audible.

Devesh Vakharia – Shikharaya Asset Managers: Sorry. I was saying, lastly, in terms of sourcing stainless steel for these seamless pipes, right now we are into flats and coils and are selling coils. Would the stainless steel be sourced in-house or from outside?

Management: I will answer your 3 questions: sourcing of raw material, why we are entering, and how we are entering.

Firstly, we believe India is going to see very high growth in terms of stainless steel seamless pipes and alloy steel pipes. Alloy and stainless steel seamless pipe consumption will increase because of the heavy engineering and high-value engineering production and industries that are coming up in India, for example, semiconductors, data centers, green hydrogen, coal gasification, aerospace, defense, and nuclear power.

Apart from the normal industries that have been operating for the last 50 to 70 years, such as steel, oil and gas, food processing, pharmaceuticals, fertilizers, power generation, and others, there are many sunrise sectors coming up in India where consumption is going to increase.

There is also domestic production in traditional industries that consume seamless and alloy seamless pipes. These industries are undertaking significant new capex and also have replacement and maintenance requirements.

Third, there is an export market opening up. Other listed peers are doing very well in terms of export numbers. Because the region is at war, they require a large number of seamless pipes for replacement and other requirements. There is also a lot of oil exploration and energy-security work taking place at the international level. From Russia, Europe, America, and Latin America, there is significant demand for stainless steel seamless pipes and alloy seamless pipes.

In terms of demand, the current documented market size is very nominal, at 2 lakh to 3 lakh tons per annum. There is also an undocumented market where people are unable to obtain seamless

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pipes and are using carbon welded pipes as a replacement. There is therefore also a latent market where seamless pipes are not currently being used.

We believe that over the next decade, seamless pipes—by which I mean both alloy and stainless steel seamless pipes—will see exponential growth in this commodity and product.

That is why we are entering this segment. Secondly, we are entering this segment through the piercing method because we believe that products made through piercing and extrusion have a similar kind of use. Both are accepted by government agencies and high-value engineering companies. The end user also accepts piercing as a method. China predominantly uses the piercing method and sells into the international market, where it is well accepted.

Piercing is very capital-efficient and also efficient in terms of conversion cost.

Devesh Vakharia – Shikharaya Asset Managers: Got it, sir. That was very detailed. Secondly, on the carbon steel side, I wanted to check with you. When we speak to dealers, distributors, and liquidators on the pipe and steel sides, what we are hearing is that there is a shortage in the market in terms of HRC availability. I wanted to get some feedback on how you are seeing the market right now and how spreads and margins are. While you did indicate that Q1 was very high and should not be used, is the margin profile on the pipe side better now versus Q2? Overall, how is the market looking?

Management: I will answer the 2 or 3 questions you asked. In terms of coils, we are predominantly procuring less than 4,000 to 5,000 tons of coils from the outside market. These are used for manufacturing above-5-inch pipes and tubes and for manufacturing our coated products.

In that respect, our volume requirement is very low, so we are not seeing any availability issue in terms of HR pipes. This situation is very ideal for me because I am fully integrated. More than 70% of my coil requirement comes from in-house production.

For me, it is a very ideal scenario. As you stated, the market is not getting coils, but I am manufacturing my own coils. When there is a scarcity of coils, I am in a better position and am also getting the benefit of it.

Secondly, in terms of margin, Q2 usually lacks the number that we actually posted. Traditionally, Q2 is a very low-margin and unprofitable quarter for steel companies. Still, we surpassed our Q1 number, and in terms of margin also, we had a margin of more than 12%, which we feel is an exceptionally good number in our assessment vis-à-vis the monsoon season, which traditionally does not produce such a number.

I think that, given the situation we are in, our business model is still resilient. This is a testament to what we have been telling all our investors: backward integration allows you to secure your own raw material rather than depending on the supply side, where you are dependent on 4 or 5 large manufacturers for your supply. Otherwise, you have your supply chain in somebody else's hands.

This is a testament to our business model. In this situation, where there is scarcity, we are emerging as a much more resilient player in terms of integrated steel pipe manufacturing.

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Devesh Vakharia – Shikharaya Asset Managers: Got it, sir. Thank you.

Operator: Thank you. The next question is from the line of Shweta Dikshit from Systematix Group. Please go ahead.

Shweta Dikshit – Systematix Group: Thank you very much for the opportunity, and congratulations on a good set of numbers. My first question pertains to seamless steel pipes. While you highlighted that import demand is one of the challenges that India is facing, with the Middle East conflict continuing and other countries facing difficulties in sourcing scrap for recycling and steel manufacturing, where are we positioned? How is the situation for us, how are we navigating through it, and what can we expect in the future if we have implemented measures to overcome it? That is my first question.

Second, while you highlighted many tailwinds for seamless steel demand, including global macro trends, emerging sectors, and sunrise sectors, what made us enter the new segment of seamless steel pipes? Could you highlight our preparedness for entering this segment? How do you plan to build customer relationships to position your product? Have there been inquiries or other factors that drove you to take this decision to enter the segment? These are my 2 questions.

Management: First, I will address the import problem, where you said scrap imports are a problem due to the non-availability of ships or cargo. There is no problem in terms of scrap, but transporting scrap is a problem, I would say, first.

Secondly, in terms of raw material dependency, we are only dependent on high-value alloys, which replace nickel as a substitute in our requirements. That is where we are importing a lot of cargo to substitute nickel. My other raw materials—manganese, chrome, sponge iron, and MS scrap—are procured domestically. Therefore, I am not significantly affected by the supply-side problem involving stainless steel scrap.

I do not require much scrap vis-à-vis my production capability. I produce only around 5,000 to 5,500 tons, which is a very small market size. For this production of 5,000 to 5,500 tons per month, sourcing high-value nickel-alloy scrap is currently quite easy, and I am able to do it as of this date.

When freight reserves become available, I hope this supply-chain problem will be resolved. Even if it is not resolved, we have been tying up with Indonesian and international traders to source nickel pig iron for melting our 300-series and 400-series steel slabs. We will address the problem through this method.

As far as other raw materials such as chrome, silicomanganese, and MS scrap are concerned, they are domestically available, and we are not facing any problem in sourcing them.

Now coming to the seamless side, this project was not announced in a haphazard manner. We have been conducting a detailed study for the last 2 or 3 years regarding how production should be carried out, what the production team should be, what kind of machinery should be used, and what kind of market exists. Technical studies have also been completed.

We are on the verge of signing for the plant and machinery. We are at the final stage of acquiring the land. We have just received warrant proceeds of 25 crore rupees, which we will use for plant

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and machinery and land-acquisition payments.

We have also received our PLI approval and signed an MoU under PLI 1.2 for seamless pipe sales to certain priority sectors. As mentioned in response to earlier questions, the priority sectors will include data centers, solar, semiconductors, defense, nuclear, and others, where we will receive approximately 13% of our revenue as an incentive from the Government of India.

In terms of initial tie-ups and sales, we require certain approvals from OEM manufacturers and manufacturers of critical equipment. Prior to that, there is a substantial replacement market or trader market available in India. These players currently depend on imports and sell in the domestic market.

For the last 1 to 2 years, we have been identifying and hiring good sales and marketing personnel. We have created our own touch points in the market for selling into the replacement market, where approval is not required. We have started exploring that market and will start capturing it.

We still have 1.5 years before production begins. Before that, we will be ready with sales in the market where approval is not required.

Initial sales for 1 to 1.5 years will be to this market, which I would call the commercial market. Once production starts, within 1 or 2 months I will obtain at least the domestic critical approval required to supply certain OEMs and critical equipment manufacturers, and we will supply to them.

At the same time, we will go international with our liaisoning team, which will liaise with international market players, warehouse keepers, or renowned international traders who will purchase seamless pipes from us. Alternatively, we will provide them with whatever material they are currently unable to obtain from the international market.

That is how we are approaching the market. We have been building relationships in the market for the last year, and we still have 1.5 years before production begins. We will build the market during this period.

Once production goes live, we hope that, given our manufacturing capability, we will offer a very good-quality product that the market demands, and that it will be well accepted in both the commercial market and the market requiring critical approvals.

Shweta Dikshit – Systematix Group: Understood, sir. Thank you. I have a follow-up question. Your capex is 150 crore. Is this part of the already agreed capex of 1,200 crores that is ongoing, or is it separate? Does this become part of Phase 2 and Phase 3? What total capex are you looking at through FY30?

Management: Basically, till FY30, I would say it will be around 400 crore rupees. If the initial capex performs well, I may add backward integration and look to scale up this particular production capacity.

For the current capacity that we are establishing in the initial phase, the capacity is around 14,400 tons per annum, which is also very high in terms of the current market scenario. Going forward, we will definitely look at full backward integration and scaling up to perhaps double or triple this

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capacity once the market accepts our product and we obtain major approvals from international and domestic players.

Shweta Dikshit – Systematix Group: Will this 400 crores be over and above the entire capex planned to reach 2 million tons of capacity? What is that number?

Management: Yes.

Shweta Dikshit – Systematix Group: The 1,200 crores plus?

Management: This is a rough estimate that I have given. It is over and above the 2 million-ton capacity that we announced under Vision 2030, and it is under a subsidiary.

We will consider funding 50% through internal accruals and 50% through debt or possibly some equity dilution in the subsidiary. This will be done after the 14,400-ton capex is completed and production goes live.

Shweta Dikshit – Systematix Group: Alright. Clear. Thank you very much.

Operator: Thank you. A reminder to all participants: if you wish to ask a question, you may press star and one.

The next question is from the line of Aditya Vellikar from PL AMC. Please go ahead.

Aditya Vellikar – PL AMC: Thank you for the opportunity, sir. Once again on seamless pipes, initially you are planning to set up 14.4 thousand tons. What kind of EBITDA per ton can we expect from this? On the total 400 crore capex, what kind of ROE or return on capital are you targeting?

Management: Aditya, 400 crores is what we aspire to do, but currently we are investing 150 crore rupees. Let us focus on the 150 crore rupees that we are investing currently.

This will take 1.5 years to spend and then come into production. Stabilizing production and obtaining approvals will take another 2 years. Therefore, we will be entering FY28, FY29, and FY30.

With 150 crores, we feel we will be able to achieve at least 10,000 tons of production by FY30.

Aditya Vellikar – PL AMC: On a per-ton or per-kilogram basis, what would the EBITDA per ton be?

Management: There are many grades and sizes. On a blended basis, 304 series is priced at 350 to 360 for pipes below 8 inches, where the margin is currently around 50 to 55 rupees. Some people are also realizing 50 rupees per ton.

In terms of 316, people are achieving a realization of more than 450, approximately. Predominantly, up to 8 inches, it is 450. For 8 inches to 12 inches, it is approximately 500 rupees, where the margin is again 80 to 90 rupees that people are realizing.

This is the current situation. Initially, we want to capture 304 and 316, which have high domestic demand and high international exports. This is what we are currently planning.

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Aditya Vellikar – PL AMC: Understood. Are we planning to set up martensitic or nickel-alloy-based seamless pipes?

Management: Currently, that is not on the table. We have also invested in Braj and other assets, which will produce {? Nimonic ?}, Inconel, Monel, and other high-nickel-alloy products.

If required, and if there is demand, we will procure round bars from them, produce seamless pipes from those round bars, and sell them in the market. Currently, however, we are focusing on 300-series seamless pipes, which is our current know-how and the area in which we feel we are strong.

Aditya Vellikar – PL AMC: Understood. One last question. For the raw material for this austenitic stainless steel, you said you would procure round bars. The entire procurement will be domestically sourced, correct? You will not have to import this type of steel?

Management: Which steel, sir? Can you repeat the question?

Aditya Vellikar – PL AMC: For the first phase of 14,400 tons per annum of austenitic stainless steel, the round-bar raw material will be sourced domestically, correct?

Management: Yes, it will be sourced domestically. We are at an advanced stage and have obviously done our homework. It is amply available domestically.

This answers {? Shweta ma'am's ?} question as well. There are many players manufacturing only rounds. Rounds are not made only for seamless pipes; they are also used for wire, TMT, stainless steel round bars, bright bars, square bars, angles, and channels. They have many uses.

There are therefore many players currently manufacturing rounds in India. We will use them as our raw material, and we do not expect to import them from outside India.

Aditya Vellikar – PL AMC: Understood. Thank you very much, sir.

Operator: Thank you. Ladies and gentlemen, to ensure that management is able to address questions from all participants, please limit your questions to 2 per participant. The next question is from the line of Chandresh Malpani from Niveshaay. Please go ahead.

Chandresh Malpani – Niveshaay: Hello. Am I audible?

Operator: Yes, sir. Please go ahead.

Chandresh Malpani – Niveshaay: Thank you for the opportunity. My first question is about quarter-on-quarter growth in structural pipes. If we were at 76% utilization in this category this quarter, is there scope for further capacity improvement until the new capex planned for Q2 FY28?

Management: I do not have an affirmative answer to that. We are optimally utilized in terms of capacity utilization, so there is no further scope for higher capacity utilization in this category.

In terms of volume, Q2 was again affected by a lot of destocking at the plant level. Distributors and traders lifted a lot of MS pipes, coils, and coated products in anticipation of a price increase.

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Therefore, even in terms of volume, we want to achieve the Q2 number, but I think we have to restrict ourselves to what we achieved in Q1. That is the best we can achieve in terms of both capacity utilization and volume.

Chandresh Malpani – Niveshaay: Understood. Secondly, in your earlier remarks, you mentioned the reasons for the fall in gross margins. Once the monsoon effect reverses in Q3, our other expenses and employee-benefit expenses were flat on a quarter-on-quarter basis. Should this also help us improve our EBITDA margin once gross-margin improvement takes place in Q3 or Q4?

Management: If the price increases, and if my raw-material price does not increase correspondingly, then I can see an increase in margin or gross margin.

However, the number we are currently showing is the best margin we can achieve under the current set of activities. The best margin number we are posting is not the Q2 number but approximately 14%, which we showed in Q1.

Chandresh Malpani – Niveshaay: Could you also tell us the in-house and outside mix for structural pipes? What was the mix during this quarter and in Q1?

Management: There is no specific number for that. In total, including our coated-product division and MS-pipe division, around 5,000 tons is what we are currently sourcing from outside. These materials are used for GP pipe manufacturing or for manufacturing pipes above 5 inches and below 7 inches.

In terms of tonnage, the requirement is approximately 5,000 tons per month.

Chandresh Malpani – Niveshaay: One last question is on working-capital days, which have improved significantly this quarter. Is 4 to 5 days a range that we are now going to maintain, or how should one look at it?

Management: Yes, sir. Working-capital days have definitely improved to 4 to 5 days in this quarter and the first half. There are several reasons for this.

In this quarter, as Vikas has already mentioned, destocking was carried out and distributors lifted a lot of stock. The second reason is that customer collections improved significantly. We also obtained better credit terms from suppliers. These factors enabled us to achieve 4 to 5 days.

However, I can say that maintaining 20 to 25 working-capital days is optimum for the industry and for my company.

Chandresh Malpani – Niveshaay: That was helpful. Thank you very much, and all the best.

Management: Yes.

Operator: Thank you. The next question is from the line of Shubham from 3A Financial Services. Please go ahead.

Shubham – 3A Financial Services: Hello, sir. First of all, congratulations on a great set of numbers. I had a couple of questions. Firstly, regarding the capex for Phase 2 and Phase 3 that you mentioned

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in the presentation, what would be the capex for those phases?

Management: We do not currently have a rough estimate because it has not yet been approved by the board. In monetary terms, however, it will be in the range of 1,500 to 2,000 crore rupees for both phases, including all the power plants.

Shubham – 3A Financial Services: 1,500 to 2,000 crores.

Management: Yes, Phase 2 and Phase 3. That is the maximum estimate I would like to give.

Shubham – 3A Financial Services: This would obviously include the stainless steel expansion as well, correct?

Management: Yes, both. This completely includes all my cost-reduction initiatives, including the power plant, future Phase 2 and Phase 3, and everything else.

Shubham – 3A Financial Services: I wanted to know more about pricing and realization for the end product. What were the price trends this quarter, and what can we expect for the remainder of the year?

Management: In Q2, the realization for MS pipe was in the range of 60 to 61 rupees. For GP, it was approximately 70 to 72 rupees for GP pipe and coil. For stainless steel, it was approximately 1,30,000 rupees per ton for the 200 series and 2,30,000 rupees per ton for the 300 series.

In Q3, the current price is somewhat elevated because coil prices are slightly higher. The current realization for the Q3 MS pipe segment is approximately 63 to 64 rupees. It is around 78 to 79 rupees for GP coil and pipe. For the stainless steel segment, the current price is approximately 1,30,000 rupees per ton for the 200 series and 2,30,000 rupees per ton for the 300 series.

I think Q3 will have this level of realization because I do not see any possibility of coil prices coming down. For the entire year, I think net realization will remain in a similar range.

Shubham – 3A Financial Services: Thank you. I have a question on the stainless steel seamless expansion. A few stainless steel players have also expanded their capacity, and we are coming up with 14,400 tons of capacity. Are we targeting this expansion as an import substitute, or are we looking to gain market share from other players or from unorganized players?

Management: There is nothing specific that I can say at present, so I will clarify it this way. Current market demand is increasing at a very high rate. I do not know if anyone can give an exact number, but based on a rough back-of-the-envelope calculation as management, I would say that if the current market is 1x, it will be 10x over the next 10 years.

There is therefore exponential growth in demand for alloy and stainless steel seamless pipes in the market. We will cater to that demand.

Second, several people have already announced capex after looking at the future because they are also seeing this demand. The current waiting period for obtaining a seamless pipe is 6 to 8 months. We are now in an era similar to the 1990s, when you had to book a scooter and wait 6 months to receive it. That is the kind of scenario currently taking place in stainless steel seamless pipes.

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Third, we need to study the domestic scenario. There are 4 or 5 major players with more than 10,000 tons of production capacity. Approximately 7 to 10 companies have capacity below 10,000 tons and above 2,000 tons. There are also many players with capacity below 2,000 tons.

Once a fully integrated player with strong financial backing, good technology, sourcing capability, and technology know-how enters the market and scales up rapidly, I think market consolidation will take place. The smaller players will either have to integrate backward or scale up, or they may exit the business. This may happen to players with less than 2,000 tons of annual capacity. There are around 25 to 30 such players currently operating in India.

Also, 80% to 90% of seamless pipes above 6 inches are currently imported into India. We are therefore still dependent on China and other markets for that size. This is another market that we are addressing through this manufacturing plant.

We are going to manufacture seamless pipes up to 12 inches. Therefore, we are targeting growth, the consolidation that is going to take place, and import substitution through our manufacturing plant.

Shubham – 3A Financial Services: That is great, sir. One last question would be what [cut off]

Operator: Sorry to interrupt you, Shubham. There is a long queue. Can you please rejoin for a follow-up?

Shubham – 3A Financial Services: Yes, sure.

Operator: Thank you. Ladies and gentlemen, you are requested to restrict yourselves to 2 questions per participant. Should you have a follow-up question, please rejoin the queue.

The next question is from the line of Viraj Shah from Elixir Financial Services. Please go ahead.

Viraj Shah – Elixir Financial Services: Am I audible?

Operator: Yes, sir. You are audible.

Viraj Shah – Elixir Financial Services: Yes, sir.

Viraj Shah – Elixir Financial Services: I wanted to ask about all the upcoming capex plans. If you could list them and explain when they will go live and when they will be commercialized, it would be easier for me to understand when they will start reflecting in your financials.

Management: I can highlight the current capex that we have in hand. We are coming up with a 360,000-ton stainless steel manufacturing facility, along with a 25 MW power plant to cater to the energy requirement of that plant. It will go live by March 2027.

We are also coming up with a 30 MW power plant at our Sarora unit, which currently has an energy deficit. We procure around 50% of our electricity requirement from the grid at a rate of Rs.7.5 to Rs.8. The 30 MW power plant, with a capex of 150 crore rupees, will go live by September 2027. It will help generate cost savings of Rs.60 to Rs.70 crore at the EBITDA level.

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We are also undertaking 2 small downstream expansions in the pipe manufacturing unit through the DFT route, through which our pipe-manufacturing capacity will increase from 350,000 tons to 5 lakh tons. We are adding 150,000 tons of integrated pipe-manufacturing capacity. This will go live by September 2027.

We have recently announced a seamless pipe manufacturing plant, which will go live by March 2028. We are approximately 6 quarters away from the plant becoming operational.

This is how the capex is stacked up. Regarding Phase 2 and Phase 3 of Vision 2030, I think we will comment on those when our Kheda plant goes live in March 2027. We can then provide complete clarity on Phase 2 and Phase 3 of our future capex.

Viraj Shah – Elixir Financial Services: Understood. What is your outlook and guidance for FY27 and FY28 for the top line and EBITDA margin?

Management: In FY27, we expect to achieve approximately 550,000 tons of sales, including the Kheda plant. Currently, I am producing 4 lakh to 420,000 tons of value-added products.

One lakh tons will be added from the stainless steel pipe division and stainless steel coil division, and around 40,000 to 50,000 tons will be added through the DFT-route pipe-manufacturing capability. We aspire to achieve approximately 550,000 tons in FY28, with EBITDA of approximately Rs.500 to Rs.550 crore.

In FY28, once my Kheda unit is fully utilized, our volume will be approximately 7 lakh tons or higher, and we expect EBITDA of around Rs.750 crore or higher.

Viraj Shah – Elixir Financial Services: Great. That is all from my side. All the best.

Operator: Thank you. The next question is from the line of Ashray Seth from Ventura Securities. Please go ahead.

Ashray Seth – Ventura Securities: Firstly, congratulations on a wonderful set of results. I wanted to ask about the target we have set for FY30. We had targeted 60% utilization for FY30. Given that our seamless capex is also being planned during this period, does our capacity-utilization target change?

Management: Which unit are you referring to?

Ashray Seth – Ventura Securities: The seamless unit.

Management: Seamless?

Ashray Seth – Ventura Securities: Yes.

Management: For seamless, I will have my first full year of operations in FY29, in which I believe we can achieve approximately 30% capacity utilization. We can then target 60% to 65% capacity utilization for FY30.

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Ashray Seth – Ventura Securities: As a business as a whole, we had targeted 60% utilization. That target will remain unchanged with the current expansion as well, correct?

Management: Yes.

Ashray Seth – Ventura Securities: Secondly, we are also targeting in-house power and adding captive power production. Can you give us an idea of how much EBITDA spread we are saving by using our in-house power plant? We are targeting approximately Rs.7,000 to Rs.8,000 of EBITDA per ton, so how much EBITDA spread are we saving through this?

Management: In percentage terms, I would say 1% to 1.5% if 100%, or more than 90%, of our electricity comes from our captive power plant. We can target incremental EBITDA of around 1.5%.

In terms of EBITDA per ton, it will be approximately Rs.1,000 to Rs.1,500, representing the power-cost savings we will obtain from our internal or captive power plant.

Apart from that, we are also studying and undertaking some capex in Phase 2 and Phase 3. We will have our own acid plant, acid-regeneration plant, oxygen plant, and nitrogen plant. This will result in cost savings of approximately Rs.3 to Rs.4 crore per month for the 30,000 tons of production that will take place.

This will also provide approximately 1% margin accretion. With these internal cost initiatives, cost-rationalization initiatives, or cost-reduction strategies that we are implementing through the captive power plant and other optimization initiatives, we are targeting approximately 2.5% to 3% of margin accretion at the EBITDA level by FY30.

Ashray Seth – Ventura Securities: That is great, sir. I wish you continued success. Thank you.

Operator: Thank you. The next question is from the line of Yash Desai from BD PMS. Please go ahead.

Yash Desai – BD PMS: Congratulations on a good set of numbers. My first question is on your outlook for H2. If I look at your H1 numbers, your top line has grown by about 38%, and your volumes have increased by about 20%. You had guided to 10% to 15% growth in both. Do you plan to revise that number for the rest of the year, or are you still sticking to 10% to 15%?

Management: We aspire to achieve around 4 lakh 10,000 to 425,000 tons of total value-added product sales. More than 240,000 tons will be from the stainless pipe segment, approximately 110,000 to 120,000 tons will be from galvanized or galvanized-coated products, and around 40,000 to 50,000 tons will be from stainless steel coil products.

That is the volume outlook. In terms of EBITDA, I would like to increase or revise upward my target range for EBITDA per ton. Currently, I think the range we would like to give for the full year of FY27 is around 8,000 to 8,500. Given the current scenario, we feel this is quite optimistically achievable.

Yash Desai – BD PMS: That is helpful. Secondly, what was the mix between 200 and 300 series? As a follow-up on the stainless steel question, after the future relaxation, do you feel that the 12,000 to 13,000 margin will remain sustainable in Q3 and Q4?

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Management: Q2 was actually very difficult because many shipments arrived at various ports. Traders started distributing those shipments, and because of that, even in Q2 my EBITDA per ton in stainless steel was around 12,000 to 13,000.

The imported products are already in the market, yet I am still achieving Rs.12,000 to Rs.13,000 per ton of EBITDA margin. Therefore, I think this will remain quite sustainable in Q3 and Q4 as well.

Yash Desai – BD PMS: What was the mix between 200 and 300 series, if you can tell us? I am referring to the stainless steel portion.

Management: Around 90% of what we are selling is 200 series, and around 10% is 300-series product. This is our current mix, and we expect the mix to remain the same going forward.

Yash Desai – BD PMS: That helps. If I can squeeze in one last question, your presentation mentioned H1 net debt to EBITDA at around 1.04x. By the end of the year, do you expect to remain at the same level? How do you want to manage it?

Management: On a net-debt basis, we would like to keep this ratio intact for the full year, by the end of Q4 FY27.

Yash Desai – BD PMS: Alright. That helps. That is all from me.

Management: Since we are in a capex cycle and our Kheda unit is going to become operational, I think this will increase slightly to approximately 1.4 to 1.5 on a net-debt-to-EBITDA basis, at the operating EBITDA level.

Yash Desai – BD PMS: Thank you, sir. Best of luck.

Operator: Thank you. The next question is from the line of {? Pranav Jain ?} from {? Hem Securities Capital and Finance ?}. Please go ahead.

{? Pranav Jain ?} – {? Hem Securities Capital and Finance ?}: I hope I am audible. Thank you for the opportunity. My question is on the stainless steel segment. We are coming up with a large expansion of 360,000 tons. Your largest peer said on its call that the market has been unable to grow in terms of volume because of exports and Chinese dumping of 200 series, which represents a relatively high portion of our stainless steel deliveries.

I want to understand how confident we are, considering that we already had additional capacity this quarter, but the stainless steel segment did not grow. How should we look at the additional 360,000 tons that is coming?

Management: We operate below 1 mm thickness in cold-rolled coil, whereas the larger peer or market leader does not operate in that range.

Secondly, we have the support of the PLI scheme, under which we will receive 10% of our sales revenue as an incentive from the Government of India for this particular stainless steel manufacturing plant that we are establishing.

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We will manufacture coils from 0.1 mm to 0.4 mm. The current facility can manufacture from 0.4 mm to 0.9 mm. In the future, the width will be approximately 600 mm, and the thickness will be reduced to 0.1 mm to 0.4 mm. These products are completely imported into India. This will therefore be complete import substitution.

Along with the PLI, the larger width, and the lower thickness, we believe this will be a win-win situation.

Secondly, let us analyze how imports work. Currently, there are many products in India that Indian manufacturers do not produce. In fact, there are only 3 manufacturers in India producing stainless steel coils through integration. There is therefore no full spectrum of products manufactured in India.

A downstream product manufacturer, such as a manufacturer of utensils, water bottles, or decorative items, depends on imported coils. They have to pay an advance to traders and wait 2 or 3 months for the product to reach their manufacturing plant.

When we come up, we will be able to provide immediate delivery, or reduce the delivery time to 15 days, and offer certain payment facilities. Their working capital and profitability will therefore improve.

On the supply-chain side, Indian downstream manufacturers will be in a win-win situation because an Indian manufacturer will provide them with the products they currently import, thereby carrying out import substitution.

The representations of these SME players involved in utensils, water bottles, decorative items, or certain pipe manufacturing to the Government of India all convey the same message: they are not receiving from Indian manufacturers the products or supply required for their downstream production.

Once we come up with coils of more than 600 mm width and below 0.4 mm thickness, along with payment facilities and clarity on delivery, I think we will be able to win the market and sell our product.

{? Pranav Jain ?} - {? Hem Securities Capital and Finance ?}: Understood, sir. Thank you for the detailed answer. Secondly, can you tell me the expected utilization levels that you are discussing internally for FY27 and FY28 for stainless steel?

Management: In stainless steel, since we mostly manufacture coils with thicknesses between 0.4 mm and 0.9 mm, we are currently operating at around 60% utilization.

Globally, integrated stainless steel coil manufacturers operate optimally at around 60% to 65%, and the lower the thickness, the lower the utilization. Therefore, our plant capacity utilization is currently at an optimum level.

Going forward, once my 360,000-ton Kheda unit comes in March 2027, in the first year, with the ramp-up, we will have around 30% to 35% capacity utilization. By FY29, it will be around 60% to 65%.

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{? Pranav Jain ?} – {? Hem Securities Capital and Finance ?}: Is the new expansion on track to come up by March 2027?

Management: Yes, sir. It is on track.

{? Pranav Jain ?} – {? Hem Securities Capital and Finance ?}: Got it, sir. Thank you, sir. And all—

Operator: Thank you. The next question is from the line of Masood from Genesis Research. Please go ahead.

Masood – Genesis Research: I would like to understand what the potential revenue target could be from the stainless steel and tube capacity that will become operational from March 2027.

Management: For the future, are you referring to FY28?

Masood – Genesis Research: Yes, sir. FY28.

Management: From stainless steel, I aspire to add another 1 lakh tons, or 1,20,000 tons. If I produce 1 lakh tons with a 50:50 mix of 200 series and 300 series, I think we will generate approximately Rs.2,000 crore of sales from stainless steel in FY28.

We will have another 50,000 tons of MS pipes from the DFT lines. That will generate approximately Rs.300 crore of sales.

Therefore, approximately Rs.2,300 crore to Rs.2,400 crore of sales will come from the existing capex cycle that is under way and will be completed in FY28.

Masood – Genesis Research: Thank you very much for the answer. That is all. All the best, sir.

Operator: Thank you. The next question is from the line of Mehul Panjwani from {? 47 ?}. Please go ahead.

Mehul Panjwani – {? 47 ?}: Hello, sir. Greetings.

Management: Hello, sir.

Mehul Panjwani – {? 47 ?}: I joined your call last quarter, and at that time you were quite positive about the full year. I have not been able to review your results today, and I joined the call only a short while ago. From the question-and-answer session, I understand that you have had very good results.

What was better and what could have been better in your Q2 performance? Did we miss anything?

Management: To be very honest, there could have been some improvement, although everybody's numbers are aligned. The numbers of India's largest steel manufacturer are good, our market leader's numbers are good, and our numbers are also good.

The one thing that could have been better was if the QCO norms had been relaxed. My EBITDA in stainless steel could then have been approximately 16,000 to 17,000, which means I lost approximately 4,000 rupees per ton.

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If I multiply that by the tonnage, my EBITDA from the stainless steel division was approximately 6 to 7 crore lower than it could have been compared with Q1.

Mehul Panjwani – {? 47 ?}: When do you expect a resolution on this?

Management: The Government of India will have to take action. That is the only possible solution, sir. It is not something we can solve.

Mehul Panjwani – {? 47 ?}: What about the geopolitical scenario? It existed for the last 3 months and even before Q1, but it has become quite volatile over the last few months. Were we able to execute what we planned in Q2, or are we facing difficulties because of the situation?

Management: So far, there has been no difficulty in terms of the geopolitical situation. In fact, whenever you look at a geopolitical situation, steel and food are the 2 things to which people return to basics. Commodities have been performing well.

A war situation always prolongs the upward cycle of a commodity cycle, which is what we are seeing now. Given the Government's Vision 2047, we feel that the government's thought process regarding 500 to 600 million tons by 2047 is progressing well.

The war situation also increases awareness. If you look at the government's policy, Vision 2047 and the National Steel Policy have placed greater focus on alloy steel and stainless steel.

The government currently understands that if geopolitical situations continue to arise, India should always remain self-sufficient in all types of steel that we can manufacture but are currently not manufacturing.

Mehul Panjwani – {? 47 ?}: Can we say that the Q1 and Q2 performance can continue in the same manner in Q3 and Q4?

Management: If this geopolitical situation continues, then yes, sir, this performance can continue, subject to the geopolitical situation.

Mehul Panjwani – {? 47 ?}: Obviously, if the situation becomes worse than what is currently happening, that would be different. But if the situation remains the same—

Management: If it remains this way, it is very good for the steel cycle because it is a demand cycle. During this cycle, people are unable to import and dump goods from outside, so this is good.

The government is also working on raw materials. It is trying to increase the availability of coal and iron ore. Many pellet plants and production facilities are also going to come up.

For companies like us, which are completely focused on value addition and integration, this is a very good situation.

Mehul Panjwani – {? 47 ?}: One last question: are we progressing on time with the capacity plans we discussed in Q1, or has there been a delay or change?

Management: As of today, we are on track, sir. There are no delays that I need to emphasize.

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Mehul Panjwani – {? 47 ?}: Alright, sir. Thank you very much.

Operator: Thank you. Next, we have a follow-up question from Shubham from Finavenue Financial Services. Please go ahead.

Shubham – Finavenue Financial Services: Thank you for the opportunity again. I have a couple of additional questions. Firstly, what working capital will be required for the stainless steel seamless expansion?

Management: In FY28, it will be in the range of 150 to 200 crore rupees at most.

Shubham – Finavenue Financial Services: This is the working capital requirement, correct?

Management: What did you ask for, Shubham? Did you ask about seamless or—

Shubham – Finavenue Financial Services: I am asking about stainless steel seamless. For the required capacity, what sort of working capital will be required?

Management: In FY29, for production of, say, 3,000 to 4,000 tons, we think a maximum of 50 to 60 crore will be required for working capital.

Shubham – Finavenue Financial Services: When do you expect to reach the target of 10,000 metric tons? In which year?

Management: FY30.

Shubham – Finavenue Financial Services: FY30. One more question: what go-to-market strategy will be implemented to enter and penetrate the market?

Ultimately, I think imports are cheaper than what domestic players are selling, by at least 3% to 4%. Do we also expect to reduce our realization to enter the market, or what will we be looking at?

Management: I will explain this. First, we have the PLI scheme, under which I will receive a 10% incentive. Therefore, if you are saying that the Chinese are undercutting prices or that imports are being sold at lower prices, I can also undercut prices to some extent.

Second, the margin in this sector is only 18%. I do not know how they are saying that they will obtain a margin at that level.

Third, the go-to-market opportunity is the replacement demand and commercial market, which is very large in India and which no one is currently able to enter. Exporting was providing a 10% to 15% premium. Many manufacturers in India with production capacity of 10,000 tons per annum are focusing on exports.

Therefore, the domestic player does not receive the product, even though the domestic consumer needs it. There is another market for us consisting of companies that are already manufacturing products for OEMs but do not require direct OEM approval.

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I can approach them and provide my product. Their approval process is more difficult, but it requires a tested market. They will conduct in-house testing of my product. If the product passes, they will accept it and manufacture their own downstream product before selling it to the OEM.

There are players whose demand is already coming to us. We are having conversations with them, and they are saying that they will take our pipes but need approval to receive pipes directly for supply.

If I am a parts manufacturer or a supplier of a component to an OEM or to a manufacturer of larger engineering goods, I do not need to obtain the engineering-goods approval myself. I will sell the product to the intermediary player.

This is the market we are currently targeting. Basic approvals will come within the first 3 to 6 months. Indian government standards, international standards, and specific approvals that are relatively easy to obtain for these types of pipes can be obtained within 2 to 6 months because our liaisoning team is strong on the MS side, and we will start building the team on the stainless steel side as well.

Shubham – Finavenue Financial Services: Alright, sir. I had one more question. Are you targeting 17% to 18% ROCE for this project, or is it north of 20% to 22%?

Management: Two years down the line, on a normal basis, I think 15% is the normal EBITDA margin that I am aspiring to. If I achieve more, that will be very good because my operating cost will be somewhat higher in the first year. Production utilization will be low, and I will also be in a learning phase in terms of seamless pipes. The rest of our business is very good.

Shubham – Finavenue Financial Services: I am referring to return ratios and return on capital employed.

Management: At an EBITDA margin of 18% and utilization of 60% to 70%, I expect to generate 60 to 70 crore of EBITDA comfortably on the 150 crore capex that I am undertaking.

You should also understand that a significant portion of the 150 crore capex is futuristic and relates to common infrastructure for the future. The land and other common infrastructure have already been acquired.

If I consider 60 to 70 crore of EBITDA on an investment of 150 crore, the return ratio is quite strong.

Shubham – Finavenue Financial Services: Working capital will also be included, correct? Around 170 crore?

Management: No, working capital will be 50 to 60 crore. Where did 170 crore come from?

Shubham – Finavenue Financial Services: You said 50 to 60 crore for 3,000 tons, correct?

Management: For 3,000 to 4,000 tons, I will require 50 crore, but you are extrapolating that initial figure.

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If I look at it that way, working capital will not increase proportionately at 10,000 tons. Initially, I will have to maintain a pipeline and obtain approvals, which is why I am estimating 50 to 60 crore.

Later, the maximum amount I estimate for FY30 is approximately 80 to 90 crore for working capital. The product will become streamlined, allowing you to plan which products need to be produced immediately and which products can be manufactured and kept in stock.

The sourcing of round bars will also become just-in-time. You will establish a cycle for when orders arrive, how long it takes for the material to arrive, and what is required. This planning has already been completed.

Accordingly, I estimate 80 to 90 crore of working capital at a capacity utilization of 9,000 to 10,000 tons per annum in FY30. This is the maximum working-capital requirement that I am expecting.

Shubham – Finavenue Financial Services: Alright, sir. Thank you very much for the detailed answer.

Management: I can say that 240 to 250 crore will be the maximum combined deployment for current working capital and capex.

If you compare that with EBITDA of around 60 to 70 crore, I am still achieving more than 2% per month of the number we aspire to achieve in terms of ROCE. That means more than 24% to 25%.

Shubham – Finavenue Financial Services: Thank you very much for the detailed answer, sir. I wish you the very best.

Operator: Thank you, ladies and gentlemen. We will take this as the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Management: Thank you, everyone, for participating in this call. I hope we have addressed all your queries. Please feel free to reach out to our investor relations team at Go India Advisors. We will be happy to answer all your queries later or whenever it is convenient. Thank you once again, and have a great day.

Operator: Thank you. On behalf of Monarch Networth Capital Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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