BMW Industries Ltd.

Date: 16-11-2023

To,
The Manager
Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai- 400001
Scrip Code: 542669

To,
The Manager
Listing Department
The Calcutta Stock Exchange Limited
Lyons Range,
Kolkata – 700 001
Scrip Code: 12141- CSE

Dear Sir / Madam,

Subject: Post Earnings Call - Submission of Transcript

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the transcript of the Post Earnings (Conference) Call held on November 09, 2023 at 4.00 P.M. (IST) organized by Arihant Capital Markets Ltd, on the interaction of the Company's representative(s) on the un-audited financial results of the Company for the quarter and half year ended September 30, 2023, is also uploaded on the website of the Company.

We request you to kindly take the same on record.

Yours faithfully,
For **BMW INDUSTRIES LIMITED**

VIKRAM KAPUR Digitally signed by VIKRAM KAPUR Date: 2023.11.16 14:00:23 +05'30'

Vikram Kapur
Company Secretary

"BMW Industries Limited

Q2 FY '24 Earnings Conference Call"

November 09, 2023

MANAGEMENT:	**MR. HARSH BANSAL – MANAGING DIRECTOR – BMW INDUSTRIES LIMITED** **MR. ABHISHEK AGARWAL – CHIEF FINANCIAL OFFICER – BMW INDUSTRIES LIMITED** **MR. SANJEEV SANCHETI – UIRTUS ADVISORS LLP (IR ADVISOR) – BMW INDUSTRIES LIMITED**
MODERATOR:	**MR. MIRAJ SHAH – ARIHANT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY '24 Earnings Conference Call of BMW Industries.

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 has been recorded.

I now hand the conference over to Mr. Miraj Shah from Arihant Capital. Thank you and over to you, sir.

Miraj Shah: Yes, thank you, Jacob. Hello and good afternoon, everyone, and welcome to the maiden conference call of BMW Industries for the Q2 FY '24 results. Today, from the management, we have, Mr. Harsh Bansal, the Managing Director, Mr. Abhishek Agarwal, the CFO, and Mr. Sanjeev Sancheti, Investor Relations from Uirtus Advisors. So without further ado, I'd like to hand over the call to Mr. Sanjeev, sir. Over to you, sir.

Sanjeev Sancheti: Thank you, Miraj. Good afternoon to all the participants. It is my pleasure to introduce to all of you the senior management team of BMW Industries Limited today to present the call.

With me are Mr. Harsh Bansal, Managing Director, and Mr. Abhishek Agarwal, Chief Financial Officer. Before I hand over the call to Mr. Harsh Bansal for the opening remarks, I would like to draw your attention to the Safe Harbor Statement, which is a part of the uploaded earnings presentation. Please have a good look at it.

And over to you, Mr. Bansal.

Harsh Bansal: Thank you, sir. Good evening and a warm welcome to all of you to BMW Industries Limited quarter 2 FY ‘24 earnings call. I am Harsh Bansal and I wish all of you a very happy Diwali. Thank you for sparing your time to be here today.

In what follows now, I will guide you through the key business and operating highlights of the past quarter, while our CFO, Mr. Abhishek Agarwal, will share the financial performance metrics. We are happy to announce an interim dividend of INR0.22 per share. That's 22 paisa per share.

Before we get into the business and operational highlights, let me provide you with a brief overview of our company. BMW Industries Limited specializes in adding value to semi-finished steel products, a strategic approach that ensures our ability to maintain stable profit margins and offers a safeguard against the volatility of steel market cycles. This approach allows us to sustain a reliable cash flow by mitigating the impacts of demand and pricing fluctuations.

Our track record of sustainable partnerships and long-term contracts is underscored by our financial stability. A testament to this is our enduring association of over 30 years with Tata

Steel Limited. Our USP derives from providing comprehensive suite of services to our customers, covering every aspect of the value chain, from manufacturing to logistics support.

A key driver of our success is our advantageous geographical proximity to our clients. In addition, the company has strategically assembled a fleet of long-haul trailers, further enhancing our capability to deliver end-to-end solutions to our customers. In the quarter gone by, our operating revenues stood at INR 15,942 lakhs, an increase of 6.5% year-on-year. This increase was on account of an increase in revenue from the Pipes and Tubes division and the CRM complex that we operate.

The company's gross profit margin reached 63.5%, reflecting a year-on-year increase of 259 basis points, albeit with a decline of 154 basis points compared to the first quarter of FY '24. This reduction can be attributed to a change in the product mix in the quarter gone by. However, on absolute gross profit has remained stable as compared to the sequential quarter.

For the future growth strategies, the company has established a clear trajectory for implementing its growth plans. First, we have planned an expansion in Pipes and Tubes over the next two years due to the high demand potential in the sector. In the Phase 1 of the expansion, which is already underway, we will and will be operationalised by March 2024, increasing our capacity from the existing 204,000 metric tons to close to 534,000 metric tons.

While in the second phase, which should get operational by the end of FY '25, this capacity will be increased to a little over a 1 million metric tons per annum. More details on the same will be shared by Abhishek.

Secondly, the agreement for the conversion of GPGC sheets through the CRM complex is due for renewal by April 2024. This renewal is anticipated to yield about INR2,000 crores in revenue over a span of the following five years, with an annual revenue projection of at least INR350 crores per year.

Number three, an agreement encompassing the production of TMT rebars scheduled to continue until November 2025 is anticipated to generate revenues of close to INR250 crores over the contract period.

Number four, our strategy for establishing our own brand involves several key steps, including adopting an asset-light model, developing a robust distribution network, expanding our presence in underserviced areas, building in-house logistics capabilities, and actively working on strengthening our brand value.

Our commitment to safety and sustainability remains a top priority, which includes a clear focus on reducing our carbon footprint and promoting responsible manufacturing processes. To support these efforts, the company is exploring and setting up solar rooftops at various plant locations. The first project has already been awarded and should be commissioned over the next three quarters. More details on this will be shared by Abhishek.

Our unwavering commitment is on achieving consistent growth and optimizing our capital utilization, as evidenced by our recent financial performance. Additionally, we are dedicated to improving our conversion business by tapping into potential of our existing facilities, where available, and setting up new plants if needed.

As we proactively explore growth opportunities, including potential brownfield expansions, in response to the changing market dynamics, we are diligently striving to establish a unique brand identity. This strategic endeavor positions us to capitalize on upcoming opportunities in the B2C sector and solidify our standing as a comprehensive solutions provider for the Indian market.

Now I would like to hand over to Abhishek Agarwal, our CFO, to provide updates on financial numbers. Thank you so much. Abhishek, over to you.

Abhishek Agarwal: Thank you, sir. Wishing you all a very good evening. We greatly appreciate your presence on the BMWIL earning calls for the second quarter FY '24. Before we proceed to the Q&A session, I will provide you with a concise overview of the financial figures for second quarter FY '24.

During Q2 FY '24, company's operating revenue grew by 6.5% from INR 14,965 lakhs to INR 15,942 lakhs. Our gross profit also grew by 11.1% YoY and stood at INR 10,125 lakhs. Operating EBITDA grew by 17.7% YoY from INR 3,309 lakhs in Q2 FY '23 to INR 3,895 lakhs in Q2 FY '24.

While the operating margin expanded by 232 basis point from 22.1% as in Q2 FY '23 to 24.4% in Q2 FY '24. Notably, there is an increase in operating EBITDA margins in both YoY and QoQ despite a decrease in GP margins in QoQ mainly due to the change in product mix for the quarter. PAT for the quarter grew by 43.6% to INR 1,767 lakhs as compared to INR1,230 lakhs in Q2 FY '23. PAT margin improved by 281 basis point to 11% in Q2 FY '24 as compared to 8.2% as in Q2 FY '23. ROE for September '23 stood at 10.7% as compared to 7.4% in September '22. While ROCE stood at 13% as compared to 9.3% in the corresponding quarter for the previous year.

Our net cash from operations by operating EBITDA are healthy at 1.46 for September 23. We have been able to deploy the capital judicially which resulted in improving the fixed assets turnover from 0.76 in FY21 to 1.28 in H1 FY24. Net debt stood at INR 18,103 lakhs in September 23 as compared to INR 24,758 lakhs in September 22 and INR 22,998 lakhs in March 23 respectively.

With the reduction in debt, our net debt by equity stood at 0.28 on September 23 and net debt by operating EBITDA stood at 1.20 as on September 23. Cash conversion cycle also decreased from 228 days in September 22 to 188 days in September 23 as the company was able to utilize old inventory.

Our Managing Director Mr. Harsh Bansal has already touched upon the pipes and tubes expansion plan. The first phase will involve an outlay of approximately INR70 crores which will be financed by 50% debt and 50% internal accruals. We have already spent approximately INR50 crores for Phase 1 expansion with around INR21 crores sourced from debt and the remaining from internal accruals. The second phase scheduled to commence in FY25 will require an outlay of approximately INR100 crores with INR50 crores funded through debt and balance from internal accruals.

The company has further outlined plans to establish a rooftop solar project as mentioned by our Managing Director Mr. Harsh Bansal. The total project cost is estimated to be approximately INR 21 crores and is expected to be commissioned within 3 quarters. As stated by our Managing Director Mr. Bansal, our dividend payout is 15% of the profit up to September 23 which amounts to INR 0.22 paisa per share.

As we progress on our growth plans, we will come back to you within the next quarter with firm guidance on the key financial metrics. We will continue to remain focused on our long term goal of sustainable growth and profitability.

With this, I leave the floor open for Q&A and hand over the call to Mr. Miraj Shah.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ranjan Mehta from AMS Investments. Please go ahead.

Ranjan Mehta: Hello sir, good evening to everyone. I have a few questions. The first question is regarding the relationship with Tata Steel on the GPGC conversion and how do we go about it? Is the entire capacity tied up for Tata Steel or do we also do some of the sales ourselves? What is the nature of the relationship and what is the capacity tied up etcetera?

Management: Ranjan, I am sorry but you are coming very garbled. If you are on a headset or something, can you just pick up the phone and speak because we are not able to understand.

Management: I think Ranjan's question was regarding our relationship with Tata Steel and if the entire capacity is contracted to them on an exclusive basis or if we also work with others? Ranjan, I just want to confirm that the entire capacity is exclusively contracted to Tata Steel. We have already been doing this for the last 10 years and looking at renewing again for the next 5 years by April 2024. Does that answer your question Ranjan?

Ranjan Mehta: Understood sir, understood sir. So broadly, if you could just throw some light on what is the kind of spread we make on this product line?

Management: I think the gross profit itself, since almost 90% plus is what we default Tata Steel, a gross profit should be a fair indication of what kind of processing. And obviously we can't get into a very detailed individual because this is a bit of confidential information with Tata Steel which we are not supposed to share. But the gross profit, we have a very strong 64% gross profit and that's an indication of what kind of processing income that we make.

Ranjan Mehta: Understood, understood. So do we also have any other opportunities to engage with Tata Steel in Odisha, Kalinga Nagar city? I think that CRM is still under works. Is there any opportunity there?

Management: Yes, so going forward these are opportunities and discussions which are happening all the time. And of course we are not the only ones and they are having this with a bunch of other people. And as and when we think there is something which works out for Tata Steel as well as us, we'll be looking to grow in Odisha.

Ranjan Mehta: Understood, understood. So apart from the GPGC, we also convert some of the TMT bars for them, is it? And the entire, could you throw some light on the TMT business?

Management: So other than the GPGC, we are in conversion of TMT bars as well as pipes and tubes galvanizing for Tata Steel.

Ranjan Mehta: And how much of external sales do we have for the TMT, the branded product that we were discussing in the beginning?

Management: That's still a very small number, it's a part of the miscellaneous numbers, but yes.

Ranjan Mehta: So the upcoming capacities on the TMT side over the next couple of years as you have said...

Management: Not for the moment, we don't have any planned capacity increase in TMT.

Ranjan Mehta: Oh, okay, I see. So a large part of it is for the particular Tata Steel. Thank you, thanks for the

Moderator: Thank you. The next question is from the line of Chirag Singhal from First Water Fund, please go ahead.

Chirag Singhal: Yes, thanks for the opportunity. I first of all wanted to understand on the EBITDA front. So I see that we are purely a converter wherein we buy the steel and then we are converting or billets and we are converting into finished grade steel or pipes or tubes. So generally in this kind of business, what kind of EBITDA per ton is sustainable?

Management: So I think, thank you so much for being here, Chirag. I think our numbers are at a fairly sustainable number and as volumes increase and as we get the advantage of scale, these are numbers which are, just to answer your question, these are very, very sustainable numbers. These are not extraordinary.

Chirag Singhal: So could you help me with the EBITDA per ton number? Like the EBITDA per ton number on a blended basis that you see is sustainable going forward?

Management: So I think, like we mentioned to the answer before you, we don't want to get into a per ton number for vertical basis because of course, these are very, very different products, different contracts, different numbers. We cannot disclose individual per ton numbers.

Chirag Singhal: Okay. Okay. And secondly, I just wanted to understand that what competitive advantage do we have over the players who are fully integrated? Because as I can see, I don't think that we have some sort of a, let's say a technical partnership or a collaboration with an international company. So one of the listed company has a similar model where they are pure converters, but they have a technical collaboration and they are the exclusive suppliers as well to the same company, international company. So over here, I don't think we have such kind of collaboration. Just wanted to understand on the competitive advantage that you feel you have over the players who are fully integrated.

Management: So number one, we don't make steel. So there is no question of comparing with an integrated player. And in terms of foreign partnerships and technical tie-ups, at this point, we don't see any processes where we need such a tie-up. As in when time goes and if there is a need, we'll definitely look at someone. In terms of competitive advantage, I think we've been doing this for this business for almost close to 40 odd years. And we understand the market well.We understand our processes well. We'd like to believe we have a fair understanding of what our customer wants and what our customer's customer wants. So, yes, I think that's our competitive advantage.

Chirag Singhal: Okay. And could you help me with the, what is the, like, what are the main industries which consume these pipes and tubes? So does this go in the oil and gas and water supply and all?

Management: Chirag, as far as my customer is concerned, that's Tata Steel. And I guess, you know, a lot of the products are now getting into construction infrastructure. As you know, a lot of the retail waterworks may have converted to PVC, but there is an entire growth in the infrastructure and construction market, which now the steel pipes are serving. In terms of detail industry breakup, I won't be able to give you that because we really don't, we're not at liberty to disclose who my customer's customer are.

Moderator: Thank you. The next question is from the line of K D Mishra from NJ Advisory Services. Please go ahead.

K D Mishra: Thank you, sir. Thank you for the opportunity. So I wanted to understand a little more about the Tata Steel relation that you have. So like in the TMT capacity, you have 3 lakh tons of capacity and you are exclusively supplying to Tata Steel as a customer. So why is the production then, like it's a FY23, it was 1,22,000, I mean, could you not increase it because you are anyway going to supply them exclusively?

Management: So great question, Mishraji. I think the challenge over here is that we can only supply to them based on what billets they give to me to convert. Since I don't manufacture the billets and we can't buy billets and supply to them, as and when they give me the billets for conversion, we convert it and give it back to them or within their supply chain.

In terms of FY23, I think their procurement or their purchase of Nilanchal only started ramping up during this FY. So, you know, you'll see most of the volumes coming in this FY. Last FY, where the billets were coming purely from Jamshedpur, there was a constraint on billet supply.

K D Mishra: Okay, understood. And the pipes and tubes capacity that you have given the capex layout here of a 1 million ton, so that is also entirely or exclusively contracted with Tata Steel, as I understand?

Management: Yes.

K D Mishra: Okay, okay. So, yes, and sir, other thing is that you are making a healthy amount of cash profit. So, in your next capex, so how is it going to be like, if the prices of the steel and the pipes and tubes, which is since very high after the COVID times, so what kind of a margin that you get from Tata Steel if you can disclose something, anything around that?

Management: So, first of all, thank you for complimenting on the healthy margins. Always good to hear that. But I don't think we are at liberty to disclose specific contract margins. And going forward, I think Abhishek spoke about the capital structure, basically a split between debt and equity internal accruals that we will be using. And going forward, as the contracts happen, as the capacity comes online, it is very difficult to predict that today.

Management: But just to give you a sense that we already doing a gross profit margin of 62% to 65%, and EBITDA margin which is close to 25%. With scale going up, with the new pipes and tubes capacity coming up, I'm sure this is going to go northward. So, I mean, we seem to be in a good spot here as the volume grows.

Management: I think somebody else also asked this question, but just to reiterate that, I think our numbers are on a sustainable basis. So, the numbers that we have on the balance sheet, the advantage that we get with scale and all, not withstanding, the current EBITDA and gross profit numbers are fairly sustainable.

K D Mishra: Okay. So, I mean, what I want to understand is that if your margins are improving, so going ahead, I mean, is there any chance that you have in your contract any clause that by which you can extract some more profit from your exclusive customer, increase your pricing?

Management: This works both ways. As a buyer-seller relationship, there will always be this tug of war between the buyer and the seller. So, if there are certain secret strategies to extract more, I'd love to learn more about them, but I don't know.

Management: Also that we must keep in mind that, when you deal with pedigree customers, just because you are a large portion of their scheme of things, you can't start phishing them. Of course, you will, through efficiency, through scale, you will make more money, but you can't kind of, but it has to be sustainable. Sustainable and it has to be win-win. So, as long as it is win-win, yes, we'd all love to increase our margins.

K D Mishra: Okay. And one last question.

Moderator: Mr. Mishra, may we request you to come back to the question queue for any follow-up questions?

K D Mishra: I will get back in.

Moderator: Thank you. The next question is from the line of Rakesh Agarwal from United Infracore Limited. Please go ahead.

Rakesh Agarwal: Good evening, sir. I'm from United Infracore. I've got two specific questions, sir. One is, I'm very heartening to know about all the margins and all, but Bansal Super, the brand that you're going to launch or you have launched on TMT Rebar space, how will you manage on the competitive basis with Tata Steel because they have their own established brand, Tata Tiscon?

Management: So, great. So, that's one question. And the second one?

Rakesh Agarwal: And the second one is that you've spoken about on, based on slide number 25, which Mishraji asked about your capacity utilization on 3,00,000 MT is 1,22,000 MT and you're projecting 1,70,000 MT and then 2,25,000 MT and you spoke about the shortage of billets, which is not coming for you to utilize your capacity full. And you're expecting billets to come from Vizag. Will it not hamper the cost structure or you're planning to, in future, to set up similar facilities in and around the Vizag plant?

Management: No. So, let me take your second question first.

Rakesh Agarwal: Because your USP lies in being proximity to the plant, which is five kilometer radius. And in case the billets travel so long, I really wonder how the cost structure will work?

Management: Perfect. So, let me take your second question first. We have absolutely no intention of getting billets from Vizag. I had mentioned NILL and not RINL. NINL is an acquisition that Tata Steel made sometime last year in Odisha, from where we are currently receiving billets in our Calcutta plant. And the Calcutta plant also receives billets from Jamshedpur.

The billet supply issue, which was happening up to last year, is fairly sorted out right now. And we are getting billets from Tata Steel on a much more consistent basis. So, that talks about, that kind of justifies, and thats what we are looking at in terms of the increased utilization of the TMT capacity going forward.

Coming to your first question about Bansal Super and the competitive advantages, etcetera. So, anytime you want to create your own brand and you want to create your own distribution, it's a long-drawn process. I don't think we are, we are not looking at burning a whole lot of cash and jumping majorly into the market.

We want to slow and steady sustainable growth, which we will continue to do. In terms of market comparativeness, we are serving a completely different market as compared to Tata Tiscon. They are essentially in rural underserved areas, and that's a part of our strategy.

We are supplying a lot of the smaller, order lots, etcetera, which is a part of our strategy compared to Tata Tiscon. So, they are two completely separate, Tata Tiscon is a high-end branded product. Bansal Super is a much more market-based, low, not really low, but a standard market product. We don't make our own steel, so we have to use other innovative ways to get through to the customer.

Rakesh Agarwal: Yes, just to complete this, sir, are you planning to put up a capacity in and around the Orissa facility to facilitate the customer service better and reduce cost for Tata Steel?

Management: So, this was, as mentioned earlier, these are the plans which are always under discussion with the customer, and as and when the customer feels there is a project which we can add value to and we think it's worth our while, we'll surely be looking to do that. We are also in talks with the government of Orissa for, various other facilities that they offer, and as and when things come together, we'll look at it. As of now, at least up to FY'25, I do not see major capex happening over there.

Rakesh Agarwal: Thank you so much, sir. I grew up seeing your plant coming up in Ramdas Oil Mill, Manifit, so I've got very fond memories of that. Thank you very much, sir.

Management: Thank you so much.

Moderator: Thank you. The next question is from the line of Surya Narayan from Sunidi Securities. Please go ahead.

Surya Narayan: Okay. Thank you for giving me the opportunity and congratulations on the good set of numbers. So, just to understand our relationship with the Tata Steel, so how often we negotiate the rates with the Tatas, and is it different for the CR engines and for the rolling engines or long products at Calcutta? So, if you can throw some light on?

Management: So, thank you so much for being here and asking the question. I think, so over a period of time, there are all different contracts for different products and sometimes even different clients. These contracts can be anywhere from two years to five years. They're typically minimum two to three years and maximum five years. So, that's generally the tenure of the contracting.

Surya Narayan: Okay. So, if that is the case, then in the contract taking into account the cost of inflation of the inputs, and labour, power? So, what is, what is taking into consideration? Whether the slow motor, yes, slow motor increment happens from the Tata Steeel in relation to the power at least?

Management: So, different contracts are built differently. Like I mentioned, we can't get into the details of the contracting, but we do try to cover for very, very sensitive factors that affect our costing.

Surya Narayan: Okay. So, another question is that what I've understood from your operations of the last year, that, the new trigger that has come up is due to the Neelachal Tatas taking over the Neelachal and the expansion of the Greenfield project at the Kalinga Nagar. So, with that relationship, what I understood is that with the Jamshedpur facility of Tata around 12 million tons, we are able to get an opportunity of nearly 1.2 million tons or around 10% of the output of the Tata. So, with nearly about, roughly, Tata IV, is ramping up their capacity. So, how much of capacity Tatas will be expanding over the horizon of let's say 26? And what kind of output we can expect?

Management: So, I don't, I'm not the right person to comment on Tatas expansion plans. But I think we have fairly clearly mentioned about our plans up to FY'25. And when you look at, 1.2 million tons that we may be doing, it's not all coming from Jamshedpur. So, I don't think it will be fair to say that we are kind of processing 10% of Jamshedpur's output. A lot of our products come from Kalinga Nagar. A lot of our raw material comes from Kalinga Nagar or NINL. And so, there is a, it's completely mixed. So, when you look at Tatas capacity in all and my capacity in all, you can draw a conclusion. But I don't think it's fair to say that we are processing 10% of Jamshedpur.

And I think a certain amount of my capacity will also be, I'm also processing some other, for example, Bansal Super and others. That's all reflected in the 1.2 million tons.

Surya Narayan: Because, up to 26 Tatas, as for Tatas fitted plants, they will be adding 13 million, so close to 13.7 million tons. And up to 2030, it is 27 million tons. So, is it the kind of expansion that we can think of in Odisha? Because there is a data, MOU by the Odisha government that they have given you or allotted you some kind of land for a project costing around INR900 crores?

Management: so that is, I know what you are talking about this was MOU that we have done some time back. We do not have land allotment on that because we are not the discussion with Tata were not conclusive. However, going forward, we are optimistic that with Tatas capacity expansion, there will be enough opportunities for us in various verticals.

Surya Narayan: Okay. And so, another strategic question is that whether Tatas binding agreement hinders you to enter into any areas outside of the eastern part because you have sufficient understanding of pipe making, coil pickling, all the kind of steel processing. So, why that kind of knowledge cannot be replicated elsewhere rather than limit yourself to only eastern part or let's say concentrated to Tatas? So, that was my question.

Management: No, so I think that's a strategic decision that the company makes. And thank you for the confidence that we can do it in other places. We are a little more conservative and I think as opportunities come, we'll continue to explore whatever is possible for us. But on a conservative basis, we don't want to be too aggressive and step too far out of our comfort zone. A little bit is okay, but not too much. So, for the time being, I think it's eastern India and maybe in the future, who knows.

Surya Narayan: Okay. So, with the inclusion of the pipes to one million tons, how we are seeing the expansion in the margin happening? Maybe for the current around 25%, 26%? So, can we expect around close to 30% for the term of the year of 26?

Management: I think we will come back with the proper guidance in the next quarter. I think it's good to wait till that time.

Surya Narayan: Okay, sir. Thank you.

Moderator: Thank you. The next question is from the line of Jignesh from Jiva Capital. Please go ahead.

Jignesh: Thank you for giving me an opportunity. I just wanted to understand, as seeing your finacials, there has been a lot of debt repayment over the last few years. So, going ahead, our focus will be majorly repaying of our long-term debt in the next two to three years, or it will continue at 0.3% to 0.4%?

Management: Going forward, as you can see, in this quarter also, we have repaid the debt. And our debt by equity is getting down compared to every quarter it is improving. And going forward, we will be utilizing our free cash flows in repayments of debt. And as stated for the expansion, partly will be from debt, from internal records, but at the gross level, the debt will reduce and our net debt by ebitda will improve.

Management: Just to reiterate that our focus continues to be a very judicious department of our free cash flows. A good part of it will go to pay off the long-term debt that we are presently having. While you would have seen in the presentation that we have said that we are going to use debt for the new project, but please understand that that's because we get for new projects very fine rates. But on a net basis, our net debt will continue to go down in spite of the expansion.

It's almost 50 crores down

Management: Just to give you a sense that for the current expansion, where we have already stated that we are increasing the capacity to 5,34,000 we have already deployed INR50 crores. And in spite of that, our net debt has gone down. Does that answer your question?

Jignesh: Yes, sir. One more question. There is one slide related to the manufacturing value chain.

Management: Manufacturing value chain, okay.

Jignesh: In that, whatever presence that we have, I just wanted to understand, do logistics cost form part of our part or it is done by Tata themselves? Giving us the billets and taking the telescopes?

Management: So, it's a service that we offer in addition. And we would love that Tata uses more and more or our customers use us more and more. However, if they wish to do it themselves, we are good with that. Like any other service, it's an optional service that we offer which the customers can pay for and use.

Jignesh: Okay. Understood. Thank you.

Management: Thank you. The next question is from the line of Shubham Chopra from Jainam Broking. Please go ahead.

Shubham Chopra: So, my first question is, what would be the return on capital employed that you are expecting for your capex?

Management: I don't think, going forward, it will be below our existing levels. And, this is something that we will try to maintain and improve going forward, definitely.

Shubham Chopra: So, can't you mention any percentage margins?

Management: We believe that on an IRR basis, our projects will be upwards of 17% to 18%.

Shubham Chopra: Alright. So, will operating leverage play out in your business too?

Management: Yes, it will. Definitely, it will.

Shubham Chopra: Alright. And this pipes and tubes capacity, will be sold through B2C channel or it is also towards Tata Steel?

Management: As of now, it is completely for Tata Steel.

Management: So, just to explain you that this is largely a Brownfield expansion. So, it has multiple benefits. It entails operating leverage because of scale. But also that it is a Brownfield, you get a better, your cost of expansion is much lower and hence your IRRs are better. Because the base infrastructure is already ready.

Shubham Chopra: Okay. So, when are sales expected to go live? Means after capacity installation? Means within a month or two months or a quarter?

Management: So, we have, this was a part of the briefing. We expect some of the capacities, they are, they are moving on a phase-wise manner. We expect some of the capacities to go up by FY '24 and by FY '25 further.

Management: So, just to kind of specifically tell you that our current expansion from 3.4 lakhs to 5.3 lakhs, that's going to be commissioned by end of this financial year. Which means that from the first month of FY '24- '25, the capacity will be in place. And the 10 plus million from a 5.3 plus million situation, that will be commissioned by the end of FY '25. Which means in the first month of FY '26, the capacity will be up and running. Does that answer the question?

Shubham Chopra: Okay. Happy Diwali in advance.

Management: Happy Diwali to you as well.

Shubham Chopra: Thank you.

Moderator: Thank you. The next question is from the line of Miraj Shah from Arihant Capital. Please go ahead.

Miraj Shah: Thank you for the opportunity, sir. One question I wanted to understand. If in case, we want to increase the capacity out of the contract that we have with Tata Steel, can we do that?

Management: Come again, Miraj. I didn't get you. If we want to do what?

Miraj Shah: Increase the capacity for further production. Right now, our entire capacity is exclusive for Tata Steel. So, as you mentioned in the start that we are coming out with our own brand as well. I wanted to understand that if we wanted to increase our capacity either for Tata Steel or apart from the contracts with Tata Steel, can we do that? Is that possible?

Management: Yes, of course, we can increase the capacity. So while the capacities we create for Tata Steel are exclusive to Tata Steel, the business, there is no compulsion on us in the sense that there is no non-competing. If that's what you are asking.

Management: What he is asking is that can we use the same setup and add capacity and sell it outside is what he is trying to say.

Management: Yes, I think that's okay.

Miraj Shah: So do we have plans to do that? Wouldn't that significantly help us scale up? I mean scale up in a significant manner.

Management: So Miraj, I think theoretically what you are saying is absolutely right. However, that would also bring with it a whole bunch of risks that I don't think we would like to address right now. So, the plans that we have right now going forward, I think, we are fairly covered by Tata Steel and we don't see the need to step outside of that.

Miraj Shah: Understood. And sir, the rooftop part also which you said is for INR21 crores which you are going to spend in capex and which is going to be commissioned in three quarters, that is also for Tata Steel only, right?

Management: That is for our own plants. In West Bengal there is a fairly high cost of power. So we just want to use rooftop solar to kind of average out our cost of power.

Miraj Shah: Understood. Okay. Thank you.

Management: Thank you, Miraj.

Moderator: Thank you. The next question is from the line of Swati from J S Advisors. Please go ahead.

Swati: Thank you for giving me the opportunity. I wanted to ask, can you explain the steps you plan to take with the new B2C foray you have made for branding and for scaling up this particular brand?

Management: Swati, you weren't very clear. Can you please repeat it once?

Swati: Sure. This new Bansal brand that you had mentioned, the new foray that you are taking, can you explain the steps for branding and strategically, how you plan to grow this?

Management: So, like I mentioned, this is a very slow, long-run organic growth that we are planning. We are working in essentially the rural parts, underserved areas of the market. And when I said asset light model, we are getting this outsourced, we are getting the production outsourced and not using our own facilities to do this.

And so we basically, depending on the monthly demand that we foresee, we get the outsourcing production done, which we then brand and distribute. That helps us to keep our asset allocation on this particular vertical fairly low and allows us to grow at our own comfortable pace.

Management: Also, what it helps us in is that since this is a new foray into our own branded TMT, till the time we get our feet and we get a good sense of the business, we would rather not commit on capex and long-term capex. So we are going to use, so we understand the business, we understand the market, so we are using that, leveraging that to be able to create our own brand.

Once we reach a critical mass, at that point in time, we will think whether we would want to invest in capex or not. So that's the strategy and I think that's a very good strategy because we are anyway having growth which we are going to get over the next two years- three years, strong growth because of the expansion with the Tata Steel businesses.

Swati: Understood, thank you. And also, I would like to ask, in the beginning of the call you mentioned about INR2,000 crores renewal. Can you explain that and the size and the opportunity? I didn't quite fully grasp that.

Management: So this is a fair question. I think the contract that is going up for renewal is a CRM complex starting from April 2024 up to March 2029. It's a five-year renewal. And on an annual basis, we expect anywhere between let's say INR350 crores to INR400 crores of annual revenue through this project. So on a five-year basis, it extrapolates to INR2,000 crores.

Swati: Got it. And if I may squeeze in one more, I'm being a little skeptical. Is there a chance that non-renewal of our contracts will ever happen in the future?

Management: Theoretically, that's always a chance. I don't think, I'm in a position to say that come hell or high water, there will be a renewal. As like any other contract, at the end of the day, I would like to believe that rationality prevails and I don't see, why not. I don't see why it won't be renewed.

Management: And it's been a long history and as long as it's a win-win situation, I think it also tells us on one of the questions there, they said that can you not increase the margin? That whole balance which we've been able to maintain with the quality probably is something which keeps you going.

Management: We set up this plant exclusively for the customer way back in 2013- '14. We've already gone through the original contracting and then one renewal in 2019. And as like any other plant of this nature which is a high capex, the first many years only goes towards paying the capex and paying back the initial cost. It's only in the latter part of the plant life that one really starts to kind of accrue money. As for my customer and for us, I think that time is now. So, I don't see why the customer will not renew it because there's economic sense in doing it for both of us.

Swati: Sure. Thank you. And also, if I may, do you have any guidance for this year and for the medium term?

Management: You'll have to be a little more patient on that. We'll be coming out with that I think with the next quarter.

Management: With the next call, we will be coming out with the firm guidance. We are working on the long-term plan.

Management: We are still kind of getting used to these calls. So, you'll have to be a little more patient with us, please.

Swati: Okay. Sir, no worries. Thank you so much. That's all from my side.

Moderator: Thank you. The next question is from the line of Surya Narayan from Sunidhi Securities. Please go ahead.

Surya Narayan: Just to clarify one aspect, our profile on piping is below one foot diameter, I believe. So, is there any chance of going ahead when we approach for one liter capacity, whether larger diameters pipes are also under the scheme of things?

Management: So, when we go for expansion and when we are talking to the customers, we will set up the plants depending on whatever size, profiles, and range, etcetera, the customers would like to grow in. The size decisions are not ours. They are basically for the people who will market the product. So, that's the customer. We only do the manufacturing support. So, our manufacturing will be based on what the customer would like to sell.

Surya Narayan: Okay. And just one question, the last one. Is there a company like APL who is expanding and currently having 36 million tons of capacity? And whereas, Tata, I believe, has not entered into the pipeline and is looking to operate it. So, if that is the case, then will Tata plan to exceed at least 30 lakh tons of capacity? I mean, we are planning maybe one million tons.

So, it can be doubled more than that going ahead. I mean, maybe we are among a few players who could be doing steel service centers. So, because you are in the market, if you can give some sense of, what the other players are presenting, whether the Tata is downstream, because Tata is currently focusing more on the downstream products. So, in that case, whether more of the pipes will be coming into the markets from Tata?

Management: So, like I mentioned earlier, I am not qualified to comment on Tata's plans, but I'd like to believe that, if they ask me to make the product, they intend to sell it. And so, if I increase my capacity and Tata sells, you will see more pipes in the market from Tata. In terms of other players in the sector, I don't think, I can comment on that. I am not very aware of what they are doing or what they are planning. There are several other people that manufacture pipes.

And so, I am really not in a position to comment on what they plan to do or how much they plan to expand. I can comment on my plans and this company's plans. We've got a fair visibility for the next two years, which we've shared.

Surya Narayan: Okay, sir. Thank you very much.

Management: Thank you so much, Surya Narayan.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Management: So, thank you so much, everyone, for taking the time and being here. This is our first. So, if I have goofed up somewhere, please do excuse me. And you can always reach out to Sanjeevji and complain about me. He'll make sure that I fix myself going forward. Also, a very happy and safe Diwali to all of you and your families. I hope to see you next quarter. Thank you so much.

Moderator: Thank you. On behalf of BMW Industries, that concludes this conference. Thank you for joining us and you may now disconnect your lines.