“BMW Industries Limited

Q3 FY ‘25 Earnings Conference Call”

February 03, 2025

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MODERATOR: **MR. BALASUBRAMANIAN AYYANU – ARIHANT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to BMW Industries Limited Q3 FY '25 Earnings Conference Call hosted by Arihant Capital. 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 touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Balasubramanian Ayyanu from Arihant Capital. Thank you, and over to you, Mr. Ayyanu.

Balasubramanian A: Thank you. Good afternoon, everyone and welcome to the Q3 FY '25 earnings conference call of BMW Industries. Today, from the management side, we have Mr. Harsh Kumar Bansal, the Managing Director; Mr. Vikram Kapur, the CFO and Company Secretary; Mr. R.K. Singh, VP Finance and Accounts; and Mr. Sanjeev Sancheti, Investor Relations, Uirtus Advisors.

Without further ado, I will hand over the call to Mr. Sanjeev. Thank you, and over to you, sir.

Sanjeev Sancheti: Thank you, Bala. Good afternoon to all the participants. Before I hand over the call to Mr. Harsh Bansal for the opening remarks, I would like to draw your attention to the safe harbour statement in the earnings presentation. I request each one of you to kindly go through the presentation either now or before the Q&A starts so that you are well aware of the same. Over to you, Mr. Bansal.

Harsh Bansal: Thank you, sir. Good afternoon and a very warm welcome to the company's quarter 3 FY '25 earnings call. Today, I will walk you through the key business, operational and financial performances for the last quarter. For those who are new to our company, a brief overview of our operations. The company focuses on adding value to semi-finished steel products which enables us to maintain stable margins by shielding our businesses from the inherent volatility of steel cycles.

Through this, we ensure consistent margins, reliable cash flows and greater resilience to fluctuations in market demand, pricing, and other external risks. We take pride in our strong track record reflected in customer relationships that span over 30 years. Our unique value proposition lies in offering a comprehensive suite of services that cover the entire value chain, supported by our strategic geographic proximity to customers.

Furthermore, our dedicated long-haul fleet enhances our ability to deliver seamless end-to-end solutions, giving us a significant competitive edge. As we move on to discussing the detailed financials, I would like to reflect on the past quarter. We are pleased to announce that our tubes manufacturing contract has been extended until the first half of 2027 with an expected revenue of INR365 crores over the contract period.

The renewal aligns with our strategic growth plans. As has been highlighted in our previous discussions, the company remains steadfast in executing its growth initiatives. In the pipes and tube segment, we have successfully installed and commissioned additional capacity bringing our total capacity to 534000 metric tons as of quarter 2 FY '25.

Looking ahead, we plan to further expand this capacity to 700,000 metric tons with a planned investment of about INR25 crores which will be entirely funded through internal accruals. It is important to note that this is an update from our previous plan of 1 million metric tons. We have made a deliberate decision to stagger the capacity addition given the longer-than-expected ramp-up time.

This approach allows us to allocate your capital more judiciously. Additionally, the agreement for the conversion of GPGC sheets through the CRM complex has been extended until February 2025. Negotiations for a long-term contract are in the final stages, and we are confident of finalizing the agreement. The company plans to establish new facilities focusing on three sectors: infrastructure, solar and defence.

These facilities will be designed to operate with a very efficient capital expenditure while enabling high volume and value-added production. More of this in subsequent calls. Before we begin the Q&A session, let me share a concise summary of our financial performance for the quarter. During this quarter, our company earned an operating revenue of INR147 crores, reflecting a modest 2.5% increase.

For the 9 months FY '25, operating income stood at INR471 crores, a similar 2.3% rise over the same period last year. Quarterly Operating EBITDA stood at INR36 crores with an operating margin of 24.5%. On a 9-month basis, quarterly operating EBITDA was INR114 crores with a margin of 24.1%. We reported a quarterly profit after tax of INR17 crores. The quarterly PAT margin stood at 11.6%, while the 9-month PAT stood at INR57 crores and PAT margin stood at 12%.

ROE and ROCE for the December '24 period stood at 11.1% and 13.4% respectively, as compared to 10.1% and 12.5% in March '24. Net debt stood at INR151 crores in December '24 as compared to INR99 crores in March '24. This was largely due to the capex incurred for our ongoing expansion. Additionally, our cash conversion cycle stood at 68 days in December '24 as against 96 days in March 2024.

With that, I will open the floor for Q&A and hand over the call to Mr. Bala. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Bhavesh, an Individual Investor. Please go ahead.

Bhavesh: Good results from your side. My first question is with respect to your interim dividend. There is no declaration of interim dividend this quarter or the previous quarter. Is there any reason for not declaration?

Harsh Bansal: No specific reason here, I'm sure depending on what is -- I mean, we had shared the final dividend policy in the past and we will stick to it. It was 15% to 20% of our net profit. So, I think in line with the same.

Harsh Bansal: Maybe it will be just the final dividend.

Harsh Bansal: Correct. Yes.

Bhavesh: Okay. Understood. And sir, Tata Steel, that renewal contract in the last quarter, you had said that it's almost finalized and you're going to final the contract, but it has been like another 1 quarter, and it's still not signed. So, any major reason for it?

Harsh Bansal: No, other than -- sometimes new question scheme coming up for clarification and all. Other than that, nothing major.

Bhavesh: So, can we expect this contract to be signed in the final quarter or it will get extended up to first quarter of the next year?

Harsh Bansal: In the interest of complete clarity, I expected it to be signed in the previous quarters. So as far as we are concerned, we are as close to completion as we would like, but we really don't control any clarificatory questions that may come from other parties.

Bhavesh: Okay. Sir, my next question is with respect to the Tata Steel starting to manufacture hydrogen gaseous pipes. So, are you aware about it?

Harsh Bansal: Not. I don't think I am qualified to comment on that yet because it's not a part of my scheme of things.

Bhavesh: So, you won't be a part of this like they don't give such contracts to you?

Harsh Bansal: I have absolutely -- just to be fair, I don't know the subject enough to comment on it.

Bhavesh: Okay. Fair enough. Sir, my last question is with respect to the capacity expansion. So, when do you think the full capacity expansion would kick in and we can see a major growth in the revenue?

Harsh Bansal: So based on our business model, we made the capacities available to the customer on their indications of demand, etcetera. Now after that we constantly keep working to make sure that all the loopholes from our side are complete to expedite the ramp-up. I think there are various market conditions that play right now, which are slowing down the ramp-up from what we would have earlier anticipated. And so, I'm actually -- I'm not sure what more I can say in terms of timing but reflect what exactly where we are.

Bhavesh: Do you continue to earn the same margins going forward or it will go on a higher side since you are manufacturing more of pipes and tubes right now and you are going into higher margin products.

Harsh Bansal: So, I think the margins and cash flows will remain on the indicated guidance that we've given in the past, we don't expect to vary from that greatly.

Harsh Bansal: Yes. So, we have indicated some expansion in the EBITDA margin going forward a little bit, probably as per the guidance. So, we will be able to stick to the guidance as far as margins are concerned.

Bhavesh: Okay, sir. Thank you so much and all the best.

Moderator: Thank you. Next question comes from the line of Rohan Baranwal with Singhania Pariwar Limited. Please go ahead.

Rohan Baranwal: So, my question given the fluctuations in steel prices, how is BMW Industries managing raw material costs and pricing strategy to maintain margins?

Harsh Bansal: I'm sorry, you were not very clear. Can you repeat the question, please?

Rohan Baranwal: Okay. Sir, my question was given the fluctuation in steel prices, how is your company managing raw material costs and pricing strategy to maintain margin?

Harsh Bansal: Great question. But our business model doesn't envisage the purchasing of such raw materials. And therefore, we are not really -- we are isolated from the cyclicity and the fluctuations of the raw material. The industry we are in, the raw material is supplied as a free cost supply from our customers which we do value addition to and supply back to them. So, this is more a look out from my customer than from me.

Rohan Baranwal: Okay. Thank you, sir. I will join in again in queue if there is another question.

Moderator: Thank you. The next question comes from the line of Vignesh Iyer with Sequent Investments. Please go ahead.

Vignesh Iyer: Sir I wanted to understand on the guidance part of it, from what I remember from the last call, we were still confident of achieving the 18% growth, 15% or 18% growth for the full year. But the numbers now in this quarter has been a bit lower than what it was expected. So, are we still sticking to the guidance of achieving that 15% to 18% growth?

Harsh Bansal: No, I don't think we'll be meeting that, and updated guidance will be shared in the March quarter call. But as things stand now, I do not think that we will be meeting the 18% top line growth target.

Vignesh Iyer: Okay. And my second question is any reason for -- I mean, lower utilization on the CRM complex side in this quarter?

Harsh Bansal: No, I think it's just a market-related issue. There is no specific reason.

Vignesh Iyer: Okay. Got it. That’s all from my side. All the best.

Moderator: Thank you. Our next question comes from the line of Madhur Rathi with Counter Cyclical Investments. Please go ahead.

Madhur Rathi: As we are the converter...

Harsh Bansal: Little louder, we are not able to get you.

Management: We are not able to hear you.

Madhur Rathi: Is my audio better right now?

Harsh Bansal: No, not really.

Management: Much better. Thank you.

Madhur Rathi: So I wanted to understand, as we process the semi-furnished steel or we are a converter of the steel, what kind of cost reduction in this processing can we expect over the next 2 to 3 years because our ROC and ROE can it move from this 13%, 14% range to 15%, 16% range over the next 2 to 3 years?

Sanjeev Sancheti: So, this is Sanjeev here. So let me say that we have already guided earlier that definitely, as our volume increases, as our top line increases, our margins will expand and so will the return ratios improve. We are working on the guidance and either along with the March '25 results or earlier, we will come out with the specific guidance which this time we will move to '27, and we are working on that. But definitely with the current expansion, ongoing expansion, the return ratios are going to improve from where they are today.

Madhur Rathi: Okay. So, what I understood was we created a capacity for maybe Tata Steel, and we give it to them, and they expect us to either utilize it fully or they can expect us to use only 15%, 20%, but we'll get the certain amount.

Harsh Bansal: Not 15%-20%. Never 15%-20%.

Madhur Rathi: Just an example. So in a situation where they are not utilizing whatever we have created for them, do we earn lesser margins than what we would have earned in a scenario where they are increasing -- they're utilizing the whole capacity or it's like a take-or-pay kind of contract that we have?

Harsh Bansal: No. I'll just clarify this, that we do not have a take-or-pay arrangement in these contracts. And naturally because of that high utilizations lead to higher margins and better cash flows. But as with any manufacturing facility, I would assume that there is a lag between setting up a facility and fully ramping up production and sales because there are a bunch of things that need to come together.

What we're experiencing right now is just a slower-than-expected ramp-up of capacity utilization. There are no structural issues per se, more on the market side.

Madhur Rathi: Okay. Got it. Sir, just a final few questions on these Tube investments. We have highlighted that the new capacity will cater to infra, solar and defense segments, and we are quite a lot increasing the capacity to 700,000 tons. So, will this come at an incrementally better margins than what we are doing currently?

Harsh Bansal: So, there are actually two separate parts of question. One is the increased capacity of tubes. The other is the new businesses with respect to solar, infra and defense. I think you have assumed that that is for pipes and tubes. They are not essentially for the conversion or that similar kind of business. But needless to say, that business is expected to have better margins than the existing business.

Madhur Rathi: Okay. And sir, on the Pipe segment, so this capacity – I'm trying to understand we are having 700,000 tons capacity, and we are guiding a production of 300,000 tons. So, what is this incremental the 400,000 tons that is not being utilized. Is this capacity being further used for some additional value addition or something else?

Harsh Bansal: No, I didn't understand your question. Please, can you just repeat that, please?

Madhur Rathi: Yes, sir. So, this capacity that you have increased to 534,000 metric tons and a production of 174,000 metric tons. There is a quite a few -- there's a quite a lot of deltas between the capacity as well as the actual production. So, is this delta being used for further value addition to some different products? Or why is this low? Or if not, then why is this low?

Harsh Bansal: So, number one, I just want to clarify that this is the total production. Even if this was being used for other value addition, it would have been reflected over here or in one of the other metrics of the production. Secondly is if you look at the same chart which you are referring to, over FY '23, '24 and '25, we've consistently increased from 73,000 to 115,000 to 175,000.

The increase was expected to be a little sharper in '25. And as I mentioned, this has been slower. Because of that, we have tempered our guidance or rather we have -- our expectation, even for FY '26, which was -- if you look at the earlier presentation, it was much higher. We have tempered it down to 300,000, keeping in mind the slower pace of ramp-up.

The expansion also, like I mentioned earlier, was earlier supposed to be about 1 million tons by FY '26, which we have scaled back to 700,000 tons keeping in mind the slower-than-expected sales ramp-up. So, this helps us to conserve a little bit of your capital beyond what was earlier estimated and use it a little more judiciously.

But I think coming back to your question, once again, this is the production. There is no further value addition in the capacity, which is not being utilized elsewhere. We are working with the customer to escalate this capacity utilization to a more sustainable level.

Madhur Rathi: Okay. Got it. So, then the final question. Sir, considering our whole capacity, sir, what would be the optimum revenue potential at maximum utilization?

Harsh Bansal: So, I think we'll be coming out with the guidance closer to the March quarter call. But in terms of capacity utilization, I think 60% to 70% is a fair sustainable capacity utilization number.

Madhur Rathi: Okay, sir. Thank you so much.

Moderator: Thank you. Next question comes from the line of Ronak Ostwal with Arihant Capital Markets Limited. Please go ahead.

Ronak Ostwal: Thank you for the opportunity. There are a few questions from my side. First, could you provide an update on company sustainability initiative, particularly with respect to reducing carbon emissions or improving energy efficiency in our production facilities.

Harsh Bansal: The rooftop solar for the Calcutta unit is already up and running. That's commissioned, I think this was updated in the last call as well. The project for Jamshedpur one is underway, and we will be updating on that incrementally as we go forward. In terms of energy efficiency and all, that's an ongoing project as we increase production, as we go with newer technologies, what's available in the market, that's something we continue to do here. And that gets reflected in our various reports that we will be releasing along with our balance sheet and the annual report after March '25.

Harsh Bansal: Yes. So, the focus remains on energy conservation and that's our endeavour.

Ronak Ostwal: Okay, sir, got it. The next question is, are there any new technology upgrades or innovation being implemented at our manufacturing facilities, that could enhance product quality or improve production efficiency?

Harsh Bansal: Not anything beyond the ordinary and not something worth talking over here. And these are -- some of these are continuous processes that keep happening because some of the technologies are actually hardware that needs to be installed but a lot of them is also to do with continuous manpower training and debottlenecking of the systems. So that's something which is ongoing.

Ronak Ostwal: Okay, sir. Next question is the expansion in pipe and tube and agreement for GP/GC Sheets and TMT bars indicates strong revenue visibility. Are there any new business line or acquisition under consideration to accelerate growth?

Harsh Bansal: We'll need to come back on that because as has been indicated about the solar, defense and infra business, more details on that will follow in the subsequent calls, as and when we are ready to talk about it.

Ronak Ostwal: Okay, sir got it. That's it from me.

Moderator: Thank you. Next question comes from the line of Rohan Baranwal from Singhania Pariwar Ltd. Please go ahead.

Rohan Baranwal: Sir, can you share your revenue breakdown in margin from your products?

Harsh Bansal: So, the revenue breakdown has been shared in the presentation in Slide #9. And the margin breakup, we don't share as a policy here because of customer sensitivity.

Rohan Baranwal: And sir, if I have missed it out, can you share some information regarding the contract extension for H1 '27, which was expected to generate like the revenue -- and can you share more details on the margin profile of that contract?

Harsh Bansal: You want the margin profile of that contract?

Rohan Baranwal: Yes. Like what kind of margin, you would generate?

Harsh Bansal: We don't -- as I just mentioned here, sectorally, we don't share margin guideline because this is sensitive information here.

Rohan Baranwal: Okay, sir thank you. That's it from my side.

Moderator: Thank you. Next question comes from the line of Madhur Rathi with Counter Cyclical Investments.

Madhur Rathi: Thank you for the opportunity once again. I wanted to understand what would be the cost savings from the Jamshedpur solar projects coming online?

Harsh Bansal: So again, the cost saving is not material. It's more from a green angle. But as you know, as we proceed any thermal and fossil fuel, will continue to increase in pricing. And as you go along, the solar and renewable sources will continue to get cheaper. So, it's less of a short-term benefit, more of a long-term benefit. It's more of a carbon neutralization, a green play, but not material cost savings that one can talk about. In terms of cost saving, it's not an immediate thing, but over a period of time, of course, the savings accrue.

Madhur Rathi: Got it. And sir, generally, also, whatever internal efficiency or internal cost savings that we do, sir, generally, how much do we need to pass on to our end customers or we can keep entire cost savings to ourselves?

Harsh Bansal: No, I mean, why would we pass it on to the customer. The customer relationship is based on the contract, and any further efficiencies and ongoing improvements that we do, they are a part of my or the company's savings.

Madhur Rathi: Okay, got it. Sir, thank you so much, and I will come in Q4 to understand how we are planning our business going forward.

Moderator: Thank you. Next question comes from the line of Dev Mehta, an Individual Investor. Please go ahead.

Dev Mehta: Sir, if you can just throw some light with respect to our D2C brand "Bansal Super TMT". Where are we on that project right now?

Harsh Bansal: So, this was a part of the strategic initiative to actually build a market-facing scenario. As we've been mentioning, this is not somewhere where we are putting a lot of focus in terms of a cash burn, but we slowly and steadily continued to create a dealer, distributor, sales-based network which will also come in handy for us in case we decide to venture into some of these other businesses in the future.

But from a point of view of current status, it remains the same as earlier. We continue to sell material, devise new methodologies on the sales side, create new dealers, distributors and supply chain and keep testing that. However, all this is done with a very, very careful focus on positive cash flow. So, it's more to do with learning and slow and steady growth as opposed to something of a big bang cash burn initiative.

Dev Mehta: Thank you. So, this Bansal Super TMT product, the major penetration is in the Eastern states only, right, as of now?

Harsh Bansal: Yes, yes, primarily in Bengal.

Dev Mehta: Okay sir, got it. Thanks a lot.

Moderator: Thank you. We have no questions at this point of time.

Balasubramanian A: Thank you, everyone, and the management for sharing the insights on the performance. I would just like to hand it over back to Harsh Bansal sir for final closing remarks.

Harsh Bansal: Thank you, Bala. As always, a pleasure to be hosted by you and talk about the results. Thank you once again.

Moderator: On behalf of Arihant Capital, that concludes this conference. Thank you for joining us. You may now disconnect your lines.