MANAGEMENT DISCUSSION & ANALYSIS

Indian economic overview

India retained its position as the sixth-largest economy and the fastest-growing trillion-dollar economy through a major part of the year under review (except in the last quarter of 2018-19). After growing 7.2% in 2017-18, the Indian economy is estimated to have grown 6.8% in 2018-19 as per the Central Statistics Office release, May 2019.

The principal developments during the year under review comprised a sustained increase in per capita income, decline in national inflation, steadying interest rates and weakened consumer sentiment from the second half of the financial year. The weaker sentiment was on account of a large non-banking financial institution announcing its inability to address liabilities. This affected credit expansion, financial markets and consumer sentiment, which in turn resulted in slower GDP growth that declined to 5.8% by the fourth quarter of 2018-19, the slowest growth in a single quarter in years.

In 2018, the country attracted ~US$ 42 billion in FDI inflows as per the World Investment Report 2019. Driven by strong policy reforms, India witnessed a 23-notch jump to a record 77th position in the World Bank's latest report on the 'Ease of Doing Business' that captured the performance of 190 countries.

The commencement of the US-China trade war opened new opportunities for India, particularly in the agro sector. Inflation (including food and energy prices) was estimated at 2.6% on an annual basis, one of the lowest in years and well below the Reserve Bank of India's medium-term target of 4%. The rupee rebounded after touching a low of ₹74.45 to a dollar to close the financial year at ₹69.44. During the fiscal under review, the Indian Government continued to invest deeper in digitisation, renewable energy capacity generation and infrastructure building.

Key government initiatives

The Indian government continued to take initiatives to strengthen the national economy.

Bank recapitalisation scheme: In addition to infusing ₹2.1 lac crore in public sector units, the Indian Government announced a capital infusion of ₹41,000 crore to boost credit for a strong impetus to the economy in FY2018-19. The Budget 2019-20 mandated that the Union Government will infuse ₹70,000 crore to strengthen and enhance their lending capacity. (Source: Hindu Business Line)

Expanding infrastructure: India's proposed expenditure of ₹5.97 trillion (US$ 89.7 billion) towards infrastructural development In Union Budget 2018-19 is expected to strengthen the national economy. As of November 2018, total length of road-building projects awarded under Bharatmala Pariyojana (including residual NHDP works) was 6,460 kms for a total cost of ₹1.52 trillion (US$ 21.07 billion). The Government has announced an investment of ₹10,000,000 crore (US$ 1.5 trillion) in infrastructure over the next five years in Budget 2019-20. (Source: IBEF)

Ujjwala Yojana and Saubhagya Yojana: With the help of this initiative the Government has transformed the lives of a large number of rural families by dramatically improving the ease of their living by providing electricity and clean cooking facility to all willing rural families. The government stands committed to providing electricity and clean cooking facility to all by 2022.

UDAN: This scheme is directed towards providing air connectivity to smaller Indian cities, in order to enable the inhabitants of smaller cities to avail the option of travelling by air more easily. Several airports are likely to be constructed under this scheme.

The Insolvency and Bankruptcy code (Amendment), Ordinance 2018: Passed in June 2018, the ordinance provides significant relief to home-buyers by recognising their status as financial creditors. The major beneficiary of this ordinance stands to be the MSMEs, since it empowers the Indian Government to provide the MSMEs with a special dispensation under the code. *(Source: PIB)*

Pradhan Mantri Kisan Samman Nidhi: In February 2019, The Indian Government announced the Pradhan Mantri Kisan Samman Nidhi, a scheme promising an annual assured income of ₹6,000 (US$ 84.5) for any farmer owning up to 2 hectares of farmland. The budget for fiscal year 2020 allocated ₹75,000 crore for the scheme, benefiting ~120 million land-owning farmer households.*(Source: PIB)*

Direct Benefit Transfer: The Direct Benefit Transfer initiative re-engineered the cash disbursement process in welfare schemes through simpler and faster flow of information/funds to ensure accurate targeting of beneficiaries, de-duplication and reduction of fraud. In 2018-19 alone, this scheme is estimated to have transferred more than ₹3,00,000 crore and the gains to have accrued since the implementation of the scheme (upto March 2019) has been estimated at ₹1,41,677.56 crore. *(Source: www.dbtbharat.gov.in)*

Indian steel industry overview

India's crude steel production in 2018 stood at 106.5 million tonnes, up by 4.9% from 101.5 million tonnes in 2017. India emerged as the world's second-largest steel producing country during the year under review, the largest producer of sponge iron and the third-largest consumer of finished steel. The per capita consumption of steel rose from 59 kilograms in 2013-14 to 69 kilograms in 2017-18, which is still way below the global average of ~214 kilograms. Furthermore, India is the fastest-growing market for stainless steel in the world.

The 2018-19 performance of India's steel sector was segregated across two parts – the first half was marked by robust demand from all downstream user segments while the second half was marked by a decline in consumer sentiment that translated into sectoral sluggishness. This is indicated in the numbers: between April and September 2018, India's finished steel output grew 6% to 53.9 million tonnes while consumption rose at 7.8% to 47.7 million tonnes. Domestic steel prices remained firm and the average realisations of cold-rolled coils, hot-rolled coils and TMT bars increased 27-29% during the period under review.

In 2018, India's total stainless steel production was pegged at ~3.6 million tonnes for both long and flat products. Domestic steel prices remained firm during the period between April and September 2018. Average prices of cold-rolled coils, hot-rolled coils and TMT bars increased by 27-29% y-o-y during the period under review. Per tonne prices of cold-rolled coils, hot-rolled coils and TMT bars averaged at ₹61,550, ₹55,716 and ₹49,139, respectively. Increased outlays for the railways sector, affordable housing push, and rising demand in capital goods and consumer durables will further boost the domestic steel industry's growth.

(Source: Worldsteel, Economic Times, Bloomberg, Ministry of Steel)

Government initiatives

- The National Steel Policy projects crude steel capacity of 300 million tonnes, production of 255 million tonnes and a per capita consumption of finished steel of ~160 kilograms by 2030-31.
- The housing and construction sector, where a large part of India's steel is consumed, as the implementation of schemes like Pradhan Mantri Awas Yojna, Sardar Patel Urban Housing Mission, 100 Smart Cities Mission (by 2022), Pradhan Mantri Gram Sadak Yojna, Urban Infrastructure Development Scheme for Small & Medium Towns, National Heritage City Development and Augmentation Yojana, Bharatmala project, 24x7 Power for All initiative (by 2019), Development of Industrial Corridors & National Investment & Manufacturing Zones and Clean Energy Initiative (2022) are implemented.
- The Central Government announced a policy that provides preference to domestically-manufactured iron and steel products for governmental projects. The policy provides a minimum value addition of 15% in notified steel products, which are covered under preferential procurement.
- The Central Government allowed100% FDI through the automatic route, announced a 20% safeguard duty on steel imports and levied an export duty of 30% on iron ore (lumps and fines).

Challenges

The Indian steel industry continues to address uncertainties pertaining to the availability of raw materials (coal and iron ore). Even though the marked shift from an allocation process to an auction process of getting mining blocks enhanced transparency, issues pertaining to transport logistics from the mining areas still remain to be addressed. The resolution process of debt ridden steel companies currently underway at the National Company Law Tribunal can necessitate a marked change in the structure of the industry.

Optimism

Despite the threat of imports, Indian steel enterprises invested in modernising and expanding of existing units and greenfield plants to build a world-class, cost-competitive, environment-friendly and socially-responsible industry. This was in line with the objectives of the National Steel Policy 2017 to increase the per capita steel consumption from a little less than 70 kgs to 160 kilograms by 2030-31.

India's competitiveness can be drawn from the fact that World Steel Dynamics rated 36 Indian steel makers as 'world-class' out of more than 250 large global steel makers. *(Source: Business Today)*

Import of total finished steel (in million tonnes)

Year	Import of total finished steel
FY14	5.45
FY15	9.32
FY16	11.71
FY17	7.90
FY18	8.20
FY19	8.80

(Source: Ministry of Steel, Business Standard)

Export of total finished steel (in million tonnes)

Year	Import of total finished steel
FY14	5.99
FY15	5.99
FY16	4.08
FY17	8.24'
FY18	9.62
FY19	8.40

(Source: Ministry of Steel, Business Standard)

Per capita consumption of steel (kilograms)

Year	Per capita consumption
FY12	58.30
FY13	59.30
FY14	59.56
FY15	61.15
FY16	63.99
FY17	65.25
FY18	68.00
FY19	69.00

(Source: IBEF)

Total crude steel production (in million tonnes)

Year	Import of total finished steel
FY12	74.29
FY13	78.42
FY14	81.69
FY15	88.98
FY16	89.79
FY17	97.95
FY18	102.34
FY19	106.50

(Source: IBEF)

Total finished steel production (in million tonnes)

Year	Import of total finished steel
FY 12	75.7
FY 13	81.68
FY 14	87.67
FY 15	92.16
FY 16	90.98
FY 17	101.81
FY18	104.98
FY19	109.18

(Source: IBEF, Economic Times)

Consumption of finished steel (million tonnes)

Year	Per capita consumption
FY12	70.92
FY13	73.48
FY14	74.10
FY15	76.99
FY16	81.52
FY17	84.04
FY18	90.68
FY19	97.50

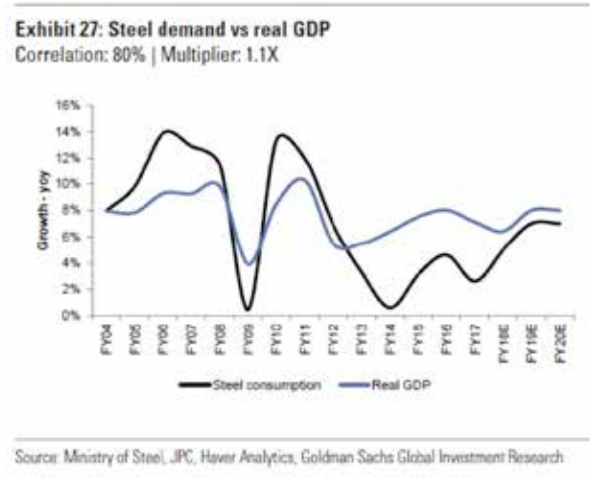
(Source: IBEF, Financial Express)

The government remains focused on augmenting railway capacity

Capex plan FY17-22

Particulars	Capex (in ₹ billion)
Network decongestion (including DFC, electrification, doubling including electrification and traffic facilities)	1,993
Network expansion (including electrification)	1,930
National projects (North Eastern & Kashmir connectivity)	390
Safety (Track renewal, bridge works, ROB,RUB, and signalling & telecom)	1,270
Information technology	50
Rolling stock (locomotives, coaches, wagons-production & maintenance)	1,020
Passenger amenities	125
High speed railway & elevated corridor	650
Station redevelopment and logistics park	1,000
Others	132
Total	

(Source: Ministry of Railways)



Downstream demand drivers

Automotive: This sector is a major demand driver for flat steel products (including basic and specialty steels). Flat products such as hot-rolled coils and sheets find their application in wheel-disc in the automotive segment. Other products like cold-rolled coils and sheets and galvanised coils and sheets find applications in hoods, roofs, doors, bodies, floors, reinforcement pillars, structural safety components and impact beams. A growing demand for automobiles is expected to report higher steel offtake.

Railways: The Indian Railways is investing extensively in increasing rolling stock, track modernisation, launch of modern trains and Dedicated Freight Corridor, strengthening steel demand.

Infrastructure: The construction and infrastructure sectors are the largest steel consumers in India, accounting for more than 60% of the total finished steel consumed. This sector includes the building of highways, bridges, airports, ports, water transportation, pre-fabricated buildings, power projects and real estate (residential and industrial). A significant portion of the steel manufactured in India (flat and long varieties) finds use directly or indirectly in the infrastructure sector.

Power: India increased its power generation capacity from 267.64 GW in 2015 to 349.29 GW in 2018. The country also increased its power transmission capacity from 2, 68,693CKM in 2012 to 3, 81,761 CKM in 2017. India intends to commission 175 GW of renewable energy by 2022, strengthening the offtake of steel.

Housing: A sizeable share of long steel is consumed by India's real estate sector. India is expected to become the third-largest construction market by 2022; the real estate sector is estimated to grow from US$ 120 billion today to US$ 650 billion by 2025 and US$ 1 trillion by 2030.

Commercial office stock in India is expected to cross 600 million square feet by 2018 end while office space leasing in the top eight cities is expected to cross 100 million square feet in 2018-20.

Capital goods: The year 2018 was favourable for infrastructure and capital goods companies, with 30% growth in order inflows. Nearly all the growth was fuelled by government and public sector orders. Listed capital goods, construction and infrastructure companies reported combined order wins of more than ₹2.67 trillion in calendar year 2018.

Consumer durables: The demand for consumer durables like refrigerators as well as consumer electronic goods is likely to witness growing demand in line with increased incomes and aspirations. India's consumer durables sector is expected to grow from US$ 15.5 billion in 2017 to US$ 46.54 billion by 2020.

(Source: IBEF, Business Standard, Business Insider, CARE)

Company overview

Incorporated in 1981 as Bansal Mechanical Works Pvt. Ltd. as a private limited company. In June, 1999 the Company changed its name to BMW Industries Limited, emerged as a prominent industrial group in Eastern India. The Company is engaged in manufacturing of tubular poles and structures, transmission line towers, rebars and providing steel servicing centre and infrastructural services. The Company possesses India's largest steel processing capacity and is considered to be among the foremost tube manufacturers in Eastern India and one of the largest cold rolling and continuous galvanising plants in the sector.

Dummy copy India's GDP growth is strong, inflation low and interest rates likely to decline. peaks. In 2014, the country at 21 trillion, strengthening prospects of steel consumption.

Financial analysis, FY2018-19

BMW Industries Limited followed the accrual basis of accounting under the historical cost convention. Its accounts were prepared on the basis of accounting standards as per Section 133 of the Companies Act, 2013, read with Rule 7 of the Companies (Accounts) Rules 2014.

Balance Sheet

- Borrowings for FY2018-19 stood at ₹372 crore compared to ₹428 crore during FY2017-18
- Total non-current assets for FY2018-19 stood at ₹537.85 crore compared to ₹563.51 crore in FY2017-18
- Profit & Loss statement
- Revenues decreased 13% from ₹945 crore in FY2017-18 to ₹823 crore in FY2018-19
- EBITDA maintained at ₹166 crore in FY2018-19
- Profit after tax decreased 20% from ₹51 crore in FY2017-18 to ₹41 crore in FY2018-19
- Total expenses for FY2018-19 stood at ₹784 crore compared to ₹889 crore in FY2017-18
- Depreciation and amortisation stood at ₹46 crore in FY2018-19 compared to ₹48crore in FY2017-18
- Working capital management
- Current assets as on 31st March 2019 stood at ₹502 crore compared to ₹495crore as on 31st March 2018
- Current ratio as on 31st March 2019 stood at 1.39 compared to 1.39 as on 31st March 2018
- Inventories decreased from ₹225 crore as on 31st March 2018 compared to ₹211 crore as on 31st March 2019
- Current liabilities stood at ₹360 crore as on 31st March 2019 compared to ₹357crore as on 31st March 2018
- Cash and bank balances stood at ₹11 crore as on 31st March 2019 compared to ₹10 crore as on 31st March 2018

Key ratios

Particulars	FY2018-19	FY2017-18
EBIDTA/Turnover	20.16	17.55
EBIDTA/Net interest	4.57	3.99
Debt-equity ratio	0.71	0.89
Return on equity (%)	7.86	10.63
Book value per share (₹)	23.16	21.35
Earnings per share (₹)	1.82	2.27

(Source: Ministry of Railways)

Internal control systems and their adequacy

The internal control and risk management system is structured and applied in accordance with the principles and criteria established in the corporate governance code of the organisation. It is an integral part of the general organisational structure of the Company and Group and involves a range of personnel who act in a coordinated manner while executing their respective responsibilities. The Board of Directors offers its guidance and strategic supervision to the Executive Directors and management, monitoring and support committees. The control and risk committee and the head of the audit department work under the supervision of the Board-appointed Statutory Auditors.

Human resources

The Company believes that its intrinsic strength lies in its dedicated and motivated employees. As such, the Company provides competitive compensations, an amiable work environment and acknowledges employee performance through a planned reward and recognition programme. The Company aims to create a workplace where every person can achieve his or her true potential. The Company encourages individuals to go beyond the scope of their work, undertake voluntary projects that enable them to learn and devise innovative ideas.

Cautionary statement

This statement made in this section describes the Company's objectives, projections, expectation and estimations which may be 'forward looking statements' within the meaning of applicable securities laws and regulations. Forward–looking statements are based on certain assumptions and expectations of future events. The Company cannot guarantee that these assumptions and expectations are accurate or will be realised by the Company. Actual result could differ materially from those expressed in the statement or implied due to the influence of external factors which are beyond the control of the Company. The Company assumes no responsibility to publicly amend, modify or revise any forward-looking statements on the basis of any subsequent development, information or events.

RISK MANAGEMENT

Risk	Mitigation
Demand risk Global economic conditions may adversely affect operations and prospects.	**Mitigation** The Indian economy is growing with a focus on the infrastructure and construction sector. Several initiatives, mainly in the areas of affordable housing, railways, shipbuilding, Defence sector and automobile sector are expected to increase steel demand.
Inventory risk Failure to forecast and manage inventory could result in an unexpected shortfall and/or surplus.	**Mitigation** The Company possesses an efficient inventory management system. The Company maintains minimum quantities as per committed orders. It forecasts demand and maintains an adequate inventory to address unforeseen demand.
Customer risk Customer attrition could affect business sustainability	**Mitigation** The strength of the relationship has been tested across decades. Business volumes have grown virtually each year. Even as volumes from this principal customer are growing, the Company selected to grow its proprietary business as well.
Price risk Significant increase in raw material costs could affect operations	**Mitigation** The Company has back-to back engagements with its principal that make it possible to pass on cost increases. Besides, the Company maintains a low finished goods inventory that minimises the impact of raw material price movements.
Financial risk A rising interest rate could affect profitability	**Mitigation** The Company intends to repay debt and strengthen credit rating to negotiate a lower cost of debt. The Company expects to emerge as a zero debt company (long-term debt) by 2022.