

BEML Group meeting transcript

Harshit Kapadia: Yeah, hi, good afternoon, everyone. Thank you all for coming, and we'd like to thank BEML management for giving us an opportunity to host this meeting, and we also have a lot of participants joining online. We know the BEML team and the management very well, so we'll just, without wasting time, will start, and if anybody has any questions, please introduce yourself before asking the questions.

Analyst: How do we see the next 3 years, those playing out? As well as, I mean, with this maritime opportunity opening up, how do we see that?

Management: If you look at the current order book, which is roughly Rs. 16,300 crores. 65% of it is made up of Rail and Metro, 30% Defense and maybe 5% mining. Mining, as we have in the past also, we have conveyed that it's a very fast Turnaround time product, except for some large and for some high-end mining equipment. Where, the manufacturing time cycle is more. Otherwise, it's the Rail and Metro and defense, which we'll be driving. In the next 3 years, the focus and key drivers will be the Rail and Metro vertical, the Defense and Aerospace vertical. Mining should remain flat, maybe a growth of 3 to 5% per annum. I don't see much opportunity size in mining beyond that. The best thing about mining is that since it's a fast turnaround time, our cash, our sales turnover is taken care of, our baseline is taken care of. The challenge in mining is the changing acquisition model of Coal India. We are largely dependent on Coal India. From the departmental purchase to the MDO model. When it comes to the MDO model, the MDOs prefer not to invest in CapEx but in OpEx. And, rather than high-end mining equipment, they will go for lower-end mining equipment where we are not present. The second factor is that they would also sometimes prefer the second-hand equipment from the second hand market. To take care of these challenges, Coal India is also expected to come out with a long-term policy. A policy where they will have long-term contracts with MDOs 25-year contract. And they will also, you know, have provisions while keeping in mind the DGMS requirements and the throughput requirements, then the MDOs will also be able to go for high-end mining equipment under acquisition model.

That is one thing. Second is, if you look at the future of coal, there will be more focus on sustainable mining and green mining. And there are two things. One is even the open cast mine, rather than drilling, blasting & straight away going with surface miner. This is going to be the next thing, and there we have just entered into an agreement with Tesmec of Italy. And we'll be shortly looking at how to work with them in some of the tenders which are going to come up. Next is the continuous miner, because the underground mining from the current 25 million ton per annum production, it is envisaged 4 to 8 times jump in the next 5-6 years to 200 million ton. And continuous mining, we have been trying to find a partner.

Until now, we have not zeroed upon anybody, but shortly, we should be ready with a partner and ready to participate in the underground mechanized mining sector as well.

As far as the Rail and Metro and defense is concerned, from the current order book of Rs Rs. 16,300 Crs, we should end the year with Rs 20,000 Crs plus order book, and the bulk of it will come from the Rail and Metro. And, defense to some extent.

Let us have a look at how the Rail Metro sector behaves. FY24-25 Rail and Metro had a sudden dip, which I would call an aberration. From the 38% contribution, it went down to 19% contribution. Mainly because we didn't have the orders to execute. We had the orders, but the execution cycle had not yet started. So, the orders that we secured in 2022, 2023, 2024, now it is reaching that stage. For example, the Bangalore metro, which we unveiled yesterday, now it will go into bulk production. Maybe this month we'll supply another rake, the second train also. We'll try for the third train also, and in the current financial year, at least 8 to 10 trains. Next year, it will reach its... it will be even more. Total is more than 53 trains. With the, latest order for 42 cars, which we received. Next is the Chennai Metro. The Chennai metro will also be in the proto-rollout stage in the year 26-27. Then we have the Mumbai metro beyond 63 trains, which will also start giving us the revenue from 26-27, not in 25-26. So 26-27 will be, the financial year when 3 major metro projects. One major metro project will be reaching its peak, and two other metro projects will just begin to just start. Then FY27-28 will be there when 3 projects will go on parallel.

And that's a huge number.

Similarly, for the commuter rail, currently we have the order for LHB coaches, we have the VB sleeper, we have the high-speed train proto order, plus some track machine orders. The VB sleeper execution majority will be done this year, and some spillover will go to the next financial year. LHB coaches, we are supposed to execute the entire lot by November next year, so we'll do a part of it, maybe 20% in the current financial year, and 80% will go to the next year. So next year, we will see a quantum jump in the rail and metro revenue in absolute terms, as well as the percentage control

Same is with defense. So defense, if you have a look at the presentation, the mechanical minefield marking equipment, the self-propelled mine barrier, the command post vehicle, all this will come up for the bulk production. Mechanical minefield already has come up for bulk production, but next year we'll see all these three going for bulk production. And these are the systems. Basically, we have made a distinct shift from being only a high-mobility vehicle supplier to the complete system. For that reason, we have created another new SBU, which is the Strategic Systems. Apart from that, there are some more orders we'll be working for, but let us understand, in the defense sector, if a tender comes today, it will be at least 5 years by when the bulk production will start, because there will be some time for ordering. After the ordering, we have to design, develop and supply the equipment on NCNC basis. It has to undergo extensive field trials for almost 2 years, one and a half to two years. The reports being submitted, and the price being opened, and after that, if some bidder becomes successful, then there is a time period which is needed to start the bulk production.

So, the current order book of defense is, again, mostly the platform and some of these strategic systems which will come for bulk production in the next financial year. So, next financial year should see a further uptake in the defense revenue. This year itself, we are expecting at least a 70% to 80% growth in the defense revenue. Last year, we almost doubled the defense revenue, the contribution

of defense, in totality. So these two will be the growth drivers for the coming few years for the company.

Now, coming to the maritime crane, maritime crane is entirely a new area, but it is something which we are trying to build based on our existing competencies, that is in sheet metal, fabrication, and hydraulics and power line. So, in maritime crane, there are two types of cranes that we are looking for. One is the shipbuilding cranes, like the Goliath cranes, and second is the port operation cranes, like the ship-to-shore crane, and the other, Port handling equipment. Put together, there is a requirement of at least 50 ship-to-shore cranes per annum. And if we are able to fulfill that, this itself will give us a revenue of around 4,000 to 5,000 crore. Once this business gets going, it will take some time for this business to get going. We are going for a graded approach. We will try to work first with our existing facilities and, try to work out a model of contract manufacture, or a TOT. But eventually, we have to move to a location which has a waterfront and which has a port, because these cranes otherwise cannot be transported through road or rail which has to be transported through water. So, maybe 4 or 5 years down the line. This particular line will give 4,000 crore plus. That is how we envisage in the coming few years. And we can have large ones out there, and we have also around 20% of service revenue. A large part of that is mining. I'm talking about the 5% overall, on the mining vertical, including the service of equipment. If you are able to successfully enter the surface miner and the continuous miner segment. And number two, the overburden removal equipment that we are currently supplying to the coal sector, mostly. We are also focusing on enhancing our exports.

Revenue from these equipment, and there is a huge demand for such equipment from the Middle East, from the GCC region, from the Australian CIS countries, and the Asia Pacific. So we are focusing on these four regions, and of course, Africa.

The idea is to move away from the over-dependence on Coal India and its subsidiaries to a market where there will be a continuous availability of orders.

And which does not depend on the seasonality or the monsoon cycle. So, currently, basically, if you look at the trend of the revenue, the first two quarters are generally dull, and it gears up from the third quarter. Unfortunately, this year rains getting enhanced to October as well. Tendering activity itself has been delayed by the Coal India. And now, in the next couple of months, we will see a huge, gamut of tenders which have already been floated, they will be finalized. So the entire pressure comes to the Second half of the third quarter, as well as the entire fourth quarter.

So we are also trying to get away from this, so that we have a equitable distribution of revenue across all the four quarters, and this is possible, number one, by reducing over dependence on the coal industry in the country. Number two, have a very robust order book pipeline for the Rail and metro and for the defense, so that from day one, when a financial year starts, we can start delivering.

In terms of order by the larger operational, we are looking at some track equipment orders, some commuter rail orders. I cannot specify exactly. Currently, you know, being at that stage, but next

year, already, there is a tender from Mumbai Rail Vikas Corporation, so it should take at least 6 months for that order to be finalized. And that is a huge order. The number is between 35,000 to 40,000 crore, including the maintenance.

And this year, we expect some of the orders, like the self-propelled mine burrier, the Trawl, these should be, you know, completed in this year. The order securing, at least. But many of the defense orders will go to the next year also. Like the gun towing vehicle, it will go to the next tier. The LaMV, the light armored multi-purpose vehicle where we will field the equipment in the current financial year, maybe sometime in January, February.

But, uh, the ordering will take place maybe one and a half years after that.

We have a steady flow of high-mobility vehicle platform orders already we have a very healthy order book pipeline of the HMTVs, and we are expecting some more in this particular financial year. There will be some spillover also, so next year we will have a very healthy carry-forward orderbook. As far as the defense is concerned, we should have the Pinaka next regiment coming sometime next year, so that will be a big ticket order for BEML, as such.

AMCA, you see, it is at a very nascent stage. It's the RFI, to shortlist, the probable partners. Next stage will be the RFP. The entire program is... the first phase is 15 years.

To come out with a proto. Our role in this is basically considering our core strength in the aerostructures. That will be our main focus.

Data Patterns will be taking care of the avionics, and Bharat Forge, obviously, they're... they have expertise in hydraulics and other fabrications.

So all three complement each other. And, we'll be accordingly coming out with it. It's a huge program. That, if you see, only 2 companies have participated on their own. Every other company has participated in a consortium, be it L&T, Adani and others. We have participated with Bharat Forge and Data Patterns.

Further, We have received the emergency procurement orders, we have started delivery. We are supposed to deliver by next year, June, July we'll complete those orders.

Analyst: What will be the growth guidance?.

Management: 30% growth will be a challenge. 20% should be achievable. 20% guidance, I said, that is, achievable. 20% should be there in FY26. Third quarter, we should see an uptick in terms of the performance, and fourth quarter, as I said, since all the mining is coming out in the end.

So, it will emerge from the mining, it will emerge equitably, defense has performed well till now, and defense will continue to do that. Rail also.

A lot of things will go down to the last quarter.

Yesterday's train unveiling, we could have done two months back had the supply chain supported us.