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Bouncing back

As it enters its silver jubilee year, Bihar Tubes is all set to cross the Rs1,000 crore mark

The company's name is a total misnomer. This is not a state-run PSU, nor is it a company based in Bihar. "It is just that we (the promoters) hail from Bihar," says 38-year-old Sanjay Gupta, CMD, Bihar Tubes Ltd (BTL), a listed entity with its first manufacturing unit based in Sikandrabad, UP. The company made its debut on the stock exchange with a Rs2.5 crore IPO in 1994 at a price of Rs20 per share.

"In the mid 1980s, when my father started this company, he called it Bihar Tubes, but now we are considering a change in name," says Sanjay, who has embarked on a south-bound journey. The Sudesh group, headed by Sanjay, holds 38 per cent in BTL, while the balance is with the public.

Sanjay Gupta: taking the company forward

BTL was started by Sanjay's father, Sudesh Kumar Gupta. It initially traded in steel tubes. In 1986, BTL set up its first tube mill producing just 6,000 tonnes per annum (tpa) in UP, while Sanjay was still in school. "During my spare time and holidays, I would spend time with my father on the shop floor," recalls Sanjay, who did not pursue further studies. So in 2002, when his father passed away, Sanjay, with 22 years of experience, was well groomed to fill the void and take the company forward. From being a Rs50 crore company then, BTL has grown to over Rs500 crore in 2009-10.

Besides Sanjay, BTL has Aniq Husain, an independent, non-executive director, who has been associated with the company for over two decades. Husain, an IIT Kharagpur graduate with a masters in industrial engineering and management, is a well-known figure in the tube mill industry in India. He is also the promoter of Gallium India, a company that supplies tube mills in technical collaboration with Kusakabe of Japan.

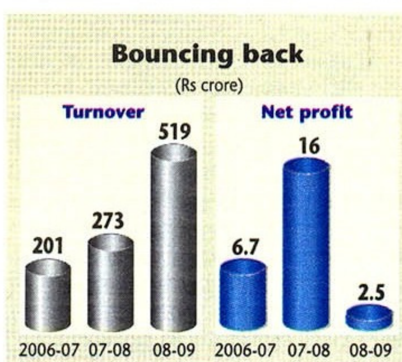
"Initially, BTL concentrated on general (commercial) tubes, while money was to be made in rolling out precision tubes. So, in the first phase of expansion, we put in a mill for precision tubes. It runs faster and gives better yields and quality," explains Husain. "In both commercial and precision tubes, the raw material cost, which is 80 per cent of the total cost, is the same. Hence, yield is a critical factor for better profitability," he adds. This was the turning point for BTL in dictating selling price.

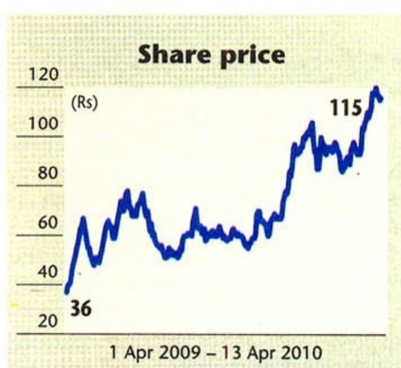
The company's product basket has also widened. "We started making hot dipped galvanised, pre-galvanised pipes and tubes, hollow (rectangular and square cross) sections and pre-galvanised coils, in addition to mild steel black pipes using electric resistance welding (ERW) technique," explains Romi Sehgal, CEO, BTL, who has spent more than three decades in the tube industry and is currently based in Bangalore, looking after BTL's South India expansion plans. Sehgal is busy working on the installation of the second mill, which will produce bigger pipes (up to six inches). "It will go on stream in May 2010. These new products generate larger revenues and BTL will enter the volumes game," adds Sehgal, who feels that through the Chennai port, BTL could even consider exports, where the realisations are higher. In a small way, BTL currently exports 2,000 tonnes per month (tpm) to West Indies, Africa and Dubai.

In India, the pipes and tubes industry is fragmented, but highly competitive. It has both big and small players including Tata Steel, Jindal Steel and Electrosteel Castings. The industry is such that there is a severe price pressure, which takes a toll on profitability. "However, BTL has looked to mitigate these risks through inorganic means," states an ICRA report.

It was in 2007-08 that BTL literally started moving places, expanding its installed capacity base and its geographical presence, stepping into southern India. In the past two years, it has acquired two steel pipe manufacturing companies. First in FY07, BTL acquired Apollo Metalex for Rs1.21 crore. This acquisition enabled it to backward integrate into manufacturing of GP (pre-galvanised) sheets, which are used to produce GP pipes.

Then, Sanjay and his team chanced upon an opportunity to take over a unit – Shri Lakshmi Metal Udyog in Bangalore. In February 2008, through a





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share swap deal for Rs20 crore, BTL acquired the unit that produced 1,000 tpm. "We invested Rs1.5 crore in modernising, revamping and adding material-handling equipment. Today, at the same plant, we are producing 4,000 tpm, making heavier and thicker tubes for water, gas and structural requirements," adds Sehgal.

Seeing growth potential in the south that is plagued by shortages, with the gap being bridged by consignments coming from North India, thus increasing freight and transportation cost (around Rs3,500/tonne), Sanjay decided to expand his base there. In January 2010, BTL commissioned a greenfield facility in Hosur, Tamil Nadu. "The facility is the largest in South India, being built at a capital cost of Rs100 crore and a capacity to make 2 lakh tpa, which will meet the growing demand for steel tubes in the southern market," explains Sanjay, whose clientele includes Ashok Leyland, Tata Marcopolo, Delhi airport, Gujarat Gas, Mundra SEZ, IRCON and Automobile Corporation of India.

Currently, BTL has three plants with an aggregate capacity of 2 lakh tpa – two near Delhi and one in Bangalore. "Hosur is the fourth facility for the company, making it the largest producer of steel tubes in the country, having a total capacity of 4 lakh tpa up to a size of 12 inches," says Husain.

"The greenfield plant will help the company to improve the market share in the South Indian market. The recovery of user industries will drive growth. Real estate, construction and auto are the major user industries for pipes and tubes," states Ravi Sodah of Elara Capital in his report, 'A realistic pipe dream', on BTL, expecting the company's net profit to witness a CAGR of 133 per cent from 2009 to 2011, on the back of 62 per cent growth in volumes.

Wide range

"BTL produces a wide range of steel tubes catering to industry segments like irrigation, urban infrastructure, automotive (bus bodies), airports, metro networks, green houses, etc," says Rahul Dholam, investment analyst at Unicon India. "Demand for steel tubes in the past three years has seen a tremendous growth following the government's thrust on urban infrastructure. With emphasis on aesthetics and complex structural designs in segments like airports and commercial complexes, usage of steel tubes and hollow sections has gone up." Dholam visualises BTL to become a Rs1,200 crore company by 2012. With expected earnings per share (EPS) of Rs24 in FY12, the stock is trading at Rs115, which is 4-5 times its earnings.

Expanding base: the company is charting its own course

"The economy is showing traction and we believe that the capex cycle is on an upswing," says Rushabh Sheth, equity analyst at Naman Securities. "Industrial production, in general, and manufacturing, in particular, are on a robust growth trajectory. Industries that execute the capex are likely to benefit from this upswing. BTL fits the bill in this regard. While inflationary fear exists, especially in the commodity complex, we believe that the demand dynamics are so strong in the key demand verticals that BTL can ride over commodity prices," he adds, estimating that the company will clock an EPS of about Rs26.60 in FY11.

As regards the company's financials, last year (2008-09), BTL's topline jumped from Rs273 crore to Rs519 crore because of inorganic growth. But due to softening prices and declining margins, its bottomline shrunk from Rs16 crore to Rs2.5 crore.

Now, there are visible signs of a bounceback. For the nine-month period ended December 2009, BTL reported net sales of Rs419.63 crore and net profit of Rs26.5 crore. Operating profit surged by 79 per cent to Rs40.13 crore. The jump in net sales is due to higher sales volume of tubes and hollow sections despite lower per unit realisations. EBIDTA margin has improved to 9.6 per cent during the nine months, against 5.8 per cent in the previous period, on the back of higher contribution from new market segments like automobile and telecom towers. "Prices of steel pipes and tubes, which remained subdued till the second quarter, stabilised during the third quarter. An upward movement has been observed in the prices from December 2009. Interest and depreciation have gone up due to commissioning of the first phase of the new expansion facility in Hosur, Tamil Nadu," says Husain.

For the third quarter (ended December 2009) alone, net sales on a consolidated basis rose by 40.6 per cent to Rs141.15 crore, against Rs100.4 crore for the corresponding period in the previous year. "Higher production, newer product mix and market presence are reflected in improved margins," says Sanjay. During the same period, BTL posted an operating profit of Rs13.95 crore, against a loss of Rs7.68 crore in the year-ago period. Net profit also increased to Rs8.41 crore, compared to a net loss of Rs7.44 crore. During the quarter, the company achieved the highest ever production volumes, up by 64 per cent.

Meanwhile, as BTL enters its silver jubilee year, it may soon be known as BTL Pipes, charting its own course into the golden era.

• LANCELOT JOSEPH