



Usha Martin Limited

Q1 FY24 Earnings Conference Call Transcript

August 08, 2023

Moderator: Ladies and gentlemen, good day and welcome to the earnings conference call of Usha Martin Limited. 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 this conference call, please signal the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Devrishi Singh from CDR India. Thank you and over to you, sir.

Devrishi Singh: Thank you. Good evening, everyone and thank you for joining us on Usha Martin's Q1 FY24 earnings conference call. We have with us Mr. Rajeev Jhawar – Managing Director of the Company, Mr. Anirban Sanyal – Chief Financial Officer, and Ms. Shreya Jhawar from the Strategy & Growth Team of the Company.

We hope all of you have had the opportunity to refer to the earnings documents that we had shared with you earlier. We would now like to initiate the call with the opening remarks from the management, following which we will have the forum open for a question-and-answer session. Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the earnings presentation.

I would now like to invite Mr. Rajeev Jhawar to make his opening remarks. Thank you and over to you, sir.

Rajeev Jhawar: Thank you. Good evening, everyone. On behalf of the management team of Usha Martin, I would like to welcome you all to our earnings conference call. As I had mentioned in our last conference call, we remain committed to conducting such forums on a regular basis. Our aim is to foster transparency and strengthen the communication channels with the investor and analyst community.

I would like to begin by sharing quick operational and strategy-related updates on the Company, following which our CFO, Mr. Anirban Sanyal, will run you through the key financial highlights.

We are pleased to report that all our strategic initiatives, including the emphasis on enriching our product mix by focusing on higher value-added ropes, have assisted us in reporting healthy profitability during the quarter. On a year-on-year basis, our operating EBITDA increased by 24.2% with operating EBITDA margins improving by 2.4% basis points to 17.9%. Furthermore, a better contribution from higher realization International markets supported margin improvement.

The share of the wire rope in our consolidated revenue further improved to 68% in Q1FY24 compared to 67% during FY23. The share of revenue from International operations also increased to 56% during Q1FY24 compared to 55% during FY23. Further, the share of value-added industry segments in our consolidated revenue increased to 50% during Q1FY24 as compared to 44% during FY23.

Moreover, within the wire rope, the value-added segments constituted 71% during Q1FY24 compared to 65% during FY23. The balance sheet continues to remain significantly derisked with the net debt at Rs. 99 crore end of Q1FY24 despite a CAPEX spend of approximately Rs. 68 crore during the quarter, emphasizing the significant improvements in operating cash flows before tax generated during the quarter.

As we have discussed previously, we aspire to consistently undertake efforts to increase market share in International geographies to further enhance profitability and our global market presence. We are already witnessing significant traction with International customers particularly for technical advanced wire ropes. In line with this, the Company is strategically focusing on higher value specialty grade ropes. It is important to note that producing these wire ropes requires substantial amount of engineering know-how and technical expertise. To maintain a competitive edge on the global stage, our Global R&D center, located in Italy, plays a pivotal role in designing advanced wire rope utilizing proprietary software to develop products that meet and exceed global standards. Through our focus on R&D, we have been successfully competing with global competitors and garnering a growing base of direct International clients. This achievement stands as a testament to our capabilities and positions us among the best in the world.

Our capex initiatives are progressing smoothly. The increased capacities will predominantly cater to diverse array of critical applications and value-added products including mining ropes, non-rotating crane ropes, compacted ropes and plasticated ropes. Our wave one expansion at Ranchi is on track and is expected to be substantially completed by end of Q3, supporting our revenue growth endeavors.

In conclusion, I would like to express our confidence that the various strategic initiatives undertaken by Usha Martin will certainly yield positive results and drive significant growth for the Company. Our team's dedication and hard work and their relentless pursuit for excellence has enabled us to achieve notable milestones over the last 3 years. The Company remains guided by its core values of innovation, integrity, financial discipline and customer focus. These values have been the foundation of our success and will continue to drive all our future endeavors.

With this, I would like to hand over to Mr. Anirban Sanyal, our CFO, who will present the operational and financial highlights for the quarter ended 30th June 2023. Thank you.

Anirban Sanyal:

Thank you and a very good evening to everyone. I will now briefly take you through the Company's operating and financial performance for the quarter ended 30th June 2023.

The consolidated net revenue from operations stood at Rs. 814.4 crore in Q1FY24 as against Rs. 758.7 crore in Q1FY23. The Company achieved a 7.3% year-on-year increase in revenue largely due to improved realizations from our value-added and solution-based offerings. Our International operations also played a key role, recording a significant 13% year-on-year increase in their topline performance.

Our operating EBITDA for the quarter registered a healthy 24.2% increase on a year-on-year basis at Rs. 145.7 crore. Moreover, the operating EBITDA per ton also demonstrated 25.8% year-on-year improvement at Rs. 32,227. The operating EBITDA margin of Q1FY24 rose to 17.9% from 15.5% in Q1FY23. This improvement in margin performance is also attributed to our strong focus on value-added products as well as our efforts to enhance our International presence. Additionally, our EBITDA performance demonstrates the strength of our business model and the strong pass on mechanism for raw material costs that we have in place.

Our net profit for the quarter stood at Rs. 100.8 crore, registering an increase from Rs. 82.2 crore in Q1 of FY23. On the balance sheet front, we have managed to reduce our net debt to Rs. 99 crore as on 30th June 2023 compared to Rs. 185 crore end of March 2023. Additionally, our cash flow from operations before tax was Rs. 177 crore for Q1FY24. The sharp reduction in net debt, robust operating cash flows and adequate working capital line headroom continues to support our planned capital allocations. We also remain committed to optimizing our working capital to reduce the overall cash conversion cycle.

In conclusion, I would like to say that Usha Martin's continuing focus on product portfolio enrichment, steady growth in our International operations, continuing leadership in India and strong balance sheet will enable us to deliver steady and consistent growth in the future.

This brings me to the end of my address. I would now request the moderator to open the line for the Q&A session. Thank you.

Moderator: Thank you very much. We'll now begin the question-and-answer session. The first question is from the line of Gunjan Kabra from Niveshaay. Please go ahead.

Gunjan Kabra: I wanted to ask from the EBITDA per ton perspective, if you compare FY22 and FY23, in the engineering general ropes, our share has reduced from 28% to 20% and our geographic revenue from India has decreased from 49% to 44% and the value-added product segments have increased. So, we are seeing quite a good EBITDA per ton expansion from 19,000 to 26,000 in FY22 to FY23. So now, from here on, what kind of EBITDA per ton and if you can guide on how further this revenue mix you expect to change, or do you see change in any product mix or geography wise? Are we focusing lot more on exports and not in India now and how this share will reduce is what I wanted to understand from EBITDA per ton perspective?

Rajeev Jhawar: You see, the EBITDA per ton has definitely improved because as I mentioned that the product mix has shifted more towards ropes and within ropes more into the specialty ropes and that would continue. The progress would continue even after the expansion because most of the expansion is towards the wire rope and that too focused more on the specialty wire ropes. In India, we have a market share of close

to 65% to 70%, which is a very healthy market share and that is something we would continue. Whereas our presence in the International market, we are at about 5% of the market share approximately, and that gives us an opportunity to increase our presence in the International market and take more market share at a better value addition. So, I would expect that we would continue towards achieving what we had mentioned in our previous call, towards 18% plus EBITDA margin on an ongoing basis and then slightly keep on increasing as the product mix improves.

Gunjan Kabra: Sir, is it not a very conservative way because you are targeting export markets and realizations are very high and value-added product is where the expansion is coming. So, are you very conservative in your estimates or how is it?

Rajeev Jhawar: You see in wire rope while we are expanding and more and more into specialty, it takes time to enter into new markets and new customers. So, as we are progressing towards it, as the percentage would increase, I am sure the numbers would be better. But it is better to be cautious and move on step by step because it takes time to open up new markets and new customers for these special products. We expect it to be better. As we enter into these new product segments and markets, we definitely expect it to be better, but these take some time, and we definitely would like to see things happen and improve from there on.

Gunjan Kabra: And if you are starting a new capex, which is in Q3FY24, so how much time does it take to ramp up because a new plant will definitely take some time to ramp up. So, if have normalized demand, so in how many months or quarters can we see the ramp up?

Rajeev Jhawar: See most of the project would get completed in the phase one or wave one capex by Q3. So, we will start seeing the benefit of volumes coming from Q4 and I would say that it would take three to four quarters to see that these not only from the production side, but from the market side, it would take three to four quarters to get the full benefit of the full capex start coming in.

Gunjan Kabra: And sir with respect to the US and Europe, there is a little slowdown in the business environment, and we were in talks with a few customers in the US where you were trying to onboard them. And in the Europe last quarter, you already guided that we have converted. So, how is this order traction going there and what kind of order visibility do you have from the export market right now?

Rajeev Jhawar: While the overall slowdown may be there, but the sectors and the new customers which we have worked on, particularly on the mining sector, oil offshore sector and the crane and port sector, we see good traction from these markets. And all the fruits of the last one or two years, of the efforts by our team, plus we have expanded our team in Europe and US, we see a good traction from our products and our segments. So, while there may be an overall slowdown, but in our sectors, we are seeing that there is a reasonably good demand, and we do not see much of a slowdown there.

Moderator: The next question is from the line of Aman Sonthalia from AK Securities. Please go ahead.

- Aman Sonthalia:** First of all, lots of congratulations for the excellent set of numbers and you and your team's hard work are reflected in the working of the Company quarter after quarter. Sir, I have a few questions. Recently I have seen on a year-on-year basis, our employee cost has increased from Rs. 89 crore to Rs. 107 crore. So, this is due to general inflation or we are investing in human resources for our future expansion and all?
- Rajeev Jhawar:** In India, the increase is entirely on account of the wage revision, which comes once in 4 years for the workers and the increment of officers. Increase in the International businesses is on account of new recruitments, particularly to enhance the marketing and R&D functions in Europe and America. So, these are the reasons. And now that the new capacity is also coming up in the next few months, so, we need to really build our International team to be able to focus more into newer markets and newer customers. So, that is the reason we have built this and that is the reason for this increase.
- Shreya Jhawar:** Just to add to that, like you mentioned in the Americas, earlier, we were focused primarily in the Houston area, but over the past year, we've also had a setup with people in the East region and the Pennsylvania region, as well as the West in the Nevada region. So, I think because of our focus in the US market, we've needed to expand beyond just the center to both the coast to cover the entire thread, which is quite expansive. And along with that, even in the Latin America region, we've put in, not resources, physically present there, but our team in the US and Europe also travels frequently to Latin America to cover that market as well. So, these are pretty new markets for us. The only way to grow is to hire talent that has familiarity with those markets and the network in those markets and then on the other side, we've also hired some sector experts because we have focus on the higher value sectors, we want specialists in elevator rope, in mining rope, in fishing rope as well. So, in Europe, we've hired more people catering to those specific markets, such as fishing as well where we want to grow.
- Aman Sonthalia:** Thank you. My next question is; I've recently seen a video of Brunton Shaw. There, we have dispatched rope, I think two rope of 329 ton per rope. So, it is I think dispatched from UK to Brazil. So, what type of rope it is and where it will be used and whether it's one-off order or whether we are getting regular order like this?
- Rajeev Jhawar:** These ropes are very high end, each single weight of 330 tons each. Brunton Shaw, we have the facility to produce rope, single length ropes up to 400 tons. And these ropes are crane ropes, which are used for basically lifting oil platforms from one position to the other, or even building big wind farms in the deep sea. And these are used in very high-tech cranes and go 4,000 meters deep in the water where they are doing all these installations and these are very high-tech ropes, very high safety requirements. And Brunton Shaw has a premium brand in this over there and these are just not one-off orders. Brunton Shaw has been producing these, I would say in the last 12 months we have seen a good traction and we have received quite a few orders ranging from 150 to 350 tons per reel. The interesting part is that while the ropes are produced there, the wires and strands are supplied from India, giving us a complete supply chain control on the entire product, and thereby also helping us to get a better margin. So, these would be continuing. We have got some orders which would be continuing over the next three to four quarters and I am sure with the few

successful breakthroughs we have done, we should be able to do it on a continued basis.

Aman Sonthalia: In which market we are getting the best traction, whether it is US market, Latin America, Asia or European market?

Rajeev Jhawar: You see the strongest market for us, in the business for wire rope, Europe is growing well for us. Although the orders may be coming from Europe, but supplies may be going to Australia, going to Middle East, or going to Brazil as you mentioned. So, on growth what we see, there is growth for different products in different markets. And for the fishing market, in Europe we are seeing a lot of breakthroughs and growth expected in the fishing markets there. On the mining ropes, we see good markets in South America, North America, Australia as well as South Africa. We have got some good breakthroughs and good business is being done there. So, I would say the strongest market looking forward is Europe, US, South America and also, we are looking at Middle East, particularly the Saudi Arabian market growing faster in the coming quarters.

Aman Sonthalia: Recently, Tata Steel and JSW Steel has increased lot of capacity in LRPC. So, I think LRPC has become a commodity market. So, whether we are planning to go for value addition in this LRPC?

Rajeev Jhawar: In LRPC, definitely JSW has come out with a large capacity and new plant and Tata Steel also plans to expand its capacity. The demand in India is growing but the margins are of course going to be under pressure because steel companies like Tata and JSW would like to take market share. As far as we are concerned, the margins of course are under pressure on LRPC, but our strategy is to go into more value added. So almost 10% out of our 5,500 tons production, about 500 tons per month we would convert; we have already established markets into plasticated LRPC and galvanized LRPC, both in the domestic market and some success in the export markets. And over the next few quarters, our objective would be to continuously keep on increasing the share because they give you a much better value addition and those are again a high quality, highly technical product and not just selling LRPC as a commodity. So, a lot of engineering sale goes into that category. So, our focus would be to improve the percentage of plasticated LRPC in the coming quarters.

Aman Sonthalia: And sir one last question, whether we have received the Tata money completely?

Rajeev Jhawar: Now total Rs. 78 crore is left, and we expect some land transfers and some land lease transfers to be completed and we expect this money to be received by Q4 FY24.

Aman Sonthalia: So, by that time we will be virtually a debt-free Company?

Rajeev Jhawar: Yes. We hope so.

Moderator: The next question is from the line of Rajesh Majumdar from B&K Securities. Please go ahead.

- Rajesh Majumdar:** I had a technical question on the segment wise revenue breakup. If you add wire rope strands and LRPC, it's 90% now. Now, what is this Others at 10% and what is the contribution of that to our EBITDA or PAT, that was the first question.
- Anirban Sanyal:** So, Rajesh, the Others - 10% includes direct services as well as the sales from our subsidiary, UM Cables.
- Rajesh Majumdar:** And the contribution of EBITDA or PAT from this?
- Anirban Sanyal:** We do not give out individual segment-wise EBITDA, but services are always higher than what is the blended EBITDA margins for the Company as a whole. UM Cables obviously is a little lower compared to the overall EBITDA margins of the Company.
- Rajesh Majumdar:** So, how do we look at this 10%? Will it be growing with the Company in an equal way, or will it come down as the capex gets completed and Ranchi starts delivering more business. How do we look at this number?
- Anirban Sanyal:** No, so FY23, if you see, it was 8% and in Q1, it is 10%. So, it will be in this range because UM Cables annually is in the range of Rs. 100 crore to Rs. 110 crore of topline. And then it depends on the services, which is primarily coming out from our European subsidiaries typically in wire ropes. So, it would continue to be in the 8% to 10% range.
- Rajesh Majumdar:** Right, sir. And my next question was on the Ranchi capex. What should be the asset turn from there in terms of the turnover we anticipate to get from the Rs. 360 crore to Rs. 380 crore capex we are doing there?
- Rajeev Jhawar:** You see, from the capex of Rs. 310 crore, we are building a capacity of almost 47,000 tons. So, if you look at the selling price, would be blended price, so it would be close to Rs. 900 crore. So, I would say that by the time we get the full capacity, it would be close to, I would say between 2 to 3 times.
- Rajesh Majumdar:** This is including the value-add mix change you are contemplating, right?
- Rajeev Jhawar:** Yes.
- Rajesh Majumdar:** And this will be incrementally margin accretive in terms of the product mix as well?
- Rajeev Jhawar:** Yes, because almost 60% of the volume of 47,000 is towards wire rope and more towards the higher value-added wire ropes and the balance is LRPC, plasticated and wires and that too in the higher segment. So, we expect the percentage of wire ropes to be higher in the overall mix even with the new expansion.
- Rajesh Majumdar:** And sir, is it possible to give us a breakdown of the subsidiary performance for the quarter as you've given for the year for Usha Martin International, Usha Martin Singapore, Usha Siam Steel and all these companies?
- Anirban Sanyal:** Rajesh ji, we typically give the performance of the International operations if you look at our presentations on, but individual subsidiaries we have been giving on an annual basis, but we will consider your suggestion.

- Moderator:** The next question is from the line of Jasdeep Walia from Clockvine Capital Advisors. Please go ahead.
- Jasdeep Walia:** Sir, you said that you want to gain market share in International markets, So, what gives you an edge to gain that market share? Would you be pricing your products which are of similar quality to global wire rope majors at let's say a discount so that you will gain market share because of that or what would be your strategy?
- Rajeev Jhawar:** It's a good question. As we mentioned earlier that our focus is to more and more increase our market share in the International market and there we are competing with the largest players in our industry. Our pricing would be definitely lower than them, but it is not significantly lower because you do not get the business by only reducing price by 3% or 5%. Our strategy is a) to not only be competitive because of our entire integration and cost advantage. So, we may be 4% to 5% and some places 7% cheaper, but more important it is the service we provide through our own distribution network and our own stock points in different parts and our own marketing and service team. So, being closer to the customer, we are able to get; so, to give you an example, in US we got a big contract of mining rope, and we started supplying to them small quantities and they had a problem not related directly to the wire rope performance, but they wanted our people to be flown in within few hours. So, our people went, and we were able to resolve that and had a very good impression of the customer. So, we landed up getting a big contract versus some of the big American competition and this contract is valid for next 3 years. So, being close to the customer, taking advantage of our own distribution and service centers, being competitive and getting some price advantage to the customer - I think the combination of this is helping us get more traction into the market.
- Jasdeep Walia:** Got it. And sir, you mentioned that you have started supplying raw materials to your UK subsidiaries through India. So, what kind of cost advantage has it given you in your UK subsidiary, if you could quantify it in terms of dollar per ton or any such measure?
- Rajeev Jhawar:** You see, earlier we used to buy wires from European sources for the ropes being produced out of Brunton Shaw. But we have now integrated all our International businesses and we all run as a united team rather than running them in silos as it was when the Company was with the steel business. Now that we are focused on our wire rope business, we all work as one integrated team. So, we looked at all the opportunities and we of course modernized our Ranchi plant facilities, particularly the wire drawing and the patenting facilities, thereby building the capability to supply all these wires from India. So, having done that, we have got two advantages. Of course, the cost advantage, I would say it would be close to \$300 to \$400 per ton, but also it gives a higher value-added wire product from India which is being supplied and that is also helping us to become overall more competitive. So, earlier buying wire from local European sources in many cases we were not competitive also. So, one, the competitiveness has improved, the supply chain control is within the Company and that is also helping us to get a higher market share for our products in the International market. It is a win-win situation for the standalone wire for our rope plant in India which is supplying the wires and strands and of course giving a competitive advantage to our subsidiaries to get higher market share at competitive prices.

- Jasdeep Walia:** Got it, sir. Just wanted to understand the competition profile in your industry. So, let's take a large market in which you operate like Europe; could you give us the market shares of various players in Europe?
- Rajeev Jhawar:** You see, every country wherever you have your own manufacturing, I think Bridon-Bekaert and WireCo, which have got large manufacturing facilities, would be having the largest market share. Usha Martin Group, we would be close to selling 25,000 to 30,000 tons into that market. I do not have that number with me. We'll get back to you with specific answers on that.
- Jasdeep Walia:** And are Chinese companies dominant in the export markets in this business?
- Rajeev Jhawar:** No, we are not seeing the Chinese other than the very small cords which they supply in the US market and in some other markets, which are low end products. It is mainly the Koreans who are dominant players from Asia in this market.
- Moderator:** The next question is from the line of Dhara Mehta from Centrum Broking. Please go ahead.
- Dhara Mehta:** Sir, I have 3 technical questions. One is, how should one visualize your volume in perspective of these three divisions given the fact and I am assuming you've taken a strategic decision to show decline in the wire and strands division which has declined very sharply. So, how should one perceive your volumes for FY24 and FY25 sir?
- Rajeev Jhawar:** I would say that we are looking at 13% to 15% growth in our volume and I would say 15% growth overall between last year and this financial year. That is something what we expect to grow in this financial year. You are right, our focus is to more and more increase the percentage of wire ropes and within the wire ropes, the specialty wire ropes. That is something we would continue to grow. Our focus on wires and LRPC; LRPC as we discussed earlier, it is a commodity product, margins are coming down because of stiff competition in the market, but our focus is to increase the percentage of, or increase the plasticated and specialized LRPC which gives us much better revenue. And on the wire side, we would continuously keep on adding higher value-added wires, both galvanized aluminium zinc wires as well as critical wire applications for the auto sector. That is something which we would keep on adding. Percentage wise, it could keep on changing between quarter to quarter, depending on how each sector is doing. If the demand of LRPC grows, we would look at even increasing our market share. While the margins may be low in LRPC, but still, it adds to the bottom line and we have a capacity of LRPC which cannot produce ropes, so even if it is giving us decent contribution over our manufacturing cost, we would like to go ahead with that. In those quarters, our overall volumes may look higher, our overall profitability may look better, but our EBITDA per ton may be slightly coming down because the mix of LRPC has gone up. So, we as a Company would like to see that our capacity utilization, particularly in the commodity products is there and we are able to make positive margins on that, but the long-term endeavor would be to keep on increasing the wire rope percentage and more so in the value-added areas. And again, to repeat the answer, about 15% plus minus we should be able to increase the volume in this financial year compared to last year.

- Dhara Mehta:** So given the fact that we have seen a decline in this quarter, should I imply that the next three quarters the volume growth will be upward of 20%?
- Rajeev Jhawar:** I would say that overall, there are seasonalities in this business - with the heavy monsoons in different parts of the country, the construction activities have slowed down. So, the LRPC gets affected because of that. So, there are seasonalities, but I would say that let us look at it on an overall perspective, we should be able to still clock that kind of increase in the whole year.
- Dhara Mehta:** The second question is, if I look at my EBITDA per ton, that has improved substantially and we've actually reported the highest EBITDA per ton in this quarter, that is quarter one. If I take that as a number, then my revenue growth is actually looking at 22%-23% upward because you just stated that a 15% volume growth can be accepted. So should that be accepted number for FY24?
- Rajeev Jhawar:** No, as I mentioned to you, we have three product portfolios, wire rope, LRPC as well as wires. Our LRPC and wires volumes have been lower partly because of seasonality, partly because of strategic reasons and converting into plasticated LRPC. So, it would not be proper to always say that the blended margin would remain the same. If the percentage of LRPC goes up because of the demand and volume of the wires go up, so your turnover may go up, your overall profitability may go up, but your blended margin maybe a bit lower. And if the percentage of wire rope as a percentage of the total volume goes up, then it could be slightly higher. So, because we are in three different segments and all three contribute at a different level of margins in the total turnover, so it depends on which one is having a higher percentage. Like in this quarter, we are seeing that LRPC, and wires are lower, and ropes have been higher. So, we have seen a blended margin going up. But I would say that overall, we would say that 15% increase and we should be looking at that only. I would not like to comment on any absolute EBITDA numbers for the whole year.
- Dhara Mehta:** Sure, sir. My last question is that have you seen any facilities being mothballed in Europe given the fact that you all of a sudden gained a lot of market share across the world?
- Rajeev Jhawar:** No capacities had been mothballed, I would say, but definitely with a strong integration between our International subsidiaries, International manufacturing and our parent Company in India, as Shreya mentioned, that we have built a good marketing team both in Europe and US for these specialized sectors. We are being able to get a higher market share in some of these sectors like the large diameter ropes what we discussed earlier or the fishing rope or the crane ropes and the new capacities which are going to be added. We see through our distribution network and the marketing team which we are creating, we should be able to get higher share from those markets. But it is not that there are capacities which are mothballed, but definitely we are trying to be more competitive and take some share out of those people.
- Dhara Mehta:** Sir, what will be the industry growth rate then in this particular rope market of the world?

- Rajeev Jhawar:** The industry growth rate is very difficult to say because each sector, we are in about 8 or 10 different sectors; mining, elevator, fishing, construction, cranes, ports. But I would say 4% to 5% would be the average growth, but certain sectors are seeing a much bigger traction, particularly the oil offshore, the crane rope and the mining sector. We are seeing a bigger traction coming from these sectors.
- Dhara Mehta:** Sure. Just one last question. We have a capacity of around 310,000. This quarter, we are running at a run rate of around 177 K. What will be the optimum utilization for our segment?
- Rajeev Jhawar:** As I mentioned to you that over last year against the capacity of 300,000, we did close to 204,000 or 200,000. The new capacities which we are adding would be getting more and more by the end of quarter three, most of it would be done. And getting some benefit of that from quarter four, but assuming taking the last year's 204,000 as I mentioned to you, we should be 13% to 15% higher overall volumes this year.
- Dhara Mehta:** So, we still have room for growth that means in case the growth comes in, we still have room.
- Rajeev Jhawar:** The growth, one is the manufacturing side, the other is that it takes time to develop these new products and new markets. It is not that you set up the capacity and you have a market. It's not a commodity, it's a highly technical product, it has safety issues. You have to have approvals from customers. So, those take some time. Having been in the industry for so many years, we have a good brand and a good name, and we have a better opportunity of doing it faster, but it does take some time to develop this. So, yes, over next couple of years we see decent opportunity out of the capacity what we have and to increase it also.
- Moderator:** The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.
- Aman Vij:** My first question is on the new customers. So, I believe in the last one to three years, we have been able to break into a number of big customers and we would have also made some supplies to those customers. So, if you can talk about what is the feedback we have received from such big customers and also if you have gotten some big repeat orders, if they have liked that product, if you can talk about the same?
- Rajeev Jhawar:** You see, first of all, I would not like to name customers for confidentiality agreements with these customers. But we have made some quick breakthroughs with some big manufacturers and OEM's in Europe and some big contractors in Europe. They were only buying rope from the European and the American sources. So, there have been series of visits to the plant for audit of our plants in India, in Europe and some good breakthroughs have been made particularly large crane ropes and some big mining rope and also some crane ropes OEMs in America. So, they have come, there was a very, I would say intense review of the quality and the quality assurance system, the safety, and other standards of the product. So, we are happy to say that the Company has been able to successfully get in as supplier to these OEMs. We have got some repeat contracts and repeat orders from them and

more important, we expect a lot of business on the replacement market having been successfully supplying to these OEMs in the coming times.

Aman Vij: Sure, sir, that is helpful. My next question is, you've talked about our global market share is around only 5%. In the next say 3-5 years, do you see Usha Martin having like 10%-15% market share globally?

Rajeev Jhawar: You see, we are definitely going to increase our market share, but it would be more in the value segment. The 5% includes all categories of wire ropes and we are not expanding and getting into every kind of wire rope. We are only focusing more and more into the high-end products, which gives good margins, and you are competing mostly with the European and the Americans and the Koreans where you are able to get a much better price for your product. So, our endeavor would be to focus on these specific sectors like the mining sector, like the fishing rope in Europe, mining in South America, US, Australia, and the South African markets. So, we would be focusing on these markets and for those specific high-end products. So, we are not targeting that I want to increase from 5% to 10% in every category of rope. And I would say that this is the better way we have seen, because that gives you a healthier EBITDA per ton. This is because you are able to get the service margins also as you not only sell the product, you are able to sell services, you are able to work with the customers closely and build a long-term relationship. And that is what is evident in how we have been able to improve our margin, so that would be the endeavor. We may definitely increase from 5% to 7%, 7.5%, 10%, but that would be more sector specific than looking at the overall market share.

Shreya Jhawar: Yes. And just to add to that, say the top four to five players in the market currently have about 20% of the market share. So, I think staying around 15% would not be realistic because like you mentioned a lot of the market is also these general-purpose ropes. So, definitely the endeavor is to get more and more market share from the competition in Europe and America and continuously increase the International market share which is currently 56% of our revenues to around upwards to 60%, but like you mentioned, the market share globally, still we would target around 7%-8%.

Aman Vij: Yes, that helps. My next question is, we talk a lot about value addition on the rope side. We talk about value addition on the LRPC side. But there is a very big opportunity in value addition on the wire side. So, a lot of our global peers do lot of value addition in wire side. They also do some interesting products like synthetic ropes. So, what are your thoughts on value addition on the wire segment as well as on synthetic ropes?

Rajeev Jhawar: On the wire segments, we are definitely getting into niche markets of higher value-added wires. When we were part of the steel business, the objective was to evacuate as much as steel even in the form of wires. So as you are seeing over the last two or three years, we have slowly brought it down and focusing more on the value-added products. As a part of our phase II project, we are setting up a zinc aluminum line for higher value-added wires both in the domestic and the export market and we will see that coming into operations in the next financial year. Even on the other quality high-end wires, we are looking at different opportunities and I would say that next two years we would also focus on getting higher volumes of these specialized wires

because there is a significant possibility of increasing the market share. The wire market is significantly larger market than the wire rope market, I would say 8 to 10 times more. And as you have rightly said, there are big players in this, and I see an opportunity to grow in this segment in the coming years.

Aman Vij: And sir, on the synthetic ropes part?

Rajeev Jhawar: On the synthetic ropes, we are definitely looking not on the ropes part, but on some synthetic products which could have a good traction, which could be complementary to our service business. But right now, we have no plans to get into synthetic ropes or anything of that sort for the time being. I think there is tremendous scope for us to focus and get a bigger share in our steel wire ropes and I see that as a big opportunity and we have still lot to cover in the coming couple of years, 2-3 years.

Aman Vij: Final question from my side is on the capex. So, Phase-I is almost there for us in the next two quarters, and you have briefly alluded about Phase-II capex. So, that will be around similar number of Rs. 200 to Rs. 300 crore, is my understanding correct. And will this also include, we were also looking at expanding some capacities Internationally. So, if you can talk about the next set of capex and some timelines associated with them?

Rajeev Jhawar: The phase-I is about Rs. 310 crore, out of which close to Rs. 212 crore is completed. And the balance would be completed by, most of it would be completed by Q3, a little bit maybe in Q4. So, that would complete the Phase-I part. Phase-II part is Rs. 167 crore in India and Rs. 62 crore in our Thailand plant. And the Rs. 167 crore what we are expanding in India is again focused on mining ropes and crane rope capacity increase and some infrastructure to integrate well with our International subsidiary and manufacturing plants Internationally, so that we are able to serve them better and also get the full benefit of the capacity integration between the two. And as far as the Thailand plant is concerned, the focus over there is more on crane ropes, some high-quality wires and elevator rope capacity enhancement. And the timelines would be, for Phase-II, as some of the equipment have large delivery times, so it would take about another 18 to 24 months for the Phase-II in India to complete. And Thailand would take about 18 months to complete. We have yet to start placing orders, so it would take about 18 months to complete that first phase in Thailand.

Aman Vij: So, with Phase-I and Phase-II coming in and all these value addition which we are doing, do you think in the next 2-3 years even margins upwards of say 20% is also possible, and I am not talking about 1-2 years. I am talking when all this value addition is done, maybe 2-3 years hence, is that..?

Rajeev Jhawar: Definitely, I would say two to three years as we get into these higher value-added products and the service part of it as they get added, which gives you a significant margin. Our endeavor would be getting higher towards those numbers. But there is a lot of work to be done. And with the capex as well as enhancing our International capability of our marketing and distribution network, our endeavor would be towards going towards that.

Moderator: Thank you very much. Ladies and gentlemen, as there are no further questions, I will hand the conference to the management for closing comments.

Rajeev Jhavar:

Thank you everyone. I would like to thank everyone for attending this call and showing interest in Usha Martin Limited. I hope we have been able to answer all your questions. The Company is dedicated to creating value for all its stakeholders in a sustainable manner. Should you need any further clarification or would you like to know more about the Company, please feel free to reach out to us or to CDR India. Thank you once again for taking time to join us on this call and see you all in the next quarter. Thank you.

Moderator:

Thank you very much. On behalf of Usha Martin Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

Disclaimer: This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.