Usha Martin Limited

Q3 FY24 Earnings Conference Call Transcript

February 07, 2024

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. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

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

Devrishi Singh: Thank you. Good afternoon, everyone and thank you for joining us on Usha Martin's Q3 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 and Growth team of the Company.

We hope all of you have had the opportunity to refer to the earnings documents that we 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: Good afternoon, everyone. On behalf of the management team of Usha Martin, I would like to welcome you all to our earnings conference call. I will begin by sharing quick operational and strategy-related updates of the Company, following which our CFO, Mr. Anirban Sanyal, will run you through the key financial highlights.

I am pleased to report that over the first nine months of the year, we have made healthy progress on our strategic growth initiatives. These include – 1) Continuous enhancement of our product portfolio with a focus on value-added offerings and 2) Strengthening our capabilities through planned capex initiatives.

During recent quarters, there have been pricing pressures in our wire and strands and LRPC segments, which has had an impact on the revenue performance. Despite that, we have shown resilience managing to maintain stable topline performance on the back of strong support from our core wire rope segment.

The contribution of wire rope segment to our consolidated revenue has increased to 70% in 9MFY24, up from 67% in FY23. Simultaneously, the share of value-added industry segment in our consolidated revenue, registered growth, reaching 49%, up from 44% in FY23. It's worth highlighting that within the wire rope category, the contribution of value-added segment increased to 70% in 9MFY24, up from 65% in FY23. Additionally, during the same period, revenue from International markets constituted 55% of our total revenue.

Despite the volatility in steel prices, our wire rope realizations have consistently shown an upward trend. This positive trajectory is particularly noticeable in our value-added wire rope products, which demand substantial engineering expertise. This has helped improve our profitability with our operating EBITDA and PAT registering a healthy growth of 23.7% and 27.9% respectively.

In this financial year, our focus was on value. From next year, we will do value-led volume growth. So, looking ahead, our first wave of capital expenditure, i.e Phase 1 expansion in Ranchi is set to be completed in Q4. This phase includes the increase of capacities for high-end value-added products such as crane ropes, compacted ropes, plasticated ropes, oil and offshore ropes. Furthermore, our capex initiatives include the modernization of existing production facilities aimed at enhancing our infrastructure. We believe that these investments will further strengthen our position as a leading global player in the wire rope sector.

I would also like to take this opportunity to give updates regarding a few important growth initiatives taken by us. Number 1: We have set up a step-down subsidiary Company in Saudi Arabia through our Dubai subsidiary, Brunton Wire Ropes to target the growing Saudi market. Number 2: Our Thailand subsidiary, Usha Siam recently acquired the remaining 50% stake in Tesac Usha. Previously, it was a 50:50 JV with Tesac Wire Rope of Japan. We will use this facility for the manufacture of high value elevator ropes. Number 3: We are planning to enter the synthetic slings market through our UK plant, Brunton Shaw UK. This will be our first foray into the synthetics space.

In addition, Usha Martin is actively pursuing various internal initiatives that will continue to contribute positively to its operational and financial performance.

- Firstly, the successful integration of our International businesses with the Indian operations is encouraging growth synergies and creating a more integrated and collaborative approach across our global and local teams.
- Secondly, to support our constant commitment to strategic growth, we have established cross-functional groups for our key growth segments, such as mining, elevator, fishing and structural maximizing our impact in these critical areas.
- Furthermore, our dedication to a one-stop shop approach, with an intensified focus on services, is actively contributing to an overall enhancement in customer satisfaction.

Going forward, we are confident that our efforts in this initiative will help position us as the comprehensive solution provider in the wire rope sector. Lastly, the continuous strengthening of our International teams and organizational structure is equipping us to effectively meet the unique demands of a diverse market.

In conclusion, I want to highlight that presently, our Company is dedicated to its strategic initiatives and leveraging its fundamental strengths in the face of the global market environment. We are confident that our sustained efforts will yield positive results, playing an important role in driving sustainable growth for Usha Martin.

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 and nine months ended 31st December 2023. Thank you.

Anirban Sanyal: Thank you, and a very good afternoon to everyone. I will now provide a brief overview of the Company's operating and financial performance for the quarter and nine months-ended 31st December 2023.

The consolidated net revenue from operations stood at Rs. 797.1 crore in Q3 of FY24 as against Rs. 833.6 crore in Q3 of FY23. This 4.4% year-on-year dip was primarily owing to reduced contributions from both the wire and strand and LRPC segments. Notably, our wire rope segment sustained steady revenues despite registering a year-on-year reduction in its sales volumes. This segment's increased realization played an important role in supporting our overall revenue performance during the quarter.

Our operating EBITDA for the quarter showcased a healthy 23.7% rise on a year-on-year basis, reaching Rs. 157.1 crore. Additionally, the operating EBITDA per ton demonstrated a notable 33.3% year-on-year improvement at Rs. 34,000. The Q3 FY24 operating EBITDA margin rose to 19.7%, up from 15.2% in Q3 of FY23. The Company's sustained emphasis on value-added products and its expanding global presence played an important role in enhancing our overall margin position. Our net profit for the quarter stood at Rs. 107.5 crore, registering an increase of 27.9% from Rs. 84.1 crore in Q3 of FY23.

On a nine-month basis, net revenues from operations stood at Rs. 2,396.2 crore compared to Rs. 2,412.5 crore during nine months of FY23. Operating EBITDA stood at Rs. 447.1 crore in nine months FY24 as against Rs. 359.4 crore in nine months of FY23. Profit after tax for nine months FY24 stood at Rs. 317.8 crore, registering a 29.6% year-on-year increase.

Our balance sheet position continues to be strong with our net debt-to-equity ratio improving to 0.05x as of December 2023. Despite the capex spend of approximately Rs.196 crore in nine months of FY24 and the allocation of funds for dividend disbursement, our net debt remains at comfortable levels.

We have increased our inventory levels to be well prepared for the anticipated increase in demand in the coming quarters, while also considering the challenges posed by global logistics amid the current volatile geopolitical climate. This approach helps us to efficiently meet the requirements of our expanding customer base, particularly new clients, ensuring we remain responsive and well prepared in a dynamic market environment.

Coming to our cash flows, there has been a healthy year-on-year improvement in our cash flow generation. The cash flow from operations before income tax for 9MFY24 stands at Rs. 420.3 crore and at 94% of operating EBITDA compared to Rs.214.5 crore during 9MFY23 and at 60% of operating EBITDA. Our robust cash flows coupled with ample headroom on working capital lines will continue in supporting our planned capital allocations.

In conclusion, I would like to emphasize that given the promising demand outlook for our products and our dominant position within the sector, we are committed to maintaining strong financial discipline. We believe that our thoughtfully planned business strategies and proactive initiatives will continue to play an important role in maintaining and further strengthening our leadership position. With favorable industry dynamics and Usha Martin's inherent strengths, we are confident in achieving sustainable growth for all our stakeholders.

This brings me to the end of my address. I would now request the moderator to open the line for the question-and-answer session. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Aman Kumar Sonthalia from AK Securities. Please go ahead.

Aman K. Sonthalia: I have a few questions regarding future outlook of the Company. What is the update on expansion, and when can we expect the expanded capacity to start contributing to the Company's bottom line?

Rajeev Jhawar: As I mentioned, the Phase-I capacity expansion is getting completed within the next one month. This is a brownfield expansion at Ranchi which is getting completed and we expect the volume to start coming in from Q1 of the next financial year. Having said that, we'll start the ramping up from Q1, and depending on how the demand picks up and how we are able to push our volumes, we will definitely see the benefits coming from Q1 of the next financial year.

Aman K. Sonthalia: In the last two years, we have supplied ropes to big-ticket clients in Europe and the USA. Now, I hope they will be assured of our quality and capabilities. So, can we expect big repeat orders to come from these big clients?

Shreya Jhawar: Yes. So, we have started getting more business from the premium customers that we were able to secure in Europe and the US as well. Just to give an example, our Brunton Shaw UK business continues to see strong growth this year as well and in the current year we have forecasted it to show growth of 30% compared to what we did last year at Brunton Shaw UK. And the major growth like you said has come from the Oceanmax, Cranemax brands which are supplied to the high-end customers like we mentioned. Other than that, we are also targeting elevator ropes and we have been successful and now approved with the suppliers of major OEMs in Europe, even within the mining rope segment in the US and also in Europe now we're seeing development especially with our Minemax brand and we have been able to win key contracts. So, with strong collaboration with all of our European entities along with the global design center and offering customers with a one-stop shop solution rather than just supply of the products, that has helped us develop these relationships with the major customers and helps us continue to gain this business.

Aman K. Sonthalia: My next question is regarding high-end wire rope, which is critical and offers low-cost advantages. However, where does the Company score over competitors in the International market like (inaudible 16:22 min.) and wire rope in terms of quality and branding?

Rajeev Jhawar: As we mentioned that we have been able to develop through our collaboration and close working with our International subsidiaries and the parent Company, where we get the cost advantage of low-cost manufacturing compared to Europeans and Americans. This is achieved through our integration between the wires and strands supplied from India and by taking advantage of our manufacturing facility in Europe. Also, with our design development center in Italy, we are definitely more competitive and are able to gain market share. So, this is definitely going to happen with this close integration between the two entities and that is how it is helping us to get a better market share as well.

Aman K. Sonthalia: When can we expect a contribution from this Saudi Arabia venture, and how ample is the opportunity? Are we planning to set up a plant there?

Shreya Jhawar: With regards to Saudi Arabia, so we have set up this step-down subsidiary through Brunton Wire Rope and we will provide as part of the entity under the EMM brand, we will provide value-added services there for ropes similar to our other service centers that we have in Europe right now. Also, we plan to cater to all the value-added segments, oil and gas, ports, cranes, construction and infrastructure as well. We see a massive opportunity there and I am sure that there will be demand for general engineering ropes as well. So, that is something we will also cater to. In terms of timelines, we do expect to start the operations in Q1. The teams are ready as well as the equipment has been ordered.

And on the question on the plant setup there; first it will be a service center like I was mentioning for value addition for rope such as cutting, coiling, socketing, testing and so on. And of course, it will be a stock point for distribution and supply to customers in Saudi Arabia. And our goal is that we want to start this way and eventually we'll get to study the market a little bit better, and we'll get some traction in the market, establish our track record there as well and then consider for the expansion. But it's early days right now. So, we'll see how things progress first.

Aman K. Sonthalia: The outlook for LRPC is not looking very bright. It's a commodity and in LRPC, we neither have pricing power nor leadership. Are we planning to exit this business and put our energy into core wire rope business where we have both pricing power and leadership?

Rajeev Jhawar: You are right that LRPC in the last few quarters has seen the margins coming down considerably. The big competitors having their own steel, have been able to aggressively push volumes in the market with very low margins. Having said that, we are focusing on getting into value-added LRPC, which is galvanized LRPC, plasticated LRPC, PVC coated LRPC. Of course, the quantity and demand is project-based, and we have got some good orders. Our products have been well established, but I would say that the ramping up from a demand perspective may take few quarters, but it is definitely going to be one of our focus areas. We would continue to supply the LRPC, though it is adding lower margins but still adding positively to the overall profitability and it's an independent plant. Having said that, we would also look at opportunities that using the wire drawing and patenting facilities, which is part of the LRPC line, how we can get into other value-added wires which can add much better contribution, within the domestic market, exports and even through the Brunton Shaw UK how much we can do that. So, it would be a few difficult quarters with the LRPC overall margins, but I am sure that with these initiatives we should be able to see better margins from this facility.

Moderator: The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: My first question was on the volume growth for next year. If we look at it on a quarterly basis, our wire volume has been between 23,000 to 25,000 MT per quarter for the past six quarters. So, how do you see the volume growth in the wire rope segment for FY25 once the new capex commences onstream?

Rajeev Jhawar: As I mentioned, the new capex is getting commissioned in Q4 completely. It was a brownfield expansion which required addition of new machines within the setup as well as upgrading our patenting facilities to increase the volume and a new pickling house. All of that is getting commissioned in this quarter. I would say that next year, we should be able to get at least 15,000 tons of extra volume of ropes coming in. We would definitely aim to go even higher. But, looking at the demand, market and also taking a little bit time for these specialty products, it may be plus/minus some quantity. But I would say that at least it would be 15,000 tons more than what we did this year.

Ankit Gupta: And it will be largely for specialized applications like mining, port cranes, etc.,?

Rajeev Jhawar: We would push towards that, and as these markets take some time to develop, it would be a combination of these special products as well as GP ropes through our own distribution facilities where we add value to that. So, it would be a combination of both.

Ankit Gupta: My second question is on the subsidiary performance. If we look at this quarter's performance by removing the standalone figures from the consolidated performance, we have seen a considerable dip in the performance of our subsidiaries for this quarter in both revenue and PAT which have been least compared to the last five quarters. So, what has led to this decline in the performance of the subsidiaries? One request which we had communicated in last concall is to give some brief on financials in the presentation for each of the subsidiaries, which will be helpful.

Rajeev Jhawar: I think the overall performance has considerably improved compared to the previous quarters. In fact, our EBITDA per ton has been highest in this quarter compared to the last few quarters, showing a constant growth every time. Although our volume has remained flat, going forward we should be in a position to increase it by 15,000 tons which will definitely increase the revenue in the coming quarters.

As far as subsidiaries are concerned, I think all our International subsidiaries have performed well and have had decent growth. I would say that this is something which would continue to happen. Our International subsidiaries work very closely with the parent Company, and we expect them to continuously contribute to the overall profitability of the business.

Ankit Gupta: By deducting the standalone performance from consolidated performance, the numbers have been showing some decline in both revenue and profitability. It appears that there may have been some transfer pricing adjustments that may have happened in standalone because standalone performance has improved significantly in this quarter. However, consolidated numbers indicate some pressure, particularly in terms of revenue growth and all?

Rajeev Jhawar: We look at the business on a consolidated basis. We don't look at it standalone or the International business separately. This is because this is one business entity and sometimes a particular subsidiary may perform less or more. But I would say that the overall profitability has improved by almost 23% and 30%, if you look at it on a quarter-on-quarter basis. While we do track the individual businesses, but when we view it as an integrated business, we look at one consolidated balance sheet rather than breaking it up into individual components.

Ankit Gupta: Last question is on the margin side. We have seen a significant uptick in margins in the quarter, with the EBITDA margin touching almost 20%. So, is it a one-off quarter, or do you think we should continue to maintain 20% kind of margins in FY25 as well?

Rajeev Jhawar: Our endeavor would be to continue maintaining and growing our margins, particularly with the increase in wire rope volumes due to the new capacity expansion, focusing more towards the wire rope side. Also, we even mentioned that we would endeavor to go towards 20% and then gradually increase from there and we are on track. As I mentioned in my address, we have been able to successfully create a value-led growth this year and going forward it will be value-led volume growth. So, we expect the margins to be stable and also hope to get the advantage of higher volumes leading to an overall better performance in the subsequent quarters.

Ankit Gupta: Because in previous calls. you indicated that the margins will remain around 18% to 19%. This time given our performance, you are saying that we can even do 20%-plus kind of margins going forward?

Shreya Jhawar: I mean, like we said that the quarter-on-quarter variations may happen again based on product mix, volumes, various external dynamics. But overall, our focus is to grow the absolute profitability and also to maintain the healthy margins.

Ankit Gupta: The last question is on the Saudi Arabian market. So, how big is this market and what kind of volumes can we expect from this market over the next year or two?

Rajeev Jhawar: Saudi Arabia is a very growing market. And based on the feedback which we receive through surveys conducted under the new Crown Prince who is taking major initiatives, particularly in new infrastructure and oil and port growth, with infrastructure and a few of large projects have been announced. Currently, we are selling through our Indian operations as well as through our Dubai unit almost about 1,500 to 1,800 tons per annum. Having our own set up over there, with our own marketing team, combined with the growth opportunities, we expect to grow reasonably well in the coming quarters.

Moderator: The next question is from the line of Kunal Kothari from Centrum Broking. Please go ahead.

Kunal Kothari: As you mentioned that there was a dip in the realization on the LRPC segment while our wire rope segment is doing well. So, I would like to understand from you what variables we can track properly to understand the changing business environment for the products we are in. To get a fair understanding of whether the coming quarter will be better or if the coming year will be a bit softer because of certain changes in dynamics, what exactly can help us to understand the business dynamics of our business better?

Rajeev Jhawar: The prime driver is always going to be the growth in the wire rope business because that's our core business. The LRPC lower margins have already been factored. I would say in the last three or four quarters, the LRPC margins have been subdued, the prices have been subdued, and I have said that this is because of the increased volumes by the steel-backed manufacturers. Having said that, going forward, I would say that our profitability would be driven by the wire rope part of the business and how much we are able to convert the LRPC into plasticated LRPC, galvanized LRPC and also looking at other types of LRPC where higher tensile products can be provided, particularly in the export market. So, those are definitely going to improve overall the profitability coming from the LRPC sector.

And I would say that going forward, the growth is going to be from the wire rope side where the new capacity expansion is going to give us increased volume of at least 15,000 tons in the next financial year once the capex is completed. So, that is also going to help the value-led volume growth, with a continued focus on the specialty wire rope business, and of course with the new initiatives which we have talked about in Saudi Arabia and also expanding our integration with our International subsidiaries. So, I would say this is the way we would continue to improve our financial performance going ahead. And in a way, we are insulating or hedging our business and not depending on the LRPC business, which could have a good quarter, a good year depending on the overall demand and supply or could even be subdued. So, I think it has already been factored in our performance in the last two or three quarters.

Kunal Kothari: Let me frame my question in a better way. Currently, we are doing nearly 20% of margin. What variables or factors could have an impact and cause our margins fall to say, 15% or 17% or what factors could take it to 25% margin? Can you help me to understand it in a simpler way that these are the factors that is important for the Company?

Rajeev Jhawar: You see, as far as again, to be very specific to you, this 20%, what we have been able to achieve, going from 15% to 20%, is by continuously focusing on the wire rope business and improving the product mix and going into more value-added businesses, including integrating with our International businesses which deal with absolutely high-end customers, and which fetch us a much higher realization. So, based on this, we have been able to achieve this 20%, and this is after factoring the fall in margins in the LRPC.

Going forward, I would say that if you really see with these margins of LRPC, can we maintain this 20% margin, I will say yes, it is possible to do it based on the work which has already been done and it is reflecting in our margins. Going forward, if LRPC gives us better margin through the galvanized or plasticated, it is also going to contribute a little bit to the bottom line. Going forward, getting to 25%, I would say that it is going to take a while, and with all the various initiatives, I am sure that the Company would continue to focus on the journey of value addition as well as the increased volumes and hopefully we should do even better going forward.

Kunal Kothari: We are doing a capex right now. So, at present, what is our overall capacity segment-wise? And after completion of the capex, including Phase-II and Phase-III, how much capacity will be added?

Rajeev Jhawar: In Phase-I and Phase-II together, we are adding between 45,000 to 50,000 tons of capacity increase. Phase-I will get us to almost about 30,000, 35,000 tons of capacity increase. But having said that, it is going to take a while to build the market and establish the quantities in the market, and Phase-II would add between 10,000 and 15,000 tons. So, altogether about 50,000 tons is going to be added in Phase-I and Phase-II. This is going to be a combination of wire ropes and wire, and some plasticated LRPC also.

Kunal Kothari: So, this entire capex is in the value-added product, am I right?

Rajeev Jhawar: It is in the wire rope category, which means it is going to be a combination of GP ropes, crane ropes, plasticated ropes, fishing ropes, all the different categories of wire ropes. It would be a combination of different varieties of wire ropes.

Kunal Kothari: So, if we assume that we achieve the full utilization level post-capex capacity in the next three to four years, what kind of margins can we expect at that point in time? Can you provide insight into the trend, such as if we achieve a certain utilization level, our fixed costs will come down and with the higher contributions from value-added products and the wire segment, will lead to further improvement in the margins over the next three to four years?

Rajeev Jhawar: We hope so. Let's see. It has been a journey from 15% to 20% and we would continue to focus on our journey to further build our value-added products and services, more focused on wire ropes. So, I would not like to make any statement as to how, but I think definitely, with the various initiatives and more focus on wire ropes and value-added services, we would definitely move in the direction of maintaining it and growing it steadily.

Moderator: The next question is from the line of Gunjan Kabra from Niveshaay. Please go ahead.

Gunjan Kabra: My first question is I wanted to understand how is the competitive scenario in the Middle East region, the Saudi region as well, considering lot of expansions are happening in that region as well and we're trying to gain market share, so what is the kind of competitive scenario with respect to the other countries and their local companies as well?

Rajeev Jhawar: Our Brunton Wire which is our subsidiary in Dubai is the only wire rope producer in the GCC, in the entire Gulf region. And that has been there for quite some time. With our local presence, we have a significant advantage of being local and being able to supply. Even the Saudi Arabian market, which is within the part of the GCC is encouraging local producers and local service providers to come by making investments. They are also having various policies which encourage the locals to come and have an opportunity to gain market share. They are giving various formulas where you are having local presence with local investments and local people to be able to get to higher market share with their important customers. So, being the only producer, I would say that should give us an advantage being present in that market.

Having said that, being such an important growth market, the whole world, whether it's the Koreans, the Chinese, the Europeans, everybody is looking at this as an opportune market to come in. So, the competition will be there. Having been present in this region from before, will only help us to get a better positioning in that market.

Gunjan Kabra: The margin profile also in the Middle East, is it the same as the US or the Europe market or it's maybe slightly lower or how is it?

Rajeev Jhawar: It's pretty much similar in terms of the value-added products like crane ropes, mining ropes, elevator ropes. These are fairly similar to what is there in Europe and US. When it comes to GP ropes, it's a competitive market and we all need to compete. I would say it is pretty much similar to the International markets where everyone competes in every market together, so it's pretty similar, I would say.

Shreya Jhawar: Just to add to that, in the Middle East, in terms of the GP ropes, there has been some pressure and more competition coming in. So, our strategy has been two-fold again over there. One is we've added value-added services there. So, rigging services as of last year in our Dubai plant, so that has helped us get closer to the customer and get higher margins in that sense. And secondly, again, our share of GP ropes has decreased and our share of crane ropes and oil and offshore ropes, which are higher value, that has increased. So, if I compare in FY23, GP ropes was maybe around 48% to 50% of the volume which is now 36% for us in these nine months. And at the same time, the crane and oil and offshore, which was about 47%, is now about 60%. So, with the competitive dynamics at play right now and some pressure on GP, this two-fold strategy has really helped us do really well in our Middle East subsidiary.

Gunjan Kabra: In the European and the US market, last quarter we discussed a slight slowdown in the European market, but Usha Martin's order book was very strong. Currently, I guess the metal market in the European nations is a little slow. So, how we are panning out there right now?

Rajeev Jhawar: The overall Europe market, especially the GP Rope segment is slow. Basically, the general infrastructure growth in the European markets are definitely slow because of the high inflation and lower capex spend. But when it comes to these special ropes, particularly for the big projects, we have been able to successfully build through the Brunton Shaw network. So be it the ropes for fishing, big oil projects, big ropes and the big projects which we have been able to successfully develop, those continue to have the strong market, particularly in the oil offshore, fishing. These sectors continue to show good growth, and we are getting good traction through these products. Having said that, I would say that Europe would overall continue to be a very important market for us. Also with the good order book on these special ropes, we should be able to continue to do well in this market.

Gunjan Kabra: And in the US also, are we supplying only to the mining sector or where is the additional demand coming from, which sector?

Shreya Jhawar: In the US, mining rope, definitely we had done some trial orders and those were successful, and we've got good feedback on the life of the ropes there and we're getting repeat orders in mining. Other than that, we've also seen an increase in the crane, elevator market and also gondola rope market, which again is a high value product. So, in that sense again, compared to GP rope, these high-value products have done better for us in the US market. And from the US we also cater to the South America market, right. So, in South America as well in the mining segment, we've done well in Chile, Peru, in the Colombia region as well. Even in the port segment in South America, we've got some traction and a good contract there. And then finally, the fishing rope business as well in Latin America has done pretty well. We've got in some trial orders in Ecuador and even Brazil, South Chile. Slowly, slowly, we're building up the market. I won't say, it's big orders there. Fishing rope, again, we got trial orders, we supplied successfully and then hopefully we get repeat orders in that sense. So, overall, we would say a pretty positive outlook for the Americas region.

Gunjan Kabra: Since this is a brownfield capex that we're doing right now, will there be any one-time expenses we will have to incur in Q4 or Q1 for this capacity expansion?

Anirban Sanyal: No, there are no separate one-time costs. What we put up is in the range of the wave-I capex is about Rs. 300 to Rs. 310 crore and that takes care of all the cost that we have estimated.

Moderator: The next question is from the line of Jathin Kaithavalappil from InvestSavvy Portfolio Management. Please go ahead.

Jathin Kaithavalappil: While you have managed the profitability despite momentum in steel prices going lower, if the steel prices trend were to reverse, does that help your business generate more in EBITDA?

Rajeev Jhawar: No, I think our wire rope business has evolved into a value driven business where we have been able to protect our margins, be it in a downward steel market or upward steel market. And I think that is something which we have worked hard and build a strong product portfolio backed with service, which would help us to maintain margins in a little volatile market also. And that is a model we would like to work and that is how we have been able to build our relationship with our customers. It is not based on steel price increase or decrease, it's a value protection which we are able to do. So, having said that…

Jathin Kaithavalappil: Volatility is passed on to the customer.

Rajeev Jhawar: Yes, more or less we have been able to work it in our model where we have insulated our business from going up or down. So, I would not say, when it goes down, we gain profit or when it goes up, we lose. We have been able to work on the wire rope side. When it comes to LRPC and wire, it is a pass-through when it goes up or goes down. It is generally factored into the monthly pricing.

Jathin Kaithavalappil: What is your outlook for profit growth, prices on steel going forward or it's still volatile for you to take a call, let's say next one year, what is your sense especially for LRPC business?

Rajeev Jhawar: For LRPC, it's entirely a pass-through. Whether the steel prices increase or decrease, the LRPC prices within a month remain the same and adjust accordingly. For me to forecast how the steel prices would move in the next one year is difficult. We are no more in the steel business for us to comment on the steel prices.

Jathin Kaithavalappil: And in terms of some guidance on where you see, let's say steady state operating margin percentage is heading because we've seen a concerted effort to move the operating margins up from around 14%, 15%, 16% to close to 18% to 20% now. Do you see any further growth of this going up in steady state or do you think that we mostly reached wherever we would want to be in the long run?

Rajeev Jhawar: This is something which is a constant focus for our management to continuously keep on improving. As we had said that we would gradually keep on pushing our value-added products and the services, which has helped us to come so far. Our effort is going to continue further, including the new capex which we are adding in our manufacturing facilities in India, whether it is the value-added LRPC. So, our continuous effort would be to see how we continuously improve our margins, and the efforts, let's see, how far it is able to help us manage it. Hopefully, it should be better.

Jathin Kaithavalappil: But what would be your steady-state target be, while obviously it would be good to go beyond that aspiration, but what would be a target where you would say that it would start getting even with all the things you would be happy with it kind of stabilizing at those levels?

Rajeev Jhawar: These levels are good and let's see. It's difficult. In our business, a lot of things depend on the product mix, which segment is getting you better revenues, how the Saudi Arabian market will pan out, how our other initiatives will come. Our endeavor is to, try to maintain whatever we have achieved and see that how we can improve on it. So, even in the journey when it was 15%, I was reluctant to commit because though the initiatives are there, it takes a while to get you to these levels. I can only say that our entire management team across the globe is focusing more on value-added products and services, which will enable us to get to that. But it is hard to give a particular number that this is something which we will do. And you should see the track record which we have been able to build. I am sure that our team will continue to further focus to improving it, but not to commit on it at the moment.

Jathin Kaithavalappil: What are the two things you are most looking forward to or excited about in your Company growing and what are the two things that you would say kind of our concern areas to you going forward?

Rajeev Jhawar: Let me tell you on the risk side. I feel we have a large volume of LRPC and we have seen a steady decline of margins. So, that is something which in the overall volume is significant and that is something which is definitely a matter of concern. And I don't see that improving in the near future based on what the market dynamics I see. That is point number 1.

Point number 2 is the logistics issue i.e the global logistics challenges because of the Red Sea and the Middle East geopolitics, I think two things are going to get affected. One is the transit time to our destination, whether it's in Europe or US, would go up by at least 15 to 20 days or almost 30% more time than what it usually takes. Also, it is going to incur higher freight. Having said that, this is going to be not only for us but for all the Koreans, Chinese, Malaysians, anybody who is supplying into these markets. Our endeavor would be to push the cost increase to the customers, that is one part, and that is something which we had done in the past also during the pandemic when the logistics went haywire. So, this is of course a challenge which has come in the last two, three months. Secondly, it is going to create a situation where there could be increased working capital needs because of the increased transit time in our business. So, that is something in the near future. So, these are the two negative worrying things.

On the positive side, the Saudi Arabian market is one of the fastest growing markets in GCC countries as well as probably one of the markets which everybody is looking at growth in the near future. Secondly, our foray into the synthetic slings as part of Brunton Shaw manufacturing plants initiative to get into value-added synthetic slings. We are investing about £4 to 4.5 million or say about $5.5 million, that is something I am excited about and that is something which is the first foray into synthetics for the Company. This is high-end, and it is complementing our wire rope businesses, where our services industry works on it, and I feel this is something which can really build into a good revenue and profit model in two to three years' time.

Jathin Kaithavalappil: There's no concern on that case, which was mentioned, some ED issue as well as some hearing on 20th which is there, some mention of…

Rajeev Jhawar: These are sub-judice matters and I would rather not comment on those at the moment. But I can tell you, it's not impacting the performance of the Company.

Moderator: We have the next question from the line of Sonal Minhas from Prescient Cap Investment Advisors. Please go ahead.

Sonal Minhas: My first question is regarding the expansion plan that you've summarized. So, two parts to it. First one, by when do we expect the Phase-I and Phase-II roughly broader timelines to be over? And secondly, you mentioned there's a cumulative capacity we are adding roughly is between 45,000 to 50,000 tons. So, is it fair and simplify to assume that if you're selling roughly 190,000 tons a year, we're adding capacity to build up sales to go up by roughly 25% from here on?

Rajeev Jhawar: To answer your first question, the Phase-I capacity expansion is completing in Q4, that is in the month of February, March this year, and the Phase-II would be in another 18 months from now. Various initiatives of the capex ordering has already been done for the Phase-II. Quite a large portion is from imported equipment. So, that is going to come more towards the fourth quarter of this financial year.

Yes, the capacity addition is close to 50,000 tons and our endeavor would be to push these volumes. Since these are all technical products with value-added services, we would start getting the benefits from this from Q1 of this year. However, it is going to take the ramp up, including the marketing and the repeat orders and increasing the market share including the initiatives which we mentioned about Saudi Arabia and also integrating with our other International subsidiaries. We'll take some time, but overall, our endeavor would be to get to these levels of the capacity increase in over the next few quarters.

Sonal Minhas: Is it fair to assume that given that it's a value-added product and we're entering new geographies, let's say we achieve the potential and the capacity, we're looking at maybe utilizing the best of this capacity over the next 36-odd months roughly basically, that's where we are, if I'm not wrong?

Rajeev Jhawar: We would push it very hard with our International subsidiaries as well as the various initiatives that are there. We also need to understand various economic trends because 55% of our revenue comes from our International businesses. While markets like Saudi Arabia, Middle East are the growing markets, Europe in certain sectors doing well and in certain sectors is still slow. In Americas there is certain growth, particularly on these specialized products what Shreya mentioned is doing well.

Overall, we expect that we should be able to get to those increased volumes over the next two years and we should be able to fully stabilize the market. What we don't want to do is push the prices down because that is something which is going to impact the existing margins also. It's been a tough journey for us to take it to these levels. So, we would develop these markets, we don't want to go and push and get into the lowest end of the markets and get capacity. We would gradually push it up and make sure that the topline and the bottom line steadily grow with us.

Sonal Minhas: Coming to that point itself, any demand outlook triggers like what you mentioned about the Middle East, any demand outlook triggers which we could talk about let's say India and America by and large, assuming there is an infrastructure push in America, there is some similar push in India, if you could just highlight a little bit about what's real, what's not, what is falling in around your area of expertise, that will be helpful to just understand these markets because sitting here in India, we don't know how much of that was into the relevant sector for you?

Rajeev Jhawar: India is a very strong market. We have seen this market growing and we have a 60%, 70% market share in India. So, we will grow with whatever the growth at which India grows. Parvatmala Project is a big project which the Government has announced and this project is going to have big rope requirements coming up. So, that is also going to help us. We are in touch with all the authorities and there is a good potential for projects coming up and all of these projects would require wire ropes. Also, there are big infrastructure projects coming up, big highways, high speed railway projects where there would be good demand for plasticated and galvanized LRPC. So, I am sure that side of the market should do well. With the overall growth of India, if it does at the current level, even with our current market share of 60-70%, we would continue to grow at the same pace in India. It wouldn't be possible to increase the market share.

Having said that, Europe, US, our market share, particularly in the US, is very low; we are at only 2% to 3% market share. And with the growth opportunities in the US and the various teams which we have augmented there, I feel the volume growth will come from Europe, US, Saudi Arabia, Middle East and even some parts in Southeast Asia, particularly Vietnam, Indonesia, these will also continue to grow and add volumes and value to our business.

Moderator: Ladies and gentlemen, we will take that as our last question. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Rajeev Jhawar: 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 the time to join us on this call and see you all in the next quarter.

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