Usha Martin Limited

Q4 FY24 Earnings Conference Call Transcript

April 29, 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 and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, 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 from 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 Q4 and FY24 earnings conference call. We have with us Mr. Rajeev Jhawar – Managing Director of the Company, Mr. Anirban Sanyal – Chief Financial Officer, Mr. Abhijit Paul – Finance controller, 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 some updates on operations and strategy, following which Mr. Anirban Sanyal will run you through the key financial highlights.

I am delighted to share that we have concluded the financial year 2024 on a positive note, supported by our stronger operating cash flows and balance sheet. Our focus on diversifying our product mix with an emphasis on higher-value-added ropes has been instrumental in driving our performance throughout the year. On a year-on-year basis, we achieved a 16.6% increase in operating EBITDA, driven by a 290-basis point improvement in operating EBITDA margins.

In FY24, the wire rope segment's contribution to our consolidated revenue increased to 71%, up from 67% in FY23. At the same time, the overall share of the value-added industry segment in our consolidated revenue stood at 51%, compared to 44% in FY23. Notably, within the wire rope category, the contribution of the value-added segment rose to 71% in FY24, up from 65% in FY23. Additionally, revenue from International markets accounted for 55% of our total revenue during the same period. These trends have driven the improvements in our margins.

The past financial year saw progress in our Ranchi facility's Phase-I capex programme. This expansion is primarily focused on increasing capacities of high-value-added products. Commercial operations of these expanded capacities have begun from Q1 this year onwards. We expect to ramp up production at the facility gradually over the next 9-12 months, which will help to significantly enhance our performance going forward.

Following phase-I capex programme, we are advancing into the next phase of capex with an investment of INR 167 Crore at our Ranchi facility. This phase is expected to be completed within the next 18-24 months and is funded by internal accruals.

During FY24, the Company also made considerable progress in deepening engagement with major global OEMs and extending its International presence. Regarding the development of our expansion strategy in Saudi Arabia, which we discussed during the last earnings call, I am pleased to state that our plans are progressing as per schedule. With the establishment of a step-down subsidiary through our Dubai subsidiary Brunton Wire Ropes, we are well-placed to offer value-added wire rope products and services in this region. As we closely monitor market dynamics and strengthen our presence, we maintain a positive outlook on the growth opportunities in this entire region.

Moving forward, our strategy would largely focus on value-driven volume expansion. With a strong emphasis on our wire rope business, we are committed to maximising the utilisation of our existing resources. We are confident that this approach will continue to positively contribute to both operational and financial performance.

In conclusion, I would like to emphasise that our commitment to the growth initiatives at Usha Martin remains strong. The Company remains dedicated to meeting the diverse demands of the global market in the wire rope sector. With a promising demand outlook for our products and our strong position within the sector, we are optimistic about further improving our results in the future.

Before I close, I would like to cover some developments on the management side. Our CFO, Mr. Anirban Sanyal, has decided to step down from his position for personal reasons. We sincerely thank him for his valuable contributions over the years and wish him well for the future endeavours. Moving forward, Mr. Abhijit Paul, a dedicated member of our finance team with over 18 years of experience in finance accounts and taxation, will take over as CFO from 1st May 2024.

I would now like to invite Mr. Anirban Sanyal to present the operational and financial highlights for the quarter ended 31st March 2024. Thank you and over to you Anirban.

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 year ended 31st March 2024.

The consolidated net revenue from operations stood at INR 829 crore in Q4 of FY24 as against INR 855.2 crore in Q4 of FY23. This 3.1% year-on-year reduction can be primarily attributed to decreased contributions from both the wire and strand and LRPC segments. However, it is noteworthy that our wire rope segment maintains steady revenues accounting for almost 73% of total revenues. The sustained performance of this segment played an important role in supporting our overall revenue performance during the quarter.

Our operating EBITDA for the quarter stood at INR 151.5 crore as against INR 154 crore in Q4 of FY23. Our operating EBITDA per ton stood at INR 31,784. Furthermore, the Q4 FY24 operating EBITDA margin increased to 18.3% up from 18% in Q4 of FY23. This consistent overall EBITDA margin position can be attributed to the Company's sustained focus on value-added products and its expanding global presence. Additionally, our net profit for the quarter stood at INR 106.3 crore reflecting a 1% increase from INR 105.3 crore in Q4 of FY23.

On a full year basis, net revenue from operations amounted to INR 3,225.2 crore compared to INR 3,267.8 crore in FY23. Notably, the wire rope segment's contribution to total revenues grew to 71% in FY24 from 67% in FY23. Moving forward, our strategic focus remains on further increasing our contribution from value-added products while gradually reducing the share of low-value offerings.

International markets continue to play a pivotal role accounting for 55% of our FY24 consolidated revenues. The Company recognizes International markets as a significant avenue for growth and is committed to further enhancing its penetration in these markets in the future.

Operating EBITDA stood at INR 598.6 crore in FY24 as against INR 513.3 crore in FY23. Profit after tax for FY24 stood at INR 424.1 crore registering a 21% year-on-year increase.

On the balance sheet front, our net debt as of March 31, 2024 stood at INR 124 crore, a significant improvement from INR 184.8 crore as of March 31, 2023. This improvement is reflected in our net debt-to-equity ratio, which improved to 0.05x as of March 24 compared to 0.09x as of March 2023. Despite the capex spend of approximately INR 278 crore in FY24 and the allocation of funds for different disbursements, our net debt remains at comfortable levels.

We continue to proactively maintain higher inventory levels considering the complexities of global logistics, particularly amidst the current geopolitical landscape. This approach enables us to adeptly address the needs of our expanding customer base, including new clients in new geographies, thereby reinforcing our agility and readiness in a dynamic market environment.

Coming to our cash flows, we are pleased to report a healthy year-on-year improvement. The cash flow from operations before income taxes for FY24 stands at INR 561 crore, representing 94% of operating EBITDA, compared to INR 345 crore during FY23, accounting for 67% of operating EBITDA. These robust cash flows, combined with ample headroom on working capital lines, will continue to support our planned capital allocations.

In conclusion, I would like to emphasize that overall, with the positive outlook for demand for our products and our strong position in the market, the Company remains committed to maintaining strong financial discipline. Going forward, Usha Martin remains focused on consistently improving its financial performance and well-poised to create more value for all its 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: The first question is from the line of Gunjan Kabra from Niveshaay. Please go ahead.

Gunjan Kabra: The capex has got delayed by a quarter or so, in the last quarter you had guided a volume growth of around 15,000 tons from the new capex. So is that guidance still good, like will we be able to ramp it up? Also, do we have that kind of a demand visibility, from that perspective. I wanted to understand that are the customers visiting us and we have that kind of order visibility from our new customers as well? Secondly, what is the tenure of the order visibility that we have right now? For example, for how much period do we have order visibility in this business in general I wanted to understand?

Rajeev Jhawar: Firstly, yes, the capex just got completed in Q4 and we expect to ramp up the production during the coming quarter. We are still on line to achieve the 15,000-20,000 quantity increase with almost 12% to 15% increase in volume, as we had mentioned earlier. We do expect that to happen gradually in the coming quarters.

To your next question on the order book and the overall demand situation, I would say that this is stable and particularly from all the various actions and the initiatives the Company had taken by developing customers in Europe and different parts of the world. I am happy to say that we have got a good response for all the supplies which we have made, and we expect the order book to continue to support the increased volumes which we are looking at in this year.

Coming to the order book position, generally we have one to two months order, but because 85% of the business comes from the replacement market and through our own distribution and dealer network. This is something which is normal in our business, and we continue to get healthy order booking. For big projects, sometimes for our European, say for example for our Brunton Shaw business, we generally see an order book for six to eight months for the large projects and I am happy to say that we have a fairly healthy order book on that front as well.

Gunjan Kabra: Secondly, I wanted to understand that on a quarter-on-quarter basis, our EBITDA per ton, I am not talking about the margins, but EBITDA per ton has decreased from 34,000 to 31,000 per ton approximately. So, is that because of the product mix as realizations have been quite steady? So, is it because of the product mix change or why has the EBITDA per ton come down this quarter? Though you have maintained the margins of what you have guided of 18% but just wanted to understand is it because of the product mix?

Rajeev Jhawar: You see, the product mix, it's a very diversified product mix between wire ropes, LRPC and wires and within the wire ropes also between the GP ropes and the special ropes. And as we have mentioned in our previous calls also that we should look at the trend year-on-year which we have gradually been able to increase from 26,000 to 32,000 odd per ton. And quarter-by-quarter between INR 1,000 to INR 2,000, there could always be a variation because of the product mix or the mix between the various product lines we have. But overall, we hold to our strategy of being closer to the targets what we have been able to achieve, that these are the numbers we feel that we would be able to maintain with an increased volume, we expect the performance to be better.

Gunjan Kabra: Okay. But now, when we are venturing into value-added products, the expansion is entirely into that, plus we are going to cater to the export market. So, as compared to GP ropes versus the value-added growth and plus the export market, what kind of value growth, from 12% to 15% is the volume growth is what we are targeting, but what kind of value growth can be achieved, if you can highlight that?

Also, regarding the cost efficiency that we are taking towards our Indian units supplying wires and strands to the European, to the Brunton Shaw plant. So, what kind of cost efficiency can we see from that side? Plus, the market that we are trying to cater to are value added and export markets, what kind of value growth can we see on that side? I am sure that in export markets, the value is a little higher in terms of realization. So, if you can highlight.

Rajeev Jhawar: As far as margins are concerned, we have, moved gradually from 16% to 18% to close to where we are today, close to around 20%. In a dynamic product mix, and also a dynamic market between GP and special ropes. I would say our endeavour will always be to try and see that we hold on to the margins which we have and gradually definitely keep on improving as the product mix starts getting enriched and the realizations also improve. So, our objective would be, when we were at 16, we said, yes, we will gradually go up to 18. And then we had gradually gone up to 20. It's very difficult to predict that we will go from 20 to 22 or 23, we would rather say let's focus to see that we maintain and gradually go up and focus on trying to see that how we continue to increase our share of the value-added products and gradually ramp up the production by 12% to 15% and get the benefit of both. In this process, depending on the product mix, market, the margins could fluctuate, and our endeavour would always be to keep on increasing.

Coming to your second question, which is the integration with the International business. I am happy to say that is working well. In fact, this integration with India with and our Thailand plant supplying to Brunton Shaw as well as to our Brunton Wire, is helping us to become more competitive because of the cost advantage and because of the group making a profit both at the wire supply end as well as the finished product and we are able to look at the costing in totality. That is helping us to become more competitive and being able to establish a more competitive environment to get more orders. And I am happy to say that Brunton Shaw over the last few months has been able to win some large contracts, giving us the order booking for the first time I would say for seven, eight months ahead, which is helping us to plan the wire supplies much in advance from India as well as from our Thailand plant. And to answer your question, definitely because of being totally integrated on this, we are having a cost advantage of $300 to $400 per ton compared to what we were buying from our European sources.

Gunjan Kabra; Thank you so much for answering these questions and good luck to your entire team.

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

Aman Sonthalia: The revenue growth as well as profitability has muted this quarter when compared to Q4 FY23. What are the reasons for that, sir?

Shreya Jhawar: So firstly, because of certain logistical challenges like we mentioned in the International markets, because of the Red Sea issue, certain orders have been deferred from Q4 because our materials for the UK was stuck in transit and the orders couldn't be billed in the Q4. These are expected to be completed over Q1 and Q2. And as you know, of course, Europe is a high value market for us. So, this timing issue has had a certain impact on the revenue as well as profitability for Q4.

Secondly, in the past quarter, we also had a scheduled capital maintenance for the LRPC equipment for about six weeks or so. That did impact our LRPC production and also impacted our revenues to some extent. And also, there have been, in general over the past few quarters, some pressure on the LRPC realizations as well.

So, what we've been doing is reducing our exposure to that segment because we've anticipated this. And now going forward, we want to focus more on plasticated and galvanized LRPC, and those are more profitable as well. And as mentioned that the contribution of these increased volumes from the capex program over the next year hopefully will help drive the improvement in the topline and then translate to the bottom line as well.

Aman Sonthalia Okay. When can the dispatches from the wave-1 expansion start and when it will start showing in the topline and bottom line?

Rajeev Jhawar: As I mentioned, commercial operations of Phase 1 expanded capacities have begun from quarter 1 onwards of this year. We expect gradual ramp up of volumes over the next 9 to 12 months, which will help us to enhance our topline going forward. However, I would like to caution that we don't want to push our volumes by compromising on price or margins, but rather ramp up gradually and continue to focus on the value-added products. Having said that, as I mentioned, that we expect the volume growth during the year to be between 12% to 15% compared to the previous year.

Aman Sonthalia: As far as my knowledge is concerned, the Rockfall netting wire is a big opportunity in the mountainous terrain to avoid mountain stones from falling? Are we getting in Rock netting wires as well as what is the plan in that business?

Shreya Jhawar: Yes, there is a large market for this globally, like you rightly mentioned. And as part of our next wave of capex, actually the wave 2, we are getting into certain high-value wires, the aluminium zinc wires, which are actually used in this Rockfall barrier protection industry as well. So, we do expect these capacities to go on stream within this financial year itself, and hopefully we will be able to cater to this market, like you rightly mentioned, it is a big opportunity.

Aman Sonthalia: So, it's a high margin product?

Rajeev Jhawar: Yes. It's within the wire segment, and also there are some strands involved in this. It's, I would say, it's a decent value product.

Aman Sonthalia: Saudi was expected to contribute from Q1 FY25. Has it started contributing, and how big is the opportunity here?

Rajeev Jhawar: As I mentioned in my opening remarks, Saudi is on track, and we have started shipments to Saudi Arabia. From Q1 onwards, we expect the revenues to start coming in from there. We have our management team, our sales team already in place and our warehouse and facilities for rigging is also getting commissioned now. So, we should start getting the benefit from Q1 and gradually we will see the benefit of this coming during the year. It's a growing market within the Middle East. It's a large market compared to the rest of the Middle East and we expect to get a decent share of this market in a year's time. We are excited and we expect good business to start flowing, particularly on the oil sector, some big infrastructure side on the crane and the port sector. We expect good business to come in from there.

Aman Sonthalia: And one important question. In the earlier concall, there was an update that the Company is working on synthetic slings. What is the status on synthetic slings ,is there a plant set up and when it will start contributing to topline and bottom line? And is it confined to Europe or will we get business from other geographies as well?

Shreya Jhawar: Yes. So, to answer the first part, the Company is working on launching the synthetic slings as a complementary product line to the core business. And the manufacturing would happen in our BSUK facility. The equipment has started coming in and we expect to gradually again begin the operations within Q2 of this year. To answer the second part, the target geographies for this at first would be primarily UK and within Europe. And then at a later stage, we would also like to target the Americas region once we are able to build a track record and get some traction in the market. And for all of these different geographies, the key applications for this would be at first in the oil and gas as well as the wind energy sector.

Moderator: The next question is from the line of Dhananjai Bagrodia from ASK Investment Managers. Please go ahead.

Dhananjai Bagrodia: Congratulations on a good result in this environment. Just wanted to understand, what is the possible asset turns and utilization for the new facility for the expansion in Ranchi?

Rajeev Jhawar: The asset turn would be, I would say, of the new facility would be close to one and a half to two times of the investment what we have done.

Dhananjai Bagrodia: Okay. And our utilization could be up to what percentage and just to have an idea, would it be same as the previous facility?

Rajeev Jhawar: Yes, because you see, it would be at a similar level.

Dhananjai Bagrodia: So the operating profit per ton, would that increase significantly for the new facility or would margin increase?

Rajeev Jhawar: It would also depend on the product mix what we do. But as I mentioned, our objective would be to maintain the EBITDA margin, which has gradually gone up to close to the current levels of close to 19.5%, 20%. And going forward, as we keep on enriching our product mix, as we look at the competitive environment, let us see how we progress. Hopefully, it should get better, but it is better to gradually ramp it up as the volumes grow. This year, we would be looking at more to see that we work at minimum these levels, protect the minimum levels which we have been operating and first start building the volumes. And then let us see how we progress, how the new capacities, the new markets we are able to develop and what kind of price we are able to achieve in these markets. Hopefully, we should be able to do better. That is what I can say at this stage.

Dhananjai Bagrodia: How is the competitive intensity playing out compared to domestic and International players?

Rajeev Jhawar: See, the competition will always be there in any business, and we need to always try to be better in terms of quality, delivery, service, and be able to be having the product at the right time to the customers. And we focus on that. In domestic market, we have about 60% to 65% of the market share and we hope to continue with that. In terms of the International market, our competition would be mainly with the European and the American manufacturers and the Koreans. And through our global distribution as well as integration with Brunton Shaw and our European brands we are trying to see that how we can gradually get a decent market share from that front.

Shreya Jhawar: Yes. And to that, the competitive intensity, we see a little bit more in the GP rope segment, especially in the U.S. and some part of the Middle East. So, our goal in the Middle East, for example, is to get closer to the customers, go into services, and provide the total solution to customers. So that rigging business that we've been able to do and pivot our business model in places like the Middle East have really helped us retain our market share and even grow our market share and fight the competitive intensity in that way.

Dhananjai Bagrodia: Okay, thank you.

Moderator: Thank you. The next question is from the line of Pratik Banthia from Girik Capital. Please go ahead.

Pratik Banthia: What would be the realistic realizations for us in LRPC and wire strand because they've been trending kind of downward. So at what number would that stabilize? Is that something you could, give me a sense of?

Rajeev Jhawar: The steel prices over last one year or the wire rod prices have been down by about INR 6,000, which is a direct reflection on the LRPC and the wire prices, which is very sensitive to the steel price fluctuation. And on an average, the LRPC prices have come down to around 63,000 from 71,000 last year. And it all depends on the steel prices. Of course, with more competition coming from other integrated players, the prices are under pressure. We are trying to focus to get to more and more of the plasticated and the galvanized LRPC, which would protect us from that price fall. On the wire front, the prices have also come down from to around INR 80,000 per ton compared to INR 90,000 per ton. So, it's almost a INR 10,000 reduction. The movement is very much in line with the steel prices, I would say.

Dhaval Shah: This is Dhaval here. So, we are at 1,80,000 odd tons for the past year '24. Over the next three-year period, what sort of volumes would you be looking at?

Rajeev Jhawar: I would say that we would look at 12% to 15% growth over the next two to three years based on the various capex initiatives already implemented and underway. We expect this to happen.

Dhaval Shah: Okay, so the data you mentioned in the presentation that which is going live from Q1 FY25. What is that capacity?

Rajeev Jhawar: The Q1 capacity, the total increase is 40,000 tons approximately in the Phase-1 capex expansion. And Phase-2 is around 10,000. And as I mentioned, we will gradually ramp it up during this year. And we should be able to get around 12% to 15% over what we produced last year, what we sold last year.

Dhaval Shah: Okay, and if I understand correctly, given our gradual change in product mix over the past three-year period, the same would continue and that would result in a better EBITDA growth compared to the volume growth.

Rajeev Jhawar: I would say that we would now try to see if we can continue to achieve the EBITDA percentage, what we have been able to achieve and focus to see that we take the advantage of volume. As we develop better products and a better product mix and more into the higher value-added products, we will see a gradual improvement on the EBITDA margin. But that our immediate priority this year would be to try and see that we maintain that and get the advantage of the higher volume this year and then see gradually how the margins improve with the better product mix.

Dhaval Shah: Okay, interesting. So this entire expansion would be done with the cash flows, or any other funding requirement would emerge?

Rajeev Jhawar: All will be done with internal accruals.Phase-1 was done with internal accruals. The Phase-2 will be done with internal accruals and with the healthy cash flows which we are expecting, we expect to grow, and we have no plans for taking any debt or any raising of any funds.

Dhaval Shah: Okay, thank you very much.

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

Kunal Kothari: You mentioned about the expected volume growth from 15,000 to 20,000 tons in FY25. Will it be coming from wire rope segment only or it will be divided among the three?

Rajeev Jhawar: See it will be a combination of all. Our endeavour would be to try to maximize the rope part, but we need to cater to the demand of all customers. So, it will be a combination of ropes, wires, LRPC, plasticated LRPC. We would like to see that we can improve the asset utilization. The endeavour would be to maximize rope, but others would also be there as a part of the increase.

Kunal Kothari: Okay. In LRPC, can you help us to understand that what will be the realization per ton difference between what is the product range in LRPC that we are selling today and with the new product range that we are coming within in the plasticated and galvanized? Similarly, both on the realization part and the margin front, what change that we can look forward?

Rajeev Jhawar: See , plasticated LRPC is a project-based business with limited volumes in the market. So, it is not that the entire quantity can be converted. We are targeting 300 tons to 500 tons a month in this year depending on how these projects get coming up. So, it is only about 7% to 8% of the LRPC capacity. This is sold at about INR 130,000 - INR 135,000 per ton where we get a contribution of around INR 50,000 -INR 55,000 per ton, but the production capacity also gets reduced because it is a much slower process. On the other side, the normal LRPC is sold at INR 63,000 to INR 64,000 per ton with an average contribution of about INR 8,000 to INR 9,000 per ton. So that is the thing, but almost about 90% is sold as the normal LRPC and only I would say 7% to 10% would get developed into the plasticated LRPC.

Kunal Kothari: Okay, got it. So, one more question that comes to my mind is that the wire capacity that we are having, and the LRPC and wire capacity is much higher. So, like how is the manufacturing process? Is it like one-to-one ratio? So, we are buying wire from the market for the additional production of the LRPC and wire because we are also selling wires in the market. So how is the process ratio from wire to strand to wire rope and LRPC and also do we purchase from the market for the production of the same?

Rajeev Jhawar: No. Our raw material starting is wire rods, whether it is for LRPC, whether it is for wires or ropes. We buy the steel from the integrated steel producers including our erstwhile steel business now run by Tatas. So that is our starting raw material. We do not buy any wires and then we have dedicated LRPC line, which only produces LRPC and then it is the wire and the rope plant which is all within this. So, it is not interchangeable. So LRPC is integrated right from wire rod to finished product. So, it is not that I can reduce LRPC and increase rope or vice-versa. These are independent plants within the same facility. And we do not buy any wires. We are only starting with wire rod which is processed into LRPC or wire rods which is processed into wires or wire rods which is processed into rope. So that is a very well dedicated plant internally, not interchangeable.

Kunal Kothari: So, does that mean that we have wire capacity near to 1 lakh ton. So, it is totally sellable, or it has been used for the manufacturing of wire rope or LRPC?

Rajeev Jhawar: It is a separate plant. The LRPC is a separate plant. I cannot use the LRPC wire drawing capacity to make ropes. So those can only be dedicated for LRPC. So, it is not that I reduce LRPC, and I can increase wire rope. It is not possible.

Kunal Kothari: Okay. So, sir, our utilization from 1 lakh ton, we are doing nearly 35,000 ton of sales in wire itself. So why is it so that we are selling just 35% of our capacity?

Rajeev Jhawar: We only want to produce the high-end wire products. Earlier, we were part of the steel business where we used to even produce low grades and low margins of wires to evacuate steel. Over the last 3 years our focus has been to focus only on value-added wires, LRPC, plasticated LRPC as it is a dedicated plant and wire ropes. And slowly we have shed out our low-value-added wires and that is why those facilities are not fully utilized because they do not add really any margin to our business.

Kunal Kothari: Sir, can you give the mix of the high-value-added wire and low-value-added wire mix in our capacity?

Rajeev Jhawar: We don't calculate that way. Mostly, we have migrated to the higher-value-added wires.

Kunal Kothari: Okay. And the utilization will be nearly 70% of that high-value wire capacity?

Rajeev Jhawar: Around that, I would say.

Kunal Kothari: Okay. Thank you, sir.

Moderator: Thank you. The next question is from the line of Paresh Shah from Prernatirth Tradecom LLP. Please go ahead.

Paresh Shah: I have just one question that is regarding disclosures which has been coming under Regulation 29 (2) of SEBI wherein one of the promoter and the group promoter Company Peterhouse Investments has been disclosing shares sold in the market, in that they are writing within bracket that there is a GDR option available to them which can be converted into 5 equity shares at the discretion of the holder. Sir, I would like to understand when this exercise is due, by when it can be exercised, what will be the price because this can lead to dilution in the equity, and it can impact the ratio. So, can you please elaborate on this GDR stuff that has been done in the past?

Rajeev Jhawar: The GDRs have been issued many years ago and these are the outstanding GDRs. And one GDR can be converted to 5 shares. It can be done at any point of time, and it can be exercised. It is considered as the part of the total share capital of the Company. So, it is at the discretion of the GDR holder when he wants to convert it. There is no specific time frame for that.

Paresh Shah: And currently what is the outstanding GDR we have to oblige for?

Rajeev Jhawar: We need to check and get back to you.

Paresh Shah: Okay, sir. So, I do not know how you will get back to me. So, I would request that you can issue a clarificatory note and put it on the site, so that all other shareholders can also understand what is happening on the GDR front.

Rajeev Jhawar: Sure.

Anirban Sanyal: Just a small clarification. It's already part of the disclosures in the annual report.

Rajeev Jhawar: So, I do not think any further clarification is required since it is already disclosed fully in the shareholders balance sheet, as CFO has mentioned. I do not think any specific clarification. If you need anything, you can write to…

Paresh Shah: Sir, our CFO will know the exact amount of GDR outstanding right now?

Rajeev Jhawar: It is already available in our balance sheet. So, it is already in our balance sheet.

Anirban Sanyal: Yes, correct.

Paresh Shah: And is there a price which has been decided to convert the shares? It will be at what price? That is not mentioned in the annual report?

Anirban Sanyal: No, I do not think that is mentioned. But okay, we can take this. You can write to me. I can give you the clarification. But the numbers and the holdings, everything is mentioned in the pattern of shareholders.

Paresh Shah: Okay, fair enough. I will take that. But at least you know the conversion and what rate which is going to happen is going to help me. Thank you, sir.

Moderator: Thank you. We will take the next question from the line of Rajesh Majumdar from B&K Securities. Please go ahead.

Rajesh Majumdar: Sir, I have a couple of questions. The extent of cash flows that we are showing now post the expansion is nearly going to the tune of INR 500-odd crore from operations at the least. Against that, we have now a second phase of capital expenditure to INR 100 crore per annum or maybe INR 130 crore per annum. And our payout is just about INR 85 crore. So, do we have any capital allocation plans of increasing our dividend? And a related question is that we have not seen any meaningful acquisitions globally in this space. So, are there any opportunities there where we can utilize the excess cash?

Rajeev Jhawar: On the cash flow front, last year we have gone through a major capex program and Phase 2 is also underway here. Our Thailand plant is also going through an expansion plan, our UK subsidiary is also having the synthetic line expansion plan. It is not limited to INR 100 crore or INR 150 crore. It could be even more depending on the opportunities. And we expect, depending on the cash flow and the capital requirement for our capex, also looking at any opportunity, if and when it comes on the acquisition front, we would definitely look at all options. Right now, there is nothing on the table at the moment. Depending on the free cash flow, definitely, I am sure the Board will consider how to reward the shareholders. I am sure it would definitely look at all these while deciding that.

Rajesh Majumdar: My last question, when you consider an expansion in margins, you are also considering the extra cost that you will incur in hiring employees, etc., or other related costs of expanding into new markets?

Rajeev Jhawar: Yes, as we have expanded our capacity, we have added some people Internationally to help us develop the newer markets, including the Saudi market, as well as the European markets, including the Americas, particularly South America. So, we have added some senior people because you need to start developing the market. So, the cost starts getting incurred earlier. And hopefully, we should be able to convert that into getting higher revenue and even out in the coming years.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: My first question is, if you can give an update on our plan for the US, as well as for the mining customers that we were targeting. So, what kind of volumes do you see for these two segments for this year and next year? And how is the general traction going on?

Rajeev Jhawar: You see, on the US market, the initial trial supplies have gone off well with the various customers in North and South America, as well as in South Africa and small quantities in Australia also. We have started getting some repeat orders. Mining takes a longer cycle time in terms of, applying to the customers, their quality feedback and then getting into the other supplies. So, we are currently at about 2,500 tons per annum level as far as the mining rope is concerned. And our endeavour is to take it to close to 4,000 to 5,000 tons in the next two to three years.

Aman Vij: And similarly, for the US sales, what is our current sales and what are our targets for two, three years?

Rajeev Jhawar: Our US sales is close to about 7,000 to 8,000 tons per annum. And we expect to grow depending on the, of course, which sectors, what kind of demand comes there. We expect to grow by 10% to 15% per annum in that market.

Shreya Jhawar: And within the US market, specifically the sectors that we're targeting are elevator ropes, gondola ropes, which are also high value ropes, as well as mining ropes like we previously mentioned. We've gotten decent traction with approaching new OEMs as well. And that is the continuous endeavour to secure more OEM approvals and be able to cater to the high value segment like elevators and gondola.

Aman Vij: My next question is, so some of our International peers were facing some issues last one, two years, both in, I think, US and Europe. So, if you can talk about, are they still facing issues because of energy or there were some other issues also? Or are they coming back in the industry strongly?

Rajeev Jhawar: European manufacturers went through a high cost of energy, which has definitely come down over a period of time after the things are stabilised. But still, they are high compared to the rest of the world. In terms of their cost structure, all these are very strong companies, be it Bekaert Bridon or be it WireCo. And it's a healthy competition. And definitely, we are trying our best to see that how we can, continue to compete and get a larger market share from that market. But they are all doing well. And the overall market is well, competition is also doing well.

Aman Vij: My final question in the opening remarks, you had talked about that we are deepening our relationships with our global OEMs and especially new customers. So, given it's like last one, two years, we have gone to a number of new customers, and these are very big customers. So, if you can talk about in terms of scale, say if we started with x, where we are today? Is it like 2x, 5x? And where do you see this relationship over two, three years? My main question is, where do you see the trust on us, basically leading to much higher orders?

Shreya Jhawar: So, over the last couple of years, like you mentioned, we have secured new premium customers, especially in the European market, particularly through our two strong brands, which are 'Oceanmax', 'Minemax' brands. And we have successfully executed these orders as well. And repeat orders have already started coming in with some of the big OEMs as well. And these orders have also created references with other customers, and we've been able to win new customers through these references as well within the region. Going forward, using our collaboration of the Brunton Shaw facility with our service centre's, EMM as well as the Reuter, and the technical sales and support of GDC, we hope to continue to strengthen these relationships and continue to grow our relationships with these OEMs.

Aman Vij: Yes, do you think it will still take us two, three more years to get that trust so that they can give us substantial volumes and not small incremental repeat orders? Or do you think it can happen sooner also?

Rajeev Jhawar: You see, we have made certain big progress with the European, particularly oil offshore and the big wind energy sector. And these are all project-based business, as well as repeat orders from the previous equipment's which we have supplied. So, like in the last one year, we have been able to make some major breakthroughs and get decent orders. And we expect this to happen not in two, three years. We expect to happen within the coming few quarters.

Aman Vij: That's helpful. Thank you.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: The breakthrough we have got through the OEMs in mining segment, the capacity addition that we have undergone and also that we are envisaging, are these all towards these mining contracts only, the segment which we will be getting to?

Rajeev Jhawar: So, the Phase-2 part which is coming this year would be on the mining. We have sufficient capacity to take care of the current requirement. But for our future requirement of mining, the Phae-2 capex which is getting completed in 18 months would be added. So, that would help us improve the capability and the quantity for the mining ropes. So, we have sufficient capacity to take care of that. But our major growth which is coming through our 'Oceanmax' and our 'Brunton Shaw' is mainly in the oil and offshore and the wind energy sector. That is giving us more traction based on the various growth we have done. Mining is of course an important sector, but we will gradually ramp it up depending on the feedback and our supplies and repeat orders. But good part about the mining business is that once it is established, it is a recurring business which continues to happen and not depending much on the project type of business which can happen with spikes.

Saket Kapoor: Just for further understanding, what should be the mix. Currently the landscape which we will be operating for the mining segment and the existing 'Oceanmax' and the other opportunity, what should be the percentage mix for mining which you are alluding to be an annuity type going ahead?

Rajeev Jhawar: Our mining business is close to 5-6% whereas the oil and the wind energy business would be in excess of 20%.

Saket Kapoor: Okay. You mentioned that you will be spending around INR 167 crore for the additional 10,000 tons for the 18 months from this year?

Rajeev Jhawar: Yes.

Saket Kapoor: Okay. And the 40,000 tons would be ramped up from Q1 of this financial year?

Rajeev Jhawar: As I mentioned, it will happen gradually. During the year, we expect 12%-15% growth in total volume compared to last year. But every quarter, we expect to gradually ramp it up to be able to come to the expanded capacity.

Saket Kapoor: On the other expenses front, did we have any one-off item in terms of which madam was earlier referring to because of the geopolitical issue?

Rajeev Jhawar: No, I do not think there is any expense related to the geopolitical issue which is there. Anirban, please…

Anirban Sanyal: No, there are none. So, if you are referring to the freight, of course, that is also inbuilt into the prices as well. But no additional expenses per se in other expenses which are related to the geopolitical issues. Nothing.

Saket Kapoor: Thank you, sir.

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

Aman Sonthalia: Sir, last year, we did Usha Siam stake purchase from joint venture partners. So, what is the opportunity here?

Shreya Jhawar: So, Usha Siam, which is the Thailand entity, we did acquire the remaining 50% stake of Tesac Usha that was previously a JV, like you mentioned. And the plant is already in operation since the February of this year. In terms of opportunity, the plant capacity which is of elevator ropes primarily is about 170 to 180 tons per month. Again, it is primarily elevator ropes, but we would produce a mix of elevator and JV ropes depending on the demand from the market as well. Other than that, the facility that was acquired, it is a sort of state-of-the-art facility, and it does have a lot of space for further expansion as well. So, that is something also that we would consider for our future growth plans in Thailand.

Aman Sonthalia: And right now, every exporter is facing this Red Sea crisis. So, we have distribution centres across different parts of the world. This helps us to keep inventory. So, does the Red Sea crisis offer opportunity to give better services to the customer and acquire new customers?

Shreya Jhawar: Yes. I mean, we have our distribution centres across the globe where we do stock and we sell. We have been able to proactively stock ropes for the customers in these various centers so that we can meet more of the just-in-time requirements, especially when there are so many logistical challenges. We want to do that. We want to ensure that we, like Anirban had mentioned earlier, we proactively build the inventory, and we are able to continuously meet the demands of the customers without interruption in the face of these logistical challenges. So, it has helped us having that wide network close to the customer.

Rajeev Jhawar: While in the Red Sea crisis, we have been able to meet through the inventory at our subsidiaries, it is also important to mention that because of the Red Sea crisis, the transit time to Europe and U.S. has gone up by between 15 days to 30 days depending on the shipping lines and time, which is, in a way, creating certain delays in achieving the deliveries and also increasing the inventory within our system because most of it supplies to our subsidiaries and to the end customers. So, while there is an advantage on one side being closer to the customer with stocks on ground, but on the other side, it is impacting higher levels of inventory and higher supply time to meet the customer requirements also.

Aman Sonthalia: And, sir, the last one is that our mantra was value-led volume growth. So, will we start seeing this from Q1 FY25?

Rajeev Jhawar: Yes, we expect to start seeing this from Q1 and with gradual ramp up throughout the next few quarters, we will see the advantage in our results.

Aman Sonthalia: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you.

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 to 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. Thank you.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Usha Martin Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.
