Usha Martin Limited

Q2 FY24 Earnings Conference Call Transcript

November 06, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Usha Martin Limited earnings conference call. 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 '*' then '0' on a touch-tone 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 Q2 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 had the opportunity to refer to the earnings documents that we had shared with you earlier. We would now like to initiate the call with the opening remarks from the management, following which we will have the forum open for a Q&A session. Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the earnings presentation.

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

Rajeev Jhawar: Thank you. Good 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 on the Company, following which our CFO, Mr. Anirban Sanyal, will run you through the key financial highlights.

I am pleased to report that we have concluded the first half of this fiscal year on a healthy note, making significant progress in our various strategic initiatives. We have two key objectives as a Company. One, enhance our product portfolio to value-added products. Two, increase volume and value through our capex initiatives. Our strategy to enhance our product portfolio has delivered positive results. Comparing figures on a year-on-year basis, our operating EBITDA increased by an impressive 24.8% and our operating EBITDA margins improved by 3.4 percentage points, reaching 18.1% during H1FY24. Moreover, enhanced contributions from International markets with higher realizations have supported our margin improvements.

The share of the wire rope revenue in our consolidated earnings has increased to 69% in H1FY24, reflecting an increase from 66% in H1FY23. International markets are also playing an important role in our growth story, contributing to 55% of our revenue during H1FY24. While our revenue growth was muted in the first half, largely attributable to subdued performance in the wire and LRPC segments, we maintain a positive outlook for the business expansion in the later half.

Our commitment to value-added industry segments has yielded positive results, with the share of these segments in our consolidated revenue increasing to 50% during H1FY24, up from 44% in FY23. Specifically, within the wire rope category, value-added segments accounted for 70% during H1 FY24, reflecting an increase from 65% in FY23.

I would also like to highlight that despite facing a decline in steel prices during the last quarter, our wire rope realizations have constantly trended upward. This positive trend is especially evident in our value-added wire rope products, which require significant engineering know-how and technical expertise. These products are enabling us to mitigate the inherent volatility in raw materials prices.

Additionally, we made considerable progress regarding our capex initiatives. Our Phase I expansion in Ranchi remains on track and it is expected to become operational in the coming months. We would start to see the benefits of that in subsequent quarters.

As a Specialty Wire Rope Solutions provider with a substantial presence in International markets, we are closely monitoring the evolving macroeconomic landscape, including current geopolitical issues. Today, we firmly believe that Usha Martin is well-equipped to identify and navigate global business challenges that may arise.

In conclusion, I would like to emphasize that our commitment to the strategic initiatives at Usha Martin remains strong and we are confident that these efforts will yield positive results, driving growth for the Company.

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 half year ended 30th September 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 half year ending September 30, 2023.

The consolidated net revenue from operations stood at INR 784.7 crore in Q2 of FY24 as against INR 820.2 crore in Q2 of FY23. As the MD mentioned earlier, the 4.3% year-on-year decline in revenue was due to lower contributions from both the wire and the LRPC segments. However, as we assess the current situation, we maintain our confidence in improving our revenue trajectory for the second half of the year. Our revenue performance during the quarter was supported by an increased realization in the wire rope segment.

Our operating EBITDA for the quarter registered a healthy 25.5% rise on a year-on-year basis at INR 144.3 crore. Moreover, the operating EBITDA per ton also demonstrated a 35.8% year-on-year improvement at INR 31,178. The operating EBITDA margin of Q2 FY24 rose to 18.4% from 14% in Q2 of FY22. Our net profit for the quarter stood at INR 109.5 crore registering an increase of 38.7% from INR 79 crore in Q2 of FY23.

On a half-year basis, net revenues from operations stood at INR 1,599.1 crore compared to INR 1,578.9 crore in H1 of FY23. During this period, we witnessed positive improvements in our value-added offerings, notably in the wire rope segment, along with a healthy traction in various industry segments such as mining, oil and offshore, fishing, elevator and crane. Operating EBITDA stood at INR 290 crore for H1 of FY24 as against INR 232.4 crore in H1 of FY23. Profit after tax for H1 of FY24 stood at INR 210.3 crore registering a 30.4% year-on-year increase.

Our balance sheet position remains strong, with our Net Debt-to-Equity improving to 0.06x in September 2023. The modest rise in absolute net debt is a result of our ongoing investments and the allocation of funds for dividend disbursement.

With regards to our working capital cycle, we have strategically augmented our inventory levels during this period, preparing for the projected upswing in demand anticipated from new customers we have developed through our European operations. With our European operations now closely linked with Ranchi factory for supply of wire and strand raw materials, it becomes essential to have the inventory in stock to meet customers' requirements and delivery times.

Further, our cash flow generations have improved significantly year-on-year. The cash flow from operations before income tax for H1 of FY24 stands at INR 310.5 crore and at a 107% of operating EBITDA compared to INR 95.6 crore during H1 of FY23 and at 41% of operating EBITDA. Robust cash flows along with adequate headroom on working capital lines will continue to support our planned capital allocations.

In conclusion, I would like to say that overall things are moving in the right direction and Usha Martin remains optimistic that its business strategies and initiatives will play a pivotal role in further strengthening its leadership position. We expect that favourable industry dynamics coupled with Usha Martin's inherent strengths will enable the Company to deliver consistent performance going forward.

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: Our first question is from the line of Aman Sonthalia from AK Securities.

Aman Sonthalia: What would be the impact of the slowdown in Europe? Is it possible for the Company to grow at the rate 15% in volume term over the next two years, three years?

Shreya Jhawar: So, on Europe, I would just like to say that we did see slight slowdown in specifically the services part of the business in Europe in EMM and De Ruiter compared to last year. But we do think that with a healthy order book in our Brunton Shaw, UK factory, we do have a positive outlook for especially the higher value ropes for the second half of the year. And your second question was on overall volume, is that correct?

Aman Sonthalia: Yes.

Shreya Jhawar: So, volume is obviously a very important factor, but not the only factor. As we mentioned, with the capex coming in, the volumes should improve. But we will have to continuously balance between the volume and the value aspects to see what would help us achieve our bottom-line profitability targets as well.

Aman Sonthalia: In Europe there are a lot of small rope manufacturers which are not in a very good shape. So since our Company has a very good cash flow and it already has a presence in Europe, are we looking for any acquisition in the European market?

Rajeev Jhawar: Right now, Europe is going through a recession and many companies are going through a difficult period. I think there are big opportunities for us with our current setup to gain market share between our integration with Usha Martin India, as well as Brunton Shaw, as well as from Usha Siam and Brunton Shaw. We have made major breakthroughs and progress with quite a large number of customers and the distribution network over there. And I feel that is something which we would like to really ensure that we successfully develop this model and build a good brand for entire Usha Martin and Brunton Shaw. And I think that is our first priority. Going forward, if there are opportunities which would come, we would be open to have a look at those.

Aman Sonthalia: Since the US economy is doing very well, and we already have presence in the US market; so how much growth we are expecting and how big the US market would be for Usha Martin in the next two years-three years?

Shreya Jhawar: So, the US market is definitely a very important market for us. In the first half of the year itself, we saw good growth in the US, especially on three key value-added segments that we were targeting. One is the elevator rope, for which we did see an increase of over 50% in volumes compared to first half of last year. In crane ropes as well, we were able to double our volumes. And then finally, mining ropes for which we have had initial trials that have been good. And because of those trials being successful, we have secured a long-term contract with a big customer. That should help us get consistent volumes and value over the next three years. For mining ropes, again, it is not just the US, but it is also Canada and Latin America as well, including Brazil, Chile, Peru, which are very important. And other than these three segments, we are also looking forward to grow the market in Swage ropes as well as Gondola ropes, which are critical applications and, again, high value products. So going forward that is something which is a focus for us. That being said, I would just also say that for the General Purpose rope market, which is usually a lower-value product but a high-volume product; typically, right now we are seeing some competition in the US market particularly and also some pricing pressure from other Asian manufacturers. So, while we are seeing continuous growth in the high-value products there might be some impact of that, but overall, a positive outlook for the US.

Aman Sonthalia: Saudi market is really a very exciting market. So, is the Company seriously looking at this Saudi Arabian market?

Shreya Jhawar: Yes, definitely. So, like you mentioned, Saudi is a growing market and we do plan to increase our presence in this market, for sure. It will become a focus market for us, especially for, I would say, oil and gas, ports as well as crane ropes. And to that effect, the activities to tap into this are already well underway, and you would hear more about that going forward.

Moderator: Our next question is from the line of Gunjan Kabra from Niveshaay.

Gunjan Kabra: My first question is just a follow-up to the last question; - you mentioned that Europe is not doing well but the order book is very strong. So, are we gaining market share from other players, or the other players are operating at low-capacity utilization? Or are we having any competitive edge in terms of costs? So why is it that the market is not doing well, but we still have a strong order book?

Rajeev Jhawar: Yes, we have a strong order book. The efforts which were put in with the integration between Brunton Shaw and our Usha Martin India operations, we had made some good breakthroughs in second half of last year. Those contracts have been well supplied and we have now got repeat orders. We are also getting more-and-more references to get more orders from other such similar customers. This is helping us to have a strong, healthy order book, because these are long-term delivery, because there are logistics issues between supply from India, UK, and to the customers. And these are all specialized, mostly all specialized ropes. So that is something which is helping.

Now, to answer your second question, of course, it's a competitive market and we are competing with the Europeans and the Americans to get market share. We have some cost advantage. But I think it is more about how you are able to place your product and your brand and along with our Global Development Center, which is our R&D setup over there, together, to help us get these orders. Our few successful supplies which we have made have been well appreciated by our customers and this is helping us to get to bigger share of the pie from the European market.

Gunjan Kabra: The capex plan, the Phase 1 was expected to start in Q3. So, is that on time, how is it?

Rajeev Jhawar: The Usha Martin Ranchi plant, in which we have put in a major part of the Phase 1 of the capex is a brownfield expansion of our Ranchi plant. So, this is a combination of adding additional manufacturing equipments, both in wire drawing, stranding, closing, and also increasing our patenting facilities to enhance the volume. While most of the equipments are almost in the final stages of commissioning, one important furnace which will help us to increase the volumes is getting commissioned in January. So, I would say that we will be able to complete all of it and start getting the benefits of that from quarter 4. Some we may get in quarter 3, but majority of that we start getting in quarter 4 once the entire thing is getting implemented.

Gunjan Kabra: Also, I wanted to understand that in this quarter the volumes if I compare it quarter-on-quarter i.e with Q1, for wire and wire ropes, it was exactly the same. And in the opening comments, you were guiding a higher realization, but on quarter-on-quarter basis if you see the wire and wire ropes realizations have dropped by 3%, 3.5%. So, what could be the reason for this? Also, if you can share how the volumes are in outside India and versus the volumes in India?

Anirban Sanyal: Are you talking about quarter-on-quarter developments or year-on-year for the quarter development in terms of volumes and…

Gunjan Kabra: Quarter-on-quarter i.e. for Q1 FY24 and Q2FY24, the volumes have remained the same, which is 23,000, but realization has dropped; whereas if you see in H1, the prices of steel have increased. So why is that so?

Anirban Sanyal: No, so the prices of steel, don't look at the purchase price. There is the consumption price and quarter-on-quarter, we have actually got a benefit from the steel prices. We always have 45 days to 60 days of stock in hand. So therefore, the purchase price is not equivalent to the consumption price. Quarter-on-quarter we had a benefit for about INR 4,000 in the price of steel. The realization in domestic terms also, we have got an improvement in specifically wire ropes to the tune of around INR 4,000 to INR 5,000 per ton, quarter-on-quarter.

Gunjan Kabra: Then why has the realization declined quarter-on-quarter by 3%, 3.5%?

Anirban Sanyal: No, so basically, it is the drop in LRPC and wires that has resulted in drop in overall realizations.

Gunjan Kabra: Okay, I thought it is just wire and wire ropes which I was actually calculating. No problem, we can get in touch offline, not an issue. Also, if you can...

Anirban Sanyal: You know, both in terms of volumes and realizations, its LRPC that has taken the biggest decline.

Gunjan Kabra: Is it possible to share the volumes outside India and Indian volumes?

Anirban Sanyal: We can, sure. We'll do it separately. I mean, we generally put up standalone and console numbers.

Gunjan Kabra: Okay. Also, I wanted to understand about this new capex which we are undertaking and where we are actually trying to cater to in the export market. So are we very confident because Indian markets are doing pretty well right now in terms of capital goods and construction and oil and gas. But in the export markets, in Europe we have a fairly strong order book, but US, Europe, their activity is not that strong compared to the Indian thing. So, are we very confident on ramping-up at full capacity utilization in say, two quarters to three quarters?

Rajeev Jhawar: The demand in India is strong, which is absolutely right and we are seeing that across because of the investments which is taking place in the infrastructure. So, we already have 65% to 70% market share, but we are maintaining and increasing our volumes in the domestic market based on the overall growth.

But as we had mentioned earlier that our share in the US market was only 2%-3%. Even in Europe, it is around 8%-9%. So, there is an opportunity for us to increase our market share in these markets. So, the new expansion, which we are doing are in two parts. One is, of course, we are increasing the volumes. And secondly, it is also going to help us improve the capability of higher value-added products in the mining, crane, elevator, and all these sectors, where we are reasonably confident of increasing our market share in the International market also. So, we do not see a problem in being able to ramp up the capacity in three to four quarters, which you wanted to know. It will be possible for us to do that.

Moderator: Our next question is from the line of Rajesh Majumdar from B&K Securities.

Rajesh Majumdar: I have a couple of questions. One was that if you look at the turnover growth in the first half, it is 1.3%. And you have guided for a 15% kind of revenue growth per annum. So now it looks unrealistic for us to expect that kind of revenue growth in the second half without significantly increasing our LRPC sales, which will be at the cost of margins. Is that a correct assumption? And the second point to this is how do we read into the margins in the second half, given that it is 18.4 in the first half with a lower proportion of LRPC sales?

Rajeev Jhawar: In the first question, what you said is absolutely correct. Although we got a 1.3% increase, there was almost a 20% to 25% lower sales in our LRPC and wire segment. We expect the second half of the year to be better because there is a very strong demand coming from the infrastructure projects in India which was affected during the mosoon period, particularly the segments in which we were selling our products. So, we expect the second half of the year to have an increase in both LRPC and wire sales.

And, of course, the blended margin is definitely going to be impacted because as we had mentioned earlier, we operate in three segments, - the wire rope segment, the LRPC segment, and the wire segment. So, these are the three segments in which we operate. Naturally, if the volume and the value of the wire and LRPC, which is at the lower-end has come down; although it has impacted the revenue, we have been able to get a better margin because the wire rope gives us a better margin. So, what we would suggest and the way we look at it is the absolute profitability. I think the focus on wire rope would continue and that is something which we feel should be better in the second half. And with the projects getting commissioned, the volumes and the higher value-added products keep on increasing on the wire rope segment. In the next three quarters the LRPC and the wire segment, I feel that it should come back to its normalized level. That is something which is going to help us get a higher topline, but it is going to have a blended EBITDA margin. But again, at the cost of repetition, we would focus to get a higher overall PBT in the Company and that is possible by utilizing all our assets to its fullest possible extent.

Rajesh Majumdar: In this connection, I have another question. Is the return on capital on LRPC, wires as lucrative as the wire rope business? Because the margins are something but basically for a businessman, the main thing is the return on the capital employed. So, is that comparable across all the three businesses?

Rajeev Jhawar: No, it would be much lower. While we do about 23% ROCE, the ROCE in Rope is much higher compared to the LRPC and wire which would be significantly lesser.

Rajesh Majumdar: My second question is on the value addition from Ranchi. You have guided a 18% kind of margin and we are already at somewhere above 18% or maybe around 18% considering a drop in the second half. So, is it safe to assume that post the Ranchi expansion in full swing, say after a year or so, we can look at a slightly higher margin trajectory for our wire rope business?

Rajeev Jhawar: Yes of course. We expect that because the new capacity expansion is not only helping us increase the volumes but it is also focused into a more higher segment of wire ropes on which we plan to increase our volumes. So, I am sure that is going to help us improve our margins.

Moderator: Our next question is from the line of Saket Kapoor from Kapoor and Company.

Saket Kapoor: So when we look at your employee cost as a percentage of sales, what should be the number currently, I think it is closer to 13%. On a consolidated topline of INR 785 crore, the employee cost is around INR 105 crore. So, what should it look like going ahead? Any reason why the numbers are so high?

Rajeev Jhawar: You see, this includes all our International operations and India operations on a consolidated basis. We operate in different parts, even in developed countries where the manpower costs are higher. The way we are planning to expand our volumes in the International market is that there would be a marginal increase in our costs, particularly on the sales force, but the basic overheads would remain the same. I would say that going forward with the commissioning of the new capacity and increased activity of business in our Brunton Show and all, the percentage of sales will be around 13%. So going forward, the percentage should come down by at least 1% to 1.5%.

Saket Kapoor: As you articulated regarding the capex initiative at Ranchi, the entire capital, which is work in progress, the amount is around INR 210 crore. So, what will get capitalized by the end of this year? And where is this money being deployed to? Is it entirely to the Ranchi capex, if you could just provide the breakups?

Anirban Sanyal: In the first half of the year, we spent about INR 136 crore in capex, out of which on the various programs that are ongoing, it is about Rs. 90 crore during the first half. And we expect that by Q4, the Phase 1 of the capex should be entirely capitalized, which would be in the range of INR 300 to INR 310 crore, but by end of Q4.

Saket Kapoor: So this entire amount is spent for the Ranchi facility only, the closing balance of INR 210 crore also and the one which will be spent across till Q1 of next year?

Anirban Sanyal: No, so don't look at the closing balance, closing balance includes a lot of other capex also. You will have the SAP projects ongoing, other digitization projects ongoing. But I am just giving you from a spend perspective, that almost of the total capex till date, we have spent almost INR 230 odd crore, and we will complete the balance spend by the end of the year related to the program. And this will be capitalized somewhere between INR 300 crore to INR 310 crore by end of Q4.

Saket Kapoor: And that is entirely for the Wave 1 and it is pertaining to the Ranchi facilities. Is this correct?

Anirban Sanyal: Yes, so when I am talking about INR 300 crore to INR 310 crore, that is specifically for the Wave 1 as we have guided and that's entirely in Ranchi.

Saket Kapoor: Mr. Jhawar, two years or maybe one year earlier, you had spoken in the AGM that you were making some inroads in some very new nascent markets in the export segment, wherein it takes around three to four years to develop the product. And once you get a patent and you are ready with the testing part, then there would be a series of orders flowing. So where are we in terms of the work that we have done and when are we going to start bearing the fruits, whether we have already started or in which stage are we?

Rajeev Jhawar: We started this journey and we started getting some trial orders and also big contracts in the second half of the last financial year. It takes almost four months to six months because the wires and strands are produced in India and then finally closed in Europe. These ropes are between 200 tons to 350 tons single reel. So, I am happy to say that all the trial orders and the initial orders we received have all been successfully delivered to our customers. Also, we have got repeat orders from the same customers as well which has helped us to build a reference. We have a decent order book now and the pipeline of inquiries are good, particularly in the oil offshore and wind energy sector, in the European, South American and some of them in the Australian markets. And I expect the benefit of that to start coming significantly in the coming quarters.

Saket Kapoor: So all these will add to the value-added segment?

Rajeev Jhawar: All these are in the value-added segment only.

Saket Kapoor: When we look at the numbers of standalone and consolidated in your presentation, sorry if I am incorrect, correct me. If you can provide us what goes into consolidation separately, explaining that would be very helpful. Also, on account of this JV part, the share of profit on JV; if in these two aspects more insights are provided, it would be more helpful going ahead.

Rajeev Jhawar: Anirban, it would be good if you can share it offline with him. I think, I would just like to add that on the share of profit of our joint venture, we have one such joint venture which is called Joh Pengg Usha. Pengg Usha, which is a joint venture with an Austrian Company which is producing very high-end wires which goes into the auto sector, oil tempered wires which goes into the auto sector. This has done well. We have 40% of the shareholding and 60% is with Joh Pengg. It has got a plant in Ranchi. We jointly manage it and it is a profitable business and helped us very well in improving our market share in the specialized wire market. So, this is something I would like to share. Rest, Anirban can share with you offline.

Saket Kapoor: Could you throw some more colour on the order book pipeline and also on what the earlier participant had asked about our revenue growing by 15%. So how is H2 currently looking in terms of the topline part? I think the profitability portion we may match this 18% EBITDA number. So, what should be the ballpark number we should look forward depending upon what you have spoken about the strong pipeline. Also do we have any order book number which you can share and the executable period on the same?

Rajeev Jhawar: As I mentioned to you that we are in the process of the final stages of implementing the capex in Ranchi, the Phase 1, which is getting completed by Q4. Also, the LRPC and the wire, because of the second half, we expect the volumes to be better compared to what it was in the first half. So overall, I can say that we should be doing better in terms of the bottom line. Of course, the full benefit of that capex will start coming from Q4 and further quarters. I think as a management what we are focusing is how to maximize our profitability till the time the volumes come in. That is something by virtue of looking at how to improve our product mix, how to improve our share of value-added products and services. Till such time our volumes start coming in and we get a benefit of volume and value both. So, I think the next two quarters, while I would say that we would have a higher topline than what we did in the first half, the immediate task is to see that how we improve and get a better profitability out of our operations followed by volumes coming in the subsequent quarters.

Moderator: Our next question is from the line of Pratim Roy from B&K Securities.

Pratim Roy: I have two questions. Firstly, the net debt has gone up sequentially. On the working capital, how many days raw material inventory that we have currently for Q3?

Anirban Sanyal: So right now, although you see an increase in net debt, but I would say that if you look at the leverage ratios, they are very much comfortable. The overall increase in net debt has primarily occurred for two reasons. One, there has been a dividend payout during Q2 and also because of the capex spend of almost INR 136 crore during the first half.

In terms of the working capital days, we are at 190 days overall NWC of which almost about 186 days is pertaining to the inventory. It is slightly built up from the FY23 end levels for the simple fact that we are building-up the inventory at the subsidiaries as we anticipate a higher rate of sales in H2 of this year. So, it is sort of planned and we hope that the inventory levels would reduce substantially over the next two quarters.

Rajeev Jhawar: Let me add a point to this. Our debt is still very low despite the INR 76 crore of dividend and the capex outlay which is ongoing. Even considering everything, the Company is highly deleveraged. And of course, our focus on managing working capital and generating free cash flows would make it better going forward.

Pratim Roy: Is there any market share gain that we have observed during the first half of the financial year from the International market?

Rajeev Jhawar: As I mentioned, International markets, of course there are challenges in the European and the American markets in terms of the overall economic situation over there. But the Company has been able to strengthen its position in the specialized roles in the European and the American market as Shreya mentioned earlier. And we have started getting benefits and we expect that to continue even in the coming quarters.

Moderator: Our next question is from the line of Arjun from Fordham.

Arjun: Sir thanks for releasing such excellent results. And I think you are among the few companies I track, where the management has been so prudent and frugal in their capital deployment. Given this backdrop post the announced already capex plans, will we have any more capex other than the maintenance capex for the next two years or three years?

Rajeev Jhawar: We have capex phase 1, which is getting completed of INR 310 crore. Also, we have already announced another capex which will be done over a period of next two years of INR 160 crore in India and around INR 60 crore in Thailand. Other than whatever has been announced, we do not have any other capex plans. As of now, till we complete all these, it would only be routine capex.

Arjun: This is great news because the capex, if I sum it up, would come around like INR 250 crore, INR 300 crore. But we generated around INR 500 crore, INR 600 crore cash flows this year and maybe would generate much more the next year. So, can we safely assume that a major part of these cash flows would come as a dividend to shareholders?

Rajeev Jhawar: You see, we have a dividend policy, which is minimum 25% to 30% of our profits, which is a stated policy. And I am sure if the Company does well, it will reward its shareholders.

Arjun: Because we will be generating around INR 600 crore, INR 700 crore cash flows is what we estimate given the growth rate which you have. So because we do not have a great amount of capex after this, why cannot we expect a 40%, 50% kind of a dividend payout?

Rajeev Jhawar: See, we will definitely look at all options depending on finally the cash generation and return. So, this is what is currently stated. I am sure the Board will look at all these options and all these things once we get to those levels of returns.

Arjun: So could we as investors expect that if there is not much of capex plans, a dividend payout of 50%; is that a possibility?

Rajeev Jhawar: Right now, I can only talk about the capex which is what we have committed and that is what we have in plans to do, and balance is routine capex. Hopefully, the things will become better. I am sure that all stakeholders, including our shareholders who are very important will definitely benefit out of that.

Arjun: Thanks for that reaffirming statement, sir. Another question is on your margins, given now in Q4, you will start commissioning on those high margin growth business from Ranchi. What kind of margins can we expect after this on an average from the Company?

Rajeev Jhawar: Yes, as I mentioned, you see margin is also depending on how all our three segments perform. When we look at it internally, while margins of individual businesses are important, but we have the manufacturing capacity for all three products which as I mentioned, the rope, the LRPC and wire were subdued in the last couple of quarters. We expect that to come back. So, when the volume of those will grow, of course, the overall profitability will grow. The blended margin may come down marginally, but again, with the increase in the higher value-added wire rope, it will go up. So, we hope that we continue at these levels. The margin going forward also depends on the weightage of the three segments, how much we are producing and how much we are selling, because all these three are totally disproportionate in terms of the margins between the wire and LRPC. But we expect it to be at similar levels or growing gradually as we go forward.

Arjun: Yes, because we are getting into high growth margins from Q4, the natural expectation would be that we would be higher from where we are right now?

Rajeev Jhawar: If the volume of wires and LRPC also grows significantly in these quarters, it will help us in overall profitability, but it may have a blended effect on the overall margins. So, you see it is a very dynamic business. And in LRPC and wire, if the demand, prices are good, we will continue to increase our production and sales of LRPC. It may add a little dampener to our margins, but it will improve the profitability. But on the other side, our effort to increase the wire rope value-added as well as the volume would continue. So, what it would ultimately determine would also depend on the margins and volumes of all the three segments. So, we are all working towards absolute profit and hopefully it should improve the margins.

Arjun: So as investors, we are really expecting that you go a little more aggressive, atleast from my point of view, a little more aggressive in your dividend payout. If there's not much of capex, hoping that you will help us with that. Thank you so much.

Moderator: Our next question is from the line of Anant Jain, who is an investor.

Anant Jain: Congratulations on a good set of numbers. My first question is that you have done a remarkable job in wire ropes, moving up the quality curve. We also had similar plans for wires. Where are we on those plans and when can we see significant developments in that direction?

Rajeev Jhawar: The wire side of the business, to be honest to you, our focus has been in the last few quarters, more on the wire rope because we saw big opportunities and particularly through our integration. We have identified quite a few areas on wires, a lot of which is awaiting the new patenting capacities, which are getting added. One of them has just been upgraded and the other one is expected to get commissioned in January. So, then we will see the volume of wires going up. So, our focus is still there, but I would say that it would start happening from next year because all the attention and capacity was primarily first given for increasing the rope products.

Anant Jain: So even this new increase in wire capacity that we will be looking for going ahead, maybe in Q4 or Q1 of next year, do we expect them to be at a reasonably higher margin than the current wires that we are doing?

Rajeev Jhawar: Yes, of course, because all those will be through the patenting route, which generally helps you get a better margin than just pure straight wire.

Anant Jain: On the volume side, in this quarter, was it because that we wanted to have a higher volume of wire ropes and that is the reason that we had lower volumes of LRPC or it is because that, we did not have orders for LRPC that our volumes went down?

Rajeev Jhawar: You see the wire rope and LRPC making capacities are completely independent of each other. So, there was no loss of LRPC because of the focus on rope. So, that is because they are two independent plants within a plant. The LRPC, the orders and the markets where we were operating were definitely affected in the monsoon period. We are seeing an upper traction from November onwards, partly in October, but November onwards, the order book is also getting better. So hopefully the LRPC volumes, we will see better in Q3 and of course, should do well in Q4.

Anant Jain: And how about plasticated LRPC, how is that doing? That's a very specialized product that we have.

Rajeev Jhawar: Plasticated LRPC, I am happy to say that the products which we have supplied have been accepted well by the customers. These are all project based. Some of the projects where LRPC plasticated, we have supplied, both in India and we have done some Internationally also which have been well accepted. The initial test results have been good. We have got a decent order book, but in this quarter, we must have sold, if I am not mistaken close to about 500 tons in total. We could have done more, but those projects were affected because of the heavy monsoon in that area and, particularly in Bihar and parts of Northern India. But this is an important product for us and we expect the volumes to be growing towards 400 tons, 500 tons a month in the coming months.

Moderator: Our last question for the question-and-answer session is from the line of Vivek Chaturvedi, who is an investor.

Vivek Chaturvedi: I just wanted to check, what is your broad expectation in terms of H2 on wire rope and LRPC volumes? Would you be able to share that?

Rajeev Jhawar: I can only tell you that we are all pushing hard to do better. H2 will be better than the first half in the LRPC as well because now the monsoon season is over. We expect the volumes to be higher in the second half of the year for both the wire rope and on the LRPC. I can only say at the moment that we should do better.

Vivek Chaturvedi: And the EBITDA would also be broadly similar to H1 levels? EBITDA per ton?

Shreya Jhawar: As mentioned before, the EBITDA margins would really depend on the product mix. With regard to absolute numbers, the endeavour would be to continue to grow, but at this point, we would not be able to give any specific numbers around that.

Moderator: That was the last question of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Rajeev Jhawar: Thank you. 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. Thank you.

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