Usha Martin Limited

Q1 FY25 Earnings Conference Call Transcript

August 14, 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 * then 0 on your 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, Mr. Singh.

Devrishi Singh: Good afternoon, everyone, and thank you for joining us on Usha Martin's Q1 FY25 earnings conference call. We have with us Mr. Rajeev Jhawar – Managing Director of the Company; Mr. Abhijit Paul – 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 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: 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 strategies, following which Mr. Abhijit Paul will run you through the key financial highlights.

In light of the current macroeconomic and geopolitical climate, we reported positive results this quarter, supported by growth in both revenue and EBITDA. Revenue in our core Wire Rope segment increased by 7.5% year-on-year, and revenue in our Wire segment increased by 8.9% year-on-year, playing a key role in sustaining overall topline. At the same time, volumes in the Wire Rope segment increased by 7.8% year-on-year and volumes in the Wire segment increased by 19.8% year-on-year. The overall performance was achieved despite a notable decline in the LRPC segment, both in terms of the volume and revenue.

Our focus on higher value-added products and operational efficiency has helped achieve an operating EBITDA margin of 18.6%. The overall share of the value-added industry segment in our revenue rose to 54%, up from 51% in FY24. Notably, within the Wire Rope category, the value-added segment's contribution grew to 72%, up from 71% in FY24. Specifically, the growth in the Elevator and Mining Rope categories have had a positive impact. Additionally, revenue from international markets accounted for 56% of our total revenue during the same period. These positive trends have contributed to the improvement in our margins.

With regards to our CAPEX plans, our first round of CAPEX is on stream, and we anticipate a gradual ramp-up in volumes over the next 6 to 9 months, which will enhance our performance in the latter part of the year. The CAPEX is aimed at both increase in capacities as well as value addition on existing capacities.

As a part of the expansion, we have also introduced value-added plasticated LRPC products. We expect this addition in our portfolio to positively impact the LRPC segment, which has faced challenges in the recent past. With the ramp-up in volumes over the coming quarters, contingent on projects, we are confident that this new product line will play a crucial role in turning around this segment and contributing positively to our overall growth in the future.

While our business pipeline remains robust, both in the domestic and international markets, I would like to highlight some demand drivers going forward. The expanding sectors of Oil and Offshore, including Wind Energy, will continue driving increased demand for ropes in the global markets. In the domestic market, planned Government infrastructure projects, including bridges, ropeways, high-speed railways and infrastructure development in Tier-2 and Tier-3 cities are expected to sustain and drive further demand for our products.

Looking ahead, we remain committed to expanding our global footprint while continuing to focus on growth within India. I would like to reiterate that Usha Martin's strategy remains firmly centered on value-driven volume expansion. We are focused on maximizing the utilization of existing capacities to enhance both operational and financial performance. Investments in digitalization and automations are improving efficiency across our operations.

In conclusion, despite the challenges globally, Usha Martin has shown resilience in Q1 FY25 and is well positioned to leverage its strength and pursue growth initiatives to address these macroeconomic hurdles and drive strong growth in FY24-'25.

I would now like to invite our CFO, Mr. Abhijit Paul, to present the financial highlights for the quarter ended 30th June '24. Thank you, and over to you, Abhijit.

Abhijit Paul: 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 ended 30th June 2024.

The consolidated net revenue from operations stood at Rs. 826 crore in Q1 FY25 compared to Rs. 814 crore in Q1 FY24, reflecting a 1.5% year-on-year increase. This growth is primarily driven by higher contributions from both the core Wire Rope and Wire & Strand segments. Notably, the Wire Rope segment continued to deliver steady revenues, contributing approximately 72% of our total revenues.

However, the decline in the LRPC segment's contribution impacted the overall topline performance during the quarter. Despite this, we are optimistic about the growing demand and order inflow for galvanized and plasticated LRPC and anticipate a positive contribution from this segment in the coming quarters.

Our operating EBITDA for the quarter stood at Rs. 154 crore as against Rs. 146 crore in Q1 FY24. The operating EBITDA per ton stood at Rs. 32,628. Additionally, the Q1 FY25 operating EBITDA margin increased to 18.6%, up from 17.9% in Q1 FY24. Including other income, EBITDA margins for Q1 FY25 stood at 19.2%, up from 18.3%

in Q1 FY24. This margin enhancement is attributed to our improved product portfolio and increased spreads. Net profit for the quarter stood at Rs. 104 crore, reflecting a 3.1% increase from Rs. 101 crore in Q1 FY24.

On the balance sheet front, we have managed to reduce our net debt to Rs. 73 crore as of 30th June 2024, down from Rs. 124 crore at the end of March '24. This improvement is reflected in our net debt-to-equity ratio, which has improved to 0.03x as of June '24 compared to 0.05x as of March '24. Despite our ongoing CAPEX initiatives, our net debt remains at comfortable levels.

We are happy to share that our credit rating has been upgraded to 'IND A/ Positive' with a 'stable' outlook from 'IND A'.

I would like to reiterate that we remain confident in our ability to navigate market dynamics effectively and drive sustainable growth. The Company will maintain strong financial discipline while benefiting from the positive demand outlook for its products and its solid market standing. Usha Martin is committed to continuously enhancing its financial performance and is strategically positioned to create increased value for all 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.

Aman Sonthalia: Our Minister Nitin Gadkari has announced a CAPEX of around Rs. 1, 25,000 crore for Parvatmala project. So, how big is the opportunity for the Company over the next 3 to 5 years? Also as per some of the recent news articles, some of the State Governments, like Himachal Pradesh Government, Uttarakhand Government and Jammu-Kashmir Government, are very excited about this ropeway project. So, where do we see our Company in Parvatmala project, sir?

Shreya Jhawar: Yes, you are absolutely right, there are ambitious plans by the Government of India through the Parvatmala Pariyojana project, and they've planned about 250 ropeway projects in the next 5 to 7 years. Some of these projects, of course, are at early stages and some are also being retendered right now. Also, like you mentioned, various State Governments have also initiated setting up ropeway projects. We are well positioned to grab some of these opportunities as focus of lot of these projects is also Make in India. We are working with our project teams, along with our global design center in Italy. They're working with all of the relevant project authorities, consultants, directors in order to capture these opportunities. So, I think we are well positioned because we do produce locked-coil wire ropes, stay cable strands and all of these other products that are required for these projects, not just ropeway, but also the high-speed railway projects, the bridge projects, etc., that the Government has planned as part of its infrastructure initiatives. So, over the next few years, this should contribute positively to our overall performance.

Aman Sonthalia: My next question is; recently over last 2-3 years, we have seen a lot of landslides in the mountain area. Recently, a big tragedy happened in Wayanad in Kerala. We are coming up with this Galfan wire in our Ranchi plant. So, how big this opportunity is for rope knitting in coming future?

Rajeev Jhawar: Yes, our Galfan line is getting commissioned in the next 3 to 4 months, and there is a very big opportunity. Unlike the Western world, particularly Europe, in the Alps, they have a very large program for constantly putting the rockfall barrier, which is produced out of Galfan wire. And Usha Martin is very much working with GEO Group of Switzerland to partner with them to build up this industry, and there is a good opportunity; and we see in the coming years, there should be a good demand coming from this.

Aman Sonthalia: In the last conference call, it was indicated that you are expanding our capacity in European venture. Since Europe is going through a recessionary period, so how we see our products demand in Europe and whether we will be able to sell that expanded capacity in Europe?

Rajeev Jhawar: Of course, in Europe, there is a general slowdown in the economy, but the areas where we are currently focused is in the Oil and Offshore and the Wind Energy sector, which has a fairly strong demand because most of the countries are looking for their energy security and therefore, there are big projects which are going on. We are expanding our capacity in these areas, especially for the high-end ropes for these projects. The order pipeline looks to be fairly strong. The inquiry pipelines are fairly strong. And we expect that the new capacity increase, which is expected to be completed by end of this year, should be able to get a comfortable order booking to be able to ramp up the production there.

Aman Sonthalia: Also, the Indian Tier-1, Tier-2, Tier-3 cities are seeing housing boom, so how we see our elevator rope demand in India? And at the same time, I think U.S. market is also witnessing a very huge demand for elevator rope. So, whether we will be able to expand our capacity and how we foresee our future in this elevator rope.

Rajeev Jhawar: The elevator rope market, both in India, overseas, are fairly, fairly strong. With the big push for Tier-2 cities for the building, especially with higher storey buildings, there is a good demand of elevator ropes, and we see a very good order book and a very strong demand in the coming time. We expect the growth should be between 10% to 15% per annum based on the current situation. Also, the demand for elevator ropes internationally seems to be fairly strong. And once we have acquired our 50% stake in our joint venture with Tesac, which we started running it independently from February this year, I am happy to say that facility, which also produces only elevator ropes is also doing fairly well, and we expect a fairly good offtake of elevator rope from that venture itself. So, overall, I would say that elevator rope growth could be between 10% to 12% per annum.

Aman Sonthalia: Our slogan was value-led volume growth. So, in the first quarter, we have seen a virtually flat growth in the volume. So, can we expect in the coming quarters the Company to register value-led volume growth?

Shreya Jhawar: Yes, definitely. I think the focus is still very much on value-led volume growth. I would say we can still expect, say, a 10% or so increase in volume in our Rope and Wire segment, which is very much achievable. With regards to the LRPC segment, of course, like we mentioned, the market dynamics change and our focus in that case is going to be more on the value-added products rather than the volume. And so, we will focus on our plasticated and galvanized LRPC in that particular segment.

Moderator: We will take the next question from the line of Kiran from Table Tree Capital.

Kiran: One of the most interesting slides in your investor presentation was Slide no. 8, where steel prices have reduced, and yet, we were able to hold on to EBITDA per ton or EBITDA per kg. So given the steel prices are probably at an all-time low and all the large steel players are complaining of Chinese imports, would this gap between EBITDA per kg and steel prices continue? Or are you seeing some pressure on EBITDA per kg? Essentially because we use wire rods and wire rod prices may not have reduced as much as the steel prices. So, if you could just elaborate on the dynamics around raw material prices, spread, and how the entire steel and wire rod dynamics happen?

Rajeev Jhawar: Yes, you are very right. While the steel prices in India have been all-time low, but on the high-carbon wire rod, which is our primary raw material, the prices have remained reasonably firm in the past few quarters. The reason being that there has been shut down by a few of the steel producers and some shortage of supplies from them, which prevented the prices to come down. So, while the global prices have been sluggish on the wire rod prices, the prices in India have not been as low as it is in the international market. However, having said that, we have been able to maintain our EBITDA margins close to Rs. 32,000 per ton by having a fairly strong product mix on the value-added products and ensuring that we work with our product mix and the value-added products and to see that our margins are protected. And you would have seen in the last few quarters, even though there has been volatility in the steel prices, our business model and the way our teams have worked, we have worked towards making sure that we maintain the EBITDA margins what we have been able to over the last few quarters on a sustainable basis.

Kiran: So, essentially, the outlook is we are not going to have severe EBITDA; a Rs. 32,000 in and around will be maintained, maybe improve, because of value-led volume growth, but not reduce for this year, at least, sir. Is that your view as well?

Rajeev Jhawar: Our objective would be to see that we atleast maintain these levels, and we are reasonably hopeful that we should continue to maintain at these levels. And of course, as the market would progress in the future, as we develop newer products, we could have some positive changes. But as of now, I would say that this is something our business model, we are reasonably confident of maintaining these levels.

Kiran: As we look ahead to the next year, is there a step-jump in terms of any particular product or any particular segment? Because, the way that we were kind of discussing over the last 3, 4 quarters, we were kind of closing in on about Rs. 500 crore profit after tax, in this year, I mean roughly, plus or minus. But is there any step-jump from here? Or are the ambitions a little more tempered? How do you see the outlook for the next couple of years or next year at least?

Rajeev Jhawar: I would say that as we are commissioning our projects and as we are developing our products in the international and building our product pipelines in the international market, we expect, definitely the volumes to grow. But, of course, we need to be mindful of the geopolitical situation as well as the overall macroeconomic situation. But having said that, I personally feel with the various initiatives, which the Company has taken over the last few years along with our global development center and along with our international distribution centers, we are slowly inching up our volumes as well as the value-led volume growth across all segments. We need to understand that we are not a commodity business. We are an engineering business, engineering product, which takes its own time to get into newer customers, newer territories. And we are confident with the various initiatives which we are taking that we should definitely see a positive jump in the coming 2 years.

Moderator: The next question is from the line of Prolin Nandu from Edelweiss Public Alternatives.

Prolin Nandu: A few questions on margins from my side. So, when you look at your business, how do you evaluate margins? Is it more on a percentage basis or EBITDA per ton basis? Because where I am coming from is that if we look at the very simplified version of your business, you take raw material, which is a commodity and then you add value and convert it into a specialty product, right? And also, despite the fluctuation in steel prices, our EBITDA margin on a per ton basis has remained in a very narrow range. So, how do you look at the business? And just to add to that, when it comes to the pricing of any specific product, I understand that majority of our sales are more on a spot basis or very short cycle kind of orders. But is there any element of commodity price linkage in any of the contracts?

Rajeev Jhawar: Let me answer your question in two parts. Number one, we generally look at our EBITDA as a percentage because while we have 3 product lines, the Wire Rope, and within Wire Rope also specialized rope and the GP ropes, then we have the Wire segment and then we have the LRPC segment. So, when we look at it, we look at the blended margin and try to see that we are maintaining a similar, where as you have rightly said that we have been fairly stable in the last few quarters, so our objective is to continue to maintain that level even though there is variation in terms of the percentage moving between the 3 segments, as I mentioned in my opening statement. So, it is 18.6% in this quarter, and that is something between 18% to 19%. We try to ensure that we maintain within that.

Number two, as far as the commodity is concerned, of course, within our product segment, the normal LRPC is a commodity product, and it is very sensitive to the steel prices. So, if any fluctuation in the steel prices going up or down, it has an immediate impact on the LRPC product. And currently, it is having a fairly low EBITDA margin within the entire product portfolio. So, this is probably the only product, which is purely a commodity linked, whereas the Wire Rope business is having a much more resilience, and it is having a lot more technology and engineering and pricing power within this segment, which we work towards ensuring that we work towards the blended margin at the levels at which we are operating.

Prolin Nandu: My second question is in a way, is slightly linked to the same margin related query. So, if I look at your Slide no. 6, where you have given product mix and energy mix and industry mix and geography mix. And you also mentioned that you are aspiring to have this value-led volume growth, and the big part of EBITDA margin improvement that we have seen in last 4 to 5 years is driven by increasing share of some product increasing share to some industry and probably growing international as well, right?

So, when I look at this slide, I mean, have we optimized all the levers on product and industry and geography part or there are yet a lot of levers that are yet to be optimized which will not only help us in terms of value-led volume growth, but also in terms of mix improvement, which will also impact the margins. So, on this 6th slide, if you can just let us know whether that optimization has already taken place or there is still enough and more to do to improve our product, industry and geography mix?

Shreya Jhawar: You rightly pointed out that the different levers that have helped us grow our margins and our overall performance. When it comes to value-added products within Wire Rope, I would say that right now, it's at about 72%, and the total value added is about 54%. If you look at FY23, it was about 44%. So, between FY23 and Q1 FY25, we have gone 10% higher from 44% to 54%. Now, will we be able to get that same growth rate; probably not, but at the same time because our CAPEX is more focused on the value-added segment, we should be able to incrementally increase it as our volumes from the new CAPEX ramp up.

When it comes to the geography aspect, of course, our focus is still to continue to grow in new geographies. Middle East, for example, we have roughly maintained at about 9% from FY 23, FY24, even in Q1 FY25, but now that our Saudi Arabia facility is on stream and is finally kicked off, hopefully, we will be able to increase our share in the Middle East as well. Similarly, in Americas and Europe, as we mentioned earlier, the efforts are on within Americas, not just the U.S., but also the Latin America market where Brazil is seeing strong growth. So, I would say that it's not that we are at kind of the end of this value migration, it's still very much part of our overall plan, maybe the rate that we saw from FY23 to now has been really good. Now I think incrementally we still continue to…

Rajeev Jhawar: And one more point I would like to mention on the LRPC, which I mentioned is a commodity product, we have successfully developed the plasticated and galvanized LRPC, which is much more value-added than the simple, pure LRPC. Although this is a project-based business where we are expecting a good pipeline, hopefully in the coming months and quarters as well as we have made some good breakthrough in the export market for these products in both in Southeast Asia and now even looking at Middle East and Europe for these products. And over the next few quarters, we even expect to ramp up this production. So, even on the LRPC, where we have very muted margins in the simple commodity product, we expect the margins to be better once we have the more and more percentage of plasticated and galvanized LRPC as a part of the portfolio.

Moderator: We will take the next question from the line of Gunjan Kabra from Niveshaay.

Gunjan Kabra: I missed the starting commentary of yours, but just wanted to understand that if we can talk about the construction sector and interactivities across the sector that we cater to has been really good; plus, the export market that you have been guiding, the pipeline in the U.S., Europe and Middle East has been really good. But I guess, the volume growth in the business has not been coming in a good time because maybe we were in the expansionary phase and operating at full capacity utilization. But some kind of volume growth was also expected this quarter, maybe in Q4, our capacity got commenced in Q1. So, can you explain how we are seeing this growth to come in? And if we are still on track of the 15% volume growth or has it been reduced from 15,000 tons to 10,000 tons which you were explaining in the previous question? So, if you can explain that.

Shreya Jhawar: I would say that like we mentioned that the 10% increase in the ropes and wire segment is definitely achievable. So, previously, we had mentioned 12% to 15% in light of, of course, our current macroeconomic climate as well as other logistical challenges as well. We would say that 10% is more realistic at this stage.

Gunjan Kabra: Also, what would be the value realization that will increase with respect to value-added and export market? So, if you can guide on that as well.

Rajeev Jhawar: See, our focus would be to increase value-led volume growth. And with the success which we have seen in the European market and the American markets, particularly on the oil and energy sector, cranes and ports. And we have seen also within this quarter that the prices of our international businesses have continued to increase, and it is mainly on account of the product mix which we have focused on, and we expect this trend to continue.

Gunjan Kabra: Sir, but the Phase-1 of the CAPEX has commenced, right?

Rajeev Jhawar: Yes, it has. And we are gradually ramping up the production.

Moderator: The next question is from the line of Anil Shah from Insightful Investment Managers.

Anil Shah: Sir, just again, coming back to the volume numbers, we had spoken about 15,000 to 20,000 incremental tons in this fiscal, which I thought was a combination of Wire Ropes, Wire & Strand as well as LRPC. We did about 1,81,000 of volumes last year. So, the increase that we were looking at was broadly in the region of about 20,000 to 22,000 tons in the splits between Wire Ropes, Wires & Strands and LRPC. Is that a fair understanding?

Rajeev Jhawar: Yes, it is a fair understanding, and we should be in a position to get that during this year.

Anil Shah: This is despite the first quarter being slightly on the lower side as far as expectation in terms of volumes were concerned?

Shreya Jhawar: I would say that, like we said earlier, rather than looking at all 3 together, probably keeping LRPC aside when we talk about volumes because again, the focus with LRPC is not as much on the volumes, but more on the plasticated LRPC, right, which will not have the same level of volumes as regular LRPC does. But in the Ropes and Wire segment, definitely, that is a realistic target, like we mentioned, 10%.

Anil Shah: And by which quarter does the LRPC, the galvanized and the plasticized, really start kicking in?

Shreya Jhawar: So, we have the capacities on stream for that, but this is a more plasticated, especially the more project-driven business, and there are projects that are there in the pipeline. But as they mature, we should be able to see it. But it's more a project-driven business.

Rajeev Jhawar: Right now, we are doing about 200 tons a month. And based on these projects, which we are hopeful of bagging, both in domestic and international markets, we should be gradually able to ramp it up to 500 tons a month.

Anil Shah: So, at least by the exit of fourth quarter, we should be there at about 500?

Rajeev Jhawar: Of course, we should be there.

Anil Shah: Sir, one question on the basis of what we just discussed. So, clearly, Wire Ropes as an overall volume contributor will be significantly higher than last year. And within Wire Ropes, obviously, higher value-add because that's where the CAPEX would happen, should be even more higher. So, from that perspective, the EBITDA per ton should see 2 trigger points to take it even further higher, as I said, because LRPC, which has lower margins will have as a percentage lower contribution to volumes. And two, within Wire Rope, we should have higher value-add coming through. So, is that again something which is fair assumptions to make?

Shreya Jhawar: I would say that our goal is, of course, right now, value and volume, a combination, right. So, as we increase volumes, the goal would be to maintain at the least the EBITDA per ton and the margins. Of course, depending on the product mix, it might go a little bit higher, but that really depends on the market conditions, the demand from the market and how we are able to cater to that.

Anil Shah: Yes. But market condition as of now, they seem okay in terms of what you had just given us in terms of global markets as well as Indian markets. There seems to be reasonable demand, which is still very much prevalent, right?

Rajeev Jhawar: See, market demand for the Wire Rope segment and the Wire segment is fairly strong, but LRPC segment, it is pure commodity. During the first quarter, elections were there. There were less orders and projects, which impacted our volumes of LRPC. And the margins of LRPC has practically been very, very low. And the second quarter, because of the monsoon, the LRPC volumes are again very low. So, we need to understand that the rope and the value-added rope and the wire volumes are fairly stable and strong. But LRPC is something which has a significant volume in our product mix, and on a per ton basis, can have a fairly strong impact in the EBITDA moving plus or minus because of the lower margins in the LRPC currently.

Anil Shah: Correct. That's exactly the point I meant that we should see EBITDA per ton actually going up given LRPC is weak.

Rajeev Jhawar: But it depends that the LRPC demand picks up and the volume grows, but the margins of LRPC never be the same…

Anil Shah: Then the absolute EBITDA will be higher. Then, I am saying, aggregate EBITDA will then obviously improve.

Rajeev Jhawar: EBITDA would definitely be higher, but on a per ton basis is what Shreya mentioned that we try to see that at least we achieve this, and if it improves, it is for the better.

Moderator: The next question is from the line of Aditya Arora from 4P Capital Partners.

Aditya Arora: Just a couple of questions here. One is on the international segment if you could help us understand, have you been gaining market share in some of your products? And also, what kind of additional revenue you have got from new set of customers because in your business, which is specialized product, getting new customers are difficult, it takes time. That's my understanding. And if that be the case, have you won any new customers? Have you got new market share? And what percentage of your revenue is now coming from new set of customers?

Rajeev Jhawar: It's a good question. We have, over the last 3 years, developed particularly on the oil energy, wind. And also in the ports, we have worked along with our R&D center. We have been able to make good breakthroughs and built a fairly strong customer base, and it is not just breakthrough, but repeated orders and also a few contracts under negotiation and pipeline. So, this is something which particularly in the European, American and South American markets have been fairly strong in these sectors. In Mining sector also, we have made certain breakthroughs in the North American, South American market. Our products have been well accepted, and we are in the process of getting repeat orders. So, this is the only reason why we feel that in the coming quarters, we should be in a position to push our volumes based on the value-led volume growth. And we expect a decent result coming out of these initiatives.

Aditya Arora: That's helpful. But if that is the case, then is it that the market demand outside India is slow, which is why we are guiding, say, 10% volume growth? Or are there any other reasons? Ideally, in that case, the volume growth should be higher than what we are guiding.

Rajeev Jhawar: You see in the rope industry, there are 2 segments, one is the specialized segment, which we talked about. So, this is something which we is fairly increasing our market share and making more and more breakthroughs and building strong customer relationship in these segments. But the general-purpose (GP) rope, which goes for the normal engineering applications, because of the slowdown internationally, this part of the business is not strong at the moment and is also very competitive. So, while we are focusing on the value-added, specialized products and where our market share is growing, there is a slow offtake coming from the general purpose, which is not allowing the volume to grow the way we would expect to grow if everything was growing at a very good pace.

Shreya Jhawar: Yes and as we mentioned, because the specialized products are highly engineered, so even if the market demand is good, it's not going to see the same rate of growth in volume that we would see if we were focused on GP rope so that the volumes are much easier to increase in that. But as we want to focus on the specialized segment, it takes time to build and get repeat orders and those references as well. The team is working on it, and the segment specifically that we mentioned and even various geographies, we are trying to diversify our presence as well. So, even within Latin America, it's not that we are just targeting, say, Brazil or Mexico. Whether it's Chile, Peru, Colombia, Ecuador, so in each of these markets, we are identifying our channel partners and diversifying our presence, so that should help. But all of this takes time, and it can't happen very quickly as soon as the capacity goes on stream. So, it will be a gradual process, and that's why we say about 10% is more reasonable.

Aditya Arora: Okay. Have you been gaining market share? And what would be your market share, from the 3 geographies now, say in Europe, U.S., Latin America?

Rajeev Jhawar: Particularly the newer markets, which we are developing, we are taking market share from the global leaders, Bridon, Kiswire and others in the market, the well-established players. So, we are gradually increasing our market share. But to be able to say exactly what percentage, I don't think we have that kind of data. But when we look at the order pipeline and the inquiry and what sort of conversion is there, I would say that the rate is constantly improving.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Co.

Saket Kapoor: When we look at the Q-o-Q employee benefit expenses, has gone up from, Rs. 109 crore to Rs. 126 crore. So, what explains this Q-o-Q as well as year-on-year increase in the employee cost? And what should be the annualized number?

Shreya Jhawar: I would say that there are a number of reasons. One is, of course, we have hired some new employees to develop the businesses in some of the international markets as we are having this capacity on stream and we need to develop the market for that.

So, that's number one. Two, we also had increments for our employees. And thirdly, there are, as part of this quarter, some one-time bonuses for rewarding employees for the performance as well. So, a combination of all of these 3 has led to.

Saket Kapoor: So, what should be the annual number we could assume for employee cost?

Rajeev Jhawar: The one-time cost, which she mentioned has been there, but in the coming quarters, they should taper down, and we should be at our normalized level from quarter 2 onwards.

Saket Kapoor: So, Rs. 110 crore should be the number. Sir, Rs. 15 crore is the additional number, which we should factor as one time?

Rajeev Jhawar: It should be factored one time.

Saket Kapoor: Yes, this Rs. 15 crore only that should be factored?

Rajeev Jhawar: Yes. And the rest should be on a normalized basis. But there will be normal increments, so those will be there. But this one-time expense, which she mentioned particularly for rewarding our people in the international business, and so that is there.

Saket Kapoor: Sir, correct me here, earlier you've spoken about our rope product being accepted by the mining companies in the American geography. And over there getting approval takes a long period of 4 to 5 years. But then there is a good chance of getting repeat orders, and there are very strong entry barriers. So, are you alluding to this value-added segment and the high-end facility offering in this vertical itself, where we are going to see growth going ahead? And what is the opportunity size, in this mining segment, especially in the Latin American region, you alluded 2 years ago, maybe some time ago about this?

Shreya Jhawar: Yes, definitely, in the mining segment, we had made inroads, especially during the COVID period where we got our foot in the door to the U.S. market. And since then, we have gotten repeat orders as well as contracts in that region that secure repeat orders for us. Even if you see from our overall topline contribution of mining rope was about 4% in FY '22-'23, but then gradually has increased in FY24 to about 6% and in this quarter to about 8%. So, it has been an important product line for us, and the large part of it comes from, like you mentioned, the U.S. market, the Latin America market as well as the Australia market, internationally. And of course, in India, we continue to supply to mining companies as well.

Saket Kapoor: Is the pipeline also robust there for repeat orders and there are strong entry barriers also?

Rajeev Jhawar: Entry barriers are fairly strong because the time taken to get the approval is, as you rightly said is between 3 to 4 years. And we are expecting the order books and contracts, I think, we should be gradually seeing improvement on this segment on a quarter-on-quarter, we should be seeing a benefit.

Saket Kapoor: On the raw-materials, I want to understand that we are sourcing domestically from how many players; is our dependence on the domestic players. How many players are we sourcing the raw material? Also, what constitute the key raw materials?

Rajeev Jhawar: Our key raw material is high carbon wire rods. We are having 4 important suppliers, JSPL, Jindal Steel & Power. They have a plant just 40 kilometers away in Patratu from where we source our rods. Number two is erstwhile our own steel Company business, which is now with Tatas, part of Tata Steel. So, they continue to be our important supplier. And then Electrosteel, which is 100 kilometers away in Jharkhand. And small quantities, we have also started buying from JSW. Although their plant is in Southern part, but some quantities, we are buying, particularly for our northern Hoshiarpur plant, we are buying from them. So, these are the 4 important suppliers, and we have an excellent working arrangement, including development of our newer products.

Moderator: The next question is from the line of Diksha Jain, an Individual Investor.

Diksha Jain: The Company has definitely come out of lot of issues, which were there, 5, 7 years earlier and the Company is now on a growth path. But from the last 2 years we are now seeing sales have kind of stabilized. Now what are the changes that you feel could actually show a positive uptrend on sales?

Rajeev Jhawar: So, basically, we went through a difficult period and post our divestment of steel business, we first focused on consolidation of our business, the Rope business. We looked at all the latent capacity and used it to ramp up and try to integrate with all our international business. Then we have taken this expansion program, which is underway, which is helping us to ramp up our capacity. As we said in the earlier part of the discussion that we would be ramping up gradually our volumes, and we expect a 10% increase in volumes, particularly in the Wire Rope and the Wire segment coming out of the expanded capacity, and of course, based on the current market scenario, what we see. So, that is something which is going to help us improve our volumes and our focus within the volume into the value-added product segment is hopefully going to enrich our product mix and ensure that we sustain and grow our profitability and margins, including the topline in the times to come.

Diksha Jain: So, this 10% growth you are seeing for 1 year, or like will there be a hockey stick kind of thing thereafter because a lot of these are sticky. So, once you start getting the orders in, do we see a higher growth after 1 year?

Rajeev Jhawar: Of course, this again, it depends on how the overall market situation would be, but our endeavor would be to continue to keep on increasing. And as we have increased the capacity, and as we already said, that it is an engineering product, not a commodity product, which can just be ramped up and we start selling based on price sensitivity. Just we have to ensure that we get the approvals, we get new customers, and we continue to supply and get repeat orders. So, definitely, if the global demand remains fairly strong, the geopolitical situation doesn't worsen and the capacity increase, which we have planned in the expansion, all that should only help us to increase our volume and market share in at least next couple of years.

Diksha Jain: Also, any other opportunities which you think could be something which would get you very excited coming up?

Shreya Jhawar: That's a good question. One of the things I think that we had talked about in one of the earlier calls is our synthetic slings facility, which we are setting up in Brunton Shaw UK, and the progress is going well on that. And our internal trials have already started on that, and we expect to go live in the upcoming quarters within this year for that as well. That is a complementary product to our steel wire ropes, and the

R&D team has worked very hard on that to understand the product and also already started approaching quite a few of the end customers, which are sort of common between steel wire ropes and synthetic slings as well. So, we do expect to get good traction on this and especially again within the oil and gas and wind energy segment. This has good applications. And this is our first foray into the synthetic space, but we are quite excited about this product line, which is adjacent to our current product line, yet a little bit of a different product that has a good growth rate. The industry itself is also growing pretty fast, and there are more applications and more geographies we can even cater to in the future, but we started small with a small investment, about GBP4 million or so, but it can become a good opportunity in the coming years.

Moderator: The next question is from the line of Aman Kumar Sonthalia from AK Securities.

Aman Sonthalia: My follow-up question is, as you have said that in the next few years, we will get higher volume and business from the synthetic sling and mining rope. But after 2 years, if things happen as per plan, we can expect big business from Parvatmala project?

Rajeev Jhawar: Parvatmala project is a very exciting project, but as Shreya mentioned earlier, there are 250 odd projects, which have been approved. Wire Rope is a very important part of the whole ropeway system. And Usha Martin is the only supplier in India for these products, and with the Made in India initiative of the Government, and we have had presentation to the Parvatmala project authorities, we see a good opportunity. It may take a year, 1.5 years for the projects to come to this stage. But based on our interaction with the various stakeholders, we see it as a very big opportunity.

Aman Sonthalia: So, it can be a game-changer for the Company in the future?

Rajeev Jhawar: See, we have many product portfolios and Parvatmala and this special project would be. So, LRPC plasticated is important, this is also important. We need to understand in Usha Martin, we are not dependent on one sector and one industry. We have a fairly diversified portfolio, whether it is fishing, mining, structural, which is part of the Parvatmala project, fishing, elevator. And also, we have a fairly diversified geography. So, we are not dependent on any particular single geography. So, in a way it helps you to diversify your risk and not be dependent on just one market or one sector. So, looking at the overall opportunity, Parvatmala is important, but what Shreya mentioned, the synthetic is also equally important, and we are excited about all these. Now, how much of this gets converted into actual reality. But overall, we are fairly optimistic and excited about these opportunities.

Aman Sonthalia: For my understanding, want to know that what is the price difference between GP rope and specialized rope in the international market? Also for this normal LRPC and plasticated LRPC and this normal wire and galfan wire.

Rajeev Jhawar: Let me tell you about the LRPC. The normal LRPC is selling at Rs. 65,000 to Rs. 70,000 a ton depending on the steel price. And the plasticated galvanized LRPC could be between Rs. 1,35,000 to Rs. 1,70,000 a ton depending on the specification of each rope, you can see the difference in that. Of course, the manufacturing process and cost will also be different for these 2 products. Similarly, for the GP ropes, between the specialty ropes, the pricing is fairly, fairly different for different products, whether it is plasticated, compacted depending on the end use. But the GP ropes would be $1,500, $1600 a ton, and the specialized ropes could be close to $3,000, $3,500 a ton.

Aman Sonthalia: That means, though the volume increase will be less, but the value increase will be much higher.

Rajeev Jhawar: Of course, our whole objective is value-led growth. So, that is going to be something which is going to be our key focus even going forward.

Moderator: There is a follow-up question from the line of Kiran from Table Tree Capital.

Kiran: Bridon-Bekaert had their Q2 concall recently, and they're all over the place, right? They've lost a lot of clients. A lot of clients are unhappy with them. Capacity consolidation has gone wrong both in U.S. and Europe. I mean, is it just market share grabbing from Bridon-Bekaert that we are kind of impaneling others, and the growth is coming from there? Or is the overall opportunity expanding? And generally, are we actually winning against Bridon-Bekaert or is it their own internal issues?

Rajeev Jhawar: First of all, I would say that we compete not only with Bridon-Bekaert, we are competing with all the international players, and we are all on equal footing. And based on the strength of our R&D, based on our closeness to the customers and with our continuous efforts with our R&D center over the last 3 to 4 years, we are trying to get a larger share of the market share. I would not like to comment anything on Bridon-Bekaert in their internal issues because I am not purview to that. But I am saying that as far as we are concerned, we are constantly trying to see that how to get into the higher-end products. That is number one.

Number two, the segments related to the oil offshore, to the wind energy is definitely growing, and it is growing at a very fast pace because every country is trying to both increase their energy footprint. And that is something which is helping us to see a good traction of business coming from them. And everybody is fighting for the pie of business and so are we along with our Brunton Shaw and our other brands. We are also trying our best to see how best we can get those businesses.

Kiran: And sir, do we share any order book numbers this year as of previous year? And two, are we actually on track for Rs. 500 crore profit after tax this year?

Shreya Jhawar: No, we don't share any exact order book numbers as such. And in terms of guidance, like we mentioned, around the volume growth around 10% for ropes and wires while maintaining our margins and our realizations that what the extent of guidance that we'd like to give at this stage.

Moderator: 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.

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

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