Investment memo – Usha Martin **Date:09/06/2025**

Mcap (Rs bn)	95	Shares O/S (mn)	305
Promoter shareholding	44%	Price (Rs)	313
Pre-tax ROCE	18%	Trailing P/E	24

Investment summary

We like Usha Martin (UM) as:

1) UM can grow volumes at ~10% CAGR in the next 2-3 years led by market share gains (from developed market peers) due to: a) Its established brand; it is amongst global top 5 with market share of ~5-6% by volumes, 2) Superior cost positioning; India advantage, and, 3) Scope to enter new markets and high value-added products based on its technical strengths.
2) Wire rope is a good business: a) It is a made to order product; one needs a comprehensive basket of products with '000s of SKUs to be able retain/grow market share, requiring years of product development which is an entry barrier, b) Clients don't shift easily as ropes are used in machines moving heavy loads; safety is the first priority. Hence, ROCE is good (~20% on greenfield plants) and sustainable, c) It has substantial (~85%) replacement demand which lends stability to sales during lean phases.

In our view, company can grow its earnings at the rate of ~12-15% CAGR (3years) led by ~10% CAGR volume growth and gradual expansion in margins. Stock could give higher returns given scope for some amount of P/E re-rating.

In the short term there could be disappointment on growth/margins given: a) dependence on asset heavy industries (oil, mining, ports etc) which could be impacted if there is a global slowdown and b) global turmoil on account of 'tariff wars'.

Company profile

- UM was established in 1960 by two brothers, Mr. Basant and Brij Jhawar. The company was set up as a wire rope manufacturing unit (Ranchi) in collaboration with Martin Black (UK). The baton was passed on to the second generation (Mr. Rajeev and Prashant Jhawar) in the mid-90s. Over time, the company went into backward integration into steel manufacturing. Expansion into steel ultimately led to excessive leverage on the balance sheet which almost pushed the company towards bankruptcy (2017). Precarious situation of the balance sheet and dispute between the two promoters led – 1) The lead banker (SBI) to intervene which led to removal of Mr. Prashant Jhawar from the position of non-executive chairman of the board. Mr. Rajeev Jhawar is leading the company right now; Mr. Prashant Jhawar holds ~11% stake in the company and is no longer involved in any position, and 2) the company sold (in 2019) its steel business to Tata Steel for a consideration of ~Rs40 bn; leverage levels (net debt Rs630 mn as of FY25) are negligible as of now.
- UM is one of the top 5 (by volumes) wire rope manufacturing companies in the world, with a volume market share of ~5-6%; value market share would be lower.
- Its market share in India is close to ~60%. UM has manufacturing presence in 5 locations (Ranchi and Hoshiarpur in India, Thailand, UK and UAE) globally with a total capacity of ~0.3

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mn tons (including 0.126 mn tons of wire ropes, 0.06 mn tons of LRPC and 0.09 mn tons of wires).

- The company has expanded capacity after almost 12 years (2010-2022) hiatus. Capex program started in FY22 and is broadly over. Overall, the company has spent close to Rs6 bn (Rs3 bn on plant and machinery)-
    - Wire rope capacity has been increased by 20k tons per annum.
    - 20,000 tons of value-added wires (Galstar – zinc and aluminum coating) capacity has been added.
    - 6,000 tons of plasticization (LRPC) capacity has been added. This is also a high value added product.

As of now status of capacities is –

- Wire ropes – 1,27,000 tons of capacity is fully commercial. 75% of incremental ~20k tons capacity is online; 25% will be commissioned at the end of 1Q26.
- Wires – 90k tons of production capacity is available. However, usable capacity is much lower on account of technology obsolescence and product obsolescence (very low margins). The company is selling close to 50k tons of wires p.a, as of now. Recently, the company has added ~20k tons of high value-added wire capacity out of which 6k tons is for Galstar (zinc and aluminum coated wires). Out of this 6k tons of Galfan capacity, 4k tons would be sold outside and 2k tons would be consumed internally in the wire ropes business. EBITDA margin for the new capacity of 20k tons could be close to Rs20-25k per ton versus Rs12-15k in the current product portfolio (wires only). Specifically, EBITDA per ton on 3rd party sales of Galfan wires is expected to be close to Rs50k per ton.
- LRPC – installed capacity is 72,000 tons. The company is selling close to ~40k tons as of now as margin on plain vanilla products is very low (Rs1-2k per ton). The company has added 6k tons of plasticization capacity recently (utilization ~50% as of now). Contribution margins in plasticated LRPC are significantly higher at Rs30-40k per ton.

- Comparison with Bharat Wires Ropes Limited (BWRL) which is the only other credible player in India -
    - UM is much larger in the domestic market with ~60% market share versus ~7% share of BWRL. As per our understanding, in all critical applications of wire ropes in India (steel plants, ports, mining etc), UM has 80-90% market share with negligible or no presence of other Indian companies. All the other Indian companies mostly manufacture general purpose ropes.
    - In terms of overall capacity, UM's rope manufacturing capacity is ~127k tons (expanding to ~150k tons shortly) versus 72k tons of BWRL.
    - UM's has higher mix of value-added products (~70% versus 10-15% of BWR) which is reflected in much higher realization per ton of rope.
    - UM has a service/sales organization in each major geography where it sells its products. As per our understanding, as of now, BWRL does not have much service/sales organization presence outside India. In our view, in order to get into premium products/clients local presence is a must.
    - Exports as a proportion of sales is much higher for BWRL. BWRL exports primarily through distributors who take care of client service on their own.
    - BWRL's EBITDA margin (%) is higher. Reasons –
        - UM earns similar margins (Vs BWRL) in wire rope business on a like to like basis; however, margins in the commodity part of the portfolio (LRPC and wires) is much lower (4-8%) which takes the blended margin (of UM) lower.
        - UM has significant presence (manufacturing/sales/service) outside India and hence its cost structure is higher. So, part of premium realisations of UM

versus BWRL goes away in higher costs, but still absolute EBITDA per ton of wire rope is higher versus BWRL. On an overall basis, as per our understanding, UM makes Rs55-60k per ton of wire rope versus Rs30-35k per ton reported by BWR in the last few years.

- BWRL's plant is in an area classified as 'backward' and hence it gets incentives from the government. In FY24, government incentives were ~4% of sales, which would add straight to EBITDA margins.

Usha Martin Ltd.	2022	2023	2024	2025
Sales	**26,881**	**32,678**	**32,252**	**34,742**
Outside India	13,709	17,973	17,739	19,108
Domestic	13,172	14,705	14,513	15,634
Outside India (%)	**51.0**	**55.0**	**55.0**	**55.0**
Sales volume ('000 MT)	**189**	**192**	**181**	**198**
Wire Rope	85	93	94	104
Wire and strand	39	37	32	41
LRPC	65	62	54	54
Gross margin (%)	44.7	44.7	49.4	49.6
Gross margin per tonne	**63,539**	**76,116**	**87,949**	**87,076**
Gross margin (in mn)	12,009	14,614	15,919	17,241
EBITDA	**3,767**	**5,129**	**5,986**	**5,971**
EBITDA(%)	14.0	15.7	18.6	17.2
PBT	3463	4554	5495	5269
PAT	2914	3506	4241	4063
Pre - tax ROCE(%)	16	20	21	18
Operating metrics (Rs per ton)				
Sales	1,42,226	1,70,196	1,78,188	1,75,463
Wire ropes	1,92,941	2,35,914	2,42,234	2,39,135
Wire and strand	83,846	91,622	85,625	80,000
LRPC	77,231	79,677	71,481	67,778
Gross margin	63,539	76,116	87,949	87,076
EBITDA	19,929	26,712	33,070	30,155

Bharat Wires (Rs mn)	2022	2023	2024	2025
Sales	**4,107**	**5,891**	**6,218**	**6,193**
Exports	3,696	5,007	4,788	4,521
Domestic	411	884	1,430	1,672
Exports (%)	90	85	77	73
Volumes (tons)	**34,261**	**38,526**	**41,196**	**44,040**
Gross margin (%)	**37**	**44**	**47**	**44**
Gross margin (in mn)	1,507	2,603	2,948	2,748
Gross margin (per ton)	43,992	67,566	71,563	62,401
EBITDA	**622**	**1,388**	**1,640**	**1,323**
EBITDA (Rs per ton)	**18,149**	**36,032**	**39,813**	**30,041**
EBITDA (%)	15	24	26	21
PBT	179	966	1,289	978
PAT	137	623	963	724
Pre - tax ROCE(%)	**8.7**	**19.1**	**21.0**	**12.9**
Operating metrics (Rs per ton)				
Sales	1,19,868	1,52,901	1,50,937	1,40,622
Gross margin	43,992	67,566	71,563	62,401
EBITDA	18,149	36,032	39,813	30,041

- From 2010-2019, wire rope sales of the company (UM) increased at only ~4% CAGR with the operating profit remaining flat; in our view global wire rope market would have grown at ~4-6% CAGR in value terms in the same duration. In our view, reason for subdued growth of the company was lack of focus on the business. Organization was focussed on expanding and making the steel business viable. Precarious state of the balance sheet right from the beginning of 2010 (till 2019) would have directed management bandwidth on fire-fighting and also would have severely constrained investments required to grow the wire ropes business.

- From 2020-25, there has been dramatic turnaround of operations.
  - Overall sales volumes have been flattish; wire rope sale volumes increased by only ~4% CAGR (10% yoy growth in FY25). However, mix improved led by rising proportion of wire ropes.
  - Within the wire rope segment also, there was significant improvement in mix with contribution of value-added products increasing from ~50% to ~71% in FY25. This is visible in outside India (value added products sell more outside India) sales increasing at a CAGR of ~12% to Rs19 bn in FY20-25; average realization per ton increased from Rs158k per ton in FY20 to Rs240k per ton in FY25.
    - In our view, volume CAGR in the wire rope segment was low (2020-24) at 2.5% CAGR, as the company did not have much capacity; from FY20-24, capacity was static at around 0.12 mn tons while sale volumes were 94k tons (85k tons in FY20) in FY24 and hence, the company focused on driving sales of value-added products.
  - Overall sales increased at a CAGR of ~10% (from FY20) to Rs34.7 bn in FY25. EBITDA (Rs1.6 bn in FY20 to ~Rs6 bn in FY25) and PAT (from ~Rs705 mn (adj) to Rs4 bn in FY25) increased significantly led by superior profitability.

	2022	2023	2024	2025
Sales (Rs mn)	**26,881**	**32,678**	**32,252**	**34,742**
Wire rope	16,400	21,940	22,770	24,870
Wires	3,270	3,390	2,740	3,280
LRPC	5,020	4,940	3,860	3,660
Geographical segmentation (Rs mn)				
America	1,075	2,614	2,258	2,432
Middle East and Africa	1,882	2,941	2,903	3,127
Asia Pacific	5,107	5,228	4,838	4,516
Europe	5,645	7,189	7,740	9,033
India	13,172	14,705	14,513	15,634
Geographical segmentation (%)				
America	4.0	8.0	7.0	7.0
Middle East and Africa	7.0	9.0	9.0	9.0
Asia Pacific	19.0	16.0	15.0	13.0
Europe	21.0	22.0	24.0	26.0
India	49.0	45.0	45.0	45.0
Contribution of value added sales				
	2022	**2023**	**2024**	**2025**
Sales (Rs mn)	26,881	32,678	32,252	34,742
Wire rope	16,400	21,940	22,770	24,870
Value added products	9,676	14,261	16,167	17,658
Other	6,724	7,679	6,603	7,212
Wire rope sales mix (%)				
Value added products	59%	65%	71%	71%
Other	41%	35%	29%	29%

End market segmentation (Rs mn)	2022	2023	2024	2025
Oil and offshore	13.0	16.0	19.0	21.0
Crane	13.0	14.0	16.0	16.0
Auto	8.0	8.0	6.0	6.0
Elevator	6.0	8.0	8.0	8.0
Utilities	4.0	4.0	4.0	3.0
Mining	4.0	4.0	6.0	5.0
Fishing	2.0	2.0	3.0	3.0
Engineering	28.0	25.0	22.0	23.0
Construction and Infrastructure	20.0	16.0	13.0	12.0
Others	2.0	3.0	3.0	3.0

Nature of the business

- As per our understanding, global wire rope market is 1.4-1.8 mn tons per annum with annual sales value of ~US$6-8 bn (CY22). Various global research reports suggest that the market has been growing (volumes) at a long-term rate of ~4% CAGR.
    - LRPC (Low Relaxation Pre-Stressed Concrete Stands) global market is 2.5-3 mn tons per annum. Most of the products in this segment are commodity where competition is with large steel companies which are backward integrated. As per our understanding, there is 10-15% of the market which is high value added (plasticised LRPC etc) where steel companies do not compete as they don't have the required manufacturing know how. UM got into this product segment when it was running its own steel mill; the company continued to run the plant even after divesting its steel business. As a strategy UM is moving its LRPC product basket into high value-added segments (plasticized LRPC); however, given the low-volume/niche nature of these product categories, UM will have to continue with substantial exposure in commodity products in order to keep its old plants busy. The company is not looking to grow its plain LRPC business and would gradually pivot its LRPC portfolio to value added products.
    - Wires is a big market (Birdon sells almost 1 bn Euro of wires p.a) globally. Our estimate of volumes is 2.5-3 mn tons. Wires go into many other products other than wire ropes like needles, springs etc. In this segment, ~70% of the products are commodity and ~30% are higher value added which go into niche applications. UM looks at wire manufacturing as backward integration for its wire ropes business and hence is not working to grow (especially the commodity part) this business independently in the long term. The company is selling close to 40k tons of wires p.a as of now. As mentioned above, recently, value-added wires capacity (20k tons) has been commissioned which will scale up in the coming years. As in the case of LRPC, here also, the company will focus on gradually moving the portfolio towards value added products. This segment of products is unlikely to contribute to driving volume growth for the company in the long term.
- UM is one of the dominant companies in the wire rope segment with a global market share (by volumes) of ~5-6%. Other large global players like Bridon (Europe), Wireco (US), Kiswire (South Korea), Tokyo Rope (Japan), Teufelberger (Europe) also have similar market shares in the range of ~5% each; their value share could be much higher on account of their presence in higher value added segments.

    - As per our understanding, Chinese companies (some of them are large) account for 30-40% share of the global market in wire ropes. Our channel checks suggest that bulk of Chinese companies compete in the low value, high volume segment of general engineering ropes and sell the product at a significant discount to Indian companies. Some of the premium Chinese companies could also be participating in high value-added segments; pricing of quality Chinese product is similar to Indian companies.
- Indian market is ~0.13 mn tons (~Rs21 bn in FY25) of wire ropes. UM has ~60% market share. Bharat Wires and Ropes is the second largest player with a market share of ~7%. Other players (Bedmutha, Asahi etc) are even smaller. On the export front, UM and Bharat Wires are the only two players which have scaled to some extent; rest of the players are too insignificant to talk about as of now.
- Our channel checks suggest that in all the critical applications (steel plants, ports, mining etc) UM has dominant (80-90%) market share in India with rest of the market being supplied mostly through imports.
- Wire rope as a product is linked to safety as these are used in equipments which move heavy loads (man and/or material; think of cranes working at the ports, mines etc or elevators in tall buildings). The consequences of product failing are very severe (could lead to loss of life) and hence customers don't compromise on quality of wire ropes and hence don't try to shift vendors of wire ropes (value added ropes only; may not be true for general engineering ropes). Reasons –
    - Value of the product is not much relative to the economic loss a disruption in operations or an adverse safety event would cause and hence customers don't try to shift vendors of wire ropes to get 5-10% additional discount. This is amply demonstrated by the fact that UM's market share in critical applications (steel plants, ports, mining etc) is almost 80-90% in India.
    - In some cases (like in offshore platforms etc), the cost of changing the rope is more than the cost of rope and hence customers value products which last longer. Hence, companies which have consistently invested in product development are able to retain and win new business.

    In our channel checks we found that customers in India are not willing to shift from UM to other smaller Indian brands offering 20-30% discount, for wire ropes being used in critical applications.

- Entry barriers in the business are:
    - Wire rope is a made to order product. Companies are required to tweak the specs based on client requirements implying a bit of application engineering (product development) is involved. For this a good R&D or product development department is required.
    - Also, the above argument implies that to build a quality business (to retain/grow client base) a company needs to have the ability to offer 1000's of SKUs to customers to provide for all their requirements under one roof. Development of all these SKUs takes a couple of years.
    - One needs to consistently improve the efficiency (how long a rope lasts) of the products so as to retain/grow market share, particularly in high value added products. Reason – customers prefer products which last longer as sometimes cost of changing the rope is more than the cost of the rope. Also, a more efficient product allows the wire rope company to improve margins as customers are willing to pay a premium

(win-win for both). This again points towards requirement of a good product development department. Just for a perspective, 15 years ago, ropes used in ports used to last for 1000 hours; now leading companies have a plasticated ropes which last for 3000 hours.

- There is a requirement of local service organization which is a must to cater to premium product segments like ropes used in oil and offshore, mining, ports etc. A company should be able to send its service engineers to address issues at the site or for repair and maintenance.
- A good technical/R&D dept along with a known brand, is required to enter into high value-added segments, which is essential to – a) be able to always maintain an edge versus competition which allows a company to charge a premium for its products, b) protect margins as competitors disrupt 'old-tech' products.

- On account of the above nature of the product and competition profile, in our view, margins and ROCEs (~20%) should be decent in the long term. As per our calculations, on a greenfield plant, pre-tax ROCE of ~20% is achievable – a) at optimised (~75%) level of utilisation and b) with the portfolio mix which is same as UM (FY25).

Calculation for ROCE on greenfield investment in wire ropes

Capex (Rs mn)	9,000
Working capital	4,188
Total capital deployed	13,188
Working capital (% of sales)	33
Capacity (tons)	72,000
Utilisation (%)	75
Realisation per ton (Rs)	2,35,000
EBITDA (%)	24.5
EBITDA per ton (Rs)	57,500
Sales (Rs mn)	12,690
EBITDA	3,105
EBIT	2,655
Pre-tax ROCE	**20.1**

Note:

1) BWR has Rs6.5 bn of gross block for 72k tons of capacity. Most of the facility got built in FY17-18.

2) We are assuming that replacement value of BWR facility is Rs9 bn as of now.

3) We are asusming sales realisation and EBITDA as per product mix of Usha Martin

Operating and capital efficiency parameters of Usha Martin

	2020	2021	2022	2023	2024	2025
Sales (Rs mn)	21,538	20,973	26,881	32,678	32,252	34,742
Sales realz per ton (Rs)						
Wire rope	1,58,824	1,63,165	1,92,941	2,35,914	2,42,234	2,39,135
Wires	61,525	66,739	83,846	91,622	85,625	80,000
LRPC	55,918	67,959	77,231	79,677	71,481	67,778
Spread over steel price (Rs ton)						
Wire rope		1,19,053	1,36,624	1,74,223	1,86,842	1,85,038
Wires		22,627	27,529	29,931	30,233	25,903
LRPC		23,847	20,914	17,986	16,089	13,681
Margin Profile (%)						
EBITDA(%)	10.8	13.5	14.0	15.7	18.6	17.2
EBITDA per ton (Rs)	12,001	16,300	19,929	26,712	32,299	29,946
Gross Margin (%)	44.7	45.6	44.7	44.7	49.4	49.6
Capital efficiency parameters						
Fixed Assets						
Gross	12,593	13,031	13,468	14,499	17,165	20,621
Net	9,484	9,247	9,093	9,485	11,532	14,059
Working Capital	105	124	122	116	124	128
Debtors	51	57	56	56	61	55
Loans and advances	50	49	31	23	33	21
Inventory	104	117	108	99	101	103
Current liabilities	100	99	73	63	70	52
Asset turnover	1.7	1.6	2.0	2.3	1.9	1.7
Capital Deployed	17,320	17,748	18,991	22,276	25,140	28,145
ROCE (pre-tax)	9.7	12.2	16.2	20.0	20.7	17.7

- There is an already an established global trend of synthetic ropes replacing steel wire ropes in many of its erstwhile applications. All the global majors (Wireco, Bridon etc) already have presence in synthetic ropes. Synthetic ropes offer many advantages:
    - They are lighter. Hence, easier to handle and better from safety point of view. Higher safety is a major benefit and customers are willing to pay a substantial premium for this. Also, in equipment like cranes etc lighter ropes means significant fuel savings.
    - There is no need for lubrication.

  There are disadvantages as well –

    - In the industrial environment, ropes encounter sharp edges and abrasive surfaces. Steel is generally impervious to this while fibers are susceptible to fraying.
    - Fibers are also sensitive to ultraviolet radiation and excessive heat. Ultraviolet radiation can degrade rope filaments. High temperatures cause a condition known as 'creep' in which rope becomes pliable and stretches to a point beyond its original form.
    - Retirement criteria are more difficult to determine as non-destructive testing methods used to judge the condition of steel rope are not suitable for synthetic ropes.
    - They are also much more expensive (3-4X) than steel ropes.

  Some use cases where synthetic ropes are successful -

  1) Synthetic rope lends itself well to static applications, particularly in the maritime environment. These include applications in which ropes are not continually wound and unwound over drums. Common uses include mooring lines for ships, offshore energy

platforms, and, more recently, floating wind turbines. Ropes for these applications are transported and installed at sea, making synthetic ropes – a) reduced weight, b) high strength, c) ease-of-handling, and d) corrosion resistance, the preferred choice over steel.

2) Boom pendants, used to connect mining shovels' various extraction and lifting components, represent another static application that lends itself to the use of synthetics. Unlike the steel ropes used in conventional pendants, fibers act like a shock absorber during digging operations, reducing fatigue-related stresses for both the shovel equipment and those who operate it. This, in turn, could extend service lives of shovels and draglines by up to three to four times over the lives typically experienced when using traditional steel ropes.

There is also a use case for hybrid ropes. Hybrids can provide benefits of both (steel and fiber) in the same rope. An example is mining rope with a plastic-coated, high-strength fiber core, surrounded by steel-wire strands. This construction provides a high strength-to-weight ratio, as well as resistance to abrasion and bending fatigue for use in underground mining, where shafts have become progressively deeper and weight the limiting factor in hoisting capacity. As with other applications that favor synthetics, reduced weight is a clear benefit. The same is true of the added durability and reduced creep provided by hybrid ropes.

As per our channel checks, though there are many disadvantages of synthetic ropes, technological advancements (composite threads, coatings etc) are gradually addressing most of them. Hence, given the superior safety prolife of synthetic ropes, they will keep on replacing steel ropes gradually in many of the use cases. Hence, for a steel wire rope company to sustain growth in the long term, it is essential for it to develop presence in synthetic ropes which requires substantial investments both in terms of capital and R&D.

- As per our understanding, global synthetic ropes market size is in the range of $1-1.5 bn, growing at the rate of ~6% CAGR.
- UM is entering into synthetic slings business with an investment of ~4 mn Pounds, which is set to commission shortly. Synthetic slings and ropes are different. Just for a perspective – one of the use cases for these slings is to pull up wind energy turbines (steel wire rope can't be used as it will damage the turbine) to install it on top of the tower.
    - As per the mgmt. the total addressable market in the North Sea and adjacent regions is to the tune of US$300-500 mn.
    - In the first year, the company is targeting a turnover of 1 mn Pounds.
    - Even though initially sales will be low, margins on these products are much much higher versus current margins of the company.

Entry into synthetic slings could enable UM to develop knowledge base to eventually enter into synthetic ropes as well, in the future.

<u>Investment case:</u>

- **In our view, UM can grow sales volumes in the range of 10-12% CAGR in the long term (3-5 years);** FY26 could be a bit slow given volatile global environment on account of 'tariff wars'. Drivers of growth are:
    - Global industry volumes are growing at ~4% CAGR.
    - There is potential for UM to gain share; its global market share could increase from ~6% as of now to 7-8% in the next 3-5 years. Reasons:

- As mentioned earlier, UMs' focus on the wire ropes was diluted in 2010-2021 due to family feud and on account of focus on turning around steel operations to save the balance sheet. This is very evident in the fact that the company did not expand its capacity (only ~5k tons added in UK) in FY10-22. Hence, UM lost market share in that duration. In our view – a) UM's competitive positioning and brand is strong, globally, b) Product portfolio is comprehensive and improving, c) It has front end presence and on-the-ground service teams in major geographies it is targeting which is required to gain share in high value products/clients. Hence, in our view there should be potential to gain some lost market share.
- The company can gain share in high value-added product categories and in geographies where its market share is low. The company's entire new capex of ~Rs6 bn over FY24-25 was targeted at high value segments catering to mining, oil and offshore, renewable energy (windmills) etc. The company is specifically targeting geographies of North America, LATAM, Australia, South Africa and Saudi where its share of market is low.

  For example – In US, which is a large market (North America is ~20% of global demand) UMs's market share is 2-2.5% only. Earlier the company's marketing organization was focussed on just Gulf of Mexico (in US) but now – a) marketing offices have been set up on east and west coast, b) management team has been strengthened, c) distribution points have been enhanced and d) management structure has been rejigged to bring entire international operations under unified management versus foreign subsidiaries operating in their own silos earlier. UM has the right credentials to create an effective marketing pitch in developed markets – a) It can leverage its Brunton Shaw UK (acquired in early 2000s) brand for premium positioning, b) It has manufacturing presence in UK and R&D center in Italy, c) Its wire ropes are used in critical applications (mining etc) in India on equipment of brands (like Caterpillar) from developed markets; performance has been proven over the last many years of use. As per mgmt's comments on quarterly calls, it has got some early wins (in US) in premium clients (mining, elevators), which positions it well for the coming years.

  - In Europe (UM market share is 8-9%) and to some extent in US, the company has got some headway in the last 2-3 years, on account of supply disruptions (post covid) in manufacturing plants of some of the large global players due to: a) Labor issues as post covid related lockdowns, labor did not return fully leading to staffing issues, b) In Europe, some of the plants closed down due to high energy cost. Having gained access to new clients on account of one-off factors, UM has the opportunity to scale up its presence in these clients led by its quality (similar to developed market players) and little bit of discount (5-10%) versus developed market players.
  - The company has created a subsidiary with distribution and servicing set up in Saudi Arabia. Commercial sales of wire ropes are supposed to start in FY26. As per the mgmt, there is significant potential to drive sales in Saudi in the coming years.
- UM has dominant share (80-90%) in India in almost all the high value-added products used in steel plants, ports, mining etc. It has helped UM in

establishing its product credentials globally as machines (Caterpillar etc) in India on which wire ropes of UM are used are all imported from developed markets. Hence, UM's products have been tested on these machines for the last 5-10 years and have been performing as per expectations. This creates a strong marketing pitch for UM to OE (also distributors) clients in developed markets wrt quality. Hence, it leads to an economic incentive for developed market OEs and distributors to switch to UM from other developed market suppliers to save on costs (UM offers 5-10% lower price) for the same level of quality and service.

- UM has a much leaner cost structure versus developed market peers on account of its manufacturing footprint in India which allows it to price its products (similar quality) at a 5-10% discount to global majors. As per our understanding, labor cost to sales for UM is ~8% in its India plant and ~20% in its UK plant which illustrates the difference in the cost structure between India and developed markets. Hence, in our view, 'cost edge' of UM would continue to bring gradual market share gains in the coming years as well.
    - In 2019-24, wire rope sales (in US$ terms) of UM have grown much faster than some of the dominant global brands in the wire rope business, lending credence to the above argument.

Comparison of UM with some of the developed market companies (US$ mn)

Baekart - Bridon	**CY19**	**CY20**	**CY21**	**CY22**	**CY23**	**CY24**
Sales	552	491	563	646	641	593
EBITDA	50	74	89	103	111	89
EBITDA (%)	9%	15%	16%	16%	17%	15%
Tokyo ropes	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	
Sales	396	406	398	361	329	
EBIT	10	13	28	27	21	
EBIT (%)	3%	3%	7%	7%	6%	
Kiswire Co. ltd.	**CY19**	**CY20**	**CY21**	**CY22**	**CY23**	**CY24**
Sales	1,435	1,244	1,488	1,689	1,395	1,261
EBITDA	117	94	161	177	108	78
EBITDA (%)	8%	8%	11%	10%	8%	6%
Usha martin ltd	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**
Sales	298	282	362	415	390	412
Wire ropes	187	173	221	279	276	295
EBITDA	32	38	51	65	72	71
EBITDA (%)	11%	14%	14%	16%	19%	17%

Note:

1) We have used average USD rate calculated as: (year beginning + year end)/2

2) Some of the global companies are also into other products like synthetic ropes and hence sales might not be comparable with UM.

3) For Tokyo Ropes we have added wire ropes and prodcut engg segments which seem to be comparable with UM.

4) CY = December ending fiscal year, FY = March ending fiscal year.

- As per our understanding, Wireco, which is a large global company, based out of US, in the wire rope segment has also not been doing well offlate. Though detailed numbers are not available; we could get some numbers

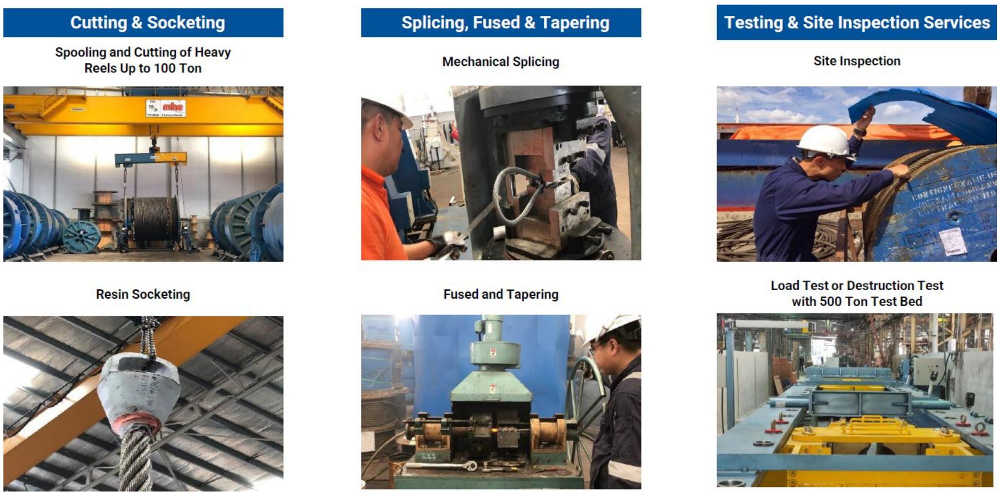
for Wireco, through public documents wrt change in credit rating by S&P. We could establish the following –
    - The company has not been doing well. Debt to EBITDA increased to 7.3X as of CY24 end.
    - The company made EBITDA margin of 18-20% in CY21-23 (sales growth in mid-single digits) as competition was low due to supply chain issues on account of which access to US market was not smooth for global competition. However, as supply chains started opening up, competition increased. Sales were flattish in CY24 and EBITDA margins declined to ~12%. The company also faced some quality issues in the products going into mining and energy (oil and gas).
    - Growth projected in CY25 is around ~4%.

- **We expect gradual improvement (100-150 bps) in EBITDA margins in the next 2 years**. The mgmt. alluded to pricing pressure in few segments which led to lower than usual margins in 2HFY25. As per the mgmt. there are levers to improve margins –
    - There could be margin gains as the company is making changes to its operating structure at Brunton Shaw (UK) –
        - It is trying to shift some production from Brunton Shaw facilities to India for clients who are comfortable with the quality UM has been supplying last few years. Clients have started approving supplies from India. This will improve margins as cost of production in India is meaningfully lower than UK.
        - The above would also lead to savings on freight costs and working capital. As of now, wires are being shipped from UM's manufacturing plant in India, and stored as inventory at UK before being converted into wire ropes at UK plants of UM. Direct shipment of final product from India will lead to saving of cost (freight) and working capital (no need of multiple stocking points) which would reflect in better margins and lower interest on working capital.
        - The company is also in the process of moving general and administration work from UK and other foreign subs to India, to save costs.
        - The company has also consolidated buying of raw material and other major input costs across all its global operations which should lead to more efficient buying, aiding margins. Till FY25, various major manufacturing units across the globe were buying independently.
        - As per the management, the above transition in the operating model could add 150-200 bps to EBITDA margins from 2Q26 onwards.
    - The company has been consistently improving the product mix by –
        - Getting into higher value-added wire ropes (mining, oil and offshore, etc). The mix of value-added products in wire ropes has increased from ~59% in FY22 to ~71% in FY25. As per the mgmt. once the new capacity starts contributing meaningfully, this ratio can move higher, maybe a bit more gradually versus past.
        - The company is also working towards improving mix on the wire and LRPC side. In the wire portfolio, the company is getting into better margin products. It has recently commissioned capacity of 20k tons of high value-added wires which should start commercial supplies from 1Q26. Out of this, ~6k tons (4k will be sold outside and rest will be consumed in-house) capacity is of very high value-added wires branded as 'Galstar' (explained above); margins on

these wires are ~Rs50k per ton (vs Rs12-15k per ton in current wire portfolio). As per our understanding, on a blended basis incremental capacity of 20k tons (wires) will yield EBITDA margin of Rs20-25 k per ton and hence as this capacity scales up, it would add to margins. In LRPC (total capacity ~65k tons) the company is getting into higher value-added products (re-purposing the capacity) like plasticised LRPC. The company has already commissioned ~2500 tons p.a capacity and another ~3500 tons p.a would be commissioned shortly. Margins on plasticized LRPC are to the tune of Rs30-40k per ton (contribution level) versus ~Rs 3-4k per ton on commodity LRPC.

- Services business with high margin, is scaling up as the company is getting into new markets. This income is of 2 kinds:
  - Pure service income. This is in nature of repair/maintenance and audit services without any element of product included as part of sales. The company reported Rs602 mn (booked under others category) of pure service income in FY24; out of this ~Rs400 mn was contributed by Europe. As per our understanding, pure service income increased to Rs1 bn in FY25 (Rs820 mn contributed by Europe). This income stream has very high margins (~50% EBITDA). This can increase at ~15%CAGR, as the company starts offering it in new geographies.
  - Service + product income. As per our understanding, this income was to the tune of ~Rs2.7 bn in FY25 (booked under wire ropes segment), primarily contributed by Europe. Since there is significant component of product sales involved (wire ropes and accessories), EBITDA margin on this component of service income is ~25-30%. Under this service, the company offers a package (product plus service) to its clients in Europe which fetches much higher margins versus pure product sales. For example – the company would offer wire ropes along with accessories/fittings and would also help the client in installing everything on site. We expect this income stream to grow at a CAGR of ~15% as the company starts offering this in new regions (Singapore, Dubai, Saudi).

Illustration of services provided by UM



- **The business is good to hold on to for long term compounding of capital** –
  - As per our calculations, pre-tax ROCE on a greenfield plant (~72k tons capacity) manufacturing wire ropes with the same mix as UM, is close to ~20%.

Capex (Rs mn)	9,000
Working capital	4,188
Total capital deployed	13,188
Working capital (% of sales)	33
Capacity (tons)	72,000
Utilisation (%)	75
Realisation per ton (Rs)	2,35,000
EBITDA (%)	24.5
EBITDA per ton (Rs)	57,500
Sales (Rs mn)	12,690
EBITDA	3,105
EBIT	2,655
Pre-tax ROCE	**20.1**

Note:

1) BWR has Rs6.5 bn of gross block for 72k tons of capacity. Most of the facility got built in FY17-18.

2) We are assuming that replacement value of BWR facility is Rs9 bn as of now.

3) We are asusming sales realisation and EBITDA as per product mix of Usha Martin

  - Wire Ropes is a good manufacturing business which meets all criteria which we use to evaluate manufacturing businesses for investment –
    - Replacement demand is 85% of sales mix of UM, which lends stability to revenues in the long term,
    - Business is not vulnerable to crests and troughs of a particular sector. It has diversified exposure to various sectors – mining, oil and offshore, renewable energy, general manufacturing and infrastructure, fishing, shipping and ports etc.
    - Margins can be defended in the long term as –
      - Customers are very quality sensitive as the product is linked to safety. Typically, extensive testing is done (could take 3 to 6 months atleast) before a new vendor is given an order.
      - It is a made to order product which is customised as per specs of the client; number of SKUs is significant. Hence, for competition to pose a significant threat, it needs to spend years developing a full basket of products to – a) position itself as a credible alternate source versus incumbents, and b) to utilize the plant effectively to be able to earn decent return on capital. In this business gaining market share is not about manufacturing a few products in bulk and then dropping prices.
    - The business is not only about deploying large amounts of capital but it requires a well-oiled organisation – a) on the sales and marketing side to engage with clients and get their product specs, b) technical department which can tweak the product as per client specs and could design new higher value added products , c) service organization, preferably close to the client

which can attend to any issues on the ground and for regular maintenance requirements etc.

    - In our view, the business plays to competitive strengths of Indian companies as –
        - The product is made to order (high number of SKUs) and hence not about bulk manufacturing where competition from China is intense.
        - The product requires a bit of application engineering for which there is abundant human resource available in India.
        - The technology is old and well understood. Hence, it is possible for Indian companies to reverse engineer and gradually enter into high value-added product segments dominated by developed market companies by giving similar quality and 5-10% better price to customers.
        - Establishing a brand in this business takes much more effort than just putting large amounts of capital into plants.
        - The business is reasonably labor intensive. Employee cost to sales ratio ranges from 7-9% if one were to look at Bharat Wires and Ropes (purely domestic manufacturing operations) or standalone P&L of Usha. As per our understanding, employee cost to sales ratio is more than 20% for developed market companies giving an edge to Indian companies.

    From our past experience, we have seen that manufacturing businesses with similar characteristics have created long term value in India. Examples are Balkrishna Industries, AIA Engineering, Tega Industries, CCL products etc.

Given the above characteristics of the business, in our view, it is a good manufacturing business to hold onto for the long-term compounding of earnings.

- We got very good feedback on the quality systems and product development (R&D) skills of the company in our interactions with senior people from competing companies. Some pointers -
    - UM sells at a premium (5-15%) to other domestic companies for non-plain vanilla (excluding general engineering ropes) rope applications.
    - There are lot of applications (ports, mining, steel etc) where UM is the only domestic brand which is used by dominant private sector companies like Adani, JSW etc.
    - UM is the only company in India with API certification which is the quality standard followed in US, mostly for all value-added ropes. It is essential for any company looking to sell value-added ropes in US. As per our channel checks, while few domestic companies can produce API level quality on off-and-on basis; it is very difficult to be able to follow the required process discipline on day-in-day-out basis which is required for passing API audits to enable this certification. Getting API certification is difficult as it involves demonstration of –
        - Very strict process controls.
        - Documentation and process trails (for quality audits) for process followed in production of each product.

Perspective on valuation and potential returns

The stock is quoting at ~23X trailing earnings. In our view, multiple is cheap given –

- Potential for ~12% CAGR growth in sales and a bit higher growth in PAT,
- Sustainable pre-tax ROCE in the range of 20-25%,
- We see a case for a bit of multiple re-rating in case the company continues to deliver volume growth in the range of 8-12% CAGR with consistent margins. There is scope for P/E multiple to move to ~30X, in line with Balkrishna Industries. We see lot of similarities in both the businesses –
    - Both have established credible global brands; both have global market share of around ~6%. In our view, there are very few Indian manufacturing companies who have been able to sell globally under their own brand and hence multiple of ~30 X is well deserved,
    - Business quality is similar -1) high number of SKUs 2) both manufacture performance products in which customers are quality conscious and hence don't shift easily, 3) both enjoy labor cost advantage versus developed market competition which allows them to price their products (quality similar to global brands) at a bit of discount versus competition driving gradual market share gains.
- Growth can be financed comfortably with internal accruals.

Hence, in our view, given ~10-12% CAGR growth in sales and a bit higher (~15%) growth in earnings in the next 2-3 years and a potential for a bit of multiple re-rating, UM can potentially give ~20% CAGR returns in the next 2-3 years.

Risks

- In the last few conference calls, the management has been talking about higher competition leading to some pressure in the business –
    - In 1Q25 the mgmt. attributed lower than anticipated growth in sales volumes in wire ropes segment to higher competition in the general engineering ropes category (~20-25% of sales volumes). There is risk of competition sustaining and hence there could be pressure on volume growth going forward.
    - In 3Q25, the mgmt. attributed pressure on EBITDA margins (3Q25 EBITDA margin at 16.6% versus 18% in the previous quarters) to higher competition in oil and offshore segment, particularly in Europe, from developed market companies (US, Europe and South Korea). Competition could sustain or percolate into other segments as well leading to disappointments on the earnings front.
- There is risk to the growth argument built on the company gaining share in US. US presents only 4-5% of sales of UM as of FY25, however, it is an important market from 'future growth' perspective. US has recently increased import duty on steel to 50%; wire ropes as of now are categorized under steel. Hence import duty on wire rope exports from India has increased to 50%. This duty applies to all the trading partners of US with the exception of China (import duty 60%). If this duty stays, it could derail UM's growth plans in US. Given the volatile nature of the situation, one can't say for sure, the kind of duty structure would emerge in the coming months. However, we note the following points –
    - Preferential duty of ~25% has been put on UK as it is in most advanced stage of signing trade deal with US. As per news articles, the duty rate could go down to zero if UK is able to sign a definitive trade deal before the deadline of 9th July 2025. Hence, in case India is also able to conclude a trade deal with US before the deadline, import duty for Indian products also could fall down meaningfully versus current levels.
    - UM has manufacturing plant in UK which could be theoretically used to supply to US and hence 'US tariffs' might not impact its growth plans in US.

    - However, capacities in wire ropes are not fungible. In the sense, capacity which is manufacturing, hypothetically elevator ropes, can't be used to manufacture ropes used in mining or oil/offshore. Hence, we are not sure if UM can supply all the SKUs to US from its UK plant.

  We expect clarity to emerge on this issue in the coming months. Any adverse development could impact growth projections for the company.

- Promoter entities linked to Mr. Prashant Jhawar, who is not involved in the company in any capacity have been selling shares, gradually since the last 1.5 years. As per our understanding, these entities used to own 16.6% stake in the company 1.5 years back; ownership is down to ~11.6% as of March-25. As per our understanding, these entities would eventually want 100% exit from their investment in the company and hence sustained selling could keep the stock price under pressure.
- As per our interactions in the industry, growth in FY22 and FY23 for Indian wire rope manufacturing companies has also been on account of supply disruptions in plants in developed markets due to covid related issues and on account of spike in energy prices (specifically for Europe at the start of Russia-Ukraine war). Hence, in case some of these developed market companies start becoming aggressive on pricing to gain back share, it could imply lower than estimated growth for UM.
- Growth in the steel wire rope industry in India looks like a miracle as of now given that nothing happened in 2010-2020 and then suddenly there was significant growth in FY22-23 which raises a question if the positive operating metrics of the business that we are seeing are sustainable or not. As per our analysis, the business fundamentals are strong and hence operating metrics of the business should be sustainable in the long term. However, we would acknowledge our lack of expertise and we could have overlooked certain aspects which could lead to disappointments later.
- Growth story of UM is based on – a) capex trends (mining, ports, offshore oil, heavy industry etc) sustaining in India and outside India and b) company continuing to gain market share.
    - Even as replacement volumes are 85% of sales of wire ropes for UM, there would still be impact of a global slowdown on sales trajectory of the company. For example – even though most of volumes of ropes going into offshore oil industry are catering to replacement demand but still lower oil prices could reduce the number of rigs in operation leading to lower than anticipated demand of wire ropes.
    - In our view, gains in market share can't be a perpetual story. There is a possibility that growth in market share is much more gradual after the first 2-3 years leading to growth slowing down below our long-term assumptions.
- There could be some impact on competitive dynamics in US on account of 'trump tariffs'. Some of the US based companies (Wireco and Bridon have plants in US) with local manufacturing could get an edge. We expect the impact to be limited as US is ~3-4% of consol sales of UM, however, this has potential to create disappointments versus our volume growth assumptions (next2-3 years) . As per the mgmt. –
    - There is not enough local manufacturing capacity of wire ropes in US. Hence, despite the tariffs US will have to continue importing bulk of its requirements.
- In India, government contracts (Coal India, JNPT, SAIL etc) for wire ropes are awarded on L1 basis (lowest bidder gets the contract after meeting tech specifications). As per our channel checks, in lot of such contracts, for products offered by other domestic companies as well, UM is outbid by its domestic peers who are willing to sell at lower prices. In our view, overtime, this process allows other domestic companies to establish product credentials (wrt quality)

which could be used to win some market share in the non-govt orders as well. Hence, over time, some of the good competitors could start gaining market share from UM.

- There are outstanding litigations against the company. While financial impact of below mentioned legal proceedings, in case verdict goes against the company is very limited versus the current size of the balance sheet and market cap, however, damage in terms of reduction in market cap due to possible adverse corporate governance image could be many times over the financial impact. The current legal proceedings are -
    - The Directorate of Enforcement (ED) had issued an order (confirmed by Adjudicating Authority) dated August 9, 2019, under the provisions of Prevention of Money Laundering Act, 2002 (PMLA) to provisionally attach certain parcels of land at Ranchi, being used by the Company for its business, for a period of 180 days in connection with export and domestic sale of iron ore fines in prior years (2010-16) aggregating Rs.1903 mn, allegedly in contravention of terms of mining lease granted to the company. High Court of Jharkhand, vide order dated February 14, 2012, held that the company had the right to sell iron ore including fines as per the terms of the mining lease. The Company had paid applicable royalty and had made necessary disclosures in its returns and reports submitted to mining authorities. The company had submitted its response to the Adjudicating Authority, which confirmed the provisional attachment under PMLA. Subsequently, the company filed an appeal before the appellate tribunal (New Delhi) and obtained a status quo order which continues till the next date of hearing on 22nd May, 2024. ED had filed a complaint before the District and Sessions Judge, Ranchi, pursuant to which summons were received by the company. The company filed a quashing petition before the High Court of Jharkhand and a subsequent special leave petition before the Supreme Court against the order of Jharkhand High Court which dismissed the quashing petition. Supreme Court delivered an interim order on 15th Dec 2021, which granted protection to the company from arrest and stayed the summoning order issued by Trial Court, Ranchi. The Supreme Court through its order dated 28th September 2022 had dismissed the SLP with directions to the company to present all its defenses before the Trial Court, Ranchi. The matter in the Trial Court was scheduled to be heard on 20th May 2024. We don't have latest update on this case.
    - On October 2, 2020, Central Bureau of Investigation (CBI) filed a First Information Report (FIR) against the company, its Managing Director and certain other officers under the Prevention of Corruption Act, 1988 for allegedly trying to influence ongoing CBI investigation pertaining to the proceedings mentioned above. The company has received intimation from the ED regarding summons issued on this matter by the special Judge, CBI, New Delhi, under the provisions of PMLA and the matter was scheduled to be heard on 27th April, 2024 as per FY24 annual report. We don't have latest update on this case.

Financial summary, consolidated, March fiscal year-ends (Rs mn)

Profit and loss account	2020	2021	2022	2023	2024	2025
Sales	21,538	20,973	26,881	32,678	32,252	34,742
EBITDA	2,316	2,836	3,767	5,129	5,986	5,971
EBITDA (%)	10.8	13.5	14.0	15.7	18.6	17.2
Other income	534	289	423	285	403	394
Depreciation	636	679	698	675	770	979
EBIT	1,680	2,158	3,069	4,454	5,216	4,992
PBT	1,472	1,878	3,463	4,554	5,495	5,269
PAT	-644	1,496	2,913	3,501	4,240	4,074
EPS	-2.1	4.9	9.5	11.5	13.9	13.3
Balance sheet						
Equity	12,653	14,071	16,973	20,351	23,839	27,517
Debt	5,791	4,866	3,665	3,546	2,978	3,376
Other non-curent liabilities	831	1,224	1,396	2,030	1,832	1,669
Total sources of funds	**19,275**	**20,161**	**22,034**	**25,926**	**28,649**	**32,562**
Fixed assets	9,811	9,699	9,478	10,879	13,190	15,240
Other non curent assets	2,165	2,143	1,931	3,073	2,830	2,398
Working capital	4,156	5,070	7,692	9,383	9,934	10,302
Other current assets	2,018	2,060	1,287	972	1,018	1,874
Cash and investments	1,124	1,189	1,647	1,620	1,677	2,748
Total uses of funds	**19,275**	**20,161**	**22,034**	**25,926**	**28,649**	**32,562**
Cash flow statement						
Cash from operations (incl interest)	1,200	1,568	1,161	2,213	4,191	3,922
Cash used in working capital	-109	-675	-2,617	-2,075	-775	-836
Capex	-406	-371	-511	-1,823	-2,776	-2,447
FCF	686	522	-1,967	-1,685	639	640
Return ratios (%)						
ROE	-5	11	16	17	18	15
ROCE (pre-tax)	9.7	12.2	16.2	20.0	20.7	17.7

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  - received any compensation for products or services from the subject company;
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- For a comprehensive understanding of the disclosure, we recommend a thorough review of the disclosure document available on our website https://clockvinecapital.com/.

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