



Usha Martin Ltd

Steel Cables & Wires

CMP Rs 363 | MCap Rs 111 bn
TP Rs 600 | Potential Return 65%

January 10, 2025

Usha Martin Ltd

Engineering Value Beyond Ropes

BUY

CMP : Rs363

Target Price : Rs600

Potential Return : 65%

Stock data (as on January 9, 2025)

Bloomberg code	: USM IN
NSE code	: USHAMART
52 Week h/l (Rs)	: 451 / 273
Market cap (Rs /\$ bn)	: 111 / 1.3
Outstanding Shares (mn)	: 304
Free Float	: 56%
ADTV – 3M (mn) (USD)	: 10.5
Div yield (%)	: 0.74

Price performance

	1M	3M	1Y
Absolute (%)	-12%	5%	21%

Shareholding Pattern (%)

	Mar'24	Jun'24	Sep'24
Promoter	46.1	45.1	43.5
FII	14.8	14.2	14.6
DII	3.6	54.8	7.4
Others	35.6	35.8	34.4

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenues	35,589	41,604	49,813
YoY growth (%)	10.3	16.9	19.7
EBITDA	6,560	8,210	10,477
EBITDA margin (%)	18.4	19.7	21.0
PAT	4,354	5,891	7,944
PAT growth (%)	2.7	35.3	34.8
EPS	14.3	19.3	26.0
P/E (x)	25.5	18.8	14.0
EV/EBITDA (x)	16.6	12.8	9.5
Debt/Equity (x)	0.2	0.1	0.1
RoE (%)	17.1	20.0	22.7



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Usha Martin (USM) is India's leading producer of specialty steel wire ropes with 60+ years of experience, holding 65% market share (MS) in India. With manufacturing plants in India, Thailand, UAE and UK, USM sells products through its own distribution centres in Southeast Asia, Europe, US, UAE and Australia as well as directly.

After selling off its steel unit in 2019, USM is consolidating subsidiaries under one roof and has rebranded itself to reflect its engineering focus. To meet the demand from infrastructure and mining projects, USM has invested Rs6bn over FY20-24 in capacity expansion with focus on value added product (VAP). Currently, VAP contribution is ~59% in terms of volumes providing huge scope of growth.

Strong domestic and global demand supports USM's outlook. Revenue is projected to grow at 16% CAGR over FY24-27E, driven by MS gains, focus on VAP and entry in new export markets. EBITDA margin is set to expand by 250bps over FY24-27E.

Primarily a commodity business, USM is now transitioning toward engineering. We believe it is focusing on VAP that offer higher realisations, which will enhance return ratios and potentially drive a re-rating of ~1x PEG ratio. We initiate a BUY with TP of Rs600, valuing at 23x for FY27E EPS.

Highlights

- **Engineering Value, Enhancing Margins:** USM is reducing its share of commodity and low-margin products like VC Wires, HT Black to higher-grade products like plasticated LRPC and specialty grade wires. Share of wire ropes — a high-realisation segment — increased to 71% in FY24 (vs 61% in FY22), with VAP (used in crane, oil & offshore, elevator, mining, fishing), **contributing 71% (in wire rope) for value in FY24**, vs 59% for FY22. However, **volume share of VAP products still at 59%**, providing huge scope for growth.
- **Expansion and Innovation Fortify Growth:** **Capacity for value-added rope** and LRPC has started boosting volume growth in FY25. The company plans to add ~21,000MT p.a. of value-added rope capacity and ~3,000MT p.a., **in Thailand**, driving growth from FY26 onwards. By increasing VAP capacity, USM is expanding MS with existing clients and attracting new ones. Additionally, new products like **synthetic slings** from the UK facility will create new growth opportunities.
- **Expanding Boundaries:** Manufacturing plants in the overseas market and addition of VAP, resulted in ramp-up of **international revenue mix from 51% in FY22 to 55% in FY24**. The company is further expanding footprint with setup in Saudi to tap large O&G customer like Aramco. USM is making in-roads in the OEM business in Europe & America to gain MS, while focusing on replacement demand. **It expects strong international demand in sectors like engineering, infrastructure and energy.**
- **Financial Analysis:** We believe management can achieve its guidance and project 16% revenue CAGR over the **FY24-27E, with 250bps EBITDA margin** expansion, driven by strong demand, capacity expansion and MS gains, since the industry is growing at 4–5%.
- **Attractive Valuation:** USM's domestic market leadership and strong financials, coupled with stable growth, improving margins and return ratios, position it well for long-term gains. We estimate 23% earnings CAGR (FY24-27E) and initiate **BUY with a TP of Rs600**, assigning a **23x PE multiple (PEG ratio of 1x)** to FY27E EPS.

Investment Rationale

Deleveraged for a Stronger Tomorrow

In the late 2000s, USM had invested into the **steel commodity business** and faced a debt trap during the 2015-17 down-cycle, which led to its net-worth erosion. To overcome these challenges, the **company sold its steel business to Tata Sponge**.

Post-selloff, they are **focusing on better product mix by shifting to high value added ropes**. With renewed focus on specialty wire-rope business and strategic initiatives to consolidate leadership, the company is undergoing a transformation. The company is poised for sustainable growth with value-accretive capex plans, enhancement of specialty offerings across segments, widening geographical spread in strategic markets through overseas subsidiaries and focus on digitisation initiatives. **Recent logo change reflects the shift from commodity products to high-value engineering segments**, enhancing its brand identity in international markets.

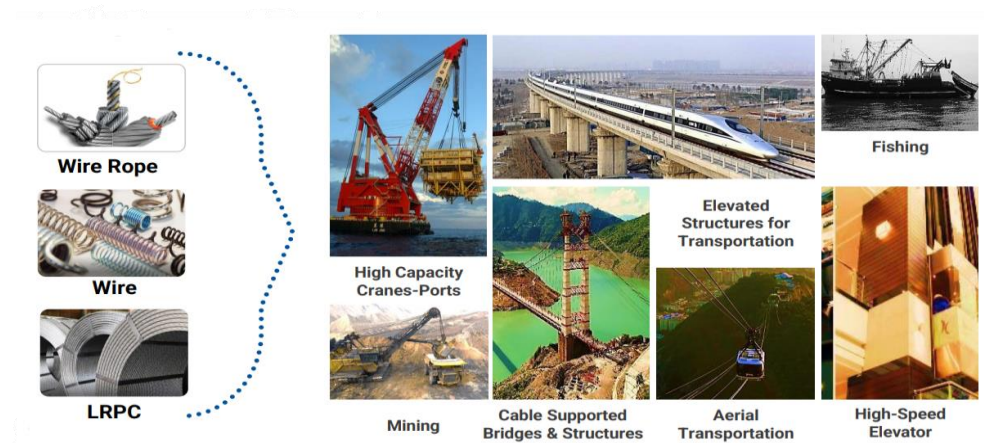
USM holds a dominant 60-65% market share in India

Comprehensive portfolio across diverse critical applications provides leadership



Global steel wire rope market size at \$9.5bn in 2023, is projected to reach \$13.6bn by 2031, growing at 4.5% CAGR.

Replacement demand accounts for ~70-80% of the total market size.



Source: Company, Share India Research

Focused Investments for Value Creation

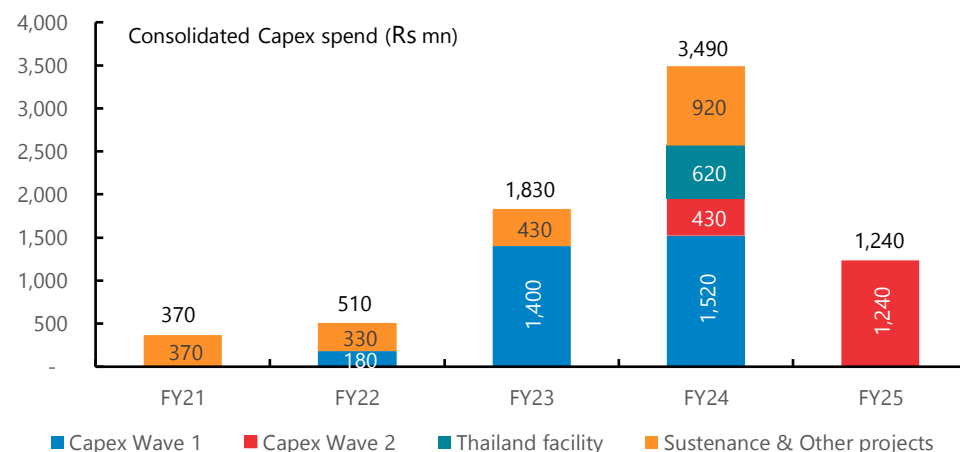
USM continues to invest in VAP and has completed capex wave1 of Rs3.1bn at Ranchi, resulting in capacity additions of ~15,000MT saleable volume in FY25. USM has also commissioned monthly ~450MT plasticated LRPC capacity — a high-margin product over general LRPC and used in specialised construction projects. An additional Rs1.6bn investment at Ranchi is for the wave2 expansion, including that for **wire & strands and LRPC**.

Post-selloff, focus is on better product mix, high-value-added ropes, and investing in capex to enhance VAP portfolio.

USM is further investing in Rs620mn in **Thailand to enhance wire drawing**, stranding and closing capabilities, which would ramp up capacity by ~3,000MT pa to ~22,000MT p.a. Investments on plant upgradation and modernisation to improve infrastructure and productivity, as well as reduce the cost to serve.

USM's focus on high-demand VAPs like mining. Plasticated ropes will help strengthen MS, while the **UK launch of synthetic slings** will open new growth avenues. We expect the new capacity to ramp up quickly over the next three years and can achieve **asset turns of 2-3x at optimal utilisation** levels. These initiatives position USM for rapid ramp-up and strong returns in future.

Capex plans focused on VAP

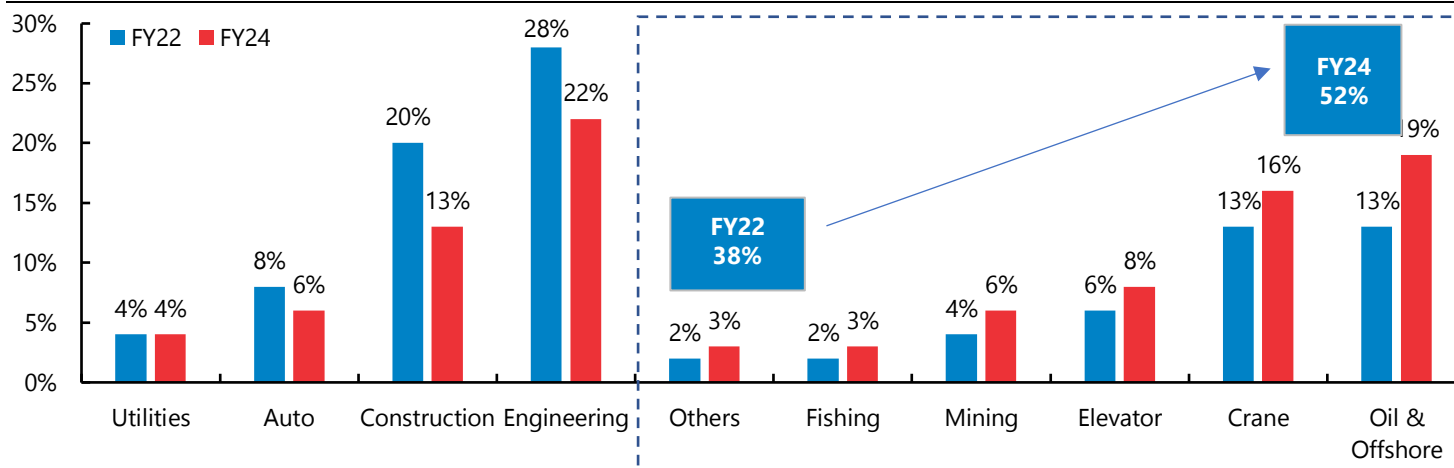


Source: Company, Share India Research

Focus on VAP to Aid Realisation/Margins

USM is systematically **reducing its share of commodity and low-margin products** and shifting to value-added products. Below are some of the major categories helping in steep value migration.

VAP segments increased from 38% in FY22 to 52% in FY24



Source: Company, Share India Research

Sales realisations to improve on VAP

Focus on value-added products (VAP) to aid realization	
Plasticated LRPC	Higher margin by 10-20% than normal for plasticated LRPC
Elevator/Gandola ropes	Key customers inc Kone, Schindler, Otis, Fujitsu
Mining ropes	Won contracts in Australia, South Africa, Latin America and the US
Fishing ropes	strong presence in Spain, Portugal and India
Synthetic Slings	Launch of Synthetic sling in UK
Oil & gas ropes	'Oceanmax' and 'Brunton Shaw'

Source: Company, Share India Research

Expanding International Footprint

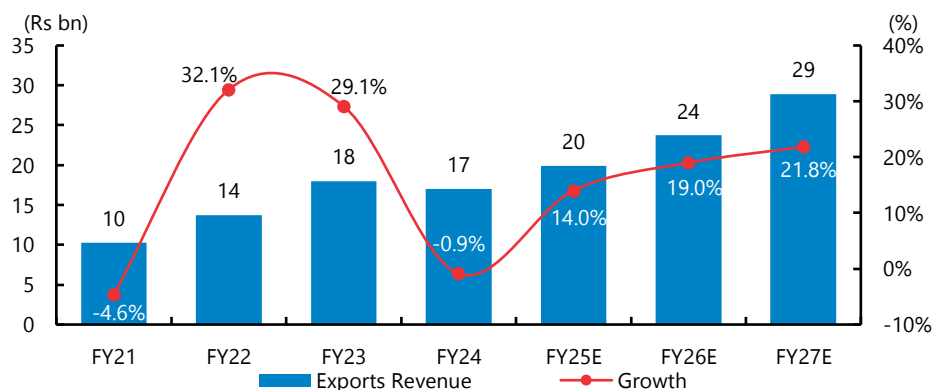
Manufacturing plants in the overseas market and the addition of value added products (VAP) ramped up international revenue mix from 51% in FY22 to 55% in FY24. Over the last two years, **share of general purpose ropes declined from 62% to 48%**, while the share from VAP (including O&G and cranes) has gone up.

USM's **European subsidiary** Usha Martin International Limited (UMIL)'s robust growth trajectory is powered by streamlined operations, strategic RM sourcing, and technical innovations through its global R&D centre. Revenue climbed 54% in the last two years, while PAT tripled. Also, Norway is expected to be a strong growth driver, given the upcoming offshore wind energy project.

In the US, USM has expanded focus from the Gulf of Mexico to the East and West Coasts; targeting the mining, elevator and crane rope markets. This expansion is supported by **investments in infrastructure and high-margin plasticated LRPC, mining ropes elevator ropes and gondola ropes** — positioning the company for growth.

Mining sector growth opportunities also look **promising in Australia, Americas and South Africa**. Thus, revenue share from international market is expected to increase further.

International business to gain traction on entry to new markets



Source: Company, Share India Research

Ramp-up of international revenue mix from 51% in FY22 to 55% in FY24.

Financials & Valuation

Revenue to grow at 16% CAGR to Rs49.8bn during FY24-27E.

We are projecting 10% CAGR in wire rope volumes over FY24-27E.

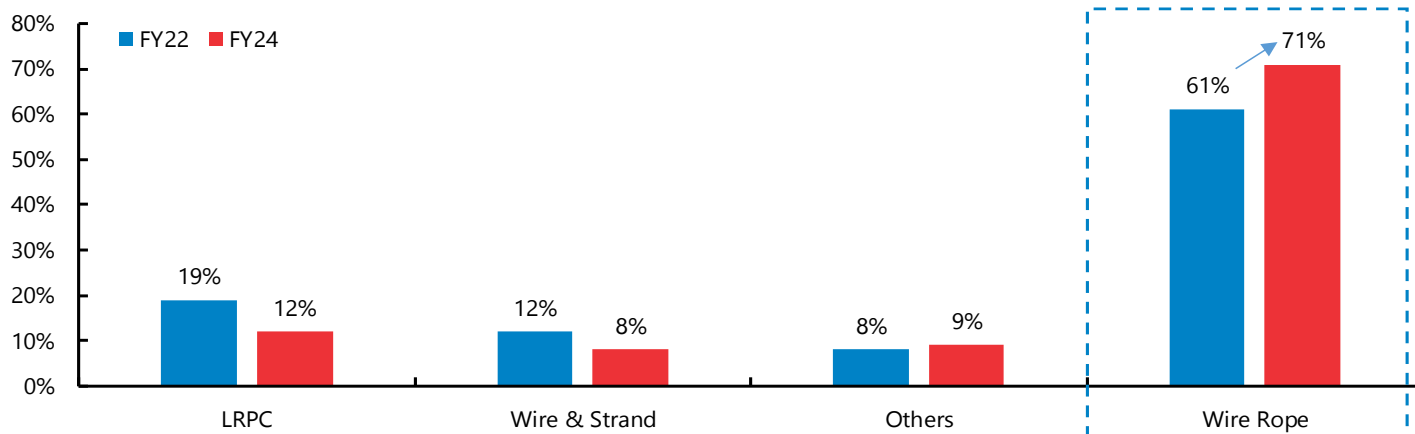
Revenue to Grow at 16% CAGR over FY24-FY26E

In FY24, the rise in rope volumes and slight decrease in wire and LRPC volumes aligned with the company's strategy to focus on VAPs and reduce low-value offerings. Looking ahead, management anticipates volumes to expand by ~10-15%, while **we project 12% CAGR in volumes over FY24-27E, with an anticipated 4% improvement in realisations**. We expect revenue to grow at 16% CAGR to Rs49.8bn during FY24-27E, mainly driven by: (i) volume growth in the domestic market (ii) increase in VAP (iii) recovery in the international market.

Wire Ropes Continue to Drive Growth

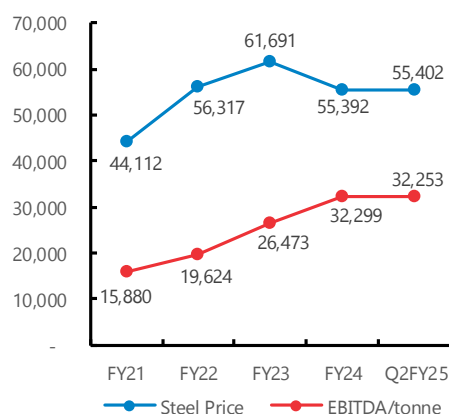
In FY24, wire ropes contributed 71% to revenues (up from 67% in FY23), with **value-added segments rising to 71% from 65%**. Growth was driven by **construction, infrastructure, and repeat orders in mining and O&G**. During FY24, the LRPC and wire & strand sales decreased by 22%/19% (contributes ~12%/8% of total revenue). LRPC and wire & strand volumes were down by 13%/14% with realisations down 10%/7% respectively.

Wire ropes lead the way with rising value-added contribution



Source: Company, Share India Research

EBITDA/tonne and steel price volatility



Source: Company, Share India Research

Anchored Beyond Steel Price Waves

Steel (70%) and zinc (7%) dominate the wire rope raw material costs, with USM passing on price increases to customers after a 2-3 month lag. USM's domestic plants source steel wire rods locally, while Thailand relies on India and China. **USM's margins show resilience to steel price hikes**. Focus on specialty wire ropes helps boost average realisations. Competitive employee costs and rising VAP mix, combined with operating leverage, helped drive EBITDA growth from Rs15,880/tonne in FY21 to Rs32,253/tonne in 2QFY25.

Management anticipates a gradual increase in EBITDA/tonne as volumes and operational leverage improve. We believe new capacities in specialised wire ropes for O&G and cranes will further improve EBITDA/tonne. We expect EBITDA/tonne to grow at 8% CAGR over FY24-27E to ~41,690/tonne.

Management has guided for blended EBITDA/tonne of ~Rs32,000 for FY25.

RM Cost, Operating Leverage to Drive 21% EBITDA CAGR

We expect USM's EBITDA to grow at 21% CAGR to Rs10.5bn during FY24-27E, led by focus on VAP and operating leverage in domestic business. The sharp uptick in EBITDA margin in FY24 to 18.6% vs 15.7% in FY23 was driven by focus on high value offerings, continuous engagement with OEMs and international operations. We believe USM's margins will improve by 250bps in FY27E over FY24 on back of operating leverage and higher contribution from VAP.

Initiate with BUY; TP of Rs600

USM leads the domestic market with a strong financial position. Stock valuations are gaining traction due to the stable business and incremental improvements. Despite a recent surge, we remain optimistic about USM's growth potential, considering **management's focus, a positive industry outlook, low debt levels and steady improvement in margins and ratios**. Long-term industry prospects likely to attract continued market attention.

Primarily a commodity business, the company is now **transitioning toward engineering**. It is focusing on VAP that offer higher realisations, which will help improve return ratios and potentially lead to a re-rating. We estimate earnings to grow at **23% CAGR over FY24-27E**. The stock currently trades at PE of ~14x. We initiate **BUY** with **TP of Rs600; assigning 23x multiple** (with PEG of 1x) to FY27E EPS.

Peer Comparison

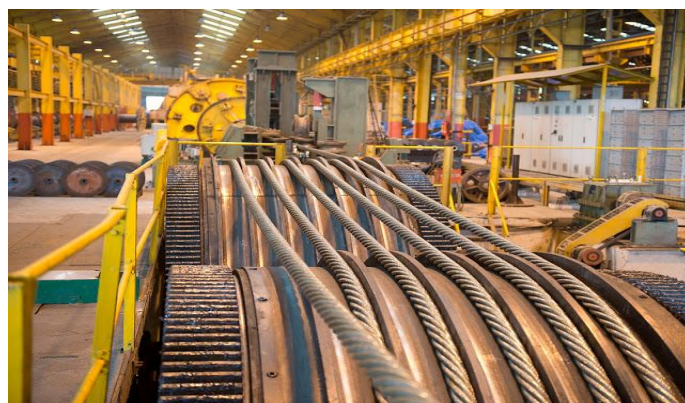
Company	MCAp (Rsbn)	TTM							2024
		Revenue (Rsmn)	EBITDA (Rsmn)	EBITDA Margin (%)	PAT (Rsmn)	PAT Margin (%)	EPS (Rs)	PE (x)	
Usha Martin	112	33,437	6,234	19%	4,273	13%	14	26	18%
Bharat Wire Ropes*	14	5,900	1,476	25%	851	14%	12.5	17	16%
Bansal Wires	67	29,570	2,065	7%	1,114	4%	8.3	52	20%
D P Wires	5	7,886	365	5%	294	4%	23.4	14	16%

Note: * Bharat Wire Ropes standalone values, Source: Company, Share India Research, Stock price data is as of 6th January, 2025

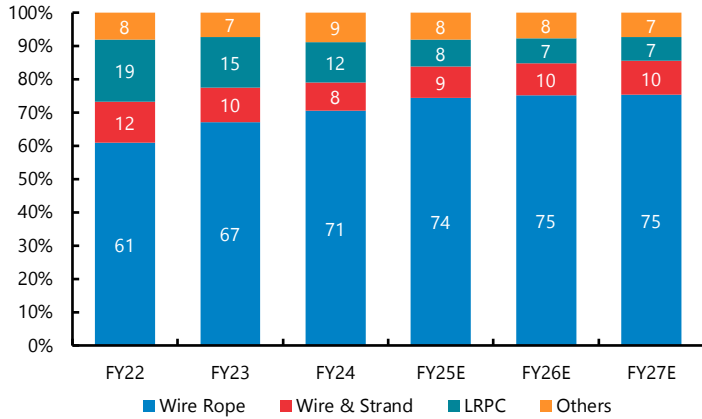
Bharat Wire Ropes, a newer entrant, has a smaller market presence, limited global recognition and a narrower/ less diversified product range compared to Usha Martin.

Plant Visit

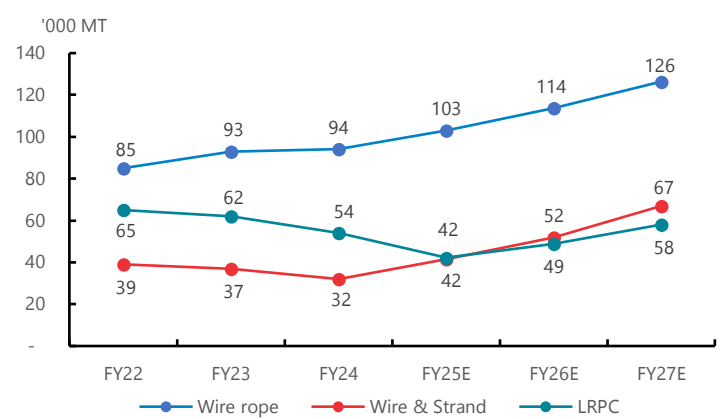
State-of-art: Cable & Rope Manufacturing Plants



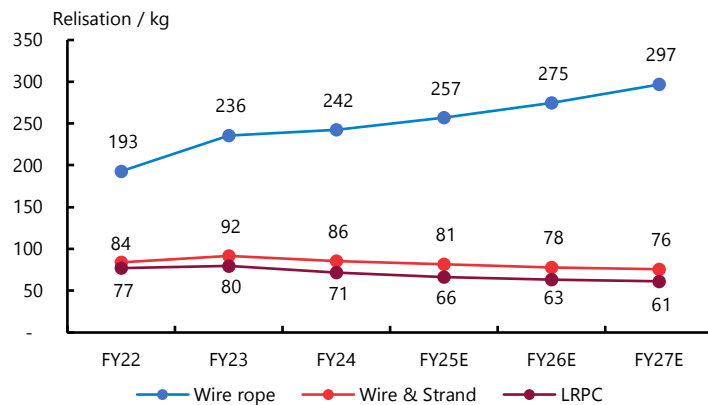
Source: Company, Share India Research

Exhibit 1: Revenue mix: Wire Ropes share to rise


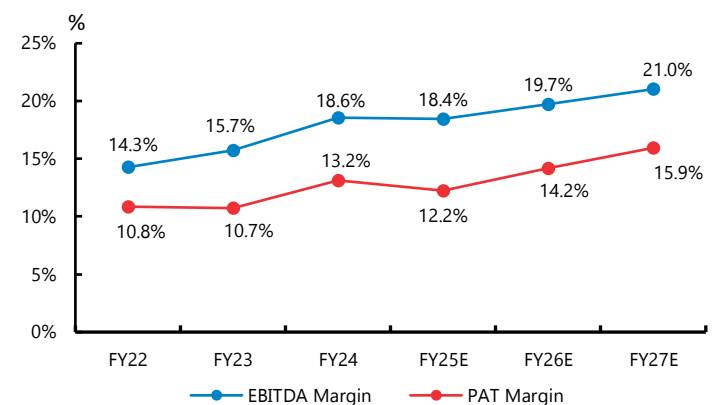
Source: Company, Share India Research

Exhibit 2: Volumes to improve with value added mix


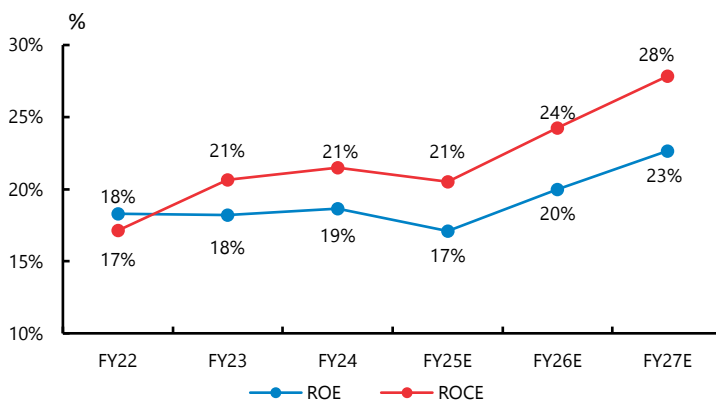
Source: Company, Share India Research

Exhibit 3: Realisations to improve for Wire rope


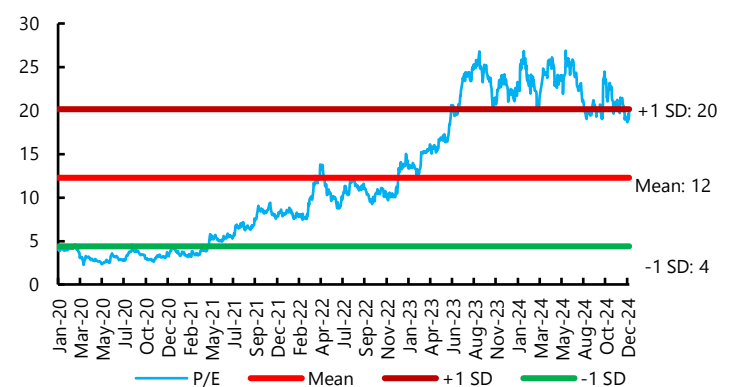
Source: Company, Share India Research

Exhibit 4: Increasing EBITDA and PAT margin trend


Source: Company, Share India Research

Exhibit 5: Strong balance sheet with improving return ratios


Source: Company, Share India Research

Exhibit 6: PE band


Source: Company, Share India Research

Income Statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	32,678	32,252	35,589	41,604	49,813
% Change YoY	21.6	-1.3	10.3	16.9	19.7
Operating profit	5,133	5,986	6,560	8,210	10,477
EBITDA margins	15.7	18.6	18.4	19.7	21.0
% Change YoY	34	17	10	25	28
Depreciation	675	770	899	908	922
EBIT	4,459	5,216	5,661	7,302	9,555
EBIT margins	14	16	16	18	19
Interest expense	303	248	312	267	223
Other income	281	403	312	624	996
Profit before tax	4,554	5,495	5,661	7,659	10,328
Taxes	1,048	1,254	1,307	1,768	2,384
Effective tax rate (%)	23	23	23	23	23
Net profit	3,506	4,241	4,354	5,891	7,944
% Change YoY	20	21	3	35	35
EPS (Rs)	11.5	13.9	14.3	19.3	26.0

Source: Company, Share India Research

Cashflow (Consolidated)

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before Tax	4,554	5,495	5,661	7,659	10,328
Non cash items	976	885	899	551	149
(Inc)/Dec in WC	(2,075)	(775)	(421)	(1,167)	(1,572)
Direct Taxes Paid	(939)	(1,167)	(1,307)	(1,768)	(2,384)
CF from Oper.Activity	2,516	4,438	4,832	5,275	6,521
(Inc)/Dec in FA	(1,823)	(2,776)	(100)	(200)	(300)
Free Cash Flow	693	1,662	4,732	5,075	6,221
(Pur)/Sale of Invest.	186	(194)	-	-	-
Other Income	61	91	312	624	996
CF from Inv. Activity	(1,577)	(2,879)	212	424	696
Change in Network	0	0	0	0	0
Inc/(Dec) in Debt	499	710	(400)	(400)	(400)
Others	(1,510)	(2,303)	(1,320)	(1,476)	(1,675)
CF from Fin. Activity	(1,011)	(1,593)	(1,720)	(1,876)	(2,075)
Inc/(Dec) in Cash	(42)	(12)	3,324	3,823	5,143
Opening cash Balance	1,544	1,502	1,498	4,822	8,645
Closing cash Balance	1,502	1,498	4,822	8,645	13,787

Source: Company, Share India Research

Balance Sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Equity capital	305	305	305	305	305
Reserves	20,002	23,491	26,838	31,520	38,012
Net worth	20,308	23,797	27,143	31,825	38,318
Debt	4,105	3,552	3,152	2,752	2,352
Deferred tax liab (net)	259	281	281	281	281
Minority Interest	43	42	42	42	42
Total liabilities	24,714	27,672	30,619	34,900	40,993
Application of Funds					
Fixed Assets	9,660	11,898	11,099	10,392	9,769
Other assets	1,219	1,371	1,292	1,292	1,292
Investments	976	853	853	853	853
Net Working Capital	11,239	11,873	12,373	13,540	15,112
Current Assets	17,394	17,502	18,307	20,069	22,449
Cash & equivalents	1,620	1,677	5,001	8,824	13,967
Current liabilities	6,154	5,629	5,934	6,529	7,337
Total Assets	24,714	27,672	30,619	34,900	40,993

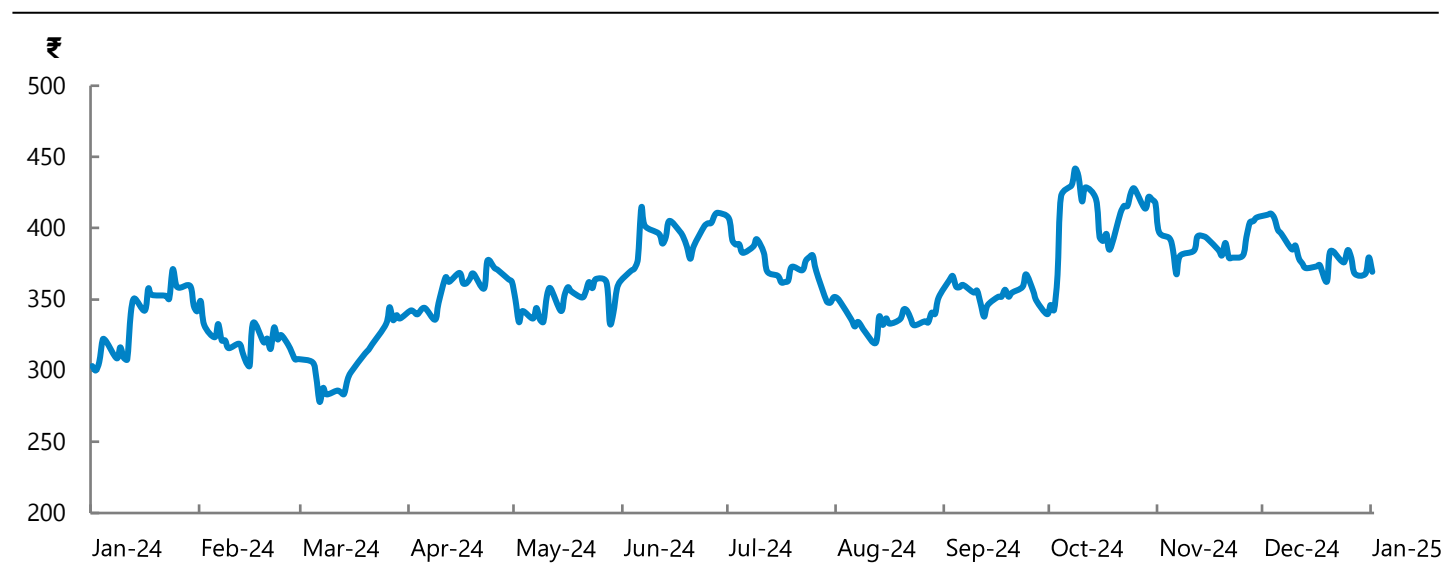
Source: Company, Share India Research

Ratio Analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
Basic (Rs)					
EPS	11.5	13.9	14.3	19.3	26.0
Book value per share	66.5	77.9	88.9	104.2	125.5
Valuation ratios (x)					
P/E	31.6	26.1	25.5	18.8	14.0
P/B	5.5	4.7	4.1	3.5	2.9
EV/EBIDTA	22.1	18.8	16.6	12.8	9.5
Profitability Ratios (%)					
RoIC	15.9	16.8	18.2	23.7	30.4
RoE	18.2	18.7	17.1	20.0	22.7
RoCE	20.6	21.4	20.5	24.2	27.8
Liquidity ratios					
Debtor (days)	56	61	59	57	55
Inventory (days)	99	101	96	91	86
Creditor (days)	33	28	27	26	25
Net WC (days)	122	134	128	122	116
Asset Turnover (x)	2.6	2.3	2.3	2.7	3.1

Source: Company, Share India Research

Price Chart – 1Y



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