India Ratings Upgrades Usha Martin's CP to 'IND A1+' & Bank Loans to 'IND A+'/Stable

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India Ratings and Research (Ind-Ra) has upgraded the ratings of Usha Martin Limited's (UML) commercial paper (CP) to 'IND A1+' from 'IND A1' and bank loans to 'IND A+' with a Stable Outlook from 'IND A'. The instrument-wise rating action is as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating Assigned along with Outlook/Watch	Rating Action
Commercial paper programme^	-	-	Up to 365 days	INR1.00	IND A1+	Upgraded
Term loan	-	-	June 2029	INR1.26 (reduced from INR1.87)	IND A+/Stable	Upgraded
Fund-based working capital limits	-	-	-	INR3.50	IND A+/Stable	Upgraded
Non-fund-based working capital limits	-	-	-	INR0.35	IND A1+	Upgraded

^ Carved out of the existing fund-based working capital banking lines

Analytical Approach

Ind-Ra continues to take a consolidated view of UML and its subsidiaries to arrive at the ratings, in view of the strong operating linkages among them as they operate in the same line of business.

Detailed Rationale of the Rating Action

The upgrade reflects a consistent improvement in UML's consolidated credit metrics in FY24, which were better than Ind-Ra's expectations, and are likely to sustain over the medium term. The improvement has been aided by management's increased focus on customised value-added products, ensuring higher customer stickiness and resilient realisations. The upgrade also reflects the new, potential high-margin value-added products being added to UML's portfolio, which shall be EBITDA-accretive once the large capex is completed and the enhanced facilities reach optimal capacity utilisation. The ratings also reflect Ind-Ra's expectation that UML will not face any material operational issues due to the differences between the promoter groups.

List of Key Rating Drivers

Strengths
- Consistent improvement in credit metrics
- Large capex majorly self-funded
- Improvement in EBITDA likely to sustain over FY25-FY26
- Leading player in wire and wire rope business; diversified operations
- Value-added products

Weaknesses
- Ability to pass on raw material price volatility
- Crystallisation of contingent liability
- Uncertainty around promoter group differences

Detailed Description of Key Rating Drivers

Consistent Improvement in Credit Metrics: The consolidated credit metrics continued to improve during FY24 due to lower gross debt on pre-payment of loans, lower interest cost and improved absolute EBITDA. The consolidated adjusted net leverage including accepted letters of credit (LCs; gross debt + accepted LCs – free cash)/EBITDA) improved to 0.37x in FY24 (FY23: 0.57x, FY22: 0.90x) and the interest coverage (EBITDA/gross interest) to 24.15x (16.96x, 9.04x). The agency believes the credit metrics will remain supported by strong cash flow generation, driven by the management's increased focus on improving the company's product mix towards a more value-added portfolio in India as well as in the international markets under subsidiaries. Overall, Ind-Ra expects the consolidated credit metrics to sustain over the near-to-medium term amid UML's largely self-funded capex plan, leading to the consolidated adjusted net leverage remaining below 1.0x and the interest coverage above 15.0x.

Post the sale of UML's steel division to Tata Steel Long Products Limited (TSLPL; now merged with Tata Steel Ltd. ('IND AA+'/Positive) in April 2019, UML received INR43.65 billion (96.5% of the total sum) till FYE21, while and the balance consideration of INR1.60 billion was held back by TSLPL due to procedural delays in the transfer of some land parcels and net working capital adjustments. At FYE24, INR0.745 billion is pending for realisation and is likely to be realised over the medium term. Such amount will be deployed for capex as well as for enhancing the group's liquidity, which will aid in further deleveraging.

Large Capex Majorly Self-funded: UML is undertaking debottlenecking, modernisation, upgradation and capacity enhancement of the plant at Ranchi, Jharkhand, which shall enhance its overall capacity in India by around 19% to 278,000 tonnes per annum (TPA). UML also plans to enhance capacity at its Thailand plant by 8% to 39,000TPA. The total estimated cost is INR5.390 billion and the capacities are likely to become operational in phases over 2QFY25-1QFY27. Around 80% of the project will be funded by internal accruals and the balance by term debt (INR1.00 billion; 100% availed). The capacity expansion plan also includes adding new high-value, high-margin niche products to UML's portfolio, having a significant demand in the export market. Thus, the expanded capacities shall be more EBITDA-accretive than the existing operations once fully operational. Ind-Ra believes the company shall have adequate internal accruals supported by strong operational cash flows (likely to be over INR3 billion per year), free cash balances (FYE24: INR1.713 billion), unutilised working capital lines (end-March FY24: INR3.11 billion) as well as the realisation of pending dues from TSLPL (INR0.74 billion). UML shall remain 100% self-sufficient in terms of power as its existing power plant has surplus capacity. Also, with the modernisation and upgradation of facilities, the total power consumed per unit is likely to reduce, thereby improving the efficiency of operations over the medium term.

Improvement in EBITDA Likely to Sustain over FY25-FY26: The consolidated EBITDA margin increased to 18.56% in FY24 (FY23: 15.71%; FY22: 14.27%) due to increased share of high-margin wire ropes in the overall sales mix (FY24: 71%; FY23: 67%; FY22: 61%) and a reduction in raw material cost. Furthermore, the realisations remained robust leading to increased spreads. The robust profitability has been witnessed at overseas subsidiaries as well on account of better product offerings including high-margin services, leading to higher realisations for the consolidated operations. Moreover, low fixed costs, at 20%-25% of sales, ensure stability in margins and lower volume impact. Since FY12, the EBITDA margins of the continuing operations ranged between 13% and 18%, while the consolidated EBITDA per tonne has consistently increased to around INR33,000 in FY24 from around INR10,000 in FY20. The agency expects the consolidated EBITDA per tonne to further improve over the medium term as the share of value-added products in the overall sales mix increases gradually post capex and to hover at INR30,000-35,000/t over FY25-FY26 (FY24: INR33,042/t; FY23: INR26,678/t; FY22: INR20,279/t).

The consolidated revenue remained stable at INR32.25 billion in FY24 (FY23: INR32.69 billion), owing to a 3% yoy increase in sales realisation, partly offset by a 5.9% yoy decline in sales volumes.

Leading Player in Wire and Wire Rope Business; Diversified Operations: UML is the market leader in the Indian wire and wire rope space and is among the top five leading manufacturers globally. The company caters to various non-correlated end-user industries – elevators, mining, container port cranes, fishing, construction, among others – with a considerable market share in each industry. UML has two manufacturing plants in India and four manufacturing plants overseas through its foreign subsidiaries.

Value-added Products: Post the hiving-off of the steel division, UML largely manufactures value-added wire and wire rope products. Wire ropes are not commodity products and are customised based on the consumers' requirements, thus commanding higher and more stable realisations than commodity products. Considering UML's leading market position, product approvals and close association with the large end-user industry players, Ind-Ra believes the company will maintain its market share.

Ability to Pass on Raw Material Price Volatility: Despite the absence of backward integration post the sale of its steel division, UML demonstrated strong operational performance over FY20-FY24 with no supply glitches. It procures key raw material (wire rods) from the open market. However, during the slump-sale, UML had entered into an agreement with TSLPL for the supply of 100,000TPA of wire rods from the Jamshedpur unit until FYE24. Post the expiry the agreement, UML has entered a memorandum of understanding with Jindal Steel and Power Ltd. for supply of 100,100TPA of wire rods, renewed annually; this ensures raw material availability for over50% of the requirement. For the balance requirement, the company relies on other domestic players in its vicinity and has diversified its supplier base over the last two years. As most of the production is order-based, UML has been able to pass on volatility in raw material prices, albeit with a lag, as reflected in its range-bound EBITDA per tonne.

Crystallisation of Contingent Liability: UML's consolidated continuing business has longstanding contingent liabilities, which amounted to INR2.99 billion at FYE24 (FYE23: INR3.62 billion; FYE22: INR3.95 billion). It also has an ongoing Central Bureau of Investigation's (CBI) enquiry with respect to the sale of iron ore fines from its captive mines over FY06-FY10. According to the management, there was no clause in the terms and conditions of the mining lease that restricted the company from disposing iron-ore fines from its mines and an order from the Jharkhand High Court validates the same. Under the same investigation, the Enforcement Directorate also initiated proceedings under the Prevention of Money Laundering Act against UML and issued Provisional Attachment Order in August 2019, wherein certain immoveable properties situated in Ranchi, Jharkhand were provisionally attached for 180 days, aggregating INR1.90 billion. In January 2020, UML filed its appeal for which an interim order was received for the parties to maintain status quo, which would be in place until the next hearing in September 2024. The aggregate charges represent an estimated revenue earned, for which, the company has duly paid the royalties and other applicable taxes to the government, according to the management.

Meanwhile, the CBI filed a first information report in October 2020 against the company, the managing director and certain other individuals, for alleged offences under the Prevention of Corruption Act, 1988 and the Indian Penal Code, 1860 for allegedly trying to influence the ongoing CBI investigation pertaining to the above proceedings. The matter is pending adjudication in the court.

Ind-Ra believes any adverse court order for a higher-than-expected amount will lead to a sharp deterioration in UML's liquidity and might put pressure on the ratings. However, considering the company's adequate liquidity and bankers' support, the net leverage is unlikely to exceed 1.25x on a consolidated basis in the year during which the charges could be levied even if the order against UML amounts to INR1.90 billion.

Uncertainty around Promoter Group Differences: There have been significant differences between UML's two promoter groups over the past couple of years. Despite this, the company managed to successfully complete the steel division transaction in April 2019 through majority voting in the board as well as by shareholders. Furthermore, since one of the promoter groups is no longer on UML's board of directors, it is not involved in the company's day-to-day operations anymore. Also, no new issues have cropped up over the last five years. Rajeev Jhawar, the managing director and promoter of UML, has strengthened his position by increasing his stake in the company over FY19-FY24. Ind-Ra believes the ongoing feud between promoters is not likely to have any bearing on the operations of the company, even though there could be some disputes, considering the other promoter group still holds a 12%-15% stake in UML. While the resolution of the impasse between the promoter groups will provide comfort to ratings, any significant escalation of the differences could lead to an adverse rating action. There is no pledge of promoters' shareholding as on date (March 2023: 54.70%).

Liquidity

Adequate: The company's average utilisation of fund-based facilities (INR3.5 billion) for the 12 months ended June 2024 was around 8%, indicating adequate liquidity. UML's consolidated free cash balances remained high at INR1.709 billion at FYE24 (FYE23: INR1.657 billion). Ind-Ra expects UML's consolidated debt service coverage ratio to remain adequate at above 5.0x for the scheduled repayments over FY25 and FY26 (FY25: INR0.128 billion; INR0.605 billion was prepaid in FY24; FY26: INR0.672 billion). UML's consolidated free cash flow in FY24 turned positive to INR0.869 billion (FY23: negative INR0.056 billion; FY22: INR0.739 billion), due to improved absolute EBITDA and steady working capital requirement, despite high capex (INR2.78 billion; INR1.82 billion) and dividend payouts (INR0.76 billion; INR0.61 billion). With large capex plans (FY25: around INR3.2 billion; FY26:

around INR1.0 billion) over the medium term, Ind-Ra expects the free cash flow to turn negative in FY25 and turn positive again in FY26, supported by strong operational cash flows.

Rating Sensitivities

Positive: Resolution of the issues related to the governance structure and maintaining the consolidated EBITDA margin and credit metrices could lead to a positive rating action.

Negative: A lower-than-estimated consolidated EBITDA or any large debt-led capex/acquisitions or the crystallisation of the contingent liability, leading to the adjusted net leverage (including LC acceptances) exceeding and sustaining above 1.25x at a consolidated level could lead to a negative rating action.

Any Other Information

Standalone Performance: UML recorded revenue of INR20.46 billion during FY24 (FY23: INR20.42 billion), EBITDA margin of 19.56% (14.60%) and interest coverage of 59.03x (19.90x). In FY24, the net leverage (including LC acceptances) stood at 0.22x (FY23: 0.46x).

ESG Issues

ESG Factors Relevant to Rating: Governance has relevance and moderate impact on UML's ratings due to the persisting legal and regulatory risks, the ongoing promoter group differences, ownership concentration and group's complexity. Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on UML, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

Founded by the Kolkata-based Jhawar family, UML commenced operations in 1960. It is one of the leading global manufacturers of steel wire and wire ropes. Its manufacturing plants are located in Ranchi (186,000TPA) and Hoshiarpur (48,000TPA) in India, and in Thailand (two facilities - 36,000TPA, 2,040TPA), Dubai (15,000TPA) and the UK (11,500TPA) overseas.

Key Financials Indicators

Particulars (Consolidated)	FY24	FY23
Net revenue (INR billion)	32.25	32.68
EBITDAR (INR billion)	5.99	5.13
EBITDAR margin (%)	18.56	15.71
EBITDAR interest coverage (x)	24.15	16.96
Adjusted net leverage (including LC acceptances; x)	0.37	0.57
Source: Company, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating			Historical Rating/Outlook			
	Rating Type	Rated Limits (billion)	Rating	22 September 2023	2 August 2023	5 August 2022	9 August 2021
Issuer rating	Long-term	-	-	WD	IND A/Positive	IND A/Positive	IND A/Stable
Long-term loan	Long-term	INR1.26	IND A+/Stable	-	IND A/Positive	IND A/Positive	IND A/Stable
Fund-based limits	Long-term	INR3.50	IND A+/Stable	-	IND A/Positive	IND A/Positive	IND A/Stable
Non-fund-based limit	Short-term	INR0.35	IND A1+	-	IND A1	IND A1	IND A1
Commercial paper programme	Short-term	INR1.00	IND A1+	-	IND A1	IND A1	IND A1

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Long-term loan	Low
Fund-based limits	Low
Non-fund-based limit	Low
Commercial paper programme	Low

For details on the complexity level of the instruments, please visit www.indiaratings.co.in/complexity-indicators.

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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