PHOTOS: SAJAL BOSE

Bouncing back

Ramsarup Industries has drawn up a strategy aimed at a complete turnaround

For the first time in 20 years, the Kolkata-based Ramsarup Industries Ltd incurred losses and skipped dividend. For the year ended March 2009, on a turnover of Rs1,985 crore (previous year: Rs1,581 crore), the company posted an operating profit of just Rs1.25 crore (Rs161 crore) and recorded a net loss of Rs75 crore (profit of Rs61.98 crore). This took many by surprise.

However, after reporting losses in the previous two quarters, in early August, Ramsarup announced its results for the first quarter ended June 2009. Back in the black, it reported sales and net profit of Rs379 crore and Rs6.2 crore, respectively. Ever since, investment analysts, with hopes that it would return to the dividend list, have started visiting the company. The stock has risen on the bourses, gaining by over 54 per cent since the first week of August 2009, and is currently trading at around Rs85.

"The global meltdown in the past two quarters had taken a toll on us," says Ashish Jhunjhunwala, CMD, Ramsarup Industries, and a second-generation entrepreneur who joined the family business in 1996. The family owns close to 83 per cent of Ramsarup's Rs35 crore equity.

"Though revival of the steel and wire industry is yet to take place globally, since March 2009, partial revival in demand has started taking place in India," says Ashish, pinning his hopes on pick-up in demand from the power and infrastructure sectors, which will help the company bounce back.

Ramsarup started out small, grew slowly and is now running fast towards its main goal – complete backward and forward integration of the 40-year-old steel wires and TMT (thermo mechanically treated) bars manufacturing company to a turnkey contractor. The company's catch line says it all: 'From iron ore to transmission lines'.

The company's mother division comprises steel wire drawing and galvanising units, which started off with a small unit in Kalyani (West Bengal). Today, it has a 0.197 million tonne per annum (TPA) capacity of wire production there, besides three more plants in Durgapur, Shyamnagar and Kharagpur. "Our major expansion started in the past six to seven years. We are now doing 2,000 tonnes of black and galvanised wires," points out Ashish.

As on date, the group, that has a

fairly large basket of products, is one of the fastest growing in India, catering to the power and infrastructure sectors and aiming to substantially consolidate its position in these sectors via organic as well as inorganic growth. “The company is catering to the core sector, which is growing. Its products are mainly utilised in the power sector (40 per cent of the topline), defence (5 per cent), water management (10 per cent), housing and construction (20 per cent), roads and bridges (10 per cent), retail and others (10 per cent), as well as railways (5 per cent),” says a Mumbai-based financial analyst, who has made his first visit to Ramsarup’s Kolkata units and is in the process of making his ‘initial coverage’ report on the company.

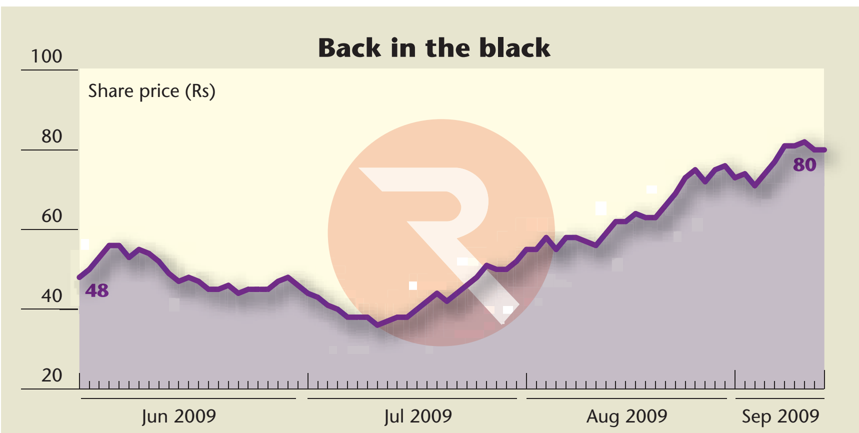
“Our size range is also very exhaustive. For example, we even make half sizes, which becomes a strong selling point in terms of the retail sector, for which we are a one-stop shop,” says Ashish, whose major blue-chip clients include L&T, Kalpataru Power and Transmission, Areva, KEC International, Tata Power, Bajaj Electricals, state electricity boards (SEBS) and the Indian Railways.

The company has already evolved genetically and has forayed into laying of power transmission and distribution lines and power trading as well, through its power plant. “We are registered with Power Grid Corporation of India, as well as all major electricity suppliers. We automatically get all Power Grid projects and are also in talks with WBESC to sell power to it. We hope to freeze the deal by end September,” says Ashish. In order to strengthen Ramsarup’s position as a service provider, he has entered into the league of providing turnkey solutions in the power and infrastructure sectors.

For starters, the Jhunjhunwala family first bought whatever land they could find in Kalyani, which was soon chock-a-block. They then shifted to Durgapur and built the second plant. “We bought the land in October 2006, readied it in November 2007 and started in February 2008, as we did not get power before that. But starting production in 15 months set a record of sorts in the industry,” says Ashish.

Ramsarup uses the first Durgapur plant for producing a special grade of wire called Low Relaxation Prestressed Concrete (LRPC) strand wire. “These are used in tunnels, high-rises, shopping malls, nuclear reactors, bridges and other heavy construction,” says Manish Jhunjhunwala, COO and Ashish’s cousin, who oversees the production.

The company has now set up its second plant at Durgapur, which produces single LRPC wires, a product that Tata Steel and ArcelorMittal are well entrenched in. This will find huge application in the railways. “France and Japan have the fastest trains in the world, running at 350 km/hr. In India, the fastest we have is Rajdhani Express at 130 km/hr. Now, our government wants the same speed as the high-speed trains of France and Japan. We have already spoken to Research Design and Standard Organisation (the sole R&D organisation of the Indian Railways) regarding these plans,” says Ashish. Both the Durgapur and Kalyani plants have machinery that has been entirely imported from Europe and can make LRPC products that have strong export potential. Ramsarup already exports its products to the UK, Greece, Israel, Spain, Dubai, Saudi Arabia and Bangladesh, among others. “We will get full European Union (EU) clearance next month,” says Manish.



Full integration

Two years ago, Ramsarup started its steel plant through the blast furnace route in Kharagpur on 330 acres of land. “We started DRI (direct reduced iron) and power production this year, and by next year, we will start a steel vending plant, sinter plant and an oxygen plant – all under one roof. The capacity of this steel vending plant will be seven million tonnes. We will transfer a part of the billets that we’ll produce here to our unit in Shyamnagar, which makes TMT bars,” says Ashish, specifying that the company’s final objective is clear: “We are not steel producers. We are wire producers.”

The group’s combined capacity is about 3.15 lakh tonnes (black and galvanised put together). “We planned to scale it up to 6 lakh tonnes by 2011. However, given the current market scenario, we have deferred our plans to 2012-13. Once we reach these figures, it will certainly put us on the world map,” says the CMD, who says he will do whatever is required to produce good quality cheap wires.

The only missing link for full integration from iron ore to steel is the wire rod mill. “We don’t have one now, but will be planning it soon. Once this comes up, we will be an integrated company,” says Ashish.

“We also want to focus on infrastructure work,” says Manish. The company is already putting up transmission and distribution lines in Rajasthan and West Bengal, and water and sewerage pipelines in Rajasthan. “We have just completed wire fencing along the India-Bangladesh border and are also building small bridges in West Bengal and Jharkhand,” he adds.

Ramsarup decided to enter the power and infrastructure sectors after

TMT bar mill: catering to the core sector

much analysis. "We were already making wires for the power sector, and registered with Power Grid and other electricity operators. So we thought, why not make links of transmission lines where we can make our own wires. In addition, we gave our wires to conductors and cables manufacturers and in return, started taking conductors and cables from them to use in our transmission lines," observes Manish, after bagging orders worth Rs500 crore for some infrastructure projects.

Given that all of the company's facilities, including current projects, are up and about within estimated deadlines, its topline will exceed Rs4,000 crore by 2012. With an EBITDA margin of 15 per cent, it translates to around Rs600 crore, and gives the company a cash surplus of over Rs400 crore. "Our revenues have been projected at Rs2,400 crore for FY10 and Rs3,500 crore for FY11. This year, our operating margin is 11 per cent; we'll take it to 15 per cent 2011 onwards," says Navin Gupta, CFO, Ramsarup Industries.

The company is also gearing up to enter mining in a big way. It has a partnership company, Balasore Minerals, which is into iron ore, limestone and dolomite. "We hope to start work in these mines within the next six months. Once the mining facilities start, we may merge it with Ramsarup," says Ashish, adding that he decided to go for mining as he wanted complete linkage and integration of raw materials. "We have also been given coal mines by the government, including Moira Madhujore mines in Raniganj, which is a joint venture with five other companies. Soon we'll have our own iron ore and coal, which will give a big boost to the company," he adds.

Value addition

In future, depending on cash flows, Ramsarup also plans to set up another 45 MW power plant. "We will soon be generating 8 tonnes of char every hour, and would like to convert it into energy. This will substantially reduce our cost of steel," says Manish.

Talking about future investment plans, Ashish reveals, "We want to finish all our ongoing projects by the end of this financial year. Then we will evaluate market conditions and our internal cash flows. We are sure that we don't want to increase our debt, which is already around Rs1,000 crore. So if our cash flows are strong, we will put up a rolling mill, the second power plant and also increase our wire capacity."

"Our advantage is that we are holding 83 per cent of our equity. So with a little bit of market improvement, strong cash flows and dilution of equity, we will be able to achieve our mission without any debt. Our future projects depend on internal accruals and equity dilution, as we don't want any debt. The current projects have been funded by both equity and debt," says Gupta, adding that margins will improve once Ramsarup has its own iron ore to reduce long-term debt.

The arithmetic is simple. "A tonne of iron ore costs Rs500 to Rs1,000 and a tonne of transmission line costs Rs70,000 to Rs80,000. This is the value addition we're talking about," says Ashish. The company may be the 24th or 25th largest in the world in its area of operation, but plans are afoot to pull up that ranking. "In the next two to three years, we wish to be amongst the top eight or top 10 wire producers in the world," says Ashish.

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