

## UltraTech Cement

### Samruddhi–UltraTech merger: a moderate boost

**Swap ratio of 4:7:** UltraTech's board has approved the merger of Samruddhi Cement (SCL) with the company at a swap ratio of 4:7 (4 shares of UltraTech for 7 held in SCL). This translates into a merger ratio of 1.75:1. We had assumed a ratio of 2:1, but considering SCL's stronger geographical mix, the swap has been tilted slightly in favour of Grasim's shareholders.

**Grasim to hold 60.3% post-merger:** UltraTech will issue 149.5mn shares in all, thereby increasing its share base to 274mn. After the merger, Grasim's shareholding will increase from 54.8% to 60.3%.

**SCL transferred at ~US\$ 106/tonne:** A quick analysis suggests that SCL has been transferred at an EV/tonne of US\$ 106, based on UltraTech's current market price of Rs 729. We have also factored in SCL's net debt position as on 1 October (Rs 21.3bn). At the current price, UltraTech is trading at an EV/tonne of US\$ 90 on a standalone basis.

**UltraTech's market share and earnings to get a boost:** Post-merger, UltraTech will be the largest cement company in India with a market share of 19% and a presence across the country. The company will have market shares of 16%, 29%, 20% and 15% in the north, west, east and south respectively. Our first-cut analysis suggests that the merger ratio would be slightly earnings-accretive for UltraTech, in the range of 3–4%. However, we can see no other synergies from the consolidation, as the company will continue to sell cement under a single brand.

**Merger to narrow valuation discount to peers:** The stock is currently trading at a P/E of 9.4x and an EV/EBITDA of 5.9x on FY11E. We continue to believe that the proposed merger will narrow the valuation discount between UltraTech and other cement majors such as ACC and Ambuja Cement. We currently have a Hold rating on the stock. However, based on a valuation of US\$ 110/tonne, the UltraTech stock offers an upside of 15% from the current level. We will be releasing a detailed note along with revised estimates shortly.

#### UltraTech's market share post merger

Particulars	%
North	16
West	29
East	20
South	15
<b>All India</b>	<b>19</b>

Source: RHH

CMP	TARGET	RATING	RISK
Rs 729	UNDER REVIEW	HOLD	HIGH

BSE	NSE	BLOOMBERG
532538	ULTRACEMCO	UTCEM IN

#### Company data

Market cap (Rs mn / US\$ mn)	90,753/1,970
Outstanding equity shares (mn)	124
Free float (%)	47.6
Dividend yield (%)	0.7
52-week high/low (Rs)	920/245
2-month average daily volume	383,359

#### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Ultratech	729	(11.4)	(2.0)	28.6
Sensex	17,018	(1.8)	10.4	39.8

#### UltraTech's shareholding pre- and post-merger

(%)	Pre-merger	Post-merger
Grasim	54.8	60.3
Ultratech Minority shareholders	45.2	20.6
Grasim Shareholders		19.1

Source: RHH



**Fig 1 - Samruddhi Cement transferred at US \$ 106/tonne**

Particulars	(mn shares)
Total equity shares of Samruddhi	261.7
Share swap ratio (4:7)	
Total shares in UltraTech	149.5
UltraTech Shares	124.5
Total shares in UltraTech	274
CMP of UltraTech	729
Samruddhi CMP based on swap ratio	417
Samruddhi's market share	109,017
Net debt as on Oct 1st	21,330
Enterprise value (Rs mn)	130,347
Samruddhi's cement capacity	25.7
Total EV/tonne (Rs mn)	5,072
Exchange ratio	48
Total EV/tonne (US\$)	106

Source: RHH

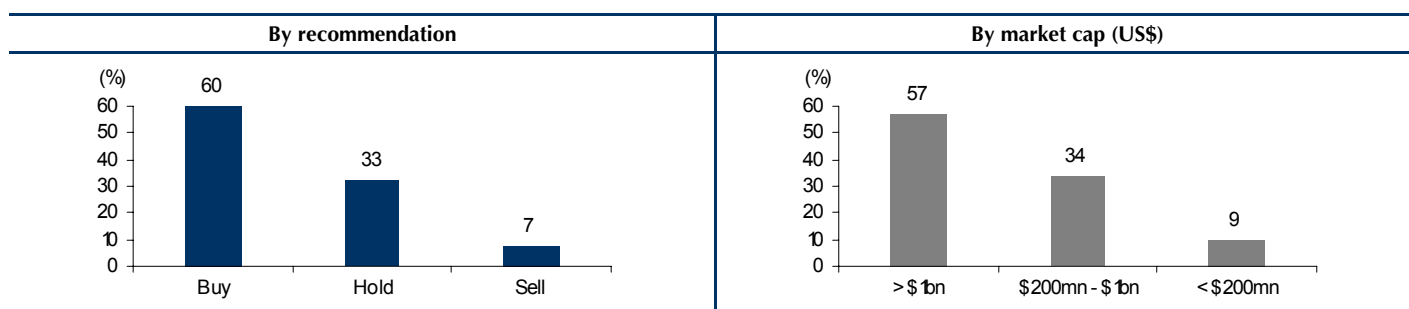
**Fig 2 - Potential upside of 15% in UltraTech stock**

	mn
Total equity shares of Samruddhi	261.7
Share swap ratio (1.75:1)	
Total Shares in UltraTech	150
UltraTech Shares	125
Total Shares in UltraTech	274
	US \$
EV/Tonne	110
Total Capacity	48.7
Total EV	5357
Exchange rate	48
EV	257,136
Net Debt (Samruddhi + UltraTech )	27430
Market Cap of UltraTech	229,706
Total no of Shares	274
Share Price Value	838
CMP	729
Upside/Downside	15

Source: RHH



### Coverage Profile



### Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

### Religare Capital Markets Ltd

4<sup>th</sup> Floor, GYS Infinity, Paranjpe 'B' Scheme, Subhash Road, Vile Parle (E), Mumbai 400 057.

### Disclaimer

#### **This document is NOT addressed to or intended for distribution to retail clients (as defined by the FSA).**

This document is issued by Religare Hichens, Harrison & Co Plc ("Hichens") in the UK, which is authorised and regulated by the Financial Services Authority in connection with its UK distribution. Hichens is a member of the London Stock Exchange.

This material should not be construed as an offer or recommendation to buy or sell or solicitation of any offer to buy any security or other financial instrument, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action or any other matter. The material in this report is based on information that we consider reliable and accurate at, and share prices are given as at close of business on, the date of this report but we do not warrant or represent (expressly or impliedly) that it is accurate, complete, not misleading or as to its fitness for the purpose intended and it should not be relied upon as such. Any opinion expressed (including estimates and forecasts) is given as of the date of this report and may be subject to change without notice.

Hichens, and any of its connected or affiliated companies or their directors or employees, may have a position in any of the securities or may have provided corporate finance advice, other investment services in relation to any of the securities or related investments referred to in this document. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this briefing note.

Hichens accepts no liability whatsoever for any direct, indirect or consequential loss or damage of any kind arising out of the use of or reliance upon all or any of this material howsoever arising. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk, including the risk of capital loss.

This document is confidential and is supplied to you for information purposes only. It may not (directly or indirectly) be reproduced, further distributed to any person or published, in whole or in part, for any purpose whatsoever. Neither this document, nor any copy of it, may be taken or transmitted into the United States, Canada, Australia, Ireland, South Africa or Japan or into any jurisdiction where it would be unlawful to do so. Any failure to comply with this restriction may constitute a violation of relevant local securities laws. If you have received this document in error please telephone Nicholas Malins-Smith on +44 (0) 20 7382 4479.

*"Religare Enterprises Limited proposes, subject to receipt of requisite approvals, market conditions and other considerations, to make a rights issue of its equity shares to its existing shareholders and has filed a draft letter of offer ("DLOF") with the Securities and Exchange Board of India ("SEBI"). The DLOF is available on the website of SEBI at [www.sebi.gov.in](http://www.sebi.gov.in) as well as on the websites of the lead manager at [www.enam.com](http://www.enam.com). Investment in equity shares involves a high degree of risk and for details relating to the same, please refer to the section titled "Risk Factors" of the DLOF."*