

Q2FY2012 Review
 Sector: Metals & Mining
 BSE Sensex : 17,481

USHA MARTIN

 Downgrade SELL
 CMP Rs32
 TP Rs27

Margin contraction continues; Downgrade to SELL

Usha Martin's (USM) consolidated revenue increased 7.6% YoY to Rs8.3bn mainly due to higher realisation despite lower sales volume (down 5.3% YoY to 126kt). However, operating profit at Rs1.45bn declined 8.5% YoY on higher material increased on higher coking coal cost and third party purchase of coal and sponge iron as heavy monsoon impacted transportation of captive iron ore and coal. Consequently OPM contracted by 308bps to 17.5%. Adjusted PAT declined by 53.8% to Rs212mn due to higher interest and depreciation expenses. Reported PAT at loss of Rs627mn was further impacted by Rs1.2bn of forex losses (Rs839mn net of 30% tax) on foreign currency loan due to rupee depreciation.

Volumes improved sequentially on restoration of production: Although down 5.3% YoY, standalone sales volume at 126kt grew 15% QoQ on low base effect as Q1 volumes was impacted by fire in the control room of continuous caster-III.

Realisations improved 12.6% YoY: USM's blended realisations at Rs54,380/t increased by 12.6% YoY on higher steel prices and improved product mix.

Margins contraction continues: OPM at 17.5% contracted 308bps YoY and 132bps QoQ as the company had to resort to third party purchase of sponge iron and coal as heavy monsoon impacted transportation of captive iron ore and coal.

Subsidiary performance (consolidated - standalone) continued to remain under pressure on European debt crisis and flooding at Thailand. Subsidiaries operating profit declined 12.7% YoY and OPM contracted by 516bps to 17.6%.

Leverage: USM's net debt increased further to Rs22.3bn, with net D/E of 1.27x.

VALUATIONS AND RECOMMENDATION

Although USM's sales volume improved QoQ, low capacity utilisation at <50% and margin disappointments as the company is unable to benefit from high level of integration are key concerns. Rising financial leverage is another cause of concern in a declining steel profitability environment. We lower our FY12E sales volume by 6% to 541kt to factor in slow output ramp up and increase RM cost as company's third-party purchase of coal and sponge iron continues on extended monsoon (pls ref pg3 for change in estimates). We rollover our valuation to FY13E EV/EBITDA and downgrade the stock to 'SELL' with a reduced target price of Rs27 (4.0x FY13E EV/EBITDA).

KEY FINANCIALS					
	(Rs mn)				
	FY09	FY10	FY11	FY12E	FY13E
Revenue	29,619	25,344	30,626	36,055	39,676
YoY Gr. (%)	27.8	(14.4)	20.8	17.7	10.0
Op. Profits	6,200	4,501	5,702	6,781	7,987
OPM (%)	20.9	17.8	18.6	18.8	20.1
Adj. Net Profit	2,775	1,272	1,193	1,455	1,932
YoY Gr. (%)	85.3	(54.1)	(6.2)	21.9	32.8

KEY RATIOS					
	FY09	FY10	FY11	FY12E	FY13E
Dil. EPS (Rs)	11.1	4.2	3.9	4.8	6.3
ROCE (%)	14.0	6.2	6.7	7.0	7.8
RoE (%)	26.4	9.0	6.9	7.9	9.8
PER (x)	5.9	15.6	7.9	6.5	4.9
P/BV (x)	1.4	1.2	0.5	0.5	0.5
EV/EBITDA (x)	4.4	6.9	4.6	4.2	4.1

01 November 2011

Bikash Bhalotia +91-22-6618 6387
 bikash.bhalotia@pinc.co.in

Harleen Babber +91-22-6618 6389
 harleen.babber@pinc.co.in

Dipti Vijaywargi +91-22-6618 6393
 dipti.vijaywargi@pinc.co.in

QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Mar-11	Jun-11	Sep-11
Net Revenue	8,687	7,663	8,288
YoY Gr. (%)	33.6	13.2	7.6
Op profits	1,609	1,446	1,454
OPM (%)	18.5	18.9	17.5
Adj. Net Profit	362	257	212
YoY Gr. (%)	(47.8)	(38.7)	(53.8)

STOCK DATA

Market Cap	Rs10bn
Book Value per share	Rs58.4
Eq Shares O/S (F.V. Rs1)	305mn
Free Float	61.6%
Avg Traded Value (6 mnths)	Rs18.2mn
52 week High/Low	Rs88/30
Bloomberg Code	USMIN
Reuters Code	USBL.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	0.9	(26.2)	(62.0)
Relative	(6.7)	(23.5)	(50.4)

RELATIVE PERFORMANCE

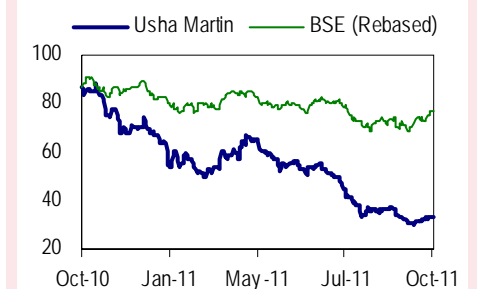


Exhibit 1 - Q2FY12 Quarterly Snapshot (Consolidated)

(Rs mn)	Q2FY12	Q2FY11	%YoY	Q1FY12	%QoQ	FY12E	FY11	%YoY
Total Revenue	8,288	7,702	7.6	7,663	8.1	36,055	30,626	17.7
Operating profit	1,454	1,589	(8.5)	1,446	0.6	6,781	5,702	18.9
OPM (%)	17.5	20.6	(308)bps	18.9	(132)bps	18.8	18.6	19bps
Other Income	11	6	92.7	15	(27.9)	54	46	17.6
EBITDA	1,465	1,594	(8.1)	1,460	0.3	6,835	5,748	18.9
Depreciation	540	462	16.9	549	(1.6)	2,260	2,010	12.5
Interest	605	449	34.7	546	10.8	2,329	1,876	24.1
PBT	320	683	(53.2)	366	(12.5)	2,246	1,862	20.6
Provision for tax	100	216	(53.6)	100	(0.3)	763	640	19.2
Effective tax rate (%)	31.3	31.6		27.4		34.0	34.4	
Minority Interest	8	8	(7.1)	9	(10.3)	28	29	(5.0)
Adj./Reported Net profit	212	459	(53.8)	257	(17.3)	1,455	1,193	21.9
Extraordinary expenses	(839)	-	-	-	-	-	178	-
Reported Net profit	(627)	459	(236.5)	257	(192.1)	1,455	1,371	6.1
NPM (%)	2.6	6.0	(340)bps	3.3	(79)bps	4.0	3.9	14bps
EPS (Rs)	0.7	1.5	(53.8)	0.8	(17.3)	4.8	3.9	21.9

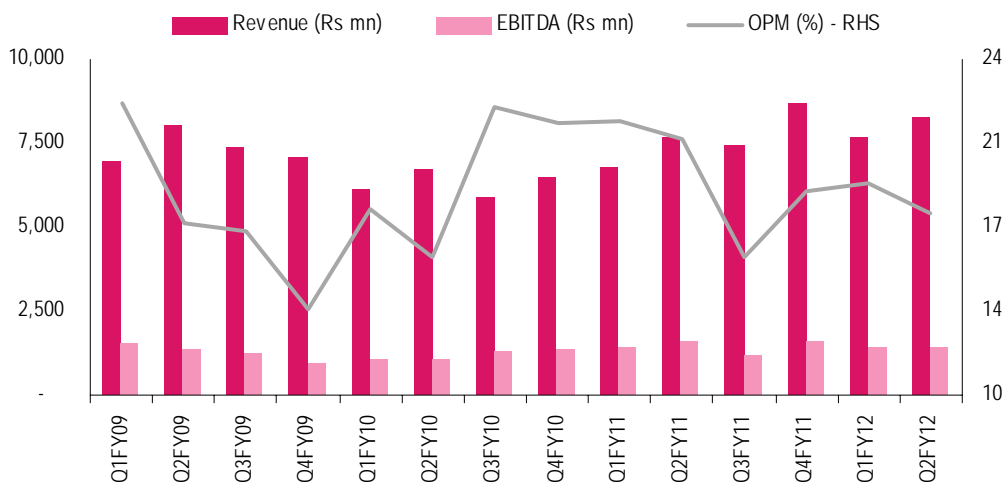
Source: Company, PINC Research

Exhibit 2 - Operational Performance (Standalone)

(Rs mn)	Q2FY12	Q2FY11	%YoY	Q1FY12	%QoQ	FY12E	FY11	%YoY
Revenue	6,867	6,444	6.6	6,087	12.8	30,440	25,342	20.1
Operating profit	1,205	1,303	(7.5)	1,123	7.2	5,658	4,652	21.6
OPM (%)	17.5	20.2	(268)bps	18.5	(92)bps	18.6	18.4	23bps
Adj. Net Profit	113	325	(65.1)	76	48.5	1,057	831	27.1
Blended Realisations (Rs/t)	54,380	48,309	12.6	55,273	(1.6)	56,250	48,334	16.4
Blended EBITDA (Rs/t)	9,539	9,767	(2.3)	10,202	(6.5)	10,455	8,872	17.8
Cost of Production (Rs/t)	44,841	38,542	16.3	45,072	(0.5)	45,796	39,462	16.0
Production (tonnes)								
Metallics	132,395	132,269	0.1	146,800	(9.8)	677,081	575,872	17.6
Billets	124,105	129,265	(4.0)	115,214	7.7	570,000	500,140	14.0
Finished Steel	120,182	120,623	(0.4)	110,184	9.1	516,945	534,196	(3.2)
Value added products	49,936	51,572	(3.2)	47,864	4.3	214,522	205,155	4.6
Sales (tonnes)								
Finished Steel	78,670	86,978	(9.6)	68,396	15.0	338,545	334,633	1.2
Value added products	47,604	46,412	2.6	41,724	14.1	202,616	189,667	6.8

Source: Company, PINC Research

Exhibit 3: Margin disappointment continues



Source: Company, PINC Research

Exhibit 4: Target price sensitivity (Rs)

FY13 EV/EBITDA (x)	FY13E Benchmark HRC price estimate (USD/t)				
	665	700	735	770	805
3.5	(15)	(1)	14	29	44
4.0	(6)	11	(27)	44	61
4.5	3	22	40	59	78
5.0	13	33	53	74	94
5.5	22	44	67	89	111

Source: PINC Research

Exhibit 5 - PINC's revised assumptions and estimates

	FY12E			FY13E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
USD/INR	45.6	46.0	0.9	45.0	45.5	1.1
Benchmark HRC price (USD/t)	780	780	-	735	735	-
Sales volume (S) - '000 tonnes	578	541	(6.4)	672	655	(2.5)
- Steel segment	357	339	(5.3)	429	420	(2.1)
- Value added products	221	203	(8.1)	243	235	(3.3)
Revenue (S) - Rs mn	32,384	30,440	(6.0)	33,893	33,219	(2.0)
EBITDA (S) - Rs mn	6,115	5,658	(7.5)	6,887	6,696	(2.8)
OPM (S) - %	18.9	18.6	-30bps	20.3	20.2	-16bps
Revenue (C) - Rs mn	37,999	36,055	(5.1)	40,349	39,676	(1.7)
EBITDA (C) - Rs mn	7,238	6,781	(6.3)	8,178	7,987	(2.3)
Adj. PAT (C) - Rs mn	1,776	1,455	(18.1)	2,059	1,932	(6.2)
EPS (Rs)	5.8	4.8	(18.1)	6.7	6.3	(6.2)
Target EV/EBITDA (x)	4.5				4.0	
Target Price (Rs)	53				27	(48.5)

Source: PINC Research

Consolidated Financials

Year Ended March (Figures in Rs mn)

Income Statement	FY09	FY10	FY11	FY12E	FY13E
Net Revenue	29,619	25,344	30,626	36,055	39,676
Growth (%)	27.8	(14.4)	20.8	17.7	10.0
Operating Profit	6,200	4,501	5,702	6,781	7,987
Other income	56	55	46	54	79
EBITDA	6,256	4,556	5,748	6,835	8,067
Growth (%)	49	(27)	26	19	18
Depreciation	1,086	1,295	2,010	2,260	2,484
EBIT	5,169	3,261	3,739	4,575	5,583
Interest Paid	1,442	1,275	1,876	2,329	2,614
PBT (before E/o items)	3,727	1,987	1,862	2,246	2,968
Tax Provision	922	685	640	763	1,009
Minority Interest	30	29	29	28	28
Adjusted Net Profit	2,775	1,272	1,193	1,455	1,932
E/o loss/(income)	(921)	414	178	-	-
Reported Net profit	1,853	1,686	1,371	1,455	1,932
Growth (%)	5.7	(9.0)	(18.7)	6.1	32.8
Diluted EPS (Rs)	11.1	4.2	3.9	4.8	6.3
Diluted EPS Growth (%)	85.3	(62.3)	(6.2)	21.9	32.8

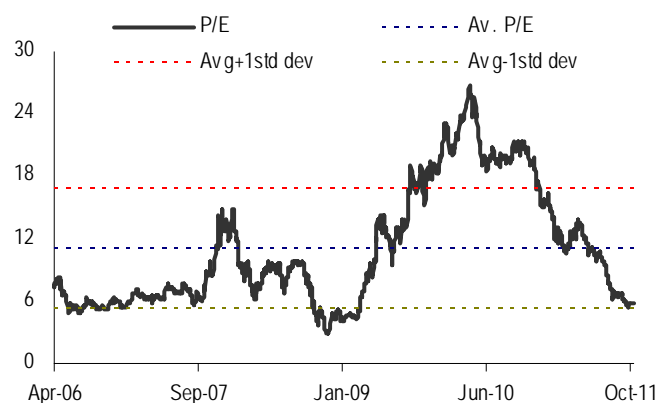
Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	3,727	1,987	1,862	2,246	2,968
Depreciation	1,086	1,295	2,010	2,260	2,484
Total Tax Paid	(922)	(685)	(640)	(763)	(1,009)
Chg in working capital	(3,593)	4,430	(2,168)	(3,283)	(315)
Other CFO adjustments	1,328	1,099	2,289	2,275	2,535
Cash flow from oper (a)	1,626	8,125	3,353	2,734	6,663
Capital Expenditure	(9,947)	(6,654)	(4,699)	(6,500)	(4,000)
Chg in investments	-	-	-	-	-
Other investing activities	(866)	469	224	54	79
Cash flow from inv. (b)	(10,812)	(6,185)	(4,474)	(6,446)	(3,921)
Free cash flow (a+b)	(9,186)	1,939	(1,121)	(3,712)	2,742
Equity raised/(repaid)	-	4,577	-	-	-
Debt raised/(repaid)	11,289	(5,498)	4,353	6,000	-
Change in MI	-	-	-	-	-
Dividend (incl. Tax)	(294)	(356)	(353)	(353)	(353)
Other financing activities	(1,442)	(1,275)	(1,876)	(2,329)	(2,614)
Cash flow from fin (c)	9,553	(2,551)	2,124	3,318	(2,967)
Net chg in cash (a+b+c)	367	(612)	1,002	(394)	(225)

Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
Equity Share Capital	251	305	305	305	305
Reserves & surplus	11,111	16,570	17,538	18,639	20,218
Shareholders' funds	11,362	16,875	17,843	18,945	20,523
Minorities interests	168	162	175	202	230
Total Debt	22,664	17,166	21,519	27,519	27,519
Capital Employed	34,194	34,203	39,537	46,666	48,272
Net fixed assets	26,232	31,777	34,393	38,634	40,149
Cash & Cash Eq.	1,088	476	1,478	1,084	859
Net Other current assets	8,160	3,731	5,899	9,182	9,497
Investments	4	4	4	4	4
Net Deferred tax Assets	(1,291)	(1,784)	(2,237)	(2,237)	(2,237)
Total Assets	34,194	34,203	39,537	46,666	48,272

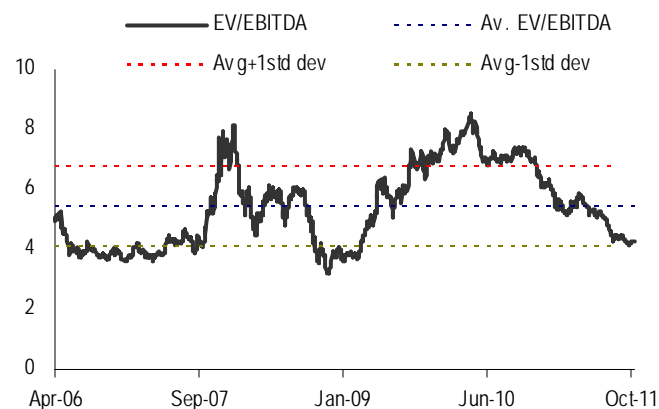
Key Ratios	FY09	FY10	FY11	FY12E	FY13E
OPM (%)	20.9	17.8	18.6	18.8	20.1
Net Margin (%)	9.4	5.0	3.9	4.0	4.9
Yield (%)	1.5	1.5	3.2	3.2	3.2
Net debt/Equity (x)	1.9	1.0	1.1	1.4	1.3
Working Capital Days	98	111	130	137	130
RoCE (%)	14.0	6.2	6.7	7.0	7.8
RoE (%)	26.4	9.0	6.9	7.9	9.8
EV/Net Sales (x)	0.9	1.2	0.8	0.8	0.8
EV/EBITDA (x)	4.4	6.9	4.6	4.2	4.1
PER (x)	5.9	15.6	7.9	6.5	4.9
PCE (x)	5.5	6.6	2.8	2.5	2.1
Price/BV (x)	1.4	1.2	0.5	0.5	0.5

Note: * EV-based valuation ratios and target price calculated by valuing capital WIP at 10% discount to book value

1-Year rolling forward P/E Band



1-Year rolling forward EV/EBITDA



T E A M

EQUITY DESK

Sadanand Raje	Head - Institutional Sales Technical Analyst	sadanand.raje@pinc.co.in	91-22-6618 6366
---------------	---	--	-----------------

RESEARCH

Vineet Hetamasaria, CFA	Head of Research, Auto, Cement	vineet.hetamasaria@pinc.co.in	91-22-6618 6388
Nikhil Deshpande	Auto, Auto Ancillary, Cement	nikhil.deshpande@pinc.co.in	91-22-6618 6339
Tasmai Merchant	Auto, Auto Ancillary, Cement	tasmai.merchant@pinc.co.in	91-22-6618 6377
Vinod Nair	Construction, Power, Capital Goods	vinod.nair@pinc.co.in	91-22-6618 6379
Ankit Babel	Capital Goods, Engineering	ankit.b@pinc.co.in	91-22-6618 6551
Hitul Gutka	Power	hitul.gutka@pinc.co.in	91-22-6618 6410
Subramaniam Yadav	Construction	subramaniam.yadav@pinc.co.in	91-22-6618 6371
Madhura Joshi	Power	madhura.joshi@pinc.co.in	91-22-6618 6395
Satish Mishra	Fertiliser, Natural Gas	satish.mishra@pinc.co.in	91-22-6618 6488
Urvashi Biyani	Fertiliser, Natural Gas	urvashi.biyani@pinc.co.in	91-22-6618 6334
Naveen Trivedi	FMCG	naveent@pinc.co.in	91-22-6618 6384
Rohit Kumar Anand	IT Services	rohit.anand@pinc.co.in	91-22-6618 6372
Namrata Sharma	Media	namrata.sharma@pinc.co.in	91-22-6618 6412
Sakshee Chhabra	Media	sakshee.chhabra@pinc.co.in	91-22-6618 6516
Bikash Bhalotia	Metals, Mining	bikash.bhalotia@pinc.co.in	91-22-6618 6387
Harleen Babber	Metals, Mining	harleen.babber@pinc.co.in	91-22-6618 6389
Dipti Vijaywargi	Metals, Mining	dipti.vijaywargi@pinc.co.in	91-22-6618 6393
Sushant Dalmia, CFA	Pharma	sushant.dalmia@pinc.co.in	91-22-6618 6462
Poonam Sanghavi	Pharma	poonam.sanghavi@pinc.co.in	91-22-6618 6709
Suman Memani	Real Estate, Mid caps	suman.memani@pinc.co.in	91-22-6618 6479
Abhishek Kumar	Real Estate, Mid caps	abhishek.kumar@pinc.co.in	91-22-6618 6398
C Krishnamurthy	Technical Analyst	krishnamurthy.c@pinc.co.in	91-22-6618 6747

SALES

Rajeev Gupta	Equities	rajeev.gupta@pinc.co.in	91-22-6618 6486
Ankur Varman	Equities	ankur.varman@pinc.co.in	91-22-6618 6380
Himanshu Varia	Equities	himanshu.varia@pinc.co.in	91-22-6618 6342
Shailesh Kadam	Derivatives	shaileshk@pinc.co.in	91-22-6618 6349
Ganesh Gokhale	Derivatives	ganeshg@pinc.co.in	91-22-6618 6347

DEALING

Mehul Desai	Head - Sales Trading	mehul.desai@pinc.co.in	91-22-6618 6303
Amar Margaje		amar.margaje@pinc.co.in	91-22-6618 6327
Ashok Savla		ashok.savla@pinc.co.in	91-22-6618 6321
Sajjid Lala		sajjid.lala@pinc.co.in	91-22-6618 6337
Raju Bhavsar		rajub@pinc.co.in	91-22-6618 6322
Hasmukh D. Prajapati		hasmukhp@pinc.co.in	91-22-6618 6325

SINGAPORE DESK

Amul Shah		amul.shah@sg.pinc.co.in	65-6327 0626
-----------	--	--	--------------

DIRECTORS

Gaurang Gandhi		gaurangg@pinc.co.in	91-22-6618 6400
Hemang Gandhi		hemangg@pinc.co.in	91-22-6618 6400
Ketan Gandhi		ketang@pinc.co.in	91-22-6618 6400

COMPLIANCE

Rakesh Bhatia	Head Compliance	rakeshb@pinc.co.in	91-22-6618 6400
---------------	-----------------	--	-----------------

PINC bright thinking

Infinity.com

Financial Securities Ltd

SMALL WORLD, INFINITE OPPORTUNITIES

Member : Bombay Stock Exchange & National Stock Exchange of India Ltd. : Sebi Reg No: INB 010989331. Clearing No : 211
1216, Maker Chambers V, Nariman Point, Mumbai - 400 021; Tel.: 91-22-66186633/6400 Fax : 91-22-22049195

Disclaimer: This document has been prepared by the Research Desk of M/s Infinity.com Financial Securities Ltd. (PINC) and is meant for use of the recipient only and is not for public circulation. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors

The information contained herein is obtained and collated from sources believed reliable and PINC has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The opinion expressed or estimates made are as per the best judgement as applicable at that point of time and PINC reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval

PINC, its affiliates, their directors, employees and their dependant family members may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document

This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of PINC. The views expressed are those of analyst and the PINC may or may not subscribe to all the views expressed therein

This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions

Neither PINC, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

Copyright in this document vests exclusively with PINC and this document is not to be reported or circulated or copied or made available to others.

Our reports are also available on Reuters, Thomson Publishers and Bloomberg PINV <GO>