

Feb 1st, 2011.

Key Data	₹
CMP (₹)	55
Target Price (₹)	65
Bloomberg Code	USM IN
Reuters Code	USBL.BO
BSE Code	517146
NSE Code	USHAMART
Face Value (₹)	1
Market Cap (₹ Bn)	16.5
52 Week High (₹)	107
52 Week Low (₹)	53
Avg. Daily Volume (6m)	460,402

Shareholding	%
Promoters	38.4
Mutual Funds / Bank/ FI	29.4
Foreign Institutional Investors	20.8
Others	11.4
Total	100

USHA MARTIN LTD

Integration benefits eludes the company as one off events continue to have detrimental effect on its operations

Usha Martin Ltd. has declared results for 3QFY11. The current quarter results were adversely affected by breakdown of 30 MW captive power plant, lower availability of power from external sources, increase in transportation cost and non availability of trucks for transfer of coal. As company continues to be marred by one or other operational issues therefore we are bit cautious on management ability to deliver on its promises. We have lowered our EPS estimate for FY12 from ₹ 12.4 to ₹ 9.4. We value Usha Martin at 5X FY12E EV/EBITDA and change our recommendation from **Buy** to **Accumulate** and reduce our target price from ₹ 99 to ₹ 65. We are likely to revisit our rating once it start delivering in terms of numbers.

Standalone Quarterly Financials

Particulars (₹ mn)	3Q FY11	2Q FY11	Q-o-Q Change	3Q FY10	Y-o-Y Change
Net Revenue	6,139.1	6,470.9	-5%	4,399.5	40%
Less Expenditure	5,162.6	5,141.1	0%	3,376.8	53%
PBDIT	976.5	1,329.8	-27%	1,022.7	-5%
Less: Depreciation	472.2	400.9	18%	294.0	61%
PBIT	504.3	928.9	-46%	728.7	-31%
Less: Interest	455.6	429.4	6%	337.1	35%
PBT	48.7	499.5	-90%	391.6	-88%
Less: Tax	13.0	174.5		207.4	
PAT	35.7	325.0	-89%	184.2	-81%

Source: Company, ACMIIL Research

Consolidated Quarterly Financials

Particulars (₹ mn)	3Q FY11	2Q FY11	Q-o-Q Change	3Q FY10	Y-o-Y Change
Net Revenue	7,482.2	7,707.6	-3%	5,937.3	26%
Less Expenditure	6,289.8	6,113.4	3%	4,615.4	36%
PBDIT	1,192.4	1,594.2	-25%	1,321.9	-10%
Less: Depreciation	533.0	461.8	15%	350.8	52%
PBIT	659.4	1,132.4	-42%	971.1	-32%
Less: Interest	475.8	449.1	6%	368.3	29%
PBT	183.6	683.3	-73%	602.8	-70%
Less: Tax	45.5	215.7		248.9	
PAT (Before minority interest)	138.1	467.6	-70%	353.9	-61%
Minority interest	7.1	8.4		6.1	
PAT	131.0	459.2	-71%	347.8	-62%

Source: Company, ACMIIL Research

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KEY HIGHLIGHTS FOR 3Q FY11:

- Increase freight cost for coal from ₹ 650 per tonne to ₹ 950-₹975 per tonne due to restriction on amount of coal that can be transferred per truck (from 35 tonnes to 15 tonnes)
- Breakdown of its 30 MW captive power plant resulting in lower availability of power for its steel production. Steel production was down 13% sequentially to 112,809 tonnes
- Subdued performance of international subsidiaries continues, no immediate recovery in sight.
- Realizations are expected to increase by ₹ 2000-3000 per tonne on account of increased raw material cost. Price hikes ranging from ₹ 1000-3000 already taken across its product line in January.
- Financial closure achieved for capex of ₹ 12 bn.

Valuation and recommendation

Usha Martin inability to leverage its high level of integration has made us bit cautious towards its outlook. Our major concern is consistent underperformance for last three quarters due to one or other operational issues. Sustainability of recent price hike and steel production volume (expected figure for Q4 is 150,000 tonnes) are key figures to watch out for in next couple of quarters. We have lowered our EPS estimate for FY12 from ₹ 12.4 to ₹ 9.4. We value Usha Martin at 5X FY12E EV/EBITDA and change our recommendation from **Buy** to **Accumulate** and reduce our target price from ₹ 99 to INR 65. We are likely to revisit our rating once it start delivering in terms of numbers.

Earnings Summary				₹ Mn
Particulars	FY09	FY10	FY11E	FY12E
Net Revenue	29,674.8	25,399.1	30,452.4	37,987.2
Expenditure	24,338.2	20,415.4	24,479.8	29,368.1
PBDIT	5,336.6	4,983.7	5,972.6	8,619.1
Depreciation	1,109.2	1,328.3	2,097.1	2,459.1
PBIT	4,227.4	3,655.4	3,875.5	6,160.0
Finance charges	1,421.5	1,255.0	1,656.0	1,942.0
PBT	2,805.9	2,400.4	2,219.5	4,218.1
Tax	922.4	685.2	681.6	1,295.3
PAT	1,853.4	1,686.2	1,511.9	2,873.3
Adj EPS (Diluted)	7.41	6.46	4.95	9.40
<i>Source: Company, ACMIL research</i>				

Sources and Application of Funds				₹ Mn
Particulars	FY09	FY10	FY11E	FY12E
Source of Funds				
Share Capital	250.9	305.4	3,05.4	305.4
Reserves and Surplus	11,111.4	16,569.8	17,723.2	20,238.0
Total Shareholders funds	11,362.3	16,875.2	18,028.6	20,543.4
Minority Interest	167.7	162.5	188.5	237.9
Total Loan	16,712.7	9,957.8	20,699.7	24,274.7
Deferred tax liability	1,305.6	1,784.0	1,784.0	1,784.0
Total Capital Employed	29,548.3	28,779.5	40,700.8	46,839.9
Application of funds				
Gross Block	24,377.3	37,039.9	41,942.4	49,181.0
Depreciation	10,082.0	11,194.2	13,291.3	15,750.4
Impairment Loss	166.9	164.0	164.0	164.0
Net Block	14,128.5	25,681.6	28,487.1	33,266.6
Capital Work-in-progress	12,103.7	6,095.3	6,692.7	5,954.1
Investments	3.8	3.8	3.8	3.8
Net Current Assets	3,305.0	-3,001.2	5,517.2	7,615.4
Miscellaneous Expenditure	7.3	0.0	0.0	0.0
Total Capital Employed	29,548.3	28,779.5	40,700.8	46,839.9
<i>Source: Company, ACMIL research</i>				

Cash Flows				₹ Mn
Particulars	FY09	FY10	FY11E	FY12E
Net cash from operating activities	8,153.9	7,540.4	5,466.5	5,540.9
Net cash from investing activities	-10,579.9	-4,718	-5,500	-6,500
Net cash from financing activities	2,826.5	-3,451.6	460.5	1,274.5
Exchange difference on translation of foreign currency	-33.8	16.8	0	0
Cash and cash equivalents	366.8	-612.4	427	315.4
Cash and cash equivalents (previous year)	721.2	1,088	476.2	903.1
Add: Acquisition of subsidiary	0	0.6	0	0
Cash and cash equivalents (current year)	1,088	476.2	903.1	1,218.5

Source: Company, ACMIL research

Key Ratios	FY09	FY10	FY11E	₹ Mn
				FY12E
Profitability Ratios				
EBITDA MARGIN	18.0%	19.6%	19.6%	22.7%
PAT Margin	6.3%	6.8%	5.1%	7.7%
RONW	16.3%	10.0%	8.4%	14.0%
ROCE	14.2%	12.7%	9.5%	13.2%
ROCE (excluding WIP)	24.1%	16.1%	11.4%	15.1%
Per Share Ratios (₹)				
Basic EPS	7.4	6.5	5.0	9.4
Diluted EPS	7.4	6.5	5.0	9.4
CEPS	11.8	10.0	11.9	17.6
Book Value per share	45.3	55.3	59.0	67.3
Valuation Ratios				
P/E(x)		8.5	11.1	5.8
P/BV(x)		1.0	0.9	0.8
EV/EBITDA		5.8	6.2	4.65
Capital Structure Ratios				
Debt/Equity	1.5	0.6	1.1	1.2
Current Ratio	1.3	0.8	1.5	1.5
Working Capital Ratios				
Inventory turnover ratios	4.5	2.8	3.6	3.6
Debtor turnover ratio	4.0	4.1	3.6	3.6
Creditors turnover ratio	2.3	1.2	2.3	2.3
Fixed asset turnover	2.1	1.0	1.1	1.1

Source: Company, ACMIL research

Notes

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