Price Details

CMP* (Rs)	45
Target (Rs)	75
52 week H/L	49/17
Free Float (%)	38.39

Market Details

P/BVPS	0.87
EPS (TTM)	(8.41)
Current PEx	(5.35)
M Cap (Rs Mn)	1461.6
EV/EBITDA	14.43
Shares out (Mn)	32.48
Ave. Vol. (HY)	100k
Nifty*	5003
Sensex*	16850

Stock Details

BSE Code	504823
BSE Group	B
NSE Code	MAHINDUGIN
ISIN Demat	INE850A01010
Reuters	MHUG.BO
Bloomberg	MUS IN
Face Value	10
Listing	BSE & NSE
Industry	Steel - Large

* Previous Closing

Mahindra Ugine Steel Company Ltd

Rec: Buy, Target: 75, Upside: 67%

Company Profile

Mahindra Ugine Steel Co. Ltd. (MUSCO) belonging to the Mahindra Group is the pioneer & well known manufacturers of alloy steel in the country. MUSCO is the most trusted brand when alloy steel is referred. The company also has three stampings division to manufacture pressed sheet metal components and assemblies, one at Kanhe about 1.5Km off Mumbai-Pune Highway, a major automobile manufacturing center in the country, second at Nashik catering to all auto products of M & M & RENAULT of France & the third unit has successfully started commercial production from October 2007 , from the modern state-of-art new plant along with paint shop in Rudrapur(Uttarakhand State) for many new products of customers in North India.

Increased Capacity to boost revenues:

MUSCO has increased its Alloy Steel making capacity from 180,000 MT to 240,000 MT, to meet the increasing demand. The new capacity is operational since April, 2009. The improvement in the steel demand & company's strategy of growing volumes increased focus on Niche Products for specialized segments like Oil & Gas and Power Sector is likely to boost its revenues going forward.

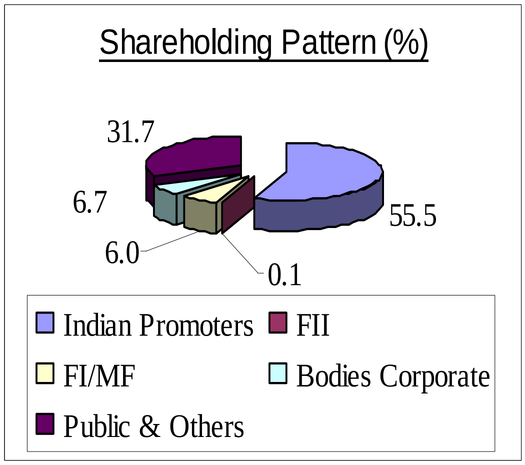
Stampings business to provide stability:

With the support of M&M group MUSCO move into stamping business over a period of time. Company has developed to produce sub assemblies for Mahindra & Mahindra (M&M), Tata Motors & Ashok Leyland. M&M's JVs have also created great opportunities for MUSCO stampings on account of its JV with International Trucks (for manufacture of LCVs & HCVs), while the M&M Renault JV helped MUSCO sustain Revenues during the slowdown.

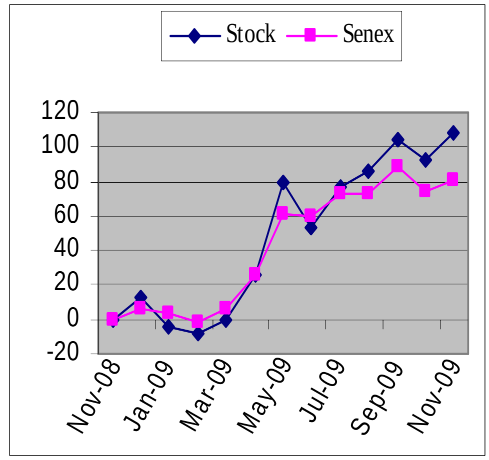
There is a remarkable growth in the Automotive industry, the stamping division at Kanhe has increased its output significantly & is expected to further improve upon the capacity utilization. The Kanhe stamping division has been able to move up the value chain & with group support, developed the capabilities to produce sub assemblies for Mahindra & Mahindra (M&M), Tata Motors & Ashok Leyland.

The recent joint venture announced between M & M & Renault is expected to create greater opportunities for the stamping business. Further, business opportunities are also arising on account of M & M foray into a joint venture with International Trucks for the manufacture of Lite & Heavy Commercial vehicles.

Shareholding Pattern (%)



Relative Performance with Sensex



Investment Rationale

MUSCO is preferred brand for an Automotive and industrial segment.

There is reasonably good demand of the Alloy Steel in Which MUSCO is one of the preferred brands and also the oldest one with a specialty for the Automotive and Industrial Segment. There is huge investment happening in the Oil & Gas, Power, Infrastructure and Automobile sectors which create demand of this product. In fact FY09 was a terrible year for all sectors especially for Steel. Company has been giving very good return from last four years baring FY09 in which Company incurred loss.

Global scenario

Global demand of Alloy Steel is surging now.

Almost All producers drop the production by certain percentage to match with the demand. Monthly steel production dropped from 120 Mn in Aug 08 to 83 Mn in Feb 09. There was a decline of 25% of steel production from Aug 08 to Feb 09. This drop in demand was mainly because of lower demand from the automobile and construction industry. Now the scenario is changing and demand of this product is generating and almost all resume their full production. From last few months scenario changed and the investment in Infrastructure, Oil & Gas, Power & Automobile is huge which generate the demand of Steel. We are expecting the demand of this product will sustain for next three 3-4 years with same pace.

Indian Scenario

Indian and China is mainly contributing the demand of this sector.

This increase in production is mainly contributed by the developing countries like India and China. Indian steel industry due to its inherent strength of lower cost of production and government support, in the form of stimulus packages, has emerged as the 3rd largest steel producing nation in the world after China and Japan in the first five months of CY09. India's steel consumption in July 09 grew at its fastest pace of 8.9% YoY in over six months, as demand picked up from the automobiles and engineering industries indicating that the economy is now on the recovery path.

Global Automobile Scenario

China automobile sales increased by 36% YoY and 2% MoM to 11, 42,076 units in June, 09 while India's automobile sales in July increased by 19% YoY and 2.3% MoM to 10, 81,003 units. Demand for Alloy Steel which has multiple applications, largely depends on the demand for Oil & Gas, Power, Infrastructure and Automobile demand generation.

Global Automobiles sales are showing positive sign in first two quarters of FY10.

MUSCO has been giving an outstanding performance from last four years and its CAGR top line 20% and PAT is not consistent as last year Company has given negative result. Now the company has expanded its capacity by 33% (that is 2, 40,000 TPA from 1, 80,000 TPA) and commercial production started from 1st quarter of this FY10. Almost Automobile Company is launching new products which help give great revenue boost up to the stamping business of the company. With the launch of new models including XYLO by Mahindra & Mahindra, company maintained its revenue in FY09.

At current price, Rs 45, Share is available on 10.69 (x) on FY10E earning and 3.88 (x) on FY11E earning.

Currently stock is trading at Rs 45 with a forward PE (x) of 10.6 (x) on FY10E earning and 3.88 (x) on FY11E. At Current price, P/BVPS is 0.86 (x) on FY09 book Value and 0.73 on FY11E book value. EV/EBITDA is higher because of negative earning in FY09 but Company maintained to sustain the growth of top line. There is negative earning in FY09, therefore relative pricing is not possible but share is looking attractive here on FY10E and FY11E earning because of Capacity expansion and launch of new product in Automobile segment.

At current price, Rs 45, Share is available on 10.69 (x) on FY10E earning and 3.88 (x) on FY11E earning. We initiated covering the stock with looking future outlook of the sector and also the capacity expansion, Brand, quality of Product which contributes the value to the Company. Our target price is Rs 75 with PE(x) of 6.4(x) on FY11E earning. We have considered the PE(x) of 8.0(x) on FY11E and discounted it with cost of capital for remaining period (WACC: 14%, Upside: 67%). Our target of Rs 75 is for a medium period with an upside of 67%. We recommend for Buying the share.

Our target price is Rs 75 with PE(x) of 6.4(x) on FY11E earning. We have considered the PE(x) of 8.0(x) on FY11E and discounted it with cost of capital for remaining period **(WACC: 14%, Upside: 67%).**

Financial Highlight

Y e (March)	FY07	FY08	FY09	FY10E	FY11E
Net Sales	716.44	920.44	1,074.51	964.1	1176.2
EBITDA	96.73	99.53	32.29	90.4	133.6
RPAT	**44.9**	**29.49**	**-18.83**	**13.7**	**37.7**
Equity Div (%)	45.0	30.0	0.0	20.0	30.0
EPS (Rs)	**13.04**	**8.57**	**0.0**	**4.2**	**11.6**
BVPS (Rs)	52.27	57.84	52.04	53.9	62.0
PE (x)	**3.45**	**5.25**	**NA**	**10.69**	**3.88**
EBITDA M (%)	13.50	10.81	3.01	9.38	11.36
EBIT M (%)	11.85	7.70	-0.35	6.43	8.58
PAT M (%)	6.27	3.20	-1.75	1.42	3.21
ROE (%)	28.20	16.49	-10.55	7.94	20.03
ROCE (%)	19.21	13.69	-0.75	10.65	14.91
EV/EBITDA	3.44	4.39	14.43	5.35	3.71
P/BVPS	0.86	0.78	0.86	0.83	0.73

Currently company catering into Two Segment

Alloy Steel

Expanded Capacity of the Company will sustain the growth rate.

MUSCO is engaged in the manufacture of alloy & special steel through Electric Arc Furnace (EAF) route & caters to the automotive, engineering, bearing & other industries. Their entire users Industries are witnessing significant growth. MUSCO is concentrating in power, mining, oil & gas sectors to enhance the product base. It services an impressive list of customers that include Bharat Forge, SKF, Cummins, Timken, TISCO, etc. MUSCO has increased its capacity from 180,000 MT to 240,000 MT in the last financial year with a total outlay of Rs. 1250 Mn. In the current economic slowdown, MUSCO has spread its market in niche products to maximize the sales volume. It has identified various initiatives to increase productivity and cost efficiency.

With its strong Brand image, expanded capacity, forward integrated Ring manufacturing unit and initiatives taken on sustainability, we are very optimistic on the MUSCO's future performance and its ability to increase its market share in the coming years. Moreover, improvement in the steel demand & company's strategy of growing volumes through increased focus on Niche Products (for specialized segments like Oil & Gas and Power Sector) is likely to boost its revenues going forward.

Stampings business

MUSCO's Stamping division is strategically located at 3 places viz. Kanhe, Nashik and Rudrapur (Uttarakhand State) catering to all automotive OEMs.

MUSCO's Stamping division is strategically located at 3 places viz. Kanhe, Nashik and Rudrapur (Uttarakhand State) catering to all automotive OEMs who have set up manufacturing plants in these locations. The sales for Stampings business have improved because of improvement in performance of the auto sector, especially helped by the launch of new models including XYLO by Mahindra & Mahindra Limited. MUSCO has moved up the value chain in its stamping division over the years, and with the M&M group support, has developed capabilities to produce sub assemblies for Mahindra & Mahindra (M&M), Tata Motors & Ashok Leyland. A series of new model launches by other auto players has created additional business opportunities for MUSCO. M&M's JVs have also created great opportunities for MUSCO stampings on account of its JV with International Trucks (for manufacture of LCVs & HCVs), while the M&M Renault JV helped MUSCO sustain Revenues during the slowdown. Currently, 25% of it's sales come from sales to Mahindra group companies.

With Automobile industry showing the signs of improvement with volumes growing steadily in the past 1-2 quarters, we believe MUSCO's Stamping Division will provide the required stability to its Revenues & Profitability over the coming years. Going forward, we expect 34% of its revenues to come from stampings, with steady growth & stable margins.

Industry Structure and Development

Steel business

The global steel industry has recorded a CAGR of 7% with India exceeding that number with an 8% growth during last five years. The financial Year 09 on the other hand saw growth fall as a consequence of the global economic crisis. This crisis led to reduced construction activity worldwide such activity normally accounts for 50% of the total steel consumption. Other user industries like automotive and consumer durables also witnessed a sharp decline in demand. The demand while still weak has shown sign of revival across several sectors in the last month of financial year 2008-09 and early financial year 2009-10. The steel price which had historically shown a CAGR 25% during last five years fluctuated wildly with an all time high in September 2008 and an all time low in December 2008. This volatility and that of the rupee exacerbated the impact of both scrap and other inputs and translated into a forex loss that affected the performance of the Company.

The global steel industry has recorded a CAGR of 7% with India exceeding that number with an 8% growth during last five years

Its Continuous Mill project was commissioned in April 2009. With the completion of this project, its installed production capacity is expected to increase to 2, 40,000 TPA.

The benefit of the lower cost of power is also expected to materialize from December 2009 when Wardha Power Company Ltd., in whose equity MUSCO has invested, will start supplying power at an agreed rate.

Stampings Business

Company's Stamping business services Automotive and Farm equipment markets and both these sectors have registered healthy growth over the last decade. For the financial year 2008-09, however both markets have registered an overall slowdown which has affected the performance of your company. However during Q4FY09, the sales for Stampings improved due to the revival in the auto sector helped by the launch of new models including XYLO by M&M. The other auto players are also expected to launch new models of vehicles in the near future, which would provide additional business opportunities to the company. The Stampings Division's focus is on improving customer centricity by means of better quality and efficiency, lower cost and timely delivery. As the automobile industry displays signs of maintaining the growth rate of about 6%, the Stamping Division is optimistic about its own growth in coming years.

Successful XYLO by M&M helped Company a lot to maintain to the Growth of The Company in FY09.

As per the data available, overall Auto Sales in financial year 2008-09 were more or less flat. However, in last quarter of financial year 2008-09 sales improved based on an increased off take from our principal customers in all three units at Nashik, Kanhe and Rudrapur primarily as a result of a successful launch of the XYLO by M&M for which we are a principal supplier. Sales to Medium and Heavy Commercial Vehicle Industry, unfortunately, continued to be adversely affected because of lower end customer demand which was restricted due to inadequate credit.

The space for this business is enormous because every year company is coming with new product and even its group company is coming with new products which help it realising better top line and bottom line of the Company.

Q2FY10

Top line has declined by 26.5% but Bottom line managed to be in Positive.

Y e (March)	Q2FY09	Q2FY10	Var (%)
Net Sales	363.55	267.01	-26.55
Other Income	0.93	0.28	-69.89
Total Income	**365.19**	**267.68**	**-26.7**
PBIDT	14.86	21.06	41.72
PBDT	5.1	11.03	116.27
RPAT	**-1.01**	**1.95**	**-293.07**
EPS (Rs)	0	0.6	0
PBIDTM (%)	4.09	7.89	92.91
PBDTM (%)	1.4	4.13	195
PATM (%)	-0.28	0.73	-360.71

Peers Analysis

There is revival in Metal sector which shows from its Multiple. Peers Composite industry is Quoting on PE(x) of 16.6 on FY09 basis and 11.07 on TTM Basis.

Particulars	**Financial Year 09**					**TTM**	
Company	**BVPS**	**EPS**	**CMP**	**P/E (x)**	**P/BV**	**EPS**	**PE**
Ajmera Realty	90.9	4.9	225	46	2.48	0	0
ISMT	36.3	3.7	53	14.3	1.46	4.66	11.37
S A I L	67.8	14.6	179	12.3	2.64	12.95	13.83
Sunflag Iron	20.2	2.6	24	9.3	1.19	3.18	7.55
Surya Roshni	76.9	8	55	6.9	0.72	8.83	6.23
Usha Martin	40.6	5.7	75	13.2	1.85	3.03	24.72
Uttam Galva	69.2	8.4	119	14.2	1.72	8.62	13.8
Ind.Composite	-	-	-	**16.6**	-	-	11.07

Historical Performance

3 Yrs CAGR sales 20.53 and PAT is considered because of loss in Current Year.

Particular	Ratio
1 Month price Performance	9.22
3 Yr CAGR Sales (%)	20.53
3 Yr CAGR Profit (%)	N.A*
Debt to Equity(x)	1.83
Net PATM	NA*
ROE(%)	NA*
EV/EBDITA(x)	14.43

* Company incurred loss in FY09.

Profit and Loss A/C (Amt. In Rs Crores)

Y e (March)	FY08	FY09	FY10E	FY11E
Total Income	**945.04**	**1,065.2**	965.6	1178.8
Total Expend.	845.51	1,032.9	875.1	1045.13
EBITDA	99.53	32.29	90.4	133.6
Depreciation	26.71	24.74	28.5	32.7
EBIT	70.9	-3.77	62.0	100.9
Interest	28.63	36.06	41.5	44.4
PBT	44.19	-28.51	20.5	56.5
Tax	10.55	0	6.8	18.8
Deferred Tax	4.15	-10.13	0.0	0.0
RPAT	29.49	-18.83	13.7	37.7
Dividend	9.74	0	6.5	9.7
Equity Div (%)	30	0	20.0	30
EPS (Rs)	8.57	0	4.2	11.6
CEPS (Rs)	17.3	1.8	13.0	21.7
BVPS (Rs)	57.84	52.04	53.9	62.0
PE	5.25	NA	10.69	3.88

Profitability & Return Ratio

Y e (March)	FY08	FY09	FY10E	FY11E
EBITDA M (%)	10.81	3.01	9.38	11.36
EBIT M (%)	7.70	-0.35	6.43	8.58
PAT M (%)	3.20	-1.75	1.42	3.21
ROE (%)	16.49	-10.55	7.94	20.03
ROCE (%)	13.69	-0.75	10.65	14.91

Working Capital & Liquidity

Y e (March)	FY08	FY09	FY10E	FY11E
Receivable (days)	73.13	64.37	67.67	59.95
Inventory (days)	53.08	45.49	46.36	39.66
Current Ratio	2.21	1.96	1.92	1.92
Quick Ratio	1.45	1.26	1.28	1.28
Tax/PBT (%)	23.87	0.00	33.30	33.30

Balance Sheet (Amt. in Rs Crs)

Year	FY08	FY09	FY10E	FY11E
Share Capital	32.5	32.5	32.5	32.5
Reserves Total	155.4	136.6	142.6	168.9
Sh. Funds	187.9	169.0	175.1	201.4
Secured Loans	178.5	218.5	227.2	236.3
Unsec. Loans	138.0	117.4	128.0	133.1
Total Debt	316.5	335.9	355.2	369.4
Total Liabi.	**504.3**	**505.0**	**530.3**	**570.8**
Net Block	292.4	326.0	311.2	330.1
Investments	0.4	14.1	53.7	55.0
Inventories	143.5	124.3	120.6	135.1
Sundry Debtors	203.8	175.2	182.2	204.1
Cash and Bank	25.5	16.3	17.9	19.7
Loans & Adv	43.9	35.3	38.4	43.1
Total Cur. Asst	416.7	351.1	359.1	401.9
Current Liab	170.9	170.6	177.4	198.7
Provisions	17.3	8.7	9.4	10.5
Total CLP	188.2	179.3	186.9	209.3
Net Cur. Asst	228.5	171.7	172.3	192.6
Net Def. Tax	-17.0	-6.9	-6.9	-6.9
Total Assets	**504.3**	**505.0**	**530.3**	**570.8**
Contingent Liab	49.2	63.0	70.6	79.0

Dupont Analysis

Y e (March)	FY08	FY09	FY10E	FY11E
Tax Burden	0.67	0.66	0.67	0.67
Interest Burden	0.62	7.56	0.33	0.56
EBIT M	0.08	0.00	0.06	0.09
Assets T/O	2.09	2.13	1.86	2.14
Financial Leverage	2.46	2.83	3.01	2.92
ROE (%)	**16.49**	**-10.55**	**7.94**	**20.03**

Turnover Ratio

Y e (March)	FY08	FY09	FY10E	FY11E
Gross Assets T/O	2.53	2.48	2.09	2.38
Total Assets T/O	2.09	2.13	1.86	2.14
Interest Cov ratio	2.48	-0.10	1.49	2.27
Adjusted D/E	1.68	1.99	2.03	1.83

Valuation Matrix

Y e (March)	FY08	FY09	FY10E	FY11E
PE @ CMP	5.25	NA	10.69	3.88
PE @ Target Price	8.75	NA	17.82	6.46
EV/EBITDA @ CMP	4.39	14.43	5.35	3.71

Valuation

Y e (March)	FY08	FY09	FY10E	FY11E
Net Sales	920.44	1,074.51	964.1	1176.2
RPAT	**29.49**	**-18.83**	**13.7**	**37.7**
EPS (Rs)	**8.57**	**0.0**	**4.2**	**11.6**
PE (x)	**5.25**	**NA**	**10.69**	**3.88**
EV/EBITDA	4.39	14.43	5.35	3.71
P/BVPS	0.78	0.86	0.83	0.73
EV/Sales	0.47	0.43	0.50	0.42

Recommendation

At current price, Rs 45, Share is available on 10.69 (x) on FY10E earning and 3.88 (x) on FY11E earning. We initiated covering the stock with looking future outlook of the sector and also the capacity expansion, Brand, quality of Product which contributes the value to the Company. Our target price is Rs 75 with PE(x) of 6.4(x) on FY11E earning. We have considered the PE(x) of 8.0(x) on FY11E and discounted it with cost of capital for remaining period (WACC: 14%, Upside: 67%). Our target of Rs 75 is for a medium period with an upside of 67%. We strongly recommend buying for a target price of Rs 75 for medium term

DISCLAIMER STATEMENT

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document is solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommender's nature. 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 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. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval.

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. 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 the Firm, 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.

CNI Research Limited, A/120, Gokul Arcade, Sahar Road, Vile Parle (East). Mumbai- 400 057.
 # 022- 28220323 / 28383889, Fax – 022-28242220