



Usha Martin Ltd. (UML) – Results disappointment continues; Maintain our Sell rating

Usha Martin Ltd. (UML) Q3FY12 results were below our expectations on account of (1) higher-than-expected raw material costs for coke and coal (2) higher-than-expected operational and interest costs

Key Highlights

- UML's standalone net sales increased 16.5% YoY and 4% QoQ to ₹7.1bn. The increase was on account of higher steel prices
- UML's standalone EBITDA was down 26.0% YoY and 40.3% QoQ to ₹718.5mn. The lower-than-expected performance was on account of higher raw material costs for coke and coal, and higher operational costs. EBITDA margins were down 578bps YoY and 748bps QoQ to 10.1%
- There was an unrealised exceptional gain of ₹913.2mn on account of reversing of mark-to-market foreign exchange losses in Q2FY12 by opting for capitalisation
- UML posted a standalone adjusted net loss of ₹335.8mn. Interest costs were up 46.5% YoY and 14.7% QoQ to ₹667.6mn. On a consolidated basis, UML posted an adjusted net loss of ₹350.0mn on account of poor standalone performance and its international subsidiary at Thailand --Usha Siam--being non-functional due to floods, causing lower turnover and profitability

Outlook and Valuations

- **Cut FY12 and FY13 EPS estimates:** Factoring in higher-than-expected operational and interest costs, we cut our consolidated adjusted EPS estimates of FY12E and FY13E by 72.1% and 10.6% to ₹1.0 and ₹4.4 respectively. (Refer Table on page-2 for production assumptions)
- **Valuations:** UML is currently trading at a consolidated P/E and EV/EBITDA of 6.9x and 4.9x FY13E respectively. On the production side, UML continues to grapple with ramping up its capacities. This has led to asset turnover declining to 0.8x as compared to historical levels of 1.1x. Also, steel demand is sluggish in both the domestic and the export sector. Thus, capacity utilisation is likely to continue to be low. Although FY13E is likely to be significantly better than a dismal FY12 for UML, we expect UML's FY13 RoE to be still sub-8%. With the Eurozone crisis abating and domestic interest rates having peaked, stock valuations, however, would improve. We now value UML at a consolidated P/E of 5x FY13E (4x earlier) to arrive at a fair value of ₹21.8 per share. We increase our target price per share for UML by 12.0% from ₹19.5 to ₹21.8, implying a potential negative return of 27.2% from the last closing price. **We, thus, maintain our Sell rating on UML.**

Rating	Last Closing Price (₹)	Target Price (₹)	Upside/ (Downside) %
Sell	30.0	21.8	(27.2)

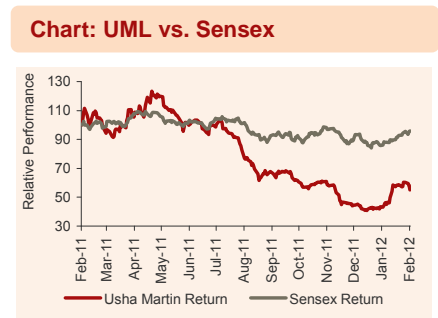
Source: ABML Research

Company Data	
BSE Code	517146
NSE Code	USHAMART
Equity Capital (₹ mn)	304.7
Face Value (₹)	1
Market Cap (₹ bn)	9.1
Avg Daily Volume (Qty)	401268
52 week H/L (₹)	68.5/21.8

Source: NSE, BSE

Shareholding (%)			
Holders	Sep 11	Jun 11	Mar 11
Promoters	38.38	38.38	38.38
FII's	17.96	18.99	21.08
MFs/Banks & FI's	25.67	27.01	28.40
Public & Others	17.99	15.62	12.14

Source: NSE



Source: Capitaline, ABML Research

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Financial Snapshot (₹ mn)

In ₹ mn	Sales	YoY (%)	EBITDA	YoY (%)	PAT	YoY (%)	EPS (₹)	YoY (%)	EBITDA (%)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)	P/B (x)
FY11	30,626	21.5	5,827	37.2	1,370	1.9	4.5	1.9	19.0	7.8	7.2	6.7	4.3	0.5
FY12E	32,431	5.9	5,241	-10.1	314	-77.1	1.0	-77.1	16.2	1.8	5.0	29.1	6.1	0.5
FY13E	37,415	15.4	7,219	37.7	1,331	323.7	4.4	323.7	19.3	7.2	6.8	6.9	4.9	0.5

Source: ABML Research



Unaudited Standalone Financial Results (Q3FY12) - UML

₹ mn	Q3FY12	Q3FY11	YoY%	Q2FY12	QoQ%
Net Sales	7,144.3	6,134.1	16.5	6,866.8	4.0
Total Expenses	6,425.8	5,162.6	24.5	5,662.3	13.5
Inc / Dec in stock	(1,096.0)	(214.2)	411.7	(618.7)	77.1
Raw material consumed	3,962.6	2,720.4	45.7	3,316.0	19.5
Stores&Spares	564.7	444.3	27.1	507.5	11.3
Employee cost	396.5	353.2	12.3	377.1	5.1
Purchase of Traded Goods	8.3	6.7	23.9	9.3	(10.8)
Power & fuel	1,073.8	813.9	31.9	981.9	9.4
Other Expenses	1,515.9	1,038.3	46.0	1,089.2	39.2
EBITDA	718.5	971.5	(26.0)	1,204.5	(40.3)
Depreciation	533.7	472.2	13.0	479.6	11.3
Non-operating income	5.2	5.0	4.0	27.2	(80.9)
EBIT	190.0	504.3	(62.3)	752.1	(74.7)
Interest	667.6	455.6	46.5	582.0	14.7
Extraordinary Income/(loss)	913.2	0.0		(1,203.3)	(175.9)
PBT	435.6	48.7	794.5	(1,033.2)	(142.2)
Tax	129.3	13.0	894.6	(315.2)	(141.0)
PAT	306.3	35.7	758.0	(718.0)	(142.7)
Adjusted PAT	(335.8)	35.7	(1,040.7)	118.2	(384.1)
Equity	305.4	305.4	0.0	305.4	0.0
EPS	1.0	0.1	758.0	(2.4)	(142.7)
Adjusted EPS	(1.1)	0.1	(1,040.7)	0.4	(384.1)

Key Ratios (%)

EBIDTA Margin	10.1	15.8		17.5	
Interest / Sales	9.3	7.4		8.5	
Tax / PBT	29.7	26.7		30.5	
NPM	4.3	0.6		(10.5)	

Source: Company data, ABML Research

Risk factors

- Significant improvement in international business
- Higher volume growth
- Better-than-expected realisations
- Lower-than-expected raw material costs

Recommendation summary

Date	Reports	Rating	Last Closing Price (₹)	Target Price (₹)	Upside / (Downside) %
13-09-10	Initiating Coverage	Buy	87.1	120.7	38.6
03-11-10	Result Update (Q2FY11)	Buy	83.7	114.4	36.6
08-02-11	Result Update (Q3FY11)	Buy	56.1	69.0	23.1
25-05-11	Result Update (Q4FY11)	Neutral	53.4	52.9	-1.0
12-08-11	Result Update (Q1FY12)	Neutral	37.8	41.0	8.6
21-11-11	Result Update (Q2FY12)	Sell	25.1	19.5	-22.3
02-02-12	Result Update (Q3FY12)	Sell	30.0	21.8	-27.2

Source: ABML Research



Consolidated Financials – Usha Martin Ltd. (UML)

Profit & Loss					Balance Sheet					
In ₹ mn	FY10	FY11	FY12E	FY13E	In ₹ mn	FY10	FY11	FY12E	FY13E	
Net sales	25,202	30,626	32,431	37,415	Equity capital	305	305	305	305	
YoY (%)	(15)	22	6	15	Reserves	16,571	17,539	17,478	18,454	
Total expenses	20,953	24,799	27,190	30,197	Net worth	16,875	17,843	17,783	18,759	
Inc/dec in stock	(853)	(1,521)	(1,864)	(1,864)	Preference capital	0	0	0	0	
Raw material cost	11,642	13,345	13,736	14,997	MI	162	175	205	235	
Staff cost	1,781	2,201	2,410	2,729	Total borrowings	17,166	17,523	28,523	28,523	
Operating expenses	5,200	7,861	9,649	10,639	Deferred tax	1,784	2,237	2,237	2,352	
Other expenses	3,183	2,912	3,259	3,695	Total liabilities	35,987	37,778	48,748	49,869	
EBIDTA	4,248	5,827	5,241	7,219	Asset Block	31,777	34,393	37,303	40,513	
YoY (%)	(31)	37	(10)	38	Investments	4	4	4	4	
EBIDTA (%)	16.9	19.0	16.2	19.3	Goodwill	0	0	0	0	
Depreciation	1,295	2,010	2,326	2,565	Current assets	15,529	20,948	24,641	23,287	
Non-operating income	197	46	123	296	Inventories	8,878	11,938	11,912	12,769	
EBIT	3,151	3,864	3,038	4,949	Debtors	3,098	4,437	4,032	4,429	
Interest	1,255	1,823	2,540	2,960	Cash	476	1,478	5,508	2,416	
Extraordinary income/expenses	504	0	(290)	0	Loans and advances	3,077	3,094	3,188	3,673	
PBT	2,400	2,041	208	1,990	Current liabilities	10,891	17,109	12,840	13,370	
(-) Tax	685	640	61	629	Provisions	431	458	360	565	
Current Tax	198	187	61	514	Net current assets	4,207	3,381	11,441	9,352	
Deferred Tax	487	453	0	115	Miscellaneous expenses	0	0	0	0	
Tax/ PBT (%)	29	31	29	32	Total assets	35,987	37,778	48,748	49,869	
PAT	1,715	1,400	147	1,361	Cash Flow	In ₹ mn	FY10	FY11	FY12E	FY13E
Share of Associates	0	0	0	0	Net profit (before MI)	1,715	1,400	147	1,361	
MI	29	30	30	30	Depn and w/o	1,295	2,010	2,326	2,565	
PAT (after MI)	1,686	1,370	117	1,331	Change in working cap	(1,514)	1,828	(4,030)	(1,004)	
YoY (%)	(9)	(18)	(90)	827	Non-operating income	197	46	123	296	
Adjusted net profit (after MI)	1,344	1,370	314	1,331	Others	(17)	453	290	115	
YoY (%)	(44)	2	(77)	324	Operating cash flow	1,282	5,645	-1,390	2,741	
Key Ratios	FY10	FY11	FY12E	FY13E	Non-operating income	197	46	123	296	
EPS (₹)	5.5	4.5	0.4	4.4	Capex	(6,654)	(4,626)	(5,236)	(5,775)	
Adjusted EPS (₹)	4.4	4.5	1.0	4.4	Investments	0	(0)	0	0	
CEPS (₹)	9.8	11.1	8.0	12.8	Others	-187	0	0	0	
Book value (₹)	55.4	58.6	58.4	61.6	Investing cash flow	(6,644)	(4,580)	(5,112)	(5,479)	
Dividend per share (₹)	1.0	1.0	0.5	1.0	Dividend	(356)	(354)	(177)	(354)	
Net debt-equity (x)	1.0	0.9	1.3	1.4	Equity	4,182	(48)	0	0	
ROCE	6.9	7.2	5.0	6.8	Debt	453	357	11,000	0	
ROE	9.3	7.8	1.8	7.2	Others	470	(18)	(290)	0	
Valuations	FY10	FY11	FY12E	FY13E	Financing cash flow	4,750	(63)	10,533	(354)	
PE (x)		6.7	29.1	6.9	Net change in cash	(612)	1,002	4,030	(3,092)	
Cash PE (x)		2.7	3.7	2.3	Opening cash	1,088	476	1,478	5,508	
Price/book value (x)		0.5	0.5	0.5	Closing cash	476	1,478	5,508	2,416	
Dividend yield (%)		3.3	1.7	3.3						
P/sales		0.3	0.3	0.2						
EV/sales (x)		0.8	1.0	0.9						
EV/EBITDA (x)		4.3	6.1	4.9						

Source: ABML Research, company data



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ABML research is also accessible in Bloomberg at ABMR



Our Rating Methodology

Stock Ratings	Absolute Returns (R)
Buy	$R > 15\%$
Accumulate	$5\% < R \leq 15\%$
Neutral	$-5\% < R \leq 5\%$
Reduce	$-10\% < R \leq 5\%$
Sell	$R \leq -10\%$

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