Usha Martin (USHBEL)

₹ 31

Rating matrix

Rating	:	Hold
Target	:	₹ 29
Target Period	:	12-15 months
Potential Upside	:	-6%

Key Financials (Consolidated)

(₹ Crore)	FY10	FY11	FY12E	FY13E
Net Sales	2514.4	3046.6	3379.1	3792.0
EBITDA	469.4	578.3	521.9	660.7
Adj Con,Net Profit	168.6	137.0	39.9	108.1

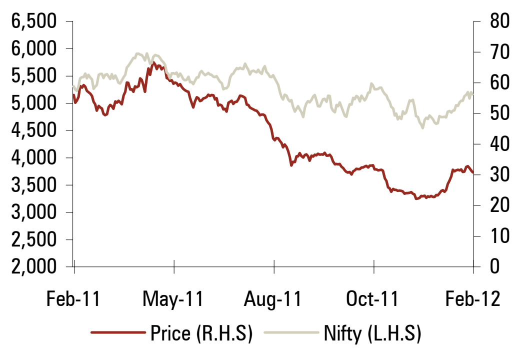
Valuation summary

	FY10	FY11	FY12E	FY13E
EPS (₹)	5.5	4.5	1.3	3.5
PE (x)	5.6	6.9	23.7	8.8
Target PE (x)	5.3	6.5	22.2	8.2
EV/EBITDA (x)	4.0	4.4	6.1	5.1
P/BV (x)	0.6	0.5	0.5	0.5
RoNW (%)	10.0	7.7	2.2	5.8
RoCE (%)	12.7	10.7	6.9	8.9

Stock data

Market Capitalisation	₹ 952.9 Crore
Debt (FY11)	₹ 1752.3 Crore
Cash & Invst (FY11)	₹ 147.8 Crore
EV	₹ 2557.3 Crore
52 week H/L	68/22
Equity capital	₹ 30.5 Crore
Face value	₹ 1
DII Holding (%)	25.7
FII Holding (%)	18.0

Price movement



Analyst's name

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WHAT'S CHANGED...

PRICE TARGET.......... Changed from ₹ 34 to ₹ 29
EPS (FY12E).......... Changed from ₹ 4.9 to ₹ 1.3
EPS (FY13E).......... Changed from ₹ 5.5 to ₹ 3.5
RATING..........Unchanged

Disappointing performance...

Usha Martin's (UML) performance in Q3FY12 was significantly below our expectations on the back of higher operating costs. The topline came at ₹ 817.5 crore (our estimate: ₹ 840.8 crore), which was 9.6% higher YoY but lower by 1.3% QoQ. However, on the back of higher input costs, the EBITDA margin declined 950 bps QoQ and 640 bps YoY to 9.4%. Higher cost of coke coupled with coal purchases from the market at higher rates (due to non-availability of linkage coal) led to a sharp decline in the EBITDA margin. The subsequent EBITDA stood at ₹ 77.2 crore (our estimate: ₹ 128.7 crore). However, reported PAT increased ~96% YoY to ₹ 25.7 crore on reversal of ₹ 90.1 crore forex losses. For the period under review, the consolidated adjusted net loss at PAT level was at ~₹ 35 crore.

- **EBITDA margin halves on a QoQ basis**

  UML's performance during the quarter under review was impacted by higher input costs. As a result, the EBITDA margin halved, on a QoQ basis, to 9.4%. Sequentially at the EBITDA level, higher coke prices had a negative impact of ₹ 31 crore. In Q3FY12, on account of non-availability of linkage coal and lower production from captive mines, the company had to buy coal through the e-auction route. As a result, there was a negative impact of ~₹ 15 crore at the EBITDA level (on a QoQ basis). However, at the EBITDA level, there was a positive impact of ~₹ 16 crore QoQ due to higher realisation and a better product mix.

Valuation

At the CMP of ₹ 31, the stock is discounting FY13E EV/EBITDA by 5.1x and P/E by 8.8x. Going forward, we believe the EBITDA margin would be under pressure on the back of higher raw material costs and muted demand. Hence, we believe the company's performance would remain subdued over the next few quarters. We have valued the stock at a 10% discount to domestic blue chip companies, arriving at an EV/EBITDA multiple of 5x and target price of ₹ 29and assigned a **HOLD rating**.

Exhibit 1: Financial Performance

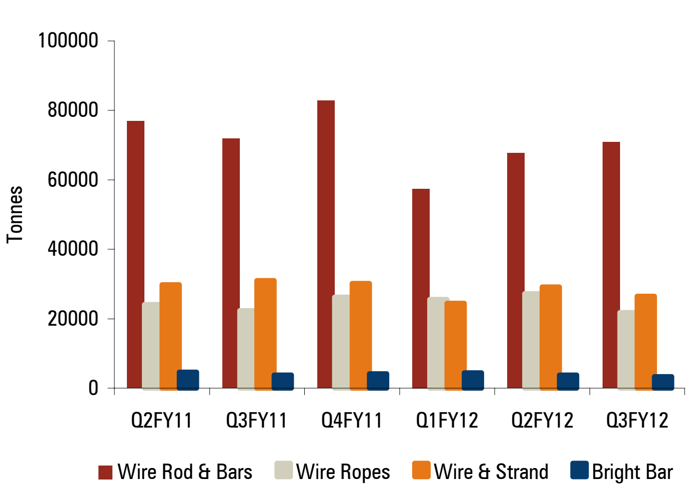
(₹ Crore)	Q3FY12	Q3FY12E	Q3FY11	Q2FY12	YoY (Chg %)	QoQ (Chg %)
Net Sales	817.5	840.7	745.7	828.4	9.6	-1.3
EBITDA	77.2	128.7	117.9	145.4	-34.5	-46.9
EBITDA Margin (%)	9.4	15.3	15.8	17.6	(640) bps	(950) bps
Depreciation	59.9	56.3	53.3	54.0	12.4	11.0
Interest	69.1	62.5	47.6	60.5	45.2	14.2
Reported PAT	25.7	7.3	13.2	-62.7	95.6	LP

Source: Company, ICICIdirect.com Research

Result Analysis

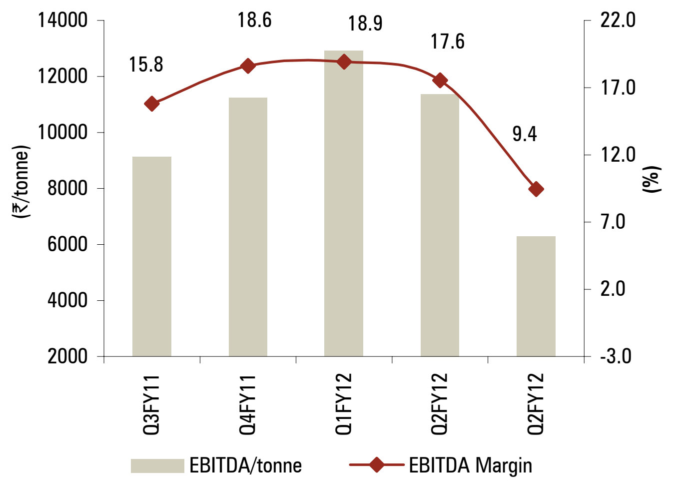
Consolidated sales volume for Q3FY12 was at 122515 tonnes (lower by 5.1% YoY and 4.1% QoQ) while blended average realisation was ₹ 66725/tonne (higher by ~15.5% YoY and 30% QoQ). However, on the back of higher operating costs, EBITDA/tonne during Q3FY12 was muted at ₹ 6300/tonne (lower by ~31% YoY and ~45% QoQ). A sharp increase in interest (higher by 45.2% YoY and 14.2% QoQ) and depreciation expense (higher by 12.4% YoY and 11.0% QoQ) also impacted the performance during the quarter under review. The consolidated performance was also impacted by the Thailand subsidiary shutdown. The shutdown resulted in a sharp drop in total volumes from subsidiaries, which was down 64% QoQ and 60% YoY. The company has provisioned for a ₹ 8 crore charge in Q3FY12 but expects to recover it in terms of the impending insurance claims. Also, Thailand operations are expected to partially restart by April 2012 and full operations by August 2012.

Exhibit 2: Sales quantity trend (Consolidated)



Source: Company, ICICIdirect.com Research

Exhibit 3: EBITDA trend (Consolidated)



Source: Company, ICICIdirect.com Research

Highlights of conference call

- Usha Siam, Thailand, a key subsidiary, was non functional due to floods since mid October 2011, causing lower quarterly turnover and profitability in the international business
- During the quarter under review, the landed cost of iron ore was ₹ 1300/tonne, of which yield was 0.72x after beneficiation while the landed cost of captive coal during the quarter was ₹ 2300/tonne (equivalent of 'C' grade)
- Captive coal production was higher in Q3FY12, but had negligible cost impact as it was offset by the impact of depreciation of the rupee
- The company has incurred a capex of ₹ 380 crore in nine months ended December 2011 (from the ₹ 1200 crore capex plan, of which a total of ₹ 550crore has been spent till date) and expects to spend around ₹ 120 crore in Q4FY12. FY13 capex guidance stands at ₹ 550 crore
- As on date, on a standalone basis, the gross debt stands at ₹ 2877 crore while on a consolidated basis the gross debt stands at ₹ 3032 crore. On a consolidated basis, the cash balance stands at ₹ 480 crore. On a consolidated basis, ~₹ 1350 crore of debt was foreign currency debt

Valuations

At the CMP of ₹ 31, the stock is discounting FY13E EV/EBITDA by 5.1x and P/E by 8.8x. Going forward, we believe the EBITDA margin would be under pressure on the back of higher raw material costs and muted demand. Hence, we believe the company's performance would remain subdued over the next few quarters. We have valued the stock at a 10% discount to domestic blue chip companies, arriving at an EV/EBITDA multiple of 5x and target price of ₹ 29and assigned a **HOLD** rating to it.

Exhibit 4: Valuation Matrix

	Sales (₹ Cr)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
FY10	2514.4	5.5	5.6	4.0	10.0	12.7
FY11	3046.6	4.5	6.9	4.4	7.7	10.7
FY12E	3379.1	1.3	23.7	6.1	2.2	6.9
FY13E	3792.0	3.5	8.8	5.1	5.8	8.9

Source: Company, ICICIdirect.com Research

Financial summary (Consolidated)

Profit and loss statement				(₹ crore)
(Year-end March)	FY10	FY11	FY12E	FY13E
Net Sales	2514.4	3046.6	3379.1	3792.0
Other Operating Income	20.0	16.0	20.0	25.0
Total Operating Income	2,534.4	3,062.6	3,399.1	3,817.0
Growth (%)	-10.3	20.8	11.0	12.3
Raw Material Expenses	1,078.9	1,182.4	1,352.9	1,455.8
Employee Expenses	178.1	202.7	245.0	265.4
Other expenses	808.0	1,099.2	1,279.3	1,435.0
Total Operating Expenditure	2,065.0	2,484.2	2,877.2	3,156.3
EBITDA	469.4	578.3	521.9	660.7
Growth (%)	-5.5	23.2	-9.8	26.6
Depreciation	129.5	201.0	225.2	252.2
Interest	125.5	182.3	237.7	247.7
Other Income	5.5	4.6	5.0	5.0
PBT	219.9	199.7	64.0	165.8
Exceptional Item	20.1	4.4	0.0	0.0
Total Tax	68.5	64.0	21.1	54.7
Adj Cons PAT before MI	171.5	140.0	42.9	111.1
Growth (%)	-8.9	-18.4	-69.4	159.1
Minority Interest	2.9	3.0	3.0	3.0
Adj Cons PAT after MI	168.6	137.0	39.9	108.1
Growth (%)	-9.0	-18.7	-70.9	171.1
EPS (₹)	5.5	4.5	1.3	3.5

Source: Company, ICICIdirect.com Research

Cash flow statement				(₹ crore)
(Year-end March)	FY10	FY11	FY12E	FY13E
Profit after Tax	168.6	137.0	39.9	108.1
Add: Depreciation	129.5	201.0	225.2	252.2
(Inc)/dec in Current Assets	-115.8	-441.7	-245.3	-226.9
Inc/(dec) in CL and Provisions	685.3	-96.3	-143.3	228.2
Others	48.6	45.3	0.0	0.0
CF from operating activities	916.1	-154.7	-123.6	361.6
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-683.9	-462.6	-450.0	-550.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-683.9	-462.6	-450.0	-550.0
Issue/(Buy back) of Equity	5.5	0.0	0.0	0.0
Inc/(dec) in loan funds	-675.5	756.5	750.0	250.0
Dividend paid & dividend tax	-35.6	-35.3	-35.7	-35.7
Inc/(dec) in Share Cap	412.8	-4.9	0.0	0.0
Others	-0.5	1.2	2.9	2.9
CF from financing activities	-293.3	717.5	717.2	217.2
Net Cash flow	-61.2	100.2	143.5	28.8
Opening Cash	108.8	47.6	147.8	291.4
Closing Cash	47.6	147.8	291.4	320.1

Source: Company, ICICIdirect.com Research

Balance sheet				(₹ crore)
(Year-end March)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity Capital	30.5	30.5	30.5	30.5
Reserve and Surplus	1,657.0	1,753.8	1,757.9	1,830.3
Total Shareholders funds	1,687.5	1,784.3	1,788.5	1,860.8
Total Debt	995.8	1,752.3	2,502.3	2,752.3
Deferred Tax Liability	178.4	223.7	223.7	223.7
Minority Interest / Others	16.2	17.5	20.4	23.3
Total Liabilities	2,877.9	3,777.8	4,534.8	4,860.1
Assets				
Gross Block	3,704.0	4,394.7	4,944.7	5,544.7
Less: Acc Depreciation	1,119.4	1,327.6	1,552.8	1,805.0
Less: Impairment	16.4	16.4	16.4	16.4
Net Block	2,568.2	3,050.7	3,375.5	3,723.3
Capital WIP	609.5	388.6	288.6	238.6
Total Fixed Assets	3,177.7	3,439.3	3,664.2	3,962.0
Investments	0.4	0.4	0.4	0.4
Inventory	887.8	1,193.8	1,388.7	1,558.3
Debtors	309.8	443.7	509.2	571.4
Loans and Advances	271.6	269.5	249.5	239.5
Other Current Assets	36.1	40.0	45.0	50.0
Cash	47.6	147.8	291.4	320.1
Total Current Assets	1,552.9	2,094.8	2,483.7	2,739.3
Current Liabilities	1,809.9	1,710.9	1,543.0	1,764.2
Provisions	43.1	45.8	70.4	77.4
Current Liabilities & Prov	1,853.0	1,756.7	1,613.3	1,841.6
Net Current Assets	-300.1	338.1	870.3	897.7
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	2,877.9	3,777.8	4,534.8	4,860.1

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY10	FY11	FY12E	FY13E
Per share data (₹)				
EPS	5.5	4.5	1.3	3.5
Cash EPS	9.8	11.1	8.7	11.8
BV	55.3	58.4	58.6	60.9
DPS	1.0	1.0	1.0	1.0
Cash Per Share	1.6	4.8	9.5	10.5
Operating Ratios (%)				
EBITDA Margin	18.5	18.9	15.4	17.3
PBT / Total Operating income	8.7	6.5	1.9	4.3
PAT Margin	6.7	4.5	1.2	2.8
Inventory days	128.9	143.0	150.0	150.0
Debtor days	45.0	53.2	55.0	55.0
Creditor days	74.9	48.7	45.0	45.0
Return Ratios (%)				
RoE	10.0	7.7	2.2	5.8
RoCE	12.7	10.7	6.9	8.9
RoIC	12.9	11.1	7.4	9.5
Valuation Ratios (x)				
P/E	5.6	6.9	23.7	8.8
EV / EBITDA	4.0	4.4	6.1	5.1
EV / Net Sales	0.7	0.8	0.9	0.9
Market Cap / Sales	0.4	0.3	0.3	0.2
Price to Book Value	0.6	0.5	0.5	0.5
Solvency Ratios				
Debt/EBITDA	2.1	3.0	4.8	4.2
Debt / Equity	0.6	1.0	1.4	1.5
Current Ratio	0.8	1.2	1.5	1.5
Quick Ratio	0.4	0.5	0.7	0.6

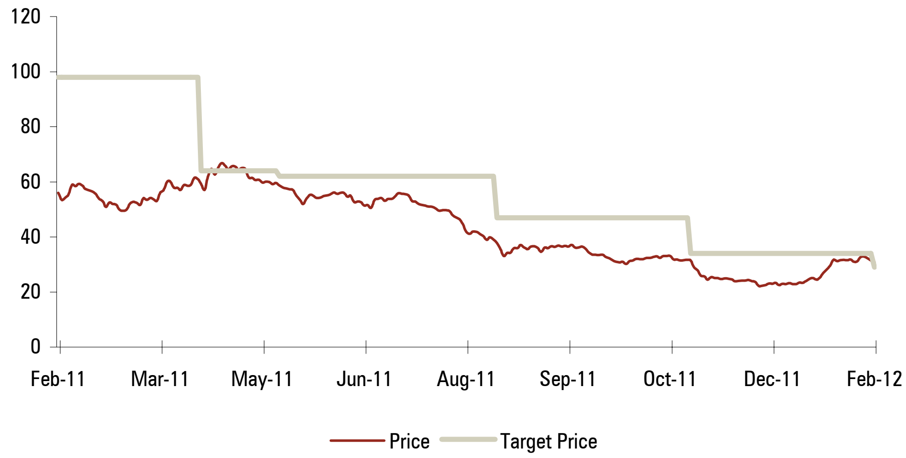
Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Metals & Mining)

					Sales (₹ Cr)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Adhunik Metaliks										
Idirect Code	ADHMET	CMP (₹)	49.5	FY10	1449.7	11.1	4.5	5.3	19.0	12.5
		Target (₹)	37.0	FY11	1793.4	14.8	3.4	5.9	21.0	10.7
		Upside (%)	-25.3	FY12E	2074.9	4.9	10.0	6.6	6.8	9.1
MCap (₹ Cr)	607.0			FY13E	2528.3	12.5	3.0	4.9	15.4	11.9
JSW Steel										
Idirect Code	JINVIJ	CMP (₹)	712.2	FY10	18780.4	85.4	8.3	6.8	17.3	11.0
		Target (₹)	595.0	FY11	23900.2	78.6	9.1	6.1	10.6	9.5
		Upside (%)	-16.5	FY12E	28630.9	53.8	13.2	6.0	7.2	10.1
MCap (₹ Cr)	15607.0			FY13E	32448.5	70.7	10.1	5.6	8.8	9.6
Usha Martin										
Idirect Code	USHBEL	CMP (₹)	31.0	FY10	2514.4	5.5	5.6	4.0	10.0	12.7
		Target (₹)	29.0	FY11	3046.6	4.5	6.9	4.4	7.7	10.7
		Upside (%)	-6.5	FY12E	3379.1	1.3	23.7	6.1	2.2	6.9
MCap (₹ Cr)	958.4			FY13E	3792.0	3.5	8.8	5.1	5.8	8.9
Visa Steel										
Idirect Code	VISST	CMP (₹)	57.6	FY10	1156.9	4.5	12.9	8.4	15.4	10.0
		Target (₹)	53.0	FY11	1305.9	4.7	12.3	10.7	14.4	8.5
		Upside (%)	-7.9	FY12E	1449.4	2.6	22.0	10.3	7.5	5.2
MCap (₹ Cr)	634.7			FY13E	1788.5	7.3	7.9	5.2	17.2	13.8
Tata Steel - Cons										
Idirect Code	TISCO	CMP (₹)	471.0	FY10	101757.8	-22.7	NA	10.5	-7.6	4.2
		Target (₹)	447.0	FY11	117149.8	69.6	6.2	5.7	20.5	11.4
		Upside (%)	-5.1	FY12E	119748.1	46.6	9.2	6.0	8.2	9.0
MCap (₹ Cr)	43782.3			FY13E	125932.8	69.4	6.2	5.0	11.1	10.2
SAIL										
Idirect Code	SAIL	CMP (₹)	104.7	FY10	41307.2	16.4	6.8	3.9	20.4	20.2
		Target (₹)	120.0	FY11	43432.8	11.9	9.3	6.2	13.3	13.4
		Upside (%)	14.7	FY12E	45141.9	9.6	11.6	8.3	9.8	8.0
MCap (₹ Cr)	41986.8			FY13E	49726.4	10.4	10.7	8.6	9.9	8.0
Sesa Goa										
Idirect Code	SESGOA	CMP (₹)	222.0	FY10	5858.3	31.6	6.8	5.8	33.2	31.1
		Target (₹)	198.0	FY11	9205.1	48.6	4.4	3.6	33.0	37.0
		Upside (%)	-10.8	FY12E	8007.5	29.8	7.2	6.4	17.2	17.4
MCap (₹ Cr)	18942.1			FY13E	8183.5	39.0	5.5	7.3	18.8	12.4
Hindustan Zinc										
Idirect Code	HINZIN	CMP (₹)	137.9	FY10	8017.0	9.6	14.4	10.0	22.3	24.5
		Target (₹)	142.0	FY11	9912.1	11.6	11.9	8.0	21.7	22.8
		Upside (%)	3.0	FY12E	11586.0	13.6	10.1	6.4	20.7	20.4
MCap (₹ Cr)	57168.6			FY13E	12543.2	15.1	9.1	5.0	18.9	18.9
Sterlite Indsutries										
Idirect Code	STEIND	CMP (₹)	119.5	FY10	24410.3	11.1	10.0	6.7	10.1	8.7
		Target (₹)	125.0	FY11	30248.1	15.0	7.4	4.9	12.2	10.8
		Upside (%)	4.6	FY12E	40401.1	14.1	7.9	5.1	9.7	9.4
MCap (₹ Cr)	38872.4			FY13E	44537.2	17.6	6.3	4.3	10.3	9.8

Source: Company, ICICIdirect.com Research

Exhibit 5: Recommendation History



Source: Company, ICICIdirect.com Research

Exhibit 6: Recent Releases

Date	Event	CMP	Target Price	Rating
8-Apr-11	Q4FY11 Preview	59	64	HOLD
16-May-11	Q4FY11 Result Update	59	62	HOLD
5-Jul-11	Q1FY12 Preview	56	62	BUY
12-Aug-11	Q1FY12 Result Update	38	47	BUY
5-Oct-11	Q2FY12 Result Preview	31	47	HOLD
9-Nov-11	Q2FY12 Result Update	31	34	HOLD
6-Jan-12	Q3FY12 Result Preview	25	34	BUY
1-Feb-12	Q3FY12 Result Update	31	29	HOLD

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: > 10%/ 15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

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