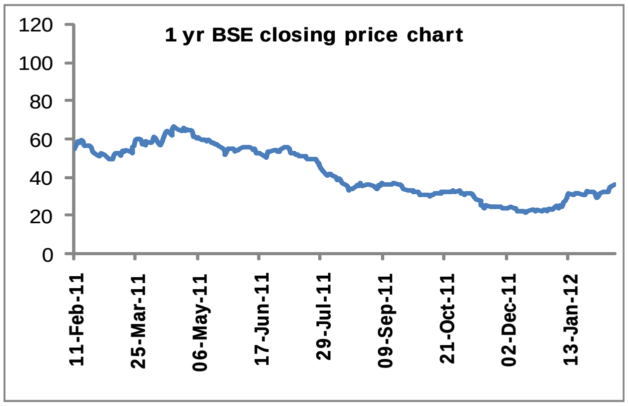
**Retail Equity Research**

14th February, 2012

**Price Target: Rs. 45**

**Potential Upside: 23%**

| Key Statistics | As on 13th Feb 2012 |
|---|---|
| Latest Price | 36.50 |
| 52 Week High | 68.45 |
| 52 Week Low | 21.80 |
| Traded on | BSE & NSE |
| **Shareholding Pattern (%)** | **As on 30th Dec 2011** |
| Promoters | 39.97 |
| FIIs | 17.37 |
| Others | 42.66 |
| Free Float | 60.03 |
| **Market Data** | |
| TTM PE Ratio | 44.76 |
| TTM EPS (Rs) | 0.81 |
| Market Cap (Rs Cr) | 1112.31 |
| Outstanding Shares (Cr) | 304741780 |
| Book Value/Share (Rs) | 57.74 |
| Beta | 0.6924 |
| Face Value (Rs) | 1.00 |
| **Technical Indicators** | |
| 200 Day EMA | 50.60 |
| 100 Day EMA | 49.58 |
| 50 Day EMA | 40.78 |
| RSI (daily) | 66.74 |




Source: Company/TSL Research

**Usha Martin Ltd.** is engaged in speciality steel and value added steel products business. It is one of the leading wire rope manufacturing companies in the world. Apart from wire ropes, its product lineup includes cords, strand, wires, bright bars and oil tempered wires. Usha Martin exports over 60% of the wire rope output and about 20% of the total wire rods produced. It also provides products and solutions for oil and gas sectors for anchoring, drilling and mooring applications. Currently, the company has overseas manufacturing operations in Thailand, UK and Dubai.

## Major business segments

### 1. Steel business

Usha Martin's steel business spreads from mining of iron ore and coal to manufacturing speciality construction steel. The company plans to increase its market share in infrastructure, consumer durables and auto sectors with increased capacity utilization and better cost competitiveness. Usha Martin has also taken initiatives to enhance mining capacity of its two key raw materials i.e. iron ore and coal, apart from setting up a pellet plant for conversion of iron ore fines to pellets, which it expects to improve the productivity of DRI kilns.

### 2. Wire Ropes & Speciality Products Business

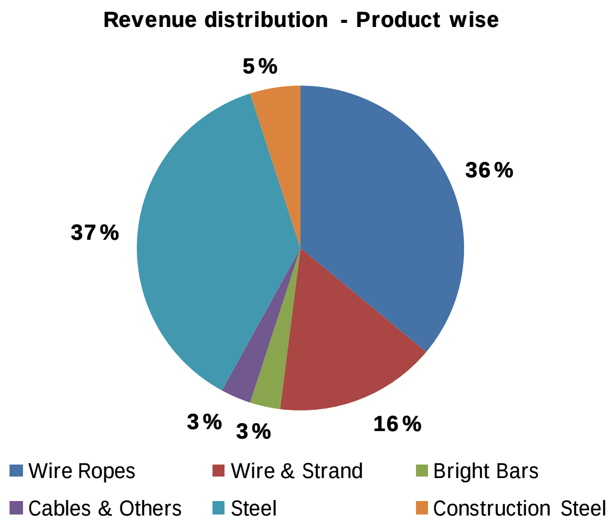
Elevators and mining segment constitute major drivers for this segment with South-East and South Asia emerging as the fastest growing markets for elevators, according to the company. Activities like Mining, Oil drilling and General Engineering are also witnessing high growth phase there. With production centers in India, Thailand & Dubai and strong warehousing and distribution facilities, the company hopes to achieve high growth in future.

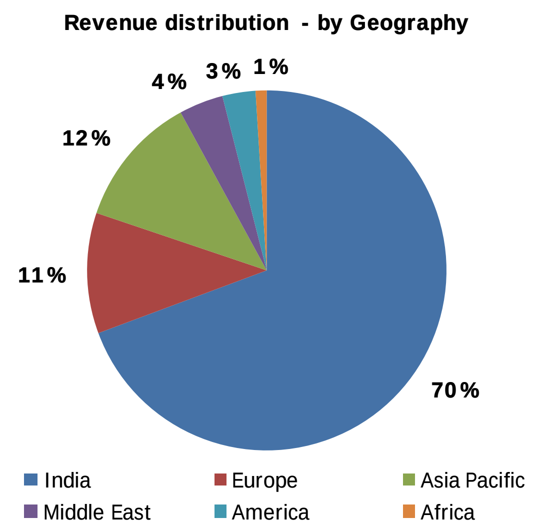
### 3. Cable business

U M Cables Ltd. (UMCL), a wholly owned Indian subsidiary of Usha Martin is engaged in business of telecommunication cables.

## Usha Martin's integrated business model coupled with its global presence holds key to stellar performance in future.

- Usha Martin's manufacturing plants are located at Ranchi and Hoshiarpur in India and in Thailand, Dubai and UK overseas.
- It also has a network of distribution centres and marketing offices spread across the globe.
- The global business of wire rope is supported by marketing, distribution and rigging facilities in various locations in USA, Europe and South-East Asia.
- The company follows an integrated model, with captive iron ore and coal mines in Jharkhand and state-of-art integrated steel plant near Jamshedpur producing wide range of speciality steel wire rod and bar products, from 5 mm to 160 mm diameter.
- The Company has an in-house machinery manufacturing facility at Ranchi to cater to captive engineering requirements as well as external demand in India and export markets.
- All its manufacturing facilities are ISO 9000 certified and the steel plant was India's first to receive the TPM Excellence Award from JIPM, Japan.




**Comparison with Industry Peers** ( Rs in Crore)

| Company Name | Market Capitalisation | Price (Rs) | Book Value (Rs) | Net Sales & Operating Income | Total Income | PAT | Diluted EPS (Rs) | TTM PE (x) |
|---|---|---|---|---|---|---|---|---|
| | | | FY 2010 - 11 | | | | | |
| **Usha Martin Ltd.** | **1,112.31** | **36.50** | **57.74** | **3,046.57** | **3,067.15** | **140.03** | **4.50** | **44.76** |
| **Bhushan Steel Ltd.** | 8,359.48 | 393.65 | 307.75 | 7,003.54 | 7,072.89 | 1,005.13 | 47.24 | 8.52 |
| **Jindal Stainless Ltd.** | 1,424.31 | 75.45 | 112.12 | 7,512.34 | 7,534.42 | 318.77 | 16.49 | 0.00 |
| **Varun Industries Ltd.** | 803.84 | 276.10 | 91.63 | 3,540.76 | 3,558.18 | 44.48 | 14.42 | 13.25 |
| **Welspun Corp Ltd.** | 3,112.63 | 136.65 | 175.08 | 8,023.64 | 8,042.04 | 623.30 | 28.66 | 13.07 |

Note: Price, TTM PE & M Cap as on 13th Feb'12 Source: Company/TSL Research

## Inflation, stiff competition & Thailand floods continue to dent Usha Martin's profitability.

- Higher cost of coke and irregular availability of linkage coal often forces the Company to buy coal from market at higher rates. Increase in price of other key inputs has also dented the profitability of the Company.

- Usha Martin continues to face stiff competition from peers along with a slowdown in key market segments. This is exerted pressure on its profit margins and also made it difficult to pass the price rise to customers.

- Usha Siam Steel Industries (Usha Siam) a key subsidiary in Thailand is expecting to commence operations partially from April, 2012 and fully from July / August, 2012 onwards. Usha Siam has been severely impacted by the Thailand flood. Its non functionality since mid October'11 has caused the quarterly turnover to plummet and impacted profitability in international business.

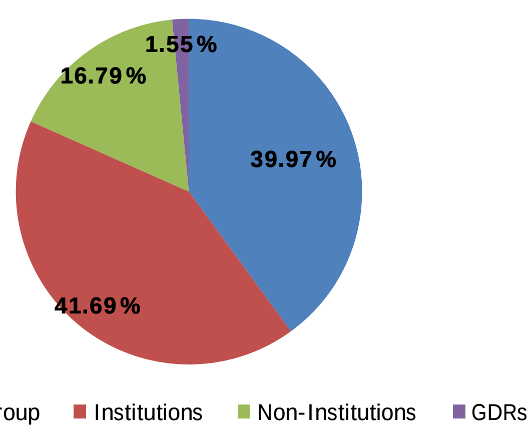
- The company has faced brunt due to rising interest rates in the past which has resulted in a higher interest charge.

## Emerging markets will continue to play a pivotal role in driving future growth.

As the Indian economy continues to witness decent growth though at a rate slightly lower than estimates, the company expects its product demand to remain robust especially in sectors like infrastructure, consumer durables and auto. It expects this growth trend to continue in future and gears itself to capture a larger market share with increased capacity utilization and better cost competitiveness. However factors like continued weakness in western markets, high inflation rate, price rise of crucial inputs & volatility in prices of finished goods due to intense competition are expected to be key challenges in future. Nevertheless, with the advantage of reasonably higher level of integration with mineral resources and range of value added products, the Company is confident to perform relatively better in near future.

According to the company, the fastest growing markets for elevators are situated in South-East and South Asia. This is expected to translate into a robust demand for its key product – steel wire rope. Apart from elevators activities in sectors like Mining, Oil drilling and General Engineering are also witnessing a growth phase. As its manufacturing centers are located in India, Thailand and Dubai, the company expects to achieve high growth in coming years.

**Shareholding Pattern - 31st Dec'11**



**Consolidated Financials** (Rs in Crore)

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|
| **Profitability** | | | | |
| Net Turnover | 2,308.77 | 2,949.85 | 2,514.41 | 3,046.57 |
| Other Income | 17.35 | 17.63 | 25.51 | 20.58 |
| Total Income | 2,326.12 | 2,967.48 | 2,539.91 | 3,067.15 |
| Total Expenditure | 2,079.28 | 2,686.89 | 2,299.87 | 2,863.08 |
| Profit before Tax | 246.84 | 280.59 | 240.04 | 204.07 |
| Profit after Tax | 176.46 | 188.35 | 171.52 | 140.03 |
| Minority Interest | (1.08) | (3.02) | (2.90) | (3.00) |
| Net Profit | 175.38 | 185.34 | 168.62 | 137.03 |
| **Basic EPS** | **7.01** | **7.41** | **6.46** | **4.50** |
| **Diluted EPS** | **6.97** | **7.41** | **6.46** | **4.50** |
| | | | | |
| **Sources of Funds** | | | | |
| Shareholder's Funds | 969.01 | 1,136.23 | 1,687.52 | 1,784.34 |
| Minority Interest | 11.80 | 16.77 | 16.25 | 17.49 |
| Debt | 1,137.47 | 1,671.27 | 995.78 | 1,752.28 |
| Deferred Tax Liability | 153.59 | 130.56 | 178.40 | 223.70 |
| **Total Sources of Funds** | **2,271.87** | **2,954.83** | **2,877.95** | **3,777.82** |
| | | | | |
| **Application of Funds** | | | | |
| Fixed Assets | 1,238.70 | 1,412.85 | 2,568.16 | 3,050.70 |
| Capital WIP | 502.27 | 1,210.37 | 609.53 | 388.64 |
| Investments | 0.38 | 0.38 | 0.38 | 0.38 |
| Current Assets, Loans & Advances | 1,600.51 | 1,498.23 | 1,552.87 | 2,094.79 |
| less: Current Liabilities & Provisions | -1,071.61 | -1,167.73 | -1,852.99 | -1,756.69 |
| Net Current Assets | 528.91 | 330.50 | -300.12 | 338.10 |
| Def Revenue Exp | 1.61 | 0.73 | - | - |
| **Total Application of Funds** | **2,271.87** | **2,954.83** | **2,877.95** | **3,777.82** |
| | | | | |
| **Cash Flows** | | | | |
| Cash from Operating Activities | 267.35 | 815.39 | 754.04 | 348.13 |
| Cash from Investing Activities | -385.96 | -1,057.99 | -471.80 | -786.65 |
| Cash from Financing Activities | 141.25 | 282.65 | -345.16 | 540.73 |
| | | | | |
| **Key Ratios** | | | | |
| ROCE (%) | 20.1% | 24.1% | 18.2% | 13.7% |
| RONW (%) | 21.6% | 19.2% | 13.7% | 8.1% |
| Net Debt Equity Ratio (x) | 1.2 | 1.9 | 0.99 | 1.12 |
| Interest cover (x) | 4.4 | 3.7 | 3.9 | 3.2 |

Source: Company/TSL Research

### Mixed performance seen in the results for 3rd Quarter ended 31st Dec'12.

- **Top line growth was flat with a slight negative bias**. Net sales / income from operations for the current quarter fell from Rs 828.76 Cr in the previous quarter to Rs 818.18 Cr, registering a marginal fall of 1.28 %. However on a YoY basis the topline surged by 9.54 % from Rs 746.91 Cr in the same quarter previous year.

- **Usha Martin registered profit** for the current Quarter as against a loss in the previous quarter. Its Profit After Tax (PAT) expanded from a negative Rs 61.91 Cr in the previous quarter to Rs 26.43 Cr. At the same PAT figures doubled on an YoY basis. PAT for Quarter ended 31st Dec'10 was Rs 13.81 Cr. However its Operating Profit shrunk from Rs 91.43 Cr in the trailing quarter to Rs 17.29 Cr in the current quarter due to rising prices of crucial inputs.

**Unaudited Consolidated Quarterly Results** (Rs in Crore)

| Quarter Ending | 30-Sep-11 | 30-Sep-10 | 31-Dec-11 | 31-Dec-10 |
|---|---|---|---|---|
| Income from Operations | 828.76 | 770.21 | 818.18 | 746.91 |
| Expenditure | 737.33 | 657.52 | 800.89 | 682.28 |
| **Operating Profit** | **91.43** | **112.69** | **17.29** | **64.63** |
| Other Income | 1.06 | 0.55 | 0.90 | 1.31 |
| PBIT | 92.49 | 113.24 | 18.19 | 65.94 |
| Interest | 60.48 | 44.91 | 69.09 | 47.58 |
| Exceptional Items | (119.88) | - | 90.13 | - |
| PBT | (87.87) | 68.33 | 39.23 | 18.36 |
| Tax | (25.96) | 21.57 | 12.80 | 4.55 |
| **PAT** | **(61.91)** | **46.76** | **26.43** | **13.81** |
| Minority Interest | 0.78 | 0.84 | 0.71 | 0.71 |
| Net Profit | (62.69) | 45.92 | 25.72 | 13.10 |
| **EPS** | **(2.06)** | **1.51** | **0.84** | **0.43** |

Source: Company/TSL Research

### Valuation

We estimate modest revenue growth over FY2012-13E on the basis of price and volume-led growth. Inspite of the slow revenue growth in 3rd quarter ended 31st Dec'11, we expect healthy expansion in the company's Operating Profits over FY2012-13E due to changes in cost structure and selective price hikes in key products. Accordingly, earnings for the company are expected to witness a robust growth in the future. A leading position in the steel wire rope market both globally and locally will help it to withstand pressures. Hence, we recommend a **'BUY'** on the stock with a target price of Rs 45.

### Technical Overview:

Chart: Usha Martin, Weekly; Source: Spider Software

Technically, Usha Martin is looking bullish on weekly charts. Technical indicators RSI & MACD configuration are positive. We are bullish on the stock from a short – medium term perspective. Weekly RSI is inching higher in the neutral zone, towards the bullish zone. It is evident from the charts of the stock that after taking support from its long-term base level at around Rs 25- Rs 28 in December 2011, the stock reversed direction. This reversal was triggered by strong long term support and prolonged positive divergence in weekly relative strength index. We advise investors to accumulate the scrip for price target of Rs 45 / Rs 50.

| | |
|---|---|
| Resistance | : 42/ 45 / 50 |
| Support | : 32/ 30 / 25 |

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| | |
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