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What makes UltraTech's acquisition of Century Textiles a clever move

UltraTech's acquisition of Century Textiles' 13.4 million tonnes (mt) cement capacity for an enterprise value of $106 per tonne has got a good response from the Street and analysts, with the company likely to gain in many ways. On a day when the broader markets fell, the UltraTech stock ended almost flat.

While finding valuations attractive (cost 7-8 per cent lower than earlier Jaiprakash Associates' capacity acquisition), analysts at Motilal Oswal Securities estimate UltraTech's capacity-based market share to rise by 3 percentage points to 23 per cent by the end of FY19.

Century's capacities in Madhya Pradesh, Chhattisgarh and Maharashtra, and its West Bengal grinding unit will help UltraTech emerge the leader in central and east India in a short time. Kotak Institutional Equities believes the acquisition further consolidates UltraTech's dominant position across regions.With the acquisition, UltraTech is also avoiding lead time for setting up its own capacities. Notably, the cost of acquisition is similar to what UltraTech would have spent if it chose to set up its own capacities, say analysts.

However, the valuations appear cheap for a reason. Century's low profitability — earnings before interest, tax, depreciation and amortisation (Ebitda) of Rs 370 a tonne versus UltraTech's Rs 970 a tonne in FY18, and low capacity utilisation rates are key reasons for the low valuation of the assets, say analysts. Nevertheless, looking at the quick turnaround by UltraTech of acquired Jaiprakash cement assets that reported 75 per cent utilisations by the March quarter (versus estimates of 70 per cent) and the potential merger synergies in the Century deal, analysts remain confident. Century sold 3.3 mt of cement and generated Ebitda per tonne of Rs 294 in Q4FY18 (impacted by the dismal realisation in Maharashtra). Binod Modi at Reliance Securities believes UltraTech can easily sell up to 12 mt annually and if it takes Ebitda per tonne to Rs 600 (aided by branding premium, cost optimisation with improvement in operational synergies, and recent jump in realisation in the Maharashtra market), it can potentially be earnings accretive from the first day of operations.

Trailing earnings suggest 4-5 per cent earnings dilution for UltraTech, but its brand premium and higher utilisation should make the deal earnings accretive in one year under UltraTech, says Macquarie.

The deal will also help UltraTech cross the 100 mt capacity milestone with its consolidated capacities increasing to 109.9 mt after the completion of the Century deal. With cement consumption expected to rise, larger capacities are crucial for driving volume gains and market share.

Analysts at Motilal Oswal Securities say UltraTech, by way of this acquisition, has ensured higher market share with zero lead time for asset creation and at valuations largely in line with greenfield expansions (new projects), which they believe is positive for UltraTech. Macquarie estimates peg UltraTech's earnings growth at 51.6 per cent and 42.2 per cent in FY19 and FY20, respectively.Meanwhile, the deal hasn't gone too well for Century Textiles shareholders, with its stock down nearly six per cent on Monday.

BMW eyes top position in luxury car market with 16 launches in 2018

BMW's entry in 2007 with trendy cars, in a space dominated by Mercedes-Benz, has flipped the market on its head. In just five years, it had set up 25 showrooms, taken the lead and outsold the competition.

Today, the race has come full circle. Now the challenge is to overtake Benz, which bounced back three years ago to become the king of the hill.

Vikram Pawah, president of BMW India, says the auto major is now in the midst of its biggest-ever "product-offensive" to include 16 new product launches and new segments. New models indeed grow sales. The new 5 Series, launched in July last year, added volumes by more than 50 per cent, says Pawah.

Cars like the X3, MINI Cooper Countryman, 6 Series GT Diesel, and the sports M5 have already been introduced, while in the months to come, the company will revamp the entire range of MINI Cooper, launch the electric hybrid i8 Roadster and two new sports cars that include the M2 and the M2 Competition, which is a race-track version, both of which have never been sold in India, and an assortment of motorcycles that include the 750GS and the 310GS, BMW executives say.

"For BMW to restore its momentum, the trick lies in bringing excitement to non-metro cities where the real growth is happening. How does it plan to do that?" says an analyst.

Pawah's response is that to build aspiration across diverse micro-markets, one has to deploy engagement activities.

It is a comprehensive list that includes adding exclusive touchpoints like BMW Mobile Studios in 50 cities, an Experience Tour in 14 cities, MINI-on-Tour in 18 cities, xDrive Experience in 12 cities, M Performance Training in four cities, BMW Joyfest across 15 cities, a golf cup international tournament in 12 cities, and the newly introduced Culinary Series.

While the drive events are self-explanatory, Joyfest is a brand new two-day festival with sporty drives with trainers and a prefab two-level structure that hosts a gaming zone, lounge, food and beverages, and a live DJ in the evening.

There is also the BMW Privé – a luxury programme for owners of 7 Series, 6 Series, M Cars, the Z4, and the X6. Become a member and you get the "money-cannot-buy experience" like going on safaris hosted by former international cricketers, dining with royalty, access to global events like the Formula One and the Wimbledon, with one-on-one meetings with athletes. Privé has a membership of 3,500 and growing.

With combined sales of around 9,800 cars for BMW and MINI in 2017, BMW's volumes may still be small in India, but Pawah says it is a strategic market for them. BMW has been looking at Brazil, India, Turkey and South Korea as potential future markets from the mid-1990s when those countries sold less than 10,000 cars.

Today, that is at least 150,000 cars collectively, if not more. "In addition to sales, BMW also sources parts for its global supply chain and, as an example, gets at least one mechanical component deployed in its 7 Series sedans," says Pawah.

Dealers are excited. Pooja Choudhury, managing director at Mumbai's Infinity Cars, one of BMW's 43 dealerships, and who knows what is coming, says the next two years "will see the most exciting product portfolio in the history of BMW in India, which is to say the style quotient, the technology, and functionality will come together in the new cars to give buyers an experience that is one step in the future and one step firmly rooted in the pleasure of driving."

If she were to identify an individual demographic, her customer would be someone who uses iPhones and computers, she added. Just how high tech will the new models be? After all, BMW did pioneer the iDrive function later adapted by other original equipment manufacturers. Pawah says it will all be about how a car interacts with a smartphone.

Just before leaving the office for a meet, the car starts up on its own and the navigation has figured out the best route, available parking, all the while switching on your preferred ambient settings, music, etc. "The infrastructure is yet to come, but we are watching the space closely and at our end can deploy one day after the ecosystem is ready," says Pawah.

But how do customers feel about BMW? Percival Bilimoria, a senior lawyer with Cyril Amarchand Mangaldas, who has owned a MINI, an X5, a Z3 Roadster, and a 5 Series sedan, says the Merc is a chauffeur-driven car, while Bimmers are owner-driven.

"I surmise this is because of the sporty handling which car buffs enjoy." Since Bilimoria has offloaded his X5 and replaced it with a Mercedes-Benz GLX SUV, he says, "Despite the GLX being a better car, I miss my X5 because the second you start it, you feel the tiger under the hood awaken. That is the difference."

Fortis faces MCA probe; Director General to look into mismanagement charges

The Ministry of Corporate Affairs (MCA) will start investigation into alleged mismanagement at Fortis Healthcare in the midst of the takeover battle for the company, but it is not considering packing off the board and filling it with its nominees.

Meanwhile, three promoter-nominated directors — Harpal Singh, Tejinder Singh Shergill and Sabina Vaisoha — quit the company's board a day ahead of the extraordinary general meeting (EGM) on May 22. Only Brian Tempest, also promoter-nominated, remains on the board.

Harpal Singh is the father-in-law of former promoter Malvinder Singh, while Tempest is former chief executive officer (CEO), Ranbaxy Laboratories.

Harpal Singh wrote in his resignation letter: "Despite delivering a good outcome for the company and its shareholders there still persist some less informed attempts to steer the board and the company into a situation that could be perilous for the company's future."

Besides the four, the Fortis board comprises four additional independent directors, three of whom have been nominated by shareholders. They are Suvalaxmi Chakraborty, Indrajit Banerjee and Ravi Rajagopal, and shareholders will vote on their appointment as board members on Tuesday.

Key bidders for the group want the board to be strengthened and a reversal of its earlier decision to select the Hero Enterprise-Burman bid to acquire the company.

Official sources say the ministry had received complaints regarding mismanagement and referred the matter to the director general for investigation.

If the government feels there is mismanagement in a company, it can take it over. This was done in the case of Unitech and the National Spot Exchange.

Fortis did not respond to a query in this regard till the time of going to press.

The actions of the directors who have stepped down have come under investors' scrutiny, leading to the meeting on Tuesday. One of the actions is the decision to select the Hero Enterprise-Burman bid for Fortis Healthcare.

"The fact that three directors have stepped down means that they did not have the confidence to face the vote of the shareholders," a top executive of the firm said.

Upon the request of two large institutional shareholders, Eastbridge Capital and Jupiter India Fund, the EGM has been called to overhaul the board.

A top executive of a firm that has put in its bid for Fortis Healthcare said: "The board needs to be strengthened. It can then look afresh at all the binding offers in the way YES Bank has suggested."

YES Bank is the largest shareholder in the hospital chain and controls over a 15 per cent stake in it. It declined comment.

"The board now has the opportunity to take a re-look at the bids and undertake the process in a well-defined and time-bound manner," said Amit Tandon, managing director, Institutional Investor Advisory Services.

A company law expert said a decision taken by the board would not automatically get overruled just because the board members had resigned but new members could do a review.

Earlier this month, the Fortis board chose the Hero Enterprise-Burman offer of Rs 18 billion, to be invested in two tranches, over the competing bids of the TPG-Manipal Hospitals combine, IHH Healthcare, and Radiant Lifecare.

Shareholders criticised the Hero Enterprise-Burman offer because it supposedly did not offer them an exit route and there was no proposal for an open offer, said Arun Kejriwal, director at Kris Capital.

Tata Motors stock's underperformance may continue till JLR sales improve

Though Tata Motors' share price is already down 3-plus per cent over a year, multiple headwinds mean it is likely to continue lagging its peers and the benchmark Sensex. Consistent volume growth at its British-based arm, Jaguar Land Rover (JLR), is crucial for a re-rating.

Monday saw the stock reach a 26-month low. It has been the biggest underperformer among frontline automobile stocks over the past year, shedding 33 per cent of its value. In comparison, the broader markets and the peer index (excluding Tata Motors) are up 13-14 per cent. Lower volume growth at JLR, elevated levels of discounts and dealer incentives, environment regulations and the transition to electric vehicles (EVs) are some worries that led to the underperformance.

Its Indian operations did see volume revival in both the commercial vehicle (CV) and passenger vehicle (PV) segments. Even so, with 80 per cent of its revenue and all its profit coming from JLR, the performance of the Britain-based maker is crucial for the company and the stock. Analysts say the stock could continue to lag in the near term, until JLR's sales numbers improve.

Graph The biggest worry has been the muted volumes in 2017-18 for the two marquee brands, Jaguar and Land Rover. JLR reported volume growth of only two per cent in FY18, despite several new launches and higher incentives, underlining the market's competitive intensity.

One of the challenges JLR faces is slowing volumes in Britain and the rest of the European Union (EU), 40 per cent of its sales. The sentiment on diesel vehicles is negative in these two markets, reflected in the 5-13 per cent fall in sales volume here during the past year. Earlier this month, the company indicated legislative uncertainty around diesel and the resulting lower demand in Britain and Europe continue to have a negative impact. After the 'dieselgate' scandal involving Volkswagen, European policy makers are contemplating tougher penalties for vehicle makers found supplying vehicles fitted with devices or systems aimed at cheating the air pollution rules.

Graph The slowing growth in key markets, especially in the past two quarters, is offsetting that in China and other world markets. Growth in China is important — it is the largest (25 per cent of overall volume), fastest growing (20 per cent growth verses two per cent overall) and the most profitable market for JLR.

Despite this fast growth, analysts say JLR's performance in China has been in line with those of peers, while lagging that by Cadillac and Lexus. Cadillac overtook JLR as the fourth largest premium car brand in China by volume in 2017, according to UBS.

The volume pressure for JLR, especially in Europe, is expected to continue in the next six months to a year. Says Bharat Gianani of Sharekhan, "In Europe, there is a backlash on diesel which would continue to impact JLR, as the portfolio has predominantly diesel models. The UK (Britain) market outlook is also sluggish, as the economy is preparing itself for Brexit (that country's departure from the EU) and would need to carry out trade negotiations with other countries and especially Europe."

What is compounding matters for the company is increasing investment in less polluting vehicles and an impending switch to EVs. This could lead to more pressure on the stock.

Largest shareholder T Rowe Price seeks govt role in UTI MF board issues

The tussle between principal shareholders of UTI Mutual Fund (MF) has escalated, with the largest shareholder, T Rowe Price Group, raising concerns over the functioning of the board.

According to sources, T Rowe Price has shot a strongly worded letter to the finance ministry and the Securities and Exchange Board of India (Sebi), alleging the board is deliberately trying to delay the initial public offering (IPO) of UTI MF. The US-based fund house has sought government intervention and immediate action.

In the letter, T Rowe Price has also said the tenure of Managing Director and Chief Executive Officer (MD & CEO) Leo Puri should be extended.

The asset manager is of the view that the continuity in leadership at UTI Asset Management Company (AMC) is necessary to protect the IPO plans. Puri's five-year tenure ends in August.

Confirming the development, a T Rowe Price spokesperson told Business Standard: "We are disappointed that the board is not taking action to ensure continuity of leadership at UTI and that the Indian shareholders are not taking steps to comply with Sebi's 10 per cent rule."

The US-based asset manager, which holds a 26 per cent stake in UTI MF, has reiterated the issue of conflict of interest at the country's sixth-largest fund house.

Further, it wants Sebi to look at the independent directors appointed by the domestic stakeholders. T Rowe Price also said that having strong governance and management in place was essential to protecting the interests of UTI AMC and its stakeholders, including the millions of fund unit-holders. "It will also put the company in the best position to move forward with the planned IPO. Leo Puri has done a stellar job managing UTI since being appointed as MD in 2013 and we are very supportive of having him continue in this role," said the spokesperson.

UTI MF has four domestic sponsors, which include Life Insurance Corporation (LIC), State Bank of India (SBI), Bank of Baroda (BoB), and Punjab National Bank (PNB), with each holding a 18.24 per cent stake. Each of the four sponsors operates separate AMCs, which is not allowed under Sebi rules.

Sources say that the board of UTI is divided on the issue of providing an extension to the current management.

"It is learnt that a section of sponsors is unhappy with the current management since UTI MF has not gained any market share in the last three years, even as inflows into overall MFs touched lifetime highs," said a person in know.

Besides, the sponsors are also concerned about the brewing discontent among UTI MF's employees against the current human resource policies, he added.

UTI AMC market share stood at 6.7 per cent for the March 2018 quarter, down from 8.2 per cent four years ago.

LIC, too, has recently written to the government, proposing a plan to buy out stakes of the other three domestic shareholders and subsequently merging UTI MF with its own MF arm. Sources say that the other three sponsors are open to LIC's proposal to resolve the long-pending conflict of interest issue.

An email sent to LIC, SBI, BoB and UTI MF remained unanswered. PNB said it did not have information on this.

Q4 results: Amara Raja trails Exide for third straight quarter

The Amara Raja stock corrected over 8 per cent intraday on its weak March quarter performance, and downward revision of margin estimates by brokerages for FY19. While the stock recovered from its intraday lows, a weak industrial segment as well as any upward movement of lead prices will be overhangs.

A major headwind is margin pressure because of the lead prices, which have hit their highest levels in at least five years in the March quarter. Raw materials, as a proportion of revenues, are up over 200 basis points (bps) on a sequential basis, and 70 bps over the year-ago quarter. This weighed on the company's margins, which came in at 13.3 per cent — about 230 bps lower than the December quarter.

In addition to the lead price increase, what aggravated the margins is higher share of automaker (OEM) volumes in the mix and trading revenues in the inverter segment.

Higher employee (higher gratuity provisioning) expenses as well as costs related to the commissioning of the two-wheeler plants also affected profitability.

What added to the cost woes was the muted demand from the telecom sector, where revenues are estimated to have been lower by 10-15 per cent year-on-year. The management indicated that overall industrial segment revenues were flat as the telecom weakness was offset by growth in other areas.