What makes UltraTech's Century deal a clever move

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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 ₹370 a tonne versus UltraTech's ₹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 ₹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.