

February 2, 2012

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs 354	Rs 315
EPS change FY11E/12E (%)	NA/ NA
Target Price change (%)	NA
Nifty	5,270
Sensex	17,432

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	7	(7)	(10)
Rel. to Nifty	(2)	7	(5)	(7)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Metals & Mining
Bloomberg	BHUS@IN
Equity Capital (Rs mn)	425
Face Value(Rs)	2
No of shares o/s (mn)	212
52 Week H/L	530/297
Market Cap (Rs bn/USD mn)	75/1,527
Daily Avg Volume (No of sh)	339478
Daily Avg Turnover (US\$mn)	2.2

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	70.0	69.2	69.2
FII/NRI	1.8	2.6	2.9
Institutions	0.8	0.8	0.8
Private Corp	24.1	23.9	23.7
Public	3.3	3.5	3.4

Source: Capitaline

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Operating performance marred by fixed costs

- APAT at Rs 2.78 bn flat YoY even as EBITDA rose by 35% to Rs 7.2 bn. This was primarily on account of higher interest (up 125%) and depreciation (up 166%) costs
- EBITDA margin at 30%, up 241 bps YoY, on account of fall in raw material costs (208 bps) and employee costs (24bps). EBITDA/ tonne during the quarter at Rs 14118 (US\$277)
- Topline at Rs 24.1 bn up 24% YoY aided by volume growth (10%) and realizations increase (13%). However on QoQ basis increase in realization (7%) was offset by volume drop (5%)
- Increasing fixed costs to restrict PAT growth going forward. With net D/E of 3X and overall uncertainty regarding ramp up, valuations look expensive. Maintain Hold with TP of Rs 315

Higher realizations and better margins offset the volume drop

EBITDA margin at 30% was up both on YoY and QoQ despite a lower sales volume on account of improvement in realizations and fall in RM costs. Continuous weakness in INR boosted blended realizations to Rs 46936/ tonne, up 5% QoQ and 13% YoY. For both flat and long categories, realizations advanced 5% QoQ to Rs 49121/ tonne and Rs 47212/ tonne respectively. Export volume fell by 11% QoQ, however, weak INR helped export realizations to increase by 16% QoQ to Rs 57473/ tonne. On the other hand RM costs as a percentage to sales fell 140 bps QoQ. This coupled with better realizations helped EBITDA margins to expand to 30% for the first time after Q4FY11. We believe, however, further improvement in margins would be difficult from these levels on a sustainable basis.

High fixed costs continue to dent bottom-line

The company has a large net debt of Rs 189 bn which continues to be an overhang with high interest costs (Rs 2.3bn for Q3FY12). Further, the depreciation costs are likely to remain high during FY13 given the nature of projects getting completed. The company plans to raise Rs 7 bn through rights issue, which would help retire some high cost debt.

Project completion progressing well

Commissioning activities for the phase- III of the Orissa project comprising of BOF, blast furnace, slab casters with 2.5 mtpa of HRC has been progressing well, to be completed by October 2012. This would take the total HRC capacity to 4.4 mtpa. 0.5 mtpa large dia pipe mill at Khopoli has been commissioned, likely to start commercial production in Q1FY13.

Valuation: Maintain hold

At the CMP of Rs 354, the stock is trading at 7.5x its FY13E EPS and 10x FY13E core EV/ EBITDA. We believe, the company's performance would continue to get hurt on account of huge fixed costs. Also, in a tight iron ore supply scenario in Orissa and without captive sources, we feel there is little scope of margin improvement in the near to medium term. We value the stock at 5.5x EV/ EBITDA and maintain our target price at Rs 315. We believe at this level the valuations are marginally expensive. Maintain hold.

Financials

(Rs mn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY10	56,404	14,527	25.8	8,458	39.8	100.8	26.5	8.9	8.8	0.4
FY11	70,005	20,304	29.0	10,051	47.3	18.8	20.5	7.5	11.9	1.3
FY12E	98,845	28,949	29.3	9,689	45.6	-3.6	15.4	7.8	9.7	1.1
FY13E	103,044	30,094	29.2	9,971	46.9	2.9	13.7	7.5	10.0	1.0

Source: Company, Emkay Research

Key Financials

(Rs mn)	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	9MFY12	9MFY11	YoY (%)
Revenue	19,427	19,662	22,318	24,654	24,071	23.9	(2.4)	71,042	50,343	41.1
Expenditure	(14,053)	(13,638)	(15,707)	(17,443)	(16,830)	19.8	(3.5)	(49,981)	(35,997)	38.8
<i>as % of sales</i>	<i>87.6</i>	<i>69.4</i>	<i>70.4</i>	<i>71.6</i>	<i>69.9</i>			<i>70.4</i>	<i>71.5</i>	
Consumption of RM	(11,019)	(9,794)	(12,057)	(13,809)	(13,152)	19.4	(4.8)	(39,018)	(27,805)	40.3
<i>as % of sales</i>	<i>56.7</i>	<i>49.8</i>	<i>54.0</i>	<i>56.0</i>	<i>54.6</i>			<i>54.9</i>	<i>55.2</i>	
Employee Cost	(336)	(339)	(343)	(351)	(358)	6.5	2.1	(1,051)	(905)	16.2
<i>as % of sales</i>	<i>1.7</i>	<i>1.7</i>	<i>1.5</i>	<i>1.4</i>	<i>1.5</i>			<i>1.5</i>	<i>1.8</i>	
Other expenditure	(2,698)	(3,505)	(3,308)	(3,283)	(3,320)	23.1	1.1	(9,911)	(7,287)	36.0
<i>as % of sales</i>	<i>13.9</i>	<i>17.8</i>	<i>14.8</i>	<i>13.3</i>	<i>13.8</i>			<i>14.0</i>	<i>14.5</i>	
EBITDA	5,375	6,024	6,610	7,211	7,240	34.7	0.4	21,061	14,347	46.8
Depreciation	(570)	(690)	(1,509)	(1,513)	(1,516)	165.8	0.2	(4,539)	(1,636)	177.4
EBIT	4,804	5,335	5,102	5,697	5,724	19.1	0.5	16,523	12,711	30.0
Other Income	100	379	75	33	112	12.6	235.3	221	272	(18.8)
Interest	(1,020)	(1,327)	(2,157)	(3,020)	(2,290)	124.6	(24.1)	(7,467)	(2,813)	165.4
PBT	3,884	4,386	3,020	2,711	3,546	(8.7)	30.8	9,277	10,169	(8.8)
Total Tax	(1,082)	(1,506)	(920)	(642)	(780)	(28.0)	21.3	(2,342)	(2,720)	(13.9)
Adjusted PAT	2,802	2,880	2,100	2,069	2,766	(1.3)	33.7	6,935	7,449	(6.9)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
Adj.PAT after MI	2,802	2,880	2,100	2,069	2,766	(1.3)	33.7	6,935	7,449	(6.9)
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	2,802	2,880	2,100	2,069	2,766	(1.3)	33.7	6,935	7,449	(6.9)
Reported EPS	13.2	13.5	9.8	9.6	12.9	(1.8)	34.0	32.3	35.0	(7.5)

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	27.7	30.6	29.6	29.2	30.1	241	83	29.6	28.5	115
EBIT	24.7	27.1	22.9	23.1	23.8	(95)	67	23.3	25.2	(199)
EBT	20.0	22.3	13.5	11.0	14.7	(526)	373	13.1	20.2	(714)
PAT	14.4	14.6	9.4	8.4	11.5	(293)	310	9.8	14.8	(504)
Effective Tax rate	27.9	34.3	30.5	23.7	22.0	(588)	(171)	25.2	26.7	(150)

Operating matrix

(mt)	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	9MFY12	9MFY11	YoY (%)
Production	925188	1022698	880309	853634	927354	0.2	8.6	927354	925188	0.2
Sales Volume (Geography)										
Domestic	403733	357874	432704	474175	445624	10.4	-6.0	445624	403733	10.4
Export	63726	67361	56750	79213	70116	10.0	-11.5	70116	63726	10.0
Sales Volume (Plant)										
Khopoli	136624	130571	129244	148985	140728	3.0	-5.5	140728	136624	3.0
Sahibabad	175533	186566	200857	188318	181757	3.5	-3.5	181757	175533	3.5
Orissa	155302	108098	159353	216085	193255	24.4	-10.6	193255	155302	24.4
Sales Volume (Product)										
Flat	367435	335057	388790	466748	429833	17.0	-7.9	429833	367435	17.0
Long	100024	90177	100664	86639	83009	-17.0	-4.2	83009	100024	-17.0
Sales Volume (Total)	467459	425235	489454	553387	512842	9.7	-7.3	512842	467459	9.7
Realizations/ tonne (net, Rs)	41560	46237	45598	44553	46936	12.9	5.3	46936	41560	12.9
EBITDA/ tonne (Rs)	11498	14167	13506	13030	14118	22.8	8.3	14118	11498	22.8

Key takeaways from the conference call on 2nd Feb 2012

- Coking coal contract prices have shown a downtrend from US\$ 235/tonne in Q2FY12 to US\$225/tonne in Q3FY12
- Coal blended cost at Rs 2,400/tonne, iron ore landed cost at Rs 3,400/tonne
- The total capex expected during FY12 at Rs 50 bn, expected to be in the range of Rs 25-30 bn each in FY13 and FY14
- The total net debt stand at Rs 189 bn. This includes US\$ 650 mn and EUR 350 mn, both of which are not hedged
- As per the management, domestic demand is on a rise on a Month on month basis
- Post the current rights issue of Rs 7 bn, the company plans to explore raising fresh equity in the range of US\$ 300-500 mn (~Rs 150-250 bn)

Revising estimates to adjust for better than expected operating performance

Bhushan Steel has been expanding in a big way with its phase III of the project comprising of BOF, blast furnace, slab caster and 2.5 mtpa HRC mill. Presence in value added segments help the company to earn good margin even without basic raw material integration. We have incorporated the expansion pipeline into our estimates, however we believe that significant improvement in margin hereon would be difficult for the company. Also, the company is highly leveraged and huge fixed cost has been eating into its profitability, which should be the case going forward also. Though, the rights issue should be a positive development, the amount to be raised (Rs 7 bn) is very small as compared to its total debt (~Rs 189 bn).

Revised estimates

(Rs mn)	FY12E			FY13E		
	Earlier	Revised	Change (%)	Earlier	Revised	Change (%)
Revenue	94685	98845	4	100412	103044	3
EBITDA	27317	28949	6	28643	30094	5
APAT	8909	9689	9	9894	9971	1
EPS (Rs)	41.9	45.6	9	46.6	46.9	1

Valuation: Maintain hold

At the CMP of Rs 354, the stock is trading at 7.5x its FY13E EPS and 10x FY13E core EV/ EBITDA. We believe, the company's performance would continue to get hurt on account of huge fixed costs. Also, in a tight iron ore supply scenario in Orissa and without captive sources, we feel there is little scope of margin improvement in the near to medium term. We value the stock at 5.5x EV/ EBITDA and maintain our target price at Rs 315. We believe at this level the valuations are marginally expensive. Maintain hold.

Financials (Consolidated)

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	56,404	70,005	98,845	103,044
Growth (%)	14	24	41	4
Expenditure	(41,876)	(49,701)	(69,896)	(72,950)
Raw Materials	(37,835)	(42,858)	(61,373)	(63,619)
Employee Cost	(1,409)	(2,191)	(1,644)	(1,745)
Other Exp	(2,632)	(4,652)	(6,879)	(7,585)
EBITDA	14,527	20,304	28,949	30,094
Growth (%)	41	40	43	4
EBITDA margin (%)	25.8	29.0	29.3	29.2
Depreciation	(2,091)	(2,778)	(6,070)	(6,590)
EBIT	12,436	17,525	22,879	23,504
EBIT margin (%)	22.0	25.0	23.1	22.8
Other Income	1,178	695	300	651
Interest expenses	(2,100)	(4,464)	(9,906)	(10,497)
PBT	11,514	13,756	13,273	13,659
Tax	(3,056)	(3,706)	(3,584)	(3,688)
Effective tax rate (%)	27	27	27	27
Adjusted PAT	8,458	10,051	9,689	9,971
(Profit)/loss from JV's/Ass/MI	0.00	0.00	0.00	0.00
Adjusted PAT after MI	8,458	10,051	9,689	9,971
Growth (%)	101	19	(4)	3
Net Margin (%)	15.0	14.4	9.8	9.7
E/O items	0	0	0	0
Reported PAT	8,458	10,051	9,689	9,971
Growth (%)	101	19	(4)	3

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	11,514	13,756	13,273	13,659
Depreciation	2,091	2,778	6,070	6,590
Interest Provided	2,100	4,464	9,906	10,497
Other Non-Cash items	665	1,104	(0)	0
Chg in working cap	(9,141)	(8,456)	(11,485)	(5,365)
Tax paid	(3,056)	(3,706)	(3,584)	(3,688)
Operating Cashflow	4,173	9,942	14,180	21,692
Capital expenditure	(32,265)	(56,776)	(43,000)	(31,000)
Free Cash Flow	(28,091)	(46,834)	(28,820)	(9,308)
Other income	241	245	0	0
Investments	(34,663)	(55,251)	(43,800)	(31,000)
Investing Cashflow	(34,422)	(55,007)	(43,800)	(31,000)
Equity Capital Raised	7,001	8,774	0	0
Loans Taken / (Repaid)	32,647	48,523	39,500	22,000
Interest Paid	(10,195)	(16,150)	(9,906)	(10,497)
Dividend paid (incl tax)	(110)	(113)	(125)	(125)
Income from investments	0	0	0	0
Others	925	3,189	0	0
Financing Cashflow	30,267	44,224	29,469	11,378
Net chg in cash	23	(841)	(151)	2,071
Opening cash position	1,289	1,313	472	320
Closing cash position	1,312	472	320	2,391

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	425	425	425	425
Reserves & surplus	39,501	58,575	68,139	77,985
Net worth	39,925	59,000	68,564	78,410
Minority Interest	250	206	0	0
Secured Loans	83,270	123,919	163,419	185,419
Unsecured Loans	30,771	42,008	42,008	42,008
Loan Funds	114,041	165,926	205,426	227,426
Net deferred tax liability	3,295	6,983	6,983	6,983
Total Liabilities	157,548	232,200	280,974	312,819
Gross Block	36,859	144,248	159,248	170,248
Less: Depreciation	16,066	18,581	24,651	31,241
Net block	20,793	125,666	134,596	139,007
CWIP	111,946	75,399	103,399	123,399
Investment	3,042	1,627	2,427	2,427
Current Assets	38,131	50,565	67,509	71,889
Inventories	19,755	31,862	46,938	48,954
Sundry debtors	7,512	4,900	6,919	7,213
Cash & bank balance	1,313	472	320	2,391
Loans & advances	9,551	13,332	13,332	13,332
Other current assets	0	0	0	0
Current lia & Provisions	16,402	21,058	26,958	23,903
Current liabilities	16,038	20,573	28,464	27,458
Provisions	365	484	(1,507)	(3,555)
Net current assets	21,728	29,508	40,551	47,987
Total Assets	157,546	232,200	280,974	312,819

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	25.8	29.0	29.3	29.2
Net Margin	15.0	14.4	9.8	9.7
ROCE	10.3	9.4	9.0	8.1
ROE	26.5	20.5	15.4	13.7
RoIC	34.5	17.9	13.9	13.1
Per Share Data (Rs)				
EPS	39.8	47.3	45.6	46.9
CEPS	49.7	60.4	74.2	78.0
BVPS	186.3	274.6	319.6	366.0
DPS	2.5	2.5	2.5	2.5
Valuations (x)				
PER	8.9	7.5	7.8	7.5
P/CEPS	1.4	5.9	4.8	4.5
P/BV	0.4	1.3	1.1	1.0
EV / Sales	2.3	3.4	2.8	2.9
EV / EBITDA	8.8	11.9	9.7	10.0
Gearing Ratio (x)				
Net Debt/ Equity	2.8	2.8	3.0	2.9
Net Debt/EBITDA	7.6	8.1	7.0	7.4

Recommendation History: Bhushan Steel – BHUS IN

Date	Reports	Reco	CMP	Target
15/11/2011	Bhushan Steel Q2FY12 Result Update	Hold	322	315
02/08/2011	Bhushan Steel Q1FY12 Result Update	Hold	375	425
12/05/2011	Bhushan Steel Q4FY11 Result Update	Hold	445	454

Recent Research Reports

Date	Reports	Reco	CMP	Target
25/01/2012	Sesa Goa Q3FY12 Result Update	Hold	200	191
24/01/2012	Godawari Power Q3FY12 Result Update	Buy	105	133
24/01/2012	Sterlite Industries Q3FY12 Result Update	Accumulate	108	134
20/01/2012	JSW Steel Q3FY12 Result Update	Reduce	647	590

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