

Bhushan Steel

BSE SENSEX	S&P CNX	CMP: INR350	TP: INR372	Neutral
16,863	5,087			
Bloomberg	BHUS IN			
Equity Shares (m)	212.4			
52-Week Range (INR)	530/297			
1,6,12 Rel. Perf. (%)	3/-7/-7			
M.Cap. (INR b)	74.3			
M.Cap. (USD b)	1.5			

Consolidated

- Bhushan Steel (BHUS) posted in-line EBITDA of INR7.2b for 3QFY12. Adjusted PAT increased 34% QoQ (declined 1% YoY) to INR2.8b, higher than our estimate of INR1.9b. This is because fluctuations in forex value of payables led to lower than expected interest cost.
- Net sales declined 2% QoQ to INR24.1b on lower steel sales tonnage but higher steel realization. Sales tonnage decreased 7% QoQ to 513k tons, as previous quarter sales were boosted by liquidation of HRC inventories. Average steel realization increased 5% QoQ to INR46,936/ton.
- Flat product sales tonnage decreased 8% QoQ to 430k tons while realization increased 5% to INR49,121/ton. Long product sales declined 4% QoQ to 83k tons. Average realization increased 5% QoQ to INR47,212/ton. Sponge iron kilns were shut-down earlier to comply with environment norms. Six out of 8 kilns have restarted.
- HR production averaged 108ktpm. BHUS is targeting 2.5m tons of HR production in FY13, as it expects to commission its new blast furnace by June 2012. We remain cautious on the guidance.
- Debt has risen to INR190b. Capex guidance is INR50b in FY12 and INR25b in FY13.
- 0.5mtpa ERW pipe mill is under trial production. The mill has received API approval.
- 350ktpa new CRM is likely to be commissioned by July 2012. ERW pipe mill and CRM will improve forward integration.
- The stock trades at an EV of 9.5x FY12E EBITDA. Maintain **Neutral**.

Quarterly Performance (Standalone)

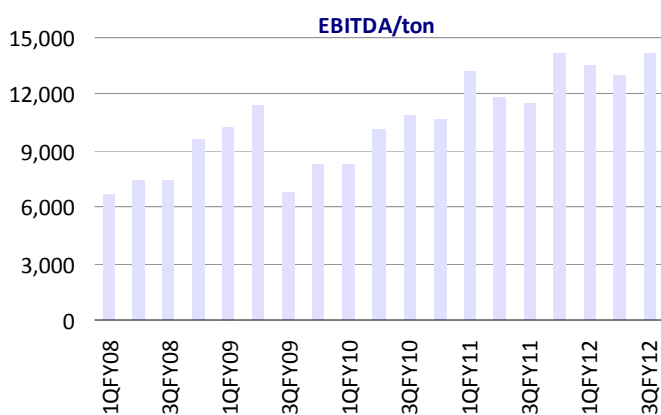
Y/E MARCH	FY11				FY12				(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	FY11	FY12E
Production (000 tons)	341	424	459	535	431	498	541	551	1,758	2,022
Sales (000 tons)	309	413	467	425	489	553	513	546	1,615	2,102
Realization (INR per ton)	44,375	41,626	41,560	46,237	45,597	44,550	46,936	47,348	43,347	46,103
Net Sales	13,727	17,189	19,427	19,662	22,318	24,654	24,071	25,850	70,005	96,892
Change (YoY %)	5.2	32.4	36.0	22.2	62.6	43.4	23.9	31.5	24.1	38.4
Total Expenditure	9,648	12,296	14,052	13,638	15,707	17,443	16,830	18,065	49,633	68,046
EBITDA	4,079	4,893	5,376	6,024	6,610	7,211	7,240	7,785	20,372	28,847
Change (YoY %)	37.4	42.7	37.8	43.7	62.1	47.4	34.7	29.2	40.6	41.6
As % of Net Sales	29.7	28.5	27.7	30.6	29.6	29.2	30.1	30.1	29.1	29.8
EBITDA (INR per ton)	13,186	11,848	11,500	14,167	13,506	13,030	14,118	14,259	12,614	13,726
Interest	788	1,006	1,020	1,327	2,157	3,020	2,290	2,313	4,140	9,780
Depreciation	534	531	570	690	1,509	1,513	1,516	1,562	2,325	6,100
Other Income	56	116	100	59	75	33	112	80	331	301
PBT (before EO item)	2,813	3,472	3,885	4,066	3,020	2,711	3,546	3,990	14,237	13,267
Extra-ordinary Income	0	0	0	320	0	0	0	0	320	0
PBT (after EO item)	2,813	3,472	3,885	4,386	3,020	2,711	3,546	3,990	14,557	13,267
Total Tax	756	882	1,082	1,506	920	642	780	1,197	4,226	3,539
% Tax	26.9	25.4	27.8	34.3	30.5	23.7	22.0	30.0	29.0	26.7
Reported PAT	2,057	2,590	2,803	2,880	2,100	2,069	2,766	2,793	10,331	9,728
Adjusted PAT	2,057	2,590	2,803	2,560	2,100	2,069	2,766	2,793	10,011	9,728
Change (YoY %)	42.2	38.4	34.2	26.1	2.1	-20.1	-1.3	9.1	34.7	-2.8

E: MOSL Estimates

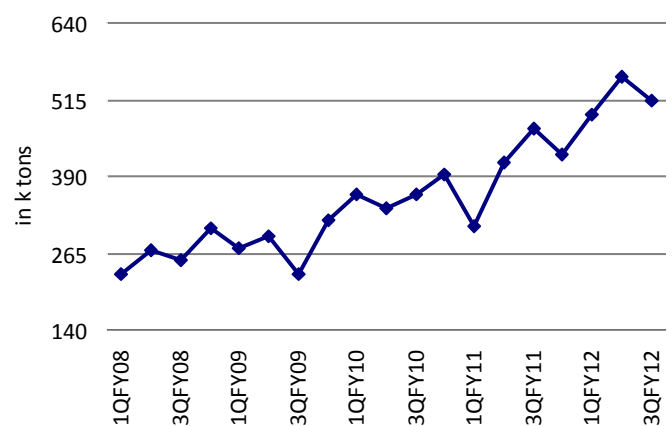
Higher realization boosted EBITDA while Steel tonnage declined sequentially; 1.9mtpa HSM running at 68% utilization

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- EBITDA was flat QoQ to INR7.2b. EBITDA per ton increased 8% QoQ to INR14,118 on higher realizations.
- 1.9mtpa Hot Strip mill (HSM) started commercial production from March 2011. However Bhushan has not able to ramp up the HRC production to desired run rate of 1.5mtpa due to limitation of metallics. Sponge iron production remained affected in 3QFY12 due to State Pollution Control Board order. However production in 6 out of the total 8 kilns has restarted in January. HSM produced 323k tons in 3QFY12 implying capacity utilization of only 68%.

EBITDA/ton increased 8% QoQ



Volumes decline 7% QoQ



Source: Company/MOSL

Gross debt burgeoned to INR190b; maintain Neutral

- Bhushan's total gross debt has increased by INR24b to INR190b in 9MFY12, raising its net debt to equity close to 3x.. The phase 3 expansion is on track and expected to get commissioned by October 2012. ERW 0.5mtpa at Khopoli is currently under trial production and has also received API approval. Blast furnace is expected to be commissioned by July, 2012, while SMS is expected to be commissioned by October 2012. 350ktpa Cold Rolling Mill is expected by July, 2012. Bhushan's is targeting to produce 2.5mt of HR in FY13.
- Captive raw material mines are still 2-3 years away. Thermal coal mine at Orissa is at land acquisition stage.
- Although HRC production will increase as capacity utilization of HSM increase after easing of metallics shortage but steel demand and pricing environment remains weak even in the domestic market. Burgeoning debt in high interest rate regime will further put strain on its balance sheet. Stock trades at expensive EV/EBITDA of 9.5x FY12. Maintain **Neutral**.

Bhushan Steel: an investment profile

Background

Bhushan Steel, a Cold Rolled product leader, has a rich product mix - value added products such as CRCA, galume, color coated sheets, HTSS, H&T, drawn tubes etc. It is one of the most preferred suppliers to the auto industry. CRCA is produced in its plant near Delhi to cater to major Auto OEMs. Its galvanizing plants are located strategically close to HRC producers such as Ispat Industries and the ports of Mumbai, helping it to cater to global demand at competitive prices. BSL's total VAP (value added products) volumes are next only to Tata Steel, but its product portfolio is wider in comparison. With ongoing backward integration project to meet the current and future raw material requirement of the cold rolling mill complexes, margins will improve.

Key investment arguments

- With ~1mtpa capacity in cold rolled and coated products, Bhushan has commissioned 1.9mtpa of Hot Strip Mill capturing the entire value chain. Raw material integration will rise significantly over next 2-3 years as company has been allotted coal and iron ore blocks.
- With backward integration in HRC production, superior product mix and strong customer base of OEM in downstream business, we believe Bhushan is on a strong growth path.

Comparative valuations

		Bhushan Steel	SAIL	JSW Steel
P/E (x)	FY12E	7.6	13.3	12.9
	FY13E	6.6	13.3	10.6
P/BV (x)	FY12E	1.1	1.1	0.9
	FY13E	0.9	1.0	0.8
EV/Sales (x)	FY12E	2.8	1.2	1.0
	FY13E	2.7	1.3	1.1
EV/EBITDA (x)	FY12E	9.5	9.3	6.9
	FY13E	8.8	8.9	6.0

Shareholding Pattern (%)

	Dec-11	Sep-11	Dec-10
Promoter	70.0	69.2	69.2
Domestic Inst	0.8	0.8	0.8
Foreign	1.8	2.6	2.6
Others	27.4	27.4	27.5

Key investment risks

- Unexpected fall in steel prices would adversely impact the earnings and put strain on company's ability to honor its debt payments.

Recent developments

- ERW 0.5mtpa at Khopoli is currently under trial production and has also received API approval.

Valuation and view

- Stock trades at expensive EV/EBITDA of 9.5x FY12. Maintain **Neutral**.

Sector view

- Global steel demands still remains subdued due to European economic problems and slow down in construction in China. The growth rate moderated sharply in December with crude steel production rising 0.8% YoY. Global economic growth slow down mainly in China continues to cloud demand outlook.
- Indian real steel demand too has slowed down growing only 4.2% YoY to 45.2m tons during April-November 2011. We believe Indian demand will still grow 7-8% over couple of years. Depreciation of INR against USD and appreciating Yuan has increased competitiveness of Indian producer's vis-à-vis their Chinese counterparts, therefore lowering Chinese imports threat.

EPS: MOSL forecast v/s consensus (INR)

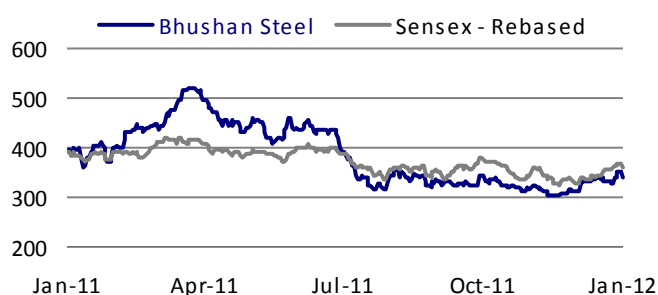
	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	45.8	43.2	5.9
FY13	53.1	47.4	11.9

Target Price and Recommendation

Current Price (INR)	Target * Price (INR)	Upside (%)	Reco.
350	372	6.2	Neutral

*Basis:1x P/B FY13

Stock performance (1 year)



N O T E S

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Bhushan Steel

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