

Q3FY2012 Review
Sector: Metals & Mining
BSE Sensex : 16,863

BHUSHAN STEEL

Maintain SELL
CMP Rs340
TP Rs297

30 January 2012

Operating performance improves; high debt a concern

Bhushan Steel's Q3FY12 revenue at Rs24.1bn grew 24% YoY on higher volumes (up 10% YoY) and improved blended realisations (up 13% YoY) on rupee depreciation. Operating profit surged by 35% YoY to Rs7.2bn further aided by higher consumption of captive HRC. OPM expanded by 241bps YoY to 30.1%. Net profit at Rs2.8bn declined 1.3% YoY on higher depreciation & interest cost on Odisha phase-II, despite lower effective tax rate.

Performance update: Sales volume at ~513kt grew 10% YoY on expanded capacities as HRC sales grew 75% YoY to 165kt. Further, blended realisation at Rs46,679/t grew 13% YoY on rupee depreciation, even though share of value added products declined to 67% vs 75% in Q3FY11. EBITDA/t grew 23% YoY to Rs14,118.

Balance sheet: As of Q3FY12, Bhushan Steel has ~Rs200bn of net debt (incl. Rs19.8bn of preference share as debt) with net D/E of 4.34x.

Fund raising plans post settlement between promoters: Bhushan's board approved raising of Rs7.0bn via rights issue, the premium for which would be decided later on. The fund raising was much required for the highly leveraged balance sheet of Bhushan Steel. We view this development positively.

The company commissioned 0.5mntpa large dia pipe plant at Khopoli with a capex of Rs12bn during Q3FY12. The plant is currently under trial run.

Expansion projects: Odisha phase III expansion (2.5mntpa HRC) is running on track and is expected to commission by Oct'12. Further, the company is setting up 0.45mntpa CRM in Odisha (by FY13), 1.3mntpa coke oven, 197MW CPP and 1.8mntpa CRM in Odisha, expected in FY14-FY15.

VALUATIONS AND RECOMMENDATION

Bhushan Steel is in the midst of high growth, with contribution from Odisha phase-II providing volume growth in FY12E-FY13E. Further, Odisha phase-III (2.5mntpa HRC) and downstream expansions (2.8mntpa value-added products) are on track for completion in FY13E-FY14E that shall provide growth FY14E onwards. Consequently, we estimate Bhushan's FY11-FY14E EBITDA to grow at a CAGR of 28% drive by volume CAGR of 28%. However, we estimate EPS CAGR of 4% to be subdued by rise in interest and depreciation cost. Further, very high financial leverage (FY12E net D/E of 4.1x) and lack of captive resources amidst tight iron ore supply in Odisha are cause for concerns. Although company's fund raising plans via rights issue partly allays our concern, we find the stock expensive at 5.3x FY13E EV/EBITDA. We have revised our FY12 and FY13 estimates to factor in the change in macro assumptions and introduce FY14 estimates (ref pg 3). We maintain 'SELL' rating on the stock with a TP of Rs297 (5x FY13E EV/EBITDA).

KEY FINANCIALS

	(Rs mn)				
	FY10	FY11	FY12E	FY13E	FY14E
Revenue	56,404	70,005	95,233	102,926	135,157
YoY Gr. (%)	13.8	24.1	36.0	8.1	31.3
Op. Profits	14,527	20,304	28,136	31,592	42,595
OPM (%)	25.8	29.0	29.5	30.7	31.5
Adj. Net Profit	7,587	9,567	9,644	10,441	10,840
YoY Gr. (%)	80.1	26.1	0.8	8.3	3.8

KEY RATIOS

Dil. EPS (Rs)	35.7	45.1	45.4	49.2	51.0
ROCE (%)	7.0	6.8	6.9	6.6	6.8
RoE (%)	30.8	28.1	21.9	19.4	16.8
PER (x)	6.2	7.6	7.5	6.9	6.7
P/BV (x)	1.6	1.8	1.5	1.2	1.0
EV/EBITDA (x)	4.0	9.0	6.0	5.3	6.2

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Jun-11	Sep-11	Dec-11
Net Revenue	22,318	24,654	24,071
YoY Gr. (%)	62.6	43.4	23.9
Op.Profit	6,610	7,211	7,240
OPM (%)	29.6	29.2	30.1
Adj.Net Profit	2,100	2,874	2,766
YoY Gr. (%)	2.1	11.0	(1.3)

STOCK DATA

Market Cap	Rs72.3bn
Book Value per share	Rs311
Shares O/S (F.V. Rs2)	212mn
Free Float	36.3%
Avg Trade Value (6 months)	Rs111mn
52 week High/Low	Rs200/70
Bloomberg Code	BHUS IN
Reuters Code	BSSL.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	13.2	2.8	(9.9)
Relative	2.7	6.9	(2.7)

RELATIVE PERFORMANCE

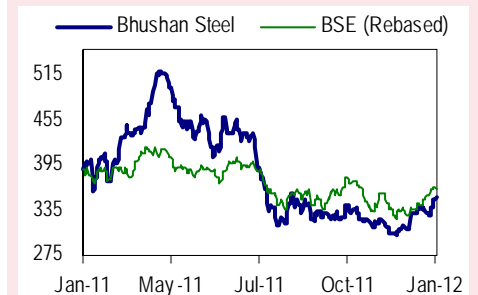


Exhibit 1 - Q3FY12 Quarterly Snapshot

Particulars	Q3FY12	Q3FY11	YoY%	Q2FY12	QoQ%	9MFY12	9MFY11	YOY%
Total Revenue	24,071	19,427	23.9	24,654	(2.4)	71,042	50,343	41.1
Operating profit	7,240	5,376	34.7	7,211	0.4	21,062	14,348	46.8
OPM (%)	30.1	27.7	241 bps	29.2	83 bps	29.6	28.5	115 bps
Other Income	112	100	12.2	33	235.3	221	272	(18.9)
EBITDA	7,352	5,476	34.3	7,244	1.5	21,282	14,620	45.6
Depreciation	1,516	570	165.8	1,513	0.2	4,539	1,636	177.4
Interest	2,290	1,020	124.6	1,960	16.9	6,407	2,813	127.7
PBT	3,546	3,885	(8.7)	3,771	(6.0)	10,337	10,171	1.6
Provision for tax	780	1,082	(28.0)	897	(13.1)	2,597	2,720	(4.5)
Effective tax rate (%)	22.0	27.8	(586)bps	23.8	(180)bps	25.1	26.7	(162)bps
Adjusted Net profit	2,766	2,803	(1.3)	2,874	(3.8)	7,740	7,451	3.9
NPM (%)	11.5	14.4	(294)bps	11.7	(17)bps	10.9	14.8	(391)bps
E/o income/(loss)	-	-	-	(806)	-	(806)	-	-
Reported Net profit	2,766	2,803	(1.3)	2,069	33.7	6,935	7,451	(6.9)
EPS for the period (Rs)	13.0	13.2	(1.3)	13.5	(3.8)	32.4	34.9	(7.4)

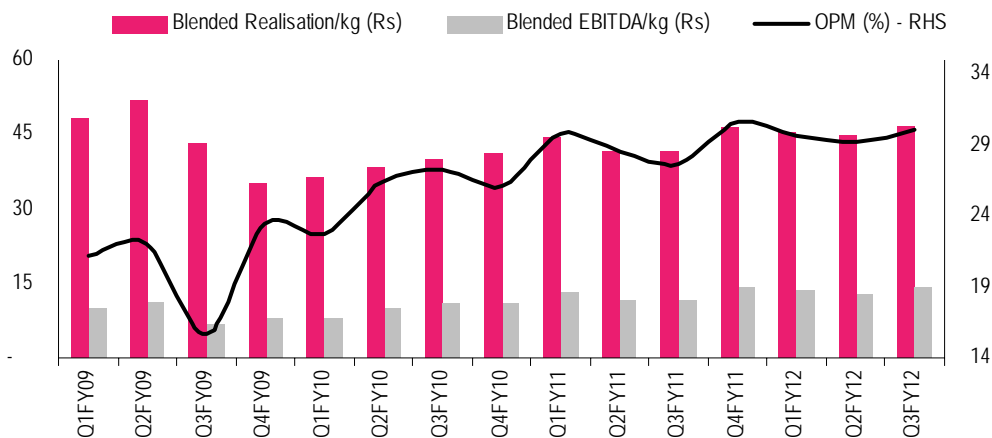
Source: Company, PINC Research

Exhibit 2 - Sales volume (tonnes)

	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Total sales volume	361,209	339,530	359,374	392,779	309,333	412,943	467,458	425,235	489,454	553,387	512,842
Metallics	4,206	1,467	8	-	-	-	-	-	-	-	-
Billets	70,369	57,968	68,333	66,821	65,624	45,717	65,509	59,007	63,157	42,075	40,662
HRC & Wire rod	12,405	9,688	7,367	3,449	4,989	53,287	93,678	56,759	107,709	186,227	164,859
Value added products	274,229	270,407	283,666	322,509	238,720	313,939	308,271	309,469	318,588	325,085	307,321

Source: Company, PINC Research

Exhibit 3 - Realisation, EBITDA and Operating margin



Source: Company, PINC Research

Exhibit 4 - PINC's revised assumptions and estimates

	FY12E			FY13E			FY14E
	Earlier	Revised	% Change	Earlier	Revised	% Change	Introducing
USD/INR	46.0	48.2	4.8	45.5	49.0	7.7	47.0
Benchmark HRC price (USD/t)	780	745	(4.5)	735	680	(7.5)	665
Sales volume ('000 t)	2,152	2,095	(2.7)	2,154	2,311	7.3	3,369
Revenue (Rs mn)	93,998	95,233	1.3	89,430	102,926	15.1	135,157
Net Realisation (USD/t)	949	943	(0.7)	912	909	(0.4)	854
EBITDA (Rs mn)	27,324	28,136	3.0	29,280	31,592	7.9	42,595
EBITDA (USD/t)	276	279	1.0	299	279	(6.6)	269
Operating cost (USD/t)	673	665	(1.3)	614	630	2.7	585
OPM (%)	29.1	29.5	48bps	32.7	30.7	-205bps	31.5
Adj. PAT (Rs mn)	8,681	9,644	11.1	9,202	10,441	13.5	10,840
EPS (Rs)	40.9	45.4	11.1	43.3	49.2	13.5	51.0
Target Price (Rs)				297	297		

Source: PINC Research

Exhibit 5 - Target price sensitivity (Rs)

FY13 E/EBITDA (x)	FY13E Benchmark HRC price estimate (USD/t)				
	620	650	680	710	740
4.5	79	150	222	294	366
5.0	139	218	297	376	455
5.0	139	218	(297)	376	455
5.5	199	285	371	457	543
6.0	259	352	445	539	632

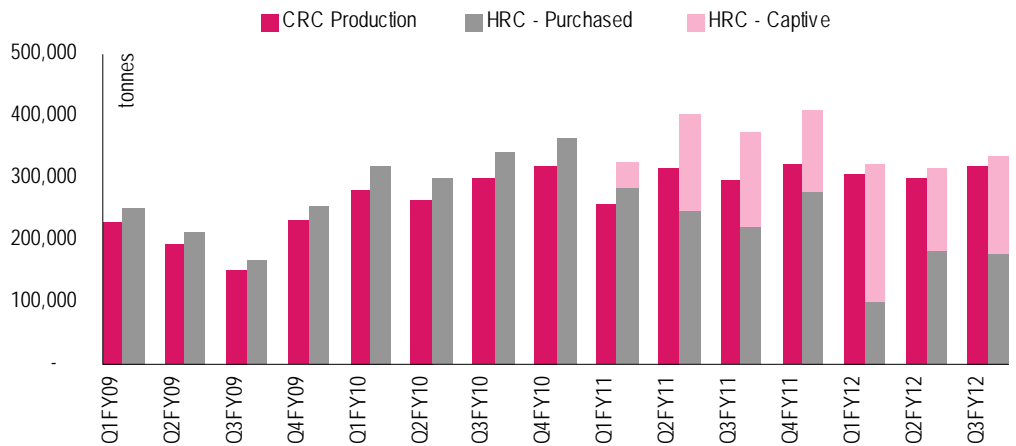
Source: PINC Research

Exhibit 6 - Target price sensitivity (Rs)

FY13E Benchmark Coking coal price assumption (USD/t)	FY13E Benchmark HRC price estimate (USD/t)				
	620	650	680	710	740
195	184	263	342	421	500
210	161	240	319	398	477
225	139	218	(297)	376	455
240	116	195	274	353	432
255	93	172	251	330	409

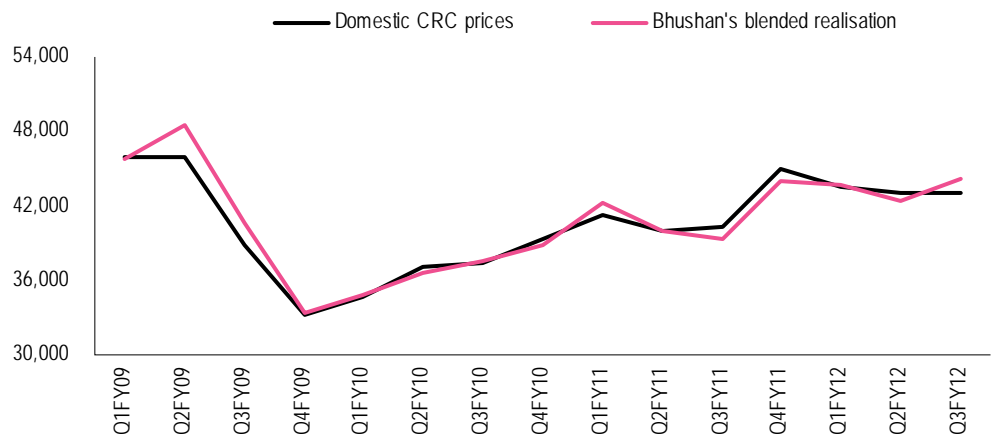
Source: PINC Research

Exhibit 7 - Lower sales of HRC in Q3 as HRC captive consumption increased



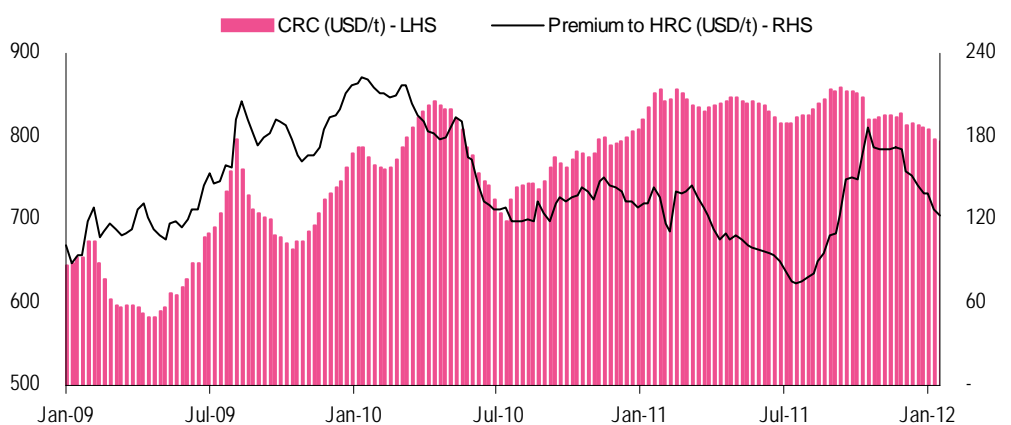
Source: Company, PINC Research

Exhibit 8 - CRC price trend: Domestic (Rs/t)



Source: CRISIL, Company, PINC Research

Exhibit 9 - CRC price trend: China



Source: Bloomberg, PINC Research

Income Statement	FY10	FY11	FY12E	FY13E	FY14E
Total Revenues	56,404	70,005	95,233	102,926	135,157
<i>Growth (%)</i>	13.8	24.1	36.0	8.1	31.3
Operating Profit	14,527	20,304	28,136	31,592	42,595
<i>Growth (%)</i>	41.1	39.8	38.6	12.3	34.8
Other income	309	248	310	372	391
EBITDA	14,837	20,552	28,446	31,964	42,986
Depreciation	2,091	2,778	6,082	6,930	12,677
EBIT	12,745	17,774	22,365	25,035	30,309
Interest Expense	2,102	4,501	9,333	10,533	15,041
PBT (before E/o items)	10,643	13,273	13,032	14,502	15,268
Tax Provision	3,056	3,706	3,388	4,061	4,428
Adjusted Net Profit	7,587	9,567	9,644	10,441	10,840
<i>Growth (%)</i>	80.1	26.1	0.8	8.3	3.8
E/o income/(loss)	871	484	-	-	-
Reported Net Profit	8,458	10,051	9,644	10,441	10,840
<i>Growth (%)</i>	100.8	18.8	(4.1)	8.3	3.8
Diluted Adj. EPS (Rs)	35.7	45.1	45.4	49.2	51.0
<i>Diluted EPS Growth (%)</i>	80.1	26.1	0.8	8.3	3.8

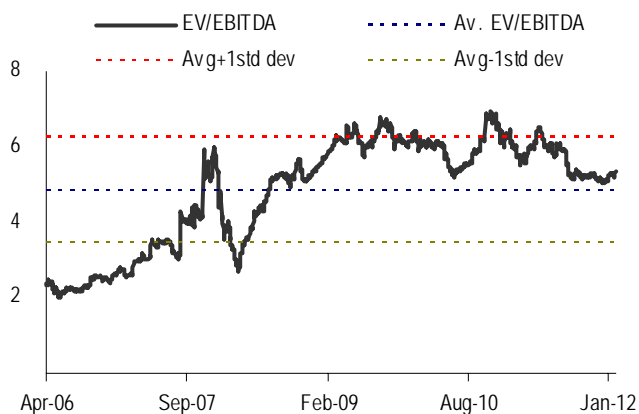
Cash Flow Statement	FY10	FY11	FY12E	FY13E	FY14E
Pre-tax profit	10,643	13,273	13,032	14,502	15,268
Depreciation	2,091	2,778	6,082	6,930	12,677
Total Tax Paid	(1,957)	(2,742)	(3,388)	(4,061)	(4,428)
Chg in working capital	(8,235)	(8,686)	2,509	(2,145)	(7,477)
Other CFO adjustments	1,839	7,089	9,022	10,160	14,650
Cash flow from oper (a)	4,381	11,712	27,256	25,386	30,690
Capital Expenditure	(41,132)	(70,224)	(35,000)	(48,000)	(45,000)
Chg in investments	(1,123)	(577)	-	-	-
Other investing activities	1,180	732	310	372	391
Cash flow from inv. (b)	(41,075)	(70,069)	(34,690)	(47,628)	(44,609)
Free cash flow (a+b)	(36,694)	(58,357)	(7,433)	(22,242)	(13,919)
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	40,379	60,636	17,500	32,500	30,000
Ch. in minority interest	-	-	-	-	-
Dividend (incl. Tax)	(124)	(129)	(129)	(129)	(129)
Other financing activities	(2,102)	(4,501)	(9,333)	(10,533)	(15,041)
Cash flow from fin (c)	38,152	56,006	8,038	21,838	14,830
Net chg in cash (a+b+c)	1,458	(2,352)	605	(404)	911

Balance Sheet	FY10	FY11	FY12E	FY13E	FY14E
<i>Equity Share Capital</i>	425	425	425	425	425
<i>Reserves & surplus</i>	28,487	38,784	48,298	58,610	69,321
Shareholders' funds	28,912	39,208	48,722	59,034	69,745
Minorities interests	-	-	-	-	-
Total Debt	125,046	185,682	203,182	235,682	265,682
Capital Employed	153,958	224,890	251,905	294,717	335,427
Net fixed assets	131,886	199,595	228,513	269,584	301,906
Cash & Cash Eq.	2,950	598	1,203	799	1,710
Net Other current assets	20,464	29,150	26,642	28,787	36,264
Investments	1,953	2,530	2,530	2,530	2,530
Net Deferred tax Assets	(3,295)	(6,983)	(6,983)	(6,983)	(6,983)
Total Assets	153,958	224,890	251,905	294,717	335,427

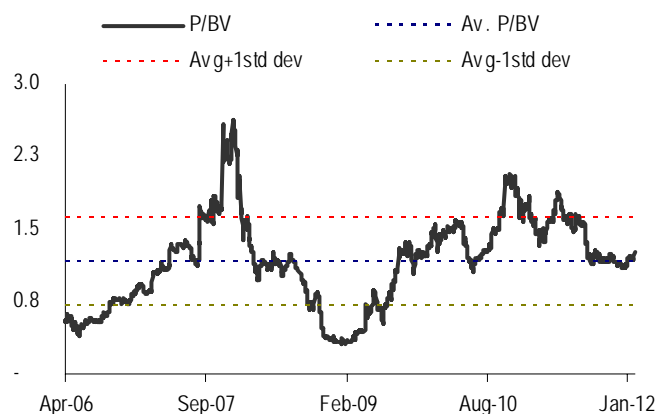
Key Ratios	FY10	FY11	FY12E	FY13E	FY14E
OPM (%)	25.8	29.0	29.5	30.7	31.5
Net Margin (%)	13.5	13.7	10.1	10.1	8.0
Yield (%)	0.2	0.1	0.1	0.1	0.1
Net debt/Equity (x)	4.2	4.7	4.1	4.0	3.8
Working Capital Days	100	136	122	124	124
RoCE (%)	7.0	6.8	6.9	6.6	6.8
RoE (%)	30.8	28.1	21.9	19.4	16.8
EV/Net Sales (x)	1.0	2.6	1.8	1.6	2.0
EV/EBITDA (x)	4.0	9.0	6.0	5.3	6.2
PER (x)	6.2	7.6	7.5	6.9	6.7
PCE (x)	4.9	5.9	4.6	4.2	3.1
Price/BV (x)	1.6	1.8	1.5	1.2	1.0

Note: TP and EV based valuation multiples calculated valuing CWIP at book value.

1-Year rolling forward EV/EBITDA Band



1-Year rolling forward P/BV Band



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Rating Objective		
Rating	Large Caps	Mid Caps
	M.Cap > USD1bn	M.Cap <= USD1bn
Return %		
BUY	More than 15	More than 20
Accumulate	5 to 15	10 to 20
Reduce	(-)5 to +5	0 to 10
Sell	Below (-)5	Less than 0



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