

August 2, 2011

<b>Reco</b>	<b>Previous Reco</b>
Hold	Hold
<b>CMP</b>	<b>Target Price</b>
Rs 375	Rs 425

EPS change FY11E/12E (%)	-22/ -15
Target Price change (%)	-6
Nifty	5,457
Sensex	18,110

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(14)	(23)	(4)	20
Rel. to Nifty	(12)	(20)	(5)	20

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	545/311
Market Cap (Rs bn/USD mn)	80/1,808
Daily Avg Volume (No of sh)	259528
Daily Avg Turnover (US\$m)	2.6

### Shareholding Pattern (%)

	Jun'11	Mar'11	Dec'10
Promoters	69.2	69.2	69.2
FII/NRI	2.9	2.6	2.6
Institutions	0.8	0.8	0.8
Private Corp	23.7	23.9	23.9
Public	3.4	3.5	3.6

Source: Capitaline

### Goutam Chakraborty

goutam.chakraborty@emkayglobal.com  
+91 22 6612 1275

### Jagdish Agarwal

jagdish.agarwal@emkayglobal.com  
+91 22 6612 1381

### Prince Poddar

prince.poddar@emkayglobal.com  
+91 22 6612 1238

- Topline performance came better than our expectations at Rs 22.3 bn, up 63% YoY and 14% QoQ, mainly backed by 58% YoY and 15% QoQ growth in sales volume to 4.89 lakh tonne
- EBITDA performance also has been better than our estimate at Rs 6.6 bn, up 62% YoY and 10% QoQ. EBITDA/ tonne stood at Rs 13500, down 5% QOQ but up 2% YoY
- APAT at Rs 2.1 bn, up 2% YoY and down 27% QoQ, met our estimates despite higher revenue and EBITDA on 119% and 63% QoQ rise respectively in depreciation and interest costs
- We revise down our EPS for FY12E and FY13E to Rs 42 and Rs 47 respectively with a target price of Rs 425/ share; Maintain Hold

### Higher volume and stable realization helped topline growth

The topline of the company came as better than our estimates on two counts a) better than expected sales volume of 489,454 tonnes, up 58% YoY and 15% QoQ and also stable realizations of Rs 45,598/ tonne, down 1.4% QoQ however, up 2.8% YoY. Higher sales volume can be attributed to major improvement in contribution from Orissa. Sales volume from Orissa rose by 145% YoY and 47% on QoQ basis. Sahibabad also witnessed improvement in sales volume to the tune of 54% YoY and 8% QoQ. Khopoli's contribution however remained muted. Bhushan steel also has focused more on the domestic markets, whose contribution improved by 74% YoY and 21% QoQ. Exports came down 6% YoY and 16% QoQ. Importantly, realizations in downstream products improved both YoY as well as sequentially during the quarter.

### Sponge iron unit facing technical issues; phase-III is on track

Sponge iron capacity has been 50% during the quarter, as the unit has been still under stabilization phase and facing technical issues related to use of coal washery. The company expects its sponge iron unit to remain subdued for sometime, at least a quarter. Orissa expansion on the other hand has been progressing well and company reiterates the timeline for commissioning during October 2012. Bhushan Steel has guided for HRC volume of 1.4 mt and 2.5 mt for FY12E and FY13E respectively.

### Higher depreciation and interest costs continue to be overhang

Stable margins due to higher volume growth and higher exposure to the value added segments could not flow down to the bottomline due to higher depreciation and interest costs. During the quarter, depreciation rose by 182% YoY and 119% QoQ to Rs 1.5 bn due to capitalization of HR mill, whereas interest cost went up by 174% YoY and 63% QoQ to Rs 2.2 bn, as gross debt rose to Rs 170 bn. The company has guided the peak debt amount to be ~Rs 220 bn in FY13. Thus, the company would continue to see pressure on the bottomline due to higher interest costs and depreciation also due to capitalization of the phase- III expansion project till end of FY13.

### Outlook and Valuations

At the CMP of Rs 375, the stock is trading at 8x its FY13E EPS and 10.6x FY13E core EV/ EBITDA. We value the company on 6x FY13E EV/ EBITDA including CWIP, which translates to a target price of Rs 425/ share. We maintain Hold.

### Financials

(Rs mn)

YE-	Net	EBITDA		EPS	EPS	RoE		EV/		
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	56,404	14,527	25.8	8,458	39.8	100.8	26.5	9.4	8.9	0.4
FY11P	70,005	20,372	29.1	10,331	48.6	22.1	23.1	7.7	12.0	1.6
FY12E	88,931	25,629	28.8	8,962	42.2	-13.2	16.5	8.9	10.8	1.4
FY13E	100,412	28,643	28.5	9,894	46.6	10.4	15.6	8.0	10.6	1.2

## Key Financials – Quarterly

(Rs mn)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY11	YoY (%)	QoQ (%)	YTD12	YTD11	YoY (%)
<b>Revenue</b>	<b>13,727</b>	<b>17,189</b>	<b>19,427</b>	<b>19,662</b>	<b>22,318</b>	<b>62.6</b>	<b>13.5</b>	<b>22,318</b>	<b>13,727</b>	<b>62.6</b>
<b>Expenditure</b>	<b>(9,648)</b>	<b>(12,296)</b>	<b>(14,053)</b>	<b>(13,638)</b>	<b>(15,707)</b>	<b>62.8</b>	<b>15.2</b>	<b>(15,707)</b>	<b>(9,648)</b>	<b>62.8</b>
as % of sales	83.9	88.1	87.6	69.4	70.4			70.4	70.3	
Consumption of RM	(7,499)	(9,287)	(11,019)	(9,794)	(12,057)	60.8	23.1	(12,057)	(7,499)	60.8
as % of sales	54.6	54.0	56.7	49.8	54.0			54.0	54.6	
Employee Cost	(248)	(321)	(336)	(339)	(343)	38.2	1.2	(343)	(248)	38.2
as % of sales	1.8	1.9	1.7	1.7	1.5			1.5	1.8	
Other expenditure	(1,901)	(2,689)	(2,698)	(3,505)	(3,308)	74.0	(5.6)	(3,308)	(1,901)	74.0
as % of sales	13.8	15.6	13.9	17.8	14.8			14.8	13.8	
<b>EBITDA</b>	<b>4,079</b>	<b>4,893</b>	<b>5,375</b>	<b>6,024</b>	<b>6,610</b>	<b>62.1</b>	<b>9.7</b>	<b>6,610</b>	<b>4,079</b>	<b>62.1</b>
Depreciation	(534)	(531)	(570)	(690)	(1,509)	182.4	118.8	(1,509)	(534)	182.4
<b>EBIT</b>	<b>3,545</b>	<b>4,362</b>	<b>4,804</b>	<b>5,335</b>	<b>5,102</b>	<b>43.9</b>	<b>(4.4)</b>	<b>5,102</b>	<b>3,545</b>	<b>43.9</b>
Other Income	56	116	100	379	75	33.7	(80.1)	75	56	33.7
Interest	(788)	(1,006)	(1,020)	(1,327)	(2,157)	173.8	62.5	(2,157)	(788)	173.8
<b>PBT</b>	<b>2,813</b>	<b>3,472</b>	<b>3,884</b>	<b>4,386</b>	<b>3,020</b>	<b>7.3</b>	<b>(31.1)</b>	<b>3,020</b>	<b>2,813</b>	<b>7.3</b>
Total Tax	(756)	(882)	(1,082)	(1,506)	(920)	21.8	(38.9)	(920)	(756)	21.8
<b>Adjusted PAT</b>	<b>2,057</b>	<b>2,590</b>	<b>2,802</b>	<b>2,880</b>	<b>2,100</b>	<b>2.1</b>	<b>(27.1)</b>	<b>2,100</b>	<b>2,057</b>	<b>2.1</b>
(Profit)/loss from JV's/Ass/MI				-	-	-	-	-	-	-
<b>Adj.PAT after MI</b>	<b>2,057</b>	<b>2,590</b>	<b>2,802</b>	<b>2,880</b>	<b>2,100</b>	<b>2.1</b>	<b>(27.1)</b>	<b>2,100</b>	<b>2,057</b>	<b>2.1</b>
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>2,057</b>	<b>2,590</b>	<b>2,802</b>	<b>2,880</b>	<b>2,100</b>	<b>2.1</b>	<b>(27.1)</b>	<b>2,100</b>	<b>2,057</b>	<b>2.1</b>
<b>Reported EPS</b>	<b>9.6</b>	<b>12.2</b>	<b>13.2</b>	<b>13.5</b>	<b>9.8</b>	<b>1.5</b>	<b>(27.6)</b>	<b>9.8</b>	<b>9.6</b>	<b>1.5</b>

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	29.7	28.5	27.7	30.6	29.6	(10)	(102)	29.6	29.7	(10)
EBIT	25.8	25.4	24.7	27.1	22.9	(296)	(427)	22.9	25.8	(296)
EBT	20.5	20.2	20.0	22.3	13.5	(696)	(878)	13.5	20.5	(696)
PAT	15.0	15.1	14.4	14.6	9.4	(558)	(524)	9.4	15.0	(558)
Effective Tax rate	26.9	25.4	27.9	34.3	30.5	361	(387)	30.5	26.9	361

**Operating matrix**

(mt)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	FY11	FY10	YoY (%)
<b>Production</b>	673285	848266	925188	1022698	880309	30.7	-13.9	880309	673285	30.7
<b>Sales Volume (Geography)</b>										
Domestic	248878	349696	403733	357874	432704	73.9	20.9	432704	248878	73.9
Export	60456	63247	63726	67361	56750	-6.1	-15.8	56750	60456	-6.1
<b>Sales Volume (Plant)</b>										
Khopoli	114190	145355	136624	130571	129244	13.2	-1.0	129244	114190	13.2
Sahibabad	130085	177298	175533	186566	200857	54.4	7.7	200857	130085	54.4
Orissa	65059	90291	155302	108098	159353	144.9	47.4	159353	65059	144.9
<b>Sales Volume (Product)</b>										
Flat	215809	329452	367435	335057	388790	80.2	16.0	388790	215809	80.2
Long	93525	83491	100024	90177	100664	7.6	11.6	100664	93525	7.6
<b>Sales Volume (Total)</b>	309334	412943	467459	425235	489454	58.2	15.1	489454	309334	58.2
<b>Realizations/ tonne (net, Rs)</b>	44374	41626	41560	46237	45598	2.8	-1.4	45598	44374	2.8
<b>EBITDA/ tonne (Rs)</b>	13186	11848	11498	14167	13506	2.4	-4.7	13506	13186	2.4

**Earnings revised; Maintain Hold**

The macro picture for ferrous sector is getting tougher as the raw material costs continue to increase. Though, Bhushan Steel's exposure into value added segment helps it earn superior margins (compared to its domestic peers) despite not having any raw material integration, we believe rise in coal prices and other input costs would put pressure on the margins going forward. Being a highly leveraged company, rise in interest rates also would continue to impact its bottomline.

Considering these we revise our estimates for both FY12E and FY13E. We cut our FY12E FY13E EPS by 22% and 15% respectively to Rs 42.2 and Rs 46.6.

**Valuation**

At the CMP of Rs 375, the stock is trading at 8.0x its FY13E EPS and 10.6x FY13E core EV/ EBITDA. We value the company on 6x FY13E EV/ EBITDA including CWIP, which translates to a target price of Rs 425/ share. We maintain Hold on the stock.

## Financials (consolidated)

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
<b>Net Sales</b>	<b>56,404</b>	<b>70,005</b>	<b>88,931</b>	<b>100,412</b>
Growth (%)	14	24	27	13
<b>Expenditure</b>	<b>41,876</b>	<b>49,633</b>	<b>63,301</b>	<b>71,769</b>
Raw Materials	37835	37598	55141	62352
Employee Cost	1409	1243	1515	1706
Other Exp	2632	10792	6644	7711
<b>EBITDA</b>	<b>14,527</b>	<b>20,372</b>	<b>25,629</b>	<b>28,643</b>
Growth (%)	41	40	26	12
<b>EBITDA margin (%)</b>	<b>25.8</b>	<b>29.1</b>	<b>28.8</b>	<b>28.5</b>
Depreciation	2091	2325	6019	6700
<b>EBIT</b>	<b>12,436</b>	<b>18,046</b>	<b>19,611</b>	<b>21,943</b>
<b>EBIT margin (%)</b>	<b>22.0</b>	<b>25.8</b>	<b>22.1</b>	<b>21.9</b>
Other Income	1178	651	651	651
Interest expenses	2100	4140	8312	9401
<b>PBT</b>	<b>11,514</b>	<b>14,557</b>	<b>11,949</b>	<b>13,192</b>
Tax	3056	4226	2987	3298
Effective tax rate (%)	26.5	29.0	25.0	25.0
<b>Adjusted PAT</b>	<b>8,458</b>	<b>10,331</b>	<b>8,962</b>	<b>9,894</b>
(Profit)/loss from JV's/Ass/MI	0.00	0.00	0.00	0.00
<b>Adjusted PAT after MI</b>	<b>8,458</b>	<b>10,331</b>	<b>8,962</b>	<b>9,894</b>
Growth (%)	101	22	-13	10
<b>Net Margin (%)</b>	<b>15.0</b>	<b>14.8</b>	<b>10.1</b>	<b>9.9</b>
E/O items	0	0	0	0
<b>Reported PAT</b>	<b>8,458</b>	<b>10,331</b>	<b>8,962</b>	<b>9,894</b>
Growth (%)	101	22	-13	10

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	<b>11,514</b>	<b>14,557</b>	<b>11,949</b>	<b>13,192</b>
Depreciation	2,091	2,325	6,019	6,700
Interest Provided	2,100	4,140	8,312	9,401
Other Non-Cash items	0	0	0	0
Chg in working cap	-9,529	-8,687	-814	-6,126
Tax paid	-3,056	-4,226	-2,987	-3,298
<b>Operating Cashflow</b>	<b>3,970</b>	<b>8,109</b>	<b>22,479</b>	<b>19,870</b>
Capital expenditure	-29,027	-56,607	-47,000	-35,000
<b>Free Cash Flow</b>	<b>-25,057</b>	<b>-48,497</b>	<b>-24,521</b>	<b>-15,130</b>
Other income	1,178	651	651	651
Investments	3,700	2,777	2,777	2,777
<b>Investing Cashflow</b>	<b>-31,362</b>	<b>-55,684</b>	<b>-47,000</b>	<b>-35,000</b>
Equity Capital Raised	7,001	0	0	0
Loans Taken / (Repaid)	29,938	51,000	34,000	25,000
Interest Paid	-10,165	-4,140	-8,312	-9,401
Dividend paid (incl tax)	-110	-124	-125	-125
Income from investments	0	0	0	0
Others	687	0	0	0
<b>Financing Cashflow</b>	<b>27,350</b>	<b>46,735</b>	<b>25,563</b>	<b>15,474</b>
<b>Net chg in cash</b>	<b>-42</b>	<b>-839</b>	<b>1,042</b>	<b>344</b>
Opening cash position	1,244	1,202	363	1,405
<b>Closing cash position</b>	<b>1,202</b>	<b>363</b>	<b>1,405</b>	<b>1,749</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	425	425	425	425
Reserves & surplus	39125	49332	58169	67938
<b>Net worth</b>	<b>39,550</b>	<b>49,756</b>	<b>58,593</b>	<b>68,363</b>
<b>Minority Interest</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Secured Loans	83,270	134,270	168,270	193,270
Unsecured Loans	30,771	30,771	30,771	30,771
<b>Loan Funds</b>	<b>114,041</b>	<b>165,041</b>	<b>199,041</b>	<b>224,041</b>
Net deferred tax liability	3295	3295	3295	3295
<b>Total Liabilities</b>	<b>157253</b>	<b>218460</b>	<b>261297</b>	<b>296066</b>
Gross Block	36859	119559	136559	148559
Less: Depreciation	16066	18391	24410	31110
<b>Net block</b>	<b>20,793</b>	<b>101,168</b>	<b>112,149</b>	<b>117,449</b>
CWIP	111093	85000	115000	138000
<b>Investment</b>	<b>3700</b>	<b>2777</b>	<b>2777</b>	<b>2777</b>
<b>Current Assets</b>	<b>37702</b>	<b>50189</b>	<b>50913</b>	<b>56061</b>
Inventories	19627	31684	25529	28955
Sundry debtors	7339	4835	10672	12050
Cash & bank balance	1202	363	1405	1749
Loans & advances	9534	13307	13307	13307
Other current assets	0	0	0	0
<b>Current lia &amp; Provisions</b>	<b>16036</b>	<b>20675</b>	<b>19542</b>	<b>18221</b>
Current liabilities	15671	20192	20612	22589
Provisions	365	483	-1070	-4368
<b>Net current assets</b>	<b>21666</b>	<b>29514</b>	<b>31370</b>	<b>37840</b>
<b>Total Assets</b>	<b>157253</b>	<b>218460</b>	<b>261297</b>	<b>296066</b>

## Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	25.8	29.1	28.8	28.5
Net Margin	15.0	14.8	10.1	9.9
ROCE	10.3	10.0	8.4	8.1
ROE	26.5	23.1	16.5	15.6
RoIC	34.4	21.0	14.4	14.8
<b>Per Share Data (Rs)</b>				
EPS	39.8	48.6	42.2	46.6
CEPS	49.7	59.6	70.5	78.1
BVPS	186.2	234.3	275.9	321.9
DPS	2.5	2.5	2.5	2.5
<b>Valuations (x)</b>				
PER	9.4	7.7	8.9	8.0
P/CEPS	1.5	6.3	5.3	4.8
P/BV	0.4	1.6	1.4	1.2
EV / Sales	2.3	3.5	3.1	3.0
EV / EBITDA	8.9	12.0	10.8	10.6
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	2.8	3.3	3.3	3.2
Net Debt/EBIDTA	7.5	7.9	7.6	7.7

**Recommendation History: Bhushan Steel – BHUS IN**

Date	Reports	Reco	CMP	Target
12/05/2011	<a href="#">Bhushan Steel Q4FY11 Result Update</a>	Hold	445	454

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
27/07/2011	<a href="#">JSW Steel Q1FY12 Result Update</a>	Accumulate	870	1,016
25/07/2011	<a href="#">Sterlite Industries Q1FY12 Result Update</a>	Accumulate	172	203
22/07/2011	<a href="#">Sesa Goa Q1FY12 Result Update</a>	Hold	278	308
21/07/2011	<a href="#">Hindustan Zinc Q1FY12 Result Update</a>	Buy	138	173

**Emkay Global Financial Services Ltd.**

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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