

STOCK DATA

Market Cap	Rs33.8bn.
Book Value per share	Rs286
Eq Shares O/S (F.V. Rs.10)	42.5mn.
Median Vol (12 mths)	117,550 (BSE+NSE)
52 Week High/Low	Rs1730/535
Bloomberg Code	BHUS.IN
Reuters Code	BSSL.BO

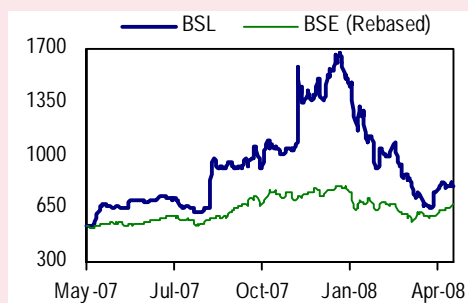
SHAREHOLDING PATTERN (%)

Qtr. Ended	Sep-07	Dec-07	Mar-08
Promoters	64.2	64.2	64.2
MFs/FIs	1.2	1.2	1.2
FIIIs	2.5	2.7	2.4
PCBs	25.0	25.1	25.9
Indian Public	7.1	6.8	6.3

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	18.6	(26.0)	48.1
Relative	6.1	(23.3)	18.4

STOCK PRICE PERFORMANCE



KEY HIGHLIGHTS

Bhushan Steel Ltd. (BSL) reported ~15% YoY growth in net sales to Rs12.2bn. This was supplemented by higher sales volumes, a ~14% rise in overall net realisations, and was above our expectations.

The Orissa facility played a key role in driving volume growth, resulting in a 110% improvement in contribution to sales. Net profits for the quarter stood at Rs1.4bn, an upsurge of 23%.

● **Healthy growth in volumes**

Production of flat products improved 0.4% to 384.5k mt whereas long products volumes rose by 79.3% to ~183.7k mt, due to ramp up at Orissa facility, leading to an overall production volume growth of 17%. Post captive consumption, total sales volume increased by 1.1% to ~306.1k mt.

● **Higher realisations drive OPM**

The overall realisations (export and domestic) advanced by 14% to ~Rs39.7k/mt, whereas the average cost of production rose by 4.3% to Rs30.1k/mt. This resulted in a 699bps improvement in OPM to 24.2% on a YoY basis.

● **Capacity expansion on track**

The capacity expansion (phase-II) in Orissa is progressing satisfactorily and will be commissioned in a phased manner by Apr'09. This will provide the avenue to improve operational parameters as the expansion entails setting up a HR coil facility, a key raw material for BSL.

VALUATIONS AND RECOMMENDATION

While the phase-I of the Orissa project is generating significant cash flows, incremental volumes from sponge iron (Mar'08) and pig iron, billets & slabs (Dec'08) from phase-II offer growth visibility. Staggered capex implementation is not expected to strain its cash flows. However, its proposed 2mn tpa steel plant in West Bengal (capex ~Rs100bn) and the 2x1,000 MW power projects in its subsidiary 'Bhushan Energy Ltd' still await financial closure and have not been factored in our estimates. Consistent scale up in operations and backward integration for HR coil offer potential for significant margin improvement FY10 onwards. Hence at CMP of Rs797, (P/E of 4.1x and EV/EBIDT of 3.6x its FY10E earnings) we upgrade our recommendation from 'HOLD' to 'BUY' with a 12-month price target of Rs1,025.

KEY FINANCIALS (STANDALONE)

Rs mn	Quarter Ended			Yr Ended (March)				
	Sep-07	Dec-07	Mar-08	2006	2007	2008E	2009E	2010E
Net Sales	10,681	9,827	12,151	27,927	38,377	42,040	63,042	67,603
YoY Gr. (%)	7.4	(1.8)	15.2	4.1	37.4	9.5	50.0	7.2
Op. Profits	1,976	1,868	2,938	3,960	6,281	8,326	13,880	18,013
OP Marg. (%)	18.5	19.0	24.2	14.2	16.4	19.8	22.0	26.6
Net Profits	1,034	746	1,350	1,545	3,133	4,111	5,821	8,261
Eq Capital	425	425	425	413	425	425	425	425

KEY RATIOS

	Yr Ended (March)				
	2006	2007	2008E	2009E	2010E
Dil. EPS (Rs)	37.4	73.8	96.8	137.0	194.5
ROCE (%)	14.1	20.5	17.6	16.5	18.2
RONW (%)	19.0	29.7	29.1	30.8	32.3
P/E (x)	21.3	10.8	8.2	5.8	4.1
EV/Sales (x)	1.9	1.7	1.8	1.2	1.0
EV/EBDIT (x)	13.2	10.4	9.0	5.5	3.6

PERFORMANCE OVERVIEW

Net sales driven by volume and realisation growth...

BSL's results were driven by a sales volume growth of 1.1% to ~306.1k mt and a 14% improvement in realisations to ~Rs39.7k/mt, leading to a ~15% rise in net sales to Rs12.2bn. Exports were lower by 2.3% to Rs3.5bn, as rupee appreciation had its impact. However, this was negated by 23.6% rise in domestic sales to Rs10bn.

The volumes from Orissa phase-I capacities continues to rise resulting in a 110% improvement in contribution to sales. The total production volume of BSL for Q4FY08 stood at ~568.2k mt, registering a rise of 17%. This was due to a 0.4% rise in flat product volumes and a robust 79.3% surge in long products volume ~183.7k mt.

Production in '000 MT					
	Q4FY08	Q4FY07	YoY(%)	Q3FY08	QoQ(%)
Cold Rolled	236	235	0.1	228	3.2
Galvanized Steel	120	121	(0.8)	106	12.9
H&T	2	2	14.6	2	20.4
HTSS	3	4	(11.4)	2	85.8
Colour Coating	24	21	11.4	19	22.4
FLAT PRODUCTS	385	383	0.4	383	0.4
Billets	72	28	155.5	28	155.5
Sponge Iron	81	46	75.2	46	75.2
Wire Rods	15	10	45.2	10	45.2
Tube & Shutters	16	18	(10.4)	18	(10.4)
Formed Sections	0	0	17.5	0	17.5
LONG PRODUCTS	184	102	79.3	102	79.3
Total	568	485	17.0	529	7.4

Source: Company

Higher production volumes led to a 1.1% improvement in sales volume to ~306.1k mt, post internal consumption. The domestic volumes stood at ~216.3k mt (+0.9%) whereas export volumes were higher by 1.5% to ~89.8k mt.

OPM expands by 699bps due to buoyant realisations...

Although the per ton cost of production witnessed a rise of 4.3% to Rs30.1k/mt, this was negated by the higher realisations, leading to a 699bps expansion in OPM to 24.2% on a YoY basis. As a result, operating profit grew by 62% to Rs2.9bn.

The expanded capacities at Orissa led to a 239% and 11.5% rise in interest and depreciation expense respectively. The former stood at Rs488mn while the latter was Rs639mn.

Higher operating profits growth negated higher capital cost and as a result net profits increased by 23% to Rs1.4bn.

Sales in '000 MT					
	Q4FY08	Q4FY07	YoY(%)	Q3FY08	QoQ(%)
Cold Rolled	102	92	11.7	91	12.5
Galvanized Steel	103	106	(3.0)	79	29.6
H&T	2	2	35.3	2	46.9
HTSS	3	3	0.9	2	33.2
Colour Coating	22	21	6.0	19	14.1
FLAT PRODUCTS	233	223	4.2	193	20.2
Billets	42	15	171.2	28	49.4
Sponge Iron	14	10	39.2	12	17.8
Wire Rods	1	24	(95.9)	22	(95.6)
Tube & Shutters	16	18	(10.3)	21	(20.8)
Formed Sections	0	0	3.9	0	(8.4)
LONG PRODUCTS	74	68	7.7	83	(11.5)
Total	306	291	5.0	277	10.7
Others	-	11	-	-	-
Total	306	303	1.1	277	10.7
Export Vol.	90	88	1.5	68	31.0
Domestic Vol.	216	214	0.9	208	4.0

Source: Company

Capacity Expansion

2.9 mn tpa greenfield steel plant on schedule...

The backward integration for HR coil (Phase-II) is expected to remove dependence on market forces and result in significant margin improvement. Also, since HSM is expected to go on stream by Apr'09, earlier commissioning of other facilities (scheduled in table below) should enable it to generate cash flows to drive profitability and aid timely execution of the project.

Orissa project details		
Expansion Plans	Capacity (TPA)	Expected Completion
Phase I		
DRI (4 kilns)	680,000	Commissioned
Billets	300,000	Commissioned
Power (MW)	110	Commissioned
Capex (Rs bn)	16.0	
Phase II		
DRI (6 Kilns)	1,020,000	Mar '08
Slab	2,000,000	Dec'08
Blast Furnace	1,200,000	Dec'08
Hot Strip Mill	1,900,000	Apr'09
Billets	300,000	Dec'08
Capex (Rs bn)	36.0	
Total Project Cost (Rs. bn)	52.0	Upto Apr'09
Debt (Rs. bn)	36.0	
Internal Accruals (Rs. bn)	16.0	

OUTLOOK

Post completion of the envisaged Orissa project, BSL will integrate backwards for a key raw material, i.e. HR coil. This will not only aid margin expansion but also help in cementing its place as the largest auto grade steel manufacturer in India, with a high degree of control over operations.

BSL intends to set up a 2 mn tpa steel plant in West Bengal...

The company also intends to set up a 2 mn tpa integrated steel plant in West Bengal (in BSL) and also 2x1000 MW power plants in its subsidiary *Bhushan Energy Ltd.* The West Bengal project would require an outlay of ~Rs100bn, while the power project at Angul would be set up at a cost of ~Rs40bn.

We expect the phase-I capacities at Orissa to ramp up significantly and also expect volume growth resulting from the staggered commissioning of the phase-II project. Considering this and the healthy pricing environment, we estimate net sales of Rs63bn and Rs67.6bn in FY09 and FY10 respectively. OPM is expected to improve significantly from current levels, as the company would commission its HSM in Q1FY10, which should translate in net profits of Rs5.8bn and Rs8.3bn in FY09 and FY10 respectively.

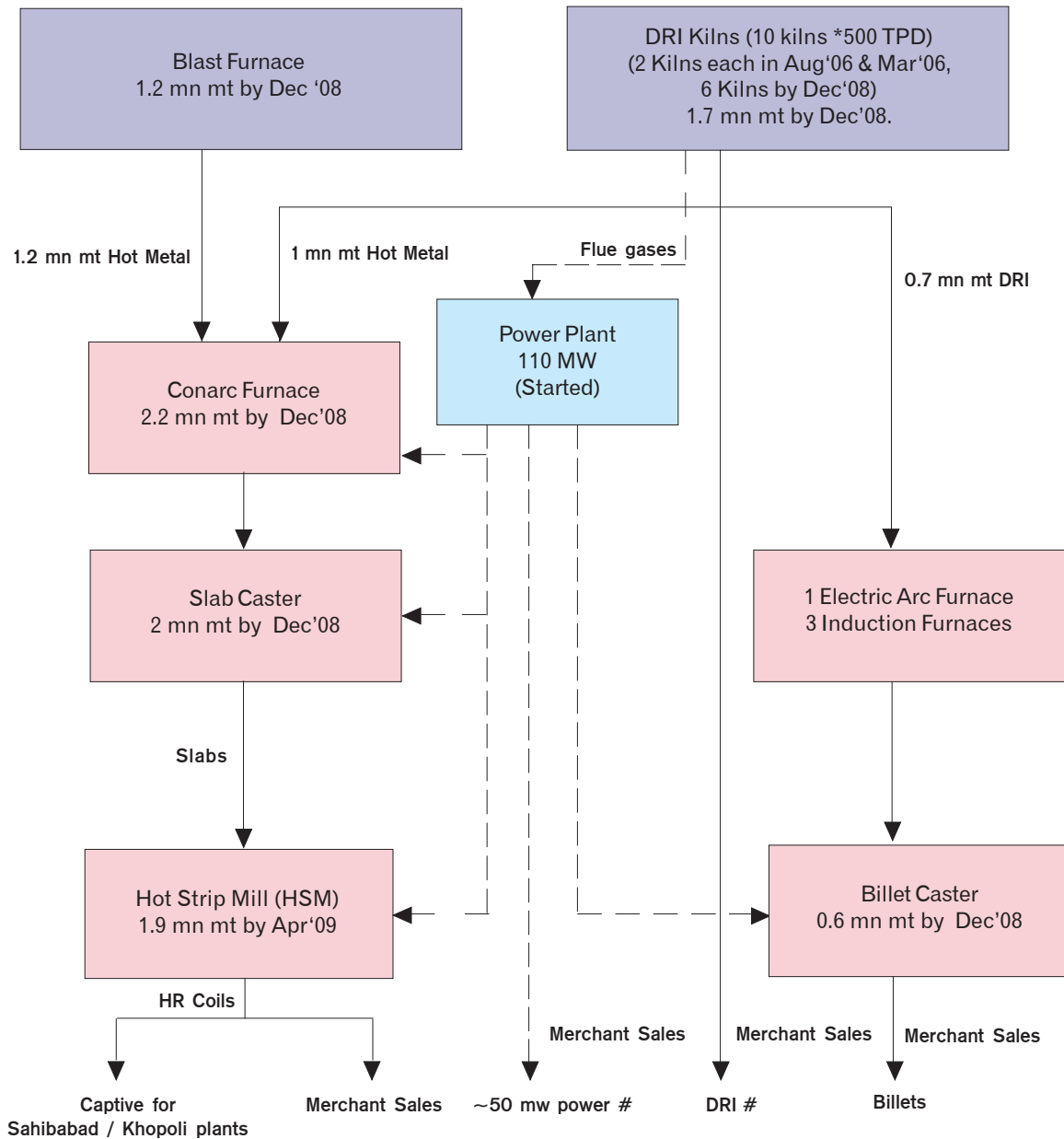
VALUATIONS AND RECOMMENDATION

At the CMP of Rs797, the stock trades at a P/E of 4.1x and EV/EBIDT of 3.6x discounting its FY10E EPS of Rs195. We believe BSL is well positioned to capture the benefits arising out of its envisaged backward integration, offering significant margin expansion and profitability growth. Although, the proposed 2 mn tpa steel plant in West Bengal and the 2x1,000MW power plants still await financial closure, we remain positive on BSL's execution capabilities and implementation skills and are of the opinion that these projects would enable BSL to enhance scale and augment revenue mix. Hence, we upgrade our recommendation from 'HOLD' to 'BUY' with a 12-month price target of Rs1,025.

Company description

Bhushan Steel Ltd. is India's leading auto grade steel manufacturer with facilities in Sahibabad, Khopoli and Orissa. It is the only one to manufacture CR coil/sheets of 1700 mm width. The company is integrating backwards to set up a 1.9 mn tpa HR mill in Orissa to hedge against raw material prices.

Orissa Project Flow chart

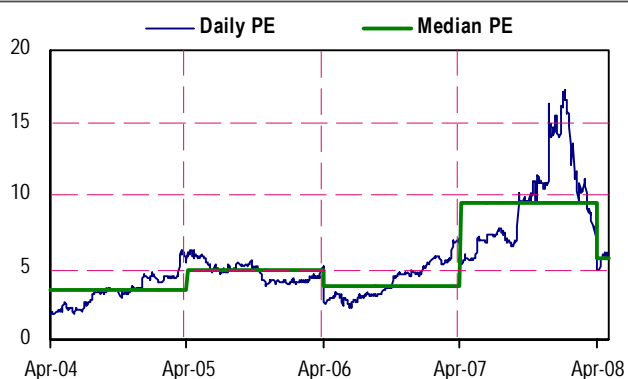


Note: # BSSL will have excess sponge iron and power which will be sold outside, till its 2.2 mn tpa steel capacity is not fully operational.

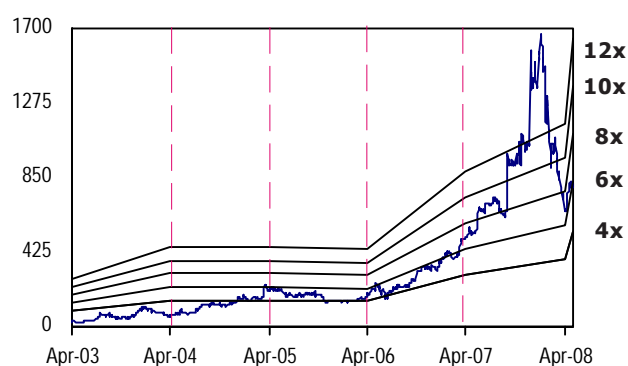
Financial Results for the quarter & year ended 31 March 2008 (Standalone)

Particulars (Rs Mn)	Quarter Ended			Year Ended		
	31/03/08	31/03/07	Gr %	31/03/08	31/03/07	Gr %
Domestic Sales	9,967	8,067	23.6	34,140	26,754	27.6
Export Sales	3,500	3,581	(2.3)	12,576	15,266	(17.6)
Gross Sales	13,466	11,647	15.6	46,716	42,021	11.2
Less: Excise Duty	1,316	1,101	19.5	4,677	3,643	28.4
Net Sales	12,151	10,547	15.2	42,040	38,377	9.5
Total Expenditure	9,212	8,733	5.5	33,714	32,096	5.0
(Inc)/dec in Stock-in-Trade	(366)	444		(1,896)	(952)	
Consumption of RM	8,184	7,191	13.8	31,424	29,252	7.4
Staff cost	80	69	15.3	436	283	54.2
Other Expenditure	1,314	1,029	27.7	3,749	3,512	6.7
Operating Profit	2,938	1,813	62.1	8,326	6,281	32.6
Other income	29	150	(80.8)	535	304	75.6
PBDIT	2,967	1,964	51.1	8,861	6,586	34.5
Interest & Financial Charges	488	144	239.3	1,369	773	77.2
Depreciation & Amortisation	639	573	11.5	2,100	2,089	0.5
PBT	1,841	1,247	47.6	5,392	3,724	44.8
(-) Provision for current tax	211	(267)	-	621	17	3,596.4
(-) Provision for deferred tax	280	417		660	574	
Net Profit	1,350	1,097	23.1	4,111	3,133	31.2
Equity Capital	425	425		425	425	
Reserves (excl rev res)	-	-		-	11,720	-
EPS for the period (Rs.)	31.8	25.8	19.6	96.8	73.8	27.5
Diluted EPS (Rs)	31.8	25.8	23.1	96.8	73.8	31.2
Book Value(Rs)	-	-		-	286	-
OPM (%)	24.2	17.2		19.8	16.4	
NPM (%)	11.1	10.4		9.8	8.2	
Export as % of Net Sales	28.8	34.0		29.9	39.8	
Expenditure as % of Net Sales	75.8	82.8		80.2	83.6	
RM Consumed (incl stock adj.)	64.3	72.4		70.2	73.7	
Staff cost	0.7	0.7		1.0	0.7	
Other Expenditure	10.8	9.8		8.9	9.2	
Sales Volume ('000 MT)	306.1	302.7	1.1	1,158.3	1,037.1	11.7
Export Vol. ('000 MT)	89.8	88.4	1.5	315.6	369.2	(14.5)
Domestic Vol. ('000 MT)	216.3	214.3	0.9	842.8	668.0	26.2
Avg Gross Realisation (Rs '000/MT)	44.0	38.5	14.4	40.3	40.1	(0.5)
Avg Net Realisation (Rs '000/MT)	39.8	34.8	14.0	36.3	37.1	(1.9)
OP per ton sold (Rs '000/MT)	9.6	6.0	60.3	7.2	6.1	18.7

Median PE v/s Daily PE



PE Band



Income Statement	2005	2006	2007	2008	2009E	2010E
Revenues	26,821	27,927	38,377	42,040	63,042	67,603
YoY Gr. (%)	-	4.1	37.4	9.5	50.0	7.2
Total Expenditure	22,777	23,967	32,096	33,714	49,161	49,590
Operating Profit	4,044	3,960	6,281	8,326	13,880	18,013
YoY Gr. (%)	-	(2.1)	58.6	32.6	66.7	29.8
Interest & dividend income	68	124	304	535	300	350
EBIDT	4,112	4,084	6,585	8,861	14,180	18,363
(-) Interest	808	830	773	1,369	2,150	2,400
(-) Depreciation	1,647	1,658	2,089	2,100	4,270	4,948
PBT & extraordinary items	1,657	1,597	3,724	5,392	7,761	11,015
(-) Tax provision	123	52	591	1,281	1,940	2,754
Net Profits	1,534	1,545	3,133	4,111	5,821	8,261
YoY Gr. (%)	-	0.7	102.8	31.2	41.6	41.9
Fully diluted Eq. sh. O/s (mn no)	40.5	41.3	42.5	42.5	42.5	42.5
Book Value (Rs)	181	216	286	379	510	693
Basic EPS (Rs)	37.9	37.4	73.8	96.8	137.0	194.5
Diluted EPS (Rs)	37.9	37.4	73.8	96.8	137.0	194.5

Balance Sheet	2005	2006	2007	2008E	2009E	2010E
<i>Equity Share Capital</i>	405	413	425	425	425	425
<i>Share Warrants</i>	-	36	-	-	-	-
<i>Reserves & Surplus</i>	6,901	8,484	11,720	15,682	21,253	29,018
Net worth	7,306	8,933	12,145	16,106	21,678	29,443
Total Debt	13,175	20,362	32,420	43,920	50,320	46,320
Deferred Tax liability	749	663	1,237	1,897	2,547	3,297
Capital Employed	21,229	29,958	45,802	61,924	74,545	79,060
Fixed Assets	14,327	23,153	36,156	50,135	54,115	51,167
Net current assets	6,712	6,613	9,438	11,580	20,221	27,685
Investments	190	192	209	209	209	209
Total Assets	21,229	29,958	45,802	61,924	74,545	79,060

Cash Flow Statement	2005	2006	2007	2008E	2009E	2010E
PBT & extraordinary items	1,657	1,597	3,724	5,392	7,761	11,015
Depreciation	1,647	1,658	2,089	2,100	4,270	4,948
Provisions	6	2	9	-	-	-
Interest Paid	794	830	773	1,369	2,150	2,400
Interest & dividend income	(65)	(119)	(168)	(535)	(300)	(350)
(Profit)/Loss on sale of investment	(0)	(1)	(7)	-	-	-
(Profit)/Loss on sale of fixed assets	(2)	(2)	(6)	-	-	-
Others	1	16	(171)	-	-	-
Taxes paid	(124)	(126)	(407)	(621)	(1,290)	(2,004)
(Inc)/Dec in working capital	(1,580)	679	(2,304)	(779)	(2,723)	(575)
Cash from operations	2,333	4,535	3,531	6,926	9,867	15,434
Net Capital Expenditure	(5,028)	(9,606)	(13,232)	(16,079)	(8,250)	(2,000)
Net Investments	0	(1)	(10)	-	-	-
Interest income	65	119	256	535	300	350
Dividend income	-	0	3	-	-	-
Cash from investing activities	(4,963)	(9,489)	(12,983)	(15,544)	(7,950)	(1,650)
Issue of shares/warrants	-	44	(24)	-	-	-
Change in debt	3,869	7,187	12,058	11,500	6,400	(4,000)
Interest and finance charges	(1,069)	(1,722)	(2,740)	(1,369)	(2,150)	(2,400)
Share premium account	-	157	228	-	-	-
Dividend paid	(91)	(70)	(118)	(149)	(249)	(496)
Effects of Exchange rate change	(17)	(1)	234	-	-	-
Cash from financing activities	2,691	5,595	9,639	9,982	4,001	(6,896)
Inc/Dec. in cash	61	641	186	1,364	5,918	6,888

Key Ratios	2005	2006	2007	2008E	2009E	2010E
EBIDT (%)	15.1	14.2	16.4	19.8	22.0	26.6
ROACE (%)	28.4	14.1	20.5	17.6	16.5	18.2
ROANW (%)	42.0	19.0	29.7	29.1	30.8	32.3
Sales/Total Assets (x)	1.3	1.0	0.9	0.8	0.9	0.9
Debt:Equity (x)	1.8	2.3	2.7	2.7	2.3	1.6
Current Ratio (x)	2.7	2.2	2.2	2.7	3.1	3.8
Debtors (days)	23.1	48.6	44.9	45.6	44.5	44.5
Inventory (days)	46.6	80.4	70.0	76.0	73.0	73.0
Net working capital (days)	38.5	59.3	39.4	48.7	47.3	45.9
EV/Sales (x)	1.7	1.9	1.7	1.8	1.2	1.0
EV/EBIDT (x)	11.1	13.2	10.4	9.0	5.5	3.6
P/E (x)	21.0	21.3	10.8	8.2	5.8	4.1
P/BV (x)	4.4	3.7	2.8	2.1	1.6	1.1

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