

RESULT UPDATE

MID CAP

Share Data

Reuters code	BHUS.BO		
Bloomberg code	BHUS IN		
Market cap. (US\$ mn)	1,516		
6M avg. daily turnover (US\$ mn)	12.4		
Issued shares (mn)	42		
Target price (Rs)	1,334		

Performance (%)	1M	3M	12M
Absolute	(12)	1	142
Relative	(9)	(5)	68

Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	245.9	336.7
+/- (%)	25.9	36.9
PER (x)	6.5	4.8
PBV (x)	1.6	1.2
Dividend/Yield (%)	0.2	0.2
EV/Sales (x)	2.3	1.9
EV/EBITDA (x)	7.2	5.8

Major shareholders (%)

Promoters	69
FII's	2
MF's	1
BFSI's	1
Public & Others	27

Financial highlights

(Rs mn)	4QFY09	3QFY10	4QFY10	QoQ (%)	YoY (%)	FY09	FY10P	YoY (%)	FY11E	YoY (%)	FY12E	YoY (%)
Net Sales	11,200	14,290	16,087	12.6	43.6	49,432	56,409	14.1	72,801	29.1	86,423	18.7
EBITDA	2,631	3,903	4,192	7.4	59.3	10,293	14,491	40.8	23,379	61.3	29,062	24.3
Margins (%)	23.5	27.3	26.1	-	-	20.8	25.7	-	32.1	-	33.6	4.7
Other Income*	88	256	508	97.9	476.7	181	1,155	-	250	(78.4)	250	-
Interest	573	585	551	(5.7)	(3.8)	2,521	2,166	(14.1)	5,202	140.2	5,462	5.0
Depreciation	540	578	524	(9.3)	(2.9)	2,344	2,198	(6.2)	4,312	96.2	4,528	5.0
PBT	1,607	2,996	3,624	20.9	125.5	5,608	11,283	101.2	14,115	25.1	19,322	36.9
Tax	443	722	1,215	68.2	174.1	1,395	2,989	114.3	3,670	22.8	5,024	36.9
PAT	1,164	2,274	2,409	5.9	107.0	4,213	8,294	96.9	10,445	25.9	14,298	36.9
Margins (%)	10.4	15.9	15.0	-	-	8.5	14.7	-	14.3	-	16.5	15.3
EPS (Rs)	27.4	53.5	56.7	5.9	107.0	99.2	195.3	96.9	245.9	25.9	336.7	36.9

* other income of FY10 includes Rs 851 mn forex gain.

Bhushan Steel

Maintain Underperformer

Price: Rs 1,610

BSE Index: 17,266

14 May 2010

4QFY10 Result – Backward integration commissioned

Bhushan Steel's performance (PBT adjusted for forex gain) was broadly in line with our estimates. The EBITDA margin was down by 120 bps sequentially primarily due to higher other expenditure.

The other income for 4Q was ~Rs 500 mn which is double QoQ. It includes Rs 380 mn of forex gain vis-à-vis Rs 200 mn in 3Q.

The company has paid higher tax this quarter (~34%).

Outlook and valuation

The 1.9 mn tpa steel plant has been commissioned. We expect substantial savings in FY11 on the back of this backward integration. The blended EBITDA/tonne in FY11 is expected to improve by ~35% YoY (~Rs 14,000/tonne) primarily due to the backward integration.

We are introducing our FY12 numbers. We expect the newly commissioned steel plant to operate at a capacity utilisation of ~65% and ~85% in FY11 and FY12. The company would sell ~0.25 mn tonnes of HRC in FY11 and ~0.65 mn tonnes in FY12.

At our target price of Rs 1,334, Bhushan would trade at 6.7x FY11E EV/EBITDA. The average of the last five years' (one-year forward) EV/EBITDA is 8.6x. Our FY11 profit numbers are quite sensitive to the ramping up of the steel/HRC plant. We are thus ascribing a lower multiple (in comparison to the 5-year average) on our FY11 estimated EBITDA, to arrive at our fair value for the stock. Maintain Underperformer.

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
Net sales	49,432	56,409	72,801	86,423
<i>Growth (%)</i>	<i>18.3</i>	<i>14.1</i>	<i>29.1</i>	<i>18.7</i>
Operating expenses	(39,282)	(41,918)	(49,610)	(57,588)
Operating profit	10,150	14,491	23,190	28,834
Other operating income	142	-	189	228
EBITDA	10,293	14,491	23,379	29,062
<i>Growth (%)</i>	<i>23.2</i>	<i>40.8</i>	<i>61.3</i>	<i>24.3</i>
Depreciation	(2,344)	(2,198)	(4,312)	(4,528)
Other income	181	1,155	250	250
EBIT	8,129	13,449	19,317	24,784
Interest paid	(2,521)	(2,166)	(5,202)	(5,462)
Pre-tax profit (before non-recurring)	5,608	11,283	14,115	19,322
Pre-tax profit (after non-recurring)	5,608	11,283	14,115	19,322
Tax (current + deferred)	(1,395)	(2,989)	(3,670)	(5,024)
Net profit (before Minority Interest, Pref. Dividend, etc.)	4,213	8,294	10,445	14,298
Reported PAT	4,213	8,294	10,445	14,298
Adjusted net profit	4,213	8,294	10,445	14,298
<i>Growth (%)</i>	<i>(0.6)</i>	<i>96.9</i>	<i>25.9</i>	<i>36.9</i>

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
Cash & marketable sec.	1,244	1,664	1,915	1,190
Other current assets	26,193	27,793	34,305	38,532
Investments	1,077	2,127	2,127	2,127
Net fixed assets	92,861	120,663	141,451	172,024
Other non-current assets	61	61	61	61
Total assets	121,436	152,309	179,859	213,935
Current liabilities	13,964	14,862	17,539	20,315
Total debt	80,662	101,662	114,662	129,662
Other non-current liab.	2,463	3,268	4,820	6,946
Total liabilities	97,090	119,792	137,022	156,923
Share capital	425	425	425	425
Reserves & surplus	23,922	32,092	42,413	56,587
Shareholders' funds	24,346	32,516	42,837	57,012
Total equity & liab.	121,436	152,309	179,859	213,935
Capital employed	107,472	137,446	162,320	193,620

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
Pre-tax profit	5,608	11,283	14,115	19,322
Depreciation	2,344	2,198	4,312	4,528
Change in working capital	(1,019)	(702)	(3,835)	(1,452)
Total tax paid	(899)	(2,185)	(2,117)	(2,898)
Cash flow from oper. (a)	6,034	10,594	12,475	19,500
Capital expenditure	(31,869)	(30,000)	(25,100)	(35,100)
Change in investments	(493)	(1,050)	-	-
Others	(66)	(0)	-	(0)
Cash flow from inv. (b)	(32,428)	(31,050)	(25,100)	(35,100)
Free cash flow (a+b)	(26,394)	(20,456)	(12,625)	(15,600)
Equity raised/(repaid)	4,004	-	-	-
Debt raised/(repaid)	23,481	21,000	13,000	15,000
Dividend (incl. tax)	(124)	(124)	(124)	(124)
Cash flow from fin. (c)	27,361	20,876	12,876	14,876
Net chg in cash (a+b+c)	967	420	251	(724)

Key Ratios

Yr end 31 Mar (%)	FY09	FY10P	FY11E	FY12E
Adjusted EPS (Rs)	99.2	195.3	245.9	336.7
Growth	(0.6)	96.9	25.9	36.9
Book NAV/share (Rs)	573.2	765.6	1,008.6	1,342.3
Dividend/share (Rs)	2.5	2.5	2.5	2.5
Dividend payout ratio	2.9	1.5	1.2	0.9
Tax	24.9	26.5	26.0	26.0
EBITDA margin	20.8	25.7	32.0	33.5
EBIT margin	16.4	23.8	26.5	28.6
RoCE	8.9	11.0	12.9	13.9
Net debt/Equity	326.2	307.5	263.2	225.3

Valuations

Yr end 31 Mar (x)	FY09	FY10P	FY11E	FY12E
PER	16.2	8.2	6.5	4.8
PCE	10.4	6.5	4.6	3.6
Price/Book	2.8	2.1	1.6	1.2
Yield (%)	0.2	0.2	0.2	0.2
EV/Net sales	3.4	3.0	2.3	1.9
EV/EBITDA	16.4	11.6	7.2	5.8

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10P	FY11E	FY12E
Net margin (%)	8.5	14.7	14.3	16.5
Asset turnover	0.5	0.4	0.4	0.4
Leverage factor	5.2	4.8	4.4	3.9
Return on equity (%)	20.8	29.2	27.7	28.6

Pritam Lala
pritam.lala@bksec.com
+91-22-4031 7103

Parin Kothari
parin.kothari@bksec.com
+91-22-4031 7129

Analyst Declaration: We, Pritam Lala & Parin Kothari, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
-

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, print, publishing, photocopying, recording or otherwise without the permission of Batlivala & Karani Securities India Pvt. Ltd. Any unauthorized act in relation to all or any part of the material in this publication may call for appropriate statutory proceedings.

The information contained herein is confidential and is intended solely for the addressee(s). Any unauthorized access, use, reproduction, disclosure or dissemination is prohibited. This information does not constitute or form part of and should not be construed as, any offer for sale or subscription of or any invitation to offer to buy or subscribe for any securities. The information and opinions on which this communication is based have been compiled or arrived at from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to their accuracy, correctness and are subject to change without notice. Batlivala & Karani Securities India P Ltd and/ or its clients may have positions in or options on the securities mentioned in this report or any related investments, may effect transactions or may buy, sell or offer to buy or sell such securities or any related investments. Recipient/s should consider this report only for secondary market investments and as only a single factor in making their investment decision. The information enclosed in the report has not been vetted by the compliance department due to the time sensitivity of the information/document. Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when the investment is realized. Those losses may equal your original investment. Some investments may not be readily realizable and it may be difficult to sell or realize those investments, similarly it may prove difficult for you to obtain reliable information about the value, risks to which such an investment is exposed. Neither B&K Securities nor any of its affiliates shall assume any legal liability or responsibility for any incorrect, misleading or altered information contained herein.

B & K SECURITIES INDIA PRIVATE LTD.

Equity Research Division: City Ice Bldg., 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.
Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.

B&K Research is also available on Bloomberg <BNKI>, Thomson First Call & Investext.