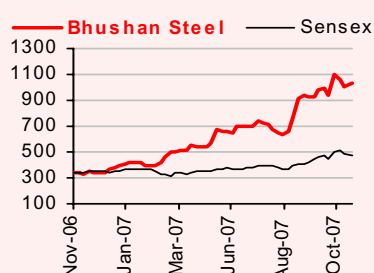


Key data

Sector		Steel
Market cap	Rs44bn / US\$1.1bn	
52 Wk H/L (Rs)	1161/318	
Avg. daily vol. (6 month)	158,789	
BSE Code		500055
NSE Code		BHUSANSTL
Bloomberg		BHUS IN
Reuters		BSSL.BO
Sensex		18,526
Nifty		5,519

Bhushan Vs Sensex

Shareholding pattern (%)

	30-Jun-07	30-Sep-07
FII's NRI, ADR/GDR	2.5	2.6
MFs and institutions	1.2	1.2
Promoters	64.2	64.2
Others	32.1	32.0

Absolute returns (%)

	1mth	3mth	12mth
Bhushan Steel	15.4	68.9	210.9
Sensex	5.2	30.0	35.2
BSE Metals	11.2	59.2	81.5

Bhushan Steel Ltd

Not Rated
Current Price: Rs.1,028
Target price: N.A

We recently met Bhushan Steel's senior management.

The key takeaways from the meeting are as follows:

Orissa project is on track for timely completion: Phase 1 of the project has been completed on time with a capacity of 0.68 MTPA of sponge iron, 0.3 MTPA of billets and a captive power plant of 110 MW. As envisaged earlier, sponge iron capacity will increase to 1.36 MTPA and 2.0 MTPA of slabs will be added by December 2008. By April 2009, 1.9 MTPA of HR coil will be added.

Expansion of Orissa plant being planned: The management has decided to expand the capacity at its Orissa plant at a cost of Rs 39 bn. HR coil capacity will increase to 3.6 MTPA and billet capacity will increase to 0.9 MTPA. 70% of the expansion will be funded through debt and the rest through internal accruals. Financial closure is yet to be achieved.

Benefits of backward integration in FY10, margins to get a boost: The setting up of the Orissa plant will provide BSL with a strategic advantage. EBITDA margin is likely to improve to 35%-40%, once HR production begins in FY10.

Additional CR capacity at Khopoli plant, Exports to remain at current levels: BSL intends to increase the CR capacity at its Khopoli plant by 50,000 TPA by FY09. Export sales are expected to remain at current levels (Rs 15 - 16bn), as the rupee appreciates and domestic demand remains strong.

Steel prices to remain stable on the back of strong demand and high raw material costs: Capacity utilization is expected to be at its peak as the company continues to witness a strong demand from its primary customer segments: Automotive and Consumer durable. The management expects steel prices to increase or remain firm as raw material costs and freight rates surge.

Net profit to increase substantially in FY10: As the pricing and demand outlook continues to be positive, and benefits of backward integration likely to accrue in FY10, the management expects net profit to increase more than 100% from Rs 3.1 bn in FY07.

Figure 1: Financials

Year to 31 March	FY03	FY04	FY05	FY06	FY07
Net Revenues (Rs mn)	10,984	15,516	26,434	27,150	38,149
EBITDA (Rs mn)	1,984	2,624	4,030	3,960	6,281
PAT adj (Rs mn)	550	903	1,534	1,545	3,133
EPS adj (Rs)	14.2	22.3	37.9	37.9	75.0
EPS diluted (Rs)	14.2	22.3	37.9	37.8	74.5
EPS growth (%)	16.7	57.3	69.8	(0.4)	97.2
P/E (x)	74.3	47.2	27.8	27.9	14.1
Div. yield (%)	0.05	0.09	0.14	0.24	0.24
RoE (%)	11.5	16.5	23.2	19.1	29.8
RoCE (%)	10.5	11.6	13.2	9.5	11.9
Price/BV (x)	8.5	7.2	5.8	4.9	3.7
EV/EBITDA (x)	25.3	19.7	13.8	15.9	12.1
EV/Sales (x)	4.6	3.3	2.1	2.3	2.0

Source: Company, Religare Institutional Research

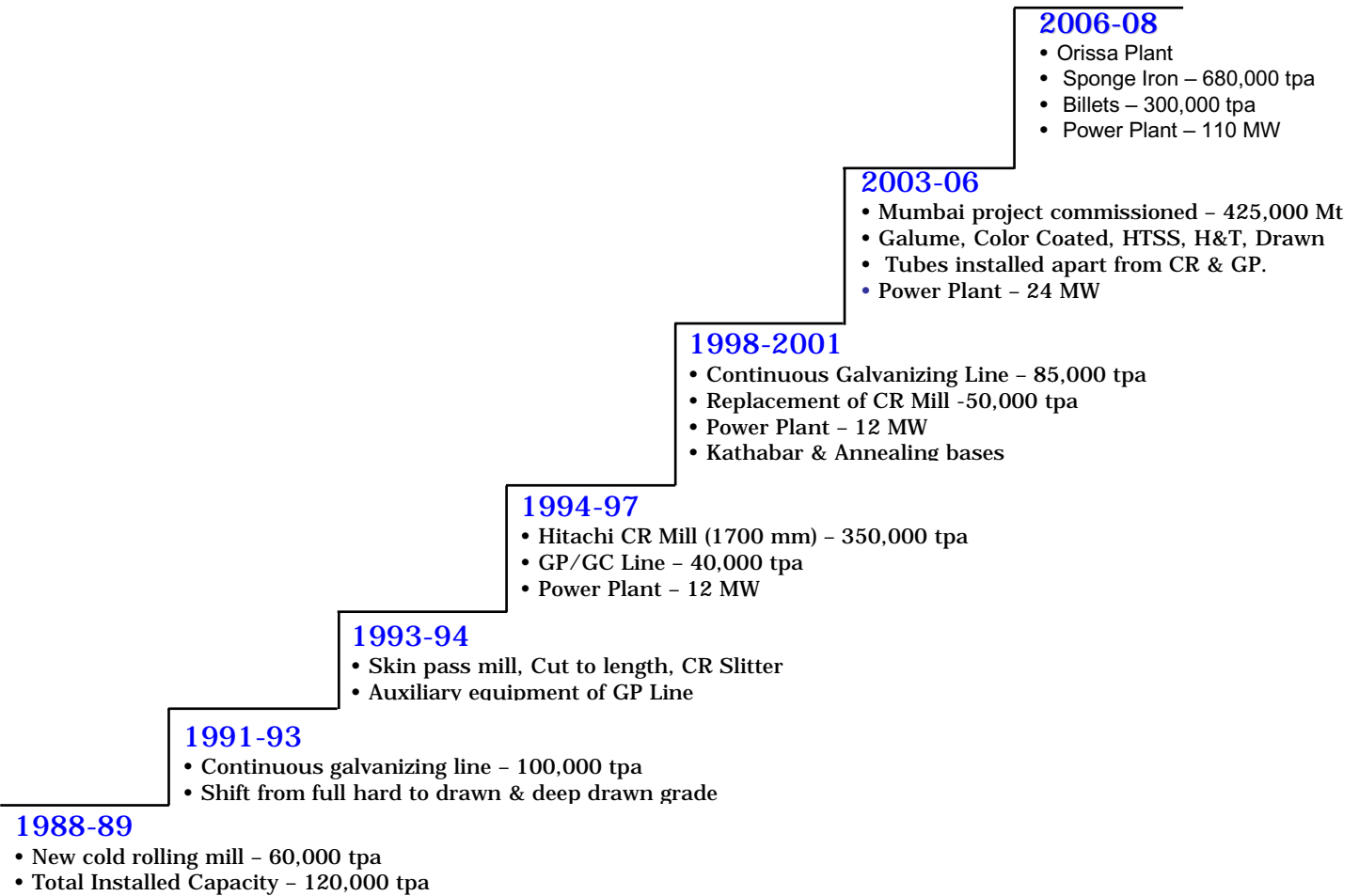
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Company Background

Bhushan Steel Limited (BSL), primarily a converter of HR coils into value added products started its operations in 1989 with a capacity of 60,000 TPA and gradually increased it to 900,000 TPA. Technology upgradation and addition of new capacities have made Bhushan Steel the market leader in the secondary steel sector for Cold rolled (CR) products and the third largest player in the CR segment in India behind Steel Authority of India (SAIL) and Tata Steel.

Figure 2: Growth Path



GP – Galvanized Plane

GC – Galvanized Coil

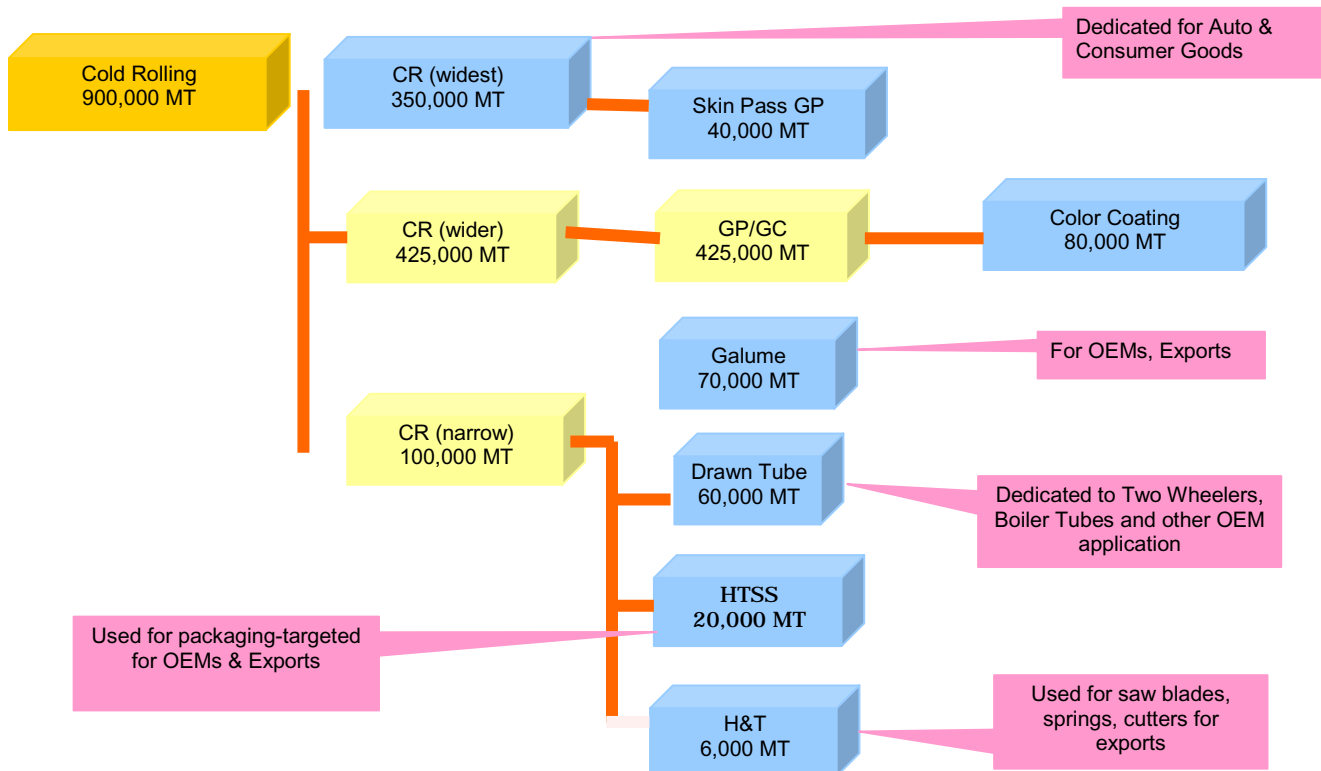
CR – Cold Rolling

Source: Company, Religare Institutional Research

Rich Portfolio of value added products accounting for 60% of the revenue

BSL manufactures a range of value added products like CRCA, Galume (47% zinc, 53% Aluminum), color coated sheets, High tensile steel straps (HTSS), Hardened and Tempered steel and Drawn tubes. It is the only manufacturer of the widest width CR steel in India (1700 mm manufactured at Sahibabad plant), supplying automotive grade steel sheets for inner and outer panels. Value added products accounted for approximately 60% of the revenue in FY07.

Figure 3: Rich mix of products



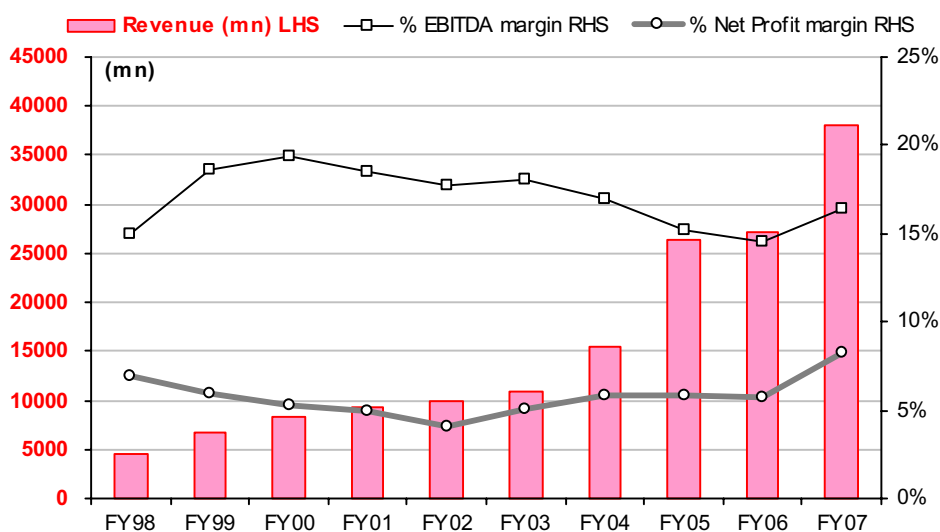
Source: Company, Religare Institutional Research

Diversified Client base with an increasing share of OEM's

Over the years BSL has managed to develop strong relationships with the major auto and white goods companies in the country. Some of its major clients are Maruti, Tata Motors, and LG. Robust product portfolio has resulted in OEM sales rising to 58% in 2007 from 40% in 2001. A strong OEM base has resulted in stable earnings as it is less price sensitive.

Strong track record

Over the last decade, BSL's revenues have grown consistently at a CAGR of 26%. The company has been profit making, withstanding the cyclicity of the industry. Timely servicing of debt and regular dividends to shareholders over the years is another positive.

Figure 4: Performance at a glance


Source: Company, Religare Institutional Research

Existing plant capacity

BSL operates three plants: Sahibabad in UP, Khopoli in Maharashtra and Dhenkanal in Orissa (upcoming). The Sahibabad plant has a total capacity of 475,000 TPA and manufactures cold rolled and galvanized products. The Khopoli plant was commissioned in 2004 and has a capacity of 425,000 TPA which is to be increased by 50,000 TPA by FY09. The plant manufactures a range of value added products both for the domestic and export market. Work at the Orissa project is under progress and will be completed by April 2009.

Figure 5: Capacity

Products	Current Capacity (TPA)			Total
	Sahibabad	Khopoli	Dhenkanal	
Cold Rolling				
Widest (upto 1700)	350,000			350,000
Wider (upto 1200)	100,000	325,000		425,000
Narrow (upto 550 mm)	25,000	100,000		125,000
Total Cold Rolling	475,000	425,000		900,000
Galvanized Sheets	225,000	240,000		465,000
Sponge Iron			680,000	680,000
Billets			300,000	300,000
Hardened & Tempered Strips	-	6,000		6,000
Color Coated Sheets	-	80,000		80,000
Galume (Aluminum and Zinc coated)	-	70,000		70,000
Drawn/Precision Tubes	15,000	45,000		60,000
High Tensile Steel Strappings	-	20,000		20,000
Alloy Steel/Wire Rods	63,000			63,000
Service Centre	300,000			300,000
Captive Power	24MW	24MW	110MW	

Source: Company, Religare Institutional Research

Details

Orissa project is on track for timely completion by April 2009

BSL is in the process of setting up a 1.9 MTPA HR plant at Dhenkanal in Orissa to feed its CR mills. The plant which is being set up in a modular structure has already started commercial production and has been generating cash flows. After completion, the plant will have the capacity to manufacture 1.9 MTPA of HR coils, 2.0 MTPA of slabs, 0.3 MTPA of billets and 1.7 MTPA of sponge iron. The project which is being set up at a cost of Rs 52 bn will be completed by April 2009. The company has already spent Rs 40 bn till date.

Figure 6: Additional capacity

Capacities	Already Commissioned	Dec-08	Apr-09
Sponge Iron (MT)	680,000	1,360,000	1,700,000
Billets (MT)	300,000	300,000	300,000
Slabs (MT)		2,000,000	2,000,000
HR mill (MT)			1,900,000
Captive Power Plant (MW)	110		

Source: Company, Religare Institutional Research

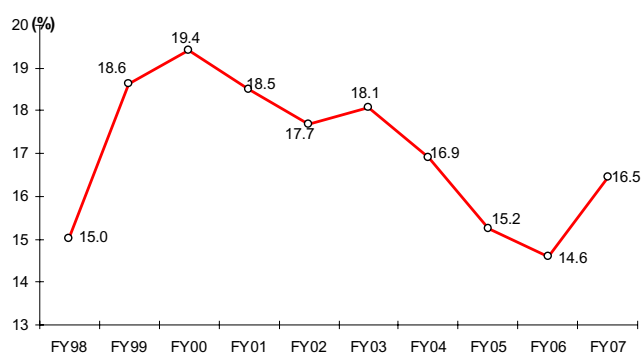
Expansion of Orissa plant at an incremental cost of Rs 39 bn

To capitalize on the booming demand, the management has decided to increase the capacity to 4.5 MTPA at an incremental cost of Rs 39 bn. The plant will have the capacity to manufacture 3.6 MTPA of HR coils and 0.9 MTPA of billets. The expansion which will be carried out at a cost of Rs 39 bn will be funded 70% through debt (Rs 27 bn) and the rest through internal accruals. Financial closure for the same is yet to be achieved. The project is likely to be completed within three years, beginning April 2008.

Completion of backward integration in FY10 to boost margins

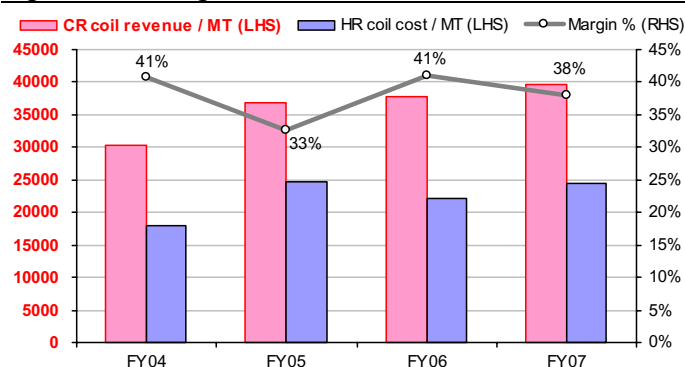
BSL is currently a converter of HR coils into value added products. Therefore it has been relatively insulated from the volatility in steel prices. EBITDA margins have been in the range of 15% to 20% since FY1998. The average CR coil margins have been 40% over the last 4 years except in FY2005.

Figure 7: EBITDA Margins



Source: Source: Company, Religare Institutional Research

Figure 8: CR Margins



Source: Company, Religare Institutional Research

The setting up of the Orissa plant can be viewed as a strategic advantage as it will provide an assured supply of HR coils. On a standalone basis the plant will have higher EBITDA margins as compared to the existing margins. As a significant part of HR coil produced will be consumed in house, we expect overall margins to rise sharply, as in accounting terms in house sales will not be reflected in the top line. However, there will be some growth in the top line as a part of the HR produced will be sold to third parties. EBITDA margins are likely to improve from the current 16%-18% to approximately 35%-40% on

an increased revenue base. Net profit is expected to atleast double in FY10 from Rs 3.1 bn in FY07.

Additional CR capacity at Khopoli plant, Exports to remain at current levels

BSL intends to increase the CR capacity at its Khopoli plant by 50,000 TPA by FY09. This will increase the total plant capacity to 475,000 TPA. Further, export sales are likely to remain at current levels (Rs 15 – 16 bn), as rupee appreciates and domestic demand continues to remain strong.

Steel Prices to remain stable on the back of strong demand and high raw material costs

The management expects strong demand for steel and allied products as domestic consumption continues to be strong. Peak capacity utilization on the back of strong demand from the automobile and consumer durable sector is likely to continue. Raw material costs continue to increase and as the cost of production increases, steel prices are expected to remain positive to stable. The management expects the iron ore prices to increase by 30% next year.

Risks

Delay in completion of Orissa project: BSL will not be able to deliver the desired margins, incase the Orissa project is not completed on time.

Sharp increase in raw material prices: Although the management expects key raw material costs to increase by 30% next year, any unexpected move and inability to pass on the high costs to its customers will adversely impact the financials.

Valuation vis-à-vis peers

Based on Bloomberg consensus estimates, Bhushan Steel appears fairly valued.

Figure 8: Comparison with peers

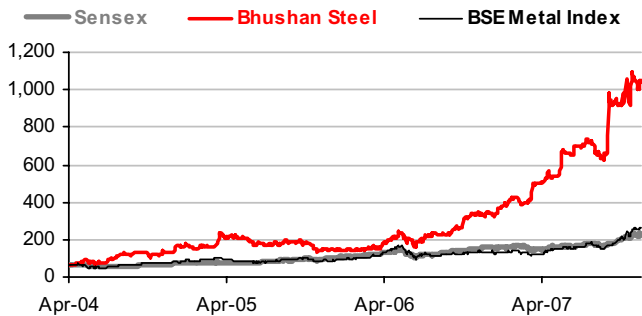
	Price (Rs)	Rating	Mkt Cap (Rs bn)	EPS (Rs)		P/E (x)		EBITDA margins (%)		P/BV (x)		RoE (x)		EV/EBITDA (x)	
				FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
BHUSHAN STEEL LIMITED	1,029	NR	44	89.1	103.6	11.6	9.9	15.9	17.3	2.8	2.2	26.4	21.9	10.1	8.5
TATA STEEL LIMITED	822	NR	601	89.0	93.1	9.2	8.8	16.9	18.7	2.1	1.6	25.4	19.7	4.0	3.8
STEEL AUTHORITY OF INDIA	245	NR	1,014	18.4	20.2	13.3	12.1	30.4	31.5	4.3	3.4	35.7	30.9	8.1	7.1
JSW STEEL LIMITED	913	NR	150	93.8	106.9	9.7	8.5	33.5	35.8	2.2	1.8	25.1	22.9	5.5	4.6

Source: Religare Institutional Research, Bloomberg Consensus Estimates

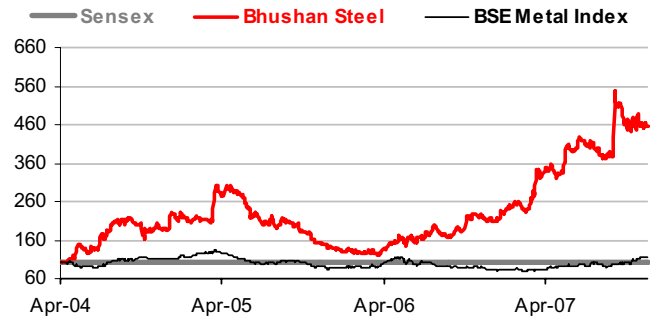
Stock performance

Bhushan Steel

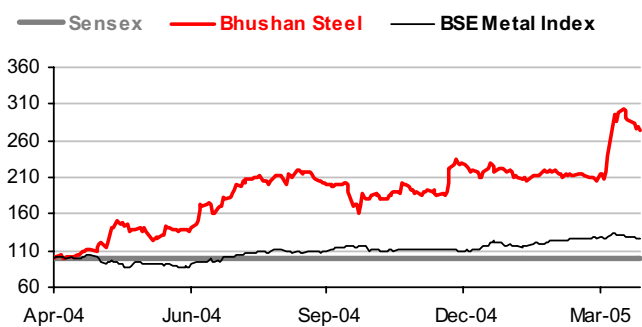
Absolute Perf. From Apr 04



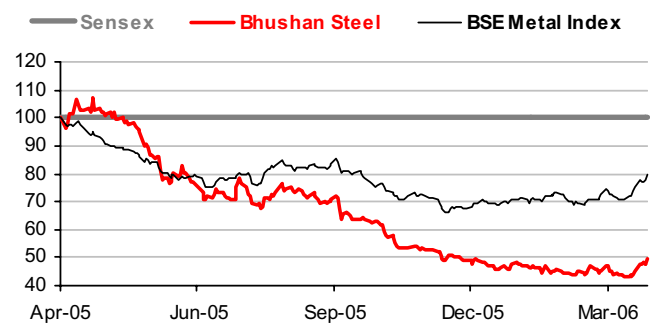
Relative Perf. From Apr 04



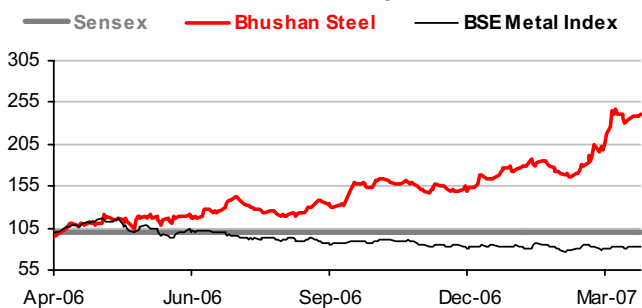
Relative Perf. From Apr 04 to Mar 05



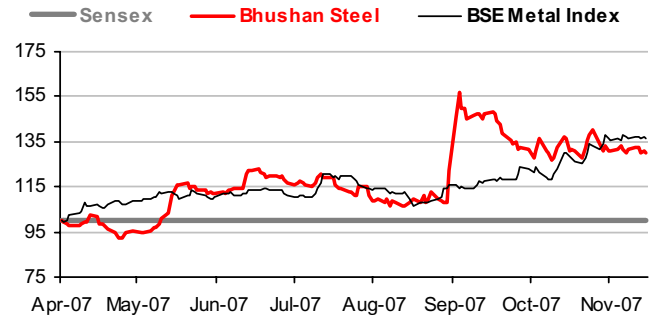
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07



Source: Bloomberg, Religare Institutional Equity Research

Financials

Income statement					
	(Rs mn)				
Y/E, 31st March	FY03	FY04	FY05	FY06	FY07
Net sales	10,984	15,516	26,434	27,150	38,149
EBITDA	1,984	2,624	4,030	3,960	6,281
EBITDA margin (%)	18.1	16.9	15.2	14.6	16.5
Depreciation	718	1,068	1,647	1,658	2,089
EBIT	1,267	1,556	2,382	2,303	4,192
Other income	34	146	68	124	304
Interest Exp/(Inc)	665	662	794	830	773
PBT (operating)	636	1,040	1,657	1,597	3,724
PBT margin (%)	5.8	6.7	6.3	5.9	9.8
Extra ord (inc)/exp	-	-	-	-	-
Taxes	85	137	123	52	591
Minority interest	-	-	-	-	-
PAT(Reported)	550	903	1,534	1,545	3,133
Less: Extra ordinary income / Others	0	0	0	0	0
Adj PAT	550	903	1,534	1,545	3,133

Quarterly – Financials					
	(Rs mn)				
Y/E, 31st March	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Net sales	9,947	10,008	10,319	9,380	10,681
Changes (%)	55.2	49.7	55.7	19.1	7.4
EBITDA	1,504	1,539	1,813	1,543	1,976
Changes (%)	127.7	52.7	39.5	8.2	31.4
Margin (%)	15.1	15.4	17.2	16.5	18.5
PAT	696	717	1,097	981	1,034
PAT adj	696	717	1,097	981	1,034
Changes (%)	371.2	99.1	10.6	57.7	48.6
Margin (%)	7.0	7.2	10.6	10.5	9.7
EPS adj (Rs)	16.7	17.0	26.2	23.1	24.4
EPS dil (Rs)	16.7	17.0	26.2	23.1	24.4

Ratios

Y/E, 31st March	FY03	FY04	FY05	FY06	FY07
Growth					
Net sales (%)	10.0	41.3	70.4	2.7	40.5
EBITDA (%)	12.7	32.2	53.6	(1.7)	58.6
PAT adjusted (%)	37.2	64.0	69.8	0.7	102.8
EPS adjusted (%)	16.7	57.3	69.8	0.0	97.8
EPS diluted (%)	16.7	57.3	69.8	(0.4)	97.2
EPS Consl and diluted (%)	16.7	57.3	69.8	0.0	97.8

Valuations

Y/E, 31st March	FY03	FY04	FY05	FY06	FY07
P/E (x)	74.3	47.2	27.8	27.9	14.1
P/BV (x)	8.5	7.2	5.8	4.9	3.7
EV/EBITDA (x)	25.3	19.7	13.8	15.9	12.1
EV/Sales (x)	4.6	3.3	2.1	2.3	2.0

Profitability

Y/E, 31st March	FY03	FY04	FY05	FY06	FY07
EBITDA margin (%)	18.1	16.9	15.2	14.6	16.5
Adj PAT margin (%)	5.0	5.8	5.8	5.7	8.2
RoE (%)	11.5	16.5	23.2	19.1	29.8
RoCE (%)	10.5	11.6	13.2	9.5	11.9
RoIC (%)	7.2	7.4	9.0	6.4	7.9

B/S ratios

Y/E, 31st March	FY03	FY04	FY05	FY06	FY07
Inventory days	100.6	110.5	93.2	72.3	86.0
Creditor days	58.8	78.3	58.2	72.0	78.9
Debtor days	83.1	82.5	46.9	54.4	51.6
Working Capital days	112.7	96.8	70.7	64.8	48.2
Net debt/equity	1.5	1.5	1.8	2.2	2.6

Balance sheet					
	(Rs mn)				
Y/E, 31st March	FY03	FY04	FY05	FY06	FY07
Liabilities					
Equity share capital	405	405	405	413	425
Total Res. & Surplus	4,625	5,482	6,901	8,484	11,720
Total Shareholders' fund	5,029	5,887	7,306	8,897	12,145
Convertible Debt	-	-	-	-	-
Others Debt	7,778	9,306	13,175	20,362	32,420
Total Loans	7,778	9,306	13,175	20,362	32,420
Deferred tax liability (net)	700	757	749	663	1,237
Total liabilities	13,508	15,950	21,229	29,958	45,802

Assets

Y/E, 31st March	FY03	FY04	FY05	FY06	FY07
Net fixed assets & others	5,286	8,741	10,470	10,201	17,235
Capital WIP & others	4,117	1,906	3,857	12,952	18,921
Total non-current assets	9,403	10,648	14,327	23,153	36,156
Total investments - non current	190	190	190	192	209
Current assets					
Inventories	2,574	3,941	5,817	4,748	7,563
Sundry debtors	2,502	3,507	3,394	4,045	5,389
Cash & cash equivalents	95	113	174	815	1,001
Cash	95	113	174	815	1,001
Liquid investments	-	-	-	-	-
Other current assets	560	895	1,298	2,411	3,674
Total current assets	5,730	8,455	10,683	12,019	17,627
Total current liabilities	1,805	3,291	3,889	5,266	8,012
Total provisions	50	52	81	140	178
Net current assets	3,876	5,112	6,712	6,613	9,438
Misc. expenditure	39	-	-	-	-
Total assets	13,508	15,950	21,229	29,958	45,802

Cash flow

Y/E, 31st March	FY03	FY04	FY05	FY06	FY07
Cash from operations					
PBT	635.9	1,040	1,657	1,597	3,724
Tax paid	0	(114)	(124)	(126)	(407)
Dep & amortization	697.3	1,068	1,647	1,658	2,089
Working capital changes	(208.4)	(1,185)	(1,580)	679	(2,304)
Others	688.5	606	733	728	429
Net cash from operations	181	1,414	2,333	4,535	3,531
Cash from investments					
Capital expenditure	(285)	(2,040)	(5,035)	(9,609)	(13,242)
Sale/purchase of inv & others	(0)	0	72	120	259
Net cash from investments	(285)	(2,039)	(4,963)	(9,489)	(12,983)
Cash from financing					
Issue of shares & share premium	15	0	0	201	204
Dividend paid	(2)	(23)	(91)	(70)	(118)
Debt change	183	1,528	3,869	7,187	12,058
Others	(98)	(862)	(1,086)	(1,723)	(2,506)
Net cash from financing	99	643	2,691	5,595	9,639
Net change in cash	(5)	18	61	641	186

Per share data

Y/E, 31st March	FY03	FY04	FY05	FY06	FY07
EPS adjusted	14.2	22.3	37.9	37.9	75.0
EPS diluted - wtd	14.2	22.3	37.9	37.8	74.5
EPS Consl and diluted	14.2	22.3	37.9	37.8	74.5
CEPS	32.7	48.7	78.6	78.6	125.0
Book value	124.3	145.5	180.5	215.6	286.0
Dividend	0.5	1.0	1.5	2.5	2.5
O/s shs.-actual (mn)	40.5	40.5	40.5	41.3	42.5
O/s shs.-diluted (mn)	38.8	40.5	40.5	40.8	41.8
O/s shs wtd / diluted (mn)	38.8	40.5	40.5	40.9	42.1

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Rating definition

Buy	: > 15% returns relative to Sensex	Accumulate	: +5 to +15% returns relative to Sensex
Sell	: > (-)15% returns relative to Sensex	Reduce	: (-) 5 to (-) 15% returns relative to Sensex
Hold	: Upto + / (-) 5% returns relative to Sensex		

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