

BHEL

₹ 249

Power Packed Investment Snack!**Buy**

Oct 12, 2012

Company Background

Bharat Heavy Electricals Ltd (BHEL) is an integrated power plant equipment manufacturer and one of the largest engineering and manufacturing companies in India, which was established in the year 1964, ushering in the indigenous Heavy Electrical Equipment industry in India - a dream that has been more than realized with a wellrecognized track record of performance. BHEL is the largest manufacturer of Power Equipment in India and provides a range of products & systems for thermal, nuclear, gas and hydro-based power plants. BHEL has 15 manufacturing divisions, two repair units, eight service centers, 15 regional centers and currently operates at more than 150 project sites across India and abroad. It has an annual installed capacity of 20,000 MW. BHEL has proven track record & capabilities to execute turnkey power projects. It supplies steam turbines, generators, boilers and matching auxiliaries up to 1000 MW ratings. It is also a leading manufacturer and supplier of a variety of industrial systems & products to industries such as metallurgical, mining, cement, fertilizers, paper, refineries and petrochemicals along with captive and industrial power utilities.

Key Highlights

- ➔ With a final dividend payout of 184%, BHEL has paid an equity dividend of 320% for fiscal 2011-12, as against 311.5% paid in the year before.
- ➔ BHEL Signs MoU with Govt. of Tajikistan for setting up a 100 MW Hydro-Electric Power Project in the Republic of Tajikistan.
- ➔ BHEL has successfully commissioned a 5 MW eco-friendly Grid-Connected Solar Power Plant in Karnataka. Notably, this is the single largest Solar Photovoltaic (PV) Power Plant in Karnataka. It also set a new record in its Solar PV business in a year, by commissioning 15 MW of Solar Power in 2011-12.
- ➔ BHEL has achieved a major contract for the electro-mechanical equipment package for a 1,020 MW (6x170 MW) Hydroelectric project in Bhutan & Valued at Rs.9,500 Million.
- ➔ BHEL bagged major contract for 500 MW from NTPC worth ₹ 1,143 Crore for setting up thermal unit at Vindhyachal. It also won contract for setting up the Gas Turbine-based CCPP against ICB from Pragati Power Corporation Ltd.

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	350,986.3	431,654.2	498,193.4
Rev. growth (%)	21.91	22.98	15.41
EBITDA (INR mn)	71,849.2	95,700.4	110,686.8
Net profit (INR mn)	43,106.4	60,112.0	70,399.6
Shares outstanding (mn)	489.5	489.5	2,447.6
EPS (INR)	88.1	122.8	28.8
EPS growth (%)	37.36	39.45	(76.58)
Networth	159173.6	201538.4	253732.1
RONW(%)	11.7	28.0	24.6
ROCE (%)	11.6	27.8	24.4

Arpit Jain

aj@indiratrade.com

Info Codes

Reuters	: BHEL.BO
Bloomberg	: BHEL@IN
NSE	: BHEL
BSE	: 500103

Market Data

52 Wk Range (₹)	: 344 / 195
Shares in Issue (mn)	: 2447.6
Mkt. Cap (₹ bn)	: 600.51
BSE 2 Wk Avg Vol	: 834000

Share Holding Pattern (%)

Promoters	: 67.72
DII's	: 12.72
FII's	: 14.35
Others	: 05.21

Investment Theme

BHEL is India's dominant producer of power and industrial machinery, and a leading EPC company. As per MoU signed by BHEL with ministry of Heavy Industries, the company targets ₹ 500 bn turnover for FY 13, which is achievable given its current order backlog. BHEL is the largest Power Equipment supplier in India and the total installed capacity of BHEL supplied utility sets has crossed 100 GW mark thereby maintaining its leadership position with ~ 60% market share. During 11th plan, BHEL's market share stood at 54%. Going forward, with huge Power capacity additions expected for next 5-10 years, BHEL, with its strong track Record, vast experience and capability in executing projects in power and industrial sectors, is expected to capitalize most imminent opportunities in India and abroad.

Powerful in Power !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	346134.3	440027.6	27.13	502608.1	14.22
Other Income	10857.3	10153.1	(6.49)	12655.5	24.65
Change in Stocks	7866.5	1273.5	(83.81)	8232.0	546.41
Raw Material Con.	177527.4	198874.5	12.02	251131.2	26.28
Employee Exp.	64491.7	53967.1	(16.32)	54658.3	1.28
Indirect Taxes	13871.8	19800.0	42.74	25302.2	27.79
Other Exp.	37118.0	83112.2	123.91	81717.1	(1.68)
Operating Exp.	285142.4	354480.3	24.32	404576.8	14.13
Operating Profit	60991.9	85547.3	40.26	98031.3	14.59
Total Interest	335.0	547.3	63.37	512.8	(6.30)
Gross Profit	71514.2	95153.1	33.05	110174.0	15.79
Net Dep.	4580.1	4756.1	3.84	8000.0	68.21
Total Taxation	23263.5	30881.3	32.75	32623.0	5.64
Net Profit/Loss	43106.4	60112.0	39.45	70399.6	17.11

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	130,881.8	160,451.1	203,171.9	254,966.4
Equity Share capital	4,895.2	4,895.2	4,895.2	4,895.2
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	124,492.9	154,278.4	196,643.2	248,836.9
Secured Loans	0.0	0.0	0.0	0.0
Unsecured Loans	1,493.7	1,277.5	1,633.5	1,234.3
USES OF FUNDS	130,881.8	160,451.1	203,171.9	254,966.4
Gross Block	52,244.3	65,797.0	80,493.0	97,296.2
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	37,544.7	41,647.4	46,488.2	54,098.3
Net Block	14,699.6	24,149.6	34,004.8	43,197.9
Capital Work in Progress	12,127.0	15,504.9	17,626.2	13,246.3
Investments	523.4	798.4	4,391.7	4,616.7
Current Assets	387,438.6	445,155.3	612,148.7	606,699.3
Less : Current Liabilities	283,906.8	325,157.1	464,999.5	412,793.8
Total Net Current Assets	103,531.8	119,998.2	147,149.2	193,905.5
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	523.4	798.4	4,391.70	4,616.70
Mkt Val. Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	24,243.3	23,242.6	25,381.3	25,462.5
Dividend (%)	170	233	312	320

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 11	Dec 11	Mar 12	Jun 12
Net Sales	105,455.10	107,430.80	195,889.40	84,390.10
Cost Of Sales	85,863.10	86,626.30	146,517.20	72,368.20
Operating Profit	19,592.00	20,804.50	49,372.20	12,021.90
Recurring Income	2,198.60	1,960.20	3,989.10	3,662.70
Adjusted PBDIT	21,790.60	22,764.70	53,361.30	15,684.60
Financial Expenses	96.40	145.00	183.40	55.20
Depreciation	1,888.10	1,861.40	2,541.40	2,283.90
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	19,806.10	20,758.30	50,636.50	13,345.50
Tax Charges	5,685.80	6,432.20	16,838.40	4,136.50
Adjusted PAT	14,120.30	14,326.10	33,798.10	9,209.00
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	14,120.30	14,326.10	33,798.10	9,209.00

52 Week Index Relative Percentage Appreciation



BHEL vs SENSEX vs Capital Goods vs Power vs PSU

Points to Ponder

BHEL has achieved another major breakthrough in the nuclear power segment with an order for Steam Turbine Generators for new rating 700 MWe Nuclear Sets, based on Pressurised Heavy Water Reactors. Significantly, these will be the highest rating indigenously-developed nuclear sets in the country. Valued at over ₹ 19,060 Mn, the contract has been placed on the BHEL-Alstom consortium by Nuclear Power Corporation of India Limited (NPCIL) for its 2x700 MWe Rawatbhata Nuclear Power Station (Units 7&8), located in Rajasthan. In value terms, BHEL's share in the contract is around ₹ 12,070 Mn. The BHEL-Alstom consortium will supply the turbine generator packages for the two new 700 MWe units at the power station. The project will contribute to India's plans to increase its nuclear capacity to 21 GW by 2020. With an existing installed capacity of 4,780 MW, nuclear power is currently the fourth-largest source of electricity in India after thermal, hydro and renewable energy.

Risks Associated

Orders in the power equipment space have slowed down drastically due to macro headwinds, which is likely to significantly impact BHEL's growth prospects. Intensified competition from Chinese, Korean and private Indian players will result in deterioration in pricing environment and margin squeeze. The current order book is likely to face execution delays due to liquidity constraints at clients.

In a Nutshell

BHEL is engaged in design, engineering, manufacture, construction, testing, commissioning and servicing of a wide range of products and services for the core sectors of the economy, viz. Power, Transmission, Industry, Transportation, Renewable Energy, Oil & Gas and Defence. It has 15 manufacturing divisions, two repair units, four regional offices, eight service centres, eight overseas offices and 15 regional centres and currently operates at more than 150 project sites across India and abroad. BHEL's research and development (R&D) efforts are aimed not only at improving the performance and efficiency of existing products, but also at using state-of-the-art technologies and processes to develop new products. BHEL has been committed to the nation's power development programme and has equipped itself by way of contemporary technology, state-of-the-art manufacturing facilities & skilled technical manpower. Significantly, the company has established the capability to deliver equipment of 20,000 MW per annum. BHEL's global references spread across 75 countries include the entire gamut of BHEL's products such as power plants, turbines, generators, sub-stations, transformers, motors, photo-voltaic equipment, oil-field equipment, etc. The high level of quality & reliability of products is due to adherence to international standards by acquiring and adapting some of the best technologies from leading companies in the world. The cumulative overseas installed capacity of BHEL manufactured power plants exceeds 9,000 MW across 21 countries. BHEL is currently executing various power plant projects in as many as 20 countries to install about 5,000 MW of generating equipment.

Indira Group Offices

Registered Office	: Singh House, 3rd Floor, 23/25 Ambalal Doshi Marg, Fort, Mumbai 400023
	Tel : +91-22-22656812 Fax : +91-22-22656985 Email : im@indiratrade.com
Administrative Office	: Ramavat House, E-15 Saket Nagar, Indore 452018
	Tel : +91-731-2566361 Fax : +91-731-2562117 Email : ii@indiratrade.com
Institutional Dealing Unit	: Africa House, 3rd Floor, 5 Topiwala Lane, Lamington Road, Mumbai 400007
	Tel : +91-22-30080675 Fax : +91-22-23870767 Email : ie@indiratrade.com

Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

Disclaimer

This document has been prepared by Indira Group of Companies (Indira). Indira and its associate companies are a full fledged retail and institutional broking group. Our research analysts and sales persons provide important input into our investment broking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Indira or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Indira and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Indira reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Indira is under no obligation to update or keep the information current. Nevertheless, Indira is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Indira nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The Analyst does not have any holding in this stock.