

BHEL

₹ 139

Heavy Stock - Light Price**Accumulate**

Sep 6, 2013

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

Bharat Heavy Plate Vessels Ltd. merged with BHEL making it BHEL's 17th unit. The merger paves way for BHEL in further diversifying its portfolio. BHPVL derives strength from numerous clients in the Oil, Steel, Cement & Fertilizer sectors. This will also facilitate BHEL's entry into the Oil & Gas Sectors for products like Group Gathering Stations, Gas Processing Units etc. After merger, BHEL will be in a position to bid for entire systems / sub-systems & progress to qualify for EPC contracts in these sectors & expects an additional business of over Rs.54 bn in the next 5 years. In addition, BHPVL shall be developed as a hub for industrial boilers. There is a business potential of Rs.90 bn in the next 5 years for industrial boilers and BHEL would strive for major share of this business through BHPVL. It would become BHEL's first strategically located coast-based plant which has a sea front facility for fabrication & transportation of heavy equipment through barge & shall be used by BHEL in transportation of heavy over dimensional consignments for domestic and international orders.

Key Financials

Year Ended 31 st	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	440,106.5	508,854.0	515,992.8
Rev. growth (%)	18.80	15.62	1.40
EBITDA (INR mn)	132,923.9	134,180.0	136,704.0
Net profit (INR mn)	60,112.0	70,399.6	66,147.3
Shares outstanding (mn)	489.5	2,447.6	2,447.6
EPS (INR)	122.8	28.8	27.0
EPS growth (%)	39.45	(76.58)	(6.04)
P/E (x)	10.3	46.9	47.4
RONW (%)	28.0	27.3	18.1
ROCE (%)	27.8	27.1	17.6

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Info Codes

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

Market Data

52 Wk Range (₹)	: 272 / 100
Shares in Issue (mn)	: 346.45
Mkt. Cap (₹ bn)	: 379.61
BSE 2 Wk Avg Vol	: 1950000

Share Holding Pattern (%)

Promoters	: 67.72
DII's	: 12.24
FII's	: 14.98
Others	: 05.06

Investment Theme

BHEL has emerged as the market leader in co-generation and captive power plants, offering units from 10 MW onwards for both steam turbine-based and gas-based combined cycle power projects for complete power and process steam requirements of various industries. BHEL offers integrated solutions for captive thermal power plants - be it coal/ oil/ gas fired, combined cycle or open cycle, including co-generation plants, covering the entire range required by industries. The company offers most optimum configurations to suit customer's specific requirements. With its recent acquisitions and orders it is all set to diversify into allied portfolio's of product and services. This will give its business both a boost and a competitive edge. Market has beaten down the prices and we feel this is one rare opportunity to get a Maharatna, so Cheap.

Expanding its Service Portfolio!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	440028.1	502563.9	14.21	509631.5	1.41
Other Income	19855.4	20898.6	5.25	26859.3	28.52
Change in Stocks	1273.5	8232.0	546.41	(1162.1)	(114.12)
Raw Material Con.	198189.4	250090.1	26.19	235518.6	(5.83)
Employee Exp.	53967.1	54654.3	1.27	57527.8	5.26
Indirect Taxes	20307.3	25916.3	27.62	29305.9	13.08
Other Exp.	65209.2	78459.0	20.32	88604.3	12.93
Operating Exp.	336399.5	400887.7	19.17	412118.7	2.80
Operating Profit	103628.6	101676.2	(1.88)	97512.8	(4.09)
Total Interest	547.3	512.8	(6.30)	1255.6	144.85
Gross Profit	122936.7	122062.0	(0.71)	123116.5	0.86
Net Dep.	32067.8	18821.1	(41.31)	28181.8	49.74
Total Taxation	30756.9	32841.3	6.78	28787.4	(12.34)
Net Profit/Loss	60112.0	70399.6	17.11	66147.3	(6.04)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 10	Mar 11	Mar 12	Mar 13
SOURCES OF FUNDS	160,451.4	203,171.8	255,662.2	319,437.9
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	154,278.4	196,643.2	248,836.9	299,545.8
Long Term Loans	1,221.9	1,595.9	1,881.9	2,066.2
Short Term Loans	55.9	37.5	48.2	12,930.7
USES OF FUNDS	160,451.4	203,171.8	255,662.2	319,437.9
Gross Block	65,801.4	80,497.4	97,066.4	107,832.6
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	41,647.4	46,488.2	54,098.3	63,247.7
Net Block	24,154.0	34,009.2	42,968.1	44,584.9
Capital Work in Progress	15,500.5	17,337.6	13,476.1	11,715.9
Investments	798.4	4,391.7	4,616.7	4,291.7
Current Assets	503,641.9	621,418.9	716,904.2	763,332.8
Less : Current Liabilities	383,643.4	473,985.6	522,302.9	504,487.4
Total Net Current Assets	119,998.5	147,433.3	194,601.3	258,845.4
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	798.4	4,391.7	4,616.7	4,291.7
Mkt Val. Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	45,560.3	74,667.4	31,289.6	37,649.3
Dividend (%)	233	312	320	271

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 12	Dec 12	Mar 13	Jun 13
Net Sales	105,615.50	102,197.10	192,043.80	64,581.20
Cost Of Sales	86,620.80	85,856.50	145,531.60	60,695.40
Operating Profit	18,994.70	16,340.60	46,512.20	3,885.80
Recurring Income	1,306.70	3,323.80	2,923.90	5,384.80
Adjusted PBDIT	20,301.40	19,664.40	49,436.10	9,270.60
Financial Expenses	258.60	509.10	405.30	277.60
Depreciation	2,163.10	2,197.90	2,889.00	2,308.00
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	17,879.70	16,957.40	46,141.80	6,685.00
Tax Charges	5,135.20	5,138.90	14,376.70	2,030.70
Adjusted PAT	12,744.50	11,818.50	31,765.10	4,654.30
Non Recurring Items	0.00	0.00	610.30	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	12,744.50	11,818.50	32,375.40	4,654.30

52 Week Index Relative Percentage Appreciation

Hero vs SENSEX vs Capital Goods vs Power vs PSU
Points to Ponder

- ➔ In the face of stiff competition BHEL has won a contract for supplying the Gas Turbine Generator package for an energy efficient and environment-friendly co-generation captive power plant at Kochi Refinery in Kerala. Valued at around Rs.2.7 bn, the order has been placed on BHEL by Bharat Petroleum Corporation Limited for its Integrated Refinery Project at Kochi Refinery. The order envisages supply and supervision of 3 nos. Gas Turbines of 34.5 MW rating each, with associated auxiliaries and control systems. The gas turbine will be operated in the cogeneration mode for meeting the power and process steam requirement of the upcoming Kochi refinery expansion project. The equipment for the project will be supplied by BHEL's Hyderabad plant and Electronics Division, Bangalore. Erection and commissioning of the Gas Turbine package will be carried out by the company's Power Sector – Southern Region.
- ➔ Bharat Heavy Electricals Limited (BHEL) has won major turnkey contracts for setting up two eco-friendly Grid-Connected Solar Power Plants of 10 MW capacity each. Valued at Rs.1.3 bn, the orders have been placed on BHEL by NTPC for setting up the Solar PhotoVoltaic (SPV) power plants, each of 10 MW capacity, at Unchahar in Uttar Pradesh and Talcher in Odisha. BHEL's scope of the work in the order envisages design, manufacture, supply, installation and operation & maintenance of the solar power plants for one year. Significantly, BHEL has already commenced supplies to both the Solar Power Projects.
- ➔ BHEL has won a prestigious order for the Energy Efficient Renovation & Modernisation (EE R&M) of a 210 MW thermal unit in Maharashtra. With this order, BHEL has made an entry into the Energy Efficient Renovation, Modernisation and Upgrading business. More and more Utilities in the country are preparing to go in for R&M of aging thermal units to extend the life of the plants as well as to maximize generation.

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, photovoltaic 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.

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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

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