

**BHEL**

₹ 283

**New & Powerful !****Accumulate**

Jul 31, 2015

**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 well-recognized 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**

- ➔ BHEL has signed 3 MoU's with Kazakistan Cos the major one being with JSC Samruk Energy the national power utility who holds a major share there. It is also exploring collaboration opportunities to grow exports business there.
- ➔ Continuing commissioning strides BHEL has successfully commissioned the second 500MW Thermal power project at Tuticorin just in a year of commissioning the first phase.
- ➔ BHEL has focussed on Research induced growth and is spending around 2.5%+ of its turnover in R&D. The average numbers of Patents & Copyrights filed by the company is more than 1 per day.
- ➔ Diversification of business has been receiving the focus of Management of BHEL in recent years. Capacity expansion, product development, collaboration with stakeholders, capabilities' consolidation and gaining execution experience are being pursued in various business verticals to enhance share of Industry Segment in turnover-mix.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 12	Mar 13	Mar 14
Revenue (INR mn)	5,08,854.0	5,15,992.8	4,23,648.8
Rev. growth (%)	15.6	1.4	(17.9)
EBITDA (INR mn)	1,34,180.0	1,36,704.0	97,043.3
Net profit (INR mn)	70,399.6	66,147.3	34,607.8
Shares outstanding (mn)	2,447.6	2,447.6	2,447.6
EPS (INR)	28.8	27.0	14.1
EPS growth (%)	259.5	(6.0)	(47.7)
P/E (x)	8.9	6.5	13.9
RONW (%)	27.3	18.1	6.8
ROCE (%)	27.1	17.6	6.4

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**Info Codes**

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

**Market Data**

52 Wk Range (₹)	: 300 / 195
Shares in Issue (mn)	: 2447.6
Mkt. Cap (₹ bn)	: 682.14
BSE 2 Wk Avg Vol	: 268000

**Share Holding Pattern (%)**

Promoters	: 63.06
FII's	: 16.11
DII's	: 17.34
Others	: 3.49

**Investment Theme**

BHEL has emerged as the market leader in co-generation and captive power plants garnering around 72% of the Indian Power Segment Market share. It offers 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. BHEL offers 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. We feel this is a good opportunity to accumulate a Maharatna.

**Actually Heavyweight**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 12	Mar 13	% Chg	Mar 14	% Chg
Total Sales + Excise	502563.9	509631.5	1.41	410575.1	(19.44)
Other Income	20898.6	26859.3	28.52	29175.9	8.62
Change in Stocks	8232.0	(1162.1)	(114.12)	(10574.0)	809.90
Raw Material Con.	250090.1	235518.6	(5.83)	176382.4	(25.11)
Employee Exp.	54654.3	55652.2	1.83	57352.2	3.05
Indirect Taxes	25916.3	29305.9	13.08	23177.1	(20.91)
Other Exp.	78459.0	88604.3	12.93	83052.2	(6.27)
Operating Exp.	400887.7	410243.1	2.33	350537.9	(14.55)
Operating Profit	101676.2	99388.4	(2.25)	60037.2	(39.59)
Total Interest	512.8	1255.6	144.85	1331.4	6.04
Gross Profit	122062.0	124992.1	2.40	87881.7	(29.69)
Net Dep.	18821.1	30057.4	59.70	37425.4	24.51
Total Taxation	32841.3	28787.4	(12.34)	15848.5	(44.95)
Net Profit/Loss	70399.6	66147.3	(6.04)	34607.8	(47.68)

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 11	Mar 12	Mar 13	Mar 14
<b>SOURCES OF FUNDS</b>	<b>2,03,171.8</b>	<b>2,55,662.2</b>	<b>3,19,440.0</b>	<b>3,57,802.1</b>
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	1,96,643.2	2,48,836.9	2,99,545.8	3,25,575.3
Long Term Loans	1,595.9	1,881.9	2,067.7	1,747.8
Short Term Loans	37.5	48.2	12,931.3	25,583.8
<b>USES OF FUNDS</b>	<b>2,03,171.8</b>	<b>2,55,662.2</b>	<b>3,19,440.0</b>	<b>3,57,802.1</b>
Gross Block	80,497.4	97,066.4	1,07,832.6	1,20,504.9
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	46,488.2	54,098.3	63,247.7	73,575.5
Net Block	34,009.2	42,968.1	44,584.9	46,929.4
Capital Work in Progress	17,337.6	13,476.1	11,715.9	6,421.2
Investments	4,391.7	4,616.7	4,291.7	4,201.7
Current Assets	6,21,418.9	7,16,904.2	7,63,334.9	7,88,227.3
Less : Current Liabilities	4,73,985.6	5,22,302.9	5,04,487.4	4,87,977.5
Total Net Current Assets	1,47,433.3	1,94,601.3	2,58,847.5	3,00,249.8
Misc. Expenses not writtenoff	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	4,391.7	4,616.7	4,291.7	4,201.7
Mkt Val. Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	74,667.4	31,289.6	37,649.3	50,200.4
Dividend (%)	312	320	271	142

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Jun 14	Sep 14	Dec 14	Mar 15
Net Sales	51549.7	61440.2	61979.6	126860.3
Cost Of Sales	49370.5	58524.7	59041.6	110042.4
Operating Profit	2179.2	2915.5	2938.0	16817.9
Recurring Income	3477.9	1961.2	2741.0	160.2
Adjusted PBDIT	5657.1	4876.7	5679.0	16978.1
Financial Expenses	472.7	126.2	52.3	265.3
Depreciation	2725.4	2662.2	2564.3	2821.3
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	2459.0	2088.3	3062.4	13891.5
Tax Charges	524.0	839.9	936.4	4349.2
Adjusted PAT	1935.0	1248.4	2126.0	9542.3
Non Recurring Items	0.0	0.0	0.0	(658.8)
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	1935.0	1248.4	2126.0	8883.5

**52 Week Index Relative Percentage Appreciation**



**BHEL vs SENSEX**

**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.

**Points to Ponder**

- ➔ In a market which has sharply contracted and has become fiercely competitive in recent years, BHEL further strengthened its leadership position with a market share of 72% in the Indian Power Sector.
- ➔ In view of current coal situation in the country, BHEL has developed new fuel flexible supercritical boilers which can operate and maintain steam generation in the extreme cases of 100% specified Indian coal as well as 100% specified imported coal. This design will ensure continuous running of the Unit at rated capacity for different types of Indian or imported coal either individually or in combination.
- ➔ BHEL is a leading manufacturer of a variety of Industrial Systems & Products and meets the growing demand for major industries like metallurgical, mining, cement, paper, fertilizers, refineries & petro-chemicals etc. besides Captive/Industrial utilities. Major offerings include: Captive Power Plants, Transmission Systems & Products, Transportation, Renewables, Turnkey Solutions for Water Treatment , Industrial Products and Defence.



**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 supplies steam turbines, generators, boilers and its auxiliaries from 10 MW upto 800 MW based on supercritical technology and has the facilities to make thermal sets up to 1000 MW unit size. It 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. It spends nearly 2.5% of its revenue on R&D. BHEL has proven expertise in plant performance improvement through Renovation, Modernisation and Uprating of variety of power plant equipment. The company has established the capability to deliver equipment of 20,000 MW per annum. BHEL's global references spread across 76 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. BHEL has supplied equipment worth -138 GW in India speaks volumes with a contribution of 57% to India's Total Installed Capacity and 65% of India's Total Generation. The cumulative overseas installed capacity of BHEL manufactured power plants exceeds 17,000 MW. BHEL is currently executing various power plant projects in as many as 21 countries to install generating equipment.

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**Rating Interpretation**

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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