

31st January, 2012

Key Take Away

| | |
|----------------|---------|
| CMP | 245 |
| Recommendation | NEUTRAL |
| Target Price | -- |

Scrip Details

| | |
|-----------------------|---------|
| Market Cap (RsMn) | 600029 |
| P/E (FY13E) | 10x |
| Equity Capital (RsMn) | 4895 |
| Face Value (Rs) | 2 |
| 52 Week High/Low (Rs) | 459/225 |

Website: www.bhel.com

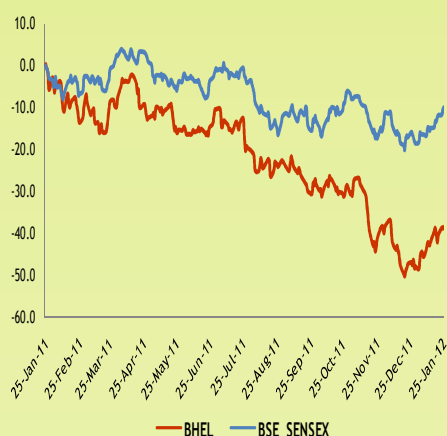
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|----------|-------|
| NSE Code | BHEL |
| Sensex | 16863 |
| Nifty | 5087 |

Shareholding Pattern (%)

As on 31st December, 2011

| | |
|------------------------|-------|
| Promoters | 67.72 |
| MFs, FIs & Banks | 13.54 |
| FIs | 12.41 |
| Other Bodies corporate | 3.75 |
| Public and others | 2.58 |

Comparative Price Movement



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Q3FY12 Diminishing View

Order inflows disrupted severely

- Order inflows for 9MFY12 were at Rs.153bn, as against Rs.358bn for 9MFY11. As per the management, orders worth Rs.58.5bn were cancelled in Q3FY12, including 2X600MW coal-based power project of a private developer & 1X300MW.
- Order backlog stood @ Rs.1465bn down by 7% yoy & 9% qoq. Of the total order book power segment stood power segment stood at Rs.1174bn, industry at Rs.197bn & the international orders at Rs.94bn.
- Company has received Lols for two projects (worth INR14bn) in January 2012 - 300MW from Abhijit Group worth INR6.3bn and six oil rigs from ONGC worth INR7.7bn.

Order execution in line, but margins falter

- BHEL's 3QFY12 revenues of Rs.105bn (+19% YoY) were in line with our estimates of Rs.108bn. The Power equipment segment, which accounts for a chunk of revenues (~79%), registered a growth of 58%, while the industrial equipment business (~21%),degrew by 37%.
- Inflation in input costs and other operating costs rose by 28% and 65% respectively. Other expenditure rose on account of higher transportation costs, which rose by Rs.1.4bn yoy due to the despatch of higher rating sets. Additionally, higher provisioning for liquated damages and contractual obligations by ~Rs.1.6bn also took a toll on operational profitability.
- Consequently, EBIDTA was flat @Rs.20.8bn yoy. A higher component of other income and lower tax provisioning resulted in BHEL recording a PAT growth of 2% yoy @Rs.14.3bn.

Valuations

With clouds surrounding the Power sector & no clear visibility of orders, at its CMP of Rs.245 we give a '**NEUTRAL**' rating for BHEL.

| Particulars (mlns) | 2009-10 | 2010-11 | 2011-12E | 2012-13E |
|--------------------|---------|---------|----------|----------|
| Net Sales | 328611 | 415661 | 479646 | 421489 |
| PAT | 43107 | 60112 | 68853 | 59768 |
| EBIDTA % | 21.16% | 22.95% | 22.00% | 22.03% |
| PAT % | 13.12% | 14.46% | 14.35% | 14.18% |
| EPS | 87.60 | 122.80 | 28.13 | 24.42 |
| PE | 27.23 | 16.78 | 8.71 | 10.03 |
| ROCE % | 34.9% | 35.2% | 31.3% | 23.5% |
| ROE % | 27.1% | 29.8% | 27.3% | 20.3% |

Other Key Highlights

- Net working capital stood at INR142bn. Working capital was impacted adversely as debtors increased besides customer advances came in lower due to lack of new major orders.
- Cash position deteriorated sharply as cash balance reduced to Rs.50bn from Rs.80bn at the end of Q2FY12.
- The two Rajasthan orders where BHEL is L1, the management has updated that Coal/ Land / Environmental issues had been sorted out.
- Regarding the NTPC bulk tender, hearing is over & completed for the 660MW boiler order and judgment is awaited.
- Regarding the 800MW NTPC bulk tender, the Lols are awaited.
- On the T&D front, the management has informed that it has commissioned 1200kv transformer at BINA based on in-house technology.

Quarterly Financials (Rs.Mn)

| Quarterly Financials | | | | | | | | |
|------------------------------|---------------|---------------|---------|---------------|---------|---------------|---------------|---------|
| Particulars | Q3 FY 11-12 | Q3 FY 10-11 | Y-o-Y % | Q2 FY 11-12 | Q-o-Q % | 9MFY 11-12 | 9MFY 10-11 | Y-o-Y % |
| Order Backlog (blns) | 1465 | 1580 | -7% | 1610 | -9% | 1465 | 1580 | -7% |
| Gross sales | 110783 | 92798 | 19% | 107576 | 3% | 292691 | 247565 | 18% |
| Excise Duty | 5303 | 4305 | 23% | 4590 | 16% | 12969 | 10991 | 18% |
| <i>% of Sales</i> | 4.79% | 4.64% | | 4.27% | | 4.43% | 4.44% | |
| Net Sales | 105480 | 88493 | 19% | 102986 | 2% | 279722 | 236574 | 18% |
| Operating Income | 1951 | 1741 | 12% | 2469 | -21% | 5878 | 4576 | 28% |
| <i>% of Sales</i> | 1.85% | 1.97% | | 2.40% | | 2.1% | 1.9% | |
| Gross Income | 107431 | 90233 | 19% | 105455 | 2% | 285601 | 241150 | 18% |
| Inc/Dec in Stock | -4745 | -2759 | 72% | -4478 | 6% | -13530 | -7943 | 70% |
| <i>% of Sales</i> | -4.50% | -3.12% | | -4.35% | | -4.8% | -3.4% | |
| Cons. of Raw Materials | 64882 | 50857 | 28% | 65658 | -1% | 176346 | 143775 | 23% |
| <i>% of Sales</i> | 61.51% | 57.47% | | 63.75% | | 63.0% | 60.8% | |
| Staff Cost | 13377 | 13487 | -1% | 13491 | -1% | 39878 | 39505 | 1% |
| <i>% of Sales</i> | 12.68% | 15.24% | | 13.10% | | 14.3% | 16.7% | |
| Other Expenditure | 13113 | 7932 | 65% | 11192 | 17% | 31378 | 19122 | 64% |
| <i>% of Sales</i> | 12.43% | 8.96% | | 10.87% | | 11.2% | 8.1% | |
| Total Expenditure | 86626 | 69516 | 25% | 85863 | 1% | 234072 | 194459 | 20% |
| <i>% of Sales</i> | 82.13% | 78.56% | | 83.37% | | 83.7% | 82.2% | |
| Operating Profits | 20805 | 20717 | 0% | 19592 | 6% | 51529 | 46691 | 10% |
| <i>% of Sales</i> | 19.72% | 23.41% | | 19.02% | | 18.42% | 19.74% | |
| Other Income | 1960.2 | 1529 | 28% | 2199 | -11% | 6645.3 | 4783.8 | 39% |
| <i>% of Sales</i> | 1.86% | 1.73% | | 2.14% | | 2.38% | 2.02% | |
| Interest | 145 | 145 | 0% | 97 | 49% | 329.4 | 242.3 | 36% |
| <i>% of Sales</i> | 0.14% | 0.16% | | 0.09% | | 0.12% | 0.10% | |
| P/L Bef Dep. & Taxes | 22620 | 22102 | 2% | 21694 | 4% | 57845 | 51232.6 | 13% |
| Depreciation | 1861.4 | 1447 | 29% | 1888 | -1% | 5458.6 | 4056.8 | 35% |
| <i>% of Sales</i> | 1.76% | 1.64% | | 1.83% | | 1.95% | 1.71% | |
| P/L Before Tax | 20758.3 | 20655 | 1% | 19806 | 5% | 52386.1 | 47175.8 | 11% |
| Prov. for Taxation | 6432.2 | 6623 | -3% | 5686 | 13% | 15784.6 | 15044.2 | 5% |
| % PBT | 30.99% | 32.06% | | 28.71% | | 30.13% | 31.89% | |
| Net Profit(+)/Loss(-) | 14326 | 14032 | 2% | 14120 | 1% | 36602 | 32132 | 14% |
| <i>% of Sales</i> | 13.58% | 15.86% | | 13.71% | | 13.08% | 13.58% | |
| Face Value of Share (in Rs.) | 2 | 2 | | 2 | | 2 | 2 | |
| Paid-up Equity Share Capital | 4895.2 | 4895.2 | | 4895.2 | | 4895.2 | 4895.2 | |
| Basic EPS (in Rs.) | 5.85 | 5.73 | 2% | 5.77 | 1% | 14.95 | 13.13 | 14% |

Segmental Results

| Particulars | Q3 FY 11-12 | Q3 FY 10-11 | Y-o-Y % | Q2 FY 11-12 | Q-o-Q % | 9MFY 11-12 | 9MFY 10-11 | Y-o-Y % |
|------------------------|----------------|---------------|------------|----------------|------------|----------------|----------------|------------|
| Segment Revenue | | | | | | | | |
| Power | 87,115 | 55,023 | 58% | 77,973 | 12% | 135,776 | 124,280 | 9% |
| <i>% of Total</i> | <i>78.6%</i> | <i>59%</i> | | <i>72.5%</i> | | <i>74.6%</i> | <i>80.3%</i> | |
| Industry | 23,668 | 37,775 | -37% | 29,603 | -20% | 46,132 | 30,487 | 51% |
| <i>% of Total</i> | <i>21.4%</i> | <i>41%</i> | | <i>27.5%</i> | | <i>25.4%</i> | <i>19.7%</i> | |
| Total | 110,783 | 92,798 | 19% | 107,576 | 3% | 181,908 | 154,767 | 18% |
| Segment Profits | | | | | | | | |
| Power | 16,570 | 17,133 | -3% | 13,159 | 26% | 22,677 | 24,892 | -9% |
| Industry | 7,486 | 3,730 | 101% | 8,004 | -6% | 11,737 | 5,300 | 121% |
| Total | 24,056 | 20,863 | 15% | 21,163 | 14% | 34,414 | 30,192 | 14% |
| PBIT Margins | | | | | | | | |
| | 21.7% | 22.5% | | 19.7% | | 18.9% | 19.5% | |
| <i>Power (%)</i> | <i>19.0%</i> | <i>31%</i> | | <i>16.9%</i> | | <i>16.7%</i> | <i>20.0%</i> | |
| <i>Industry (%)</i> | <i>31.6%</i> | <i>10%</i> | | <i>27.0%</i> | | <i>25.4%</i> | <i>17.4%</i> | |

Financials:

| Profit & Loss a/c Statement | | | | |
|-------------------------------------|---------|---------|----------|----------|
| Particulars (Rs. Mln) | 2009-10 | 2010-11 | 2011-12E | 2012-13E |
| Net Sales | 328611 | 415661 | 479646 | 421489 |
| Other Income | 16486 | 17011 | 21488 | 18630 |
| Total Income | 345097 | 432672 | 501134 | 440118 |
| % Growth | 24.54% | 25.38% | 15.82% | -12.18% |
| EXPENDITURE : | | | | |
| Raw Materials | 206723 | 232091 | 288363 | 248847 |
| Manufacturing Expenses | 68834 | 105204 | 107242 | 98419 |
| Total Expenditure | 275557 | 337295 | 395605 | 347265 |
| % of Sales | 83.86% | 81.15% | 82.48% | 82.39% |
| Operating Profit | 69540 | 95377 | 105529 | 92853 |
| EBIDTA Margins % | 21.16% | 22.95% | 22.00% | 22.03% |
| Depreciation | 3371 | 4756 | 6801 | 7097 |
| EBIT | 66169 | 90622 | 98728 | 85756 |
| EBIT Margins % | 20.14% | 21.80% | 20.58% | 20.35% |
| Interest | 335 | 547 | 367 | 374 |
| Profit Before Tax & Extraord. Items | 65834 | 90074 | 98361 | 85382 |
| EBT Margins % | 20.03% | 21.67% | 20.51% | 20.26% |
| Total Tax | 22800 | 29945 | 29508 | 25615 |
| Profit After Tax | 43034 | 60130 | 68853 | 59768 |
| PAT Margins % | 13.10% | 14.47% | 14.35% | 14.18% |

| Balance Sheet | | | | |
|---------------------------------|---------------|---------------|---------------|---------------|
| Particulars (Rs. Mln) | 2009-10 | 2010-11 | 2011-12E | 2012-13E |
| SOURCES OF FUNDS : | | | | |
| Equity capital | 4895 | 4895 | 4895 | 4895 |
| Total Reserves | 154279 | 196643 | 247748 | 289768 |
| Total Networth | 159174 | 201538 | 252643 | 294664 |
| Debt Capital | 1278 | 1634 | 1666 | 1699 |
| Total Liabilities | 160451 | 203172 | 254309 | 296363 |
| APPLICATION OF FUNDS : | | | | |
| Gross Block | 65801 | 80497 | 115119 | 120119 |
| Less : Accumulated Depreciation | 41505 | 46486 | 53288 | 60385 |
| Less : Lease Adjustment Acc | -142 | -2 | -2 | -2 |
| Net Block | 24153 | 34009 | 61830 | 59733 |
| Capital Work in Progress | 15501 | 17622 | 5000 | 6123 |
| Investments | 798 | 4392 | 4392 | 4392 |
| Deferred Tax Assets | 15272 | 21636 | 21636 | 21636 |
| Current Assets | 429143 | 514947 | 606199 | 613073 |
| Inventories | 92355 | 109630 | 126506 | 111167 |
| Sundry Debtors | 206888 | 273546 | 315654 | 277381 |
| Cash and Bank | 97901 | 96302 | 123110 | 188558 |
| Loans and Advances | 27932 | 32373 | 37356 | 32827 |
| Other Current Assets | 4069 | 3096 | 3573 | 3140 |
| Current Liabilities | 324415 | 389434 | 444747 | 408593 |
| Sundry Creditors | 75798 | 96019 | 110800 | 97365 |
| Other Creditors | 204439 | 217447 | 250919 | 220495 |
| Provisions | 44178 | 75968 | 83028 | 90732 |
| Net Current Assets | 104728 | 125514 | 161453 | 204480 |
| Total Assets | 160452 | 203172 | 254309 | 296363 |

| Cash Flow | | | | |
|--------------------------------------|---------|---------|----------|----------|
| Particulars | 2009-10 | 2010-11 | 2011-12E | 2012-13E |
| Cash Flow Summary | | | | |
| Op. Profit before Working Capital | 71752 | 96163 | 105529 | 92853 |
| Changes in - | | | | |
| Trade & other Receivables | -56519 | -74073 | -47568 | 43236 |
| Inventories | -14034 | -17380 | -16876 | 15339 |
| Trade Payables | 33686 | 60524 | 48253 | -43858 |
| Cash Generated from operations | 34885 | 65234 | 89338 | 107569 |
| Direct Taxes Paid | -19035 | -38648 | -29508 | -25615 |
| Net Cash flow from Operating Act. | 15851 | 26586 | 59830 | 81955 |
| Cash Flow from Investing Act. | | | | |
| Capex | -17137 | -17238 | -22000 | -6123 |
| Purch/Sale of Fixed Assets | 0 | 0 | 0 | 0 |
| Purch/Sale of Invsts | 0 | 0 | 0 | 0 |
| Interest recd. | 7746 | 7403 | 6741 | 7387 |
| Net Cash used in Investing act | -9391 | -9834 | -15259 | 1264 |
| Cash Flow from Financing act. | | | | |
| Proceed/Repmt of Borrowings | -215 | 351 | 351 | 351 |
| Dividend Paid | -10879 | -14563 | -17747 | -17747 |
| Interest paid | -337 | -545 | -367 | -374 |
| Net Cash from Financing act | -11430 | -14757 | -17763 | -17770 |
| Total (a+b+c) | -4971 | 1995 | 26808 | 65448 |
| Opening balance | 103147 | 97901 | 96301 | 123110 |
| Closing balance | 98176 | 99895 | 123110 | 188558 |

| Ratios | | | | |
|-----------------------------|---------|---------|----------|----------|
| Particulars | 2009-10 | 2010-11 | 2011-12E | 2012-13E |
| Valuation Ratios | | | | |
| Mkt.Price - Rs. | 2385.00 | 2060.00 | 245.00 | |
| EPS - Rs. | 87.60 | 122.80 | 28.13 | 24.42 |
| EBIDTA % | 21.16% | 22.95% | 22.00% | 22.03% |
| PBT % | 20.03% | 21.67% | 20.51% | 20.26% |
| PAT % | 13.12% | 14.46% | 14.35% | 14.18% |
| EV - Rs. Mln. | 1070882 | 913743 | 478218 | 412804 |
| EV/EBIDTA | 15.40 | 9.58 | 4.53 | 4.45 |
| EV/Sales | 3.26 | 2.20 | 1.00 | 0.98 |
| Book Value in Rs.per share | 325.16 | 411.71 | 103.22 | 120.39 |
| P/E ratio | 27.23 | 16.78 | 8.71 | 10.03 |
| ROCE - % | 34.92% | 35.19% | 31.27% | 23.47% |
| ROE - % | 27.08% | 29.83% | 27.25% | 20.28% |
| Dividend Yield | | | | |
| Balance Sheet Ratios | | | | |
| Debt-Equity Ratio | 0.01 | 0.01 | 0.01 | 0.01 |
| Current Ratio | 1.32 | 1.32 | 1.36 | 1.50 |
| Debtor Days | 206.50 | 215.86 | 215.86 | 215.86 |
| Creditor Days | 75.66 | 75.77 | 75.77 | 75.77 |
| Depreciation / GFA | 5.12% | 5.91% | 5.91% | 5.91% |
| Interest Cover Ratio | 197.52 | 165.58 | 269.34 | 229.36 |
| Turnover Ratios | | | | |
| Fixed Assets | 499.40% | 516.37% | 416.65% | 350.89% |
| Inventory | 3.56 | 3.79 | 3.79 | 3.79 |
| Debtors | 1.65 | 1.58 | 1.58 | 1.58 |

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