Q4FY09 Result Update

May 30, 2009

BHEL, the engineering behemoth reported results for Q4FY09 and FY09. It came out with a robust Q4FY09 & FY09 sales growth of 46.3% to Rs 10,540 crs and 35.5% to Rs 26,234 crs respectively. Profits after tax were up 15.5% to Rs 1,261 crs and 6.6% to Rs 3,061 crs for the same period. Operating margins, were however down 210 bps and 310 bps to 15.8% & 14.9% resp. on accounting of high raw material costs.

Key highlights of the results:

(Amount in Rs. Cr)

	Q4FY09	Q4FY08	VAR [%]	Q3FY09	VAR [%]	FY09	FY08	VAR [%]
Net Sales	**10540.1**	**7202.0**	**46.3**	**6022**	**75.0**	**26234.2**	**19365.5**	**35.5**
Other Income	507.2	424.2	19.6	306	65.6	1412.4	1396.2	1.2
Total Income	11047.2	7626.2	44.9	6329	74.6	27646.6	20761.7	33.2
Total Expenditure	8843.8	5838.7	51.5	5002	76.8	22432.7	15998.6	40.2
PBIDT	2203.5	1787.5	23.3	1327	66.0	5213.9	4763.1	9.5
Interest	8.1	4.2	91.3	18	-54.7	30.8	35.5	-13.4
Depreciation	100.8	82.7	21.9	87	16.6	334.2	297.2	12.5
PBT	2094.5	1700.6	23.2	1223	71.3	4848.9	4430.5	9.4
Tax (incl. DT & FBT)	833.2	608.9	36.8	423	96.9	1787.8	1559.2	14.7
Adjusted PAT	1261.3	1091.7	15.5	800	57.7	3061.1	2871.3	6.6
Prior period tax	86.2	19.2		-		77.2	11.7	
Reported PAT	**1347.5**	**1110.9**		**791**		**3138**	**2859**	
EPS	25.8	22.3		16		62.5	58.7	
Equity	489.5	489.5		490		489.5	489.5	
Face Value	10.0	10.0		10		10.0	10.0	
OPM (%)	15.8	18.0		15.5		14.5	17.4	
PATM (%)	11.4	14.3		12.6		11.1	13.8	
Adjusted PAT	1347.5	1110.9		791		3138	2859	
Costs % to Sales								
Input cost	64.0	52.8		58.2		61.3	54.2	
Staff cost	13.4	16.2		15.3		14.7	15.8	
Other expenses	6.5	12.1		9.6		8.3	11.1	

(Source : Company)

- Order inflows during FY2009 continued to be strong. It stood at Rs 59,687 cr - a growth of 18.7% over Rs 50,270 cr in FY08. Orders secured from the power segment stood at Rs 44,407 cr (74% of total order book) for 17,020MW of power plants. Industrial segment and international business secured orders worth Rs 10,254 crs and Rs 3,265 crs respectively. Order backlog continued to be on upward trend increasing by a significant 37.3% y-o-y to Rs 1,17,000 cr from Rs 85,200 cr.

- Sales and profits posted for the fourth quarter and full year ended March 2009 were marginally better than the provisional results announced earlier by the company as seen below.

Actual & Provisional Results – FY09		
(In Crs.)	Actual	Provisional
Sales	28089	27505
PBT	4849	4530
PAT	3138	3039

Net Sales for the last quarter stood at Rs 10,540 crs, up 46.3% y-o-y and 75% q-o-q. Growth in gross sales was however, lower at 39.9% and 30.7% respectively. The difference was due to decline in excise duty owing the excise duty cut announced by the government in the stimulus package. The growth in top-line could be attributed to faster execution helped by removal of raw material constraints, benefits from newly added the capacity (6.5 to 10GW), and higher proportion of BTG orders (lower cycle time compared to EPC projects).

- Operating margins for the quarter stood at 15.8%, down 210 bps y-o-y. This was largely on account of higher input costs, which shot up to 64% as percentage cost to sales, compared to 52.8% in the corresponding quarter. Savings however, came in from lower staff costs and other expenses as cost to sales at 13.4% -down 280 bps and 6.5% - down 560 bps. Even as metal prices have declined sharply, BHEL would have used the material lying in the inventory procured in earlier quarters at higher prices. Company policy is a three-month inventory for indigenous products and six months for imported items. The benefit of the sharp decline in commodity prices may be seen only from Q2FY10.

- Wage provisioning to account for the pay commission's recommendations were higher at Rs 2547 crs than the company's earlier estimates of Rs 2190 crs. Out of this, Rs 1729 crs was provided in FY09.

- Interest costs which had gone up rather sharply in Q3FY09 to Rs 18 crs on account of short term borrowings has come down to Rs 8 crs sequentially in Q4FY09. Over the corresponding quarter Q4FY08, it is up 91.3% from Rs 4 crs owing the lower base.In terms of PAT (at Rs 1261 crs) BHEL posted a growth of 15.5% y-o-y and 57.7% q-o-q.

Segment

Power	03/2009	03/2008	% Chg	12/2008	% Chg	03/2009	3/2008	% Chg
	3m	3m		3m		12m	12m	
Revenue	8608	5674	52	4819	79	21344	15919	34
PBIT	1731	1774	-2	713	143	3862	3931	-2
Cap employed	-571.2	374.6		87.9				
Margin %	20.1	31.3		14.8		18.1	24.7	

Industry	03/2009	03/2008	% Chg	12/2008	% Chg	03/2009	3/2008	% Chg
	3m	3m		3m		12m	12m	
Revenue	2716	2413	13	1752	55	7250	6011	21
PBIT	584	630	-7	223	162	1215	1086	12
Cap employed	1386.9	1247.6		1574.5				
Margin %	21.5	26.1		12.7		16.8	18.1	

(Source : Company)

- Power segment makes up nearly 76% of company's revenues. In Q4FY09, revenues for the segment were up 52% y-o-y and 79% q-o-q. PBIT Margins have contracted significantly during the quarter to 20.1% from 31.3% y-o-y though sequentially it has improved from 14.8% in Q3FY09.
- Industry segment contributed ~24% of total revenues. For the fourth quarter, revenues were up 13% to Rs 2,716 crs y-o-y. Margins have fallen sharply even in this segment reflected in the fall in PBIT of 7% for the quarter over corresponding Q4FY08.

Concerns

- Delays in power-sector reforms could affect order flows and earnings.
- Execution delays in orders.
- Competition pressures from global majors.
- Regulatory uncertainties.

Conclusion

BHEL is India's largest electrical equipment supplier–accounting for around 65% of India's installed power capacity. With around 85% of its order book from government-sponsored agencies (FY09), we believe the risk of delays and cancellations is limited.

BHEL has guided for 14% gross sales increase in FY10 at ~Rs 32,000 crs and 19% growth in net sales. We expect BHEL to grow at a slightly faster rate. Going forward, FY10 EBIDTA margins could improve on back of benefits flowing from fall in commodity prices. Also, slower growth in staff costs on account of lower wage provisioning could expand margins. Part of these expected benefits are already in the price.

For FY10, BHEL has targeted an order inflow of Rs50,000 crs (Rs 40,000 crs from power and Rs10,000 crs from industry) as compared to Rs59,700 crs in FY09. Annual order inflow is expected to be around 17,000MW or Rs 50,000 crs for the next 2-3 years. Ordering of 80,000MW for the 11th Five Year plan has been completed (BHEL's share was 55%) and now the new order inflows will be related to the 12th plan.

Bulk orders from NTPC & DVC of 11x 660MW (Boiler & Turbine package) followed by 6x 800MW are expected to be issued. The bidders for 11x 660MW will have to bid for the entire package alongwith a prerequisite that the bidding should be through a technological tie-up or JV with a partner who has the technology and a commitment to set-up capacity in India. A minimum of six boilers and 4-5 turbines has been assured to BHEL if it matches the L1 bid. Company management expects the initial 11x 660MW to be awarded in FY10 (which is included in the target of order inflow).

While 85% of order backlog is from Government entities, BHEL's lower exposure to private sector could prove to be a hindrance going forward with private sector orders possibly claiming a larger chunk in 12th plan orders. Currently, BHEL has only 12% share for plants expected to be commissioned by private sector in the 11th plan period. The private sector orders form 28% of 11th plan orders.

This along with competition from both, Chinese and domestic players who are also currently setting up capacities could be detrimental for BHEL maintaining its market share in future. However, imposition of duties on foreign equipment suppliers in the budget would be a huge positive for BHEL.

While the biggest positive for the company in FY2009 was the sustained momentum in its order book, going forward execution could be a primary challenge for the company. Though the company has managed execution reasonably well in FY2009, several projects involving BHEL are already running behind schedule.

Even so, BHEL could continue to be main beneficiary of the continued momentum in Indian power market growth. BHEL's success in super critical projects also provides visibility for future growth prospects. Technology transfer agreement with Alstom and Siemens for super critical boilers has enabled the company to plug the technology gaps from the product portfolio. BHEL has the right mix of sustained growth, secured order backlog (4.2x FY09 sales) and a strong balance sheet.

	FY09	FY10*(QE)	FY11*(QE)
Sales	26234	31481	38092
EBIDTA (excl other income)	3801	5824	7276
EBIDTA (%)	14.5	18.5	19.1
Reported PAT	3138	4288	5233
EPS	64.1	87.6	106.9
PE	34.3	25.1	20.5

*QE-Quick estimates; Rs in crs

At Rs 2196, BHEL is quoting at 34.3x its FY09 earnings. At an estimated EPS of Rs 87.6 in FY10 and Rs 106.9 in FY11, the stock is quoting at PE of 25.1x & 20.5x respectively and looks fairly valued. BHEL has under-performed BSE Capital Goods index and BSE Sensex in the last three months.

In an improving economic outlook, BHEL has a tendency to under perform as the premium for predictability of earnings shrink. On dips to Rs 1770 – Rs 1800 band in the coming quarter one could look at entering the stock with the objective of earning 20% returns in the next few months.

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