

BHARAT HEAVY ELECTRICALS LTD.

ACCUMULATE

ORDER PLAY!

CMP: 1365

BSE Code	500103
NSE Code	BHEL

Key Data

Sensex	9175
52 week H/L (Rs.)	2366/984
Jan H/L (Rs.)	1487/1250
Market Cap (Rs cr)	66371.57
Avg. daily volume (6m)	496411
Face Value	10

Source: Capitaline

Result Highlights

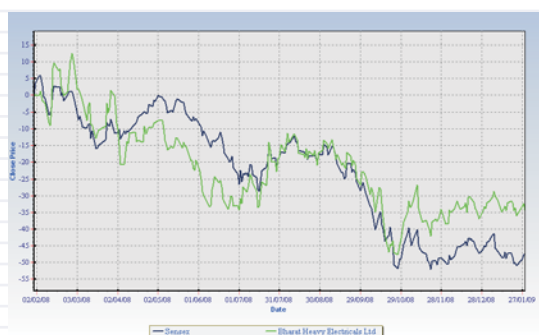
- Net sales grew by 21.3% (YoY) basis, to Rs. 6032 crore, and Net Profit increased by just 2.4% to Rs. 790 crore on YoY basis
- EBIDTA margins took a hit and stood at 16.95% down by 315 bps and Net margin at 13.13% down by 242 bps on YoY basis
- Order book remains on higher side. As on 31st December 2008 total order book of company stood at Rs. 113500 crore
- Management guidance: - Expect 25-30% growth in Revenues.

Shareholding Pattern (%)

Promoters	67.72
Institution	9.52
Foreign holding	16.17
Non-promoter corporate holding	4.28
Public & Others	2.32

Source: Capitaline

One-Year Performance (Rel. to Sensex)



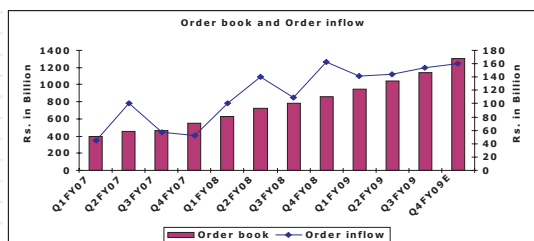
Source: Capitaline

Financial (Quarterly) Standalone

Rs. In Crore	Q3FY09	Q3FY08	YoY%	Q2FY09	QoQ%
Net Sales	6,022.25	4,964.14	21.32	5,342.63	12.72
Total Expenditure	5,001.55	3,966.57	26.09	4,631.91	7.98
Core EBIDTA	1,020.70	997.57	2.32	710.72	43.61
EBIDTA Margin (%)	16.95	20.10		13.30	
Other Income	306.30	264.86	15.65	307.21	(0.30)
Depreciation	86.50	76.15	13.59	74.36	16.33
EBIT	1,240.50	1,186.28		943.57	
Interest	17.86	9.76	82.99	2.20	711.82
Profit Before Tax	1,222.64	1,176.52	3.92	941.37	29.88
Tax	432.08	404.62	6.79	325.60	32.70
Net Profit	790.56	771.90	2.42	615.77	28.39
Net Profit Margin (%)	13.13	15.55		11.53	

Total Wage provision in 9MFY09 is Rs.839 Crore. Management has Indicated the wage cost to be in the range of Rs. 4500 Crore

Total Order in flow for 9MFY09 is Rs. 44088 Crore



(Sources:- Company data, Anagram Research)

Major Impact of fall in commodity Prices to see in 2HFY10

Management is confident of Achieving 25-30% growth in FY09

Revenue Rise on account of implementation of projects in Power sector, but higher interest cost and wage provision took toll out of profitability

During the Q3FY09, company reported the revenue of Rs. 6022.25 crore as against Rs.4964.14 Crore, and Net Profit rose marginally by 2.4% to Rs.790 crore. Net profit was down due to higher raw material prices (**67% of sales Q3FY09 V/s 57% of sales Q3FY08**) and wage provision (Rs 292 Crore in Q3). EBIDTA Margin and NPM also took a dip of 315 and 242 bps respectively, but higher on QoQ basis. On Segmental performance, Power Segment grew by 14.6% and Industry segment by 22.1% on YoY basis.

Robust order book

Order backlog of Rs. 113500 Crore to be executed over the period of next 4 years. Total Order inflow continues with Rs. 15400 crore of orders in Q3FY09. According to the management orders will continue to inflow at robust space. Management expects Order backlog to scale to a new high at Rs. 130000 crore by end of Q4FY09, with order inflow touching record high at Rs. 60000 Crore.

Decline in Commodity prices – A Positive dose for BHEL

Aluminum and copper prices have fallen by 25-45% from their FY08 average spot prices. Steel prices started correcting in beginning of Q3. Given its inventory level, BHEL is likely to benefit in FY10. BHEL management expects to see the major impact of the reduced commodity prices in 2HFY10. Given that 50% of BHEL's orders are fixed priced, we could see a reduction in material cost as a % of sales in next few quarters.

Management Guidance: - Better future prospects with doubling capacity addition by 2011

Management is confident of achieving 25-30% growth in FY09. BHEL is well on track to complete the 15000 MW expansion facilities by December 2009 and 20000MW by 2011 to meet the ever-mounting power demand. According to Management, BHEL is getting increased client enquires from private sector. Management Expects to get a bulk order of 660MW of super critical sets and Orders from SEB.

Huge cash in Hands

BHEL has more than Rs 8000 crore of cash in its kitty with which the company will be able to withstand Systematic working capital stress.

Other Developments

- BHEL has signed a JV with Karnataka Power Corporation to set up three coal-based power plants.
- BHEL enters into memorandum of Intention for 1600MW coal based Thermal Power Plant in Gujarat.

Risk Concern

- Rising Interest cost, Wage Provision, slow down of economy, may hamper BHEL's revenue and profitability.

Valuation & Recommendation

Visibility remains strong as BHEL posses strong order backlog of Rs. 113500 Crore, which translates into strong revenue visibility for next 4 years. In recent times, the company has been successful in grabbing orders from private players as it appears that the company may have captured some market share from Chinese companies due to depreciation in Rupee coupled with practical problems associated with Chinese equipments also contributing to renewed interest in BHEL's product. We have not changed our estimates for FY09E and FY10, as we believe the company will show some strong performance.

At CMP, stock trades at 19 x FY09E and 15.3 x FY10E earnings with an EPS of Rs. 72 and Rs. 89 Respectively.

We recommend **Accumulate** rating on the stock

Particulars	FY06	FY07	FY08	FY09E	FY10E
Net Sales	13,228.3	17,237.5	19,365.5	24,981.4	31,226.8
Total Expenditure	10,889.3	13,946.6	15,998.7	20,110.1	25,137.6
Core EBIDTA	2,339.0	3,290.9	3,366.8	4,871.4	6,089.2
EBIDTA Margin (%)	17.7	19.1	17.4	19.5	19.5
Other Income	530.7	761.5	1,396.2	1,100.0	1,240.0
Depreciation	245.9	273.0	297.0	455.5	569.9
EBIT	2,623.8	3,779.4	4,466.0	5,515.9	6,759.3
Interest	58.8	43.3	35.4	40.8	46.8
Profit Before Tax	2,565.1	3,736.1	4,430.6	5,475.1	6,712.5
Tax	885.2	1,321.4	1,571.1	1,916.3	2,349.4
Net Profit	1,679.9	2,414.7	2,859.6	3,558.8	4,363.1
NPM	12.70	14.01	14.77	14.25	13.97
Equity	244.76	244.76	490	490	490
EPS	68.63	98.66	58.36	72.63	89.04

(Sources:- Company data, Anagram Research)

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RATING INTERPRETATION

Outperformer Expected to appreciate more than 20% over a 12-month period

Accumulate Expected to appreciate up to 20% over a 12-month period

Neutral Expected to remain in a narrow range

Underperform Expected to depreciate more than 10% over a 12-month period

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