*Update*

SECTOR: ENGINEERING

# BHEL

| STOCK INFO. | BLOOMBERG |
|---|---|
| BSE Sensex: 10,100 | BHEL IN |
| | REUTERS CODE |
| S&P CNX: 3,078 | BHEL.BO |

| | |
|---|---|
| Equity Shares (m) | 489.5 |
| 52-Week Range | 2,730/984 |
| 1,6,12 Rel. Perf. (%) | 1/30/8 |
| M.Cap. (Rs b) | 703.9 |
| M.Cap. (US$ b) | 14.9 |

19 December 2008

## Neutral

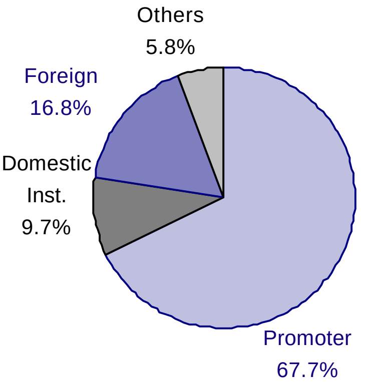
*Previous Recommendation: Buy*

Rs1,438

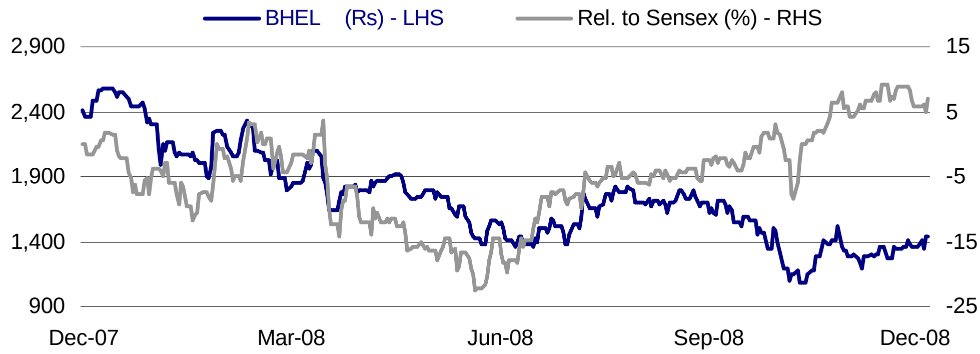
| YEAR END | NET SALES (RS M) | PAT (RS M) | EPS (RS) | EPS GROWTH (%) | P/E (X) | P/BV (X) | ROE (%) | ROCE (%) | EV/ SALES | EV/ EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|
| 03/07A | 176,427 | 24,144 | 49.3 | 44.0 | 29.2 | 8.0 | 30.0 | 50.0 | 3.8 | 17.9 |
| 03/08A | 197,652 | 25,095 | 51.3 | 3.9 | 28.0 | 6.5 | 25.7 | 51.1 | 3.2 | 16.6 |
| 03/09E | 254,103 | 33,240 | 67.9 | 32.5 | 21.2 | 5.5 | 28.2 | 43.4 | 2.5 | 15.0 |
| 03/10E | 311,286 | 42,361 | 86.5 | 27.4 | 16.6 | 4.5 | 29.8 | 49.0 | 2.1 | 10.2 |

- **'Supercritical' projects approaching reality:** Recent developments pertaining to 1) significant increase in the number of projects on super critical technology by NTPC (to ~80% of 12th Plan capacity addition plans) 2) decent progress on the contentious issue of bulk ordering of supercritical projects 3) increase in the number of 660MW sets to 11 from earlier 7 under bulk ordering and 4) shifting focus to Twelth Plan (FY13-17) in terms of project awards, indicates that supercritical technology is now becoming the key important driver for order intake beyond FY09.
- **Contentious issues largely resolved:** We expect award of supercritical projects on bulk (negotiation) basis would start by 1QFY10. Stringent conditions like 'phased manufacturing plan' (PMP), transfer of technology, land acquisition, subscription to equity capital, etc as a pre-condition to be eligible for bid opening will restrict competition. Also, liquidated damages and penalty for non-adherence to PMP would act as a check on bidders, limiting competition.
- **Expect stagnation in order intake, working capital to increase:** The key issue going forward, will be the stagnant trend in order intake during FY08-FY10, impacting revenue and earnings growth beyond FY11. We expect order intake for BHEL at Rs514b in FY09 (up 2.3% YoY) and Rs480b in FY10 (down 6.6% YoY). We expect working capital to increase from -2.5% of revenues in FY08 to 11.3% of revenues in FY10, driven by lower customer advances (to 49% of revenues in FY10, vs. 59% in FY08).
- **Downgrading to Neutral:** Since January 2008, BHEL has outperformed BSE-Sensex by 6% and L&T by 17%, driven by superior earnings visibility (32% CAGR over FY08-10) and improved business environment. While premium valuations factor in the superior earnings growth, BHEL may continue to outperform peers given improved business environment and resilient earnings growth. We arrive at a price target of Rs1,385 (16x FY10E earnings). As there is no upside from the current levels, we downgrade the stock to **Neutral.**

SHAREHOLDING PATTERN (SEP.08)




STOCK PERFORMANCE (1 YEAR)





*Satyam Agarwal (Agarwals@MotilalOswal.com); Tel: +91 22 3982 5410*
*Shridatta Bhandwaldar (Shridatta.Bhandwaldar@MotilalOswal.com) Tel: +91 22 3982 5417*

# 'Supercritical' projects – approaching reality

Recent developments indicate that Supercritical projects are now approaching reality and would be key driver for order intake beyond FY09:

- Award of two supercritical projects (660MW and 800MW) to BHEL / L&T in FY09
- Shifting focus to Twelfth Plan (FY13-17) in terms of project awards, as large part of the Eleventh Plan capacity addition has been ordered
- Several private companies have announced plans to set up manufacturing base in India for supercritical boilers and turbines
- Significant increase in the number of projects based on supercritical technology by NTPC as part of its Twelfth Plan capacity addition plans
- Progress on the contentious issue of bulk ordering of supercritical projects
- Increase in the number of 660MW sets from 7 to 11 under bulk ordering

We believe that BHEL is advantageously positioned given its initial success, and strong balance sheet which supports meaningful capacity expansion (unlike peers).

*Share of supercritical projects in Twelfth Plan targeted to be commissioned by NTPC now stands at 20,000MW+, ~80% of the targeted capacity addition of 25,000MW. This is higher than the initial estimate of ~60%*

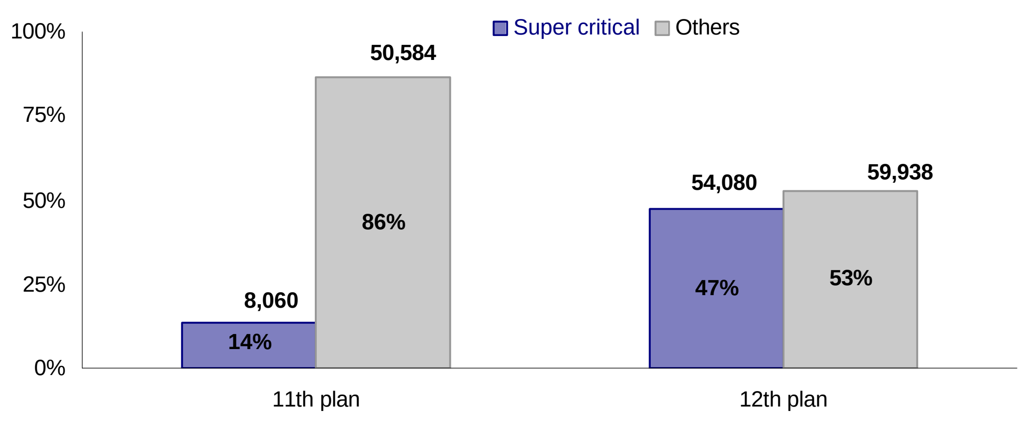
NTPC: TWELFTH PLAN SUPERCRITICAL PROJECTS, WITH BTG YET TO BE AWARDED AT 19,920MW

| PLAYER | CONFIGURATION (MW) | CAPACITY (MW) | STATE |
|---|---|---|---|
| North Karanpura | 660 | 1,980 | Jharkhand |
| Tanda-II | 660 | 1,320 | Uttar Pradesh |
| Meja (JV with State Govt) | 660 | 1,320 | Uttar Pradesh |
| New Nabinagar (JV with State Govt) | 660 | 1,980 | Bihar |
| Solapur | 660 | 1,320 | Maharashtra |
| Darlipalli | 800 | 4,800 | Orissa |
| Marakkanam | 800 | 4,000 | Tamil Nadu |
| Gajmara | 800 | 3,200 | Orissa |
| **Total** | | **19,920** | |

Source: NTPC

*The Working Group Report on Eleventh Plan had identified thermal project pipeline of 114,018MW for Twelfth Plan, comprising of 54,080MW (47%) on supercritical technology (660MW / 800MW)*

INITIAL ESTIMATES ALSO INDICATED INCREASING SHARE OF SUPERCRITICAL PROJECTS IN TWELFTH PLAN




Source: Working Group Report on Eleventh Plan

SUPERCRITICAL TECHNOLOGY BASED PROJECT PIPELINE

| PROJECT | IMPLEMENTING AGENCY | STATE | CAPACITY (MW) | STATUS |
|---|---|---|---|---|
| **Already awarded/Bids open** | | | | |
| Sipat Stage 1 | NTPC | Chhattisgarh | 3 x 660 | Main plant order placed with Korea's Doosan Heavy Industries and Power Machine(Russia) |
| Barh Stage 1 | NTPC | Bihar | 3 x 660 | Main plant order placed with Russia's Techno Prom Export |
| Barh Stage 2 | NTPC | Bihar | 2 x 660 | Project has been awarded to BHEL |
| Krishnapatnam | AP Genco | Andhra Pradesh | 2 x 800 | BHEL has won the TG package and boiler package has gone to L&T |
| Mundra UMPP | Tata Power | Gujarat | 4000 | Orders for equipments placed with Doosan (Korea) and Toshiba(Japan) |
| Sasan UMPP | Reliance Power | Madhya Pradesh | 4000 | The order has been placed to Shanghai Electric, China |
| **To be awarded** | | | | |
| North Karanpura | NTPC | Jharkhand | 3 x 660 | All clearances but forest. LOA for equipments is targeted in Feb 09 |
| Lara | NTPC | Chhattisgarh | 5 x 800 | Planning and investigation stage |
| Darlipalli satge I &II | NTPC | Orissa | (4+2) x 800 | Linkages for water/coal are being finalised |
| Krishnapatnam UMPP | Reliance Power | Andhra Pradesh | 4000 | In the process to award the equipment orders |
| Tilaiya UMPP | SPV | Jharkhand | 4000 | Bidding process again delayed due to concerns from players on the financial closure |
| Tadri UMPP | SPV | Karnataka | 4000 | Alternative location under consideration |
| Girye UMPP | SPV | Maharashtra | 4000 | Alternative location considered due environmental issues/ feasibility study for port developement is on |
| Sundergarh UMPP | SPV | Orissa | 4000 | Project site yet to be finalized |
| Akaltara UMPP | SPV | Chhattisgarh | 4000 | Project stalled with state government demanding 12% free power |
| Cheyyur UMPP | SPV | Tamil Nadu | 4000 | Alternative location suggested, CEA to evaluate site and submit report |
| Udangudi | TNEB-BHEL JV | Tamil Nadu | 2 x 800 | MoU signed for JV between TNEB and BHEL |
| Meja | UPRVUNL - NTPC JV | Uttar Pradesh | 2 x 660 | Land acquisition process started. Bidding to start post coal linkage approvals. |
| Tanda-II | NTPC | Uttar Pradesh | 2x660 | Combined bidding with Meja, New Nabinagar and Solapur project |
| New Nabinagar | NTPC/Bihar JV | Bihar | 3x660 | Awaiting coal linkages |
| Solapur | NTPC | Maharashtra | 2x660 | Land acquisition process started. Bidding to start post coal linkage approvals. |
| Marakkanam | NTPC | Tamil Nadu | 5x800 | Land has been committed. Applied for coal linkages. |
| Gajmara | NTPC | Orissa | 4x800 | At the initial stages of approval but has been accorded high priority by Orissa CM |

*Source: Company/MOSL*

### 500MW technology absorption: a case study

Indigenization of technology not only reduces the dependence on imported equipment but also plays a key role in the maintenance of projects over the life cycle. Recognizing this, the Government of India decided to keep the procurement of 500MW steam turbine generators out of the World Bank funding program. It decided to first provide the opportunity to BHEL through the negotiated route.

NTPC placed a bulk order of 8 sets of 500MW on BHEL, comprising of power plants at Singrauli (2 sets), Korba (3 sets) and Ramagundam (3 sets) in technical collaboration with Kraftwerke Union - Germany (KWU). The price settled for the 500MW Trombay Unit V was taken as the benchmark price for negotiating the price for 8 x 500 MW STG sets, based on the recommendations of the Ministry of Power.

This initiative facilitated rapid technology absorption and indigenization. **The process also enabled BHEL to develop a competitive edge to win subsequent orders for 500MW boilers and steam turbine & generator sets against global competition on ICB basis.**

In China too, the government insists that foreign majors have domestic partners for such projects (eg: GE with Harbin Power Equipment Company Ltd and Nanjing Turbine Company Ltd; Siemens with Shanghai Turbine Company Ltd). This facilitates technology absorption and helps to reduce dependence on imported equipment.

# Bulk ordering: contentious issues largely resolved

*Number of 660MW projects to be tendered under bulk ordering by NTPC has been increased from 7 to 11*

We understand that the tendering process for award of supercritical projects on bulk (negotiated) ordering basis will commence soon; we expect the initial orders to be awarded by 1QFY10. Also, the number of 660MW projects to be tendered under bulk ordering by NTPC has been increased from 7 to 11. Stringent conditions like 'phased manufacturing plan' (PMP), transfer of technology, land acquisition, subscription to equity capital, etc indicate insistence on domestic manufacturing, with only serious players in the fray. Also, liquidated damages of up to 5% have been proposed for delay in commissioning and an additional 5% penalty is proposed for non-adherence to PMP; these would act as a check on bidders and weed out non-serious players.

*Incorporation of JV in India, with a minimum paid-up capital, upfront commitment on transfer of technology, land acquisition up to 80% of requirement, and initial ramp-up plans for setting up of manufacturing facility are the pre-conditions to be eligible for bid opening.*

### Stringent bidding criteria entail technology transfer and domestic manufacturing

Bidding would be a two-part process, with separate techno-commercial and price bids. Details and commitment regarding technology transfer agreement and phased manufacturing program would be sought in the bids and examined before the bidders are considered qualified for further evaluation and consideration. Only qualified bidders' price bids would be opened.

It is proposed that (a) incorporation of manufacturing company in India, and (b) a certain minimum subscribed paid-up capital as on the date of bid opening, would be specified as pre-conditions to qualify for the bulk tender. The minimum subscribed capital at the time of bidding and within 30 days of award has been revised to Rs500m and Rs1b, respectively.

*These will dissuade many prospective bidders who may like to invest in setting up manufacturing facility only after the bid opening, based on their competitive positioning.*

Also, the prospective bidder should have clear title and physical possession of 80% of the land required to set up manufacturing works. CEA and NTPC would jointly prepare a draft phased manufacturing plan within 10 days and discuss with prospective bidders. Phased manufacturing program with clear milestone dates would be asked for in the bids. Also, a valid on-going technology transfer agreement for the type, size and rating specified for the main turbine and generator are contemplated.

Commissioning schedule for the first unit would be 52 months from award and staggering of units awarded to a bidder would be two months.

Liquidated damages of up to 5% have been proposed for delay in commissioning and an additional 5% penalty is proposed for non-adherence to PMP.

## Supercritical projects: Advantage BHEL

*The bid condition stipulates project design as 660MW / 800MW and does not provide any flexibility for variation, impacting the ability of Chinese players to compete*

We believe that BHEL is in an advantageous position for supercritical projects. The serious commitments in the bid document for bulk ordering, which have to be fulfilled prior to bid opening, would ensure that only serious players remain in the fray. While several companies have expressed willingness to set up manufacturing facilities in India, we believe that given the current credit crunch, serious competition to BHEL would be largely from L&T-Mitsubishi and Toshiba-JSW. Also, the bid condition stipulates project design as 660MW / 800MW and does not provide any flexibility for variation, impacting the ability of the Chinese players to compete.

*Increased number of 660MW projects entail that the sets to be ordered on BHEL (in case BHEL is L1) could be increased to 6 from earlier 4, and in case BHEL is not L1, to 5 from 3*

Also, the number of projects for 660MW to be tendered under bulk ordering by NTPC has been increased from 7 to 11, which entails that the number of sets to be ordered on BHEL (in case BHEL is L1) could be increased to 6 from 4, and in case BHEL is not L1, to 5 from 3. Increased number of projects would lead to faster technology absorption for BHEL, improving its competitive positioning.

*Given the current credit crunch, land acquisition issues, the serious players will be BHEL, L&T-Mitsubishi and Toshiba-JSW*

COMPANIES PLANNING TO SET UP MANUFACTURING BASE IN INDIA FOR SUPERCRITICAL COMPONENTS

| PLAYER | CAPABILITY | MW | COMMISSIONING |
|---|---|---|---|
| BHEL | Boilers and Turbines | 10,000 | Existing, 20,000MW by Dec 2011 |
| L&T (51%) – Mitsubishi (49%) | Boilers and Turbines | 4,000 | 2010 |
| Toshiba (75%) - JSW (25%) | Turbine Generator | 3,000 | 2010 |
| Ansaldo Caldie (Gammon) | Boilers | NA | 2011 |
| Alstom (51%) - Bharat Forge (49%) | Turbine Generator | 5,000 | 2011 |
| Reliance Infra – Shanghai | Boilers and Turbines | 10,000 | 2010 |
| NTPC (50%) -BHEL (50%) | Boilers and Turbines | 5,000 | 2013 |
| Skoda Power | NA | NA | 2011 |
| Cethar Vessels | Boilers | NA | NA |

*Source: CEA/MOSL*

*BHEL was the sole bidder for Barh II (1,320MW) project, awarded in 1HFY09. For the AP Genco (1,600MW) project, BHEL lost the boiler bid to L&T-Mitsubishi, which quoted a price Rs15.6b below BHEL*

BHEL HAS ALREADY WITNESSED INITIAL SUCCESS IN SUPERCRITICAL PROJECTS

| | CONFIG. (MW) | CAPACITY (MW) | VALUE (RS M) |
|---|---|---|---|
| Turbine Generator for Barh Stage- II | 660 | 1,320 | 14,740 |
| Steam Generator for Krishnapatnam project in AP. | 800 | 1,600 | 25,000 |
| Boiler for Barh Stage- II | 660 | 1,320 | 15,000 |
| JV Project with TNEB (orders yet to be placed)* | 800 | 1,600 | 87,000 |
| **Total** | | **4,540** | **141,740** |

** Rs 87b is the total cost of the project*

*Source: Company/Industry*

*We understand that the technology transfer agreements restrain Chinese companies to compete in India for supercritical projects. Also, bid condition stipulates design as 660MW / 800MW and does not provide any flexibility for variation, impacting Chinese players*

TECHNOLOGY AGREEMENTS RESTRAIN CHINESE PLAYERS FROM COMPETING IN SUPERCRITICAL PROJECTS

| TECHNOLOGY | TIE UPS | BOILER | TURBINE | GENERATOR |
|---|---|---|---|---|
| Dong Fang | 600MW | Babcock-Hitachi | Hitachi, Japan | Hitachi, Japan |
| | 1,000MW | Babcock-Hitachi | Hitachi, Japan | Hitachi, Japan |
| Shanghai | 600MW | Alstom, France | Westinghouse - Siemens | Westinghouse - Siemens |
| | 1,000MW | Alstom, France | Siemens, Germany | Siemens, Germany |
| Harbin | 600MW | Babcock, USA | MHI, Japan | Siemens, Germany |
| | 1,000MW | MHI, Japan | Toshiba, Japan | Toshiba, Japan |

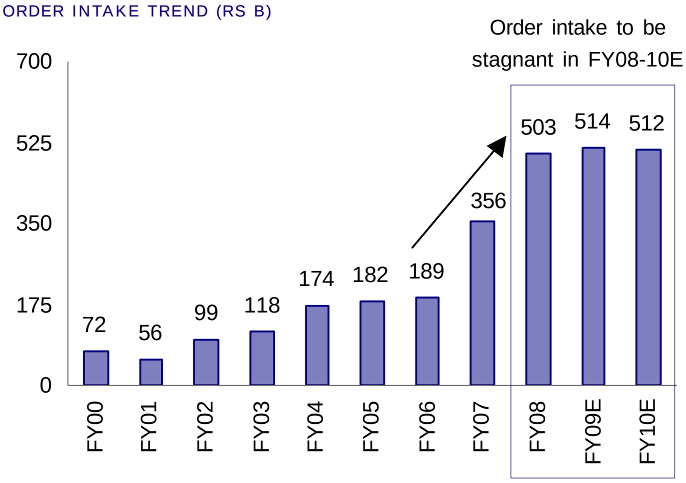
Alstom and Siemens have technological tie ups with BHEL; MHI with L&T and Toshiba with JSW.

## Expect stagnation in order intake, working capital to increase

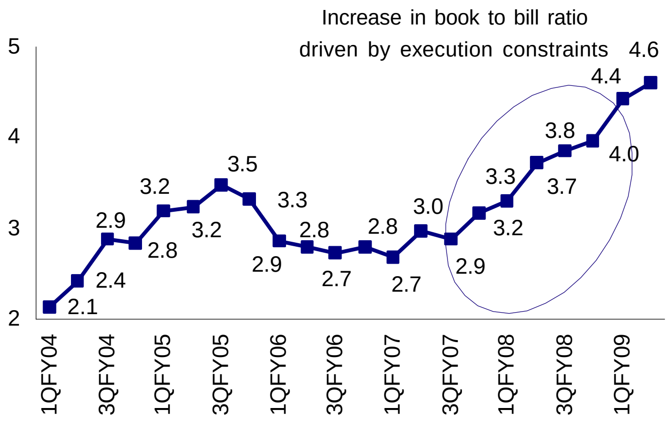
BHEL with book to bill ratio of 4.6x ttm revenues, and limited exposure to industrial / private capex provides the best near term revenue visibility. However, the key issue with profitability going forward, in our opinion, will be the stagnant trend in order intake during FY08-FY10. This will impact revenue and earnings growth beyond FY11.

CEA has recommended targeted capacity addition of ~105,366MW in the Twelth Plan, indicating that average order award would be ~16,000-20,000MW pa. This compares with order award of ~22,000MW+ in FY08 and expected ~21,000MW+ in FY09, indicating stagnation in terms of order intake going forward. Thus, we expect order intake for BHEL at Rs514b in FY09 (up 2.3% YoY) and Rs480b in FY10 (down 6.6% YoY).

ORDER INTAKE TREND (RS B)




BOOK TO BILL RATIO (X TTM)



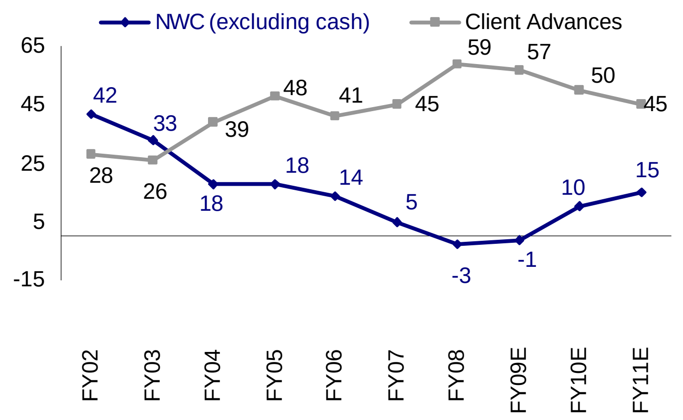

*Source: Company/MOSL*

Also, since, ~60%+ of the Twelth plan period orders are supercritical projects, the profitability could be an issue in the initial phases due to higher import content. Our earnings estimates factor in stagnant margins (adjusted for Pay Revision) for BHEL in FY09 and 200bp improvement in FY10. Of the 200bp margin improvement in FY10, 90bp is attributable to staff cost savings and 110bp towards raw material cost savings / operating leverage.

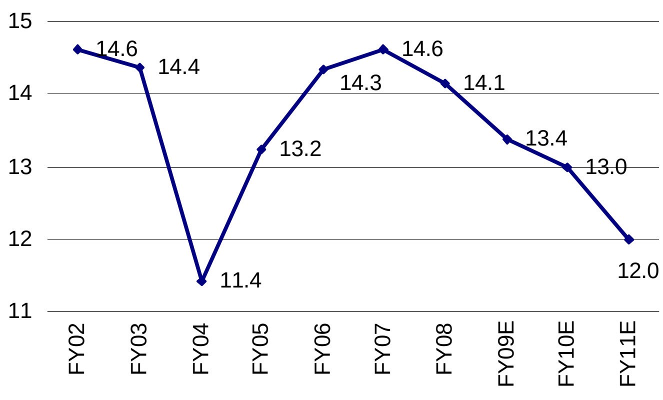
### Expect deterioration in working capital

For BHEL, working capital in the past has improved from 31.2% of revenues in FY03, to -2.5% of revenues in FY08. A large part of this improvement was being driven by increased customer advances, which has improved from 26% of revenues in FY03 to 59% of revenues in FY08. This increase is being driven by a 5.5x increase in order intake during this period, as new orders entail customer advances of ~10-15%. Going forward, as the order intake is expected to stagnate, we expect customer advances to reduce to 49% of revenues in FY10, vs. 59% in FY08. This will result in working capital increasing to 11.3% of revenues in FY10, vs. -2.5% in FY08.

NET WORKING CAPITAL (NWC) & CUSTOMER ADVANCES (% REVENUE)




TREND IN CLIENT ADVANCES, % ORDER BOOK




Source: Company/MOSL

## Downgrading to Neutral

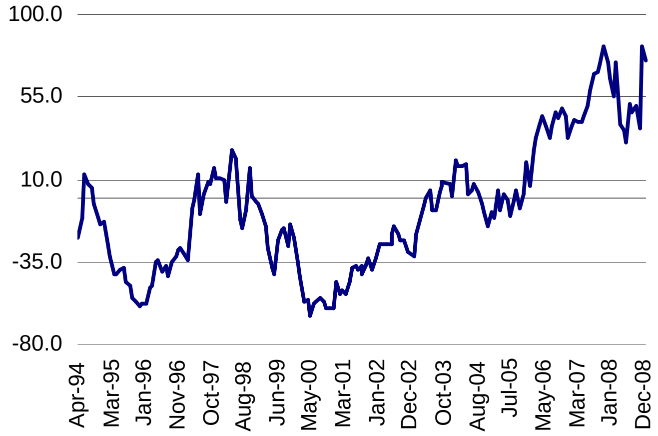
Since January 2008, BHEL has outperformed the BSE-Sensex by 6% and L&T by 17%, driven by superior earnings visibility (32% CAGR over FY08-10) and improved business environment (diminishing threat of Chinese competition, improved positioning in supercritical projects, continued robust cash flows of utilities, etc). While premium valuations (21.2x FY09E and 16.6x FY10E earnings) factor in superior earnings growth, BHEL may continue to outperform peers given improved business environment and resilient earnings growth. We arrive at a price target of Rs1,385 (16x FY10E earnings). As there is little upside from the current level, we downgrade the stock to **Neutral.**

ENGINEERING UNIVERSE: COMPARATIVE VALUATIONS (RS M)

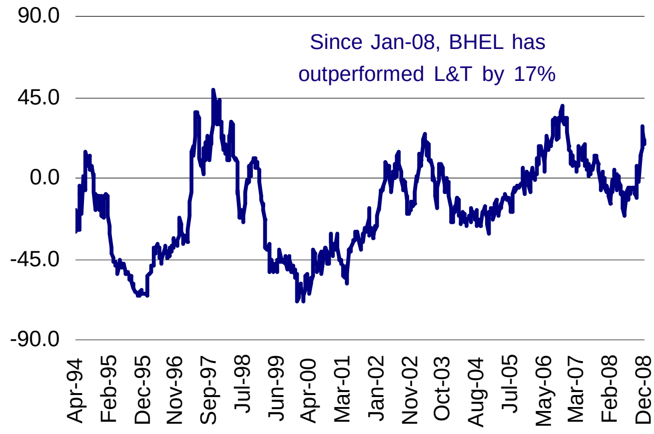
| | YEAR END | CMP (RS/SH) | EPS (RS/SH) | EPS GR. (%) | P/E * (X) | EV/EBIDTA (X) | EV/SALES (X) | ROE (%) | ROCE (%) | P/BV (X) |
|---|---|---|---|---|---|---|---|---|---|---|
| ABB | Dec 06 | 472 | 16.1 | 55.6 | 29.4 | 19.8 | 2.2 | 32.4 | 49.2 | 8.4 |
| | Dec 07 | | 23.2 | 44.5 | 20.3 | 12.8 | 1.6 | 34.8 | 53.5 | 6.2 |
| | Dec 08 | | 25.3 | 9.0 | 18.7 | 11.4 | 1.5 | 28.7 | 45.4 | 4.7 |
| | Dec 09 | | 28.7 | 13.4 | 16.5 | 9.5 | 1.1 | 25.5 | 39.4 | 3.8 |
| L&T | Mar 07 | 819 | 31.4 | 78.0 | 26.1 | 25.8 | 2.7 | 26.1 | 28.2 | 8.3 |
| | Mar 08 | | 39.3 | 25.1 | 20.9 | 17.2 | 2.0 | 27.0 | 29.5 | 5.0 |
| | Mar 09 | | 52.6 | 33.9 | 15.6 | 12.4 | 1.5 | 24.1 | 27.2 | 4.2 |
| | Mar 10 | | 57.4 | 9.2 | 14.3 | 10.0 | 1.2 | 22.7 | 25.5 | 3.6 |
| BHEL | Mar 07 | 1,438 | 49.3 | 44.0 | 29.2 | 17.9 | 3.7 | 30.0 | 50.0 | 8.0 |
| | Mar 08 | | 51.3 | 3.9 | 28.0 | 16.6 | 3.1 | 25.7 | 51.1 | 6.5 |
| | Mar 09 | | 67.9 | 32.5 | 21.2 | 15.0 | 2.5 | 28.2 | 43.4 | 5.5 |
| | Mar 10 | | 86.5 | 27.4 | 16.6 | 10.2 | 2.1 | 29.8 | 49.0 | 4.5 |
| Crompton Greaves | Mar 07 | 137 | 6.2 | 60.0 | 22.0 | 14.7 | 1.5 | 30.7 | 38.3 | 7.4 |
| | Mar 08 | | 10.0 | 60.0 | 13.7 | 10.0 | 1.2 | 34.3 | 50.0 | 5.4 |
| | Mar 09 | | 13.8 | 38.6 | 9.9 | 8.4 | 1.1 | 34.3 | 46.8 | 4.2 |
| | Mar 10 | | 15.0 | 8.7 | 9.1 | 8.3 | 1.0 | 28.5 | 40.5 | 3.4 |
| Siemens | Sep 06 | 284 | 11.8 | 31.9 | 24.1 | 21.6 | 1.9 | 42.6 | 62.8 | 8.8 |
| | Sep 07 | | 15.9 | 35.1 | 17.8 | 12.3 | 1.2 | 40.1 | 69.1 | 6.0 |
| | Sep 08 | | 15.2 | -4.6 | 18.7 | 11.5 | 1.1 | 32.4 | 48.5 | 4.5 |
| | Sep 09 | | 18.2 | 19.7 | 15.6 | 10.0 | 1.1 | 37.8 | 57.1 | 3.1 |
| Suzlon | Mar 07 | 58 | 6.0 | 19.6 | 9.7 | 5.5 | 0.9 | 27.6 | 21.0 | 2.4 |
| | Mar 08 | | 8.1 | 35.2 | 7.2 | 7.6 | 1.2 | 21.7 | 15.3 | 1.1 |
| | Mar 09 | | 8.2 | 1.5 | 7.0 | 6.3 | 0.9 | 13.3 | 11.7 | 0.8 |
| | Mar 10 | | 9.2 | 11.2 | 6.3 | 6.3 | 0.9 | 12.3 | 10.5 | 0.7 |

*Source: MOSL*

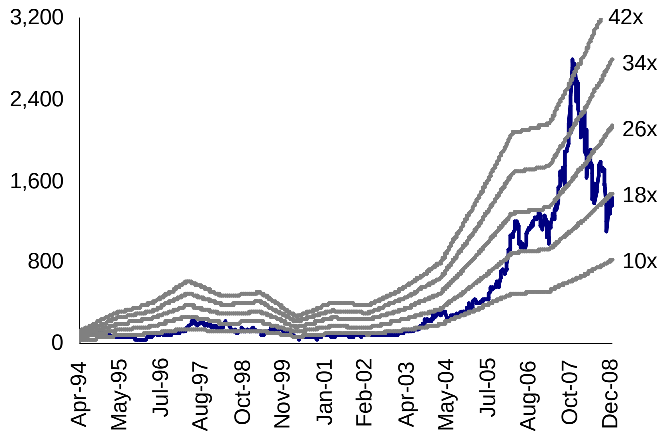
BHEL QUOTES AT A PREMIUM OF 75% TO SENSEX, HIGHEST EVER



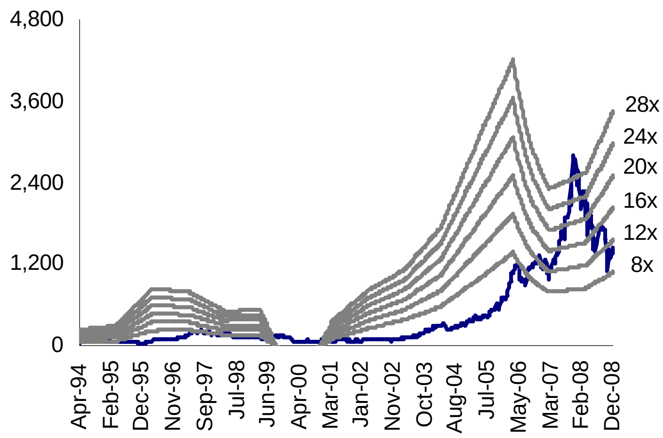

BHEL QUOTES AT A PREMIUM OF 20% TO L&T



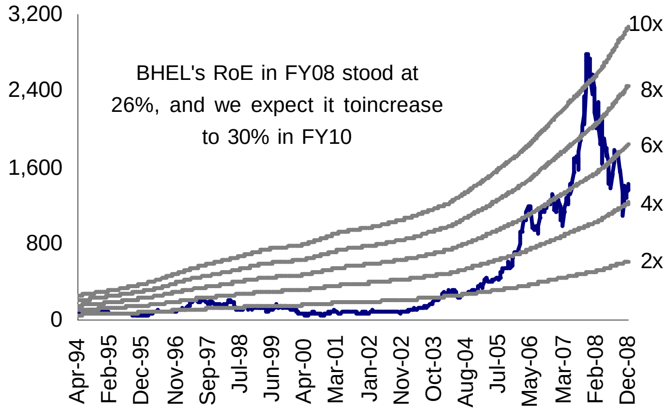

P/E EARNINGS (1-YEAR FORWARD)



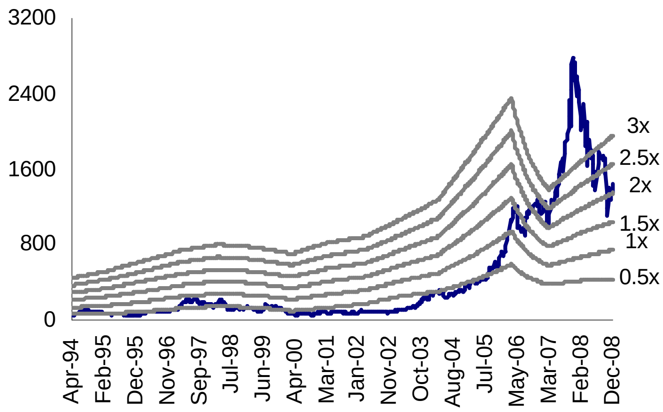

EV/EBITDA (1-YEAR FORWARD)




PRICE/BOOK VALUE (1-YEAR FORWARD)




EV/SALES (1-YEAR FORWARD)




*Source: Company/MOSL*

**INCOME STATEMENT** (Rs Million)

| Y/E MARCH | 2006 | 2007 | 2008 | 2009E | 2010E |
|---|---|---|---|---|---|
| **Total Income** | **136,873** | **176,427** | **197,652** | **254,103** | **311,286** |
| *Change* | *40.4* | *28.9* | *12.0* | *29.0* | *22.7* |
| Staff Cost | 18,785 | 24,510 | 31,197 | 41,120 | 41,935 |
| Mfg. Expenses | 69,424 | 86,393 | 98,465 | 130,870 | 158,290 |
| Selling Expenses | 22,806 | 29,473 | 30,576 | 40,518 | 48,136 |
| **EBITDA** | **25,858** | **36,051** | **37,414** | **41,594** | **62,925** |
| *Change* | *52.3* | *39.4* | *3.8* | *11.2* | *51.3* |
| *% of Net Sales* | *18.9* | *20.4* | *18.9* | *16.4* | *20.2* |
| Depreciation | 2,459 | 2,729 | 2,972 | 3,109 | 3,850 |
| Interest | 587 | 433 | 354 | 149 | 525 |
| Other Income | 2,797 | 4,468 | 10,225 | 8,147 | 6,621 |
| Extra-ord. Items (net) | 35 | 5 | -9 | 0 | 0 |
| **PBT** | **25,644** | **37,361** | **44,304** | **46,484** | **65,170** |
| Tax | 8,852 | 13,214 | 15,711 | 16,269 | 22,810 |
| *Rate (%)* | *34.5* | *35.4* | *35.5* | *35.0* | *35.0* |
| Reported PAT | 16,792 | 24,148 | 28,593 | 30,215 | 42,361 |
| **Adjusted PAT** | **16,769** | **24,144** | **25,095** | **33,240** | **42,361** |
| *Change* | *73.7* | *44.0* | *3.9* | *32.5* | *27.4* |

**BALANCE SHEET** (Rs Million)

| Y/E MARCH | 2006 | 2007 | 2008E | 2009E | 2010E |
|---|---|---|---|---|---|
| Share Capital | 2,448 | 2,448 | 4,895 | 4,895 | 4,895 |
| Reserves | 70,566 | 85,435 | 102,847 | 122,823 | 152,137 |
| **Net Worth** | **73,014** | **87,883** | **107,742** | **127,719** | **157,032** |
| Loans | 5,582 | 893 | 952 | 5,000 | 5,000 |
| Differed Tax Liability | -6,737 | -9,352 | -13,379 | -13,379 | -13,379 |
| **Capital Employed** | **71,859** | **79,424** | **95,314** | **119,339** | **148,653** |
| Gross Fixed Assets | 38,221 | 41,351 | 44,435 | 60,350 | 89,265 |
| Less: Depreciation | 28,398 | 31,463 | 34,622 | 36,339 | 40,189 |
| **Net Fixed Assets** | **9,823** | **9,887** | **9,813** | **24,010** | **49,076** |
| Capital WIP | 1,846 | 3,025 | 6,580 | 15,000 | 4,000 |
| Investments | 83 | 83 | 83 | 150 | 150 |
| **Curr. Assets** | **163,308** | **210,630** | **277,047** | **315,164** | **354,292** |
| Inventory | 37,444 | 42,177 | 57,364 | 69,632 | 87,359 |
| Debtors | 71,681 | 96,958 | 119,749 | 143,400 | 178,107 |
| Cash & Bank Balance | 41,340 | 58,089 | 83,860 | 83,388 | 64,104 |
| Loans & Advances | 11,999 | 11,409 | 11,863 | 14,532 | 20,510 |
| Other Current Assets | 845 | 1,997 | 4,211 | 4,211 | 4,211 |
| **Curr. Liab. & Prov.** | **103,200** | **144,201** | **198,208** | **234,985** | **258,865** |
| Creditors | 28,041 | 35,390 | 44,240 | 53,782 | 60,714 |
| Other Liabilities | 60,037 | 83,589 | 121,525 | 142,005 | 152,329 |
| Provisions | 15,123 | 25,222 | 32,444 | 39,198 | 45,822 |
| **Net Current Assets** | **60,108** | **66,428** | **78,838** | **80,179** | **95,427** |
| **Appli. of Funds** | **71,859** | **79,424** | **95,314** | **119,339** | **148,653** |

*E: MOSt Estimates*

**RATIOS**

| Y/E MARCH | 2006 | 2007 | 2008 | 2009E | 2010E |
|---|---|---|---|---|---|
| **Basic (Rs)** | | | | | |
| **EPS** | **68.5** | **49.3** | **51.3** | **67.9** | **86.5** |
| *Change (%)* | *73.7* | *44.0* | *3.9* | *32.5* | *27.4* |
| Cash EPS | 78.6 | 109.8 | 57.3 | 74.3 | 94.4 |
| Book Value | 298.3 | 179.5 | 220.1 | 260.9 | 320.8 |
| DPS | 14.5 | 8.0 | 15.3 | 19.0 | 24.2 |
| Payout (incl. Div. Tax.) | 23.3 | 17.8 | 30.5 | 30.8 | 30.8 |
| **Valuation (x)** | | | | | |
| P/E | | 29.2 | 28.0 | 21.2 | 16.6 |
| Cash P/E | | 13.1 | 25.1 | 19.4 | 15.2 |
| EV/EBITDA | | 17.9 | 16.6 | 15.0 | 10.2 |
| EV/Sales | | 3.8 | 3.2 | 2.5 | 2.1 |
| Price/Book Value | | 8.0 | 6.5 | 5.5 | 4.5 |
| Dividend Yield (%) | | 0.6 | 1.1 | 1.3 | 1.7 |
| **Return Ratio** | | | | | |
| RoE | 25.2 | 30.0 | 25.7 | 28.2 | 29.8 |
| RoCE | 39.6 | 50.0 | 51.1 | 43.4 | 49.0 |
| **Turnover Ratios** | | | | | |
| Debtors (Days) | 228 | 231 | 239 | 237 | 234 |
| Inventory (Days) | 119 | 101 | 115 | 115 | 115 |
| Creditors. (Days) | 89 | 84 | 88 | 89 | 80 |
| Asset Turnover (x) | 13.6 | 17.4 | 19.7 | 10.4 | 6.2 |
| **Leverage Ratio** | | | | | |
| Debt/Equity (x) | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |

**CASH FLOW STATEMENT** (Rs Million)

| Y/E MARCH | 2006 | 2007 | 2008 | 2009E | 2010E |
|---|---|---|---|---|---|
| **PBT bef. EO Items** | **25,608** | **37,356** | **44,313** | **46,484** | **65,170** |
| Add : Depreciation | 2,459 | 2,729 | 2,972 | 3,109 | 3,850 |
| Interest | 587 | 433 | 354 | 149 | 525 |
| Less : Direct taxes paid | 8,852 | 13,214 | 15,711 | 16,269 | 22,810 |
| (Inc)/Dec in WC | -1,576 | 10,428 | 13,361 | -1,812 | -34,533 |
| **CF from Operations** | **18,228** | **37,733** | **45,290** | **31,660** | **12,203** |
| EO Income | 35 | 5 | -9 | 0 | 0 |
| **CF from Operations** | **18,263** | **37,739** | **45,281** | **31,660** | **12,203** |
| (Inc)/dec in FA | -2,732 | -3,974 | -6,452 | -25,726 | -17,915 |
| **CF from Investmen** | **-2,726** | **-3,973** | **-6,452** | **-25,793** | **-17,915** |
| (Inc)/Dec in Networth | -1,697 | -7,585 | -4,028 | 0 | 0 |
| (Inc)/Dec in Debt | 213 | -4,689 | 59 | 4,048 | 0 |
| Less : Interest Paid | 587 | 433 | 354 | 149 | 525 |
| Dividend Paid | 3,904 | 4,308 | 8,734 | 10,238 | 13,047 |
| **CF from Fin. Activi** | **-5,976** | **-17,016** | **-13,058** | **-6,339** | **-13,572** |
| **Inc/Dec of Cash** | **9,561** | **16,750** | **25,771** | **-472** | **-19,284** |
| Add: Beginning Balance | 31,779 | 41,340 | 58,089 | 83,860 | 83,388 |
| **Closing Balance** | **41,340** | **58,089** | **83,860** | **83,388** | **64,104** |

# N O T E S

For more copies or other information, contact
**Institutional:** Navin Agarwal. **Retail:** Manish Shah
Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

**Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021**



| Disclosure of Interest Statement | BHEL |
|---|---|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |