

5x higher fuel oil consumption by Chinese sets

- Average specific fuel oil (SFO) consumption by Chinese sets higher by 12x:** Our analysis of 2009-10 SFO consumption by thermal plants supports our arguments that BHEL's equipment quality is better and lifecycle costs are lower. Average SFO consumption at Chinese sets stands at 20.7ml/kWh vs India's average of 1.5ml/kWh, CERC benchmark of 1.0ml/kWh and NTPC-BHEL plants' average consumption of 0.65ml/kWh.
- 5x higher consumption on apples-to-apples comparison:** One might refute the claim as initial fuel oil consumption can be higher in the pre-stabilisation phase. But, SFO consumption (at 3.6ml/kWh) for 9 plants commissioned by BHEL in FY10 was c.82% lower than plants with Chinese equipment (Exhibit 2). Although SFO consumption will reduce in subsequent years as plant stabilises (though not the case with Sagardighi and DPL commissioned in 2008-09), we believe it may still be higher than average consumption rate of 0.65ml/kWh for NTPC-BHEL commissioned plants, leading to higher-costs for the utility.
- Utility costs higher by ₹0.17-0.22/kWh vs BHEL sets:** At the current average prevailing SFO rate of ₹33/litre (Rs42 for LDO/HSD and Rs28 for HFO), we believe costs could be higher by ₹0.17-0.22/kWh vs BHEL sets. Hence, despite 15% initial savings on capital costs, the discounted/lifecycle cost is lower for BHEL equipment due to lower operational costs, better PLFs and lower downtime. Further, CAG reported that time period between synchronisation to commercial operation was extended in some cases by 70-130 days due to faulty equipment design by Chinese suppliers.
- Maintain BUY with ₹2,750 TP:** We believe low cost Chinese equipment may lose its sheen to BHEL going forward, due to 1) increased awareness of higher operational costs as more projects get commissioned, 2) generation loss due to longer time for CoD after synchronisation, and 3) absence of local repair shop, requiring equipment to be shipped to China in case of technical irregularities (DPL plant shut for 8 months after 1-yr of commissioning). The stock currently trades at 14.4x and 12.4x FY12E and FY13E EPS respectively. We rate BHEL as our top pick in Industrials space. Private capex slowdown risk may be covered by 25GW BTG ordering expected by NTPC in FY12-13.

Exhibit 1. Financial Summary

	₹ mn				
Y/E March	FY09A	FY10A	FY11E	FY12E	FY13E
Net sales	262,123	328,614	396,539	477,278	541,639
Sales growth (%)	35.8	25.4	20.7	20.4	13.5
EBITDA	37,046	54,266	76,417	92,112	103,188
EBITDA (%)	14.1	16.5	19.3	19.3	19.1
Adjusted net profit	38,246	43,107	57,252	69,616	80,336
EPS (₹)	78.1	88.1	117.0	142.2	164.1
EPS growth (%)	25.7	12.7	32.8	21.6	15.4
ROCE (%)	NA	84.2	76.6	93.0	90.2
ROE (%)	29.6	29.9	32.0	31.3	29.4
PE (x)	26.1	23.2	17.5	14.4	12.4
Price/Book value (x)	7.7	6.3	5.0	4.1	3.3
EV/EBITDA (x)	24.2	16.6	11.5	8.8	7.7

Source: Company data, JM Financial. Note: Valuations as of 09/03/2011

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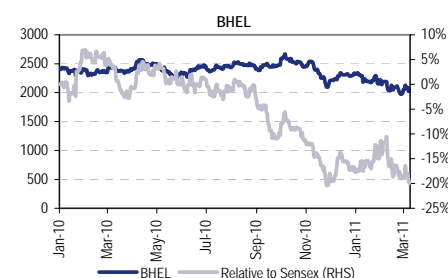
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Key Data

Market cap (bn)	₹ 999.7 / US\$ 22.2
Shares in issue (mn)	489.5
Diluted share (mn)	489.5
3-mon avg daily val (mn)	₹ 1428.7/US\$ 31.7
52-week range	₹ 2695.0/1960.0
Sensex/Nifty	18,470/5,531
₹/US\$	45.0

Daily Performance



%	1M	3M	12M
Absolute	-2.1	-8.3	-15.7
Relative	-7.1	-4.3	-24.0

* To the BSE Sensex

Shareholding Pattern (%)

	3Q FY11	3Q FY10
Promoters	67.7	67.7
FII	14.0	15.5
DII	12.0	10.8
Public / others	6.3	6.0

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Bloomberg - JMFR <GO>, Thomson Publisher & Reuters.

Please see important disclosure at the end of the report

Exhibit 2. Average SFO consumption

Details	ml/kWh
Central sector	0.69
State sector	2.23
Pvt sector	0.89
Pvt IPP sector	1.65
Overall	1.51
BHEL (NTPC plants) (14 plants)	0.65
CERC benchmark	1.00
BHEL (comm. in FY10) (9 plants)	3.59
Chinese Plants (5 plants)	20.7

Source: CEA, JM Financial

Exhibit 3. Power plants operating on Chinese equipments and BHEL plants commissioned in FY10

Plant Name	Equipment Supplier	CoD	MW	Energy generated (MU)	SFOC (ml/kWh)
Yamuna Nagar	Shanghai Electric	Apr/Jun-08	600	4,276	1.72
Amarkantak Ext.	Dongfang	Mar-10	450	1,812	9.75
Durgapur (DPL)	Dongfang	Apr-08	690	2,866	6.05
Sagardighi	Dongfang	Sep/Nov-08	600	3,313	2.81
Rosa Ph-I	Shanghai Electric	Mar-10	300	124	83.30
Average Chinese					20.7
Dadri (NCTPP)	BHEL	Jan-10	1,330	5,108	1.57
Bhilai	BHEL	Apr/Oct-09	500	7,828	3.5
Kahalgaoon	BHEL	Mar-10	2,340	16,743	3.14
Chandrapura	BHEL	Mar-10	1,000	16,264	4.31
Suratgarh	BHEL	Sep-09	1,500	3,555	1.52
Kutch Lig.	BHEL	Dec-09	290	8,952	4.21
Paras ext.	BHEL	Jul-10	500	17,956	8.81
Parli	BHEL	Jul-10	670	8,175	3.58
Budge Budge	BHEL	Feb-10	750	27,586	1.73
Average BHEL					3.59

Source: CEA, JM Financial

Financial Tables (Consolidated)

Profit & Loss Statement					
	(₹ mn)				
Y/E March	FY09A	FY10A	FY11E	FY12E	FY13E
Net sales (Net of excise)	262,123	328,614	396,539	477,278	541,639
Growth (%)	35.8	25.4	20.7	20.4	13.5
Other operational income	0	0	0	0	0
Raw material (or COGS)	164,685	198,857	230,769	291,187	335,360
Personnel cost	29,837	64,492	56,020	60,983	66,385
Other expenses (or SG&A)	30,556	11,000	33,333	32,996	36,706
EBITDA	37,046	54,266	76,417	92,112	103,188
EBITDA (%)	14.1	16.5	19.3	19.3	19.1
Growth (%)	11.6	46.5	40.8	20.5	12.0
Other non-op. income	7,278	8,403	8,348	9,656	10,667
Depreciation and amort.	3,343	4,580	5,826	6,757	8,014
EBIT	40,981	58,089	78,939	95,011	105,841
Add: Net interest income	7,388	7,815	6,513	10,468	15,880
Pre tax profit	48,370	65,904	85,451	105,479	121,721
Taxes	17,106	22,797	28,199	35,863	41,385
Add: Extraordinary items	119	0	0	0	0
Less: Minority interest	0	0	0	0	0
Reported net profit	31,382	43,107	57,252	69,616	80,336
Adjusted net profit	38,246	43,107	57,252	69,616	80,336
Margin (%)	14.6	13.1	14.4	14.6	14.8
Diluted share cap. (mn)	490	490	490	490	490
Diluted EPS (₹)	78.1	88.1	117.0	142.2	164.1
Growth (%)	25.7	12.7	32.8	21.6	15.4
Total Dividend + Tax	9,736	13,321	18,086	21,992	25,378

Source: Company, JM Financial

Balance Sheet					
	(₹ mn)				
Y/E March	FY09A	FY10A	FY11E	FY12E	FY13E
Share capital	4,895	4,895	4,895	4,895	4,895
Other capital	0	0	0	0	0
Reserves and surplus	124,493	154,279	193,446	241,070	296,028
Networth	129,388	159,174	198,341	245,965	300,923
Total loans	1,494	1,278	1,500	1,500	1,500
Minority interest	0	0	0	0	0
Sources of funds	130,882	160,452	199,841	247,465	302,423
Intangible assets	0	0	0	0	0
Fixed assets	51,836	65,659	79,717	88,925	111,133
Less: Depn. and amort.	37,133	41,505	47,332	54,089	62,102
Net block	14,704	24,154	32,385	34,836	49,031
Capital WIP	11,570	15,296	17,800	21,868	19,302
Investments	523	798	798	798	798
Def tax assets/- liability	18,403	15,272	12,449	12,244	12,223
Current assets	369,011	429,348	510,401	603,844	700,219
Inventories	78,370	92,354	111,890	115,634	151,476
Sundry debtors	159,755	206,888	236,366	253,203	286,358
Cash & bank balances	103,147	97,901	124,362	188,086	206,919
Other current assets	3,502	4,069	3,830	6,055	9,090
Loans & advances	24,237	28,137	33,952	40,865	46,376
Current liabilities & prov.	283,329	324,417	373,993	426,125	479,150
Current liabilities	233,573	280,237	320,977	362,506	402,808
Provisions and others	49,756	44,180	53,016	63,619	76,343
Net current assets	85,682	104,931	136,407	177,719	221,069
Others (net)	1	1	0	0	0
Application of funds	130,882	160,452	199,841	247,465	302,423

Source: Company, JM Financial

Cash flow statement					
	(₹ mn)				
Y/E March	FY09A	FY10A	FY11E	FY12E	FY13E
Reported net profit	31,382	43,107	57,252	69,616	80,336
Depreciation and amort.	3,102	4,373	5,826	6,757	8,014
-Inc/dec in working cap.	-46,724	-43,847	-39,822	-12,727	-52,869
Others	0	0	0	0	0
Cash from operations (a)	-12,240	3,632	23,257	63,646	35,480
-Inc/dec in investments	-441	-275	0	0	0
Capex	-12,983	-17,549	-16,563	-13,275	-19,642
Others	59,168	19,352	34,807	35,139	28,352
Cash flow from inv. (b)	45,745	1,529	18,244	21,864	8,710
Inc/-dec in capital	0	0	0	0	0
Dividend+Tax thereon	-9,736	-13,321	-18,086	-21,992	-25,378
Inc/-dec in loans	542	-216	223	0	0
Others	-5,024	3,130	2,824	205	21
Financial cash flow (c)	-14,218	-10,407	-15,039	-21,787	-25,358
Inc/-dec in cash (a+b+c)	19,287	-5,246	26,461	63,724	18,833
Opening cash balance	83,860	103,147	97,901	124,362	188,086
Closing cash balance	103,147	97,901	124,362	188,086	206,919

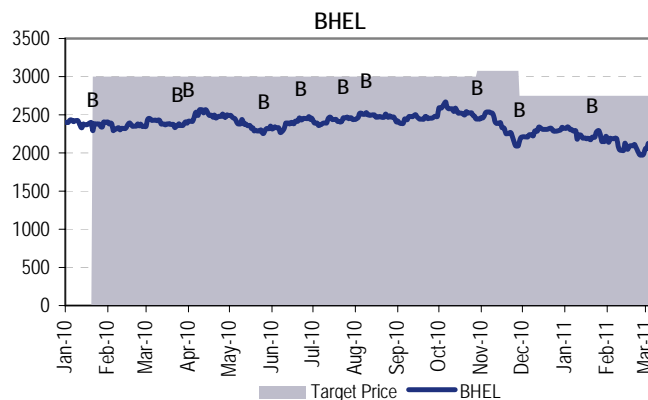
Source: Company, JM Financial

Key Ratios					
Y/E March	FY09A	FY10A	FY11E	FY12E	FY13E
BV/Share (₹)	264.3	325.2	405.2	502.5	614.7
ROCE (%)	NA	84.2	76.6	93.0	90.2
ROE (%)	29.6	29.9	32.0	31.3	29.4
Net Debt/equity ratio (x)	-0.8	-0.6	-0.6	-0.8	-0.7
Valuation ratios (x)					
PER	26.1	23.2	17.5	14.4	12.4
PBV	7.7	6.3	5.0	4.1	3.3
EV/EBITDA	24.2	16.6	11.5	8.8	7.7
EV/Sales	3.4	2.7	2.2	1.7	1.5
Turnover ratios (no.)					
Debtor days	222	230	218	194	193
Inventory days	109	103	103	88	102
Creditor days	130	139	134	116	119

Source: Company, JM Financial

History of earnings estimates and target price

Date	FY11E EPS (₹)	% Chg.	FY12E EPS (₹)	% Chg.	Target Price	Target Date	% Chg.
21-Jan-10	112.1		131.1		3,000	Mar-11	
24-Mar-10	112.6	0.4	136.7	4.3	3,000	Mar-11	0.0
1-Apr-10	112.4	-0.2	136.5	-0.1	3,000	Mar-11	0.0
26-May-10	112.4	0.0	136.3	-0.1	3,000	Mar-11	0.0
22-Jun-10	112.4	0.0	136.3	0.0	3,000	Mar-11	0.0
23-Jul-10	112.4	0.0	136.3	0.0	3,000	Mar-11	0.0
9-Aug-10	112.4	0.0	136.3	0.0	3,000	Mar-11	0.0
29-Oct-10	116.1	3.3	143.7	5.4	3,075	Sep-11	2.5
29-Nov-10	116.1	0.0	143.7	0.0	2,750	Sep-11	-10.6
21-Jan-11	117.0	0.8	142.2	-1.0	2,750	Sep-11	0.0

Recommendation history**JM Financial Institutional Securities Private Limited**

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