

Country: India

Sector: Power

Abhishek Puri
abhishek.puri@jmfinancial.in
Tel: (91 22) 6646 0058

Kashish Tandon
kashish.tandon@jmfinancial.in
Tel: (91 22) 6646 0029

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Flash Update

BHEL

Bloomberg: BHEL IB

Buy

Price: Rs1,732

Target Price (Mar 08): Rs1,750

Annual Report takeaways – capacity upgraded only in Turbo-generator

- Capacity enhanced from 6GW to 10GW in turbines-generator facilities, none in boiler and auxiliaries:** BHEL has ramped up capacities at Bhopal and Haridwar. Turbine Generator capacity at Haridwar has been enhanced from 4,575 MW to 5,750 MW, while the Hydro sets capacity at Bhopal has increased from 720 MW to 2,500 MW. Although capacity remains at critical levels (>100% utilization) at Tiruchy and other boiler auxiliary units, we have not witnessed any capacity addition in the expansion phase of 6 to 10 GW. We understand that major part of boiler work can be outsourced and hence 283% utilization in FY08 is a result of outsourcing / three shift operations.
- Going forward, capacity addition would be holistic and the announced capex plans of Rs42 bn in 11th Plan would cover most auxiliaries to support 15 GW equipments, including that for turbine blades, seamless piping, steel castings and forgings, etc.

Exhibit 1: Capacity Expansion and Utilisation

Facility location	Equipment	Unit	2006-07		2007-08	
			Installed capacity	Utilisation	Installed capacity	Utilisation
Bhopal	Turbine	MW	250	0%	250	100%
	Hydro turbine and generator	MW	720	90%	2,500	51%
	Transformers, Electricals, Heat Exchanger	-	no change	major equipments >100% utilisation		
Haridwar	Turbine Generator, Hydro sets and Gas Turbines	MW	4,575	62%	5,750	55%
	CFFP - Steel Castings, Forgings	MT	15,660	48%	15,660	50%
Hyderabad	Steam Turbine, Gas Turbine	MW	1,175	114%	1,175	132%
	Generators	MW	1,360	99%	1,360	120%
	Compressors, Pulverisers, Pumps, Heat Exchangers	-	no change	>100% utilisation		
Tiruchy	Boilers	MT	108,000	236%	108,000	283%
	Seamless Steel tubes	MT	40,000	75%	40,000	75%
Ranipet	Boiler auxiliaries	MT	118,000	110%	118,000	129%
Bangalore	Insulators & Bushing	CMT	6,250	110%	6,250	110%
Jagdishpur	Insulators	CMT	6,000	110%	6,000	113%
Jhansi	Transformers, Loco, Shunter	-	no change	>100% utilisation		

Source: Company, JM Financial

- 6th Pay wage and contractual provisions increase 5x YoY, LD up 3x:** BHEL has reported 5x increase in contractual obligations and lesser write backs, indicative of warranty / or client related issues. Additionally, the others portion has increased on account of provisioning done for pay hikes w.r.t 6th Pay Commission recommendations. Liquidated damages (LD) jumped 3x to Rs8 bn in FY08 from Rs2.6 bn in FY07.

Exhibit 2: Break up of Provisions

Provisions	FY06-07	FY07-08
Doubtful debts, LD and Loans & Advances		
- Created during the year	2,729	2,119
- Less written back during the year	1,864	1,730
Contractual Obligations		
- Created during the year	2,368	3,127
- Less written back during the year	2,057	1,535
Others		
- Created during the year	1,436	8,400
- Less written back during the year	893	2,599
Total	1,719	7,783

Provision write back of 50% was lesser than usual 80-85%

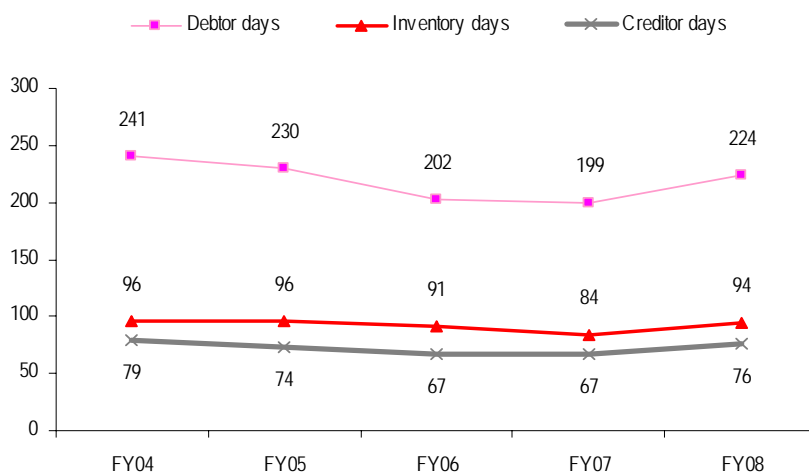
Rs7.3 bn wage provisioning resulted in 6x higher provisions in FY08

Source: Company, JM Financial

- Debtors and Inventory jumps on rising input cost; yet WC negative on advances from customers on record order inflow:** BHEL reported an increase in debtors at Rs120 bn in FY08 from Rs97 in FY07. Though debtor days have increased by 25 days, yet it falls under its long-term average range of c.220 days, highlighting that debtor of 199 days in FY07 was an aberration.

Inventory levels have increased to Rs57 bn in FY08 from Rs42 bn in FY07E, increasing the inventory turnaround time to 94 days. It held larger inventory in wake of increasing commodity prices. The creditors also increased from 67 days to 76 days and advances from customers jumped 46% to Rs113.9 bn on the back of unprecedented order inflow of Rs510 bn. Hence, working capital turned negative, following reducing working capital trend since FY06.

Exhibit 3: Working capital details

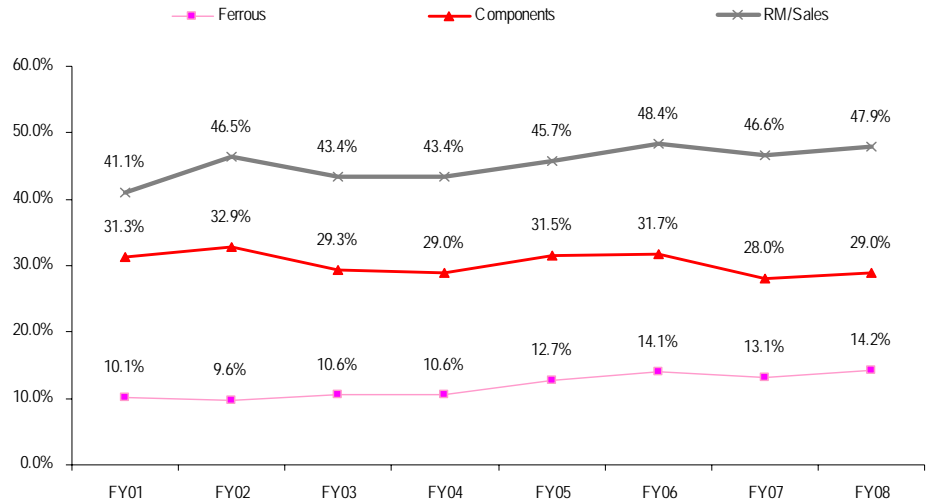


Debtor & Inventory levels increase offset by higher advances from customers of Rs113.9 bn

Source: Company, JM Financial

- Input cost pressures felt - RM/Sales jumped 130 bps:** BHEL reported an increase of 130 bps in RM/Sales on the back of rising input costs. The main contributors being both Ferrous material and bought-out components of more than 100 bps as a % to Sales. Non-Ferrous material like Copper also jumped 20 bps with other small components jumping by 85% on sales growth of 14.7%.

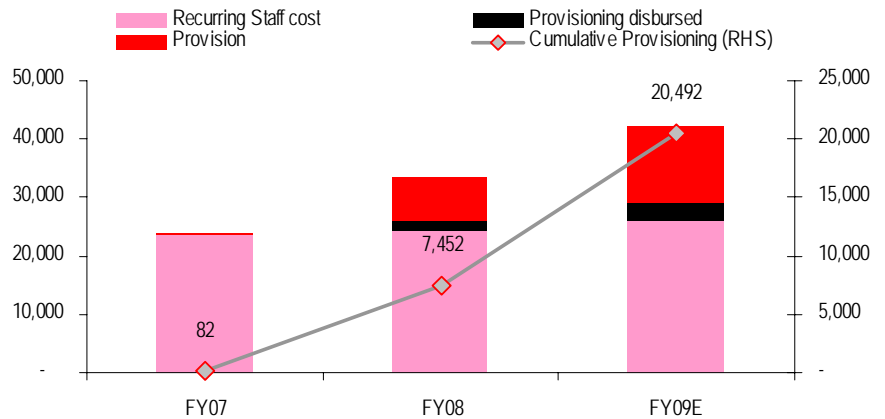
Exhibit 4: Raw material break-up (Ferrous & Components as % to RM)



Source: Company, JM Financial

- Wage provisioning increased to Rs7.4 bn in FY08:** BHEL reported higher wage provisioning in line with 6th Pay Commission recommendations of Rs7.4 bn in FY08. It paid Rs1.98 bn of provisioning in FY08 accounted in the staff cost which otherwise would have been Rs24 bn, against reported Rs26 bn.

Exhibit 5: Wage provisioning details (Rs mn)



Source: Company, JM Financial

Contact details – Sales & Dealing Team

Sales Team

Tel: (91 22) 6646 0017

Sales Trading & Dealing Team

Tel: (91 22) 2497 5601-05

Derivatives Team

Tel: (91 22) 2497 5601-05

JM Financial Institutional Securities Private Limited

MEMBER, BOMBAY STOCK EXCHANGE LIMITED AND NATIONAL STOCK EXCHANGE OF INDIA LIMITED

Bandbox House, 1st Floor • 254-D Dr Annie Besant Road, Worli • Mumbai 400 025

Tel: +9122 66460000 • Dealers: +91 22 2497 5601-05 • Fax: +91 22 2498 5666 • Email: research@jmfinancial.in

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