



ENAM Securities
India Research

CMP: Rs 2,218
Target Price: Rs 2,550
Potential Upside: 15%
Absolute Rating: **BUY**

BHEL

Relative to sector: **Neutral**

Bhavin Vithlani

Executive Director – Power & Cap Goods
Email: bhavin@enam.com
Tel: 9122 6754 7634

Akshen Thakkar

VP – Power & Cap Goods
Email: akshen.thakkar@enam.com
Tel: 9122 6754 7608

Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 490 mn
Market cap : Rs 1,086 bn
52 week high/low : Rs 2695/ Rs 2060
Avg. daily vol. (6mth) : 604,900 shares
Bloomberg code : BHEL IB
Reuters code : BHEL.BO

Shareholding (%)	Dec-10	QoQ chg
Promoters	67.7	0.0
FIs	14.0	(0.7)
MFs / UTI	7.0	0.2
Banks / FIs	5.0	0.6
Others	6.3	(0.0)

Financial summary

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2010	334,703	45,148	-	92.2	25	-	35.4	53.3	-	27.2
2011E	396,916	55,472	113.7	113.3	23	19.6	33.7	49.4	12.1	29.3
2012E	491,862	69,280	138.5	141.5	25	15.7	32.7	48.0	9.4	31.6
2013E	574,017	77,071	157.0	157.4	11	14.1	28.6	42.0	8.5	31.6

Source: *Consensus broker estimates, Company, ENAM estimates

MARGINS SURPRISE POSITIVELY

BHEL's Q3FY11 result was above our estimates on higher-than-expected margins. During Q3, BHEL booked additional revenues & profits of Rs 4.4 bn & Rs 0.6 bn resp., due to change in revenue recognition policy under "percentage completion" method. Adj. for this, BHEL reported sales of Rs 85.8 bn (up 19% YoY), EBITDA of Rs 19.8 bn (up 27% YoY), & PAT of Rs 13.4 bn (up 25% YOY).

Q3FY11 Result and Concall Highlights

- ❑ **Order pipeline remains strong; FY11/FY12 could post growth in order intake:** 9mFY11 order intake was flat YoY at Rs 365 bn and order backlog was up 18% YoY to Rs 1,580 bn. Given the strong order pipeline (NTPC negotiated order & SEB orders); the management believes it can marginally exceed its FY11 order intake guidance of ~Rs 600 bn. Further, it expects FY12 intake to be higher than FY11.
- ❑ **Margins surprised on the back of higher gross margins:** The mgmt highlighted that 400 bps improvement in gross margins vs H1FY11 was due to structural efforts such as increased indigenization, vendor management & LT procurement. In FY12, strong op leverage (~130 bps on employee costs) would aid to maintain OPM at 20-21% levels.
- ❑ **Execution pick-up:** The mgmt highlighted improved execution-9mFY11 commissioning at 4.3 GW (higher than FY10). We expect execution to remain robust in FY12 as it is the last year of the 11th five yr plan. BHEL's delivery timeline for a 500 MW plant is 36-39 months & for 660 MW plant is 40-44 months (target 38-40 months). The company's capacity will increase to 20 GW (vs 15 GW) by Mar'12.

Outlook & Valuations

Based on healthy backlog of Rs 1,580 bn (4.2x TTM sales) and margin cushions from structural cost saving efforts/ op leverage, we expect BHEL to report 20% sales and earnings CAGR each over FY10-13E. **Maintain BUY** with a TP of Rs 2,550 (18x FY12 PER).

Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Net Sales/Income form op	85,793	72,292	18.7	84,907	1.0	396,916	334,703	18.6
EBIDTA	19,829	15,617	27.0	16,324	21.5	82,001	64,685	26.8
Other income	1,529	1,933	(20.9)	1,620	(5.6)	5,752	8,570	(32.9)
PBIDT	21,358	17,550	21.7	17,944	19.0	87,753	73,255	19.8
Depreciation	1,447	1,038	39.4	1,341	7.9	5,809	4,580	26.8
Interest	145	69	109.7	59	144.0	369	335	10.0
PBT	19,767	16,443	20.2	16,544	19.5	81,576	68,340	19.4
Tax	6,329	5,717	10.7	5,121	23.6	26,104	23,192	12.6
Adjusted PAT	13,437	10,726	25.3	11,423	17.6	55,472	45,148	22.9
Extra ordinary income/ (exp.)	595	0	-	0	-	0	1,340	-
Reported PAT	14,032	10,726	30.8	11,423	22.8	55,472	46,488	19.3
No. of shares (mn)	490	490	-	490	-	490	490	0.0
EBIDTA margin (%)	23.1	21.6	-	19.2	-	20.7	19.3	6.9
PBIDT margin (%)	24.9	24.3	-	21.1	-	22.1	21.9	1.0
EPS - annualized (Rs.)	109.8	87.6	25.3	93.3	17.6	113.3	92.2	22.9

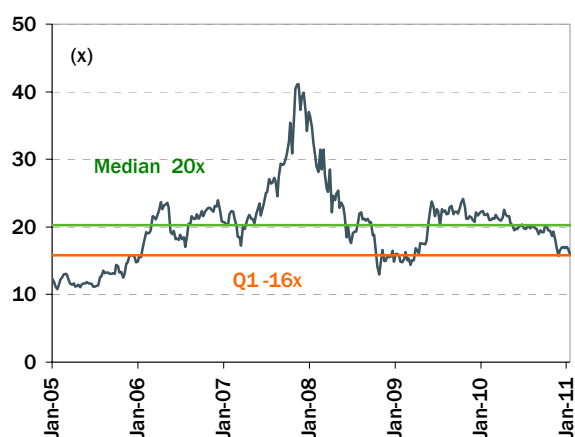
Source: Company, ENAM Research

Segment-wise performance

	Revenues (Rs mn)			PBIT margin (%)		
	Dec-10	Dec-09	% Chg	Dec-10	Dec-09	Chg bps
Power	72,820	57,087	28	22.4	22.9	(51)
Industry	21,429	18,020	19	21.2	22.5	(129)
Total Gross sales	94,250	75,107	25	22.5	23.2	(72)
Less: inter segment	1,452	1,247	16	-	-	-
Gross Sales	92,798	73,860	26	-	-	-
Less: Excise	4,305	2,857	51	-	-	-
Other Operating Income	1,741	1,289	35	-	-	-
Additional Sales due to change in	4,440	-	-	-	-	-
Net sales	85,793	72,292	19	-	-	-

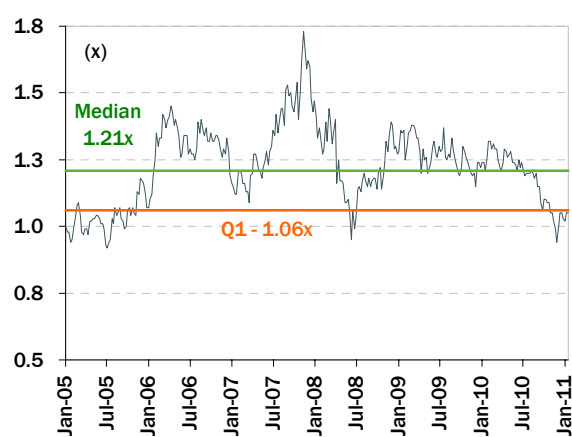
Source: Company, ENAM Estimates

BHEL 1 yr fwd P/E



Source: Company, Bloomberg, ENAM Research

BHEL P/E relative to Sensex



This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature

Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors

Enam Securities Private Limited has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval

Enam securities Private Limited, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document

This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of ENAM Securities Private Limited. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein

This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions

Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

Copyright in this document vests exclusively with ENAM Securities Private Limited.