

July 26, 2010

Rating	Accumulate
Price	Rs2,460
Target Price	Rs2,849
Implied Upside	15.8%
Sensex	18,131

(Prices as on July 23, 2010)

Trading Data

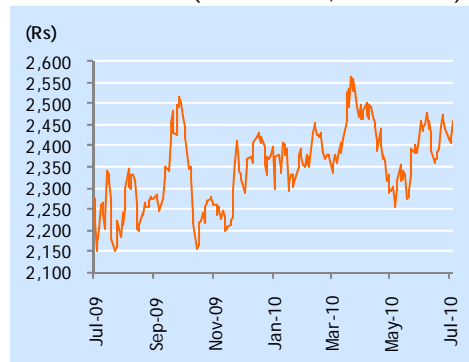
Market Cap. (Rs bn)	1,205.6
Shares o/s (m)	490.0
Free Float	32.28%
3M Avg. Daily Vol ('000)	620.9
3M Avg. Daily Value (Rs m)	1,479.0

Major Shareholders

Govt. Holding	67.72%
Foreign	14.91%
Domestic Inst.	11.28%
Public & Others	6.09%

Stock Performance

(%)	1M	6M	12M
Absolute	1.0	3.7	13.5
Relative	(1.1)	(3.8)	(5.5)

Price Performance (RIC: BHEL.BO, BB: BHEL IN)


Source: Bloomberg

- Results above expectations:** The company reported a 16% in topline to Rs 64bn. The Power segment grew by 18% YoY to Rs 54bn and 11% YoY growth in Industry segment to Rs 14.7bn. The company surprised on margins with reported EBITDA margin of 13% (improvement of 380bps YoY) the significant improvement in EBITDA margin was driven by lower RM cost YoY. Apart from lower commodity cost YoY the improvement in margins can also be attributable to weak euro, optimization of designs in products like Transformers, switch gears, steam turbines etc, ability to quickly indigenised new technologies and lean manufacturing. The PAT for the quarter up 42% YoY to Rs 6.7bn.
- Order booking to be maintained at ~590bn:** The current order book of the company stood at Rs1,480bn (4.5x FY10E sales). The order inflow for the quarter stood at Rs 108.2bn down 14% YoY (Power Rs 92.2bn, Industry Rs 15.9bn). The major order received in power sector include Rs 63bn order from Raichur power (2x800MW) and Rs 26bn (2x600MW) order from Dainik Bhaskar group. The company is targeting power orders worth 16000MW in the current year (Including order from 2 JV with SEB's). Apart from the JV with 4 SEB's (MAHAGENCO, TNEB, MPPGCL, Karnataka) for supercritical orders it is also talking to West Bengal and AP SEB for similar JV to increase its share of supercritical orders. It is expecting the order booking to be at the same level of last year at Rs 590bn.
- Super critical orders might not dent margin to extent feared:** The management cited that the fear that increase of share in super critical set orders might dent margins not play out as the volumes of the company is increasing and also by the time super critical sets starts to dominate sales the company would have indigenised the technology to a great extent supporting margins.
- Valuations attractive:** The stock is currently trading at 22x & 18x its FY11E and FY12E earnings respectively. We believe better execution capabilities through increased capacity and vendor base, strong margin on account of cost optimization and lean manufacturing will help company deliver a 23% & 24% CAGR on top line and bottom line over FY10-12E. As fear on margin erosion on account of super critical orders and order inflow recede we expect the stock to outperform. We maintain our Accumulate rating on the stock.

Key financials (Y/e March)	FY09	FY10	FY11E	FY12E
Revenues (Rs m)	267,268	328,803	396,602	496,112
Growth (%)	35.5	23.0	20.6	25.1
EBITDA (Rs m)	42,190	55,658	73,495	89,269
PAT (Rs m)	31,138	43,106	54,160	66,407
EPS (Rs)	63.6	88.1	110.6	135.7
Growth (%)	14.1	38.4	25.6	22.6
Net DPS (Rs)	15.9	22.0	27.5	28.5

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	15.8	16.9	18.5	18.0
RoE (%)	26.3	29.8	30.2	29.7
RoCE (%)	26.2	29.6	30.2	29.7
EV / sales (x)	4.1	3.4	2.8	2.2
EV / EBITDA (x)	26.2	19.8	15.0	12.4
PE (x)	38.7	27.9	22.2	18.1
P / BV (x)	9.0	7.3	5.9	4.7
Net dividend yield (%)	0.6	0.9	1.1	1.2

Source: Company Data; PL Research

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Q1FY11 Result Overview

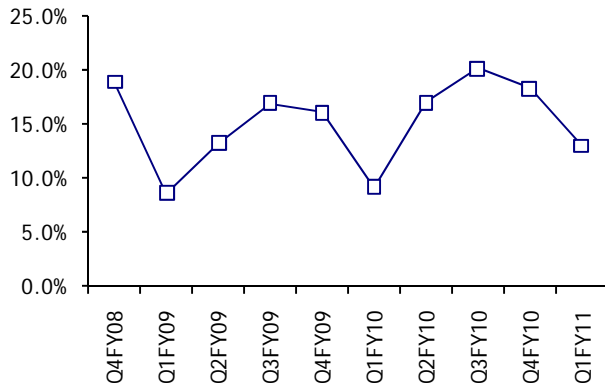
(Rs m)

Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
Net Sales	64,790	55,957	15.8	135,591	396,602	328,803	20.6
Expenditure							
Raw Material	38,094	35,452	7.5	80,273	232,305	193,074	20.3
<i>% of Net Sales</i>	<i>58.8</i>	<i>63.4</i>		<i>59.2</i>	<i>58.6</i>	<i>58.7</i>	
Personnel Cost	13,378	11,137	20.1	17,434	53,689	51,529	4.2
<i>% of Net Sales</i>	<i>20.6</i>	<i>19.9</i>		<i>12.9</i>	<i>13.5</i>	<i>15.7</i>	
Others	4,880	4,206	16.0	13,012	37,113	28,542	30.0
<i>% of Net Sales</i>	<i>7.5</i>	<i>7.5</i>		<i>9.6</i>	<i>9.4</i>	<i>8.7</i>	
Total Expenditure	56,351	50,795	10.9	110,719	323,108	273,145	18.3
EBITDA	8,439	5,162	63.5	24,873	73,495	55,658	32.0
<i>Margin (%)</i>	<i>13.0</i>	<i>9.2</i>		<i>18.3</i>	<i>18.5</i>	<i>16.9</i>	
Other income	2,848	3,029	(6.0)	5,935	15,294	15,164	0.9
Depreciation	1,269	961	32.0	1,647	4,955	4,580	8.2
EBIT	10,018	7,229	38.6	29,161	83,834	66,242	26.6
Interest	18	43	(57.9)	178	747	335	122.9
PBT	10,000	7,187	39.1	28,983	83,087	65,907	26.1
Total Taxes	3,301	2,481	33.1	9,887	28,927	22,800	26.9
<i>ETR (%)</i>	<i>33.0</i>	<i>34.5</i>	<i>(28.2)</i>	<i>34.1</i>	<i>34.8</i>	<i>34.6</i>	
PAT	6,699	4,706	42.4	19,096	54,160	43,106	25.6

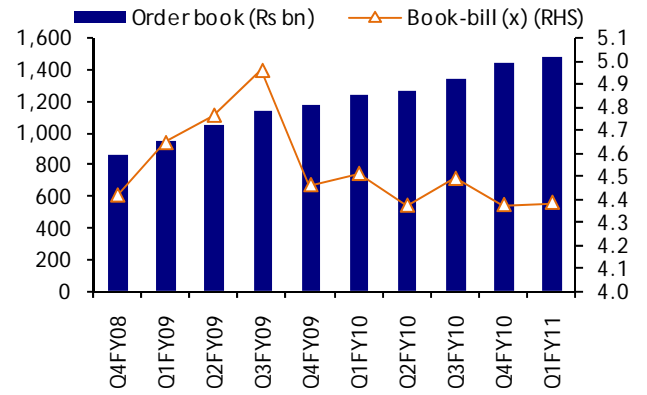
Segment wise details

Y/e March	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Sales (Rs m)					
Power	45,688	54,283	57,087	111,549	53,999
Industry	13,325	15,954	18,020	31,491	14,763
Total	59,013	70,237	75,107	143,040	68,762
EBIT (%)					
Power	18.1	20.7	22.9	27.4	19.8
Industry	12.2	17.0	22.5	25.6	11.5
Sales Mix (%)					
Power	77.4	77.3	76.0	78.0	78.5
Industry	22.6	22.7	24.0	22.0	21.5

EBITDA margin trend

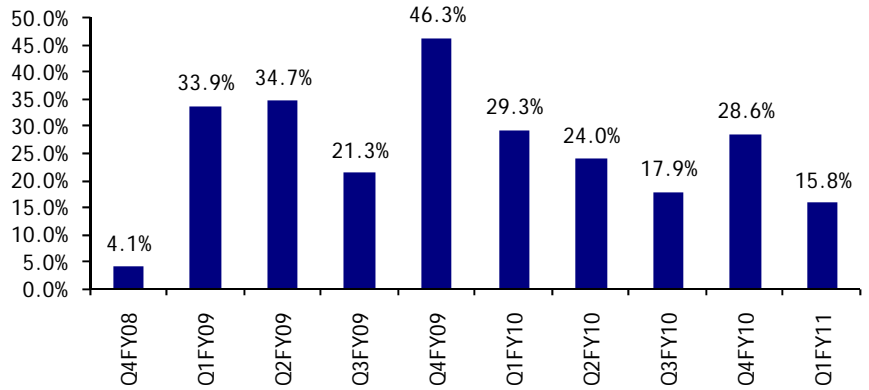


Order book trend



Source: Company Data, PL Research

Sales growth trend



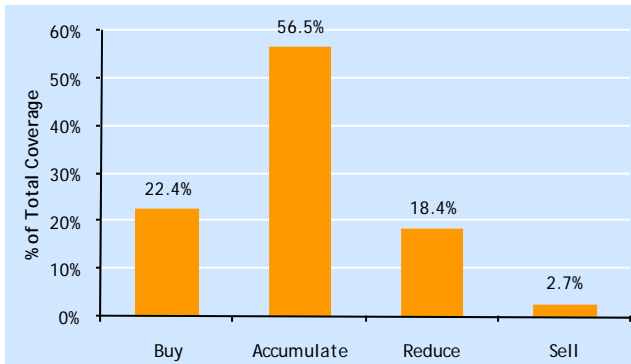
Source: Company Data, PL Research

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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