

Industry : Power

CMP : Rs.2450

Price Target : Rs.2670

Hold

 Analyst:
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Current

Recommendation	Buy
CMP (INR)	2450
Target Price (INR)	2670

Key Data

Bloomberg	BHEL@IN
Reuters Code	BHEL.BO
BSE Code	500103
NSE Code	BHEL
Face Value	10.00
Market Cap. (INR mn)	561825.00
52 Week High (INR)	2509.00
52 Week Low (INR)	1185.00

Scrip Scan

Equity Rs.mn	2247.30
FY07E	89.60
FY08E	106.70

Shareholding (31.12.06) (%)

Promoters	67.72
FI	21.91
FII	7.36
Public	3.01
Grand Total	100.00

Highlights for the quarter
➤ Stunning performance

BHEL results beat expectations for Q3 FY07 with sales growing by 30% while net profit grew by 57.7% for the quarter. The strong bottomline growth was driven by 329bps improvement in operating margins. Higher revenue booking and cost control resulted into improvement in margins for the quarter.

➤ Orderbook continues to remain healthy

BHEL ended the quarter with order backlog of Rs.467bn of which Rs.37.8bn accounted for industry segment having execution period of 15-18 months. The order backlog is expected to go up as many projects in power segment are likely to be awarded in the fourth quarter. It has an orderbook of 16000MW in the power division.

➤ Capacity expansion to come into effect

BHEL is expanding its capacity from 6000MW to 10000MW by December 2007. Based on the upcoming capacities, BHEL is expected to intake larger orders synchronizing the capacity expansion. Of the 4000MW of additional capability BHEL would be catering 1000MW to Hydel power segment and 600MW to gas based power plants. BHEL has concluded the super critical technology agreement with Siemens and Alstom.

➤ Ultra Mega power projects to keep competitive pressure on

The recent awarding to the 2 Ultra Mega Power projects to Lanco and Tata Power has created fresh concerns on the competitive pressure expected from the Chinese equipment manufacturers which is likely to bring down the set up cost in the industry. BHEL is already in talks with Tata Power for providing equipments for the Mundra project. BHEL is likely to face competitive pressure from foreign players.

Valuations

BHEL is likely to sustain the growth momentum on the back of a strong order book and likely improvement in margins in the industry segment. In the long run, we expect valuations will depend on BHEL's capability to compete in the industry without sacrificing the margins. At current market price, the stock trades at 27.9x and 23.4x FY07E and FY08E earnings. **We recommend investors to "HOLD" the stock with 12 month price target of Rs.2670.**

Quarterly Performance
(Rs.mn)

	Q3 FY07	Q3 FY06A	Q2 FY07A	9M FY07	9M FY06
Net Sales	43396.9	33267.1	33412.0	103178.0	77093.0
% Change (yoy)	30.4			33.8	
Total Expenditure	34104.9	27238.1	28398.2	86141.0	65660.0
EBIDTA	9292.0	6029.0	5013.8	17037.0	11433.0
% Change (yoy)	54.1			49.0	
EBIDTA Margin (%)	21.4	18.1	15.0	16.5	14.8
Interest	119.7	136.3	135.5	387.0	392.0
Depreciation	662.1	619.7	666.7	1967.0	1819.0
Other Income	1854.7	1187.4	1698.9	4755.0	3175.0
PBT	10364.9	6460.4	5910.5	19438.0	12397.0
Tax	3688.4	2228.5	1859.8	6795.0	4285.0
Ex Ord Item	0	0	450	0	0
Adj Net Profit	6676.5	4231.9	3600.7	12643.0	8112.0
% Change (yoy)	57.8			55.9	
Net Profit Margin (%)	15.4	12.7	10.8	12.3	10.5
Equity	2447.6	2447.6	2447.6	2131.7	2019.4
EPS	27.3	17.3	14.7	59.3	40.2

Income Statement
(Rs.mn)

	FY05	FY06	FY07E	FY08E
Net Sales	97134.9	135043.7	191673.6	235758.5
Growth (%)		39.03	41.93	23.00
Other Income	2356.5	2797.3	5000	5500
Total Expenditure	80472.2	109185.9	159653.3	197784.5
% to sales	82.85	80.85	83.29	83.89
Raw Material	53315.3	77605.1	107720.5	133858.3
% to sales	54.89	57.47	56.20	56.78
Employee Cost	16503.8	18785.1	25002.7	30003.2
% to sales	16.99	13.91	13.04	12.73
Other Expenditure	10653.1	12795.7	26930.1	33923
% to sales	10.97	9.48	14.05	14.39
Operating Profit	16662.7	25857.8	32020.3	37974
Margins (%)	17.15	19.15	16.71	16.11
Interest	814.1	587.5	700	750
Gross Profit	18205.1	28067.6	36320.3	42724
Depreciation	2188.6	2459.3	3100	3150
Tax	6282.3	8851.9	11294.9	13455
Net Profit	9734.2	16756.4	21925.4	26119
Margins (%)	10.02	12.41	11.44	11.08
Ex Ord Item	200.2	-35.2	0	0
Net Profit After Ex Ord Item	9534	16791.6	21925.4	26119

Balance Sheet

	(Rs.mn)			
	FY05	FY06	FY07E	FY08E
SOURCES OF FUNDS				
Equity share capital	2448.0	2448.0	2247.0	2247.0
Reserves & Surplus	57821.0	70566.0	88106.0	109002.0
Equity share holders funds	60269.0	73014.0	90354.0	111249.0
Secured Loans	5000.0	5000.0	5000.0	5000.0
Un Secured Loans	370.0	582.0	582.0	582.0
Total Loan funds	5370.0	5582.0	5582.0	5582.0
Deferred Tax Liability	-5183.0	-6737.0	-6737.0	-6737.0
Capital Employed	60456.0	71859.0	89199.0	110094.0
APPLICATION OF FUNDS				
Gross Block	37589.0	40196.0	50196.0	51696.0
Less: Depreciation	26194.0	28528.0	31628.0	34728.0
Net Block	11396.0	11668.0	18568.0	16968.0
Investments	90.0	83.0	83.0	83.0
Inventories	29161.0	37444.0	53243.0	65488.0
Sundry Debtors	59721.0	71681.0	106480.0	130977.0
Cash & Bank Bal	31779.0	41340.0	42368.0	59488.0
Loans & Advances	12769.0	12844.0	12844.0	12844.0
Curr Assets, Loans & Adv	133430.0	163308.0	214934.0	268797.0
Curr Liabilities & Provision	71205.0	88078.0	129264.0	160632.0
Provision	13254.0	15123.0	15123.0	15123.0
Curr Liab & Prov	84459.0	103200.0	144387.0	175755.0
Net Current Assets	48971.0	60108.0	70548.0	93043.0
Miscellaneous Exp	0.0	0.0	0.0	0.0
Total Assets	60456.0	71859.0	89199.0	110094.0

Ratios

	FY05	FY06	FY07E	FY08E
Growth (%)				
Net Sales	-	37.6	43.9	23.0
Adjusted Net Profit	-	76.1	30.6	19.1
EBITDA	-	67.0	23.7	20.7
EPS	-	76.1	30.6	19.1
CEPS	-	58.9	26.9	16.8
Gross Fixed Assets	-	18.9	24.1	23.4
Capital Employed	-	18.9	24.1	23.4
Valuation				
EPS (Rs.)	39.8	68.5	89.6	106.7
CEPS (Rs.)	48.7	78.5	102.2	119.6
BVPS (Rs)	246.2	298.3	402.1	495.0
PER (x)	62.9	36.5	27.9	23.4
PEG (x)		0.5	0.9	1.2
P/CEPS (x)	51.3	31.8	24.5	20.9
P/BV (x)	10.2	8.4	6.2	5.1
EV/EBITDA (x)	30.8	20.1	14.2	11.7
EV/Net Sales (x)	5.4	3.9	2.5	1.9
Profitability				
ROCE (%)	47.4	51.5	48.7	33.2
ROE (%)	15.8	23.0	24.3	23.5
EBIDTA Margin (%)	15.5	17.5	15.0	14.5
EBDTA Margin (%)	14.7	17.1	14.7	14.2
Net Profit Margin (%)	8.9	11.3	10.3	10.0
Tax/PBT (%)	39.2	34.6	34.0	34.0
Turnover				
Avg. Collection Period (Days)	203	177	181	183
Avg. Payment Period (Days)	570	479	438	438
Net Fixed Assets (x)	9.4	12.7	11.5	15.4
Total Assets (x)	1.8	2.1	2.4	2.4
Other Financial Ratios				
Interest Coverage (x)	20.5	44.0	45.7	45.1
Debt to Equity Ratio (x)	0.1	0.1	0.1	0.1
Basic Data				
Market Capitalisation (Rs.mn)	56,1825.0	56,1825.0	56,1825.0	56,1825.0
Enterprise Value (Rs.mn)	58,5491.0	57,6143.0	52,5039.0	50,7919.0

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