

BHEL LTD.

BUY
CMP Rs2382
TP Rs2700

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BHEL reported better than expected results for Q2FY10 with a 39% growth in PAT. Though revenue growth at 24% was marginally lower than expectation, it was more than offset by a sharp growth in operating profits by 370 bps

Order backlog up by 21%; On target to achieve order inflow of Rs 550 bn during the year

The order intake during the quarter was Rs 130 bn (8000 MW), taking the order backlog to Rs 1258 bn at the end of the quarter. Further, BHEL has further orders in the pipeline for which the formal award is expected shortly. Hence, the management's guidance for order inflows amounting to Rs 550 bn seems achievable.

More visibility in the supercritical space

BHEL and MAHAGENCO have signed a MOU to float a JV Company for commissioning 2x660 MW Thermal Power Plant with Supercritical parameters at Latur in Maharashtra. This further adds visibility of BHEL's order flows in the super critical space.

VALUATIONS AND RECOMMENDATION

The key drivers of BHEL's valuations are: 1) Execution Rate (Revenue growth) 2) Order flows 3) Return Ratios

BHEL's revenue growth is expected to remain strong given its capacity additions, and robust order inflows.

BHEL currently trades at 20X our FY11E EPS estimates. BHEL remains one of the few companies in the capital goods space with a good visibility for a strong topline and bottomline growth and robust return ratios. Hence, we believe that there is further scope for an expansion in BHEL's valuation premiums. We rate the stock a BUY with a target price of Rs 2,700 (24X FY11E EPS).

KEY FINANCIALS (STANDALONE)						Rs mn
	FY08	FY09E	FY10E	FY11E	FY12E	
Net Sales	195,439	262,342	330,689	441,812	541,188	
YoY Gr (%)	11.9	34.2	26.1	33.6	22.5	
Op. Profits	47,256	52,138	69,478	88,381	104,787	
OPM (%)	18.0	14.5	17.0	16.8	16.6	
Adj. Net Profits	28,593	31,381	42,374	54,104	64,155	
YoY Gr (%)	18.4	9.7	35.0	27.7	18.6	

KEY RATIOS					
Dil. EPS (Rs)	58.4	64.1	86.6	110.5	131.1
ROCE (%)	30.0	24.9	28.9	29.8	28.5
ROE (%)	26.5	22.7	23.6	23.2	21.7
PER (x)	39.9	36.3	26.9	21.1	17.8
EV/Sales (x)	4.9	3.8	3.0	2.2	1.8
EV/EBIDTA(x)	30.0	27.8	18.9	14.2	11.7

QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Mar-09	Jun-09	Sep-09
Net Sales	105,401	56,714	66,252
YoY Gr. (%)	46.3	31	24
Op.Profit	16,963	5920	11,295
OPM (%)	16.1	10.4	17
Adj.Net Profit	13,475	4,706	8,579
YoY Gr. (%)	21.3	22.4	39.3

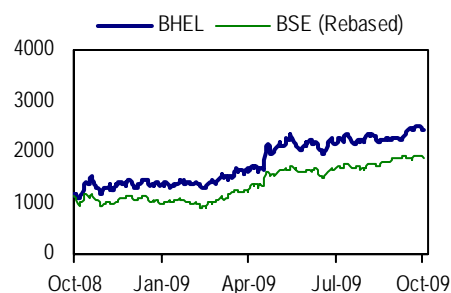
STOCK DATA

Market cap	Rs1182bn
Book Value per share	282.4
Shares O/S (F.V. Rs10)	489.5
Free Float	32.3%
Avg Trade Value (6 months)	Rs2.4bn
52 week High/Low	2550/984
Bloomberg Code	BHEL@IN
Reuters Code	BHEL.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	5.7	12.5	112.2
Relative	6.3	(0.5)	28.5

RELATIVE PERFORMANCE



Quarterly result table					
(Rs mn)	Q2FY10	Q1FY10	QoQ (%)	Q2FY09	YoY (%)
Net sales from operations	66,252.1	56,714.2	16.8	53,426.0	24.0
Total Expenses	54,956.8	50,794.6	8.2	46,319.1	18.6
<i>%of net sales</i>	83.0	89.6		86.7	
(Increase)/Decrease in stock	(1,786.6)	(300.5)		(4,400.3)	
Raw material Consumed	39,719.2	35,752.8	11.1	36,212.0	9.7
<i>%of net sales</i>	60.0	63.0		67.8	
Employee cost	10,689.6	11,136.8	(4.0)	8,898.2	20.1
<i>%of net sales</i>	16.1	19.6		16.7	
Other Expenses	6,334.6	4,205.5	50.6	5,609.2	12.9
<i>%of net sales</i>	9.6	7.4		10.5	
EBITDA	11,295.3	5,919.6	90.8	7,106.9	58.9
<i>%of net sales</i>	17.0	10.4		13.3	
Depreciation	834.1	961.0	(13.2)	743.6	12.2
EBIT	10,461.2	4,958.6	111.0	6,363.3	64.4
<i>%of net sales</i>	15.8	8.7		11.9	
Interest	45.2	42.8	5.6	22.0	105.5
Other Income	2,979.1	2,270.9	31.2	3,072.1	(3.0)
PBT	13,395.1	7,186.7	86.4	9,413.4	42.3
Prov. for tax (incl. deferred tax)	(4,715.3)	(2,480.8)		(3,256.0)	
Net Profit	8,679.8	4,705.9	84.4	6,157.4	41.0
<i>NP margin %</i>	13.1	8.3		11.5	
EPS	17.5	9.6	82.3	12.6	39.3

Source: PINC Research

Year Ended March (Figures in Rs mn)

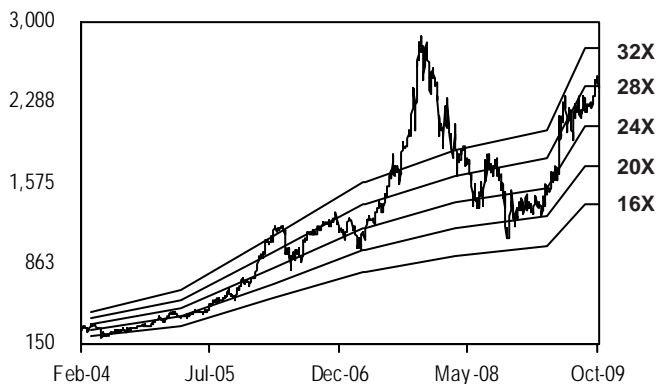
Income Statement	FY08	FY09	FY10E	FY11E	FY12E
Revenues	195,439	262,342	330,689	441,812	541,188
<i>Growth (%)</i>	<i>11.9</i>	<i>34.2</i>	<i>26.1</i>	<i>33.6</i>	<i>22.5</i>
Operating Profit	35,201	38,014	56,060	74,293	89,994
Other Income	12,055	14,124	13,418	14,088	14,793
EBIDTA	47,256	52,138	69,478	88,381	104,787
<i>Growth (%)</i>	<i>47.1</i>	<i>10.3</i>	<i>33.3</i>	<i>27.2</i>	<i>18.6</i>
Depreciation & Amortization	2,589	3,343	3,831	4,580	5,453
EBIT	44,667	48,795	65,647	83,801	99,334
Interest Charges (Net)	354	308	289	289	277
PBT (Before E/o items)	44,313	48,488	65,357	83,512	99,057
Tax provision	15,711	17,106	22,983	29,408	34,902
E/o Income / (Loss)	(9)	-	-	-	-
Net Profits	28,593	31,381	42,374	54,104	64,155
Adjusted Net Profits	28,593	31,381	42,374	54,104	64,155
<i>Growth (%)</i>	<i>18.4</i>	<i>9.7</i>	<i>35.0</i>	<i>27.7</i>	<i>18.6</i>
Basic EPS (Rs)	58.4	64.1	86.6	110.5	131.1
Diluted EPS (Rs)	58.4	64.1	86.6	110.5	131.1
<i>Growth (%)</i>	<i>18.4</i>	<i>9.7</i>	<i>35.0</i>	<i>27.7</i>	<i>18.6</i>

Cash Flow Statement	FY08	FY09E	FY10E	FY11E	FY12E
Net Profits	28,593	31,381	42,374	54,104	64,155
Depreciation	2,589	3,343	3,831	4,580	5,453
Income from inv & int. (profit)	(12,046)	(14,124)	(13,418)	(14,088)	(14,793)
Interest paid	-	-	-	-	-
Taxes	-	-	-	-	-
(Inc)/Dec in working capital	5,078	(18,808)	(8,151)	(21,740)	(26,351)
Other operating activities	(4,028)	(862)	(1,162)	(1,484)	(1,760)
Cash from operations	28,242	2,654	25,798	24,339	30,225
Net capital expenditure	(6,639)	(4,620)	(12,000)	(15,800)	(14,000)
Net Investments	-	(93,320)	(24,009)	(18,766)	(26,344)
Interest & dividend recd	12,046	14,124	13,418	14,088	14,793
Cash from inv. activities	5,407	(83,816)	(22,591)	(20,478)	(25,551)
Equity raised/(repaid)	(7,861)	-	-	-	-
Debt raised/(repaid)	59	(2)	-	-	(250)
Dividend (incl. tax)	(873)	(873)	(873)	(873)	(873)
Other financing activities	-	-	-	-	-
Cash from fin activities	(8,675)	(875)	(873)	(873)	(1,123)
Inc/(Dec.) in cash	24,973	(82,037)	2,333	2,988	3,551

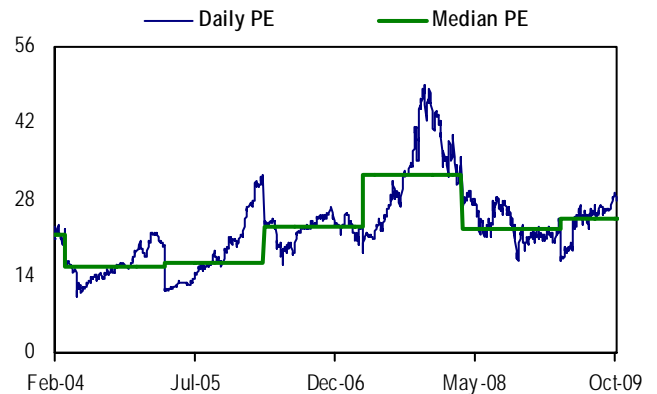
Balance Sheet	FY08	FY09E	FY10E	FY11E	FY12E
<i>Equity Share Capital</i>	4,895	4,895	4,895	4,895	4,895
<i>Reserves & Surplus</i>	102,847	133,355	174,855	228,086	291,368
Shareholders' Funds	107,742	138,250	179,750	232,981	296,263
Minorities Interest	-	-	-	-	-
Total Debt	952	950	950	950	700
Deferred Tax liability	(13,379)	(14,241)	(15,403)	(16,887)	(18,647)
Capital Employed	95,315	124,959	165,298	217,045	278,316
Fixed Assets	16,393	17,670	25,838	37,058	45,605
Cash & cash eq.	83,860	93,420	117,439	136,225	162,598
Net current assets	78,839	107,206	139,377	179,903	232,628
Investments	83	83	83	83	83
Total Assets	95,315	124,959	165,298	217,045	278,316

Key Ratios	FY08	FY09E	FY10E	FY11E	FY12E
OPM (%)	18.0	14.5	17.0	16.8	16.6
Net Margin (%)	14.6	12.0	12.8	12.2	11.9
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1
Net Debt/Equity (x)	(0.8)	(0.7)	(0.6)	(0.6)	(0.5)
Net working capital (days)	(9.2)	18.9	23.9	35.6	46.6
ROACE (%)	30.0	24.9	28.9	29.8	28.5
ROANW (%)	26.5	22.7	23.6	23.2	21.7
EV/Sales (x)	4.9	3.8	3.0	2.2	1.8
EV/EBIDTA (x)	30.0	27.8	18.9	14.2	11.7
PER (x)	39.9	36.3	26.9	21.1	17.8
PCE (x)	37.4	33.6	25.2	19.9	16.8
Price/Book (x)	10.6	8.2	6.3	4.9	3.8

P/E Band



Median PE v/s Daily PE



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