

# BHEL

## 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 440 cr & Rs 60 cr resp., due to change in revenue recognition policy under "percentage completion" method. Adj. for this, BHEL reported sales of Rs 8,579 cr (up 19% YoY), EBITDA of Rs 1,983 cr (up 27% YoY), & PAT of Rs 1,344 cr (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 36,500 cr and order backlog was up 18% YoY to ~Rs 1,58,000 cr. Given the strong order pipeline (NTPC negotiated order & SEB orders); the management believes it can marginally exceed its FY11 order intake guidance of ~Rs 60,000 cr. 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 11<sup>th</sup> 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 1,58,000 cr (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).

## Financial summary

Y/E Mar	Sales (Rs cr)	PAT (Rs cr)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2010	33,470	4,515	-	92.2	25	-	35.4	53.3	-	27.2
2011E	39,692	5,547	113.7	113	23	20.1	33.7	49.4	12.1	29.3
2012E	49,186	6,928	138.5	142	25	16.1	32.7	48	9.4	31.6
2013E	57,402	7,707	157.0	157	11	14.4	28.6	42	8.5	31.6

Source: Company, ENAM Direct estimates

CMP (Rs)	2,272
Target price (Rs)	2,550
Potential upside	12%

## Stock data

No. of shares (cr)	49
FV (Rs)	10/-
Market cap (Rs cr)	1,11,328
52 week high/low (Rs)	2,695/2,060
Avg. daily vol.* (shares)	619867
BSE Code	500103
NSE Code	BHEL
Bloomberg code	BHEL IB
Reuters Code	BHEL.B0

\* BSE & NSE 6 monthly

## Shareholding (%)

	Dec-10	QoQ Chg
Promoter	67.7	0.0
FII's	14.0	(0.7)
MFs / UTI	7.0	0.2
Banks / Fis	5.0	0.6
Others	6.3	(0.0)

## Relative performance



Source: Cline, ENAM Direct Research

## BHEL - Results update

(Rs cr)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
<b>Net Sales/Income form op</b>	<b>8,579</b>	<b>7,229</b>	<b>18.7</b>	<b>8,491</b>	<b>1.0</b>	<b>39,692</b>	<b>33,470</b>	<b>18.6</b>
<b>EBIDTA</b>	<b>1,983</b>	<b>1,562</b>	<b>27</b>	<b>1,632</b>	<b>21.5</b>	<b>8,200</b>	<b>6,469</b>	<b>26.8</b>
Other income	153	193	(20.9)	162	(5.6)	575	857	(32.9)
<b>PBIDT</b>	<b>2,136</b>	<b>1,755</b>	<b>21.7</b>	<b>1,794</b>	<b>19</b>	<b>8,775</b>	<b>7,326</b>	<b>19.8</b>
Depreciation	145	104	39.4	134	7.9	581	458	26.8
Interest	14.5	6.9	109.7	5.9	144	36.9	33.5	10
<b>PBT</b>	<b>1,977</b>	<b>1,644</b>	<b>20.2</b>	<b>1,654</b>	<b>19.5</b>	<b>8,158</b>	<b>6,834</b>	<b>19.4</b>
Tax	633	572	10.7	512	23.6	2,610	2,319	12.6
<b>Adjusted PAT</b>	<b>1,344</b>	<b>1,073</b>	<b>25.3</b>	<b>1,142</b>	<b>17.6</b>	<b>5,547</b>	<b>4,515</b>	<b>22.9</b>
Extra ordinary income/ (exp.)	59.5	0	-	0	-	0	134	-
<b>Reported PAT</b>	<b>1,403</b>	<b>1,073</b>	<b>30.8</b>	<b>1,142</b>	<b>22.8</b>	<b>5,547</b>	<b>4,649</b>	<b>19.3</b>
No. of shares (cr)	49	49	-	49	-	49	49	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
<b>EPS - annualized (Rs.)</b>	<b>109.8</b>	<b>87.6</b>	<b>25.3</b>	<b>93.3</b>	<b>17.6</b>	<b>113.3</b>	<b>92.2</b>	<b>22.9</b>

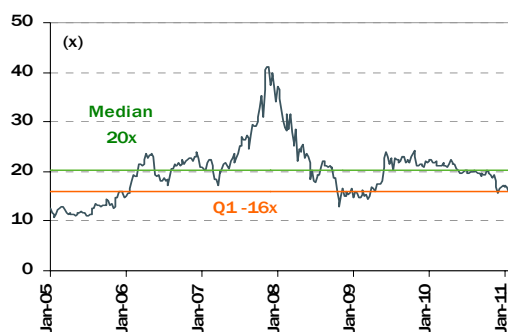
Source: Company, ENAM Research

## Segment-wise performance

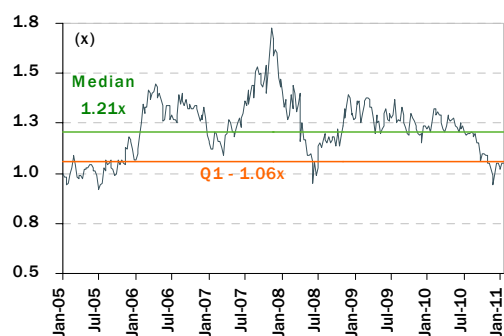
	Revenues (Rs cr)			PBIT margin (%)		
	Dec-10	Dec-09	% Chg	Dec-10	Dec-09	Chg bps
Power	7,282	5,709	28	22.4	22.9	(51)
Industry	2,143	1,802	19	21.2	22.5	(129)
<b>Total Gross sales</b>	<b>9,425</b>	<b>7,511</b>	<b>25</b>	<b>22.5</b>	<b>23.2</b>	<b>(72)</b>
Less: inter segment	145	125	16	-	-	-
<b>Gross Sales</b>	<b>9,280</b>	<b>7,386</b>	<b>26</b>	<b>-</b>	<b>-</b>	<b>-</b>
Less: Excise	431	286	51	-	-	-
Other Operating Income	174	129	35	-	-	-
Additional Sales due to change in	444	-	-	-	-	-
<b>Net sales</b>	<b>8,579</b>	<b>7,229</b>	<b>19</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company, ENAM Estimates

## BHEL 1 yr fwd P/E



## BHEL P/E relative to Sensex



Source: Bloomberg, ENAM Research

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