

CMP: Rs.1679; Target Price: Rs.2080; Upside: 23.88%; Investment Period: 1YR

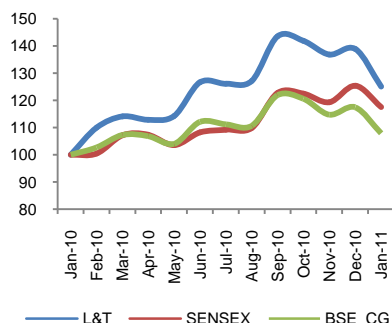
Larsen & Toubro Limited - *BUY*

Stock Info

Sector	Capital Goods
Market cap	Rs.108233.98 Cr
Face value	Rs.2
Book Value	Rs.344.46
Latest EPS	Rs.61.21
52 week H/L	Rs. 2212.70 /1389.90.
Avg. Daily Vol (2wk)	2.42 lacs
Debt Equity Ratio	0.43
Dividend	0.70%
Chairman	A M Naik
Listed At	NSE/BSE
Equity capital	121.56 Cr

Shareholding Pattern as on 30th Dec 2010

Promoter Holding	: ----
Foreign	: 16.60%
DIs & Corporate	: 37.19%
Public & Others	: 46.21%



Larsen & Toubro Limited (L&T) is a technology, engineering, construction and manufacturing company. It is one of the largest and most respected companies in India's private sector.

L&T with its unique business model mark its presence in almost all sectors which provides it the immense growth opportunities in terms of revenues and expansion. Currently with the robust order book worth Rs.115400cr (2.6x of revenue FY10) L&T clearly portrays its positive earnings in future. The heavy order book has 95% of its order from the domestic market which signifies the demand scenario within the country and the arising consumption demand. L&T has plans to venture into banking business through its subsidiary L&T Finance (one of the third largest NBFC in India) so that it gets access to cheaper funds and increase its presence in the field of infrastructure financing. This will reduce the cost of interest of L&T leading to higher profit margins. L&T has plans to restructure its 37000 cr business into 9 independent entities. This restructuring would help the company to increase its focus and activities into the respective sector and diversify its business easily. The huge expenditure on research & development has always let L&T to offer more contemporary and competitive and helps in fetching orders in stiff international competition.

VALUATION

At the current price of Rs. 1679, the stock is trading at 19.84 times of our estimated FY11E earnings, while it is available at just 17.74x of FY12E. We thus recommend a 'BUY' with a target price of Rs. 2080

PARTICULARS	FY10	FY11E	FY12E
Net Sales (Rs cr)	43513.58	51676.73	64337.53
Expenditure (Rs cr)	37531.11	44958.75	52756.77
PBIDT (Rs cr)	9258.26	10250.97	11580.75
Profit After Tax (Rs cr)	5548.27	5302.40	5759.21
EPS (Rs)	91.28	87.24	94.76
PE Ratio	18.39	19.24	17.71
OPM %	21.28	19.84	18.00
NPM %	12.75	10.26	8.95

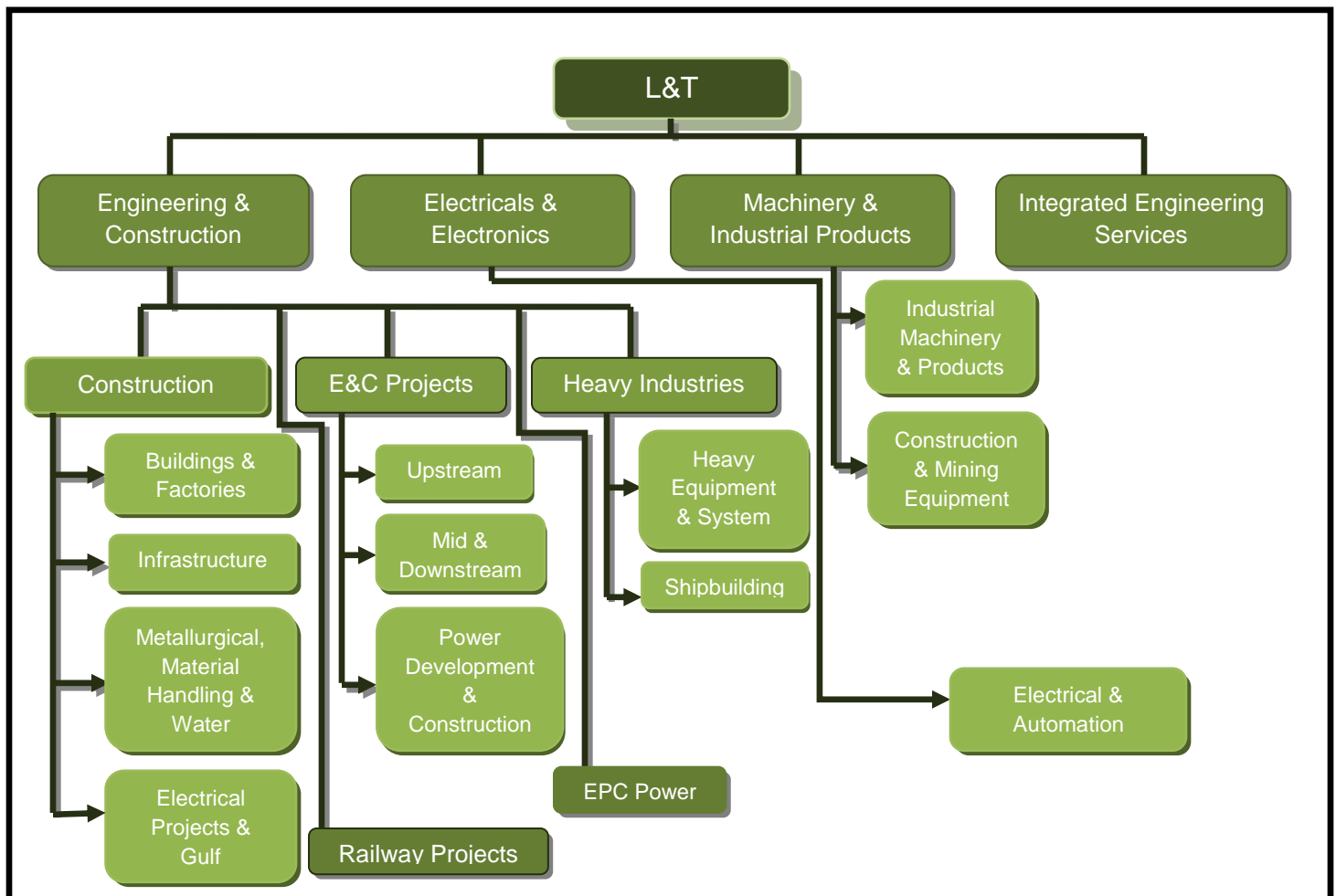
COMPANY PROFILE

Larsen & Toubro was a partnership firm founded by Mr. Henning Holk Larsen with Mr. Soren Kristian Toubro later converted to a public limited company in the year of 1950. The company's primary focused in the areas of Engineering & Construction, Electrical & Electronics, Machinery & Industrial Products and in IT & Technological Services.

In 1981-82 company acquired 2 bulk shipping carriers from Japan and in the year 1983-84 started one cement plant with capacity of 1 MTPA at Maharashtra which is now transferred to Ultra Tech Cement Company making its mark in shipping and cement sectors. The company is well positioned to exploit the opportunities that will come from hydrocarbon, infrastructure, power, minerals & metals and other industrial sectors.

L & T received a host of awards, medals and trophies for its continuous efforts which includes Environmental Excellence Gold award from Green tech Foundation in 2003-04 and 2004-05. Engineering Export Promotion Council (EEPC) offered a trophy for high exports. During the financial year of 2004-05 Business world's survey on India's Most Respected Companies, ranked L & T the First in Infrastructure Sector. The Ministry of Power conferred the first prize in National Energy Conservation for the year 2005

Business Structure of L&T Ltd.



BUSINESS MODEL

Turnkey Projects: The Engineering & Construction (E&C) Division forms the biggest segment in Larsen & Toubro Limited's business portfolio. This division is capable of carrying out turnkey projects in core industry sectors on EPC basis. The Engineering and Construction Division has integrated its strengths in process technology, basic and detailed Engineering, modular fabrication, procurement, project management, construction and commissioning.

Construction: The Engineering, Construction and Contracts (ECC) Division of L&T is the largest construction organization in the country and ECC finds its unique position (35th as per ENA, USA – August 2009) among the world's top contractors. The Construction Division's cutting edge capabilities cover every discipline of construction: civil, mechanical, electrical and instrumentation engineering and the services are extended to large industrial and infrastructure projects from concept to commissioning.

Engineered Products & Systems: L&T's Heavy Engineering Division has established a reputation in global markets for quality products. The Division manufactures and supplies custom designed and engineered critical equipment and systems to the needs of core-sector industries and the defence sector.

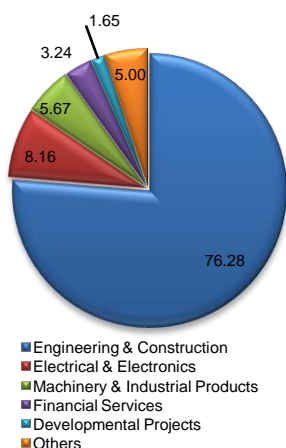
Electrical & Electronic Products & Systems: Electrical & Electronics Division is one of the core businesses of L&T - India's largest engineering and construction conglomerate. The division has operations at different locations in India (two in Mumbai and one each in Ahmednagar, Mysore, Faridabad and Coimbatore) and one unit for manufacturing operations in China. Another manufacturing facility is soon going to come up in Saudi Arabia.

IT & Engineering Services: Carrying the brand and the legacy of Larsen and Toubro group of companies, L&T Integrated Engineering Services has been rated the No. 1 engineering services provider in the 2008 Black Book of Outsourcing. The end-to-end services involve product design, analysis, prototyping & testing, embedded system design, production engineering, plant engineering, buildings & factories design, asset information management & sourcing support using cutting-edge CAD / CAM / CAE technology in the various domains.

Machinery & Industrial Products: L&T offers a range of industrial machinery and products that are designed and developed in-house or are manufactured in partnership with world leaders. Marketing and customer support for these products are provided by L&T through a wide network of offices and service centers.

Shipbuilding: L&T's Shipbuilding facility has been created at Hazira Works to cater to the needs of growing global demand for construction of specialized oceangoing vessels. The shipyard is geared up to take up construction of niche vessels such as specialized Heavy lift Cargo Vessels, CNG carriers, Chemical tankers, defense & para military vessels and other role specific vessels

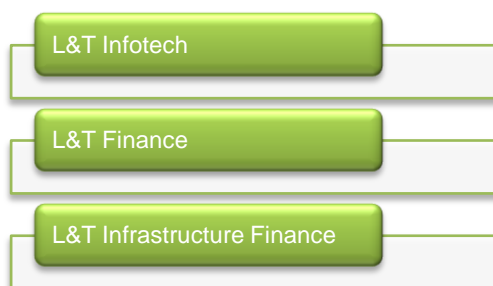
Contribution in Revenue



Railway Projects: In Larsen & Toubro, India's rail sector can find the partner that it needs. L&T has the requisite capability and the commitment. The Company's track record indicates its involvement in projects of national importance. L&T is and has been a virtual private sector partner to the nation in providing technology, engineering and construction capability in the areas of infrastructure development, hydrocarbon projects, space research, defence, steel, etc.

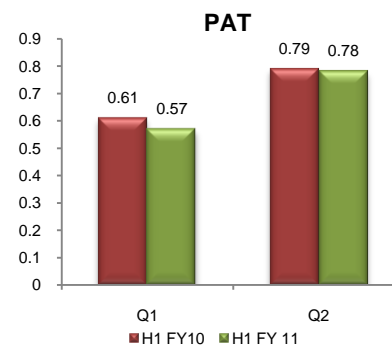
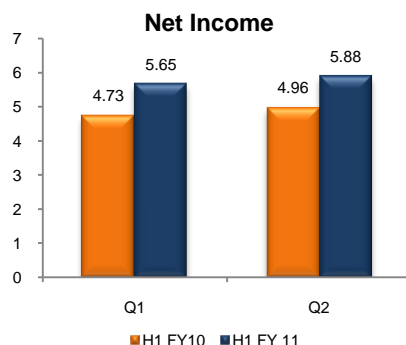
Financial Services: L&T Finance is one of the leading NBFCs in the country and offers a wide spectrum of financial products and services for trade, industry and agriculture.

Subsidiaries of L&T



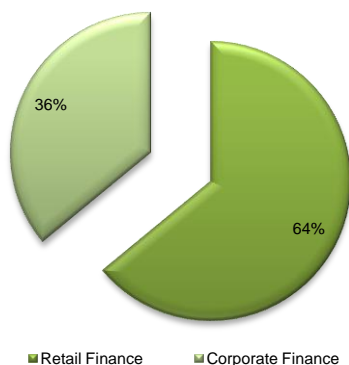
SUBSIDIARIES

L&T InfoTech Incorporated in 1997, it is a wholly owned subsidiary of L&T. It is a global IT services and solutions provider. It provides the winning edge to the clients by leveraging its Business-to-IT Connect and deeply committed people.



L&T Finance: it is a 100% subsidiary of L&T engaged in the business of short to medium term financing viz. construction equipment, commercial vehicles, tractors, and farm equipment, channel finance, micro finance etc.

Breakup of Loan Portfolio



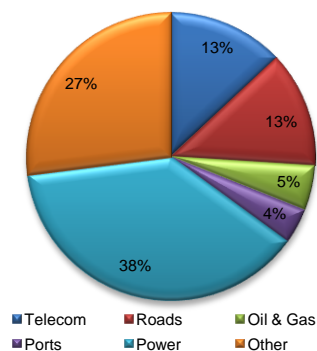
Particulars (Rs. In Mn)

For Fiscal Year Ended March 31

	2009	2010
Total Income	8302.8	9657.3
Interest & Other Finance Charges	-5737	-4310.8
Employee Cost	-318.9	-477.7
Administration & Other Expense	-1393.2	-2505.6
Provisions/Write offs	280.51	1280.21
Total Expenditure	-6849.2	-7294.1
Net Profit	988.3	1564.7
Key Balance Sheet Items		
Infrastructure Loans	49982.7	69062.2
Total Assets	55291.7	78467.2
Total Loans	44510.8	64182.8
Total Liabilities	46837.1	67197.9
Total Net Worth	8454.6	11269.3

L&T Infrastructure Finance: It is wholly owned subsidiary of L&T which provides financial products and services for clients engaged in infrastructure sector.

Breakup of Loan Portfolio



Particulars (Rs. In Mn)

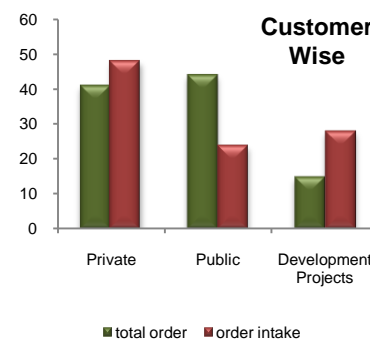
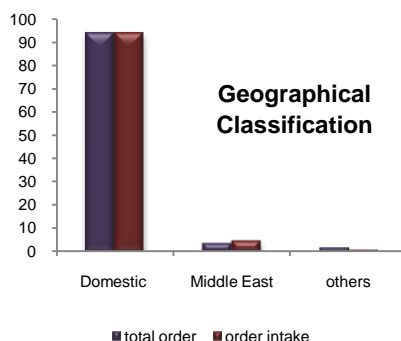
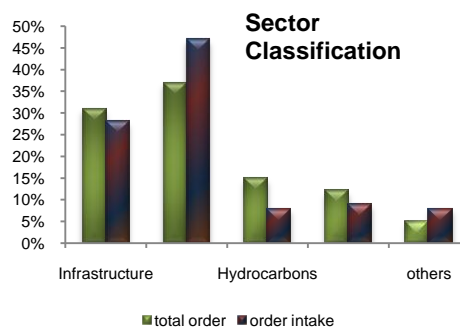
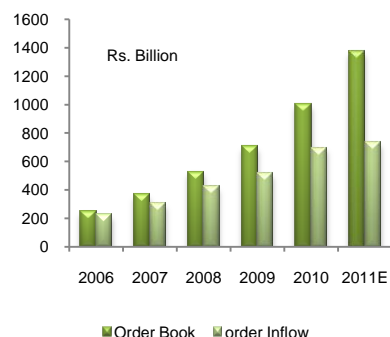
For Fiscal Year Ended March 31

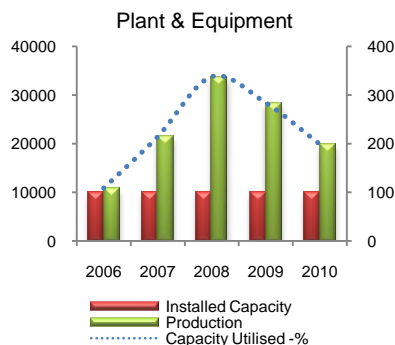
	2009	2010
Total Income	2959.9	4504.2
Interest & Other Finance Charges	-1629.7	-2456.4
Employee Cost	-62.9	-82.3
Administration & Other Expense	-127.6	-312.4
Provisions	77	253.6
Total Expenditure	-1820.2	-2851
Net Profit	840	1142.2
Key Balance Sheet Items		
Infrastructure Loans	22583.5	42554.4
Total Assets	24118.2	43420
Total Loans	17712	32367.6
Total Liabilities	17906.3	33315
Total Net Worth	6211.8	10105

INVESTMENT ARGUMENT

Strong Order Book

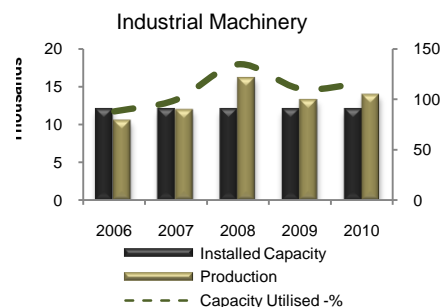
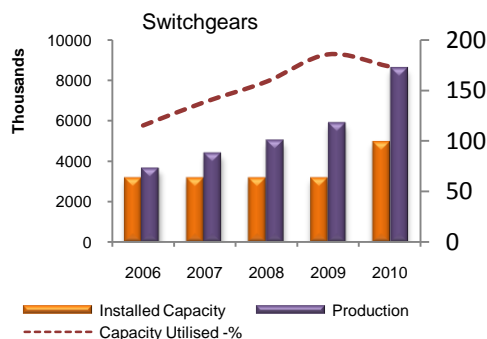
The order book of L&T as on 6th Jan 2011 stands at Rs.115400 crore (2.6x of revenue). The company bagged orders worth Rs 36,000 crore in the first half, up 29% y-o-y. Development assets portfolio of the company currently comprise of 5682 Lane KM spread in 15 project with an aggregate cost of Rs 13200 crore, 3 power project with an aggregate generation capacity of 1559 MW and aggregate cost of Rs 15700 crore. Apart from this the company has 3 port projects with aggregate handling capacity of 45 MTPA involving a project cost of Rs 5300 crore, Hyderabad Metro Rail project for 71.16 KM at a cost of Rs 15000 crore and 14 Urban Infrastructure projects of 24 million at a cost of Rs 7800 crore. All these projects involve an aggregate project cost of Rs 57000 crore at the end of Sep 2010. Out of which the equity commitment is Rs 11400 crore and of which the company has invested Rs 3400 crore at the end of Sep 2010. Currently the export orders accounts for just around 5% of the total order book. The robust order book of the company clearly reflects the growth prospects in its future revenue earnings.





Capacity Expansion

L&T regularly increases its capacities to meet the increasing volumes of business. The company's supercritical power plant manufacturing ventures are being commissioned which will improve the efficiency for power projects. Construction of L&T's shipbuilding facility cum container port at Kattupalli, near Chennai is underway. The port at Dhamra in Orissa will soon be ready for commissioning and is expected to provide a boost to L&T's developmental (Asset Ownership) business. The company also intends to have hydel power capacity of more than 2000MW in the next two years.



Business Integration

To strengthen the competitive advantage, enhance margins, acquire greater control over business segments, and bid for large and complex jobs, L&T constantly seeks to achieve higher level of vertical integration.

Potential Opportunities

The company is likely to witness a significant increase in spends considering depleting water tables across the country. It will help it to expand its business in areas of bulk transmission, water treatment and waste water management.

L&T has opportunity in mass urban transit systems (metro and mono rails), station development, rolling stock manufacturing units for Indian Railways, railway sidings for industrial units, and opportunities in dedicated freight corridor.

Venturing into banking business

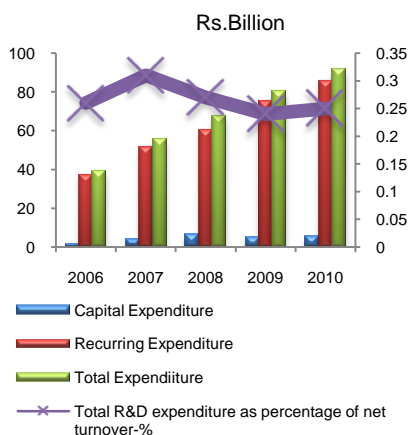
L&T has plans to venture into banking business through its subsidiary L&T Finance (one of the third largest NBFC in India) so that it gets access to cheaper funds and increase its presence in the field of infrastructure financing. For the same purpose L&T Finance Holdings has filed for an IPO on September 27, 2010 and is expected to raise Rs 15bn.

Strategic Joint Venture

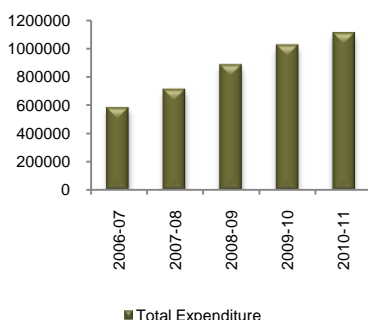
A joint venture of Larsen & Toubro and Mitsubishi Heavy Industries inaugurated the country's first private sector facilities for the manufacture of supercritical boilers and turbine generators at Hazira, Surat. This supercritical technology for coal-fired power plants is globally recognized as one of the most eco-friendly

L&T has recently been allotted a 420MW Reoli Dugli hydropower project that was earlier granted to Moser baer Projects Ltd in Lahaul and Spiti district of Himachal Pradesh.

The L&T-MHI facilities are among the largest of their kind in the world, with a present annual capacity of manufacturing 5,000 MW of equipment, to be expanded to 6,000 MW by 2012.



Capital Expenditure by Govt.



solutions to power generation. The technology ensures higher fuel efficiency leading to higher plant efficiency. Carbon emissions are reduced by as much as 5%. This will prove to be manufacturing the world class products and meet the enhanced requirement of power generation equipments.

Restructuring its business

L&T has plans to restructure its 37000 cr business into 9 independent entities with each operating with different chief executive, human resource heads and independent books of accounts. Such a large-scale division of an established conglomerate would be the first of its kind. Power, hydrocarbon, machinery & product, switchgear, heavy engineering, infrastructure, building & factories, metals & minerals and electrical businesses make up the nine independent companies. This restructuring would help the company to increase its focus and activities into the respective sector and diversify its business easily.

Research & Development

L&T incur huge expenses on R&D to increase its product range with technology up gradations and cost reductions which helps in making its equipment offering more contemporary & competitive and helps in fetching orders in stiff international competition.

Robust Industrial Growth

India's annual industrial production growth slipped to lower-than-expected 2.7% in Nov'2010 (the growth was expected at 6.6%) on account of poor manufacturing output that constitutes 80% of the IIP basket. The steepest decline was witnessed by consumer non durables that posted a negative growth of 6%. The Industrial Output growth for Oct'2010 has been revised upwards to 11.3% from 10.8%. But on Y-O-Y basis IIP growth has increased by 28.37% to 9.5% in April-November 2010 from 7.4% in April – November 2009 and the growth in capital goods is by 13.63% Y-o-Y to 12.5% in April-November 2010 from 11% in April – November 2009. It is estimated that there lies a growing demand for industrial production due to the future expansion plans by government and the capacity addition in power sector to meet the domestic demand of the country. And since L&T has a major of 94% orders from domestic market, it clearly portrays the inflow of orders for the company.

Increasing Capital Expenditure by Government

On a yearly basis, India Inc is estimated to incur capital expenditure of about Rs 6 lakh crore in 2010-11 reasonably higher compared to the last two fiscal years when it stagnated around Rs 4.6 lakh crore levels. The capex cycle has already begun can be gauged from the sharp rise in India's capital goods index the average monthly growth in the index at 46 per cent has been impressive. The beneficiaries of this increase in investments will be the engineering and capital goods companies. Since L&T has a well-diversified revenue mix and strong execution and technical capabilities, it is considered to play on the upturn in the capex cycle.

Strong Execution Capabilities

The company has the proven track record for timely execution of projects. Due to their good track record they are preferable vendor. Due to their technology advancement it always clear the benchmark set for technical competency during the bidding process.

PEER COMPARISON

Particulars (Rs. Cr)	Larsen & Toubro	B H E L	Punj Lloyd
Equity	120.44	489.52	66.42
Net Sales	43836.84	33512.96	10447.83
PBITD	9637.77	7117.70	791.49
Pat	5442.32	4326.92	-116.25
Book Value	347.65	324.73	91.05
Market Capital	97938.80	116772.55	5890.57
EPS	88.30	84.43	0.00
Debt-Equity Ratio	1.21	0.01	1.43
Interest Cover Ratio	4.52	181.45	1.04
OPM%	15.54	19.07	5.43
NPM%	8.69	12.40	-1.31

With robust order book position, earning visibility of the company is good for next 2-3 years. However low operating margins as compared to its peers is a concern for the company.

QUARTERLY ANALYSIS

Particulars (Rs.Cr)	Dec-10	Dec-09	VAR% Y-O-Y	Sep-10	VAR% Q-O-Q
Net Sales	11,413.08	8,122.16	40.52	9,330.76	22.32
Other Income	247.18	233.59	5.82	382.19	-35.33
Total Income	11,660.26	8,355.75	39.55	9,712.95	20.05
Expenditure	-10,139.89	-7,115.29	42.51	-8,325.08	21.80
PBIDT	1,520.37	1,240.46	22.57	1,387.87	9.55
Interest	-175.71	-133.92	31.21	-193.15	-9.03
Profit Before Depreciation and Tax	1,344.66	1,106.54	21.52	1,194.72	12.55
Depreciation	-128.09	-104.52	22.55	-121.21	5.68
Profit before Tax	1,216.57	1,002.02	21.41	1,073.51	13.33
Tax	-376.04	-305.75	22.99	-379.37	-0.88
Profit after Tax	840.53	696.27	20.72	694.14	21.09
Extraordinary Items	-	62.55		70.84	
Net Profit	840.53	758.82	10.77	764.98	9.88
Basic EPS after Extraordinary items	13.84	12.72	8.81	12.66	9.32
Diluted EPS after Extraordinary items	13.65	12.48	9.38	12.45	9.64
Operating Profit Margin	13.32	15.27		14.87	
Net Profit Margin	7.36	9.34		8.2	

During the quarter ended Dec, 2010, the net sales of the company reported an increment of 40.52% on y-o-y basis to Rs 11413 cr as against Rs 8122cr during the corresponding quarter last year. On a sequential basis the company's performance was impressive, and the net sales saw an expansion of 22.32% from Rs 9330cr to Rs. 11413cr. BTG orders have started contributing to revenues.

On the operating front, the EBIDTA registered a growth of 22.57% to Rs 1520cr from Rs 1240cr as against corresponding period last year, while on sequential basis EBIDTA registered a growth of 9.55% from Rs 1387cr. The company has been able to improve its operating margins, largely on account of higher capacity utilization.

The net profit of the company saw an increment of 10.77% YoY to Rs 840cr as against Rs 758cr during the corresponding quarter, while on Q-o-Q basis the net profit inclined by 9.88% from Rs 764cr. The set back in the performance is due to increased interest cost due to higher borrowing level and rise in interest rates.

PROFIT & LOSS ACCOUNT

Particulars	201003	200903	200803	200703	200603
Net Sales	43836.84	40377.49	29311.02	20508.22	16538.52
Other Income	2866.96	1689.78	569.42	893.72	585.38
Stock Adjustments	-558.9	2.34	683.45	115.92	-114.84
Total Income	46144.9	42069.61	30563.89	21517.86	17009.06
Total Expenditure	36507.13	35159.39	26114.04	17862.6	14729.02
PBIDT	9637.77	6910.22	4449.85	3655.26	2280.04
Interest	1520.19	1244.57	625.71	351.42	318.03
PBTD	8117.58	5665.65	3824.14	3303.84	1962.01
Depreciation	639.21	536.23	406.75	299.69	224.01
Profit Before Tax	7478.37	5129.42	3417.39	3004.15	1738
Tax	2048.45	1387.14	1051.72	718.66	414.42
Fringe Benefit Tax	-10.03	-0.2	76.11	20.16	25.85
Deferred Tax	-2.37	35.36	31.74	-6.98	-8.93
PAT	5442.32	3707.12	2257.82	2272.31	1306.66
Minority Interest (after tax)	97.53	-31.44	68.29	116.15	44.99
Profit/Loss of Associate Company	105.95	50.9	135.83	0	0
Net Profit after Minority Interest & P/L Asso.Co.	5450.74	3789.46	2325.36	2156.16	1261.67
Extraordinary Items	1605.49	865.19	93.48	356.14	244.25
Adjusted Net Profit	3845.25	2924.27	2231.88	1800.02	1017.42
EPS after Minority Interest	88.44	62.92	38.47	36.93	21.9
Cash EPS	73.78	56.93	43.41	34.55	20.42
OPM%	21.99	17.11	15.18	17.82	13.79
NPM%	12.41	9.18	7.70	11.08	7.90

KEY RATIOS

Particulars	201003	200903	200803	200703	200603
Debt-Equity Ratio	1.21	1.22	0.97	0.79	0.82
RONW (%)	20.7	21.25	23.44	30.46	25.2
ROCE (%)	16.74	18.48	21.3	25.7	22.66
Current Ratio	1.4	1.27	1.21	1.31	1.37
ROG-Total Assets (%)	28.4	39.07	62.13	48.14	27.08
EPS	88.3	61.51	74.62	77.95	90.85
CEPS	98.91	70.66	88.53	88.53	107.15
Book Value	347.65	238.27	369.6	243.38	359.18
P/E	18.39	10.69	39.32	21.92	27.78
EV/EBIDTA	11.92	7.5	20.17	11.91	15.56
P/BV	4.68	2.82	4.09	3.33	1.69

BALANCE SHEET: LARSEN & TURBO LIMITED (RS CR)

Particulars	201003	200903	200803	200703	200603
Equity Share Capital	120.44	117.14	58.47	56.65	27.48
Total Reserves	20845.73	13870.56	10772.64	6864.9	4937
Net Worth	20966.17	13987.7	10831.11	6921.55	4964.48
Total Debt	24607.32	20370.04	12315.93	6432.22	3498.69
Total Liabilities	46685.83	35416.32	24069.66	13999.47	8569.8
Gross Block	16108.12	12461.96	7873.8	6114.57	4327.08
Less: Accumulated Depreciation	3458.05	2760.61	2156.39	1904.58	1590.09
Less: Impairment of Assets	50.2	49.72	7.65	7.65	5.11
Net Block	12599.87	9651.63	5709.76	4202.34	2731.88
Lease Adjustment	-239.36	-239.36	-239.36	-217.66	-185
Capital Work in Progress	6618.43	6205.41	3053.07	1455.32	426.58
Investments	9927.86	6805.4	5552.28	2478.28	1675.66
Current Assets, Loans & Advances					
Inventories	9718.56	7105.78	5019	3677.97	2477.35
Sundry Debtors	12527.98	11491.13	8234.36	6110.37	5282.29
Cash and Bank	3321.59	1459.04	1560.78	1718.02	815.99
Loans and Advances	16132.81	12596.19	10967.52	5206.95	3063.59
Total Current Assets	41700.94	32652.14	25781.66	16713.31	11639.22
Total Current Liabilities	23768.88	19528.35	15694.57	10541.79	7615.8
Net Current Assets	17932.06	13123.79	10087.09	6171.52	4023.42
Miscellaneous Expenses not written off	0	0.28	28.54	17.08	24.01
Deferred Tax Assets	355.42	410.29	205.32	167.29	133.2
Deferred Tax Liability	508.45	541.12	327.04	274.7	259.95
Net Deferred Tax	-153.03	-130.83	-121.72	-107.41	-126.75
Total Assets	46685.83	35416.32	24069.66	13999.47	8569.8

CASH FLOW SUMMARY

Particulars	2010	2009	2008	2007	2006
Cash and Cash Equivalents at Beginning of the year	1459.04	1560.78	1718.02	815.99	988.2
Net Cash from Operating Activities	2117.84	495.96	-1239.22	2324.39	1061.73
Net Cash Used in Investing Activities	-5136.06	-5076.89	-6615.34	-2562.49	-1353.76
Net Cash Used in Financing Activities	4880.77	4479.19	7697.32	1140.13	119.82
Net Inc/(Dec) in Cash and Cash Equivalent	1862.55	-101.74	-157.24	902.03	-172.21
Cash and Cash Equivalents at End of the year	3321.59	1459.04	1560.78	1718.02	815.99

KEY CONCERNS:**Higher input cost:**

The company's input cost is higher. It is the main area of concern as it impacts the operating margins of the company.

Lower Exports:

The company gets its major export projects from Middle East and till the ordering in Middle East picks-up the contribution of exports will not improve. Currently the export orders accounts for just around 5% of the total order book

Forex price speculation:

Since the company have orders from global market any fluctuation in the foreign exchange prices would impact the

CMP: Rs.2195; Target Price: Rs. 2710; Upside: 23.46 %; Investment Period: 1YR

BHEL - BUY

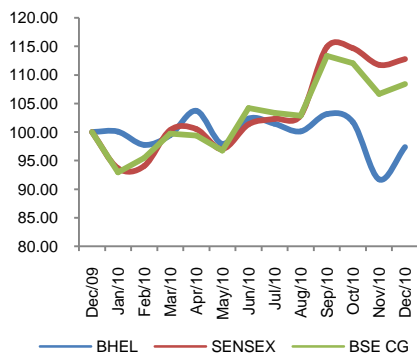
We are initiating coverage Bharat Heavy Electricals Ltd. (BHEL), one of largest engineering and manufacturing enterprise of its kind in India. It is one of the leading international companies in the field of power equipment manufacturing and engaged in power generation, transmission, industry (transportation, renewable energy etc) and Overseas Business.

Stock Info

Sector	Capital Goods
Market cap	Rs 113025Cr
Face value	Rs 10
Book Value	Rs.324.73
Latest EPS	Rs. 97.89
52 week H/L	Rs. 2694/2930
Avg. Daily Vol (2wk)	0.66 lacs
Debt Equity Ratio	0.01
Dividend	1.20%
Chairman	Bharat Khaitan
Listed At	NSE/BSE
Equity capital	Rs.489.52 Cr

Shareholding Pattern as on 30th Sep 2010

Promoter Holding	: 67.72%
Foreign	: 14.72%
DIs & Corporate	: 11.20%
Public & Others	: 6.36%



Strong Order Book

The robust order book of the company stands at Rs 153775 crore (4.6x FY2010 revenue) as on Dec 1, 2010. The Order intake for the Sept quarter was Rs 13506 crore as compared to June'10 of Rs.10824. The strong order book is portraying the future growth in the revenue of the company.

Joint Venture with Toshiba

BHEL is close to wrapping up a joint venture agreement with Japan's Toshiba Corporation. The pact to formalize the proposed 50:50 venture is expected to be in place by the first quarter of the next calendar year. This will led the company to manufacture high-end transmission and distribution equipment for the Indian and export markets.

Venturing Into new business through joint ventures

BHEL has planned to make an entry into nuclear equipment, wind energy, specialized grade steel, transmission, transportation and water treatment businesses through the route of collaboration and joint ventures.

VALUATION

At the current price of Rs. 2195, the stock is trading at 22.77 times of our estimated FY11E earnings, while it is available at just 19.54x of FY12E. We thus recommend a 'BUY' with a target price of Rs. 2710.

Particulars	FY10	FY11E	FY12E
Net Sales (Rs cr)	32880.3	37580.00	44585.00
Expenditure (Rs cr)	27314.51	31316.67	37154.17
PBIDT (Rs cr)	7082.16	7825.33	9045.83
Profit After Tax (Rs cr)	4310.64	4713.80	5491.98
EPS (Diluted) (Rs)	88.15	96.40	112.31
PE Ratio	24.90	22.77	19.54
OPM %	21.54	20.82	20.29
NPM %	13.11	12.54	12.32

INVESTMENT ARGUMENT

Current supercritical orders

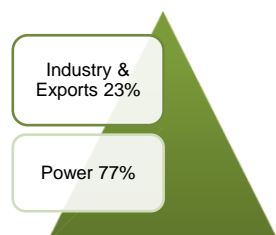
Promoter	Project	Location	Capacity
NTPC	Barh	Bihar	2x660 mw
Jaypee Group	Prayagraj	Uttar Pradesh	3x660 mw
APGenco*	Krishnapatnam	Andhra Pradesh	2x800 mw

* Only for boilers, L&T-MHI to supply turbines

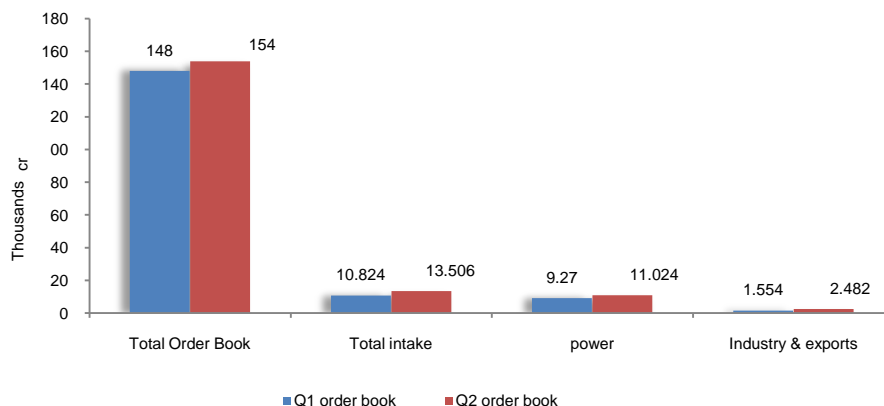
Robust Order Book

The robust order book of the company stands at Rs 153775 crore (4.6x FY2010 revenue) as on Dec 1, 2010. Order book for the quarter Sept'10 was Rs 13506 crore of which the power sector orders were about Rs 11024 crore and the balance being industries and exports. The company has bagged orders worth Rs 6000 crore including the 5X270 MW Nashik Power Plant of India Bulls, 3X270 MW of Amaravathi Phase II, APGenco's Rayalaseems power projects etc. Going forward, the heavy order book of the company is expected to be visible in its earnings of FY10 & FY11.

As on June 10 the BHEL has an order book for Rs.1.48 cr which increased to Rs 1.54 cr by Sept 10. During Q1 the order worth Rs 10,824 were added whereas during Q2 the order book intake was Rs.13,505.



The maximum business of BHEL is from power segment as compare to industry and exports



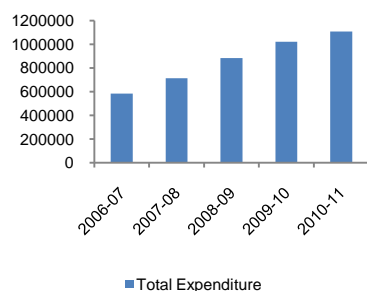
JV with Toshiba Corporation

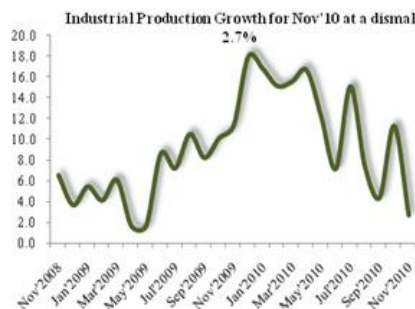
BHEL is close to wrapping up a joint venture agreement with Japan's Toshiba Corporation. The pact to formalize the proposed 50:50 venture is expected to be in place by the first quarter of the next calendar year. This will help BHEL to manufacture high-end transmission and distribution equipment for the Indian and export markets.

Capex Cycle

On a yearly basis, India Inc is estimated to incur capital expenditure of about Rs 6 lakh crore in 2010-11 reasonably higher compared to the last two fiscal years when it stagnated around Rs 4.6 lakh crore levels. The capex cycle has already begun can be gauged from the sharp rise in India's capital goods index the average monthly growth in the index at 46% has been impressive. The beneficiaries of this increase in investments will be the engineering and capital goods companies. BHEL enjoys leadership and strong capex in the power equipment space which plays good on the power sector capex.

Capital Expenditure by Govt.





Robust Industrial Growth

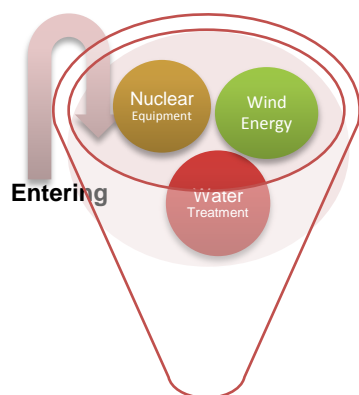
IIP growth has increased by 28.37% to 9.5% in April-November 2010 from 7.4% in April – November 2009 and the growth in capital goods is by 13.63% Y-o-Y to 12.5% in April-November 2010 from 11% in April – November 2009. It is estimated that there lies a growing demand for industrial production due to the future expansion plans by government and the capacity addition in power sector to meet the domestic demand of the country. And since L&T has a major of 94% orders from domestic market, it clearly portrays the inflow of orders for the company.

Foray into non banking financing for Power Projects

BHEL is exploring the possibility of formation of a separate finance company as a joint venture with a strategic partner to finance power projects. For the same purpose the company has appointed CRISIL to work on the proposal. The main idea behind this JV is to use the surplus cash reserves in the balance sheet increasing its exposure in power sector.

Venturing into new businesses via JV and Collaboration

BHEL has planned to make an entry into nuclear equipment, wind energy, specialized grade steel, transmission, transportation and water treatment businesses through the route of collaboration and joint ventures.



Joint Venture with NTPC Balance of Plant

BHEL Power Projects Pvt Ltd a 10% subsidiary of BHEL has entered into a 50:50 JV with NTPC to increase the domestic manufacturing capacities in the Balance of Plant (BoP) segment. It will help in justifying the anticipated shortage in the BoP segment.

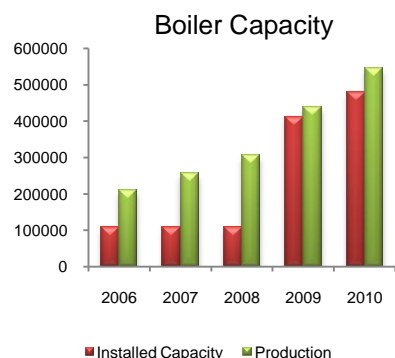
Nuclear Equipment Segment through JV

The company has tied up with Alstom and this being a tri-partied JV, the process of getting approval with Atomic Energy Department is pending. The joint venture of Bharat Heavy Electricals Ltd with Nuclear Power Corporation of India Ltd (NPCIL) is likely to be approved by the Union cabinet soon. The new company is to provide engineering, procurement and construction services in the nuclear power sector. Each of the three is expected to hold 33% equity stake. The JV would not require much capital investment and it would function as a front-end company, responsible for marketing and engineering. BHEL would be responsible for manufacturing order received from the new company with the help of Alstom. BHEL would use its Bhopal and Hardwar facilities to enhance its equipment capacity for the nuclear sector. BHEL's boiler capacity at Tiruchirapalli would also be used for catering to the nuclear sector.

Capacity Expansion

The company has realized the capability to deliver 15,000MW pa and the capacity expansion program is underway to reach 20,000MW pa by 2012.

Currently, 74% of the total power generated in the country is through BHEL. This capacity expansion is in line with the government project power for all.



Technological Enhancement

BHEL would focus on low Carbon Path Technologies such as Ultra Supercritical, IGCC, and Solar Power etc against backdrop of climate change. BHEL would play a lead role in 'development and deployment' of advanced Ultra Supercritical Power Plant under the proposed National Mission for Clean Coal (Carbon) Technologies. This will help BHEL to avoid project delay due to various reasons through enhancement in its technology.

Regular Research & Development

BHEL plans to increase R&D spend to at least Rs. 900 crore by 2011-12. Greater standardization of components and sub-systems that will drive cost competitiveness and faster delivery is being pursued. Technology development efforts undertaken by BHEL have led to the filing of patents and copyrights at the rate of nearly one a day, significantly enhancing the company's intellectual capital to almost 1,300 patents and copyrights filed, which are in productive use in the company's business. Since R&D and technology development are of strategic importance to the company as it operates in a competitive environment where technology is a key driver BHEL ensures the regular investment in R&D to be the leader in its industry.

Credit Rating

CRISIL assigns BHEL with AAA/stable rating which clearly shows that the company will continue to generate robust cash accruals, given its healthy order book and operating track record. The company's sound financial risk profile will enable it to withstand economic downturns, and maintain a credit risk profile that is consistent with the current rating category.

RISK CONCERN

Rising Competition

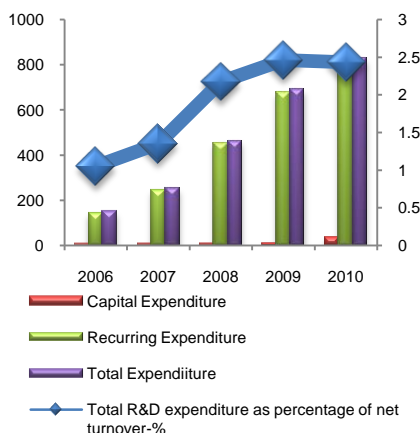
Considering the growing power demand, many domestic companies have announced their intent to tie-up with leading international players from China, Japan, Europe etc. to set up manufacturing bases in the country. This could escalate intensity of competition for BHEL in long-term

Government Policies

Most of the business areas in which BHEL operates, the growth prospects are dependent on policy decisions at the national level as also on the prevailing business trends.

Delayed Execution

BHEL has to execute over 12,600 mw of projects in 2010-11 and 9,600 mw of projects in 2011- 12. In this context, the execution capacity of BHEL becomes a critical issue for achieving the targeted capacity addition, especially in 2010-11.



Stock Ratings	
BUY	The stock's total return is expected to exceed 20% over the next 12 months
ACCUMULATE	The stock's total return is expected to be within 10-15% over the next 12 months
REDUCE	The stock's total return is expected to be within 0-10% over the next 12 months
SELL	The stock's total return is expected to give negative returns over the next 12 months
NOT RATED	The Analyst has no recommendation on the stock under review

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