

July 26, 2011

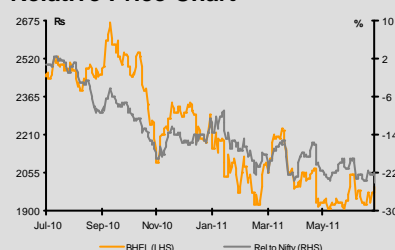
Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs 1,909	Rs 2,150
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	5,575
Sensex	18,518

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	(8)	(17)	(22)
Rel. to Nifty	(4)	(3)	(15)	(25)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Engineering & Capital Goods
Bloomberg	BHEL@IN
Equity Capital (Rs mn)	4895
Face Value(Rs)	10
No of shares o/s (mn)	490
52 Week H/L	2,695/1,873
Market Cap (Rs bn/USD mn)	934/21119
Daily Avg Volume (No of sh)	167352
Daily Avg Turnover (US\$m)	7.5

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	67.7	67.7	67.7
FII/NRI	13.2	13.0	14.1
Institutions	12.7	12.7	12.0
Private Corp	4.2	4.5	4.4
Public	2.2	2.0	1.9

Source: Capitaline

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- Q1FY12 performance below estimates – (1) Revenue up 10% yoy to Rs73 bn (2) EBITDA margins up 70 bps yoy to 15.3% (3) APAT up 22% yoy to Rs8.2 bn
- Dismal order inflows – Secures orders worth Rs25 bn or 4% of target FY12E order inflows. Order Book declines 2% qoq to Rs1596 bn
- Typically first quarter earnings contribution lowest – hence not deterred by lower than expected performance. Maintain earning estimates of Rs131.9 for FY12E & Rs139.4 for FY13E
- Undemanding valuations at 13.7X FY13E earnings. There is lack of earnings or re-rating catalyst. Retain our HOLD rating with target price of Rs2150/Share

### Below estimates – Revenues up 10% yoy, Net profit up 22% yoy

BHEL posted subdued operational performance in Q1FY12 - primarily due to muted revenue booking on unexecuted order backlog – revenue growth stunted at 10% yoy to Rs72.7 bn, below estimates. Led by low revenue growth, expansion in operating margins was restricted to 70 bps yoy to 15.3% with operating profit growth at 15% yoy to Rs11.1 bn. High other income (up 52% yoy to Rs2.5 bn) partially offset subdued operational performance. Net profit growth was healthy at 22% yoy to Rs8.2 bn, though below estimates.

### Power blackout – Secures orders worth Rs25 bn or 4% of FY12E target

BHEL recorded dismal order inflows during the quarter – owing to continued delay in order finalization in the Power sector. It secured orders worth Rs24.7 bn (down 76% yoy and 89% qoq) or just 4% of FY12E target of Rs667 bn – lowest in the past 24 quarters. Industrial orders comprised 89% of total orders or Rs21.9 bn while Power segment contributed the rest 11% or Rs2.8 bn. Consequently order book growth was muted at 8% yoy to Rs1596 bn (down 2% qoq).

### Looming risk to FY12E order inflows, could create disappointment

Early in the year, BHEL had guided for 10% growth in order inflows pegged at Rs667 bn for FY12E. The targeted order inflows factor some contribution from 11X660 MW or 9X800MW- which currently are awaiting Supreme Court judgment. Also, multiple issues like coal linkages, financial closures amidst high interest rates and collapse of merchant rates have impacted order finalizations in the power sector of India. In advent of larger systemic delay, BHEL's order inflows target for FY12E remains at risk thereby creating disappointment. Though, it would not trigger earnings downgrade, but could emerge as de-rating catalyst.

### Maintain earnings for FY12E and FY13E

Since, first quarter typically makes lowest contribution to the annual earning forecasts; we are not deterred by the lower than expected Q1FY12 performance. We retain our earnings forecasts of Rs131.9/Share and Rs139.4/Share for FY12E and FY13E respectively. This translates into 3% earnings CAGR for FY11-13E period.

### Financial Snapshot

Rs Mn

YE-	Net	EBITDA		EPS	EPS	ROE	EV/			
Mar	Sales	(Core)	(%)	(Rs)	%Chg	(%)	P/E	EBITDA	P/BV	
FY10	333,549	60,072	18.0	42,639	87.1	5.9	29.6	21.9	13.9	5.9
FY11P	424,955	89,651	21.1	59,321	121.2	39.1	32.9	15.8	9.4	4.6
FY12E	497,265	97,901	19.7	64,579	131.9	8.9	28.6	14.5	8.3	3.7
FY13E	558,006	103,915	18.6	68,224	139.4	5.6	24.8	13.7	7.4	3.1

**No earnings or re-rating catalysts, Maintain 'HOLD'**

Though, valuations at 13.7X FY13E earnings are not demanding considering free cashflow generating business model and strong ROIC; there is lack of earnings or re-rating catalyst. We retain our HOLD rating with target price of Rs2150/Share, pegging BHEL PER valuations at 15X FY13E earnings (equal to long-term average PER).

**Quarterly Results**

Y/E, Mar (Rs. mn)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
<b>Net Sales</b>	<b>66,010</b>	<b>84,907</b>	<b>90,233</b>	<b>183,805</b>	<b>72,715</b>	10.2	-60.4
Expenditure	<b>56,360</b>	<b>68,583</b>	<b>69,516</b>	<b>140,869</b>	<b>61,582</b>	<b>9.3</b>	<b>-56.3</b>
Consumption of RM	38,094	49,641	48,098	89,601	41,500	8.9	-53.7
<i>as % of sales</i>	57.7	58.5	53.3	48.7	57.1		
Employee Expenses	13,378	12,641	13,487	14,599	13,010	-2.8	-10.9
<i>as % of sales</i>	20.3	14.9	14.9	7.9	17.9		
Other Expenses	4,889	6,301	7,932	36,669	7,073	44.7	-80.7
<i>as % of sales</i>	7.4	7.4	8.8	19.9	9.7		
<b>EBIDTA</b>	<b>9,650</b>	<b>16,324</b>	<b>20,717</b>	<b>42,936</b>	<b>11,132</b>	<b>15.4</b>	<b>-74.1</b>
Depreciation	1,269	1,341	1,447	1,384	1,709	34.7	23.5
<b>EBIT</b>	<b>8,381</b>	<b>14,983</b>	<b>19,270</b>	<b>41,552</b>	<b>9,423</b>	<b>12.4</b>	<b>-77.3</b>
Other Income	1,635	1,620	1,529	1,634	2,487	52.1	52.1
Interest	38	59	145	305	88	129.8	-71.1
<b>PBT</b>	<b>9,978</b>	<b>16,544</b>	<b>20,655</b>	<b>42,881</b>	<b>11,822</b>	<b>18.5</b>	<b>-72.4</b>
Tax	3,301	5,121	6,623	15,677	3,667	11.1	-76.6
<b>Adjusted PAT</b>	<b>6,677</b>	<b>11,423</b>	<b>14,032</b>	<b>27,203</b>	<b>8,155</b>	<b>22.1</b>	<b>-70.0</b>
Extra ordinary items	0	0	0	777	0	NA	-100.0
<b>Reported PAT</b>	<b>6,677</b>	<b>11,423</b>	<b>14,032</b>	<b>27,980</b>	<b>8,155</b>	<b>22.1</b>	<b>-70.9</b>
<b>Adjusted EPS (Rs)</b>	<b>13.6</b>	<b>23.3</b>	<b>28.7</b>	<b>55.6</b>	<b>16.7</b>	<b>22.1</b>	<b>-70.0</b>

Margins (%)						(bps)	(bps)
EBIDTA	14.6	19.2	23.0	23.4	15.3	70	-800
EBIT	12.7	17.6	21.4	22.6	13.0	30	-960
PBT	15.1	19.5	22.9	23.3	16.3	110	-710
PAT	10.1	13.5	15.6	14.8	11.2	110	-360
Effective Tax rate	33.1	31.0	32.1	36.6	31.0	-210	-550

## Segmental Performance

Y/E, Mar (Rs. mn)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
<b>Segment Revenues</b>							
Power	53,734	69,650	72,820	151,444	57,803	7.6	-61.8
Industry	13,879	18,577	21,429	37,091	16,529	19.1	-55.4
Less: Intersegment Revenues	0	1,072	1,452	2,301	0	-	-
<b>Total</b>	<b>67,612</b>	<b>87,155</b>	<b>92,798</b>	<b>186,234</b>	<b>74,332</b>	<b>9.9</b>	<b>-60.1</b>
<b>Segment Results</b>							
Power	10,706	14,731	16,321	41,363	9,518	-11.1	-77.0
Industry	1,932	3,055	4,542	9,851	3,733	93.2	-62.1
Total	12,638	17,786	20,863	51,213	13,251	4.8	-74.1
Add- Unall Income / (Exp)	-2,622	-1,183	-64	-8,027	-1,341	-	-
Less- Interest Exp	38	59	145	305	88	129.8	-71.1
<b>PBT</b>	<b>9,978</b>	<b>16,544</b>	<b>20,655</b>	<b>42,881</b>	<b>11,822</b>	<b>18.5</b>	<b>-72.4</b>
<b>Segment Capital Employed</b>							
Power	18,178	23,415	44,205	62,015	66,272	264.6	6.9
Industry	19,714	27,794	30,318	35,333	35,653	80.9	0.9
Unallocated	96,799	99,255	98,928	66,567	78,909	-18.5	18.5
<b>Total</b>	<b>134,692</b>	<b>150,463</b>	<b>173,451</b>	<b>163,915</b>	<b>180,834</b>	<b>34.3</b>	<b>10.3</b>
<b>Segment Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>
Power	19.9	21.2	22.4	27.3	16.5	-350	-1080
Industry	13.9	16.4	21.2	26.6	22.6	870	-400
<b>Average</b>	<b>18.7</b>	<b>20.2</b>	<b>22.1</b>	<b>27.2</b>	<b>17.8</b>	<b>-90</b>	<b>-930</b>

## Key Financials

## Income Statement

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
<b>Net Sales</b>	<b>333,549</b>	<b>424,955</b>	<b>497,265</b>	<b>558,006</b>
Growth (%)	24.8	27.4	17.0	12.2
<b>Total Expenditure</b>	<b>273,476</b>	<b>335,304</b>	<b>399,363</b>	<b>454,092</b>
Materials Cost	198,857	234,582	298,225	343,969
Power & Fuel Cost	64,492	54,104	64,969	69,200
Manpower Exps	8,460	15,341	18,422	21,248
Other Operating Exps	1,668	31,278	17,748	19,675
Others	<b>60,072</b>	<b>89,651</b>	<b>97,901</b>	<b>103,915</b>
<b>EBIDTA</b>	<b>41.4</b>	<b>49.2</b>	<b>9.2</b>	<b>6.1</b>
Growth (%)	<b>18.0</b>	<b>21.1</b>	<b>19.7</b>	<b>18.6</b>
<b>EBIDTA Margin (%)</b>	<b>4,580</b>	<b>5,441</b>	<b>6,959</b>	<b>7,971</b>
Depreciation	<b>55,492</b>	<b>84,210</b>	<b>90,942</b>	<b>95,944</b>
<b>EBIT</b>	<b>16.6</b>	<b>19.8</b>	<b>18.3</b>	<b>17.2</b>
<b>EBIT margin (%)</b>	<b>2,593</b>	<b>2,378</b>	<b>2,822</b>	<b>3,355</b>
Other Income	-7,745	-3,493	-4,301	-4,301
Interest	<b>65,831</b>	<b>90,081</b>	<b>98,065</b>	<b>103,600</b>
<b>EBT</b>	<b>23,192</b>	<b>30,759</b>	<b>33,486</b>	<b>35,375</b>
Tax	35.2	34.1	34.1	34.1
<b>Effective tax rate (%)</b>	<b>42,639</b>	<b>59,321</b>	<b>64,579</b>	<b>68,224</b>
<b>Adjusted PAT</b>	<b>40.2</b>	<b>39.1</b>	<b>8.9</b>	<b>5.6</b>
Growth (%)	<b>12.8</b>	<b>14.0</b>	<b>13.0</b>	<b>12.2</b>
<b>Net Margin (%)</b>	<b>468</b>	<b>815</b>	<b>0</b>	<b>0</b>
E/O items	<b>43,106</b>	<b>60,136</b>	<b>64,579</b>	<b>68,224</b>
<b>Reported PAT</b>	<b>FY10</b>	<b>FY11P</b>	<b>FY12E</b>	<b>FY13E</b>
Growth (%)	<b>333,549</b>	<b>424,955</b>	<b>497,265</b>	<b>558,006</b>

## Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	<b>65,907</b>	<b>90,081</b>	<b>98,065</b>	<b>103,600</b>
Depreciation	4,312	5,441	6,959	7,971
Interest Provided	336	-3,493	-4,301	-4,301
Other Non-Cash items	-3	-5,455	0	0
Chg in working cap	-27,428	-22,182	-17,064	-5,863
Tax paid	-19,035	-30,759	-33,486	-35,375
<b>Operating Cashflow</b>	<b>24,089</b>	<b>33,633</b>	<b>50,174</b>	<b>66,031</b>
Capital expenditure	-17,137	-17,623	-12,000	-7,000
<b>Free Cash Flow</b>	<b>6,952</b>	<b>16,010</b>	<b>38,174</b>	<b>59,031</b>
Other income	-493	0	0	0
Investments	-275	-3,593	0	0
<b>Investing Cashflow</b>	<b>-768</b>	<b>-3,593</b>	<b>0</b>	<b>0</b>
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-215	356	0	0
Interest Paid	-337	3,493	4,301	4,301
Dividend paid (incl tax)	-10,879	-15,249	-16,619	-17,109
Income from investments	0	0	0	0
Others	<b>-11,430</b>	<b>-11,400</b>	<b>-12,318</b>	<b>-12,808</b>
<b>Financing Cashflow</b>	<b>-5,246</b>	<b>1,017</b>	<b>25,855</b>	<b>46,223</b>
<b>Net chg in cash</b>	<b>103,147</b>	<b>97,901</b>	<b>96,302</b>	<b>122,157</b>
Opening cash position	0	0	0	0
<b>Closing cash position</b>	<b>97,901</b>	<b>98,918</b>	<b>122,157</b>	<b>168,380</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
Equity Share Capital	4,895	4,895	4,895	4,895
Reserves & Surplus	154,278	196,643	244,603	295,719
<b>Shareholders Funds</b>	<b>159,174</b>	<b>201,538</b>	<b>249,499</b>	<b>300,614</b>
Secured Loans	0	0	0	0
Unsecured Loans	1,278	1,634	1,634	1,634
<b>Loan Funds</b>	<b>1,278</b>	<b>1,634</b>	<b>1,634</b>	<b>1,634</b>
Net Deferred Taxes	-15,272	-21,636	-21,636	-21,636
<b>Capital Employed</b>	<b>145,179</b>	<b>181,536</b>	<b>229,497</b>	<b>280,612</b>
Gross Block	65,801	83,424	95,424	102,424
Less: Depreciation	41,505	46,946	53,905	61,876
<b>Net Block</b>	<b>24,154</b>	<b>36,336</b>	<b>41,377</b>	<b>40,406</b>
Lease Adjustments	15,296	15,296	15,296	15,296
Capital WIP	<b>798</b>	<b>4,392</b>	<b>4,392</b>	<b>4,392</b>
<b>Investment</b>	<b>429,348</b>	<b>514,947</b>	<b>617,754</b>	<b>721,003</b>
<b>Current Assets</b>	<b>92,355</b>	<b>109,630</b>	<b>131,647</b>	<b>147,962</b>
Inventories	206,888	273,546	328,481	369,191
Sundry Debtors	97,901	96,302	122,157	168,380
Cash and Bank	28,137	32,373	32,373	32,373
Loans and Advances	4,069	3,096	3,096	3,096
<b>Current Liab &amp; Prov</b>	<b>324,417</b>	<b>389,434</b>	<b>449,321</b>	<b>500,484</b>
Current Liabilities	280,237	313,466	373,353	424,516
Provisions	44,180	75,968	75,968	75,968
<b>Net Current Assets</b>	<b>104,931</b>	<b>125,514</b>	<b>168,433</b>	<b>220,519</b>
Miscellaneous Exps	0	0	0	0
<b>Capital Deployed</b>	<b>145,179</b>	<b>181,536</b>	<b>229,497</b>	<b>280,612</b>

## Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	18.0	21.1	19.7	18.6
Net Margin	12.8	14.0	13.0	12.2
ROCE	45.1	53.0	45.6	38.9
ROE	29.6	32.9	28.6	24.8
RoIC	390.5	174.1	118.7	106.5
<b>Per Share Data (Rs)</b>				
EPS	87.1	121.2	131.9	139.4
CEPS	96.5	132.3	146.1	155.7
BVPS	325.2	411.7	509.7	614.1
DPS	23.3	31.2	34.0	35.0
<b>Valuations (x)</b>				
PER	21.9	15.8	14.5	13.7
P/CEPS	19.8	14.4	13.1	12.3
P/BV	5.9	4.6	3.7	3.1
EV / Sales	2.5	1.9	1.6	1.3
EV / EBITDA	13.9	9.4	8.3	7.4
Dividend Yield (%)	1.2	1.6	1.8	1.8
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	(0.6)	(0.5)	(0.5)	(0.6)
Net Debt/EBIDTA	(1.6)	(1.1)	(1.2)	(1.6)
Working Cap Cycle (days)	7.7	25.1	34.0	34.1

**Recommendation History: BHEL – BHEL IN**

Date	Reports	Reco	CMP	Target
23/05/2011	<a href="#">BHEL Q4FY11 Result Update</a>	Hold	1,936	2,150
21/01/2011	<a href="#">BHEL Q3FY11 Result Update</a>	Buy	2,218	3,030
29/10/2010	<a href="#">BHEL Q2FY11 Result Update</a>	Buy	2,446	3,030
23/07/2010	<a href="#">BHEL Q1FY11 Result Update</a>	Hold	2,460	2,495

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
25/07/2011	<a href="#">Thermax Q1FY12 Result Update</a>	Buy	610	735
01/06/2011	<a href="#">Punj Lloyd Q4FY11 Result Update</a>	Hold	65	91
31/05/2011	<a href="#">Cummins India Q4FY11 Result Update</a>	Buy	685	800
27/05/2011	<a href="#">Havells India Q4FY11 Result Update</a>	Buy	399	470

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