KARVY STOCK BROKING

Capital Goods – Electrical Equipment

Scenario Remains Subdued – Recovery Likely from FY15-16E onwards

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Capital Goods-Electrical Equipment

INITIATION REPORT

Scenario Remains Subdued – Recovery Likely from FY15-16E onwards

The Indian Capital Goods sector has underperformed vis-à-vis BSE Sensex by 17.7% over last 12 months owing to slowdown in order-inflows amid declining margins, delay in projects execution and declining return ratios resulting in PE de-rating of the sector over the past two years. We expect the domestic market to remain subdued in FY14-15E period due to issues relating to delay in getting MoEF approval, land acquisition clearance, and coal shortage, while conversely the glut in BTG industry would sustain pricing pressure on domestic play. We believe that the sector would see some recovery from FY15-16E onwards with the start of capex in 13th FYP.

Overcapacity in BTG Segment to Hit Pricing: New order are secured at lower prices over past few quarters, as the overall BTG supply of 25GW per annum has outstripped the annual demand of 14-15GW. We believe that the pricing pressure is likely to continue, as a 90% of orders for 12th FYP has already completed.

T&D Order-flows to Gain Traction amid Intensifying Competition: The planned capex of PGCIL in FY13-17 is likely to be key growth driver for the T&D players. However recent move by PGCIL to hike its vendor base by diluting the pre-qualification criteria has led to increased competition. PGCIL which accounts for 55-60% of India's transmission capex, has completed ordering for 70% of 12th plan capex while we expect that 13th Plan ordering will commence only in FY15-16E.

Policy Initiatives – No Near-term Material Impact: The move to impose import duty on foreign power generation equipment is irrelevant given the 5x capacity addition in domestic electrical equipment space amid demand slowdown owing to issues pertaining to fuel availability. Again, India now has over capacity to fulfill the anticipated annual demand. The CCEA has approved restructuring package worth Rs. 2,000 bn for the SEBs, which provides for 50% of short-term liabilities as of Mar'12 to be taken over by several state governments and coal-pooling initiative. However, we believe that these initiatives don't have any significant impact in the near-term.

We Initiate Coverage on Electrical Equipment Players

We are cautious on the Indian Capital Goods sector amid concerns over the power sector, high competitive intensity, marked by lower margins and valuations. We initiate coverage on three electrical equipment players with **"BUY"** recommendation on with quality stock like **BHEL**, and **"SELL"** recommendation on **BGR Energy** & **ABB India**.

BHEL	**BUY**
CMP (Rs)	208
Target Price (Rs)	253
Upside (%)	22%
52 Week High/Low (Rs)	328/195
3m ADV (Rs mn /US$ mn)	903/16.6
ABB India	**SELL**
CMP (Rs)	609
Target Price (Rs)	631
Upside (%)	4
52 Week High/Low (Rs)	1,037/604
3m ADV (Rs mn /US$ mn)	35/0.6
BGR Energy	**SELL**
CMP (Rs)	208
Target Price (Rs)	215
Upside (%)	5
52 Week High/Low (Rs)	378/199
3m ADV (Rs mn /US$ mn)	50/0.9

Source; Bloomberg

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Valuation Summary

Company	Rating	CMP (Rs)	TP (Rs)	MCap (Rs bn)	RoE (%) FY13	RoE (%) FY14E	RoE (%) FY15E	P/BV (x) FY13	P/BV (x) FY14E	P/BV (x) FY15E	P/E (x) FY13	P/E (x) FY14E	P/E (x) FY15E
BHEL	Buy	208	253	508	22.5	16.9	12.1	1.8	1.6	1.4	8.5	9.8	12.4
BGR Energy	SELL	208	215	15	14.5	13.8	14.0	1.2	1.1	1.0	8.5	8.1	7.5
ABB India #	SELL	609	631	129	8.1	11.4	12.0	4.6	4.2	3.8	59.9	39.0	33.6

Source: Company, Karvy Institutional Research; CY

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Companies Section

BHEL: (CMP: Rs. 208; Target Price: Rs. 253) – **BUY**

ABB India: (CMP: Rs. 609; Target Price: Rs. 631) – **SELL**

BGR Energy Systems: (CMP: Rs. 208; Target Price: Rs. 215) – **SELL**

Executive Summary

Indian Capital Goods Sector Continues to Underperform

Indian Capital Goods sector has underperformed vis-à-vis BSE Sensex by 24% over last 12 months owing to slowdown in order-inflows amid declining margins, delay in execution and declining return ratios resulting in PE de-rating of the sector over past two years. Though the power equipment companies bagged huge orders leading to robust earnings growth/return ratios over FY06-09, the industry been severely impacted by slowdown in order-inflows in FY08-12 on weak investment cycle as well as the regulatory and other key issues amid significant rise in competition due to entry of new private domestic/Chinese players.

Our View: The issues relating to power/coal sector would impact execution of projects as well as new project announcements, while a 90% of orders for 12th FYP period has already been placed. However, the new order-inflows are expected to continue in T&D segment on the back of strong capex by PGCIL.

Policy Initiatives – No Near-term Material Impact

A. Imposition of Import Duty on Foreign Equipment: The price differential between domestic vis-à-vis Chinese manufacturers is mainly due to disadvantages faced by the former in terms of state/local levies, higher financing costs, and dependence on foreign sources for critical raw material. Meanwhile, India now has domestic over capacity to fulfill the estimated annual demand.

Our View: Imposition of import duty on foreign equipment won't impact the domestic industry in the short-term, as the domestic capacity would fulfill the expected demand for power generation.

B. SEB Debt Restructuring: The Government has rolled out restructuring package worth Rs. 2,000 bn for the SEBs that provides for 50% of short-term liabilities as of Mar'12 to be taken over by several state governments. The rest 50% short-term liabilities will be rescheduled by the lenders and serviced by the DISCOMs with a three-year moratorium on principal.

Our View: The restructuring is subject to certain steps to be taken by the state governments / DISCOMs and their commitment to fulfill mandatory conditions to bridge the gap between average cost of supply and average revenue realization.

Recovery to Take Time – Stick to Quality even at Higher Cost

The downturn in domestic order flow is expected to continue, as high level of backlog preempts new order flow, while uncertainty in coal acts as disincentive for Indian IPPs to set up new plants. Again, India has entered into a downturn in electrical equipment order, as ~90% of total orders under 12th FYP have already been awarded. Lack of visibility for any noteworthy change in the near future and unlikely recovery before the commencement of 13th FYP – *which validate our downbeat outlook on the sector* – would lead to significant moderation in revenue growth for FY13-15E along with subdued margins and deterioration in working capital cycle and return ratios.

Our View: Notwithstanding our downbeat outlook on the sector, it is advisable to stick to the quality stocks from long-term perspective even if it means paying more at current prices.

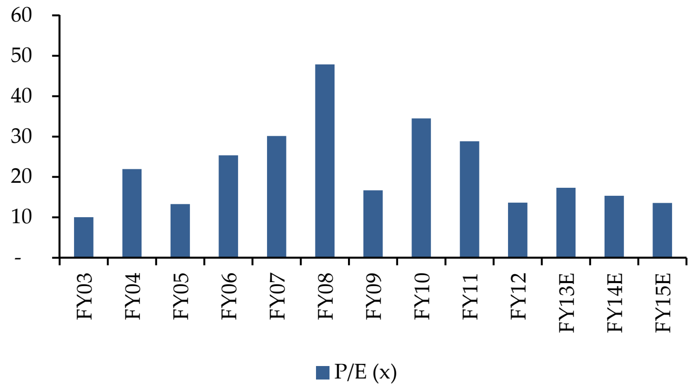
Outlook & Valuation

Indian capital goods sector has underperformed to Sensex by 24% over the 12 months. Valuations had bottomed out at 11x 1-year forward P/E around the Lehmann crisis (FY08-09) and currently at the same levels. The capital goods industry has been impacted by slower order inflows, delay in project executions, margins pressure, and declining return ratios resulting in PE de-rating of the sector over the past two years.

Two key factors driving the weak order cycle include:

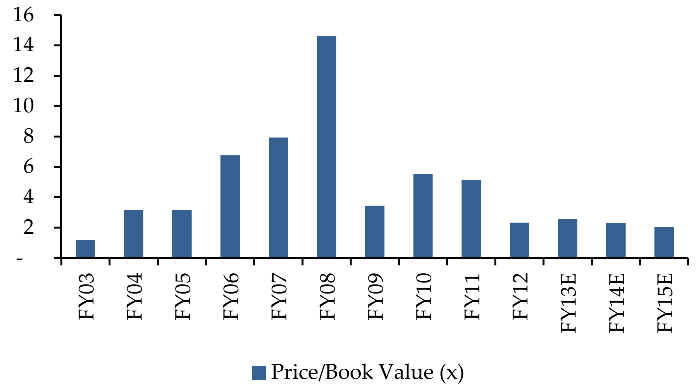
- **Cyclical:** Over 90% of 12th FYP orders have already been placed to equipment manufacturers of likely implementation of 85GW in the 12th FYP, and
- **Structural:** Continued issues with coal availability will likely impact the cash-flow profile of the utilities and their return ratios thereby discouraging investments for new projects. Moreover, new projects are finding difficult to get financial closure on the basis of a letter of assurance from Coal India.

Exhibit 1: Capital Goods Index PE



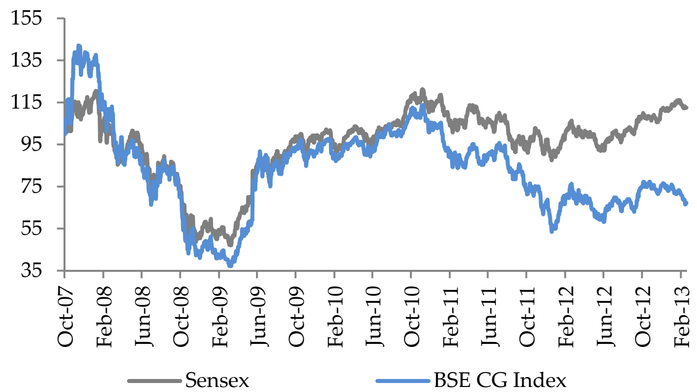
Source: Bloomberg, Karvy Institutional Research

Exhibit 2: Capital Goods Index P/BV



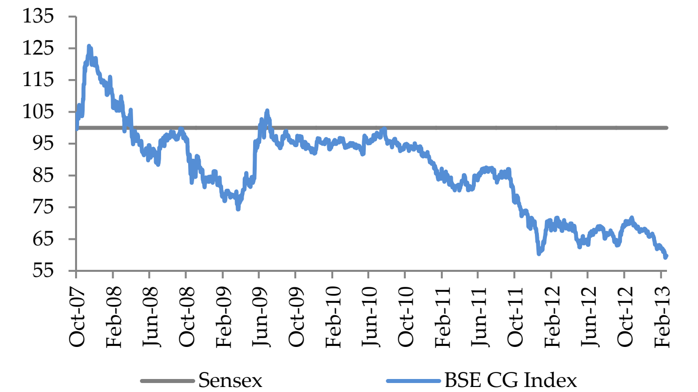
Source: Bloomberg, Karvy Institutional Research

Exhibit 3: Absolute Performance 5-Yrs



Source: Bloomberg, Karvy Institutional Research

Exhibit 4: Relative Performance 5-Yrs



Source: Bloomberg, Karvy Institutional Research

Exhibit 5: Capital Goods Financials

	PBIDTM (%)					RoCE (%)					RoNW (%)				
	FY08	FY09	FY10	FY11	FY12	FY08	FY09	FY10	FY11	FY12	FY08	FY09	FY10	FY11	FY12
BHEL	**22**	**18**	**20**	**22**	**20**	**45**	**37**	**46**	**50**	**35**	**29**	**24**	**30**	**34**	**28**
Siemens	12	10	12	14	12	64	39	36	37	35	45	25	22	23	23
ABB India	**13**	**13**	**10**	**3**	**5**	**56**	**47**	**25**	**6**	**12**	**35**	**29**	**16**	**3**	**7**
CG	11	12	15	14	7	34	40	46	36	15	36	36	40	31	11
Alstom T&D India	17	15	12	11	10	69	42	26	21	15	47	36	24	19	14
Larsen & Toubro	15	15	17	18	18	21	18	17	16	15	23	21	21	17	16
Havells India	7	5	6	10	10	26	11	16	33	37	34	-1	14	58	46
Thermax	13	14	14	12	11	68	50	40	45	37	43	33	25	31	25
Suzlon Energy	17	12	6	6	9	15	11	3	-	-	20	10	-12	-	-
BGR Energy	**10.2**	**10.8**	**11.2**	**11.3**	**13.7**	**17.2**	**14.9**	**17.3**	**19.5**	**10.9**	**32.3**	**22.3**	**31.7**	**39.2**	**21.7**

Source: Company, Karvy Institutional Research

Our View: As most of the equipment manufacturers and EPC companies are currently witnessing low value creation period of their business cycles, the valuations for these businesses are likely to be at a discount compared with historical trends.

As order inflows, growth trajectory and return ratios are going to be significantly lower over in the next 2-3 years, we are cautious in valuing the stock using historical average multiples.

Exhibit 6: Company-wise Absolute & Relative Return

	CMP	Mcap	Absolute Return (%)				Relative to Sensex Return (%)				Relative to CG Index Return (%)			
Company	Rs	Rs bn	3m	6m	12m	CYTD	3m	6m	12m	CYTD	3m	6m	12m	CYTD
ABB India	**609**	**129**	**(15.5)**	**(20.3)**	**(31.6)**	**(13.0)**	**(22.0)**	**(30.5)**	**(38.2)**	**(13.4)**	**(8.4)**	**(18.6)**	**(20.5)**	**(3.9)**
Alstom T&D India	167	40	(17.0)	(9.7)	(16.7)	(10.7)	(23.5)	(19.9)	(23.3)	(11.0)	(9.9)	(8.0)	(5.6)	(1.5)
BGR Energy	**208**	**15**	**(21.6)**	**(23.3)**	**(38.6)**	**(20.3)**	**(28.1)**	**(33.5)**	**(45.2)**	**(20.7)**	**(14.5)**	**(21.6)**	**(27.5)**	**(11.2)**
KEC International	55	14	(11.6)	(5.4)	(10.1)	(17.8)	(18.1)	(15.7)	(16.7)	(18.1)	(4.5)	(3.7)	1.0	(8.7)
Jyoti Structure	37	3	(17.8)	(5.0)	(34.1)	(18.3)	(24.3)	(15.3)	(40.7)	(18.7)	(10.6)	(3.3)	(23.0)	(9.2)
Kalpataru Power	84	13	0.5	12.2	(32.2)	(11.2)	(6.0)	2.0	(38.9)	(11.6)	7.6	13.9	(21.2)	(2.1)
BEML	244	10	(11.8)	(14.0)	(61.6)	(12.8)	(18.3)	(24.2)	(68.2)	(13.2)	(4.7)	(12.3)	(50.5)	(3.7)
BHEL	**207**	**508**	**(9.9)**	**(9.6)**	**(31.7)**	**(9.1)**	**(16.4)**	**(19.8)**	**(38.3)**	**(9.5)**	**(2.8)**	**(7.9)**	**(20.6)**	**(0.0)**
CG	100	64	(9.3)	(16.2)	(37.8)	(13.8)	(15.8)	(26.4)	(44.4)	(14.1)	(2.2)	(14.5)	(26.7)	(4.7)
Havells India	684	85	18.9	24.1	28.8	7.4	12.3	13.9	22.2	7.1	26.0	25.8	39.9	16.5
Suzlon Energy	22	40	44.7	33.0	(23.1)	20.5	38.2	22.8	(29.7)	20.1	51.8	34.7	(12.0)	29.6
BSE CG Index	**9,878**	**2,400**	**(7.1)**	**(1.7)**	**(11.1)**	**(9.1)**	**(13.6)**	**(11.9)**	**(17.7)**	**(9.5)**				
Sensex	**19,501**	**31,978**	**6.5**	**10.2**	**6.6**	**0.4**								

Source: Company, Karvy Institutional Research

Valuation Method – We Prefer P/E Multiple as Valuation Tool

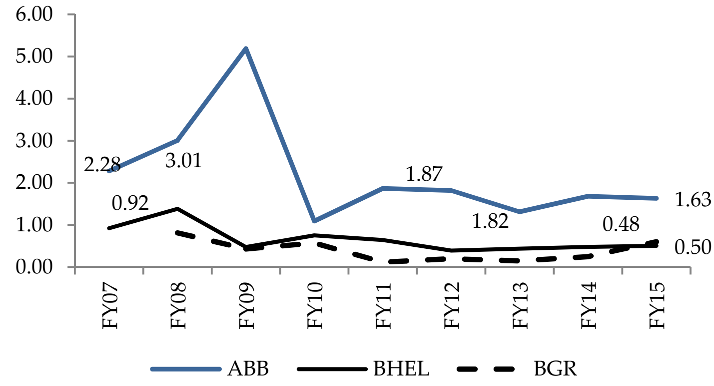
We value the capital goods companies on a P/E multiple in current scenario marked with weak order execution. The DCF model was used in past to value these companies based on secular growth story when PE multiples were high to justify the fundamentals.

However, due to cyclical nature of the industry, we do not find DCF appropriate. We have also considered P/B multiple vs. RoE to value these companies since their balance-sheets are affected by accounting standards so we preferred P/E multiple as a better valuation tool to value these companies.

Book-to-Bill / EV-Order Book – BHEL is better placed

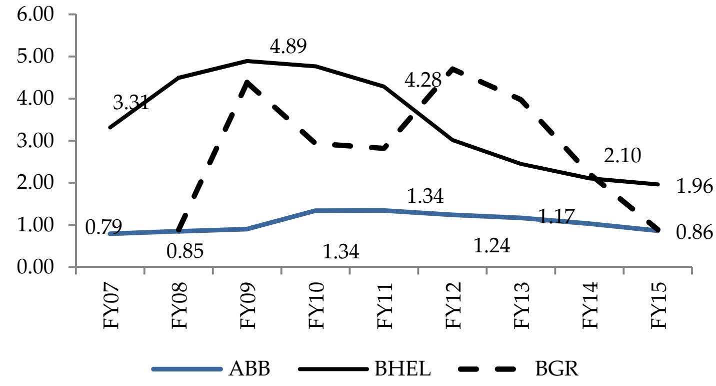
The market tends to compare book-to-bill ratios as a benchmark to measure a company's short-term growth. A higher book-to-bill ratio indicates high growth in near-term and vice versa. In terms of book-to-bill ratio, BHEL seems to be better placed. Though we believe that this argument can be used for a company vs. its own history, it can't be used to compare companies operating in different industries / business segments within the same industry.

Exhibit 7: EV/Order Book



Source: Company, Karvy Institutional Research

Exhibit 8: Comparison of Book-to-Bill Ratios



Source: Company, Karvy Institutional Research

Comparative Analysis & Rationale for Preferring BHEL

In the current scenario marked with uncertainty, we prefer BHEL – *a leading capital goods company with strong difficult-to-replicate business models* – which has a proven execution record and strong balance-sheets and order-book.

Exhibit 9: Comparative Analysis of Stocks under Coverage

	BHEL	BGR Energy	ABB India
Business Profile			
Power Generation, T& D	3	4	5
Order book quality (5)	4	3	4
Customer Profile	7	6	5
Interest risk	5	4	5
Financial Profile			
Near-term visibility (5)	4	3	3
Margins risk	5	4	5
Capacity Utilization	7	4	4
Balance sheet Profile			
Generation of Cash Flows	6	4	6
Funding Gaps	6	4	6
Debt Servicing Obligations	6	4	6
Financials	6	4	6
Total Score (Nos.)	**60**	**44**	**56**

Source: Company, Karvy Institutional Research

We would recommend investors to stick to BHEL from long-term perspective for the following reasons.

- Strong Player in Safer Segment
- Order-book at Record High to Ensure Higher Utilization
- Conducive Policy Measures
- Strong Financials & Better Visibility
- Lower Capex; Strong Operating Cash-flows

Summary of Companies under Coverage

BHEL: (CMP: Rs. 208; Target Price: Rs. 253) – BUY

BHEL witnessed a significant de-rating of 32% over the last 12 months and now trades at a PE multiple of 9.8xFY14E & 12.4xFY15E EPS. Historically, BHEL has traded at an average one-year forward P/E of 20.4x while it traded at P/E of 32-38x in FY08 and the trough the P/E multiple of the stock has been 10-12x.

We assign the stock a PE of 15x at 25% discount to its 1-Year forward multiple and at mean multiple of FY15E EPS of Rs. 16.9 and **"BUY"** recommendation with a target price of Rs. 253 per share.

Rationale for "BUY" Recommendation:

- Private Space – Steady Growth of Market Share
- Quality par Excellence – Exceeds National Average Efficiency Parameters
- Inflated Anxiety over Chinese Competition; Declining Cost Advantage of China-made Equipment
- Current Order-book Remains Intact with Least Cancellations Risks
- Ordering Activities to Rise FY15E onwards – BHEL Expected to be a Key Gainer

ABB India: (CMP: Rs. 609; Target Price: Rs. 631) – SELL

Despite forecasting a growth in revenues, we believe that the current valuation is extremely stretched not justifying fundamentals.

We assign the stock a PE of 35x at 50% discount to its average multiple FY15E EPS of Rs. 18 and **"SELL"** recommendation with a target price of Rs.631 per share.

Rationale for "SELL" Recommendation:

- Order Inflow Visibility Remains Weak amid Deceleration in T&D Capex
- Paltry Core Margins
- Feeble Return Profile despite Strong Balance Sheet

BGR Energy (CMP: Rs. 208; Target Price: Rs. 215) – SELL

Despite the large order backlog, we expect muted revenue growth due to slower order intake amid margin concerns. BGR has traded at an average PE of 20x in FY09-10, while on 1-yr forward basis, its average P/Ex falls ~9-11x.

We assign a target 1-Yr fwd PE multiple of 9x at 30% discount to its 4 yrs average of 13x P/E multiple.

Rationale for "SELL" Recommendation:

- Recent Order from NTPC – Difficult to make margins in BTG sector,
- Sustainability of Order Inflow – Concern over ability to generate returns, and
- Stretch Balance Sheet amid Funding risk

Rationale for Our "Downbeat" Outlook on Sector

Our investment argument is based on the following premises:

1. BTG Equipment Segment – Lack of Order Visibility
2. Intensifying Competition in T&D Segment
3. Policy Initiatives – Paltry Respite for Ailing SEBs

1. BTG Equipment Segment – Lack of Order Visibility

Currently, the Indian power generation segment has been facing serious issue due to low coal availability, poor financial health of SEBs coupled with huge pipeline projects, which would affect the BTG segment in terms of order placement, as orders for 90% of projects for 12th FYP have already been placed.

A. Inadequate Coal Output – To Distress Execution & Fresh Order

During 12th FYP, major focus will be on ramping-up of coal output with targeted annual rise of 7% for Coal India (CIL), compared to historically annual output rise of 5%. In case CIL achieves this target, its output would rise to 615MT by FY17 from 435 MT in FY12.

Exhibit 10: Estimated Shortage in Demand & Supply of Coal in FY13, FY14 & FY15 (in MT)

Description	FY13E	FY14E	FY15E
1.Total Coal Requirement	515	572	650
Likely Coal Availability			
▪ From CIL	347	364	381
▪ From SCCL	34	34	34
▪ From captive mines	27	38	56
2.Total Coal Availability	416	436	471
3.Demand – Supply Gap (1-2)	99	136	179
4.Coal requirement for imported coal-based projects (to be arranged by developers)	23	44	51
Imported coal required to meet the demand-supply gap Domestic Coal (3-4)	76	92	128
Additional imported coal required to meet the gap indicated in (5) above	51	61	85

Source: Report of Working Group on Power submitted by Ministry of Power to Planning Commission

Our View: Based on the power capacity under construction over next five years, we believe India will face huge shortage of domestic linkage-based coal supplied by CIL. We expect India to add ~55,000MW of coal-based capacity over FY12-17 versus current installed capacity of 120,000MW as of FY12.

Exhibit 11: Coal Requirements by FY17E

Coal Availability from	
CIL	415
SCCL	35
Captive coal blocks allocated to Private utilities	100
Coal to be imported by TPSs designed Imported coal	54
Total Coal Availability (A)	604
Coal Requirements by FY17 (B)	**842**
Shortfall Quantity (A – B)	**238**

Source: SLC, Karvy Institutional Research

B. Over-capacity scenario in BTG Segment to Drag Margins

Given the lucrative opportunity in the power equipments and EPC space attracted many players. As result of which BHEL – *which used to be monopoly player* – saw significant fall in market share. At the same time BHEL has increased its installed capacity from 6 GW to 20GW currently in last few years. Private players have taken the JV route with foreign firms to set up manufacturing facilities in India

Domestic thermal BTG capacity is estimated to increase from 20GW in Mar12 to 35GW to 44GW per annum at end FY14E, implying overcapacity in the industry when compared to the demand estimate of 14- 15GW per annum during FY13-FY15E. Overcapacity in the Chinese BTG segment has resulted in Chinese companies tapping Indian markets. Chinese companies have received huge bulk orders from Indian private players for 12th FYPs. Domestic players lag behind in adding BTG capacity in the super- critical boiler and turbine segments.

Exhibit 12: Indian BTG Installed Capacity

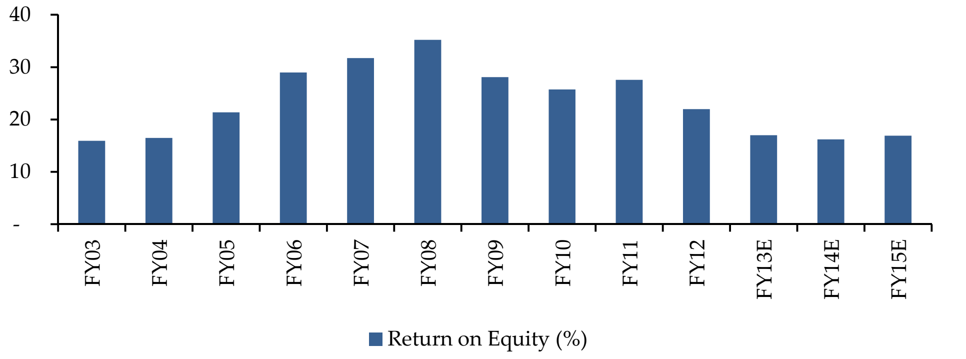
	FY10	FY11	FY12	FY13E	FY14E	FY15E	FY16E	FY17E
TG Installed Capacity (MW)	**10,000**	**19,000**	**19,000**	**22,000**	**45,000**	**45,000**	**45,000**	**45,000**
BHEL	10,000	15,000	15,000	15,000	20,000	20,000	20,000	20,000
L&T- Mitsubishi	0	4,000	4,000	4,000	4,000	4,000	4,000	4,000
JSW-Toshiba	0	0	0	3,000	3,000	3,000	3,000	3,000
BGR-Hitachi (Europe)					5,000	5,000	5,000	5,000
Bharat Forge- Alstom					5,000	5,000	5,000	5,000
Others					8,000	8,000	8,000	8,000
Boiler Installed Capacity (MW)	**11,000**	**20,000**	**21,000**	**21,000**	**44,000**	**44,000**	**44,000**	**44,000**
BHEL	10,000	15,000	15,000	15,000	20,000	20,000	20,000	20,000
L&T- Mitsubishi	0	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Gammon Ansaldo	1,000	1,000	2,000	2,000	2,000	2,000	2,000	2,000
BGR-Hitachi (Japan)					5,000	5,000	5,000	5,000
Thermax India					3,000	3,000	3,000	3,000
Doosan					2,000	2,000	2,000	2,000
Others					8,000	8,000	8,000	8,000

Source: Industry, Karvy Institutional Research

C. Lower Operative Margins and Declining RoE

While entry of new players have negatively impacted order inflows and also to garner market share they have aggressive bid thereby impacting operating margins. With over 90% orders for 12th FYP have orders already placed; we don't expect any significant order over next 2-3 years.

Exhibit 13: Return on Equity



Source: Bloomberg, Karvy Institutional Research

Our View: Expected slowdown in order-flow since past few quarters will directly impact revenue growth in FY13-15E. Due to aggressive bidding, the margins of BTG companies would to continue to decline in next 2-3 years.

2. Intensifying Competition in T&D Segment

India's electrical equipment industry has witnessed significant growth in the last few years. The major electrical equipment grew at 23% CAGR from Rs. 74.15 bn in FY01 to Rs. 601.05 bn in FY11 led by rise in demand from power grids, IPPs and utilities for High Voltage (HV) and Extra High Voltage (EHV) equipment.

A. PGCIL Dilutes Pre-qualification Criteria for Vendors

There is significant capacity in India's T&D equipment segment. The bulk of T&D equipment industry segment is operating at capacity utilization between 50-80%. The domestic T&D segment is geared to cater to the expected growth in the demand for T&D equipment. Unlike the BTG segment, order inflow has been robust for T&D segment over the past few years and expected to continue, going forward owing to capex pipeline of Power Grid Corporation of India (PGCIL). However, the PGCIL's recent move to hike vendor base by diluting pre-qualification criteria has led to a significant rise in competition.

Exhibit 14: Break-down of 12th Five Year Plan Capex - PGCIL

Segment	Rs. (cr)	Share (%)
IPP	47,500	48
Central	24,800	25
Grid Strengthening	19,000	19
UMPP	8,700	9
Total	**100,000**	

Source: Company, Karvy Institutional Research

Our View: The pricing pressure is likely to remain intense for incremental orders with the entry of new players into the segment, which will drag profitability leading to sharp decline in return ratios of the T&D players in FY13-15E.

B. PGCIL – Capex & Order-flow Trend

The CERC has given approval to PGCIL for 9 high capacity transmission corridors involving Rs. 580 bn investment. PGCIL is likely to spend Rs. 1 trillion in capex in 12th FYP involving 40,000 ckm of transmission lines, 65 new substations and transformation capacity of 106,000 MVA. The Company plans capex for an aggregate amount up to Rs. 135 bn to develop national grid.

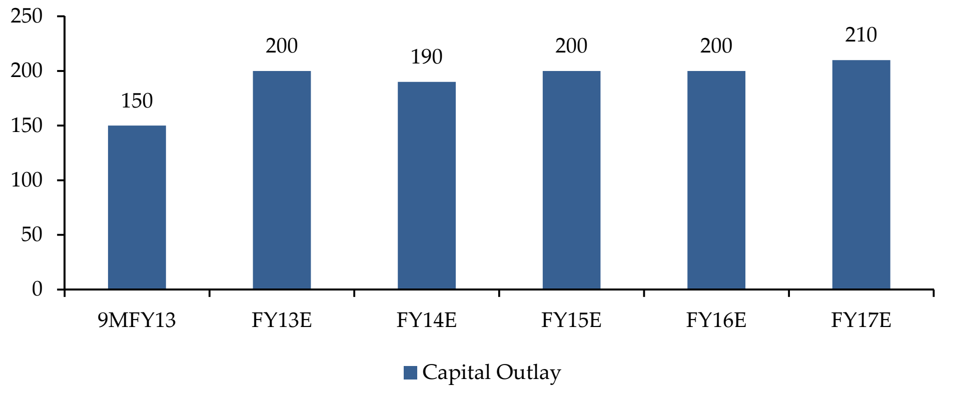
Exhibit 15: PGCIL – Break-up of Order-flow

Segments	FY09	FY10	FY11	FY12
Conductor (Rs. bn)	36.99	15.07	27.3	53.15
▪ Share in Total Order (%)	26	13	15	24
▪ Growth (%YoY)		-59	81%	95
Insulator (Rs. bn)	3.94	8.87	2.96	5.56
▪ Share in Total Order (%)	3	8	2	2
▪ Growth % (YoY)		125	-67	88
Other	4.38	5.9	7.22	6.24
▪ Share in Total Order (%)	3	5	4	3
▪ Growth (%YoY)		35	22	-14
Transformer (Rs. bn)	13.15	21.77	10.23	27.36
▪ Share in Total Order (%)	9	19	6	12
▪ Growth (%YoY)		65	-53	168
Substation (Rs. bn)	38.85	21.84	70.89	30.51
▪ Share in Total Order (%)	27	19	40	14
▪ Growth (%YoY)		-44	225	-57
Transmission (Rs. bn)	46.54	42.36	60.14	98.58
▪ Share in Total Order (%)	32	37	34	44
▪ Growth (%YoY)		-9	42	64
Total Orders	143.85	115.81	178.75	224.74
Growth % (YoY)		-19%	54%	26%

Source: Company, Karvy Institutional Research

PGCIL which accounts for 55-60% of India's transmission capex, has completed ordering for 70% of 12th plan capex while we expect that 13th Plan ordering will commence only in FY15-16E.

Exhibit 16: PGCIL Capital Outlay (Rs bn) for FY13-17



Source: Company, Karvy Institutional Research

3. Policy Initiatives – No Near-term Material Impact

The move to impose import duty on foreign power generation equipment is irrelevant given the 5x capacity addition in domestic electrical equipment space amid demand slowdown owing to issues pertaining to fuel availability.

A. Domestic vs. Chinese Manufacturers – Reasons for Price Discrepancy

The price differential between domestic vis-à-vis Chinese manufacturers is mainly due to disadvantages faced by the former in terms of state/local levies, higher financing costs, and dependence on foreign sources for critical raw material (CRGO) in the absence of any domestic supplier. Chinese players – *with official patronage in the form of subsidies/incentives* – enjoy certain cost advantage due to higher economies of scale and faster execution.

B. Domestic Capacity to Fulfill Expected Demand

As the domestic plant equipment manufacturers have achieved sufficiency to meet projected domestic requirements (14-15GW), India now has domestic over capacity to fulfill the anticipated annual demand for power generation capacity augmentation.

Our View: Imposition of import duty on foreign equipment won't impact the domestic industry in the short-term, as the domestic capacity would fulfill the expected demand for power generation.

C. SEB Debt Restructuring – Respite for Few Ailing DISCOMs

Shunglu Committee – *which highlighted the SEBs' losses more than doubled to Rs. 680 bn in FY11* – recommended to hike the blended tariffs by ~25% if SEBs are to break-even. The Cabinet Committee on Economic Affairs has approved restructuring package worth Rs. 2,000 bn for the SEBs, which provides for 50% of short-term liabilities as of Mar'12 to be taken over by several state governments. The rest 50% short-term liabilities will be rescheduled by the lenders and serviced by the DISCOMs with a three-year moratorium on principal. Moreover, a roadmap for involving the private sector in the state distribution sector through franchisee / any other suitable model of private participation will be prepared within a year by DISCOMs and submitted to the Central Electricity Authority (CEA) for approval.

D. Implications of SEB Debt Restructuring

- **Positive for SEBs, Lenders, & Generation / Equipment Players:** The debt restructuring is positive for NPA, as slower loan growth was main concerns for REC & PFC that have large exposures to the SEBs. The power sector has been impacted by the utilities facing lower system demand due to erratic purchase behaviour by the state-owned DISCOMs. Bunching of generation capacities and coal availability issues add to the viability of power projects.
- **Beneficial for Merchant-based Players:** The merchant-based players – *JSW Energy & Adani Power, having large proportions of short-term sales and insecure fuel supply* – would be benefitted owing to improved system demand.
- **Low Interest Burden on DISCOMs:** In case all DISCOMs accept the proposed debt restructuring, this package would lower their annual interest burden by ~50% to paisa10-15 per unit, and help to reduce losses.

Our View: The restructuring is subject to certain steps to be taken by the state governments / DISCOMs and their commitment to fulfill mandatory conditions to bridge the gap between average cost of supply and average revenue realization.

Indian Electrical Equipment Industry at a Glance

A. Indian Electrical Equipment Industry Negative Growth Intensifies

According to the Indian Electrical and Electronics Manufacturers Association (IEEMA) – *the apex Indian industry association of manufacturers of electrical, industrial electronics and allied equipment* – the US$25 bn Indian electrical equipment industry has seen a negative growth of 4.1% in Q2FY13 vs. -2.1% Q1FY13. On a half yearly growth comparison, Indian electrical equipment industry has witnessed a negative growth (3.6 %) compared to corresponding period last year

Exhibit 17: Growth Indices for Electrical Equipment Industry (Cumulative YoY)

Product	Weightage	April-Sep FY13 (%)
Rotating Machines	10	-0.7
Switchgear	15.2	-1.4
Cables	27.3	-14.4
Transformers	19.3	-12.7
Capacitors	0.9	-32.8
Energy Meters	3.9	0.1
Energy Meters	23.4	14.5
Overall IEEMA Electrical Equipment Growth Index	100	-3.6

Source: IEEMA, Karvy Institutional Research

The transformers and capacitor industries has been decelerating every sequential quarter and has seen a negative growth in FY13, implying distinct slowdown in industrial capex activities and slowdown in off-take by users due to credit squeeze, high interest costs, etc. The switchgear industry de grew by 4.7% in Q2FY13 vs. 2.4% growth in Q1FY13.

B. Status of Heavy Electrical & Power Plan Equipment

Exhibit 18: Market Size of Electrical Equipment (Rs. bn)

	FY12	FY13	FY14	FY15	FY16	FY17	CAGR (%)
Market Size	1,406.8	1,634.79	1,901.92	2,215.32	2,583.50	3,016.62	16.4
Production	1,263.12	1,454.21	1,675.21	1,930.97	2,227.19	2,570.50	15.2
Import	394.78	490.57	609.61	757.53	941.35	1169.77	24.2
Export	251.1	309.99	382.90	473.19	585.04	723.65	23.5

Source: Ministry of Heavy Industries, Karvy Institutional Research

Exhibit 19: Plan-wise Equipment Demand (Cumulative)

Equipment	12th FYP (2012-17)	13th FYP (2017-22)
Generation equipment (BTG)	US$ 60–70 bn	US$ 110–120 bn
T&D equipment	US$ 140–150 bn	US$ 200-230 bn

Source: Ministry of heavy Industries, Karvy Institutional Research

Exhibit 20: Segment-wise Market Size (US$ bn)

Generation Equipment	Size in FY11	Size in FY17	Size in FY22
Boiler	3.8	5.8	11.7
Turbine	1.6	3.3	6.7
Generator	0.6	3.3	6.7

Source: Ministry of Heavy Industries, Karvy Institutional Research

C. Proposed Capacity Addition in 12th Five Year Plan

Exhibit 21: Sector-wise break-up of 12th FYP (Capacity in MW)

	Coal	Gas	Hydro	Nuclear	Total	% of total
Center	10,600	826	5,632	2,800	19,858	26
State	12,080	260	1,456	-	13,796	18
Pvt	40,015	-	2,116	-	42,131	56
Total	62,695	1,086	9,204	2,800	75,785	
% of total	83	1	12	4		

Source: Power Ministry, Karvy Institutional Research

D. Required Fund for Proposed Capacity Addition

The fund requirement for 12th FYP has been estimated to be Rs. 12,374.8 bn as mentioned in the following table.

Exhibit 22: Capacity Addition & Fund Need for Projects under 12th FYP (Rs. bn)

	Centre	State	Private	Total
Generation Capacity Addition in 11th FYP	51.74	14.85	51	117.59
Sub-Total 11th FYP	51.74	14.85	51	117.59
Generation Capacity Addition in 12th FYP				
A. Thermal	486.5	557.34	1,731.17	2,775
B. Hydro	351.83	80.24	69.52	501.59
C. Nuclear	266	-	-	266
D. Sub-Total 12th Plan	1,104.33	637.58	1,800.69	3,542.60
Advance Action for 13th FYP				
A. Thermal	404.4	148.05	805.77	1,358.22
B. Hydro	281.32	612	112.16	399.6
C. Nuclear	968	-	-	968
D. Sub-Total 13th Plan	1,653.72	154.17	917.93	2,725.82
E. **Sub-Total generation** (A+B+C)	2,809.79	806.6	2,769.61	6,386
Captive Power Projects			650	650
R&M of Power Plants	198.47	120.4		318.87
Transmission	1,000	550	250	1,800
Distribution	481.91	2,380.82	199.63	3,062.35
R&D	41.68			41.68
DSM & EE	74.82			74.82
HR Development	41.08			41.08
Fund Outlay (4 to 11)	4,647.74	3,857.82	3,869.24	12,374.80

Source: Power Ministry, Karvy Institutional Research

Bharat Heavy Electricals

Institutional Equities
India Research

INITIATION REPORT

Bloomberg: BHEL IN
Reuters: BHEL.BO

BUY

Negatives Priced-in; Discount Valuation Unjustified on Robust Order book

After significant underperformance relative to index and capital goods sector, we believe negative issues have overplayed over the last 24 months. The stock is now trading at a 45% discount to the avg 1-Yr Forward PE. On absolute basis too, it is trading at close to ten-year lows on various multiples. We are positive on BHEL, as we believe that discount valuation is unjustified owing to strong revenue visibility and better long-term prospects, robust order-book, strong financials, lower capex, and strong cash-flows.

Inflated Anxiety over Chinese Competition: BHEL has largely retained its preferred supplier position with domestic manufacturing facility made a pre-condition by the CEA to bid government projects. Lifecycle cost of BHEL-made equipment is lower due to better PLF and lower downtime. Again, lack of asset maintenance by Chinese OEMs continues to be a concern for which the anxiety over competitive intensity from Chinese players seems to be exaggerated, while the cost advantage of China-made equipment is gradually declining.

Order-book Remains Intact with Least Cancellations Risks: BHEL currently has an outstanding order-book as on Dec 12 stood at Rs. 113.7 bn. Though its Management does not see any risk of cancellations, we see 4% of its order-book may face cancellations, which we built into our present estimates also.

Quality par Excellence: Though the domestic private and Chinese equipment makers have bagged significant orders from private sector power players, BHEL-made equipment has consistently exceeded the national average efficiency parameters in terms of quality. Rising preference of domestic private sector power players for BHEL-made equipment and growing overseas markets and steady expansion in non-power business augur well for BHEL.

Outlook & Valuation

We continue to believe that Indian Electrical Equipment sector has strong growth potential, while BHEL – *being a dominant player* – is likely to benefit immensely, going forward. In comparison to peers, BHEL has superior growth and RoE profile as well. From average 1-Yr Forward P/E of 20x (FY04-09), BHEL has de-rated to 12.4xFY15E. Valuing the stock at 15x FY15E (25% Discount to 1 year forward P/E & at mean multiple), we initiate coverage on BHEL with **"BUY"** recommendation with a target price of Rs. 253 per share.

Key Financials

Y/E Mar (Rs. bn)	FY11	FY12	FY13E	FY14E	FY15E
Net Sales	422.4	479.7	477.,4	443.5	408.0
EBIDTA	80.8	98.8	88.9	76.7	61.3
Net Profit	60.1	70.3	60.4	52.2	41.3
EPS (Rs)	22.5	28.8	24.7	21.4	16.9
PE (x)	9.3	7.3	8.5	9.8	12.4
EV/EBITDA (x)	5.1	4.2	4.6	5.4	6.7

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs208
Target Price:	Rs253
Upside (%)	22%

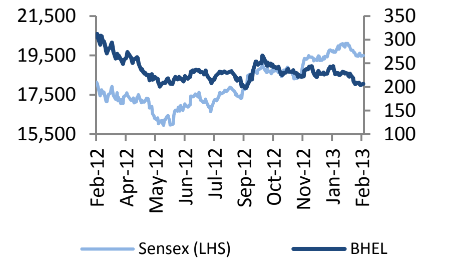
Stock Information

Market Cap. (Rs bn / US$ mn)	508/9,345
52-week High/Low (Rs)	328/195
3m ADV (Rs mn /US$ mn)	903/16.6
Beta	1.1
Sensex/ Nifty	19,501/5,898
Share outstanding (mn)	2,448

Stock Performance (%)

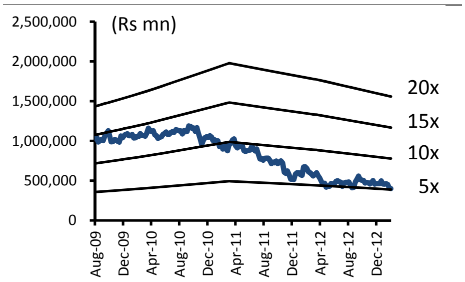
	1M	3M	12M	YTD
Absolute	(8.4)	(9.9)	(31.7)	(9.1)
Rel. to Sensex	(5.9)	(15.4)	(35.9)	(9.5)

Performance



Source: Bloomberg

1 Year Forward EV/EBITDA



Source: Karvy Institutional Research

Analyst Contact

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Company Financial Snapshot

Profit & loss

(Rs mn)	FY12	FY13E	FY14E
Net sales	479,788.0	477,468.0	443,580.2
EBIDTA	98,879.0	88,929.1	76,741.5
Depreciation	8,000.0	8,677.2	9,787.3
Interest Expense	512.8	617.2	617.2
PBT	103,021.7	87,445.4	75,982.4
Tax	32,623.0	27,003.0	23,721.9
Adj. PAT	70,398.7	60,442.4	52,260.5
EPS (Rs)	28.8	24.7	21.4
DPS (Rs)	27.5	29.5	30.5
EBIDTA Margin %	20.6	18.6	17.3
Adj Net Margin %	14.7	12.7	11.8
Valuation Multiples			
P/E (X)	7.3	8.5	9.8
P/B	2.1	1.8	1.6

Company Background

Bharat Heavy Electricals (BHEL) – *established in 1964* – is an integrated power plant equipment manufacturer and one of the largest engineering and manufacturing companies in India in terms of turnover.

BHEL is engaged in the design, engineering, manufacture, construction, testing, commissioning and servicing of a wide range of products and services for the core sectors of the economy i.e. Power, Transmission, Industry, Railway, Renewable Energy, Oil & Gas and Defence.

BHEL has 15 manufacturing divisions, two repair units, four regional offices, eight service centres and 15 regional centres and currently operates at over 150 project sites across India and abroad.

BHEL enjoys a share of 59% in India's total installed generating capacity contributing ~69% to the total power generated from utility sets (excluding non-conventional capacity) as of March 31, 2012.

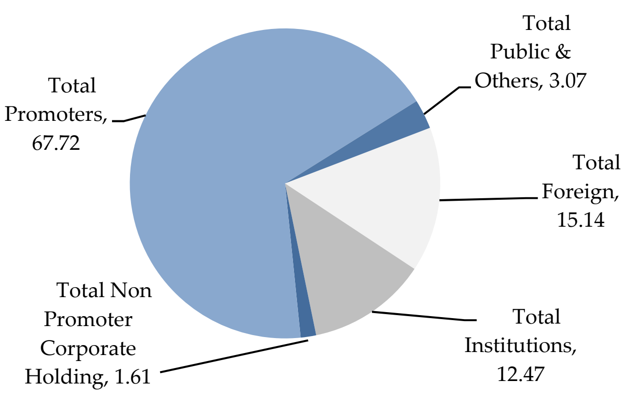
Balance Sheet

	FY12	FY13E	FY14E
Total Assets	592,605	667,759	692,481
Net Fixed Assets	34,010	35,429	40,751
Current Assets	536,959	616,868	633,327
Total Liabilities	592,605	667,759	692,481
Networth	199,091	246,998	289,987
Debt	1,634	1,234	1,234
Current Liabilities	391,881	419,527	401,259
Balance Sheet Ratios			
RoE %	31.0	31.6	22.5
RoCE %	30.9	31.1	22.3
Equity/Total Assets	0.34	0.37	0.42

Cash Flow

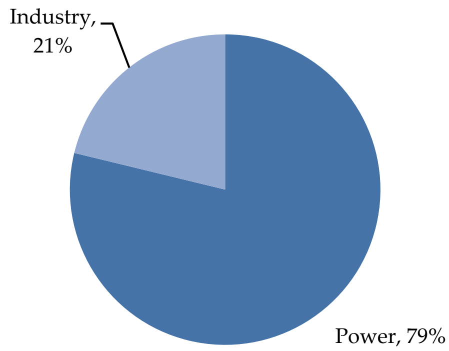
	FY12	FY13E	FY14E
Net profit before tax	103,022	87,445	75,982
Depreciation	8,000	8,677	9,787
Net Non Operating (Income)/Exp	12,095	(1,320)	(505)
Change in working capital	(87,308)	(62,192)	15,578
Cash generated from operations	3,186	5,608	77,120
Net cash used in Investing activities	(17,534)	(15,000)	(15,500)
Net cash used in Financing activities	(14,834)	(15,524)	(10,552)
Net change in cash and cash	(29,581)	(24,916)	51,069
Closing cash and cash equivalents	66,720	41,804	92,872

Shareholding pattern (%)



Source: Company

Revenue Break-up (FY12)

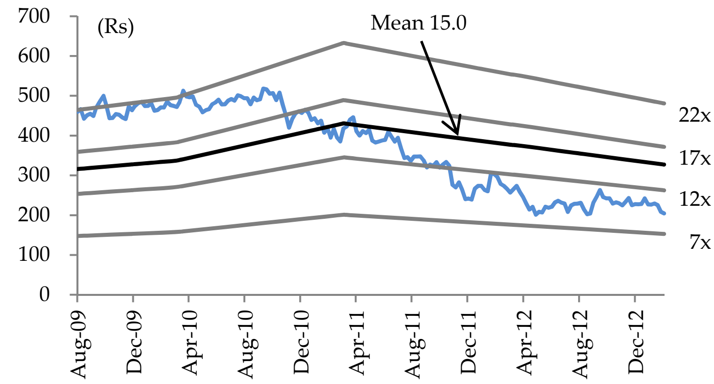


Source: Company

Outlook & Valuation

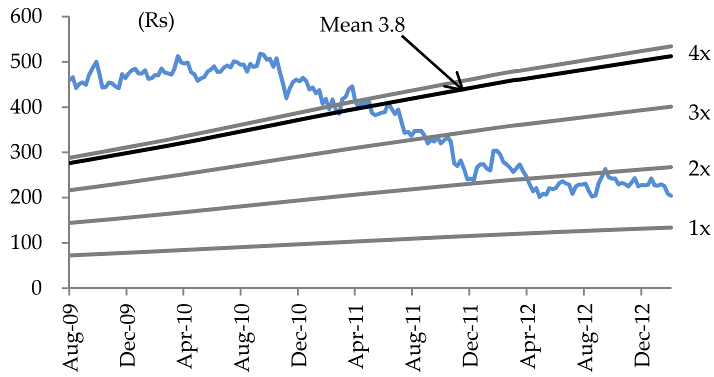
After considerable underperformance relative to index and capital goods sector, we believe negative issues have overplayed over the last 24 months. The stock is now trading at a 45% discount to the mean 1-Yr Forward PE. On absolute basis too, it is trading at close to ten-year lows on various multiples. We are positive on BHEL, as we believe that premium valuation is justified owing to strong revenue visibility and better long-term prospects, robust order-book, strong financials, lower capex, and strong cash-flows.

Exhibit 1: 1 Year Forward P/E Bands



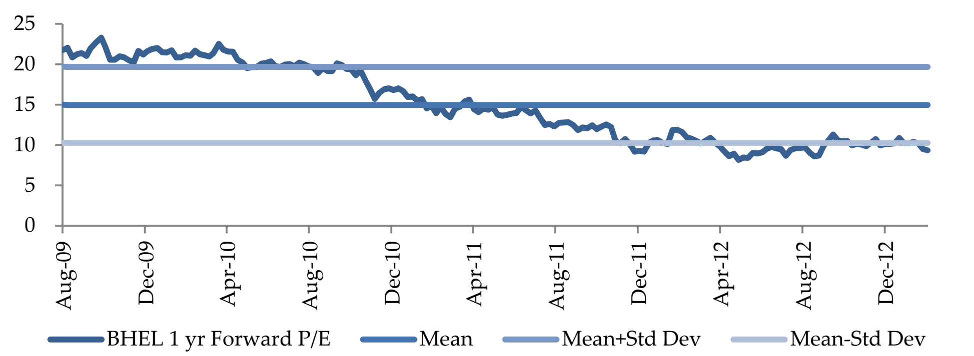
Source: Company, Karvy Institutional Research

Exhibit 2: 1 Year Forward P/B Bands



Source: Company, Karvy Institutional Research

Exhibit 3: Premium Discount to Mean PE Multiple



Source: Bloomberg, Karvy Institutional Research

Superior RoEs & Growth Profile vs. Global Peers

We continue to believe that Indian Electrical Equipment Sector has strong growth potential, while BHEL – *being a dominant player* – is likely to benefit immensely, going forward. In comparison to international peers, BHEL has superior growth profile and RoE.

Exhibit 4: RoEs & P/B vs. Global Peers

	Location	Mkt Cap	P/BV (x)				RoE (%)			
		(US$ mn)	FY12	FY13E	FY14E	FY15E	FY12	FY13E	FY14E	FY15E
BHEL	**India**	**9,233**	**2.6**	**2.1**	**1.8**	**1.6**	**31.0**	**31.6**	**22.5**	**16.9**
Dongfang Electric*	China	10	0.6	0.6	0.6	17	20.4	18.0	16.4	16.5
Doosan Heavy*	Korea	10.8	0.8	0.7	0.7	8.4	4.8	9.1	11.4	12.0
Harbin Electric*	China	6.9	0.1	0.1	0.1	11.3	12.8	11.4	10.4	9.8
Mitsubishi Electric*	Japan	10.9	0.4	0.4	0.4	9.5	10.3	10.0	10.9	11.3
Mitsubishi Heavy*	Japan	20.3	0.7	0.6	0.6	4.2	1.9	4.2	5.6	6.2
Shanghai Electric*	China	11.4	0.6	0.6	0.6	11.2	12.2	11.3	11.0	10.6

*Source: Company, Karvy Institutional Research, *- CY*

Why do we Prefer BHEL?

Though there is a slower pace of execution on account of issues affecting power sector & slowdown in short cycle order from industry segment, we would recommend investors to stick to BHEL for the following reasons.

- **Strong Player in Safer Segment:** BHEL caters to the relatively safer segment in terms of order-book quality with least risk pertaining to project-funding issues arising as its customers are state and central utilities.
- **Order-book at Record High to Ensure Higher Utilization:** BHEL's order-book is at a high of Rs. 1.13 trillion (2xFY12 sales), which we believe to ensure higher utilization. Its order-inflows likely to be strong at Rs. 200 bn this year.
- **Conducive Policy Measures:** The policy measures continue in favour of BHEL, with preference in terms of ordering form central utilities etc.
- **Strong Financials & Better Visibility:** BHEL has strong financials, and relatively better visibility.
- **Lower Capex; Strong Operating Cash-flows:** Lower capex with strong order-book ensured higher cash flow for BHEL having strong operating cash-flows that ensure lower funding risks.

Valuing the stock at 15x FY15E at 25% discount to its 1 year forward P/E 20x & at mean multiple), we initiate coverage on **BHEL** with **"BUY"** recommendation with a target price of Rs. 253 per share.

Investment Rationale

Our investment thesis and recommendation is based on the following premises:

1) Private Space – Steady Growth of Market Share
2) Quality par Excellence – Exceeds National Average Efficiency Parameters
3) Inflated Anxiety over Chinese Competition; Declining Cost Advantage of China-made Equipment
4) Current Order-book Remains Intact with Least Cancellations Risks
5) Ordering Activities to Rise FY15E onwards – BHEL Expected to be a Key Gainer

1. Private Space – Steady Growth of Market Share

BHEL has secured significant chunk of orders from private sector in the latest ordering activities for 12th FYP. The Company – *which has expanded its capacity from 10,000MW to 20,000MW in FY12* – is likely to secure orders from the private power players, as the scheduled delivery time will decline with the rise in capacity.

Power Business

I. **Domestic – Belated Preference of Private Sector Power Players for BHEL:** Even though the major private sector power players (like Reliance Power, Adani Power, JSW Energy, Lanco, Jindal, etc) have placed orders with the Chinese suppliers, several companies have now shifted to BHEL for equipment in order to get reliable supplies (Indiabulls Power, Jaiprakash Power etc).

II. **Overseas – Growing Existing Markets:** On the export market too, BHEL's markets – *African countries, Middle East & South East Asia* – are growing. The Company has been putting efforts to get more orders from the SAARC countries.

Non-Power Business

I. **Railways:** BHEL is doing steady business in manufacturing locomotives for the Indian Railways. BHEL has given Railways newly developed IGBT based systems both in the EMU & Loco which can be revenue stream.

II. **Metro Segment:** BHEL is now making efforts to bid for projects in near future. In metro segment BHEL has tied up with Hitachi to bid together for the DMRC tender. Metro has been identified as a focused business segment for the company.

III. **Defence:** BHEL – *which has been supplying guns to Indian Navy* – has secured licence to manufacture arms, simulators, ammunitions, and armored vehicles.

Our View: Rising preference of domestic private sector power players for BHEL-made equipment and growing overseas markets and steady expansion in non-power business augur well for BHEL.

2. Quality par Excellence – Exceeds National Average Efficiency Parameters

Though the Chinese equipment makers like Shanghai Electric, SEPCO, Dongfang, and Doosan etc. have bagged significant orders from Indian private power players amid domestic capacities set up by various players like L&T-MHI, Alstom-Bharat Forge, & Ansaldo-Gammon etc., BHEL-manufactured equipment has consistently exceeded the national average efficiency parameters in terms of quality. At the same time, the power plants running on either Chinese or Korean equipment have restricted performance record in India, which is corroborated by a study of average PLF for the last three years of Chinese units at as low as 68% vis-à-vis BHEL's at 79%.

Official Laurels for Quality

Amid a raging debate over the quality of power equipment from BHEL and Chinese companies, the Government has officially announced that the Chinese gears are of lesser efficiency compared with those supplied by BHEL *"Power plants set up with Chinese equipment have not shown better performance than those using equipment supplied by BHEL. Chinese supplied equipment has inferior heat rates (efficiencies) and the auxiliaries consume more power than that of BHEL," the Union Minister of Heavy Industries & Public Enterprises, Praful Patel said in the Lok Sabha.*

Our View: BHEL is set to surge ahead with the proven track record of quality and efficiency, while the official laurels for BHEL-made equipment reinforces the confidence of sustainability of business, going forward.

3. Inflated Anxiety over Chinese Competition; Declining Cost Advantage of China-made Equipment

I. **CEA Pre-condition – BHEL Retains Preferred Supplier Position:** BHEL has largely retained its preferred supplier position with domestic manufacturing facility made a pre-condition by the CEA to bid government projects. The Company is confident of facing competition from China and other countries in core areas of equipment required for power plants and other areas due to its experience in the field and the quality of products.

II. **Lower Lifecycle Cost Defies 15% Savings in Initial Capital Costs:** Notwithstanding 15% initial savings on capital costs of Chinese power equipment, the discounted / lifecycle cost is lower for BHEL equipment due to lower operational costs, better plant load factor and lesser downtime.

III. **Apprehensions over After Sales Service & Costs:** Besides concerns over quality of China-made equipment, lack of asset maintenance by the Chinese Original Equipment Manufacturers (OEMs) even during the initial years of operation continues to be a major concern. Again, there are apprehensions over after sales support and related costs as compared to domestic entities like BHEL.

Our View: Concern of competitive intensity from Chinese manufacturers is overplayed, while the cost advantage of China-made equipment is gradually declining.

4. Order-book Remains Intact with Least Cancellations Risks

BHEL currently has an outstanding order-book of Rs. 1137 bn for total capacity of 62GW from utilities segment (55GW), international players (13GW) and industrial systems (4GW). The power sector continues to witness dampened sentiment. cashflow problems, law and order situation in certain cases along with certain customers reigning in their implementations pace is putting pressure on the execution front. Order finalizations have slowed down even though there are number of tenders are in the offing. Even in the industrial business segment the slowdown in investments in the various sectors like cement, metallurgical industries, paper etc.

However BHEL execution remains healthy, in spite of the slowing execution of the projects by the power developers, lesser new orders in the power and industrial segments, company has managed to get orders.

Order backlog as end of Dec 2012 stood at Rs 1137 bn which is 7% lower compared to order backlog till Sep 2012 & 22% lower that end of 2011.Order intake for the 9MFY13 was at Rs 10,683 cr with power sector orders being Rs 6701 cr, Industrial being Rs 3091 cr, International orders at Rs 978 cr. With receipt of LOA for the order won and Unchaar order we expect BHEL to close more than 200 bn in FY13.

However, as coal blocks allocated to the following private sector power players are at the risk of being de-allocated due to which BHEL may witness cancellations of orders from those players.

Exhibit 5: Risky Projects owing to De-allocation Coal Blocks to Power Sector

Projects	Capacity (MW)	Mine Name	Project (MW)	Comments
DB Power	1,200	Durgapur-II / Sariya	Baradarha	Awarded in Jul-0
Jindal Photo	1,200	Mandakini-A	Derang	Awarded in Aug'09
Vandana Vidyut	540	Fatehpur East	Korba, CG	Comm. in FY13
SKS Ispat & Power	1,200	Fatehpur	Raigarh, CG	Awarded in Mar'11
% of Total Order Book	4			

Source: Company, Karvy Institutional Research

Our View: Though our interaction with the Management of BHEL reveals that order book takes in account Rs 5800 cr cancellations and no order has the risk of further cancellations, we see 4% of BHEL's order-book may face cancellations due to issues related to coal linkages – as the coal blocks allocated to power sector are at the risk of being de-allocated – which we built into our present estimates.

5. Ordering Activities to Rise FY15E onwards – BHEL Expected to be a Key Gainer

In the aftermath of significant rise in ordering activities to ~118 GW during FY09-FY11 period, the domestic market is likely to remain subdued in FY13E-FY14E period, due to ongoing issues like delayed environmental clearances and issues pertaining to coal availability. We believe that some respite might come from FY15E onwards with the commencement of order-awards for the 13th FYP, while BHEL is expected to be key gainer.

Order-book Growth

We estimate order flows to the tune of Rs. 225 bn & Rs. 264 bn in FY14E & FY15E, respectively.

Exhibit 6: Order book (Rs. bn)

BHEL - Order Book	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E
Total openings Order backlog	862	1212	1443	1641	1346	1197	897
Add: Order Inflow							
In Rs	596	590	605	221	200	225	264
YoY (%)	*18.6*	*-0.9*	*2.5*	*-63.5*	*-9.5*	*12.6*	*17.5*

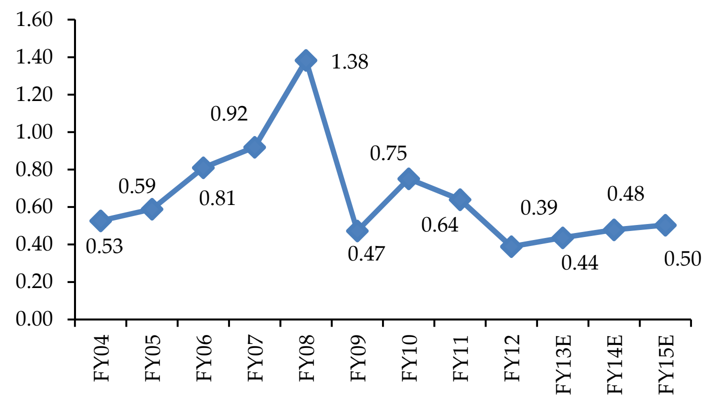
Source: Company, Karvy Institutional Research

Our View: With receipt of LOA for the order won and Unchaar order we expect BHEL to close more than 200 bn in FY13. The industrial orders would see 10% degrowth. However, post bulk tender, we do not see any large-scale ordering activity in the power sector. Though new order finalizations are not there in power market, we see about 10,000-13,000 MW tenders are in the pipeline and most of them are in the Government sector from state & central sectors augurs well for BHEL.

Book-to-Bill, EV/Order Book Trend – BHEL seems to be better placed

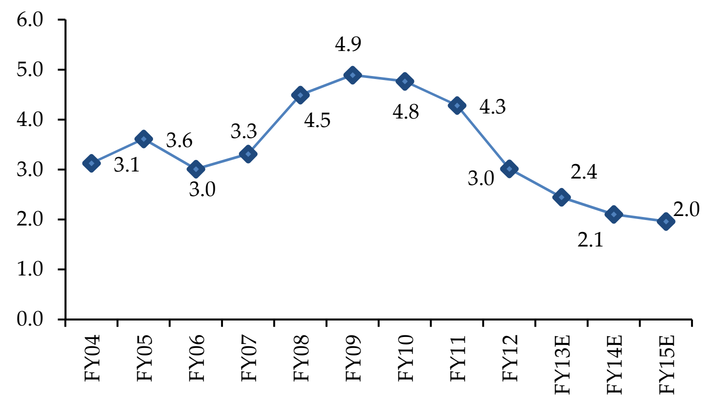
The market tends to compare book-to-bill ratios as a benchmark to measure a company's short-term growth. A higher book-to-bill ratio indicates high growth in near-term and vice versa.

Exhibit 7: EV/Order book Trend



Source: Company, Karvy Institutional Research

Exhibit 8: Book-to-Bill Trend



Source: Company, Karvy Institutional Research

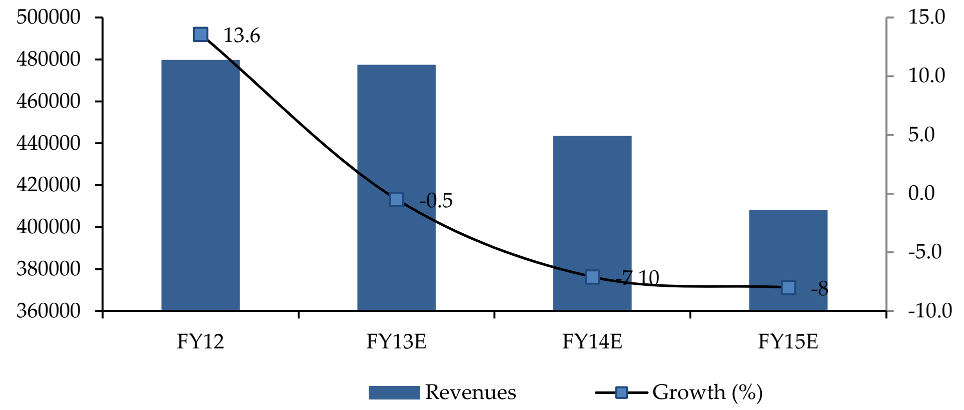
Our View: The Book-to-Bill ratio would decline to 2.1x by FY15, compared to 2.7x as of FY12 and peak of 4.9x. However, an improved environment for power sector ordering could see the Book-to-Bill ratio to sustain ~2x. BHEL: remains at bottom-cycle on EV/order backlog.

Financials

A. Net Sales to Decline from FY12-15E

We expect BHEL to report lower revenue CAGR growth from FY12-15E on slower pace of execution of power sector orders. Its net sales will continue to be driven by the power segment, as the segment contributes 80% of the total outstanding order book.

Exhibit 9: Net Sales

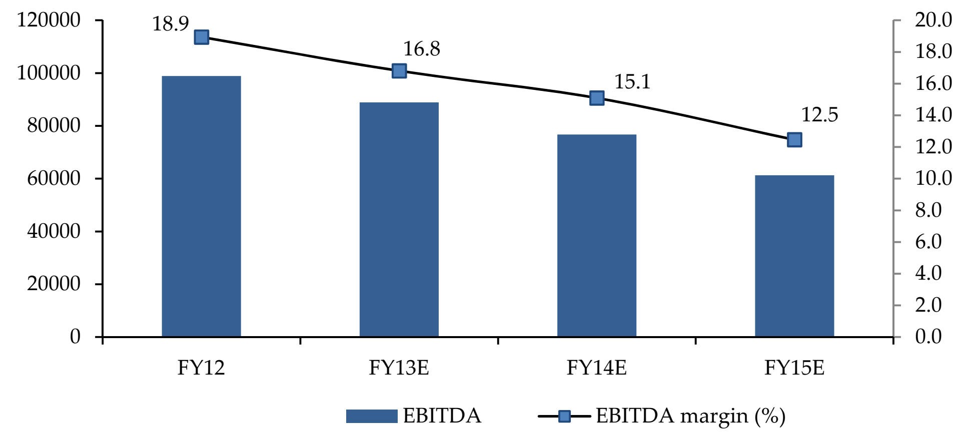


Source: Karvy Institutional Research

B. EBITDA Margins to falls by 240 bps in FY15E

We expect a 240 bps margin decline for BHEL between FY12 & FY15 owing to under-utilization and lower realization.

Exhibit 10: EBITDA Margins

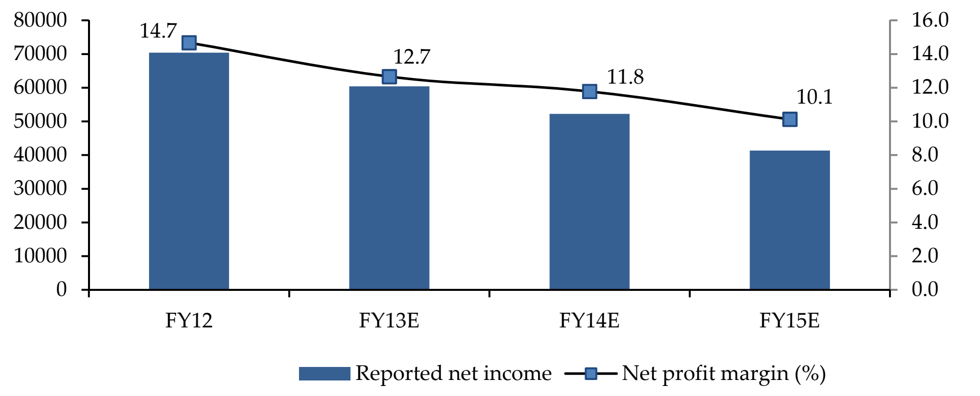


Source: Karvy Institutional Research

C. Net profits to decline by 280 bps till FY15

We expect BHEL net profit to remain muted on the back of lower order book execution, as projects are stuck due to issues related to the power sector. High cost coupled with high interest and depreciation cost would drag profitability.

Exhibit 11: Net Profit

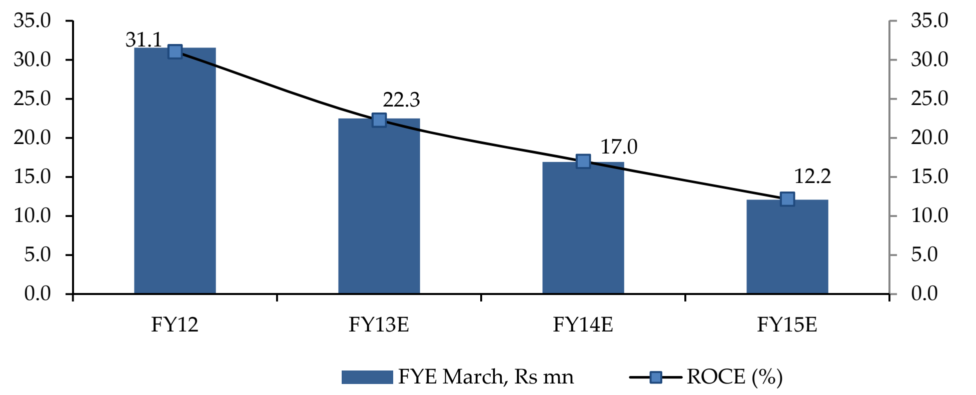


Source: Karvy Institutional Research

D. RoE to fall from 31% in FY12 to 18.6% in FY14E

We expect BHEL to report lower RoE on the back of lower margins and lower profit, due to decline in realization on lower order book.

Exhibit 12: RoE



Source: Company, Karvy Institutional Research

Exhibit 13: Du Pont Analysis

Du Pont Analysis (%)	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E
Tax burden (Net income/PBT)	61.6	64.7	68.3	64.8	68.3	69.1	68.8	67.0
Interest burden (PBT/EBIT)	128.6	124.5	118.5	112.8	113.4	109.0	113.5	121.3
EBIT margin (EBIT/Revenues)	17.5	14.5	17.9	17.9	18.9	16.8	15.1	12.5
Asset Turnover (Revenues/Avg TA)	73.2	74.2	75.6	78.4	76.1	70.2	63.7	58.0
Leverage (Avg TA/Avg equity)	279.1	310.2	316.9	302.8	278.3	250.2	225.7	205.8
Du Pont RoE	**28.3**	**27.0**	**34.8**	**31.0**	**31.1**	**22.2**	**16.9**	**12.1**

Source: Company, Karvy Institutional Research

Key Downside Risks

- Lower-than-expected slowdown in order-inflow, and higher-than-estimated cancellation of orders,
- Increased activities by the Chinese and domestic private manufacturers boosting competition, and
- Any unfavorable change in government policies impacting the competitive edge of BHEL over competitors.

Exhibit 14: Profit & Loss Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Revenues	422,466	479,788	477,468	443,580	408,094
Growth (%)	*24.3*	*13.6*	*(0.5)*	*(7.1)*	*(8.0)*
EBITDA	80,857	98,879	88,929	76,742	61,300
Growth (%)	*23.4*	*22.3*	*(10.1)*	*(13.7)*	*(20.1)*
Depreciation & amortisation	5,441	8,000	8,677	9,787	10,451
EBIT	75,416	90,879	80,252	66,954	50,849
Growth (%)	*23.7*	*20.5*	*(11.7)*	*(16.6)*	*(24.1)*
Interest	547	513	617	617	617
Other income	10,188	12,656	7,811	9,645	11,453
EBT	85,057	103,022	87,445	75,982	61,685
Income taxes	29,945	32,623	27,003	23,722	20,356
Effective tax rate (%)	*35.2*	*31.7*	*30.9*	*31.2*	*33.0*
Extra-ordinary items	5,000	-	-	-	-
Reported net income	60,112	70,399	60,442	52,261	41,329
Adjustments	4,982	-	-	-	-
Adjusted net income	55,130	70,399	60,442	52,261	41,329
Growth (%)	*11.7*	*27.7*	*(14.1)*	*(13.5)*	*(20.9)*
EPS (Rs)	22.5	28.8	24.7	21.4	16.9
Growth (%)	*11.7*	*27.7*	*(14.1)*	*(13.5)*	*(20.9)*

Source: Company, Karvy Institutional Research

Exhibit 15: Balance sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Cash and cash eq	96,301	66,720	41,804	92,872	135,278
Accounts receivable	273,546	358,448	377,996	332,685	306,070
Inventories	109,630	134,445	139,149	120,118	106,414
Others current assets	35,469	31,624	47,747	62,841	69,149
Investments	4,392	4,617	5,617	7,117	7,617
Gross fixed assets	80,500	89,919	103,919	117,919	125,919
Net fixed assets	34,010	35,429	40,751	45,144	42,692
CWIP	17,620	21,015	21,015	21,015	21,015
Deferred tax assets, net	21,636	15,462	18,403	18,403	18,403
Total assets	**592,605**	**667,759**	**692,481**	**700,195**	**706,639**
Accounts payable	96,019	102,713	99,418	92,362	86,091
Other current liabilities	217,447	233,667	204,957	183,427	167,010
Provisions	75,968	76,414	82,911	77,629	74,162
Debt funds	1,634	1,234	1,234	1,234	1,234
Other liabilities	2,447	6,734	13,973	18,385	21,587
Equity capital	2,448	2,448	2,448	2,448	2,448
Reserves & surplus	196,643	244,550	287,540	324,711	354,107
Shareholder's funds	199,091	246,998	289,987	327,159	356,555
Total liabilities	**592,605**	**667,759**	**692,481**	**700,195**	**706,639**

Source: Company, Karvy Institutional Research

Exhibit 16: Cash-flow Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Net income + Depreciation	65,557	78,399	69,120	62,048	51,780
Non-cash adjustments	(1,183)	12,095	(1,320)	(505)	(858)
Changes in working capital	(30,929)	(87,308)	(62,192)	15,578	10,081
Cashflow from operations	33,445	3,186	5,608	77,120	61,003
Capital expenditure	(17,238)	(12,814)	(14,000)	(14,000)	(8,000)
Change in investments	(3,594)	(225)	(1,000)	(1,500)	(500)
Other investing cashflow	-	(4,495)	-	-	-
Cashflow from investing	(20,832)	(17,534)	(15,000)	(15,500)	(8,500)
Issue of equity	-	(0)	0	0	0
Issue/repay debt	351	(399)	-	-	-
Dividends paid	(14,563)	(14,834)	(15,524)	(10,552)	(10,097)
Other financing cashflow	-	-	-	-	-
Change in cash & cash eq	(1,599)	(29,581)	(24,916)	51,069	42,405
Closing cash & cash eq	96,301	66,720	41,804	92,872	135,278

Source: Company, Karvy Institutional Research

Exhibit 17: Profitability & Return Ratios

Y/E Mar	FY11	FY12	FY13E	FY14E	FY15E
EBITDA margin (%)	19.1	20.6	18.6	17.3	15.0
EBIT margin (%)	17.9	18.9	16.8	15.1	12.5
Net profit margin (%)	13.0	14.7	12.7	11.8	10.1
ROE (%)	31.0	31.6	22.5	16.9	12.1
ROCE (%)	30.9	31.1	22.3	17.0	12.2
Gross asset turnover (x)	5.8	5.6	4.9	4.0	3.3
Total asset turnover (x)	0.8	0.8	0.7	0.6	0.6
Interest coverage ratio (x)	137.8	177.2	130.0	108.5	82.4
Adjusted debt/equity (x)	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	1.0	0.9	0.9	0.9	1.0
EV/EBITDA (x)	5.1	4.2	4.6	5.4	6.7
P/E (x)	9.3	7.3	8.5	9.8	12.4
P/BV (x)	2.6	2.1	1.8	1.6	1.4

Source: Company, Karvy Institutional Research

ABB India

Institutional Equities
India Research

INITIATION REPORT

Bloomberg: ABB IN
Reuters: ABB.BO

SELL

Expensive Valuation Defies Decent Growth

ABB India (ABB) has been passing through a difficult phase for about 2-3 years marked by significant erosion in earning on the back of deteriorating market position, pricing pressure and cost overruns. Its operating margins took a big hit after it exited from non-core rural electrification business, while execution of certain strategic orders at relatively lower margins also impacted the overall profitability. Valuations remain a key concern for ABB India, despite recovery in financials.

Order Inflow Visibility Remains Weak: In our view, visibility of orders remains weak owing to fuel availability issues coupled with poor financial health of SEBs which in turn will decelerate T&D capex further. Notwithstanding ABB India's order inflow revived in last year (CY11) driven by short cycle orders and couple of major orders. Order intake in July-Sep 12 was worth Rs 1679 cr a fall of 33% YoY while for the 9MCY12 order intake was lower by 10% YoY to Rs 5387cr. its order-book remained flat with book-to-bill-ratio declining from 1.2x to 0.9x.

Margins continue to remain lower: Considering lower order intake and increased competition on pricing power, we believe that ABB may not be able to attain higher margin. We expect ABB's margin to remain in 5-7% range during CY12-14 well below 11-13% during CY06-08.

Likely Recovery doesn't Justify Current Price: ABB has seen significant erosion in its margins over the last 4-5 years. While margins are likely to recover going into CY13 & CY14, we don't expect profitability to recover to pre-recession level of 8-12% in CY06-08. Though we see earning CAGR of 27% (CY11-14E) on lower base, the stock remains rich at premium to peers.

Outlook & Valuation

We expect the Company's earnings to grow at 27% CAGR during CY11-14E, while RoE is expected to improve from 7.4% in CY11 to 11.9% in CY14E. In spite of significant deterioration in its earning, the stock continues to trade at higher multiples at 33.6x, 3.8x & 20.5x of P/E, P/B & EV/EBITDA respectively to its CY14E compared with its return profile. We initiate coverage on ABB India with **"SELL"** recommendation with target price of Rs. 631 per share.

Key Financials

Y/E Mar (Rs. mn)	CY10	CY11	CY12E	CY13E	CY14E
Net Sales	62,871	73,703	77,235	83,473	91,002
EBIDTA	837	2,831	3,553	5,341	6,005
Net Profit	632	1,845	2,136	3,281	3,816
EPS (Rs)	3.0	8.7	10.1	15.5	18.0
PE (x)	203.0	69.5	59.9	39.0	33.6
EV/EBITDA (x)	146.9	43.4	34.6	23.0	20.5

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs609
Target Price:	Rs631
Upside (%)	4%

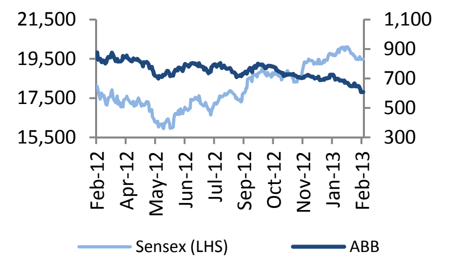
Stock Information

Market Cap. (Rs bn / US$ mn)	129/2,377
52-week High/Low (Rs)	1,037/604
3m ADV (Rs mn /US$ mn)	35/0.6
Beta	0.9
Sensex/ Nifty	19,501/5,898
Share outstanding (mn)	212

Stock Performance (%)

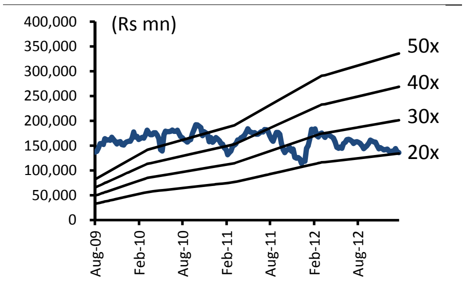
	1M	3M	12M	YTD
Absolute	(11.4)	(15.5)	(31.6)	(13)
Rel. to Sensex	(8.9)	(20.7)	(35.9)	(13.4)

Performance



Source: Bloomberg

1 Year Forward EV/EBITDA



Source: Karvy Institutional Research

Analyst Contact

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rupesh.sankhe@karvy.com

Company Financial Snapshot

Profit & loss

(Rsmn)	CY12E	CY13E	CY14E
Net sales	77,235	83,473	91,002
EBIDTA	3,553	5,341	6,005
Depreciation	963	1,053	1,143
Interest Expense	309	376	410
PBT	3,188	4,897	5,695
Tax	1,052	1,616	1,879
Adj. PAT	**2,136**	**3,281**	**3,816**
EPS (Rs)	10.1	15.5	18.0
DPS (Rs)	1.2	1.4	1.6
EBIDTA Margin %	4.6	6.4	6.6
Adj Net Margin %	2.8	3.9	4.2
Valuation Multiples			
P/E (X)	60.0	39.1	33.6
P/BV (x)	4.6	4.2	3.8

Company Background

ABB is a leader in power and automation technologies that enable utility and industry customers to improve performance while lowering environmental impact.

The ABB Group of companies operates in around 100 countries and employs about 130,000 people.

ABB operations in India include 12 manufacturing facilities with over 10,355 employees. Customers are served through an extensive countrywide presence with more than 23 marketing offices, 8 service centers, 3 logistics warehouses, 2 Power & Automation Engineering Centers and a network of over 550 channel partners.

The ABB Group is increasingly leveraging the Indian operations for projects, products, services, engineering and R&D.

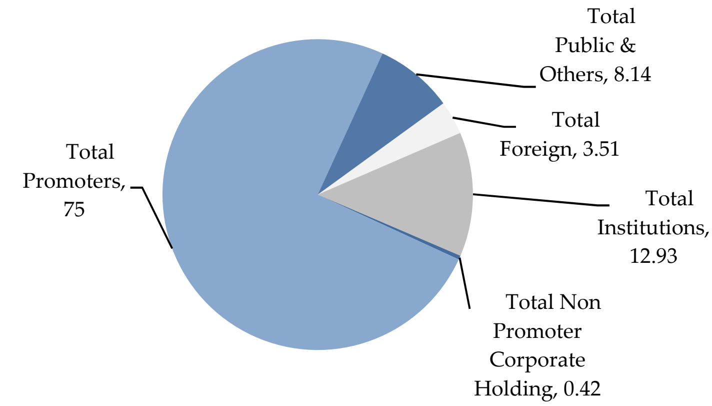
Balance Sheet

(Rsmn)	CY12E	CY13E	CY14E
Total Assets	65,604	74,416	84,074
Net Fixed Assets	11,721	12,167	12,524
Current Assets	53,839	62,204	71,505
Total Liabilities	65,699	74,603	84,649
Networth	27,225	30,210	33,682
Current Liabilities	38,475	44,393	50,966
Balance Sheet Ratios			
RoE %	8.1	11.4	11.9
RoCE %	9.3	12.7	13.2
Net Debt/Equity	(0.2)	(0.2)	(0.3)
Equity/Total Assets	0.41	0.41	0.40

Cash Flow

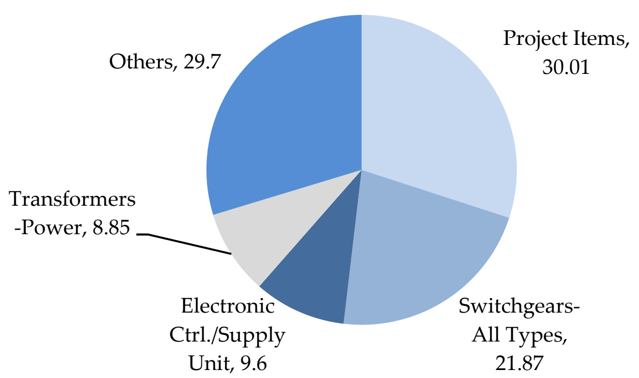
(Rsmn)	CY12E	CY13E	CY14E
Net profit before tax	3,188	4,897	5,695
Depreciation	963	1,053	1,143
Net Non Operating (Income)/Exp	-	-	1,895
Change in working capital	(1,104)	(1,620)	(839)
Cash generated from operations	1,995	2,714	6,015
Net cash used in Investing activities	(24)	(1,500)	(1,500)
Net cash used in Financing activities	(277)	(256)	(295)
Net change in cash and cash	1,694	958	4,219
Closing cash and cash equivalents	4,239	5,197	9,416

Shareholding pattern (%)



Source: Company

Revenue Break up (CY11)

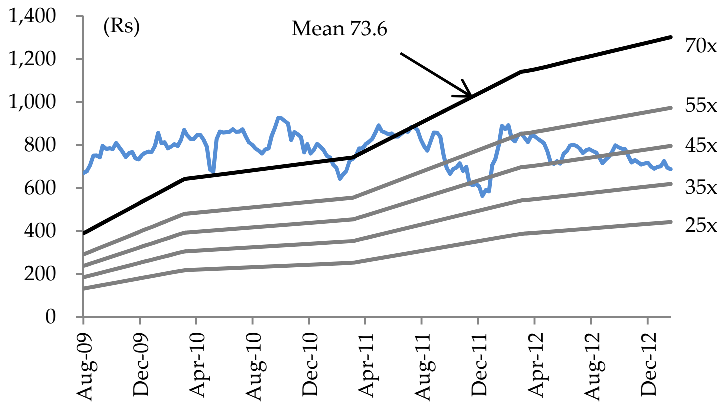


Source: Company

Outlook & Valuation

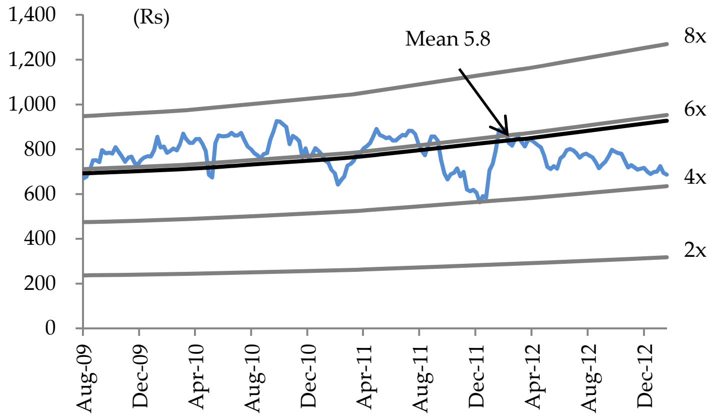
ABB traded in the 1-year forward P/E band of 24x-90x during CY07-09 on the back of CAGR earnings growth of 26.8% during CY06-08 with RoE at 30-32%. We expect the Company's earnings to grow at 27% CAGR during CY11-14E (on a lower base), while RoE is expected to improve marginally to 11.9% in CY14E. The stock is trading at 33.6x CY14E, which looks unjustifiable. We initiate coverage on ABB India with **"SELL"** recommendation with target price of Rs. 631 per share.

Exhibit 1: 1 year forward PE



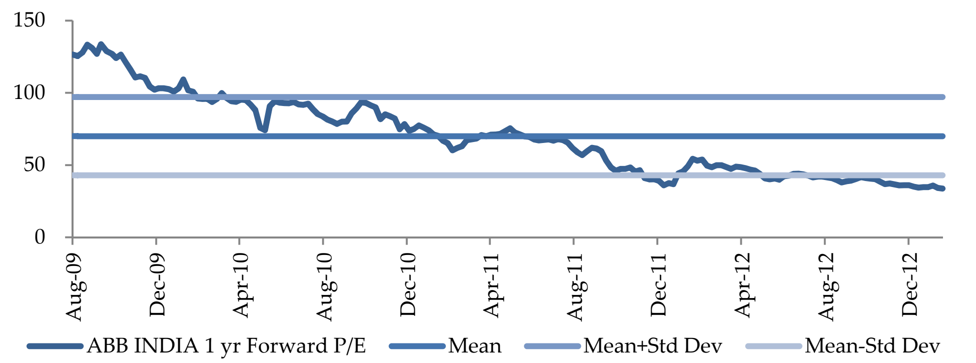
Source: Company, Karvy Institutional Research

Exhibit 2: 1 year forward P/BV



Source: Company, Karvy Institutional Research

Exhibit 3: Premium Discount to Mean PE Multiple



Source: Bloomberg, Karvy Institutional Research

Meanwhile, ABB India's margin will remain significantly lower than CY06-08 due to multiple factors like:

- Intense pricing pressure in power T&D domain (53% of revenue),
- Slowdown in industrial capex activities,
- High proportion of fixed-price contracts (only 20-25% of orders have price variation clause).

Significantly Expensive Valuation – We Recommend SELL

In spite of significant deterioration in its earnings power, the stock continues to trade at higher multiples. ABB is trading at a premium valuation on both PE and P/B compared with return profile. We initiate coverage on **ABB India** with **"SELL"** recommendation with target price of Rs. 631 per share, which has been arrived at P/E of 35x 50% discounts to its mean multiple of 73.6 based on CY14 EPS of Rs.18.

Rationale for SELL Recommendation

Our investment thesis is based on the following premises.

1. Order Inflow Visibility Remains Weak amid Deceleration in T&D Capex
2. Paltry Core Margins – Improvement Unlikely
3. Feeble Return Profile despite Strong Balance Sheet

1. Order Inflow Visibility Remains Weak amid Deceleration in T&D Capex

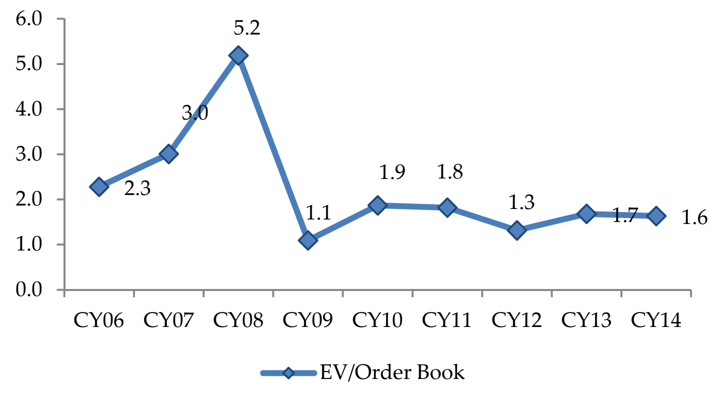
Though ABB's order inflow has revived in last year CY11 driven by short-cycle orders and couple of major orders in Power System segment, the order inflow visibility remains weak, as the issues relating to coal availability amid poor financial health of SEBs led to deceleration in T&D capex. Despite an uptick in order inflow, ABB's order-book has remained flat with book-to-bill-ratio declining from 1.24 x to 0.86x.

Order Intake Analysis

ABB's order intake growth stood at just 0.6% CAGR during CY08-CY11 while intake growth was at 43% during CY04-07. Order intake in July-Sep 12 was worth Rs 1679 cr a fall of 33% YoY while for the 9MCY12 order intake was lower by 10% YoY to Rs 5387cr. its order-book remained flat with book-to-bill-ratio declining from 1.2x to 0.9x.

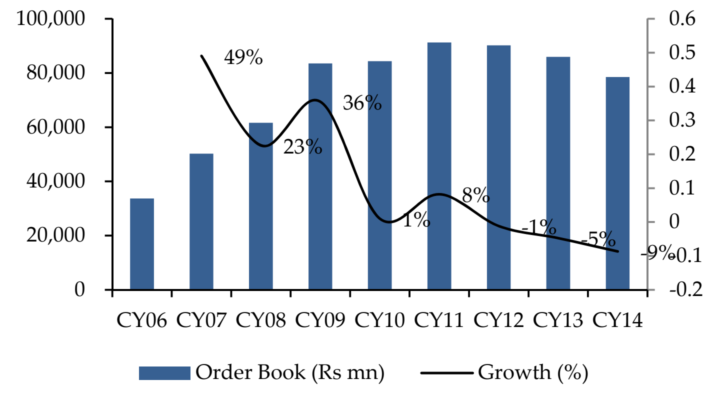
We believe that Efficiency-led capex for LV products is taking place which augurs well for ABB's Discrete & LV Product segment, as it resorted to cost-rationalization measures during slowdown. However, cement and steel are not expected to revive in the near-term with utilization levels still remaining <80%.

Exhibit 4: EV/Order Book Trend



Source: Company, Karvy Institutional Research

Exhibit 5: Order Book



Source: Company, Karvy Institutional Research

Our View: ABB India bagged orders worth Rs. 16.79 bn in Q3CY12 vs. Rs. 24.93 bn in Q3CY11 due to delays in finalization of large orders. Its order backlog stood at Rs. 90.62 bn at Q3CY12-end vs. Rs. 91.51 bn in Q3CY11. Amid lack of near-term revenue visibility, comparative analysis shows that YoY growth in order backlog is almost flat reflecting poor progress in receipt of fresh orders.

2. Paltry Core Margins

ABB India currently operates at margins that are probably lowest in the industry. Its EBITDA margin has fallen to 1.3% in CY10 from 12.2% in CY07, led by low order intake, demand slowdown, low-margin orders, cost relating to exit from rural electrification business. Margins were impacted by cost overruns in Process Automation segment and low profitability in Low Voltage (LV) segment given increased costs on 3x capacity expansion in MCBs. On positive side, profitability in Power Systems business is showing signs of stability post exit from rural electrification business although at lower levels (EBIT margins at 5%, vs. EBIT loss of 0.7%). LV product's margins are also likely to show improvement in H2CY13 given operating leverage.

Our View: We expect EBIDTA margin improvement from 3.8% in CY11 to 6.6% in CY14.Considering lower order intake and increased competition on pricing power, we believe that ABB may not be able to attain higher margin. We expect ABB's margin to remain in 5-7% range during CY12-14 well below 11-13% during CY06-08. fresh orders are likely to yield low margins as they were won against stiff competition and stiff pricing pressure. Industry over-capacity and strong competition from domestic and overseas firms will continue to pose challenge for ABB India in medium-term.

Margin – Power Segment: The Power Products segment's margins have been dented in the last three years due to industry oversupply, intense competition from Chinese and Korean companies, low-margin orders and other internal issues. Power systems made losses in CY10 & CY11 on the back of low margins and cost associated with exit from rural electrification business.

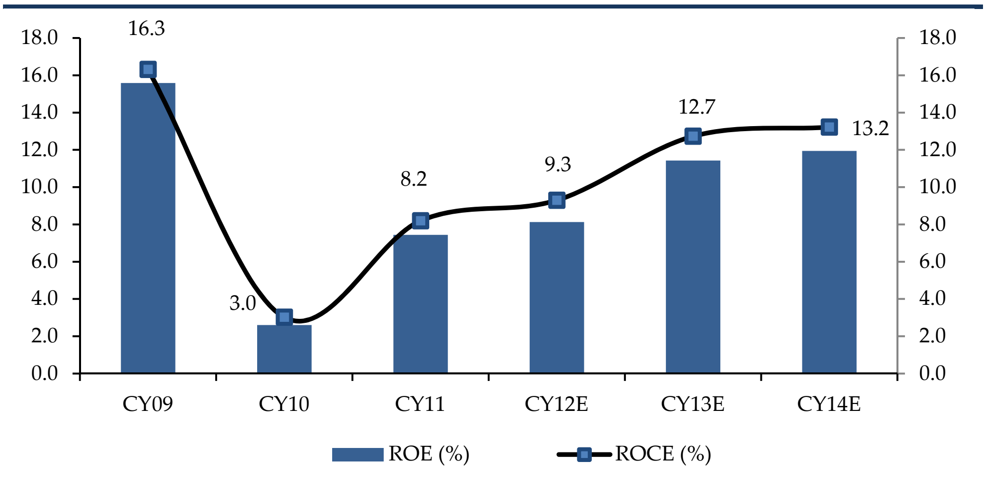
Margin – Automation Segment: The margins in the Automation segment have been pummeled by lower orders amid slowdown in industrial capex. The Process Automation segment reported losses due to cost overruns in a few of its projects.

3. Feeble Return Profile despite Strong Balance Sheet

ABB India has net cash position, which we believe this is a key positive as it provides the Company with an opportunity to pursue acquisitions. Moreover, given that the Company doesn't have any debt on its balance sheet, the financial risk remains minimal. ABB India has seen a major deterioration in RoCE over the last five years from 35% in CY07 to 3.0% in CY10, driven by declining profitability and reducing asset.

Our View: ABB India is expected to register net profit margin of 6.6% in CY14E while its RoE is likely to improve from 7.4% in CY11 to 11.9% in CY14 .Given that the Company's leverage hasn't changed much during this time, the Group's RoE has also taken a hit and we expect it to stabilize at 11-12% in CY13-14E.

Exhibit 6: RoE & RoCE



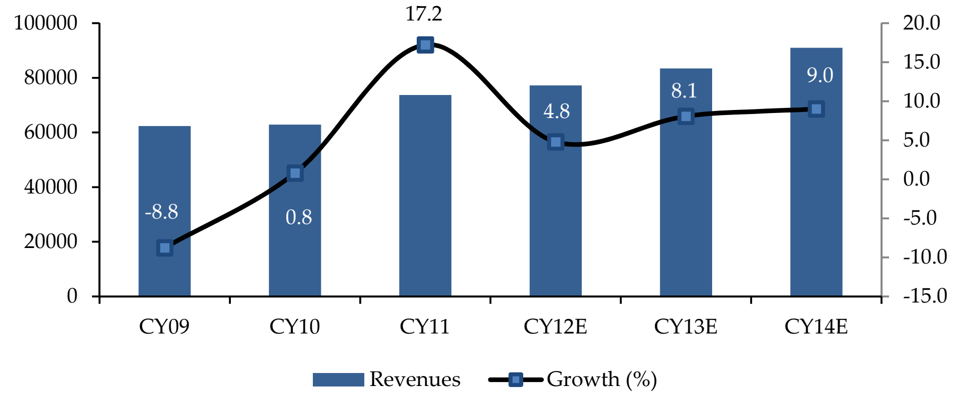
Source: Company, Karvy Institutional Research

Financials

A. Net Sales to Grow by 7.2% CAGR in CY12-14E

Rise in order inflow, improving project execution and lower base effect of CY12 is likely to aid ABB India to achieve 7.2% CAGR growth in net sales in CY12-14E after registering 1.9% CAGR growth in CY07-10 period.

Exhibit 7: Net Sales

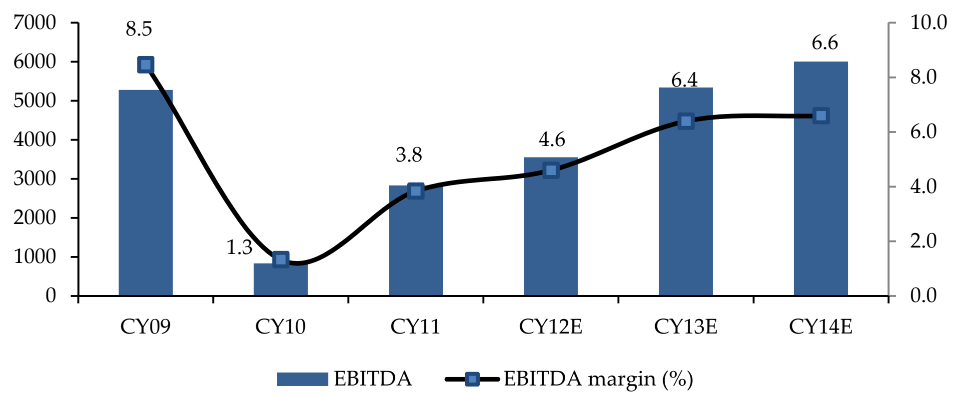


Source: Company, Karvy Institutional Research

B. EBITDA Margins to Improve by 280 bps in CY14E

We expect ABB India's EBITDA to improve on the back of higher incremental revenue, several cost-rationalization measures, improving margins from power system, and lower quantum of exit costs remaining to be booked.

Exhibit 8: EBITDA Margins



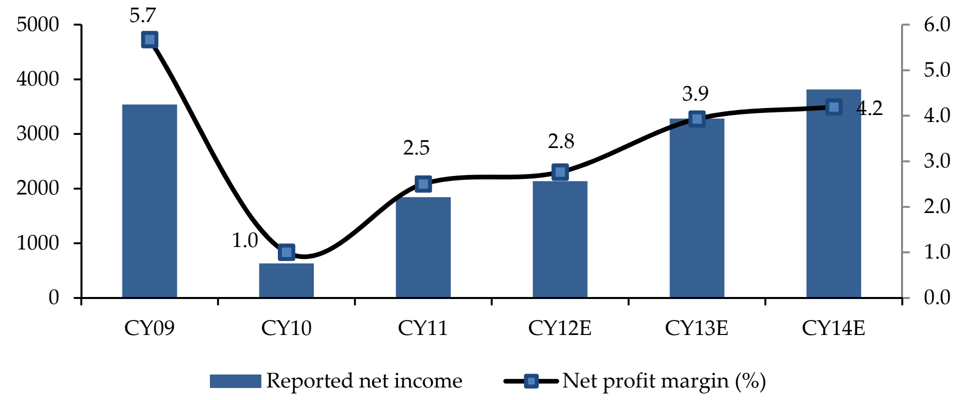
Source: Karvy Institutional Research

We expect ABB India's EBITDA margin to improve to 6.4% & 6.6% in CY13 & CY14E driven by cost-rationalization measures and declining backlog of low-margin orders.

C. Net Profit Margin to Improve on Higher Order Execution

We expect ABB India's net profit margin to improve to 3.9% in CY13 and 4.2% in CY14E (from 1% in CY10) on higher order execution.

Exhibit 9: Net Profit



Source: Karvy Institutional Research

D. RoCE / RoE to Improve – Return Ratios are Unlikely to Scale Back to CY07-08 Levels

We expect the improvement in profitability (27%) in CY12-14 period will lead to rise in RoE from 2.62% in CY10 to 11.9% in CY14E. However, this improvement is far below than 32-35% levels registered in CY07-CY08. As margins are expected to structurally remain weak due to intense competition, the return ratios are unlikely to scale back to CY07-08 levels.

Key Upside Risks

- Better-than-expected order intake could hit our top-line estimates.
- Moderation of competitive intensity in T&D segment could impact our margins estimates.

Exhibit 10: Income Statement

FYE March, Rs mn	CY10	CY11	CY12E	CY13E	CY14E
Revenues	62,871	73,703	77,235	83,473	91,002
Growth (%)	*0.8*	*17.2*	*4.8*	*8.1*	*9.0*
EBITDA	837	2,831	3,553	5,341	6,005
Growth (%)	*(84.2)*	*238.2*	*25.5*	*50.3*	*12.4*
Depreciation & amortisation	517	795	963	1,053	1,143
EBIT	320	2,035	2,589	4,288	4,862
Growth (%)	*(93.3)*	*535.4*	*27.2*	*65.6*	*13.4*
Interest	174	307	309	376	410
Other income	855	949	907	985	1,243
EBT	1,002	2,677	3,188	4,897	5,695
Income taxes	370	832	1,052	1,616	1,879
Effective tax rate (%)	*36.9*	*31.1*	*33.0*	*33.0*	*33.0*
Reported net income	632	1,845	2,136	3,281	3,816
Growth (%)	*(82.2)*	*192.2*	*15.7*	*53.6*	*16.3*
EPS (Rs)	3.0	8.7	10.1	15.5	18.0
Growth (%)	*(82.2)*	*192.2*	*15.7*	*53.6*	*16.3*

Source: Company, Karvy Institutional Research

Exhibit 11: Balance Sheet

Y/E Mar (Rs mn)	CY10	CY11	CY12E	CY13E	CY14E
Cash and cash eq	5,871	2,644	4,341	5,302	9,526
Accounts receivable	29,259	30,826	33,857	38,420	41,886
Inventories	6,979	9,255	7,966	9,069	9,859
Others current assets	7,152	6,876	7,406	9,148	9,973
Investments	169	507	171	171	171
Gross fixed assets	10,293	15,057	16,057	17,557	19,057
Net fixed assets	7,715	11,684	11,721	12,167	12,524
CWIP	500	839	200	200	200
Deferred tax assets, net	45	224	41	133	520
Total assets	**57,690**	**62,855**	**65,703**	**74,610**	**84,658**
Accounts payable	16,402	18,162	19,916	23,084	25,097
Other current liabilities	15,205	17,017	17,017	19,662	24,046
Provisions	1,846	2,331	1,480	1,647	1,824
Equity capital	424	424	424	424	424
Reserves & surplus	23,813	24,921	26,804	29,792	33,268
Shareholder's funds	24,237	25,345	27,228	30,216	33,691
Total liabilities	**57,690**	**62,855**	**65,703**	**74,610**	**84,658**

Source: Company, Karvy Institutional Research

Exhibit 12: Cash Flow Statement

Y/E Mar (Rs mn)	CY10	CY11	CY12E	CY13E	CY14E
Net income + Depreciation	1,148	2,641	3,103	4,338	4,962
Non-cash adjustments	149	185	-	-	1,897
Changes in working capital	785	(1,788)	(1,104)	(1,620)	(839)
Cashflow from operations	2,082	1,038	1,999	2,717	6,020
Capital expenditure	(1,041)	(1,535)	(361)	(1,500)	(1,500)
Change in investments	-	(340)	336	-	-
Other investing cashflow	96	(1,801)	-	-	-
Cashflow from investing	(1,041)	(3,676)	(24)	(1,500)	(1,500)
Issue of equity	-	-	-	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(495)	(493)	(277)	(257)	(296)
Other financing cashflow	-	-	-	-	-
Change in cash & cash eq	546	(3,131)	1,697	961	4,224
Closing cash & cash eq	5,871	2,644	4,341	5,302	9,526

Source: Company, Karvy Institutional Research

Exhibit 13: Key Ratios

Y/E Mar	CY10	CY11	CY12E	CY13E	CY14E
EBITDA margin (%)	1.3	3.8	4.6	6.4	6.6
EBIT margin (%)	0.5	2.8	3.4	5.1	5.3
Net profit margin (%)	1.0	2.5	2.8	3.9	4.2
ROE (%)	2.6	7.4	8.1	11.4	12.0
ROCE (%)	3.0	8.2	9.3	12.7	13.2
Gross asset turnover (x)	6.6	5.8	5.0	5.0	5.0
Total asset turnover (x)	1.1	1.2	1.2	1.2	1.1
Interest coverage ratio (x)	1.8	6.6	8.4	11.4	11.9
Adjusted debt/equity (x)	-	-	-	-	-
EV/Sales (x)	2.0	1.7	1.6	1.5	1.4
EV/EBITDA (x)	146.9	43.4	34.6	23.0	20.5
P/E (x)	203.0	69.5	59.9	39.0	33.6
P/BV (x)	5.2	5.0	4.6	4.2	3.8

Source: Company, Karvy Institutional Research

Institutional Equities
India Research

BGR Energy Systems

INITIATION REPORT

Bloomberg: BGRL IN
Reuters: BGRE.BO

SELL

To Emerge Stronger after Making a Mark in Newly-Entered BTG Segment

BGR Energy Systems (BGR) demonstrated remarkable execution-led growth over FY08-11 period with 53% CAGR growth in earning. Though the recent order for TG sets secured from NTPC has broken this lull, we believe that BGR's margins are likely to remain under pressure, as it has bid on very aggressive price points.

Difficult to Earn Margins amid Pricing Risks: BGR's bid value stands at Rs. 10.1 mn per MW for bulk tender by NTPC T&G. Although this new order would increase order-book visibility, we estimate BGR's share at Rs. 3.6 bn. The total investment in manufacturing plant – *which is coming up in JV with Hitachi* with *Rs. 30 bn investment out of which 30% is equity and the rest through debt* – increases debt requirements for the Company. We believe that pricing of bids – *in light of 40% of components being imported* – may be aggressive, going forward which would result in pressure on margin. We expect 3-3.5% margins at PAT level from NTPC Orders.

Overall Order Inflow Remains Muted sans NTPC Orders: BGR is executing three major projects worth Rs. 54 bn – *including an order worth Rs. 17 bn secured in Nov'11 for 2X300MW project from TRN Energy in New Delhi* – which are at various stages of billing cycle. Its current order-book stands at Rs. 135.8 bn with orders worth Rs. 85 bn from NTPC. Hence, the order inflow remains muted excluding the projects secured from NTPC.

Inadequate Working Capital, High Receivable -Leading to Funding Risk: We believe that working capital is a cause for worry for BGR Energy that, which may force the Company to borrow more and limit its order intake as well. BGR's Debt-to-Equity ratio stands at 1.3 times – *though not alarming* – provides limited room for stretching itself for planned capital investments. Outstanding with TN & Rajasthan SEBs as on Feb'13 stands at Rs. 30 bn.

Outlook & Valuation

We expect the financial performance of BGR to deteriorate with the beginning of JV with Hitachi, as EBITDA generation will be inadequate to meet interest obligation and depreciation burden. With capacity utilization likely to remain low, it seems difficult to win profitable orders amidst stiff competition. We expect BGR's revenue to register 25% CAGR, while earning could see -4% CAGR in FY12-15E. Based on 9x FY15E earnings at 30% discount to its mean multiple of 13x, we initiate coverage on BGR with **"SELL"** recommendation with target price of Rs. 215 per share.

Key Financials

Y/E Mar (Rs. mn)	FY11	FY12	FY13E	FY14E	FY15E
Net Sales	47,474.9	34,445.3	32,950.1	40,690.0	48,560.0
EBIDTA	5,373.7	4,705.8	4,091.3	4,645.4	5,374.0
Net Profit	3,227.4	2,235.2	1,719.9	1,151.0	861.8
EPS (Rs)	45.0	31.0	23.9	25.2	27.2
PE (x)	4.5	6.6	8.5	8.1	7.5
EV/EBITDA (x)	2.6	2.9	3.4	3.0	2.6

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs208
Target Price:	Rs215
Upside (%)	5%

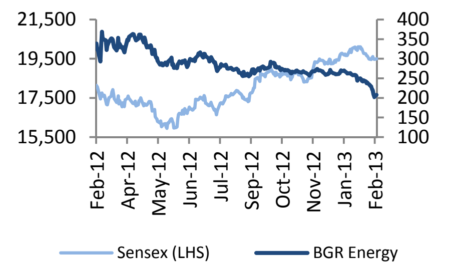
Stock Information

Market Cap. (Rs bn / US$ mn)	15/277
52-week High/Low (Rs)	378/199
3m ADV (Rs mn /US$ mn)	50/0.9
Beta	1.5
Sensex/ Nifty	19,501/5,898
Share outstanding (mn)	72

Stock Performance (%)

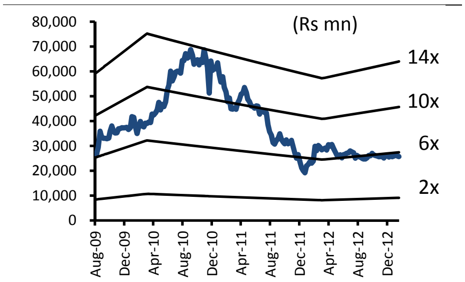
	1M	3M	12M	YTD
Absolute	(19.2)	(21.6)	(38.6)	(20.3)
Rel. to Sensex	(16.9)	(26.4)	(42.4)	(20.6)

Performance



Source: Bloomberg

1 Year Forward EV/EBITDA



Source: Karvy Institutional Research

Analyst Contact

Rupesh Sankhe
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rupesh.sankhe@karvy.com

Company Financial Snapshot

Profit & loss

(Rs mn)	FY12	FY13E	FY14E
Net sales	34,445.3	32,950.1	40,690.0
EBIDTA	4,705.8	4,091.3	4,645.4
Depreciation	161.1	173.4	197.4
Interest Expense	1,354.2	1,390.1	1,866.4
PBT	3,268.3	2,726.1	2,789.5
Tax	1,033.1	927.1	948.6
Adj. PAT	2,235.2	1,799.1	1,179.9
EPS (Rs)	31.0	25.0	25.6
DPS (Rs)	4.6	3.7	2.5
EBIDTA Margin %	13.7	12.4	11.4
Adj Net Margin %	6.5	5.2	4.5
Valuation Multiples			
P/E (X)	6.6	8.5	8.1
P/BV (x)	1.3	1.2	1.1

Company Background

BGR Energy (BGR) was originally incorporated in 1985, as a JV between Germany-based GEA Energietechnik and BG Raghupathy (promoter). In 1993, Mr. Raghupathy and his family members became the sole shareholders of the Company and began to expand the range of product and services range in Power and Oil & Gas industries. In Jun'07, it name was rechristened to BGR Energy Systems.

BGR undertakes business in two segments: (1) Supply of Systems & Equipment, and (2) Turnkey Project Contracting. It executes turnkey contracts to supply BoP equipment, services and civil works for power projects, in which it supplies the balance of the plant, turbine, and generator.

BGR is currently executing BoP & EPC contracts tailored to customer demands. It consists of five businesses i.e. Power Projects, Oil & Gas Equipment, Air Fin Coolers, Environmental Engineering, & Electrical Projects.

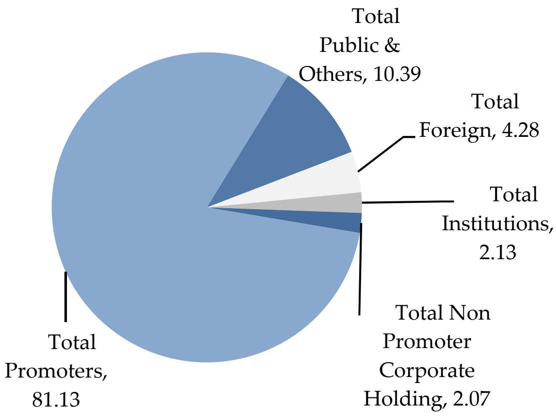
Balance Sheet

	FY12	FY13E	FY14E
Total Assets	50,271.4	54,509.6	53,779.5
Net Fixed Assets	1,624.3	1,854.1	2,254.1
Current Assets	51,763.8	56,669.0	55,497.1
Total Liabilities	50,271.6	54,510.7	53,779.4
Networth	9,497.5	11,145.4	12,607.3
Debt	13,362.7	23,962.0	19,468.8
Current Liabilities	27,411.4	19,403.3	21,703.2
Balance Sheet Ratios			
RoE %	39.2	21.7	14.5
RoCE %	19.5	10.9	8.5
Equity/Total Assets	0.19	0.20	0.23

Cash Flow

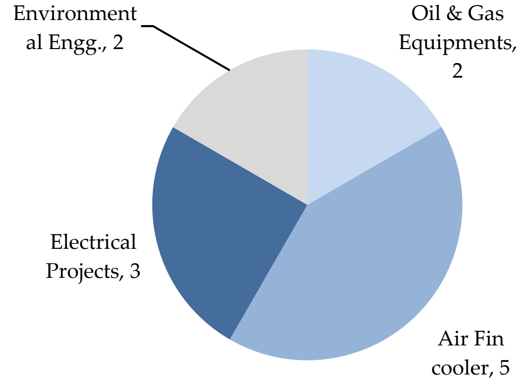
	FY12	FY13E	FY14E
Net profit	3,268.3	2,606.2	2,745.7
Depreciation	161.1	173.4	197.4
Net Non Operating (Income)/Exp	935.2	(72.4)	661.1
Change in working capital	(12,939.4)	7,111.7	(4,345.4)
Cash generated from operations	(9,607.9)	8,932.6	(2,335.8)
Net cash used in Investing activities	(1,662.5)	(3,900.0)	(3,400.0)
Net cash used in Financing activities	(345.4)	(147.0)	(143.3)
Net change in cash and cash	(1,016.5)	392.4	(1,204.7)
Closing cash and cash equivalents	8,448	8,841	7,636

Shareholding pattern (%)



Source: Company

Revenue Break up FY12

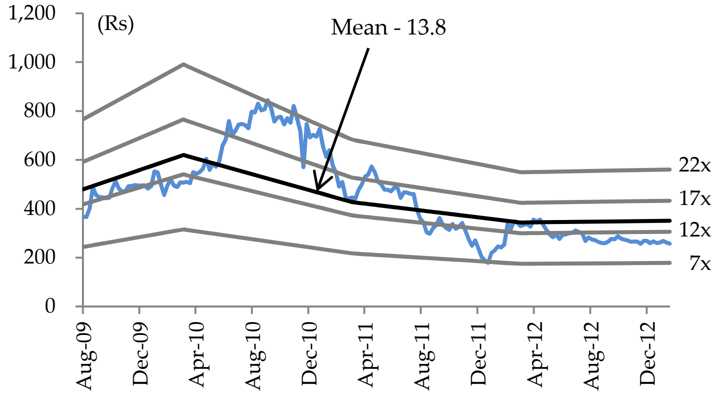


Source: Company

Outlook & Valuation

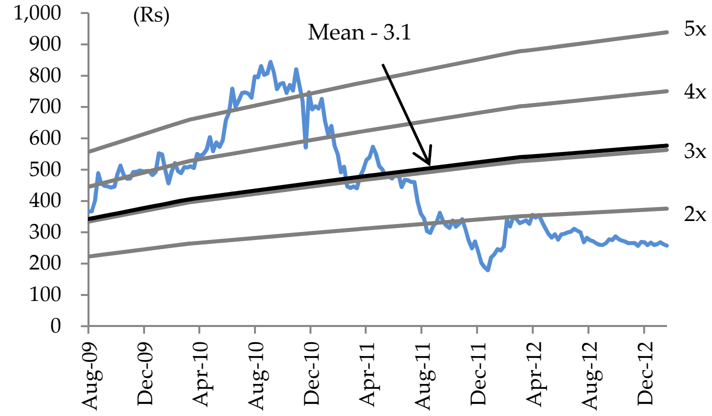
BGR traded at P/E multiple of 5x to 55x post listing driven by higher growth in earning and RoE. We assign 10x multiple, which is at a discount to historical average P/E multiple of 15x given declining RoEs from 40% in FY11 to 14.2% by FY15E, negative operating cash-flow and lower earnings growth -11.5% over FY11-15E vs. 53% over FY08-11.

Exhibit 1: 1 Year Forward PE Band



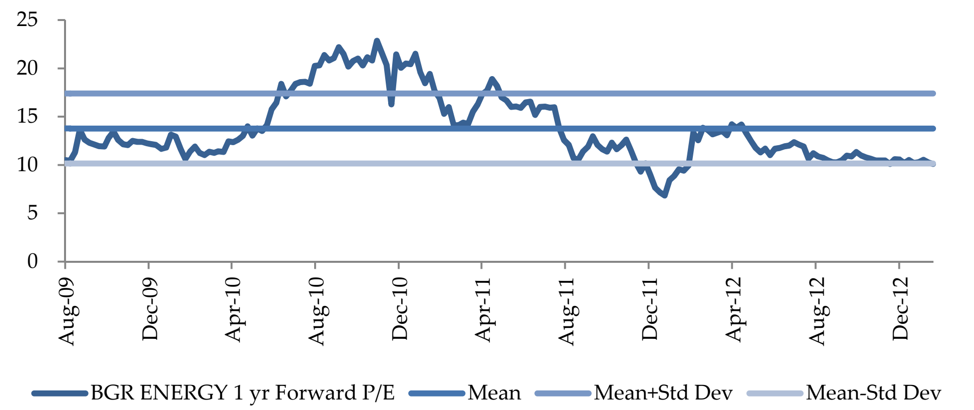
Source: Bloomberg, Karvy Institutional Research

Exhibit 2: 1 Year Forward P/BV Band



Source: Bloomberg, Karvy Institutional Research

Exhibit 3: Premium Discount to Mean PE Multiple



Source: Bloomberg, Karvy Institutional Research

Based on 9x FY15E earnings at 30% discount to mean multiple of 13x, we initiate coverage on BGR Energy with **"SELL"** recommendation with target price of Rs. 215 per share.

Rationale for SELL Recommendation

Our investment thesis is based on the following premises.

1. Recent Order from NTPC – Difficult to make margins in BTG sector,
2. Sustainability of Order Inflow – Concern over ability to generate returns, and
3. Stretch Balance Sheet amid Funding risk

1. Substantial Capex to Augment Debt; Margins to Contract from Current Levels

Turbine-Generators: BGR Energy (BGR) has emerged the best bidder in the tender floated by NTPC for supply of turbine-generators for nine supercritical thermal power projects, and as the best bidder the Company will get five orders out of nine. The value of orders is estimated to be ~Rs. 36 bn and with this BGR's order book rose to Rs. 127.8 bn. Recently, BGR-Hitachi JV (BGHI) has won bid for NTPC 9X800 bulk order for TG sets. Based on tender documents, BGR expects to be awarded 5 sets. The total value of order is Rs 73 bn (10.1 mn per MW). The Company will have to deliver the first turbine set in 42 months time.

Our View: Though this new order would increase its order-book visibility, we believe that BGR would have to undertake substantial capex (initial estimates of Rs 30 bn) to prepare facilities, which would increase its debts. Profitability of this project would be tied to proportion of imported equipment that BGR has to use for first few units and how new orders are fed to these facilities going forward.

Super-Critical Boilers: NTPC has awarded an order for super-critical boilers for 2x660MW project at Solapur to BGHI. This order is part of NTPC`s 11x660MW bulk tendering, wherein BGHI emerged as lowest bidder in Feb'12. Delivery of equipment to NTPC would start in 11 months time from the date of order booking, and the execution time for this order is 48 months.

Our View: BGR is putting up two projects for producing boilers and turbine-generators near Chennai in collaboration with Hitachi with an investment of Rs. 44 bn. However, most of the equipment for NTPC order will come from Hitachi as the Chennai plant won't be ready in time. Yen fluctuation is not an issue, as NTPC will pay BGR in USD, while BGR will pay Hitachi in same currency.

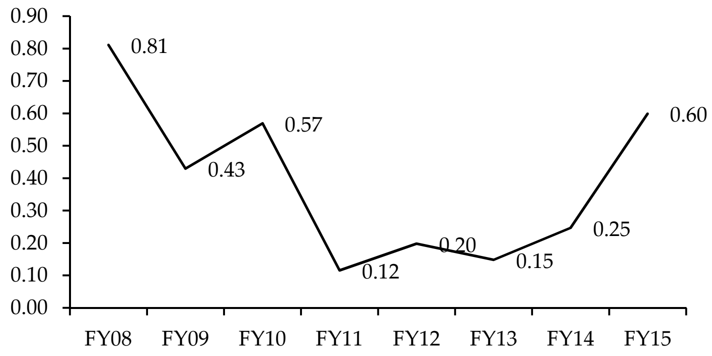
Improvement in EBITDA Margins: During the last 2-3 quarters, BGR's EBITDA margins improved on the back of favorable mix, higher contribution from BoP contracts. BoP accounted for 65% of BGR's revenues which resulted in better margins. However we expect company's overall EBITDA Margins to lower from 13.7% in FY12 to 11.1% in FY15 as aggressive pricing contracts will start contributing.

2. Revenue Growth – Remains Comfortable for at least Next Three Years

BGR is executing three major projects worth Rs. 54 bn – *including an order worth Rs. 17 bn secured in Nov'11 for 2X300MW project from TRN Energy* – which are at various stages of billing cycle. Its current order-book stands at Rs. 135.8 bn with orders worth Rs. 85 bn from NTPC. Hence, its order inflow remains muted excluding the projects secured from NTPC. BGR has won orders for 800-MW super critical steam turbine generators in tender floated by NTPC earlier.

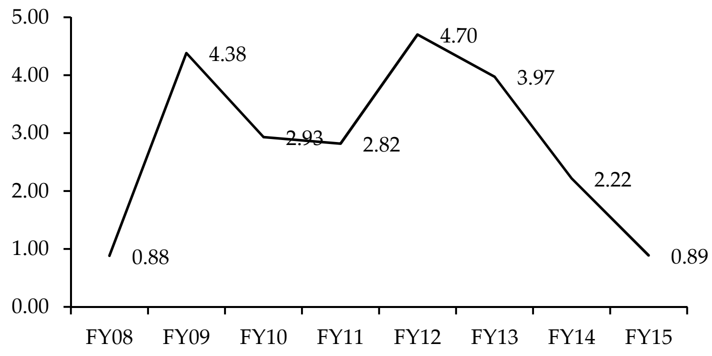
Our View: BGR's aggregate order receipts from NTPC stands at ~Rs. 100 bn, and added to its existing order pipeline of Rs. 82 bn, the Company clearly appears to be in a comfortable position for at least next three years in terms of revenue growth. Though NTPC orders worth Rs. 85 bn make up 60% of the order book, it may take around four years for BGR to execute.

Exhibit 4: EV/Order book Trend



Source: Company, Karvy Institutional Research

Exhibit 5: Book to Bill Trend



Source: Company, Karvy Institutional Research

Operating Margins

A healthy order backlog doesn't necessarily imply healthy margins. In fact, weak operating margin has been a concern across the capital goods industry for quite some time now given the intense pricing pressure.

Our View: Though BGR's Management has guided for ~12-13% margins for recent orders over the period of execution, we expect these margins to be under pressure at least in initial stages of execution. We expect 3-3.5% PAT margins from NTPC's recent orders.

Working Capital Requirement

Another visible concern for BGR is working capital requirement to execute orders despite ~15% advance receipts of order value from NTPC. BGR's total working capital stands at Rs. 19 bn, which 55% of its turnover.

Our View: BGR had a consolidated debt of >Rs. 13 bn in balance sheet as on FY12, which takes its D/E ratio to 1.3. Any further debt raising exercise by the Company will only add to its balance sheet leverage.

Ongoing EPC & BoP Projects to Drive Revenue Growth

Exhibit 6: Ongoing EPC & BoP Projects

Projects	Capacity (MW)	Cost (Rs. bn)
EPC Projects		
1. Rajasthan	2X600	49
2. Tamil Nadu	1X300	31
BoP Projects		
1. MAHAGENCO at Chandrapur (MH)	2X500	16.3
2. Chhattisgarh SEB	2X500	16.3
3. Thermal Powertech (Krishnapatnam in AP)	2X660	21.7

Source: Karvy Institutional Research

A. EPC Projects under Execution: BGR is executing two large EPC projects awarded in 2008 i.e. 2X600MW in Rajasthan (Rs. 49 bn) & 1X300 in Tamil Nadu (Rs. 31 bn), which are >95% complete that had been driving revenue growth in recent quarters.

B. BoP Projects under Execution: BGR is executing three major BoP projects now i.e. MAHAGENCO's Rs. 16.3 bn 2X500MW project (>65% complete); Chhattisgarh SEB's Rs. 16.3 bn 2X500MW project (>70% complete) & Thermal Powertech's Rs. 21.7 bn 2X660MW project at Krishnapatnam in AP (35% complete).

Exhibit 7: Order-book Backlog (Rs Lakh)

Description	Air fin Cooler	Env Engg	Power Project	Oil & Gas	Electrical Project	Total
Domestic Orders	12,193	4,552	5,82,018	3,468	50,956	6,53,187
Export Orders	3,553		-	66	-	3,619
Opening order as on 01.04.12	15,746	4,552	5,82,018	3,534	50,956	6,56,806
Order Billed up to Sep 12	3,279	616	5,56,500	23		5,60,418
Billing in April to Sept 12	7,541	1,171	1,10,468	1,438	3,109	1,23,727
Closing Orders on Hand as on 30.09.12	11,484	3,997	1,02,8050	2,119	47,847	10,93,497
NTPC					36,5000	

Source: Karvy Institutional Research

Our View: The Rs. 17 bn BoP order from TRN Energy 2X600MW is 15% complete and is also likely to pick up in remaining part of the year, while the NTPC projects under bulk tenders will start contributing to revenues meaningfully in FY14 only.

Exhibit 8: Major Orders under Execution

Major Orders under Execution	Customer	Order Value (Rs. bn)	Scope
X600MW Kalisindh Thermal Power Plant, Jalawar (Rajasthan)	RVUNL	49	EPC
X600MW Thermal Power Plant, Mettur (TN)	NEB	31	EPC
X660MW Super Critical Thermal Power Plant, Krishnapatnam (AP)	TPCIL	21.66	BOP
X300MW Thermal Power Project (Chhattisgarh)	TRN Energy	16.98	EPC
X500MW Thermal Power Station, Marwa (Chhattisgarh)	CSPGCL	18.33	BOP
X500MW Super Thermal Power Station, Chandrapur (MH)	MAHAGENCO	17.92	BOP
X660MW Super critical Boilers, Sholapur (MH)	NTPC	18.55	
X660MW Super critical Boilers, Meja (UP)	NTPC & UPRVUNL	18.55	
X660MW Super critical Boilers, Raghunathpur (WB)	DVC	19.01	
Total		**211**	

Source: Karvy Institutional Research

3. Stretched Balance Sheet Risking Planned Investments

On the funding side, BGR has been troubled by delayed payments by few State Electricity Boards (SEBs) with the average debtor days at 365 as of Mar'12. As on Feb2013, Company has Rs 3000 cr as receivables from TN & Rajasthan SEB. We believe that working capital is a cause for worry for BGR, which may force the Company to borrow more and limit its order intake as well. BGR's Debt-to-Equity ratio stands at 1.3 times – *although not alarming* – provides limited room for stretching itself for planned capital investments.

Our View: The financial performance of BGR Energy is likely to deteriorate with the commencement of JV with Hitachi, as EBITDA generation will be inadequate to meet interest obligation and depreciation burden. Again, with capacity utilization likely to remain low as it is difficult to win profitable orders amidst stiff competition, we do not expect any improvement even in the medium-term.

Key Upside Risks

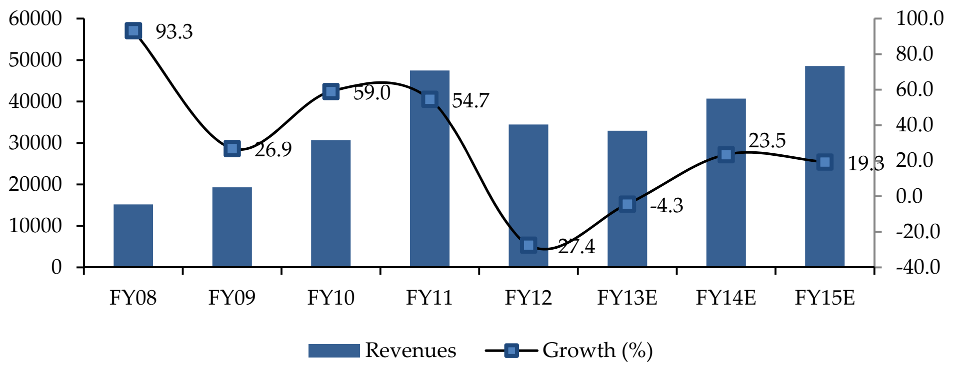
- Better-than-expected order-inflows and execution could hit our top-line estimates.
- Better-than expected margins could impact our margins estimates.

Financials

A. Net Sales to grow at 12% CAGR from FY12-15E

We expect BGR to report net sales would surge by 25% CAGR from FY12-15E driven by strong orders in hand as against 46% during FY08-11. Meanwhile, the Company is current executing two large EPC projects – Rajasthan (2X600MW) & Tamil Nadu (1X 300MW) – which are over 95% complete. Major revenues will come from TRN projects & NTPC's recent orders.

Exhibit 9: Revenue

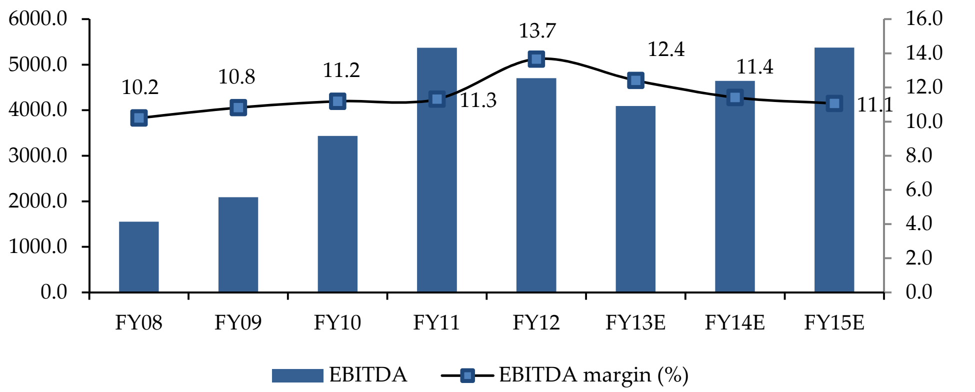


Source: Company, Karvy Institutional Research

B. EBITDA Margins to Decline by 260 bps in FY15E

We expect BGR's margins would decline from the current levels, as its revenues would be largely driven by aggressive pricing contracts. We expect the Company's margins to contract by 260 basis from 13.7% in FY12 to 11.1 in FY15E.

Exhibit 10: EBITDA

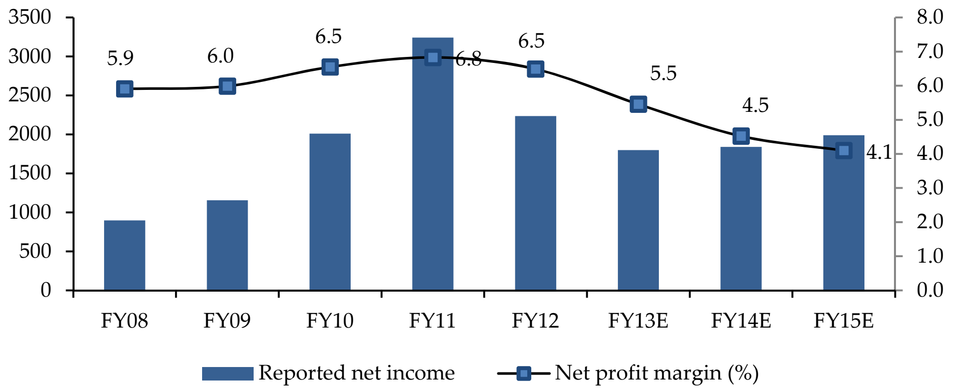


Source: Company, Karvy Institutional Research

C. Net Profit to de-grow at 4.3% CAGR in FY12-15E

We expect BGR's net profit to de-grow at 4.3% CAGR in FY12-15E. Its net profit margins would remain under pressure due to aggressive bidding, while high capex and interest expense would hit its net profit margin.

Exhibit 11: Net Profit



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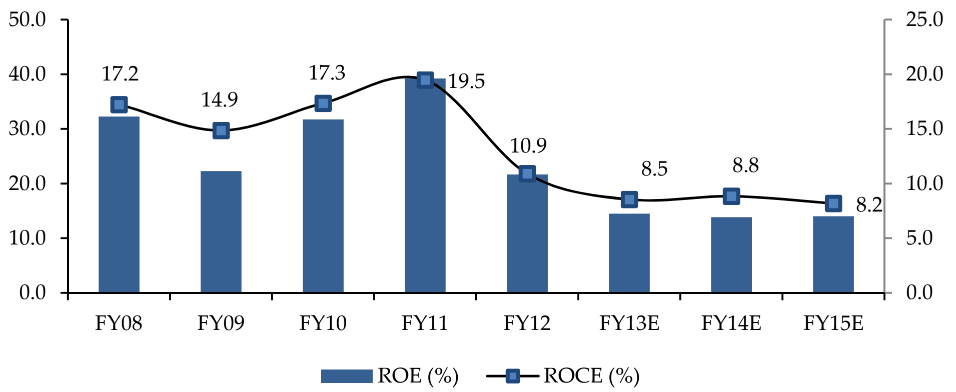
Source: Company, Karvy Institutional Research

D. RoE to Decline

We expect BGR's RoE to decline from 21.7% in FY12 to 14.2% in FY15E due to fall in realization on lower order book and lower margins.

Exhibit 12: RoE vs ROCE



Source: Company, Karvy Institutional Research

Financials

Exhibit 13: Income Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Revenues	47,475	34,445	32,950	40,690	48,560
Growth (%)	*54.7*	*(27.4)*	*(4.3)*	*23.5*	*19.3*
EBITDA	5,374	4,706	4,091	4,645	5,374
Growth (%)	*56.4*	*(12.4)*	*(13.1)*	*13.5*	*15.7*
Depreciation & amortisation	168	161	173	197	221
EBIT	5,206	4,545	3,918	4,448	5,153
Growth (%)	*56.0*	*(12.7)*	*(13.8)*	*13.5*	*15.8*
Interest	605	1,354	1,577	1,931	2,333
Other income	219	78	198	208	197
EBT	4,820	3,268	2,726	2,789	3,017
Income taxes	1,578	1,033	927	949	1,026
Effective tax rate (%)	*32.7*	*31.6*	*34.0*	*34.0*	*34.0*
Min int / inc from assoc	15	-	-	(661)	(1,095)
Reported net income	3,227	2,235	1,799	1,180	896
Adjustments (JV Equipment)	(15)	-	-	(661)	(1,095)
Adjusted net income	3,242	2,235	1,799	1,841	1,991
Growth (%)	*61.3*	*(31.1)*	*(19.5)*	*2.3*	*8.1*
EPS (Rs)	45.0	31.0	25.0	25.6	27.6
Growth (%)	*61.3*	*(31.1)*	*(19.5)*	*2.3*	*8.1*

Source: Company, Karvy Institutional Research

Exhibit 14: Balance Sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Cash and cash eq	9,465	8,448	8,841	7,636	7,413
Accounts receivable	31,572	37,370	32,499	40,133	47,895
Inventories	384	296	271	334	399
Others current assets	8,846	8,068	7,899	9,636	11,526
Investments	1,368	2,359	5,859	8,859	11,859
Gross fixed assets	2,099	2,490	2,890	3,290	3,690
Net fixed assets	1,624	1,854	2,254	2,654	3,054
CWIP	130	130	130	130	130
Intangible assets	-	-	42	42	42
Deferred tax assets, net	(3,117)	(4,014)	(4,014)	(4,014)	(4,014)
Total assets	**50,272**	**54,510**	**53,779**	**65,410**	**78,303**
Accounts payable	16,216	13,028	11,360	14,669	17,528
Other current liabilities	7,652	3,676	7,579	9,359	11,169
Provisions	3,544	2,700	2,512	2,512	2,512
Debt funds	13,363	23,962	19,469	24,143	30,504
Other liabilities	-	-	253	1,141	2,272
Equity capital	722	722	722	722	722
Reserves & surplus	8,776	10,424	11,886	12,864	13,597
Shareholder's funds	9,498	11,145	12,607	13,586	14,318
Total liabilities	**50,272**	**54,510**	**53,779**	**65,410**	**78,303**

Source: Company, Karvy Institutional Research

Exhibit 15: Cash Flow Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Net income + Depreciation	3,396	2,396	1,893	1,348	1,083
Non-cash adjustments	1,858	935	(72)	661	888
Changes in working capital	(7,787)	(12,939)	7,112	(4,345)	(5,048)
Cashflow from operations	(2,533)	(9,608)	8,933	(2,336)	(3,077)
Capital expenditure	(402)	(391)	(400)	(400)	(400)
Change in investments	(1,320)	(991)	(3,500)	(3,000)	(3,000)
Other investing cashflow	111	(281)	-	-	-
Cashflow from investing	(1,611)	(1,663)	(3,900)	(3,400)	(3,400)
Issue of equity	66	-	-	-	-
Issue/repay debt	5,299	10,599	(4,493)	4,674	6,361
Dividends paid	(590)	(345)	(147)	(143)	(107)
Other financing cashflow	-	-	-	-	-
Change in cash & cash eq	630	(1,016)	392	(1,205)	(224)
Closing cash & cash eq	9,465	8,448	8,841	7,636	7,413

Source: Company, Karvy Institutional Research

Exhibit 16: Key Ratios

FYE March	FY11	FY12	FY13E	FY14E	FY15E
EBITDA margin (%)	11.3	13.7	12.4	11.4	11.1
EBIT margin (%)	11.0	13.2	11.9	10.9	10.6
Net profit margin (%)	6.8	6.5	5.2	4.5	4.0
ROE (%)	39.2	21.7	14.5	13.8	14.0
ROCE (%)	19.5	10.9	8.5	8.8	8.2
Gross asset turnover (x)	25.0	15.0	12.3	13.2	13.9
Total asset turnover (x)	1.1	0.7	0.6	0.7	0.7
Interest coverage ratio (x)	8.6	3.4	2.5	2.3	2.1
Adjusted debt/equity (x)	1.4	2.1	1.5	1.8	2.1
EV/Sales (x)	0.3	0.4	0.4	0.3	0.3
EV/EBITDA (x)	2.6	2.9	3.4	3.0	2.6
P/E (x)	4.5	6.6	8.5	8.1	7.5
P/BV (x)	1.5	1.3	1.2	1.1	1.0

Source: Company, Karvy Institutional Research

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