

BHEL

Performance Highlights

(₹ cr)	1QFY13	1QFY12	% chg (yoy)	4QFY12	% chg (qoq)
Revenue	8,439	7,271	16.1	19,589	(56.9)
EBITDA	1,202	1,113	8.0	4,937	(75.7)
EBITDA margin (%)	14.2	15.3	(106)	25.2	(1,096)
PAT	921	816	12.8	3,380	(72.8)

Source: Company, Angel Research

BHEL reported better than expected numbers, however order flow for the quarter remains weak. For 1QFY2013 revenue came in better than expected at ₹8,439cr (up 16.1%) against our expectation of ₹7,781cr. EBITDA margins however came in slightly lower than expected at 14.2% (down 106bps) vs. our expectation of 15%. Order inflow remained subdued for the quarter coming in at ₹5,590cr taking the total order book to ₹132,900cr (OB coverage of 2.7x) down 16.7% yoy. Management expects overall, 10-15GW of power sector orders during the year and expects order inflow of ₹60,000cr (1QFY2013 order flow at 9% of guidance). We find managements guidance optimistic and expect it to achieve ~₹31,000cr of order inflow during the year. **We maintain our Neutral rating on the stock.**

Better than expected revenue numbers: Revenue came in better than our expectations at ₹8,439 (up 16% yoy) against our estimate of ₹7,781cr. Both the segments- Power (17.2% yoy) as well and industry (19.3% yoy) showed strong revenue growth for the quarter. However, EBITDA margins came in at 14.2% (lower than expected) down from 15.3% (1QFY2012 reported number), mainly due to higher other operating expenses (provisions, power, freight etc). BHEL's PAT came in at ₹921cr (up 12.8% yoy), however we note that other income which includes forex gain of ~₹130cr, boosted PAT.

Outlook and valuation: Given the strong competition (domestic as well as international), declining ordering flows and a weak capex cycle, we expect BHEL's profits, margins and ROE's to decline from current levels. The stock trades at 8.4x and 9.3x on our FY2013E and FY2014E estimates. **We maintain Neutral on the stock.**

Key financials

Y/E March (₹ cr)	FY2011	FY2012E	FY2013E	FY2014E
Net sales	42,538	48,355	47,801	43,757
% chg	26.4	13.7	(1.1)	(8.5)
Adj. net profit	6,053	7,087	6,173	5,561
% chg	39.9	17.1	(12.9)	(9.9)
EBITDA (%)	20.2	20.6	19.0	18.8
EPS (₹)	24.7	29.0	25.2	22.7
P/E (x)	8.6	7.3	8.4	9.3
P/BV (x)	2.6	2.0	1.7	1.5
RoE (%)	33.6	31.1	22.3	17.5
RoCE (%)	44.4	38.6	28.3	22.0
EV/Sales (x)	1.0	0.9	1.0	0.8
EV/EBITDA (x)	5.0	4.5	5.3	4.5

Source: Company, Angel Research

NEUTRAL

CMP	₹212
Target Price	-

Investment Period	-
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Stock Info	
Sector	Capital Goods
Market Cap (₹ cr)	50,849
Net Debt (₹ cr)	(68,635)
Beta	1.0
52 Week High / Low	383/198
Avg. Daily Volume	856,485
Face Value (₹)	2
BSE Sensex	16,640
Nifty	5,043
Reuters Code	BHEL.BO
Bloomberg Code	BHEL@IN

Shareholding Pattern (%)	
Promoters	67.7
MF / Banks / Indian FIs	13.1
FII / NRIs / OCBs	13.2
Indian Public / Others	6.0

Abs. (%)	3m	1yr	3yr
Sensex	(2.3)	(8.9)	9.2
MLIFE	(9.4)	(43.1)	(54.1)

Rahul Kaul

+91 22 3937 7800 Ext: 6817
 rahul.kaul@angelbroking.com

Exhibit 1: Quarterly performance

(₹ cr)	1QFY13	1QFY12	% chg (yoy)	4QFY12	% chg (qoq)	FY2012	FY2011	% chg (yoy)
Net Sales	8,326	7,126	16.8	10,548	(21.1)	47,228	41,566	13.6
Other operating income	113	146	(22.7)	195	-	751	681	10.4
Total income	8,439	7,272	16.1	10,743	(21.4)	47,979	42,247	13.6
Stock adjustments	(527)	(431)		(475)		(823)	(127)	
Raw Material	5,385	4,581	17.6	6,488	(17.0)	28,240	22,671	24.6
(% of total income)	57.6	57.1	0.5	56.0		57.1	53.4	
Employee Cost	1,395	1,301	7.2	1,338	4.3	5,466	5,397	1.3
(% of total income)	16.5	17.9		12.5		11.4	12.8	
Other Expenses	984	707	39.1	1,311	(25.0)	5,208	5,723	(9.0)
(% of total income)	11.7	9.7	1.9	12.2		10.9	13.5	
Total Expenditure	7,237	6,158	17.5	8,663	(16.5)	38,091	33,663	13.2
EBITDA	1,202	1,113	8.0	2,080	(42.2)	9,888	8,584	15.2
(EBITDA %)	14.2	15.3	(1.1)	19.4		20.6	20.3	
Interest	6	9	(37.3)	15	(61.9)	51	55	(6.2)
Depreciation	228	170	34.4	187	22.3	800	544	47.0
Other Income	366	249	47.3	196	86.9	1,266	1,021	24.0
PBT	1,335	1,183	12.8	2,075	(35.7)	10,302	9,005	14.4
(% of total income)	15.8	16.3		19.3		21.5	21.3	
Total Tax	414	367	12.8	643	(35.7)	3,262	2,994	9.0
(% of PBT)	31.0	31.0		31.0		31.7	33.2	
PAT (Reported)	921	817	12.8	1,432	(35.7)	7,040	6,011	17.1
(% of total income)	10.9	11.2		13.3		14.7	14.2	
EPS (₹)*	3.8	3.3		5.9		28.8	24.6	17.1

Source: Company, Angel Research.* Note: Adjusted for stock split

Exhibit 2: Actual vs. Estimate

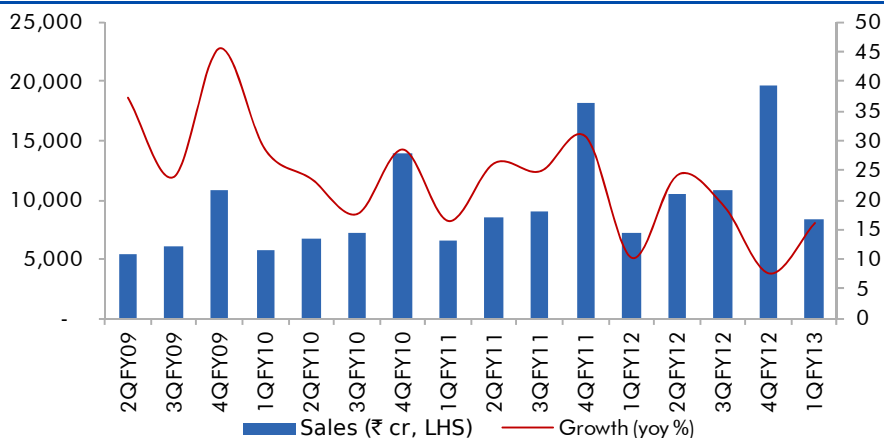
(₹ cr)	Actual	Estimates	Var (%)
Revenue	8,439	7,781	8.5
EBITDA	1,202	1,167	3.0
Interest	5.5	20.0	(72.4)
Tax	413.7	363.3	13.8
PAT	921	755	22.0

Source: Company, Angel Research

Revenue growth better than expected

Revenue came in better than our expectations at ₹8,439 (up 16% yoy) against our estimate of ₹7,781cr. Both the segments Power (17.2% yoy) as well and industry segment (19.3% yoy) showed strong revenue growth for the quarter.

Exhibit 3: Quarterly revenues trend depicts a stable picture



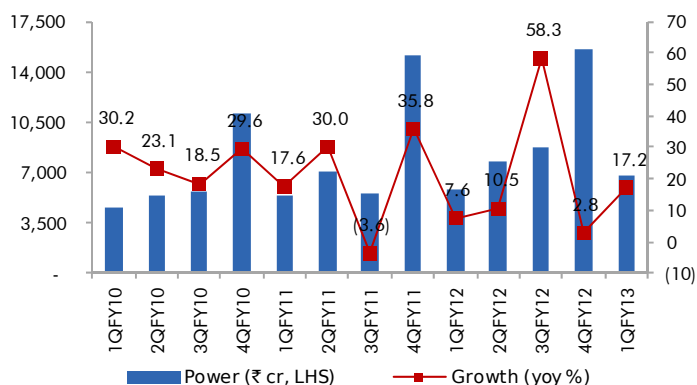
Source: Company, Angel Research

Exhibit 4: Segment-wise performance

Y/E March (₹ cr)	1QFY13	1QFY12	% chg (yoy)	4QFY12	% chg (qoq)	FY2012	FY2011	% chg (yoy)
Revenue								
Power	6,772	5,780	17.2	15,574	(56.5)	37,863	33,075	14.5
Industry	1,972	1,653	19.3	4,679	(57.9)	11,659	10,535	10.7
Total Revenue	8,744	7,433	17.6	20,253	(56.8)	49,522	43,610	13.6
EBIT								
Power	1,206	952	26.7	4,260	(71.7)	8,184	8,339	(1.9)
Industry	413	373	10.8	1,420	(70.9)	3,342	1,888	77.0
Total EBIT	1,620	1,325	22.2	5,680	(71.5)	11,526	10,227	12.7
Revenues mix (%)								
Power	77.5	77.8		76.9		76.5	75.8	
Industry	22.5	22.2		23.1		23.5	24.2	
EBIT Margin (%)								
Power	17.8	16.5		27.4		21.6	25.2	
Industry	21.0	22.6		30.4		28.7	17.9	
Total	18.5	17.8		28.0		23.3	23.5	

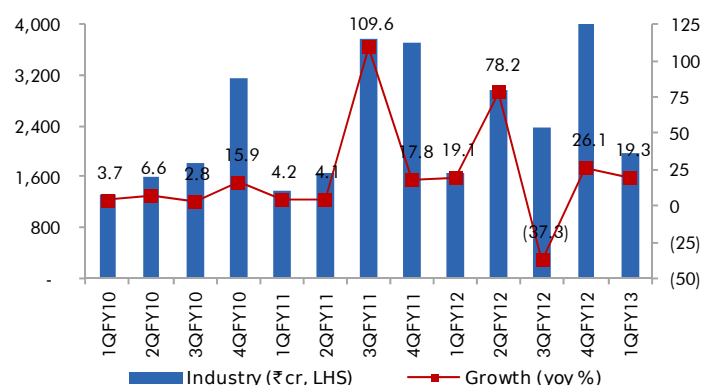
Source: Company, Angel Research

Exhibit 5: Power segment revenue and growth



Source: Company, Angel Research

Exhibit 6: Industry segment revenue and growth

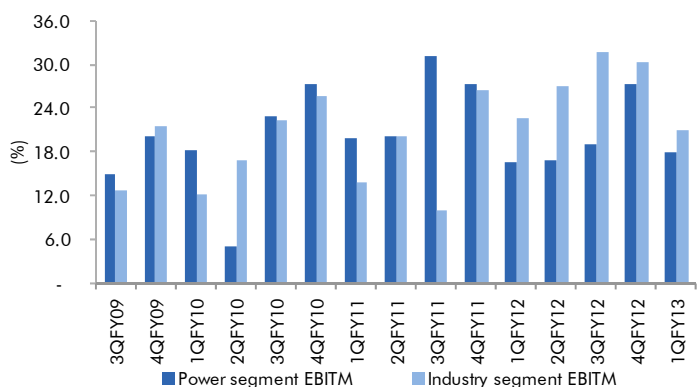


Source: Company, Angel Research

Disappointed on the margin front

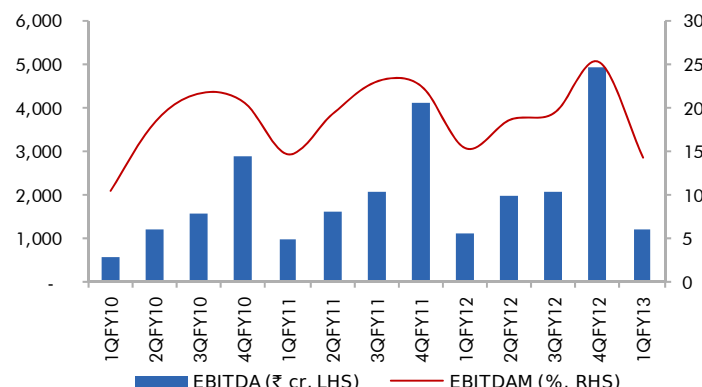
BHEL's reported EBITDA margins came in at 14.2% (lower than expected) down from 15.3% (1QFY2012 reported number), mainly due to higher other operating expenses (provisions, power, freight etc). BHEL's PAT came in at ₹921cr (up 12.8% yoy), however we note that other income which includes forex gain of ~₹130cr, boosted the PAT.

Exhibit 7: Segment EBIT Margin



Source: Company, Angel Research

Exhibit 8: Blended EBITDA margins

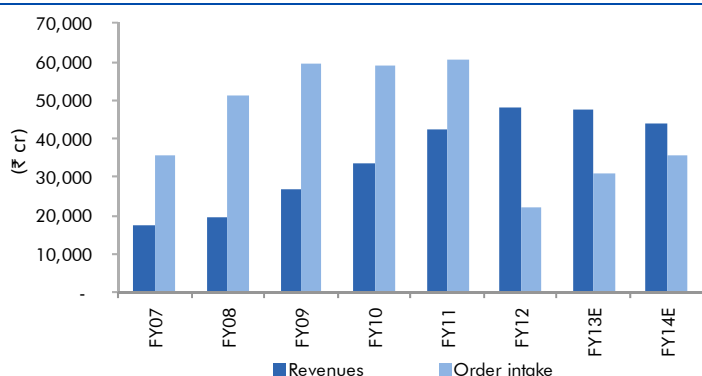


Source: Company, Angel Research

Order inflow guidance optimistic, in our view

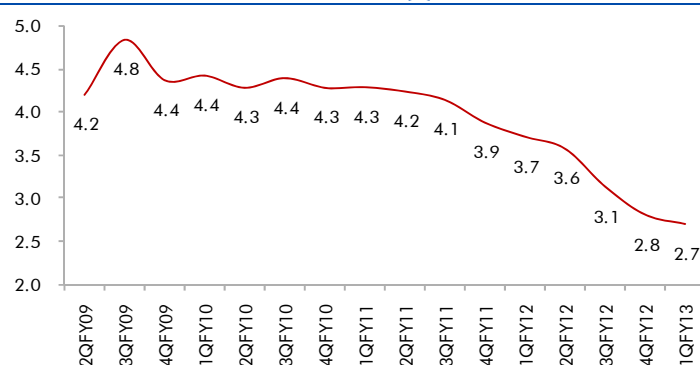
According to the management, the total order inflow for the quarter stood at ₹5,590cr (up 126% yoy) taking the total order book to ₹132,900 (down 16.7% yoy), thus implying an Order book coverage of ~2.7x, which has been deteriorating sequentially over the quarters. Management expects overall, 10-15GW of power sector orders during the year and expects order inflow of ₹60,000cr (1QFY2013 order flow at 9% of guidance). We find managements guidance optimistic and expect it to achieve ~₹31,000cr of order inflow during the year. On the positive side the management stated that there are hardly any slow moving orders.

Exhibit 9: Order inflow vs. Revenues estimates



Source: Company, Angel Research

Exhibit 10: Order book to sales (x)



Source: Company, Angel Research

Exhibit 11: Order Won during the quarter

Order details	Value (₹ Cr)	% of total
DVC's Raghunathpur project's turbine (2x660 mw)- Jharkhand		
Vindhyachal BTG package (500mw)- MP		
RRVUNL combined cycle plant 160 MW- Raj		
Solapur ESP package/ others- MH		
Power	3,797	68%
Exports	960	17%
Industrial Segment order flows	833	15%
Total order flows	5,590	100%

Source: Company, Angel Research

Outlook

Deteriorating dynamics in the BTG space: Recent trend in biddings and projects wins indicate that BHEL's leadership position is under threat, thus hinting for a loss in its market share going ahead. Further, given the structural issues faced by the power sector, times look tough for BTG players.

To remain under pressure: BHEL is trading at historically low valuations of 8.4x and 9.3x on FY2013E and FY2014E EPS estimates respectively, owing to 1) weak order inflow; 2) weak investment capex due to a high interest rate regime, which could take more time to gather momentum than earlier anticipated; and 3) changing competitive dynamics in the BTG space with strong capacity additions. We believe these concerns are far from over and, hence, expect the stock to remain under pressure and maintain our Neutral view.

Outlook and valuation: Given the strong competition (domestic as well as international), declining ordering flows and a weak capex cycle, we expect BHEL's profits, margins and ROE's to decline from current levels. Hence, the valuations of 8.4x and 9.3x FY2013 and FY2014 PE are largely overshadowed. **We continue to remain Neutral on the stock.**

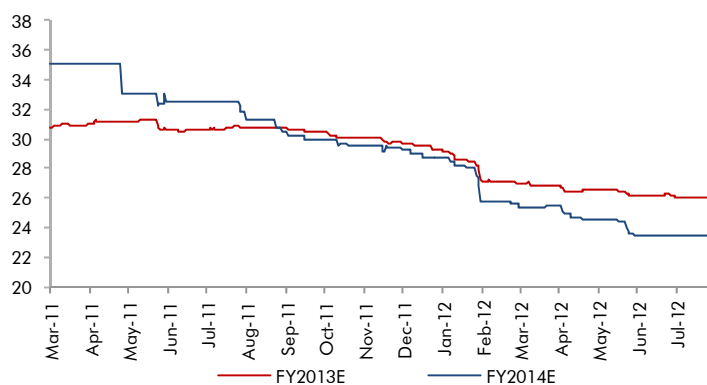
Change in estimates: We maintain our order inflow and revenue estimates for FY2013E and FY2014E; however we reduce out EBITDA margins estimates, thereby leading to reduced EBITDA and PAT estimates for FY2013E and FY2014E.

Exhibit 12: Change in estimates

₹ cr)	FY2013E			FY2014E		
	Earlier estimates	Revised estimates	Var. (%)	Earlier estimates	Revised estimates	Var. (%)
Revenue	47,801	47,801	0.0	43,757	43,757	0.0
EBITDA	9,263	9,082	(2.0)	8,661	8,226	(5.0)
PAT	6,295	6,173	(1.9)	5,855	5,561	(5.0)

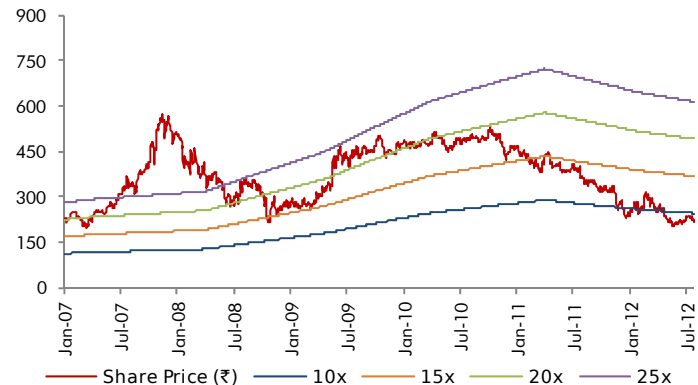
Source: Company, Angel Research

Exhibit 13: BHEL: Bloomberg EPS consensus estimates



Source: Bloomberg, Angel Research

Exhibit 14: BHEL: PE Band



Source: Company, Angel Research

Exhibit 15: Peer comparison

Company	Reco.	CMP (₹)	Tgt. price (₹)	Upside (%)	P/BV(x)		P/E(x)		FY2011-13E		RoCE (%)		RoE (%)	
					FY13E	FY14E	FY13E	FY14E	EPS	CAGR	FY13E	FY14E	FY13E	FY14E
ABB*	Sell	749	498	(33.5)	5.5	4.9	41.1	36.1	54.3	16.1	16.1	14.4	14.6	
BHEL	Neutral	212	-	-	1.7	1.5	8.4	9.3	(11.4)	28.3	22.0	22.3	17.5	
BGR Energy	Neutral	275	-	-	1.6	1.4	9.2	8.5	(3.4)	9.5	8.0	18.3	17.6	
Crompton Greaves	Accum.	114	128	11.9	1.8	1.6	10.5	9.7	33.4	7.8	9.7	11.1	14.2	
Jyoti Structures	Buy	38	67	77.3	0.4	0.4	3.5	2.8	5.9	13.2	14.2	13.7	14.9	
KEC International	Buy	55	74	34.3	1.1	0.9	5.2	4.5	36.8	12.9	14.1	25.9	24.0	
Thermax	Neutral	503	-	-	3.2	2.8	17.0	17.7	(8.9)	16.1	13.9	20.2	16.9	

Source: Company, Angel Research

Profit & loss statement (consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Total Income	27,012	33,653	42,538	48,355	47,801	43,757
% chg	36.9	24.6	26.4	13.7	(1.1)	(8.5)
Net Raw Materials	16,234	19,626	22,767	27,630	26,769	24,810
Other Mfg costs	3,593	1,612	5,744	5,245	6,023	5,513
Personnel	3,020	6,590	5,453	5,530	5,927	5,207
Other	-	-	-	-	-	-
Total Expenditure	22,846	27,828	33,963	38,404	38,719	35,531
EBITDA	4,166	5,825	8,575	9,951	9,082	8,226
% chg	12.5	39.8	47.2	16.1	(8.7)	(9.4)
(% of Net Sales)	15.4	17.3	20.2	20.6	19.0	18.8
Depn & Amort.	282	339	478	803	847	964
EBIT	3,884	5,486	8,097	9,148	8,235	7,263
% chg	14.0	41.2	47.6	13.0	(10.0)	(11.8)
(% of Net Sales)	14.4	16.3	19.0	18.9	17.2	16.6
Interest & other Charges	35	37	56	53	70	74
Other Income	978	1,165	1,027	1,272	980	1,050
(% of PBT)	20.2	17.6	11.3	12.3	10.7	12.7
Others	11.2	7.2	(1.8)	0.1	-	-
Recurring PBT	4,838	6,621	9,066	10,367	9,145	8,239
% chg	9.2	36.9	36.9	14.4	(11.8)	(9.9)
Extraord. Exp/(Inc.)	-	-	-	-	-	-
PBT (reported)	4,838	6,621	9,066	10,367	9,145	8,239
Tax	1,723	2,294	3,012	3,280	2,972	2,678
(% of PBT)	35.6	34.6	33.2	31.6	32.5	32.5
PAT (reported)	3,115	4,327	6,053	7,087	6,173	5,561
Add: earnings of associate	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	3,115	4,327	6,053	7,087	6,173	5,561
ADJ. PAT	3,115	4,327	6,053	7,087	6,173	5,561
% chg	8.9	38.9	39.9	17.1	(12.9)	(9.9)
(% of Net Sales)	11.5	12.9	14.2	14.7	12.9	12.7
Basic EPS (₹)	12.7	17.7	24.7	29.0	25.2	22.7
Fully Diluted EPS (₹)	12.7	17.7	24.7	29.0	25.2	22.7
% chg	8.9	38.9	39.9	17.1	(12.9)	(9.9)

Balance Sheet (consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity Share Capital	490	490	490	490	490	490
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	12,429	15,406	19,666	24,979	29,378	33,165
Shareholders' Funds	12,919	15,896	20,155	25,468	29,868	33,655
Minority Interest	-	-	-	-	-	-
Total Loans	167	148	270	1,480	1,480	980
Deferred Tax Liability	(1,840)	(1,529)	(2,165)	(2,165)	(2,165)	(2,165)
Total Liabilities	11,245	14,516	18,260	24,783	29,182	32,470
APPLICATION OF FUNDS						
Gross Block	5,501	6,858	8,344	9,857	11,315	12,781
Less: Acc. Depreciation	3,836	4,249	4,734	5,480	6,327	7,291
Net Block	1,665	2,609	3,610	4,377	4,987	5,490
Capital Work-in-Progress	1,157	1,552	2,203	2,090	1,932	1,866
Goodwill	-	-	-	-	-	-
Investments	6	6	11	11	11	11
Current Assets	36,986	43,002	51,621	54,528	57,950	54,999
Cash	10,330	9,856	9,706	8,332	5,004	16,124
Loans & Advances	2,342	2,662	3,076	2,418	3,107	3,063
Other	350	407	310	301	333	200
Current liabilities	28,569	32,656	39,188	36,226	35,702	29,900
Net Current Assets	8,417	10,346	12,432	18,302	22,248	25,099
Mis. Exp. not written off	-	2	4	4	4	4
Total Assets	11,245	14,516	18,260	24,783	29,182	32,470

Cash flow statement (consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E	FY2014E
Profit before tax	4,838	6,621	9,066	10,367	9,145	8,239
Depreciation	282	339	478	803	847	964
(Inc)/Dec in WC	1,411	(2,403)	(2,236)	(7,243)	(7,274)	8,269
Less: Other income	978	1,165	1,027	1,272	980	1,050
Direct taxes paid	2,184	2,021	3,649	3,302	2,972	2,678
Others	(18)	(27)	(14)	(0.2)	-	-
Cash Flow from Operations	3,351	1,345	2,617	(647)	(1,234)	13,744
(Inc.)/Dec.in Fixed Assets	(1,557)	(1,752)	(2,137)	(1,400)	(1,300)	(1,400)
(Inc.)/Dec. in Investments	2	-	(5)	-	-	-
Other income	978	1,165	1,027	1,272	980	1,050
Cash Flow from Investing	(577)	(587)	(1,115)	(128)	(320)	(350)
Issue of Equity	-	-	-	-	-	-
Inc./Dec.) in loans	71	(18)	122	1,210	-	(500)
Dividend Paid (Incl. Tax)	991	1,332	1,774	1,774	1,774	1,774
Others	90	119	0.1	-	-	-
Cash Flow from Financing	(920)	(1,350)	(1,652)	(564)	(1,774)	(2,274)
Inc./Dec.) in Cash	1,944	(474)	(150)	(1,339)	(3,328)	11,120

Key Ratios

Y/E March	FY2009	FY2010	FY2011	FY2012E	FY2013E	FY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	16.7	12.0	8.6	7.3	8.4	9.3
P/CEPS	15.3	11.1	8.0	6.6	7.4	8.0
P/BV	4.0	3.3	2.6	2.0	1.7	1.5
Dividend yield (%)	1.6	2.2	2.9	2.9	2.9	2.9
EV/Sales	1.5	1.3	1.0	0.9	1.0	0.8
EV/EBITDA	10.0	7.3	5.0	4.5	5.3	4.5
EV/Total Assets	3.2	2.6	2.1	1.7	1.5	1.1
OB/Sales	4.1	4.2	3.8	2.7	2.5	2.5
Per Share Data (₹)						
EPS (Basic)	12.7	17.7	24.7	29.0	25.2	22.7
EPS (fully diluted)	12.7	17.7	24.7	29.0	25.2	22.7
Cash EPS	13.9	19.1	26.7	32.2	28.7	26.7
DPS	3.5	4.7	6.2	6.2	6.2	6.2
Book Value	52.8	64.9	82.3	104.0	122.0	137.5
DuPont Analysis						
EBIT margin (%)	14.4	16.3	19.0	18.9	17.2	16.6
Tax retention ratio	0.6	0.7	0.7	0.7	0.7	0.7
Asset turnover (x)	10.3	7.5	5.0	3.3	2.1	2.0
ROIC (Post-tax) (%)	95.7	80.3	64.0	42.7	24.7	21.9
Cost of Debt (Post Tax) (%)	17.3	15.2	18.0	4.1	3.2	4.1
Leverage (x)	(0.8)	(0.6)	(0.5)	(0.3)	(0.1)	(0.5)
Operating RoE (%)	34.0	40.5	42.4	32.3	22.2	13.8
Returns (%)						
RoCE (Pre-tax)	32.4	37.7	44.4	38.6	28.3	22.0
Angel RoIC (Pre-tax)	227.9	176.3	123.3	73.1	40.3	35.4
RoE	26.3	30.0	33.6	31.1	22.3	17.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	5.3	5.4	5.5	5.2	5.3	3.6
Inventory / Sales (days)	92	93	87	91	100	100
Receivables (days)	189	200	207	219	255	255
Payables (days)	343	332	345	372	393	395
WC cycle (ex-cash) (days)	(16)	(8)	14	48	104	109
Solvency ratios (x)						
Net debt to equity	(0.8)	(0.6)	(0.5)	(0.3)	(0.1)	(0.5)
Net debt to EBITDA	(2.4)	(1.7)	(1.1)	(0.7)	(0.4)	(1.8)
Int. coverage (EBIT / Int.)	110.4	149.5	143.6	172.3	117.6	98.4

Research Team Tel: 022 – 3935 7600

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

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Disclosure of Interest Statement

	BHEL
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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