

June 6, 2014

Bharat Heavy Electricals Ltd.

BSE Code: 500103 NSE Code: BHEL Reuters Code: BHEL.NS Bloomberg Code: BHEL:IN

Bharat Heavy Electricals Ltd, (BHEL) is an integrated power plant equipment manufacturer and one of the largest engineering and manufacturing companies in India. The company 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. BHEL offers over 180 products and provides systems and services to meet the needs of core sectors. They have a wide-spread network comprising 15 manufacturing divisions, 8 service centres, 4 power sector regional centres, 18 regional offices, besides a large number of project sites spread all over India and abroad.

Investor's Rationale

Topline declined by 21% amid slowdown in order inflow – BHEL registered de-growth of 21% YoY in its topline to ₹147.5 bn in Q4FY14 due to lack of demand from the captive power plants and slower execution at the major power producers. The company has indicated that execution has been slower at the customer's end due to lack of clearances for its projects and tight liquidity market conditions. The revenue from Power fell by 21% at ₹122.11 bn and Industry segment fell by 25% at ₹32.31 bn.

Net profit fell ~43% on higher fixed costs – BHEL's profit shrank sharply by around 43% YoY to ₹18.4 bn in Q4FY14 as against ₹6.9 bn in Q4FY13 on account of weak performance at the operational level. The merger of Bharat Heavy Plates & Vessels with the company with effect from August 30, 2013, has impacted profit for the quarter by ₹0.21 bn. Consequently, NPM contracted 457 bps YoY to 12.0% from 16.6%.

EBITDA margin contracted 604 bps – The EBITDA of the company contracted 41.3% YoY to ₹27.3 bn against the ₹46.5 bn year earlier, on account of significant drop in revenue and high fixed costs. Accordingly, OPM contracted 604bps YoY to 18.2% from 24.2% mainly due to higher material cost (as % to sales) up by 239 bps YoY. However, margins were partially supported by fall in employee cost by 8% at ₹13.2bn and other expenses by 7% at ₹23.04bn.

Expect power generation capex to pick up - Power generation capex is expected to pick up driven by structural trends. The Indian power sector has witnessed a series of attempts by the government to address the various contentious issues surrounding SEB finances, fuel availability, tariff review, etc. During FY14, company's total order intake stood at ₹285 bn and around 59% of the total order inflow comes only in Q4, which reflects that the efforts made the government to revive economy will shortly begin yielding actual results. However company's total order outstanding declined by 11% YoY to ₹1,015 bn in FY14 as against ₹1,151 bn.

Market Data

Rating	BUY
CMP (₹)	263
Target Price	310
Stop Loss	241
Duration	Short-term
52-week High-Low (₹)	291/100
Rise from 52WL (%)	61.5
Correction from 52WH (%)	10.6
Beta	2.54
1 year Average Volume (mn)	6.10
Stock Return (%)	3M- 49.32 6M- 51.33 1Y- 35.29
Market Cap (₹bn)	633.19
Book Value (₹)	139.06

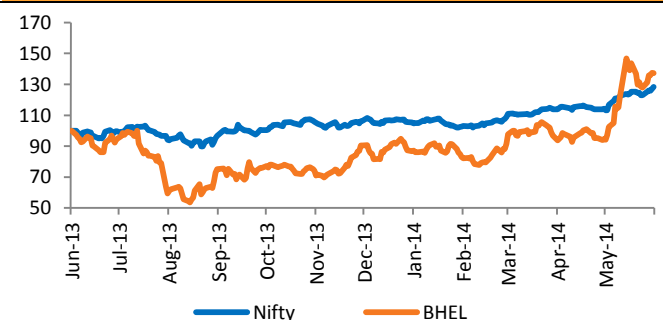
Shareholding Pattern

	Mar'14	Dec'13	Chg
Promoters (%)	63.06	67.72	(4.66)
FII (%)	16.14	15.63	0.51
DII (%)	16.47	11.96	4.51
Public & Others (%)	4.33	4.69	(0.36)

Quarterly Performance

(₹bn)	Q4 FY'14	Q4 FY'13	Q3 FY'14	YoY Change(%)	QoQ Change (%)
Sales	147.5	188.5	84.6	(21.7)	74.3
Op. exp	123.0	145.5	76.5	(15.5)	60.8
EBITDA	27.3	46.5	9.9	(41.3)	177.2
OPM (%)	18.2	24.2	11.4	(604bps)	676bps
Net profit	18.4	32.4	6.9	(43.1)	165.3
NPM (%)	12.0	16.6	7.8	(457bps)	424bps
EPS (₹)	7.5	13.2	2.8	-43.0	165.5

One Year Price Chart





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