

September 15, 2014

**Bharat Heavy Electricals Ltd.**

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

Bharat Heavy Electricals Limited (BHEL) is India's largest engineering and manufacturing company, engaged in the design, engineering, manufacture, construction, testing, commissioning and servicing of a wide range of products and services. The company has 17 manufacturing divisions, 8 service centers, 4 power sector regional centers and infrastructure to execute more than 150 project sites across India and abroad. It has a manufacturing capacity of 20GW spread across multiple factories in India; including for thermal, hydro and gas projects. BHEL's global references are spread over 76 countries across all the six continents of the world. The cumulative overseas installed capacity of BHEL manufactured power plants exceeds 9,000 MW across 21 countries.

### Investor's Rationale

**Topline plunged 20% to ₹50.7bn** – BHEL registered a 20.2% YoY decline in its topline to ₹50.7 bn in Q1FY15, mainly due to lack of fresh orders and a general slowdown in the power sector and industry segments. The power business, which represents three-fourths of its revenue saw decline of 22.95% YoY to ₹41.44 bn. The revenue from industry segment fell by 12.3% at ₹11.33 bn.

**Net profit fell by 58.4% on lower revenue** – BHEL's profit fell sharply by around 58.4% YoY to ₹1.9 bn in Q1FY15 as against ₹4.7 bn in Q1FY14 due to lower revenues and weak operational performance. Further, Other income during the quarter was down by 35% to ₹3.48 bn from ₹5.38 bn also dragged the profits lower. Consequently, NPM contracted 314 bps YoY to 3.5%.

**EBITDA declined by 44% YoY** – In line with lower sales, the EBITDA also fell by 44% YoY to ₹2.2 bn against ₹3.9 bn, mainly due to execution concerns with its private sector order book. Reducing order book, delay in clearance and delay in payments by clients are impacting execution. Though, the qther expenses fell by 20.5% YoY at ₹7.63 bn and cost of material consumed also fell by 8.09% YoY at 32.00 bn during the qaurter. While, employee expenses grew by 6.98% YoY to ₹15.77 bn. Accordingly, OPM contracted 179 bps YoY to 4.2%.

**Looking at the renewable sector to get business** - BHEL along with five other PSUs will build the world's largest 4,000 MW ultra-mega solar power project in Rajasthan. The project will come up on surplus land available with SSL in Sambhar, Rajasthan and the equipment will be supplied by BHEL. The JV will have equity of 26% from BHEL, 23% from SECI (Solar Energy Corporation of India), 16% from SSL (Sambhar Salt Ltd), 16% from PGCIL, 16% from SJVNL (Satluj Jal Vidyut Nigam) and 3% from REIL (Rajasthan Electronics & Instruments Limited). The project will be developed in different phases in 7 to 8 years.

### Market Data

Rating	HOLD	
CMP (₹)	220	
52-week High-Low (₹)	291.5/126.2	
Rise from 52WL (%)	73.01	
Correction from 52WH (%)	25.4	
Beta	1.95	
1 year Average Volume (mn)	5.93	
Stock Return (%)	3M-	(11.6)
	6M-	15.3
	1Y-	55.04
Market Cap (₹bn)	533.08	
Book Value per share (₹)	135.47	

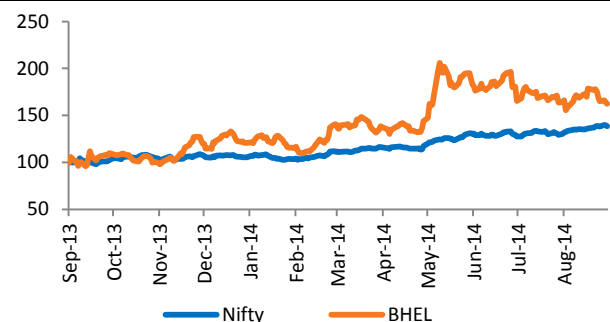
### Shareholding Pattern

	Jun'14	Mar'13	Chg
Promoters (%)	63.06	63.06	0.00
FII (%)	15.9	16.14	(0.24)
DII (%)	16.62	16.47	0.15
Public & Others (%)	4.42	4.33	0.09

### Quarterly Performance (Standalone)

(₹bn)	Q1 FY'15	Q1 FY'14	Q4 FY'14	YoY Change(%)	QoQ Change(%)
Sales	50.7	63.5	147.5	(20.2)	(65.7)
Op. exp	49.4	60.7	123.0	(18.7)	(59.9)
EBITDA	2.2	3.9	27.3	(44)	(92.0)
OPM (%)	4.2	6.0	18.1	(179bps)	(1,392bps)
Net profit	1.9	4.7	18.4	(58.4)	(89.5)
NPM (%)	3.5	6.7	12.0	(314bps)	(852bps)
EPS (₹)	0.8	1.9	7.5	(58.4)	(89.5)

### One Year Price Chart





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