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## **BHEL —STRONG BUY—2020—INR**

Sector— Engineering  
Regd.off— BHEL House, Siri Fort, New Delhi , 110049  
Listed— BSE, NSE

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### **Company overview—**

Bharat Heavy Electricals Limited (BHEL) is one of the largest engineering enterprises of its kind in India. BHEL is the largest domestic capital goods manufacturer in India and the 12th largest in the world. The international competitors of BHEL are General Electric, Siemens, Alstom and ABB. BHEL offers a wide spectrum of equipment, systems and services in the field of power, transmission, industry, transportation, oil & gas, non-conventional energy sources and telecommunication. Power sector constitutes over half of its total business. The company has 14 manufacturing divisions, 8 service centres and 4 power sector regional centres. Its first plant was set up at Bhopal in 1956 under technical collaboration with AEI, UK followed by three more major plants at Hardwar, Hyderabad and Tiruchirapalli with Russian and Czechoslovak assistance.

### **Products & services—**

BHEL manufactures over 200 products under 30 major product groups. The company has installed equipment for over 100,000 mw of power generation for utilities, captive and industrial users. Its strengths are comparable product range and cost competitiveness with foreign manufacturers. The company enjoys a crucial advantage of depreciated assets. The company is cost-competitive when it comes to power plant equipment and has bagged a number of power project orders placed in India against open international competitive bidding.

The company has joint venture with Siemens for servicing old Indian fossil fuel power plants and with GE for designing of heavy-duty gas turbines. Thirty-two thermal power stations equipped with BHEL's generating sets have been given productivity awards by the power ministry. Of these power stations, eight have received gold medals. The awards have been given for meritorious and efficient performance based on account of reduced inputs.

The company already manufactures products required by the distribution systems like transformers, switchgears etc. The company is planning towards becoming an application service provider. The company will continue to focus on project management, reducing cycle time and cost control. In the power sector, the company plans to obtain a part of the business generated by independent power producers through a combination of approaches including consortium route, equity participation and limited financial syndication.

It has equipped itself with the new type of once-through design boiler technology, and for pollution control - bag filter technology. BHEL entered into new business in integrated gassification combined cycle systems, coal washeries, and LRT systems. In its existing

businesses of transportation, transmission & industry. BHEL is pursuing opportunities in EMU coaches, loco refurbishment, gas-insulated switcher, HVDC insulators, and electronic meters. The company will continue to focus on product developments in order to foster its growth strategy. The electronics division has forayed into traction business and received a large order from DoT for switching equipment.

BHEL has developed a new series compensation scheme Flexible AC Transmission System (FACTS) for reducing power losses and speedy transmission. The FACTS will enhance power transfer capability of the system and reduce transmission losses in 400 kV lines considerably. The company has also developed an automatic device that adjusts itself to the system's requirement in less than 10 milliseconds. It reduces system losses and improves power system stability in high-voltage transmission lines.

### Recent News—

BHEL is planning an investment of Rs 7.36 billion to increase the capacity of its manufacturing plant at Trichy in Tamil Nadu by 2009. Company will upgrade the production capacity of boilers by over four times in the unit. It has already invested Rs 1.9 billion on the boiler shop in Tamil Nadu. The company is increasing its manufacturing capacity to 15,000 MW per annum by 2009. After this, production capacity for manufacturing thermal and nuclear boilers would go up to 4,81,000 million tons from a capacity of 1,08,000 million tons prior to commencement of the expansion program. The scheme includes installation of manufacturing facilities for supercritical boilers, material handling, storage and shipping facilities.

BHEL bagged a mega contract for setting up 2 units of 500 MW each at Anpara D Thermal Power Station (TPS) in Uttar Pradesh. The order is valued at Rs 33,900 million. The units, ordered by Uttar Pradesh Rajya Vidyut Utpadan Nigam (UPRVUNL), are scheduled for commissioning in 2011-12. BHEL also bagged a Rs 6.50 billion contract from the General Electricity Company of Libya for setting up a 300 mw gas turbine-based power plant on engineering, procurement and construction (EPC) basis. Company has also bagged one Rs 10.75 billion order for setting up a 350-mw power plant in Gujarat. Gujarat State Energy Generation has placed the engineering, procurement and construction order for the gas turbine-based combined cycle power plant to be installed at Hazira in Gujarat.

### Financials—

Financials for 01-oct-2007 to 31-dec-2007 quarter

Financial Results	Rs. lakhs
Net Sales/Income from Operations	496414.00
Other Income	26486.00
Total Income	522900.00
Increase/Decrease in Stock in trade	-6871.00
Consumption of Raw Materials	285095.00
Employees Cost	74636.00
Depreciation	7615.00
Other Expenditure	43797.00
Total Expenditure	404272.00
Interest	976.00
Profit from Ordinary Activities before tax	117652.00

Tax Expense	40462.00
Net Profit	77190.00
Dividend (%)	90.00
Face Value (in Rs.)	10.00
Paid-up Equity Share Capital	48952.00
Basic EPS	15.77

### Valuation—

The fourth ultra mega power project (UMPP) is to be awarded shortly and states have been urged to bring five new UMPPs to the bidding stage as mentioned in the budget. Rajiv Gandhi Vidyutikaran Yojana will be continued in Eleventh Five Year Plan with a capital subsidy of Rs.280 bn and an allocation of Rs.55 bn for FY09. Company is having strong order book position for next 2 years. We expect 27.5% revenue CAGR for next 2 years for the company. At CMP, Company shares are trading at only 24 P/E multiple for FY2009. We recommend investors to BUY "BHEL" for medium to long-term investment prospective.

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