

Bharat Heavy Electricals

Apple Green

Stock Update

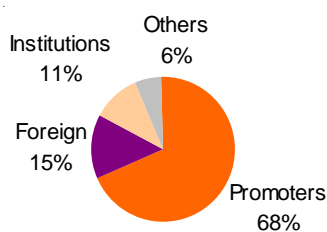
BHEL emerges L2 bidder for 11x660MW turbine orders

Hold; CMP: Rs2,575

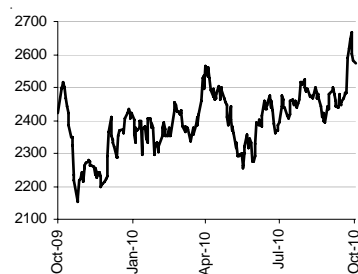
Company details

Price target:	Rs2,832
Market cap:	Rs126,065 cr
52 week high/low:	Rs2695/2105
NSE volume: (No of shares)	3.0 lakh
BSE code:	500103
NSE code:	BHEL
Sharekhan code:	BHEL
Free float: (No of shares)	13.6 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.0	10.4	3.3	7.2
Relative to Sensex	-1.8	-5.4	-3.6	-12.5

BHEL emerged as L2 in the turbine orders

A joint venture (JV) between Bharat Forge Ltd and Alstom SA (BFA) has emerged as the lowest bidder for the supply of supercritical turbine-generators for the 7260MW (11x660MW) National Thermal Power Corporation (NTPC)-Damodar Valley Corporation (DVC) power projects. Here, the traditional market leader in power equipment, Bharat Heavy Electricals Ltd (BHEL) has emerged as the second lowest (L2) bidder, followed by the joint venture of Toshiba Corp. and JSW Group (TJG), which was the third lowest (L3) bidder. BFA will get up to five units, BHEL will get four, with the remaining two going to the Toshiba-JSW joint venture, provided they match the quote of BFA.

Likely scenario	Units	Unit size (MW)	Capacity (MW)
Total order	11	660	7260
BFA	5	660	3300
BHEL*	4	660	2640
TJG*	2	660	1320

*Provided they match L1 prices

Concerns for BHEL intensify...

The concerns over BHEL's ability to maintain its market leadership position have gained further foothold as:

- the new players are aggressively bidding to get a breakthrough in the supercritical equipment market and would be eligible for bigger projects like the upcoming 9x 800MW tendering;
- while the market was more worried about the Chinese competition, multinational giants like Toshiba and Alstom Projects are now giving equally tough competition to BHEL (in collaboration with the Indian partners);
- there is also concern over the overcapacity situation in the power equipment market in the next two to three years which could further trigger an aggressive price war in the coming years.

Valuation table

Particulars	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net sales (Rs cr)	19365.5	26234.2	32880.3	41414.4	48099.0
Net profit (Rs cr)	2792.8	3138.2	4310.7	5340.7	6301.1
EPS (Rs)	57.1	64.1	88.1	109.1	128.7
% yoy growth	15.7	12.4	37.4	23.9	18.0
PER (x)	45.1	40.2	29.2	23.6	20.0
Book Value (Rs)	220.1	264.3	325.2	404.8	498.8
P/BV (Rs)	11.7	9.7	7.9	6.4	5.2
EV/EBIDTA (x)	34.4	30.8	20.9	16.1	13.0
Dividend Yield (%)	0.6%	0.7%	0.9%	1.1%	1.3%
RoCE (%)	43.1	40.8	41.3	45.5	43.4
RoNW (%)	25.9	24.3	27.1	27.0	25.8

Super critical power capacity by FY2014#

Companies*	Boilers	Turbine-generator
L&T–MHI JV	4000	4000
BGR Energy–Hitachi JV	3000	3000
Gammon–Ansaldo	1500	0
Bharat Forge–Alstom JV	0	5000
JSW–Toshiba JV	0	3000
Thermax–B&W JV	3000	0
Cethar vessels	8000	0
Total	19500	15000

*Other than BHEL

#Post-completion of expansion plan

The good thing is BFA posed a healthy competition...

On the positive side, BFA has prudently quoted for the bid at an average realisation of about Rs1.3 crore per MW which looks healthy. Moreover, the price bid difference between the lowest bidder (L1) and the L2 is said to be less than 10% only. BHEL also had little incentive in bidding aggressively as it was assured of an order for a minimum four sets of turbine generators. The price bid difference between the L1 and the L3 bidder is said to be more than 25% and if TJG is not able to match L1's prices, BHEL could win the orders for the additional two sets of turbine generators.

Competition for the 9x 800 MW tendering likely to heat up

In this tendering, while Larsen and Toubro (L&T) was disqualified in the technical bid, the other early entrants like Thermax and BGR couldn't participate in the bidding and the competition was largely limited to three to four players. However, we expect the next round of 9x 800MW bulk tendering will have more intensified competition as these players are also expected to compete for the orders.

Outlook and valuation

While the competition is likely to intensify in the supercritical power equipment space with more players in the sector, BHEL's robust order book (4.5x its FY2010 revenue) minimises the need for any aggressive bidding. We also remain positive about its recent initiatives like the ones in the power transmission & distribution sector and overseas power equipment market, which would help the company in diversifying its business profile and geographies. At the current market price, the stock is trading at a price to earnings of 20x and enterprise value/earnings before interest, depreciation, tax and amortisation of 13x on our FY2012 estimate. We maintain our Hold call on the stock.

The author doesn't hold any investment in any of the companies mentioned in the article.

Sharekhan Stock Ideas

Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys Technologies
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Apollo Tyres
Bajaj Auto
Bajaj Finserv
Bajaj Holdings & Investment
Bank of Baroda
Bank of India
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Corporation Bank
Crompton Greaves
GAIL (India)
Glenmark Pharmaceuticals
Godrej Consumer Products
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Piramal Healthcare (Nicholas Piramal India)
Punjab Lloyd
Sintex Industries
State Bank of India
Tata Global Beverages (Tata Tea)
Wipro

Cannonball

Allahabad Bank
Andhra Bank
IDBI Bank
Madras Cements
Phillips Carbon Black
Shree Cement

Emerging Star

3i Infotech
Allied Digital Services
Axis Bank (UTI Bank)
Cadila Healthcare
Emco
Greaves Cotton
IL&FS Transportation Networks
IRB Infrastructure Developers
Max India
Opto Circuits India
Patels Airtemp India
Thermax
Zydus Wellness

Ugly Duckling

Ashok Leyland
BASF India
Deepak Fertilisers & Petrochemicals Corporation
Federal Bank
Gayatri Projects
Genus Power Infrastructures
India Cements
Ipca Laboratories
ISMT
Jaiprakash Associates
JB Chemicals & Pharmaceuticals
Kewal Kiran Clothing
Orbit Corporation
Pratibha Industries
Provogue India
Punjab National Bank
Ratnamani Metals and Tubes
Selan Exploration Technology
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Sunil Hitech Engineers
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
United Phosphorus
V-Guard Industries
Zensar Technologies

Vulture's Pick

Mahindra Lifespace Developers
Orient Paper and Industries
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