

India Industrials

Sector review

Order announcements pick-up, but L&T loses out

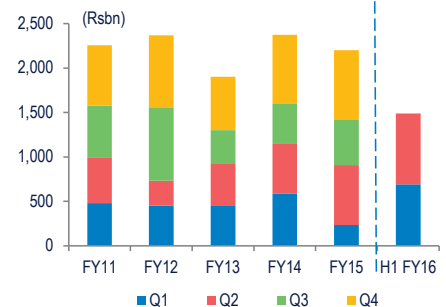
Our database of order announcements by industrial companies/ awarding agencies shows a pick-up in Q2 FY16 (and H1 FY16). This is driven by commoditised segments (highways, water, power T&D) and government sector (Centre and States). However, L&T's market share appears to have fallen sharply, as a) it missed out on certain large orders (power gen, DFC); and b) smaller regional players increased penetration in water and highway sectors. BHEL's experience has been mixed in Q2, though orders for which it emerged the lowest bidder are yet to be placed. We think project companies could continue facing trade-off between orders and margins. Our preference stays for product companies (Voltas, V-Guard, Havells, Finolex Cables).

- Order award pace picks up.** Our orderflow database (>Rs12tn/ >11k orders) captures domestic orders announced by industrial companies and awarding agencies over the last six years. Aggregate order announcements in Q2 FY16 stood at Rs795bn, higher than quarterly average of c.Rs650bn in the last four quarters. H1 FY16 order announcements of c.Rs1.5tn are also sharply higher than <Rs1tn in H1 FY15 (partly due to weak pre-election spending in FY15).
- Driven by commoditised sectors.** NHAI highways (>Rs380bn, c.2400km), Water and Power T&D sectors have seen a sharp increase in order awards in Q2 (and H1) FY16. While smaller EPC contractors have increased their market shares in NHAI projects, there are some early signs of competitive intensity easing in the sector (differential between pricing bids and NHAI's estimates costs has fallen). Water orders in Q2 were driven by Telangana government's water grid project (Rs350bn). Megha Engineering emerged as the biggest beneficiary, with several other regional contractors also winning large chunks.
- Public sector strong; private weak.** Order awards have been extremely strong by Centre (NHA) as well as State (Power T&D, Water) sectors. Conversely, private sector has continued to shy away from placing orders.
- L&T loses out; sharp market share fall in H1.** L&T's announced domestic orders represent only 11% of orders captured by our database in H1 FY16 – a sharp reduction from 25-30% in the last five years. The company has announced <Rs120bn worth of orders in Q2 FY16 (cf. c.Rs220bn in Q2 FY15), of which c.40% came from the international markets. It missed out on certain large orders (like Rs34bn 1x660MW EPC power project in UP, Rs40bn civil construction package on WDFC, Rs15bn electrification package on EDFC) on pricing. Bids of two more power generation projects were opened in Q2 (yet to be awarded, aggregate 5.6GW) and L&T did not emerge the preferred bidder in either of those. Moreover, L&T's market share in highway and water segments appears to have fallen in H1/ Q2, with smaller regional EPC players garnering a large chunk of Telangana water-grid and NHAI orders.
- BHEL wins some; loses some.** Order for only one power gen project (1 x 660MW Harduaganj) was placed in Q2, for which JSW-Toshiba emerged the lowest bidder (BHEL L2). Bids were also opened for two more projects (yet to be awarded), and BHEL is the L1 bidder for 1.6GW Ramagundum TG set (boiler: Doosan), and 4GW Pudimadaka boiler (TG: Bharat Forge-Alstom).

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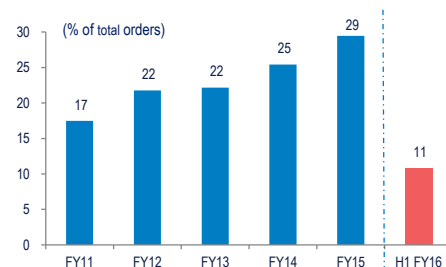
Company	Rec	Target
Bharat Heavy Electricals	Sell	INR185.00
Finolex Cables	Buy	INR340.00
Havells India	Buy	INR312.00
Larsen & Toubro	Hold	INR1693.00
Thermax	Sell	INR925.00
V-Guard Industries	Buy	INR1270.00
Voltas	Buy	INR360.00

Order announcements pick-up in H1 FY16



Source: Media articles, Companies, NHAI, PowerGrid, Investec Securities estimates

L&T's market share in announced domestic orders



Source: Media articles, Companies, NHAI, PowerGrid, Investec Securities estimates

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Ordering activity gathers pace

Table 1: Analysis of domestic order announcements in H1 of the last 6 six years

(Rs bn)	H1 FY11	H1 FY12	H1 FY13	H1 FY14	H1 FY15	H1 FY16	H1 FY16 vs 5 yr H1 Avg
Power gen	240	75	137	200	171	231	41%
Power T&D	58	70	114	158	244	230	78%
Power BoP	53	65	53	48	25	5	-90%
Power total	351	210	304	406	440	466	36%
NHAI highways	264	155	84	24	20	383	250%
Other roads	80	23	63	79	54	61	1%
Railways (incl DFC)	8	2	50	81	19	101	213%
Metro	18	26	74	123	35	25	-55%
Water	16	54	54	135	45	264	335%
Ports	25	0	13	9	1	1	-89%
Airports	7	-	2	2	21	1	-92%
Buildings, factories	88	98	142	108	80	62	-39%
Infrastructure total	504	359	481	562	275	896	105%
Hydrocarbons	58	115	53	69	79	89	19%
Defence	7	10	2	6	24	6	-34%
Misc	99	213	169	226	89	30	-81%
Grand Total	1,019	907	1,008	1,269	907	1,488	46%

Source: Media articles, Companies, NHAI, PowerGrid, Investec Securities estimates. H1 FY15 was weak due to weak order placements in Q1 FY15 (election quarter)

Table 2: Analysis of domestic order announcements over years

(Rs bn)	FY11	FY12	FY13	FY14	FY15	1H FY16
Power gen	615	421	264	467	432	232
Power T&D	217	327	236	315	468	229
Power BoP	163	90	86	93	59	3
Power (incl T&D) total	995	838	587	875	959	464
NHAI highways	502	491	148	95	224	383
Other roads	122	132	158	175	138	61
Railways (incl DFC)	30	43	97	114	81	101
Metro	89	71	165	133	81	25
Water	59	132	75	290	98	264
Ports	26	13	26	104	25	1
Airports	7	-	5	7	22	1
Buildings, factories	137	228	269	257	230	74
Infrastructure total	971	1,111	943	1,174	899	909
Hydrocarbons	126	170	89	115	114	84
Defence	14	10	7	19	58	6
Misc	152	238	275	193	174	24
Grand Total	2,258	2,367	1,901	2,376	2,203	1,488

Source: Media articles, Companies, NHAI, PowerGrid, Investec Securities estimates

Order announcements by various listed/unlisted industrial companies as well as awarding agencies stood at c.Rs1.5tn in H1 FY16...

...sharply higher than H1 in last few years

This was driven by NHAI highways and water segments (Telnagana Water Grid)

DFC and Power T&D orders were also strong

Power Gen orders picked-up due to a large 4GW order placed on BHEL...

...Bids of some more power projects were opened, but orders have not yet been placed

Power T&D as well as Water orders were driven by states in H1 FY16

NHAI awarded >Rs380bn worth of projects in H1

Railways order pick-up was mainly on account of DFC project awards (civil package at WDFC and electrification package at EDFC)

Building and factories order announcements have slowed down

Table 3: Analysis of domestic order announcements over quarters

(Rs bn)	FY11				FY12				FY13				FY14				FY15				FY16	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Power gen	72	168	191	184	59	16	236	110	98	39	66	62	137	62	97	171	15	155	93	168	189	42
Power T&D	29	30	44	115	31	39	131	126	51	62	59	64	55	103	75	82	55	190	112	111	106	124
Power BoP	31	22	30	80	46	18	21	4	42	11	11	22	17	31	16	29	14	11	20	14	-	5
Power total	132	219	265	379	137	73	388	240	191	113	136	147	210	196	188	282	84	356	225	294	296	171
NHAI highways	164	99	139	99	27	129	124	212	41	42	32	33	16	8	42	29	19	2	18	179	205	177
Other roads	46	34	27	15	12	11	54	56	41	23	29	66	16	63	10	86	15	39	51	33	30	30
Railways (incl DFC)	2	7	14	7	0	2	34	7	16	33	13	34	75	6	3	30	18	1	55	7	33	68
Metro	3	15	2	69	26	0	20	24	15	60	55	36	90	33	3	7	10	25	18	28	12	14
Water	5	11	19	25	38	16	23	55	23	31	10	11	36	99	57	98	8	37	19	34	20	244
Ports	20	4	2	0	0	-	-	13	1	12	10	3	-	9	10	85	0	1	2	22	1	-
Airports	2	5	-	-	-	-	-	-	1	0	-	3	2	-	1	3	-	21	1	-	-	1
Buildings, factories	36	52	30	19	71	27	69	61	61	81	51	77	52	57	65	84	41	40	45	105	23	39
Infrastructure total	278	226	234	234	175	185	323	428	199	282	200	263	287	275	192	421	110	165	209	409	324	585
Hydrocarbons	29	28	43	25	101	14	23	31	37	16	12	25	24	46	28	17	13	66	32	2	49	40
Defence	6	1	5	2	10	-	1	-	1	1	5	-	4	2	11	2	-	24	4	30	6	-
Misc	66	36	82	33	185	28	88	95	50	119	24	116	113	113	38	69	26	63	42	24	19	11
Grand Total	508	511	628	673	607	300	824	795	476	532	376	550	637	631	456	791	234	674	512	759	693	795

Source: Media articles, Companies, NHAI, PowerGrid, Investec Securities research

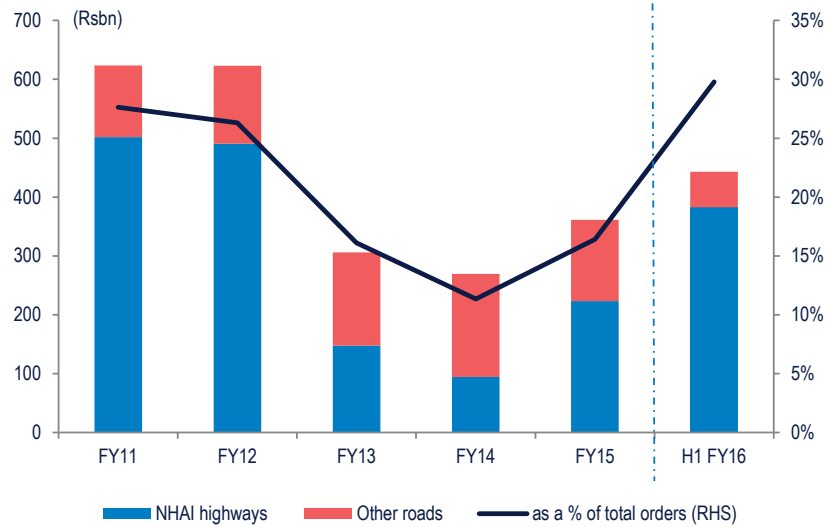
Order pick-up driven by commoditised sectors...

NHAI has awarded >Rs380bn worth of projects in H1 FY16 (c.2,400kms)...

...with roughly half placed on BOT basis

Realisation / km was higher in H1 FY16 as certain greenfield projects were awarded (Eastern periphery)

Figure 1: Road orders: Strong ordering by NHAI drives sharp jump in road orders



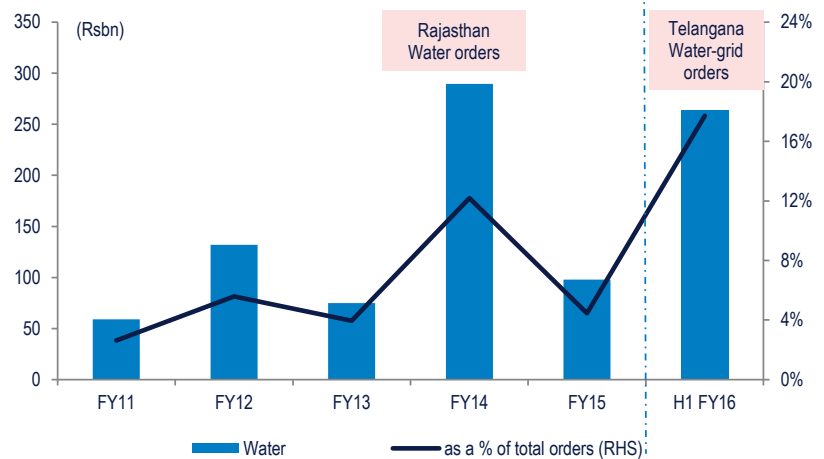
Source: Investec Securities estimates

Figure 2: Water segment orders: Sharp pick-up due to Telangana orders

Water orders in H1 FY16 were driven by large Water Grid orders placed by Telangana

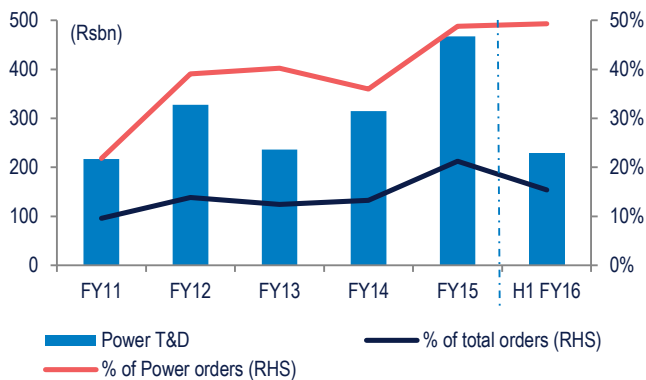
This is discussed in greater detail later

Power T&D orders were also strong, mainly due to sharp pick-up in orders from states



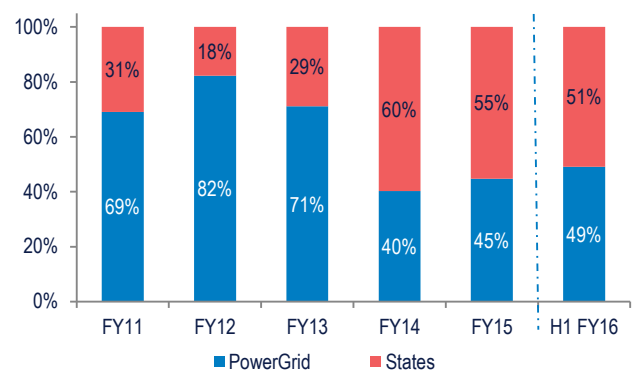
Source: Investec Securities estimates

Figure 3: Power T&D orders



Source: Investec Securities estimates

Figure 4: State share in Power T&D has risen



Source: Investec Securities estimates

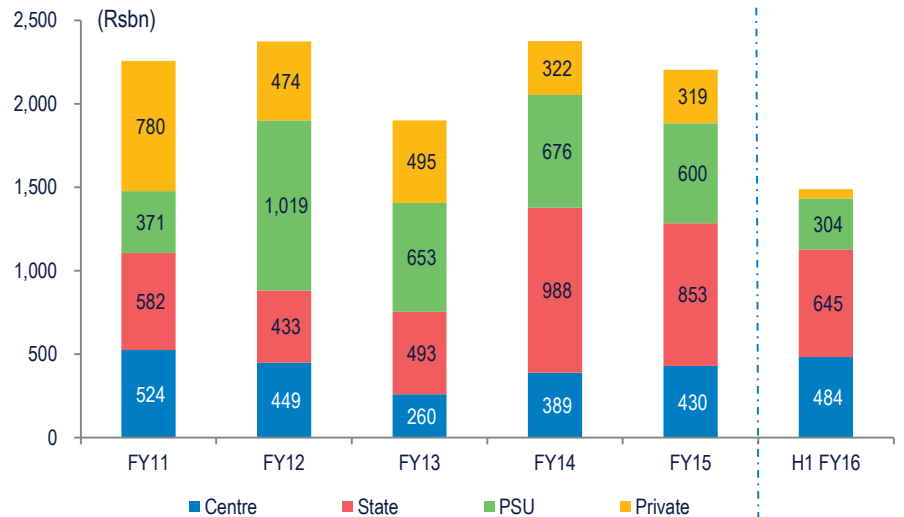
...as well as Central and state governments

Figure 5: Split of order awards by awarding agency

Private sector placed <Rs60bn worth of orders in H1 FY16

Central government order placements was driven by NHAI projects...

...while states ordering in Water and Power T&D segments also increased sharply

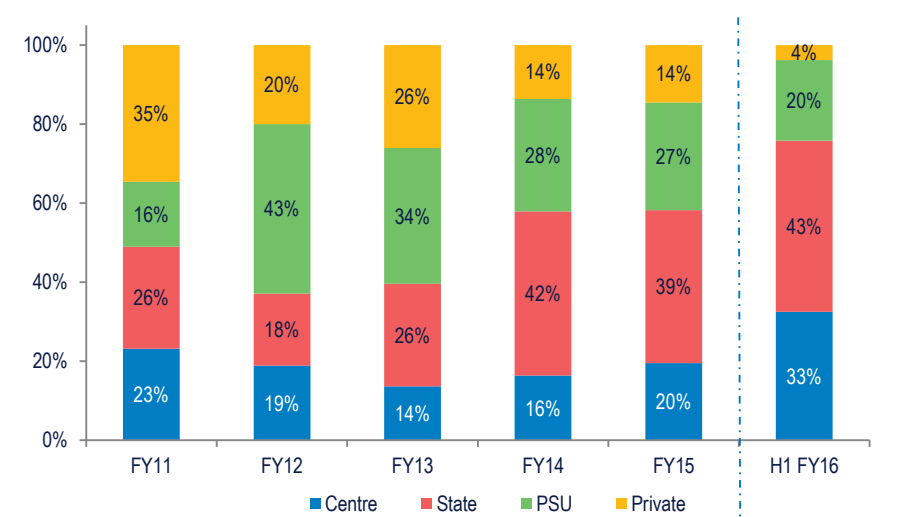


Source: Investec Securities estimates

Figure 6: Proportion of orders from central gov, state govts, PSUs and private sector

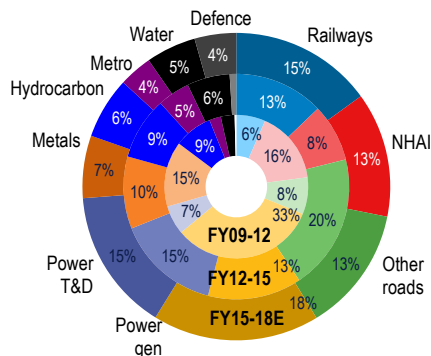
Private sector contributed <4% of aggregate orderflow announcements

As highlighted in our sector initiation note, we think that order placements over the next three years will continue to be driven by public sector and low-margin segments



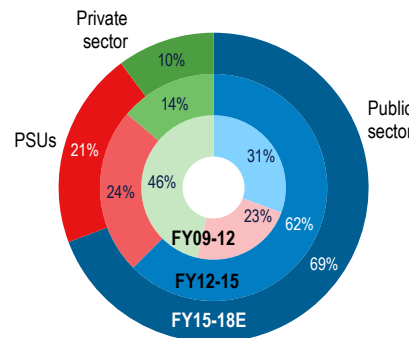
Source: Investec Securities estimates

Figure 7: Sector split of order placements



Source: Investec Securities estimates

Figure 8: Client split of order placements



Source: Investec Securities estimates

NHAI highways: Early signs of easing competition?

Table 4: Bids placed for NHAI's EPC projects over last 18 months

Month	Project	Winner	Km	NHAI EPC cost (Rsm)	Winning Bid (Rsm)	% Diff
Apr-14	Jodhpur - Barmer Pkg-1	Sadbhav Engg	86	2,647	2,124	-20%
Apr-14	Jodhpur - Barmer Pkg-2	G R Infra Projects	74	2,061	1,672	-19%
Apr-14	Thirumayam - Manamadurai	Dilip Buildcon	78	2,525	2,520	0%
May-14	Flyover at Bahalgarh	Gawar Construction	-	780	698	-10%
Jun-14	Chhapra - Rewaghat - Muzaffarpur	Supreme Infra	73	3,145	3,370	7%
Jun-14	Jaisalmer - Barmer	G R Infra Projects	131	3,712	2,988	-20%
Oct-14	Talchar -Dubari-Chandikhole	Corson Corviam	132	9,964	8,580	-14%
Oct-14	Patna - Gaya - Dhobi	IL&FS Engg.	127	10,270	12,320	20%
Oct-14	Karaikudi - Ramanathapuram	Transtroy (India)	80	2,897	2,800	-3%
Oct-14	Phalodi -Jaisalmer	Corson Corviam	160	5,675	4,278	-25%
Oct-14	Sitarganj - Tanakur	H.G. Infra Engg.	52	2,264	2,431	7%
Nov-14	Ludhiana - Talwandi	Ceigall India	6	390	378	-3%
Dec-14	Chas - Ramgarh	Dilip Buildcon	78	3,416	3,330	-3%
Dec-14	Jodhpur - Pokaran	G R Infra Projects	139	3,068	2,650	-14%
Dec-14	Thanjavur - Pudukottai	Gayatri -SPL	55	1,662	1,589	-4%
Jan-15	Bijapur -Gulbarga-Homnabad	L&T	220	6,757	5,230	-23%
Jan-15	Barmer - Sanchor	Monte Carlo	106	3,745	3,438	-8%
Jan-15	Bijapur-Gulbarga-Hamnabad	L&T	220	6,757	5,230	-23%
Jan-15	Varanasi Bypass	Apco Infratech	17	2,673	2,611	-2%
Mar-15	Ambala -Kaithal Package 2	Sadbhav Engg.	45	4,831	4,590	-5%
Mar-15	Hisar-Dabwali Package-1	G R Infra Projects	57	5,798	5,490	-5%
Mar-15	Hisar-Dabwali Package-2	G R Infra Projects	88	6,954	6,480	-7%
Mar-15	Nagapattinam-Thanjavur	Madhucon Projects	79	4,134	3,970	-4%
Mar-15	Jabalpur - Lakhnadone	L&T	81	9,288	7,426	-20%
Mar-15	Rewa - Katni -Jabalpur Pkg - 1	L&T	69	7,943	6,220	-22%
Mar-15	Rewa - Katni -Jabalpur Pkg - 1	L&T	69	7,958	6,220	-22%
Mar-15	Rewa - Katni -Jabalpur Pkg - 1	L&T	68	8,102	6,630	-18%
Mar-15	Ghaghara Bridge to Varanasi	Dilip Buildcon - Varha Infra	59	6,117	6,743	10%
Mar-15	Panwanoo- Solan	G R Infra Projects	39	6,906	7,488	8%
Mar-15	Ambala- Kaitahal Package-1	Supreme Infra	51	4,602	4,590	0%
Mar-15	Kharar-Kurali	Supreme Infra	14	2,392	2,072	-13%
Apr-15	Madurai - Ramanathapuram	KNR Const.	115	7,346	9,371	28%
May-15	UP/Haryana border (PKG - 1)	Sadbhav	45	4,800	4,680	-3%
May-15	UP/Haryana border (PKG - 2)	Sadbhav	42	4,500	4,360	-3%
May-15	Kazhakkottam to Mukkola	KNR Const.	27	6,212	6,691	8%
Jun-15	Ghoshpukur - Salsalabari	L&T	84	10,830	na	na
Jun-15	Gulabpura - Uniara	Dilip Buildcon - Ramjit	204	5,707	5,707	0%
Jul-15	Koilwar-Bhojpur	PNC - SP Singla	110	8,140	8,252	1%
Jul-15	Bhojpur-Buxar	PNC - SP Singla	48	6,420	6,817	6%
Jul-15	Baharagora - Singhara	L&T	112	9,087	na	na
Aug-15	NH 233 Ghaghra Bridge-Varanasi	Gayatri	60	13,539	15,260	13%
Aug-15	NH-56 Sultanpur-Varanasi	Gayatri	59	18,428	17,920	-3%
Aug-15	Eastern Peripheral E-way Pkg-1	Sadbhav	22	7,712	7,920	3%
Aug-15	Eastern Peripheral E-way Pkg-2	Sadbhav	24	7,588	7,560	0%
Aug-15	Eastern Peripheral E-way Pkg-3, 5	Jaiprakash and Oriental	46	14,530	17,356	19%
Aug-15	Eastern Peripheral E-way Pkg-4	Ashoka Buildcon	22	7,893	7,899	0%
Aug-15	Eastern Peripheral E-way Pkg-6	Gayatri	22	7,686	6,750	-12%
Sep-15	JNPT Phase - II (Package - IV)	Ashoka Buildcon	11	4,744	4,140	-13%

Source: NHAI, Media articles, Company releases, Investec Securities estimates

Figure 9: Market share in EPC order awards in FY15

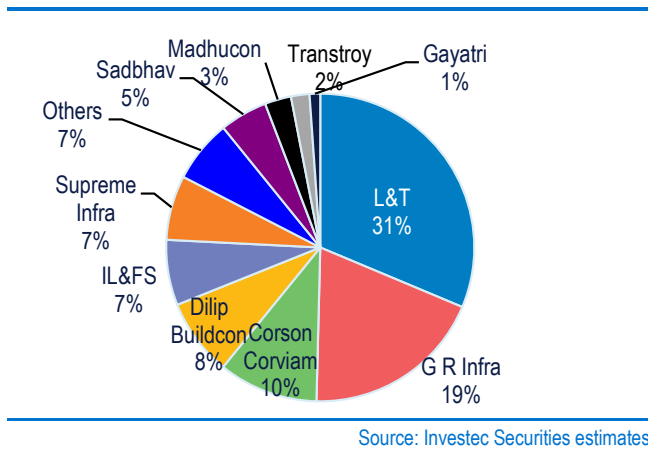


Figure 10: Market share in EPC order awards in H1 FY16

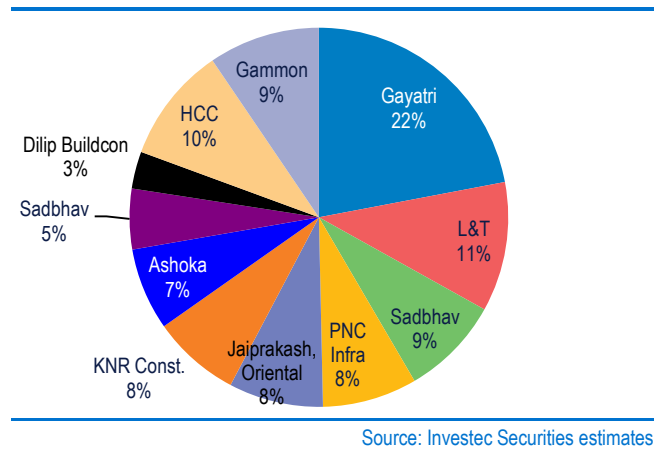


Figure 11: Deviation of winning bids vs. NHAI's estimates

9 out of 11 players in FY15 had quoted below NHAI estimates in FY15 and L&T was the most aggressive

In H1FY16, bids appear to be in line with NHAI estimates.

We believe this is likely attributable to the greater number of complex projects like 6/8 laning of roads, highway and bridge projects and green-field highways like the Eastern Peripheral Expressway in NCR.

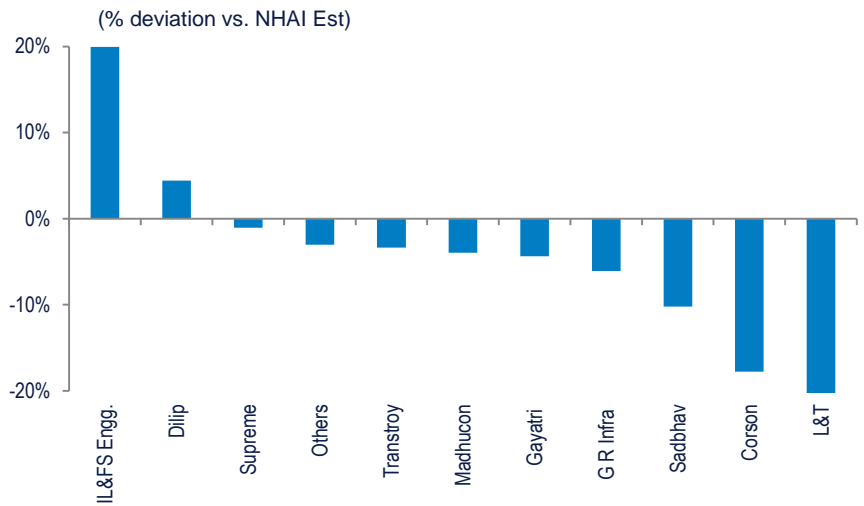


Figure 12: L&T's EPC road project wins in FY15

Road stretch	Type of Project	Win period	Length (kms)	NHAI Est. (Rsm)	L&T's Bid (Rsm)	% deviation vs NHAI est.
Bijapur - Gulbarga - Homnabad - Part I	Two laning	H2FY15	220	6,757	5,230	-23%
Bijapur - Gulbarga - Homnabad - Part II	Two laning	H2FY15	220	6,757	5,230	-23%
Jabalpur - Lakhnadone	Four laning	H2FY15	80.82	9,288	7,426	-20%
Rewa - Katni - Jabalpur Package - 1	Four laning	H2FY15	69.19	7,943	6,220	-22%
Rewa - Katni - Jabalpur Package - 2	Four laning	H2FY15	69.072	7,958	6,220	-22%
Rewa - Katni - Jabalpur Package - 4	Four laning	H2FY15	68.26	8,102	6,630	-18%
Total					36,956	
Total infra segment order inflows in period of win					522,700	

Source: NHAI, Investec Securities research

Water: Telangana awards large packages; regional contractors shine

Telangana awarded large orders for Water Grid for laying down water pipelines to supply drinking water

This was broken down into three packages, aggregating to Rs350bn worth of orders

In package I (Rs84bn), Megha Engineering and Infra won the lion's share of awards

Table 5: Telangana water grid ordering - Phase 1

Segment	Winner	Estimated value (Rsm)	Final order value for company	Deviation
Mahbubnagar-Rangareddy	Megha	39,315	39,237	-0.2%
Nalgonda Tailpond	GVPR Engineering	10,444	10,366	-0.8%
Paleru-Warangal	Megha	9,968	9,928	-0.4%
Warangal Metro	NCC	6,053	6,010	-0.7%
Gajwel	Megha	5,503	5,484	-0.4%
Jurala-Gadwala	IHP	4,180	4,155	-0.6%
Yellampalli-Mancherial-Khanapur	Koya & Company	3,965	3,917	-1.2%
Sangareddy segment	Pratibha Industries	3,803	3,761	-1.1%
Medchal	Kaveri Infra	1,206	1,192	-1.2%
		84,437	84,050	

Source: Company releases, media articles, Investec Securities estimates

Table 6: Telangana water grid ordering - Phase 2

Segment	Est. value (Rsm)	No of bidders	Bidders	Comment
5 constituencies with AKBR as source in Nalgonda District	21,060	4	NCC, Megha, L&T, GVPR	
Medak	7,500	5	L&T, IHP, Offshore Infra, Koya & Company, KLSR	
Narsapur	4,450	5	Megha, L&T, IHP, Bhooratnam Construction, RPM Infra	IHP and L&T were amongst the winners of Phase II. L&T has announced Rs21bn worth of water orders from Telangana in Q2
Balconda-Armoor-Nizamabad-Kamareddy-Yellareddy	13,500	4	NCC, Megha, L&T, IHP	
Bodhan-Banswada, Jukkal	13,000	6	NCC, Megha, L&T, IHP, GVPR, Subhash Projects	
Korutla-Jagityala-Dharmapuri	13,000	5	Megha Engg, L&T, IHP, GVPR, Subhash Projects	
Sircilla-Vemulavada-Choppadandi-Peddapalli-Ramagundam	15,850	3	L&T, IHP, Koya & Company	
SRSP Adilabad	15,300	4	Megha, L&T, IHP, GVPR	
Komuram Bheem Asifabad	16,500	4	NCC, L&T, IHP, Koya & Company	
Bhadrachalam, Pinapaka, Aswaraopeta, Sattupalli, Kothagudem, Illandu and Wyra	20,820	4	NCC, L&T, IHP, Koya & Company	
	140,980			

Source: Company releases, media articles, Investec Securities estimates

Even in Phase II, several regional contractors participated

L&T announced only Rs21bn worth of water orders from Telangana in Q2

Over the next few years, we expect water orders to be driven by Amrut (Atal Mission for Rejuvenation and Urban Transformation) and Namogiri projects

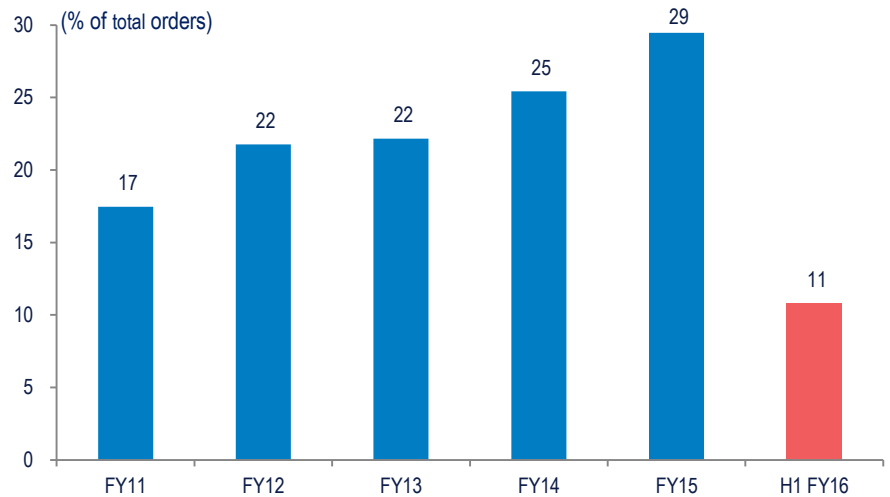
L&T's market share slips; misses some large orders

L&T's market share in domestic orders announced by industrial companies and awarding agencies fell to 11% in H1 FY16 from 29% in FY15

As we discuss on the next page, L&T's market share in intensely competitive segments like water, power T&D and highways fell....

...while it also lost out on some large orders placed for power generation and DFC

Figure 13: L&T's market share in announced domestic orders



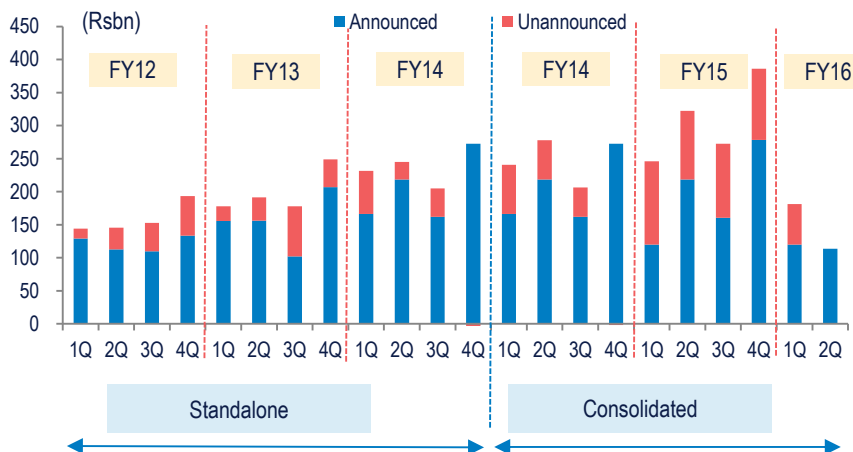
Source: Companies, media articles, NHAI, Power Grid, Investec Securities estimates

Figure 14: Split of announced and unannounced orders in L&T's quarterly E&C order inflows

Consequently, L&T announced <Rs120bn worth of orders in Q2FY16, sharply lower than c.Rs220bn it announced in Q2 FY15

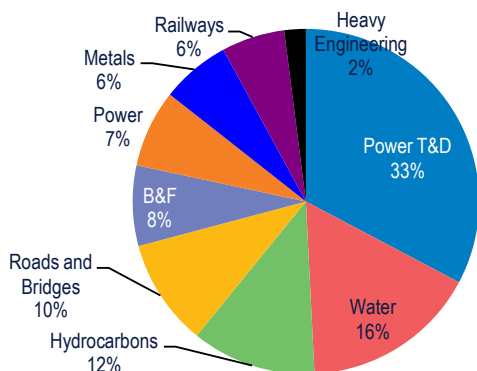
Orders were driven by Power T&D and Water segments

International markets contributed >40% of orderflow announcements



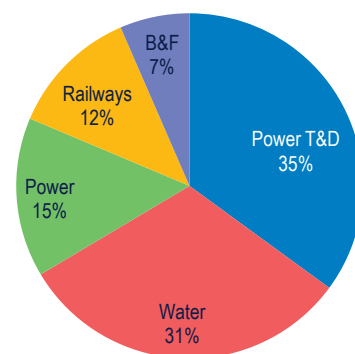
Source: Company, Investec Securities estimates

Figure 15: Sector wise split of L&T's announced orders in H1 FY16



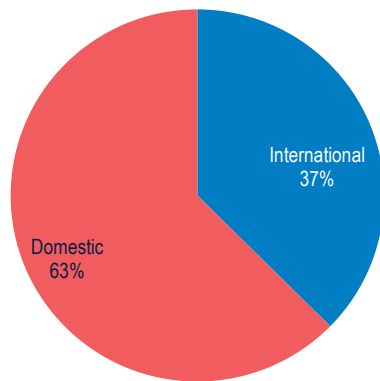
Source: Company, Investec Securities estimates

Figure 16: Sector wise split of L&T's announced orders in Q2 FY16



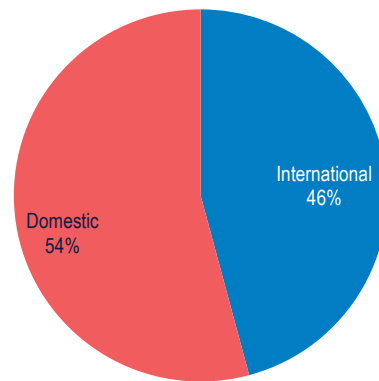
Source: Company, Investec Securities estimates

Figure 17: Geographical split of L&T's order inflows – H1FY16



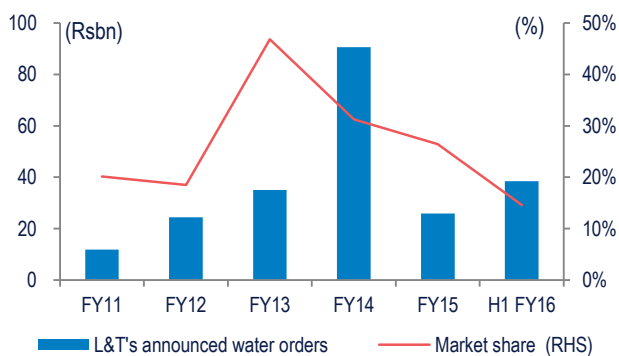
Source: Company, Investec Securities estimates

Figure 18: Geographical split of L&T's order inflows – Q2FY16



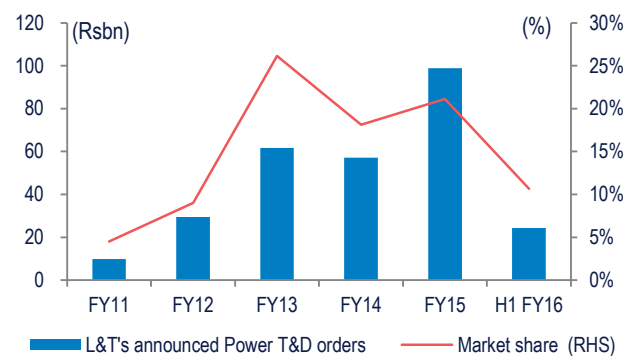
Source: Company, Investec Securities estimates

Figure 19: L&T's market share in domestic water orders



Source: Companies, media articles, Investec Securities estimates

Figure 20: L&T's market share in domestic power T&D orders



Source: Companies, media articles, Power Grid, Investec Securities estimates

Table 7: L&T also lost out on some large orders in Q2 FY15

Projects	Size / Cost	Commentary
Announced		
Harduaganj	660 MW / Rs34bn	L&T lost out on the EPC contract for 660MW Harduaganj power plant (Uttar Pradesh SEB). JSW-Toshiba emerged as the lowest bidder at Rs34bn (Rs52m/MW). The tender for the project reportedly saw 4 bidders.
Western DFC	Rs40bn	In consortium with Sojitz, L&T has so far won Rs80bn worth of Western DFC projects. However, Mitsui-Tata Projects consortium emerged as the lowest bidder for the recent project award for Vaitara - Vaodara section (c.320km, c.Rs40bn)
Eastern DFC	Rs15bn	Rs15bn contract for electrification works on eastern DFC (Bhaupur-Khurja stretch, 343km) was recently won by Alstom.
Highways		L&T's share in NHAI tender wins has fallen to 11% in H1FY16 from 27% in FY15.
Not yet announced/ placed		
Ramagundam	1.6GW BTG	1.6GW expansion of NTPC's existing thermal project at Ramagundam in Telagana. BHEL is the lowest bidder for boiler, while Bharat Forge-Alstom is the L1 bidder for TG sets.
Pudimadaka	4GW BTG / Rs200-240bn	For NTPC's 4GW super-critical power plant at Pudimadaka in Andhra Pradesh, Korea's Doosan stood L1 for the boiler orders, while BHEL is the L1 bidder for TG sets. The plant is likely to involve an investment of 200 - 240bn.

Source: Companies, media articles, Investec Securities estimates

BHEL: Win some, lose some

Table 8: Preferred/ lowest bidders for power generation bids opened during Q2 FY16

Project	Developer	State	Capacity (MW)	Boiler	TG	EPC
Announced						
Harduaganj	UP Genco	Uttar Pradesh	1 x 660	-	-	JSW Toshiba
Not yet announced/ placed						
Ramagundam	NTPC	Telangana	2 x 800	Doosan	BHEL	-
Pudimadaka	NTPC	Andhra Pradesh	4 x 1000	BHEL	Bharat-Forge Alstom	-

Source: Companies, media articles, Investec Securities estimates

Table 9: Q2 FY16 brought negative newsflow on the execution pace on two projects for BHEL

Projects	Developer	Capacity	Value (Rsm)	Commentary
Ennore	TANGEDCO - Tamil Nadu	1,320 MW	Rs92bn	The Madras HC has reportedly cancelled the tender awarded to BHEL, citing that the company was not the lowest bidder. The project is likely to be re-bid.
Bhadradri TPP	TS GENCO - Telangana	4 x 270 MW	Rs73bn	An MoEF committee has suggested changing unit specification to super-critical versus the current sub-critical. Alternatively, Telangana government will have to secure prior permission from the Ministry of Power to use sub-critical units. We think that this objection could delay the project execution.

Source: Companies, media articles, Investec Securities estimates

Table 10: Projects where BHEL is placed favourably (L1 bidder)

Projects	Developer	Capacity	Type	Details
Barethi	NTPC	4x660MW	Thermal, EPC	Land acquisition is underway; Environmental approval not yet obtained
Bhusawal	Mahagenco	1x660MW	Thermal, EPC	Extension of an existing plant. Developer is targeting commissioning in FY19
Tuticorin	SEPC	1x525MW	Thermal, EPC	Project has been stalled and revived multiple times and has recently received clearance from TNERC to be built at a cost of Rs35bn
Rourkela	NTPC-SAIL	1x250MW	Thermal, EPC	
Pakaul Dul	J&K govt-NHPC-PTC JV	1,000MW	Hydro	Work has not yet started and the delay is likely to be extended further given that EC was received in Feb 2008 with a validity of five years.
Pranahita	Telangana - Maharashtra	6x116MW	Hydro (Lift irrigation), TG sets	A negotiated contract. The project is reportedly progressing slowly for want of environmental, forest and tribal clearances.
Pudimadaka	NTPC - Vishakhapatnam	4x1,000MW	Thermal, TG sets	TOR granted has been granted in Feb 2015. Environmental clearance appears to be pending
Ramagundam	NTPC - Telangana (Expansion)	2x800MW	Thermal, boilers	Earlier TOR was granted for 2 x 660MW which was later amended to 2 x 800MW. This is an expansion of the already existing 2600MW power plant. Environmental clearance appears to be pending.

Source: Companies, media articles, Investec Securities estimates

Valuation and key risks

Table 11: Valuation and key risks

Company	Key Risks	Valuation methodology
Voltas	<ol style="list-style-type: none"> 1) Margin disappointment in the EMP segment, 2) Unfavourable weather for UCP segment, 3) Sluggish order inflows 	Sum of the Parts valuation. 30x EPS for UCP business and 18-20x EPS for cyclical businesses
V-Guard	<ol style="list-style-type: none"> 1) Construction momentum: Should construction activity slow down significantly in India, demand for some of V-Guard's products (like wires, water heaters etc) will be negatively impacted. 2) Strong monsoon: Strong monsoon could impact demand for pumps and UPS and also has an indirect linkage to stabilizer demand. 3) Power availability: If electricity availability improves in Southern India, demand for digital UPS is likely to remain weak. 4) Consumer spending: Stabilizer demand is contingent on sale of white good products. If consumer spending on durables (especially room AC, refrigerator and LCD TV) remains weak, stabilizer sales could get impacted. 5) Metal prices: Further fall in copper prices could impact margins in the wires and cables business in the near term. 6) Impact of intensifying competition: Intensifying competition can impact growth depending on the retain market share. 	28x Jun-17E standalone EPS
Havells India	<ol style="list-style-type: none"> 1) Consumer sentiment: Persistent weakness in consumer spending can impact our growth assumptions. 2) Construction momentum: Havells growth is linked to the construction capex. If it continues to remain weak it could offer downside risks. 3) Metal prices: Further fall in copper prices could impact margins in the wires and cables business in the near term. 4) Impact of intensifying competition: Intensifying competition can impact growth depending on the Havells ability to retain market share. 5) Sylvania performance: Should economic conditions in Europe continue to remain sluggish revenue margins and could come below our expectations. This poses a downside risk to our consolidated estimates and fair value. 	30x Jun-17E standalone EPS and 20x Jun-17E Sylvania EPS
Finolex Cables	<ol style="list-style-type: none"> 1) Industrial activity: If industrial activity remains subdued for a significant period, demand for wires will be negatively impacted. 2) Construction momentum: Given that Finolex has ventured in more consumer centric areas like switchgears for example, momentum failing to pick up poses a risk. However, the risk is minor given that these are relatively new segments for the company. 3) Metal prices: Metal prices plunging further bring down realisations and pose a risk to margins and bottom line. 4) Impact due to intensifying competition: Though competition has intensified, especially in the domestic switchgear, switches and fans segments, this has not yet manifested into pricing pressures. Going forward if prices come under pressure, we could see a downside to our estimates. 5) Lukewarm response to new products: Finolex has ventured into fresh segments and a weak reception to the same from customers would be a setback. 	20x FY17E earnings per share (EPS) excluding dividends from Finolex Industries and a 20% discount to the market value of the stake in Finolex Industries
Larsen & Toubro	<ol style="list-style-type: none"> 1) Sluggish macro 2) Margin decline 3) Political unrest in the Middle East 4) Orderflow 	Sum of the Parts valuation
Thermax	<ol style="list-style-type: none"> 1) Improved outlook for industrial capex cycle 2) International orders 3) Chunky domestic orders 4) Margin improvement 	Price to earnings on consol (ex-B&W JV losses) EPS
BHEL	<ol style="list-style-type: none"> 1) Stronger-than-expected order inflows in the Power segment; 2) Sharp pick-up in orders/ revenues of the Industry segment; 3) Softening material costs aiding BHEL's gross margins; and 4) Positive newsflow on the Power segment improving investor sentiments. 	DCF

Source: Investec Securities estimates

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	Expected total return		All stocks		Corporate stocks	
	12m performance	Count	% of total	Count	% of total	
Buy	greater than 10%	185	58%	83	45%	
Hold	0% to 10%	102	32%	12	12%	
Sell	less than 0%	33	10%	0	0%	

Source: Investec Securities estimates

Stock ratings for Indian stocks

	Expected total return		All stocks		Corporate stocks	
	12m performance	Count	% of total	Count	% of total	
Buy	greater than 15%	35	60%	0	0%	
Hold	5% to 15%	14	24%	0	0%	
Sell	less than 5%	9	16%	0	0%	

Source: Investec Securities estimates

Stock ratings for African* stocks

	Expected total return		All stocks		Corporate stocks	
	12m performance	Count	% of total	Count	% of total	
Buy	greater than 15%	30	45%	6	20%	
Hold	5% to 15%	23	34%	3	13%	
Sell	less than 5%	14	21%	2	14%	

Source: Investec Securities estimates

*For African countries excluding South Africa, ratings are based on the 12m implied US dollar expected total return (ETR). This is derived from the expected local currency (LCY) ETR by making assumptions on the 12month forward exchange rates for the respective currencies. For South African stocks, ratings are based on the ETR in rand terms.

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