

CASE

5

BHARAT HEAVY ELECTRICALS LIMITED

MARKETING

Promotion



Price



Place



Product



INTRODUCTION

Bharat Heavy Electricals Limited (BHEL) is India's largest private sector engineering company and one of a kind in this part of the hemisphere. It manufactures a wide range of state-of-the-art power generation equipment and systems, besides equipment for industry, transmission, transportation, defence, telecommunications and oil business. The first plant of BHEL was set up in Bhopal in 1956, which signalled the dawn of the Heavy Electrical industry in India. In the early sixties, three major plants were set up in Hardwar, Hyderabad and Tiruchirapalli, which formed the core of the diversified product range, systems and services that BHEL offers now. The company has 16 manufacturing divisions, 8 service centres and power sector regional centres spread over 150 project sites in India and abroad to provide prompt and effective service to customers.

BHEL business broadly covers conversion, transmission, utilisation and conservation of energy in the core sectors of the economy that fulfill vital infrastructural needs of the country. BHEL produces 180 products under 30 major product groups. Its products have established an enviable reputation for high quality and reliability, which is largely due to the emphasis

placed all along on contemporary technology. BHEL has constantly upgraded its design and manufacturing facilities to international standards by acquiring and assimilating some of the best technologies in the world from leading companies in the USA, Europe and Japan, together with the technologies from its own R&D centres. BHEL has ISO 9001 certification, Environmental Management Systems—ISO 14001 certification and Occupational Health & Safety Management Systems—OHSAS 18001 certification and has also adopted the concepts of Total Quality Management.

BHEL has achieved the prestigious Maharatna (big gem) status in 2013 by Government of India for its outstanding performance. It has been recognised by EEPC India for excellence in exports for the 25th consecutive year in succession. BHEL has been conferred the 46th EEPC India National Award for the 'Star Performer Award 2013–14' in the Project Group Project Exports Large Enterprise. The company has also bagged 10 'Vishwakarma' and 7 'Shram Award'.

COMPANY'S BUSINESS MISSION AND OBJECTIVES

Vision

'A global engineering enterprise providing solutions for a better tomorrow'.

Mission

'Providing sustainable business solutions in the fields of energy, industry and infrastructure'.

Business Mission

1. To maintain a leading position as suppliers of quality equipment, systems and services in the field of conversion, transmission, utilisation and conservation of energy, for applications in the area of electric power, transportation, oil and gas exploration and industries.
2. To utilise company's capabilities and resources to expand business into allied areas and other priority sectors of the economy like defence, communications and electronics.

Objectives

1. **Growth:** To ensure a steady growth by enhancing the competitive edge of BHEL in the existing business, new areas and international operations so as to fulfill national expectations from BHEL.
2. **Profitability:** To provide a reasonable and adequate return on capital employed, primarily through improvements in operational efficiency, capacity utilisation and productivity, and to generate adequate internal resources to finance the company's growth.

3. **Customer focus:** To build a high degree of customer confidence by providing increased value for his money through international standards of product quality, performance and superior customer service.
4. **People orientation:** To enable each employee to achieve his potential, improve his capabilities, perceive his role and responsibilities and participate and contribute positively to the growth and success of the company; to invest in human resources continuously and be alive to their needs.
5. **Technology:** To achieve technological excellence in operations by development of indigenous technologies and efficient absorption and adaptation of imported technologies to suit business needs and priorities, and provide a competitive advantage to the company.
6. **Image:** To fulfill the expectations which stakeholders like government (as owner), employees, customers and the country at large have from BHEL.

BUSINESS SECTOR

BHEL's operations are organised around three business sectors, namely, power, industry and international operations. This enables the company to have a strong customer orientation, to be sensitive to needs and respond quickly to the changes in the market.

Power

Power is the core sector of BHEL and comprises thermal, nuclear, gas, diesel and hydroelectric. In less than three decades, BHEL has taken the country from a position of total dependence on overseas sources to complete self-reliance in power plant equipment, with capabilities ranging from concept to commissioning. Today, BHEL sets account for nearly 66% of the total installed capacity in the country against nil till 1969–70.

A wide range of transmission products and systems are produced by BHEL to meet the needs of the power transmission and distribution sector. Technologies have been developed and commercialised for exploiting non-conventional renewable sources of energy to serve remote and rural areas. These include photovoltaic cells, solar power-based pumps, lighting and heating systems.

INDUSTRY SECTOR

Major capital equipment and systems to important core industries like cement, fertilisers, refineries, petrochemicals, steel, paper, mining and telecommunications are contributed by BHEL.

BHEL has been regularly supplying on-shore drilling rigs, valves and well heads to ONGC and Oil India. These can now be supplied up to a rating of 10,000 psi for sub-zero/low temperature application.

Sixty five percent of the trains in Indian Railways are equipped with BHEL's traction and traction-control equipment. India's first underground metro at Kolkata runs on drives and controls supplied by BHEL.

BHEL manufactures EPABX and RAX systems based on C-DOT technology and has plans to make other ranges of telecommunication equipment as well.

INTERNATIONAL OPERATIONS

BHEL has exported its equipment and services to over 76 countries for more than 40 years. With the receipt of repeat orders, 80% of boilers installed in Malaysia are BHEL made. The product profile, systems and services and competitors of BHEL are given in Annexure 1.

PERFORMANCE

Figure 1 gives the corporate structure of BHEL. Figures 2–6 give the turnover, capital employed, earning per share (EPS), profit after tax (PAT) respectively. Figure 7 provides the debt/equity ratio trends and Figure 8 represents the value added versus capital employed for the period 2011–12 to 2015–16. Despite several odds, BHEL has done reasonably well. This is mainly due to the strategic marketing employed by the company.

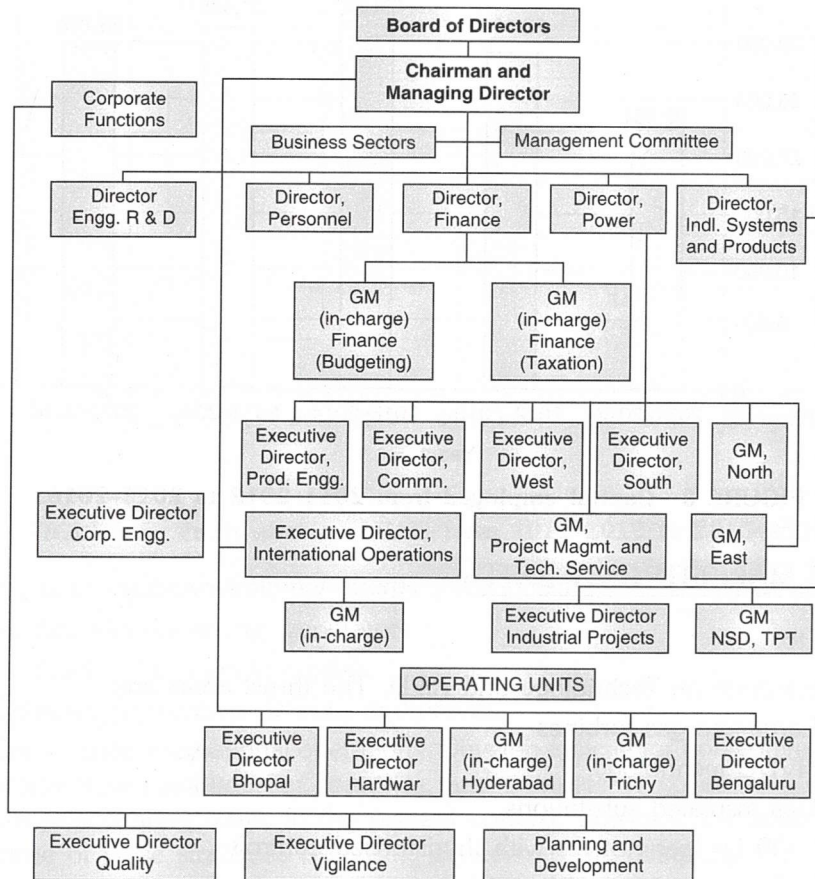


FIGURE 1 Corporate structure at BHEL.

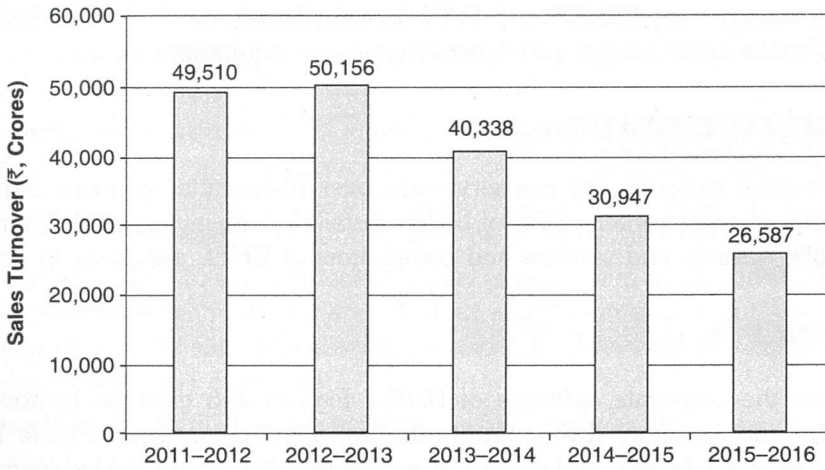


FIGURE 2 Turnover of BHEL from 2011-2012 to 2015-2016.

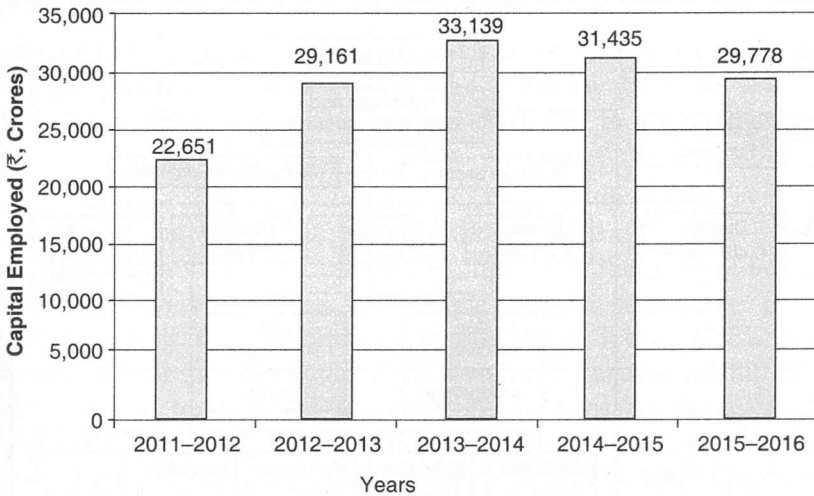


FIGURE 3 Capital employed from 2011-2012 to 2015-2016.

STRATEGIC MARKETING AT BHEL

BHEL plans to:

1. Concentrate on Technology and R&D. The thrust areas are:
 - Large-size gas turbines
 - HVDC technology
 - Gas insulated substations
 - 5000 hp locomotives with thyristorised controls
 - Defence equipment/electronics

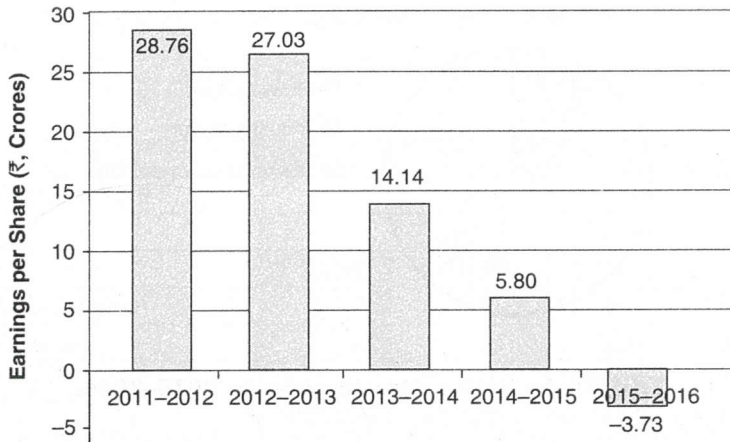


FIGURE 4 Earnings per share from 2011-2012 to 2015-2016.

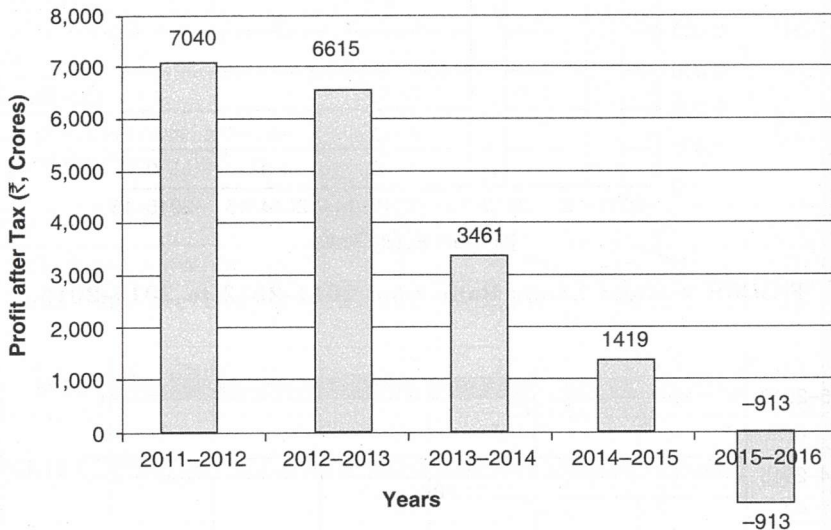


FIGURE 5 Profit after tax (PAT) from 2011-2012 to 2015-2016.

2. Focus on non-conventional energy (NCE) resources. The thrust areas are:
 - Eco-friendly energy generators
 - Work on economic models
3. Continue to develop defence equipment.
4. Consolidate international operations. Develop a niche for non-conventional energy products in neighbouring countries, and compete or collaborate or co-exist on business sharing basis. In the present context, however, the appropriateness of some of these strategies is causing concern to the company.

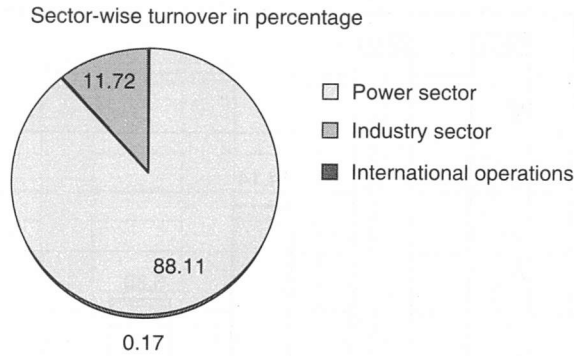


FIGURE 6 Sector wise turnover in 2015-2016.

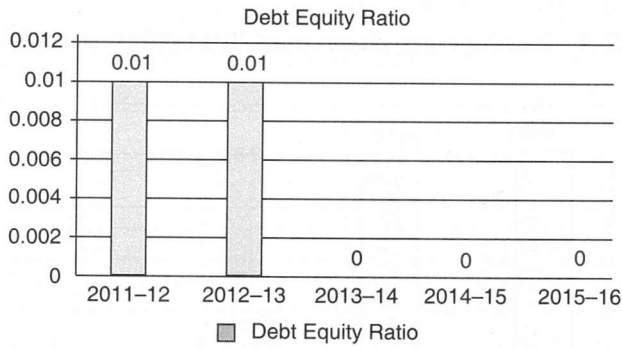


FIGURE 7 Debt Equity Ratio from 2011-2012 to 2015-2016.

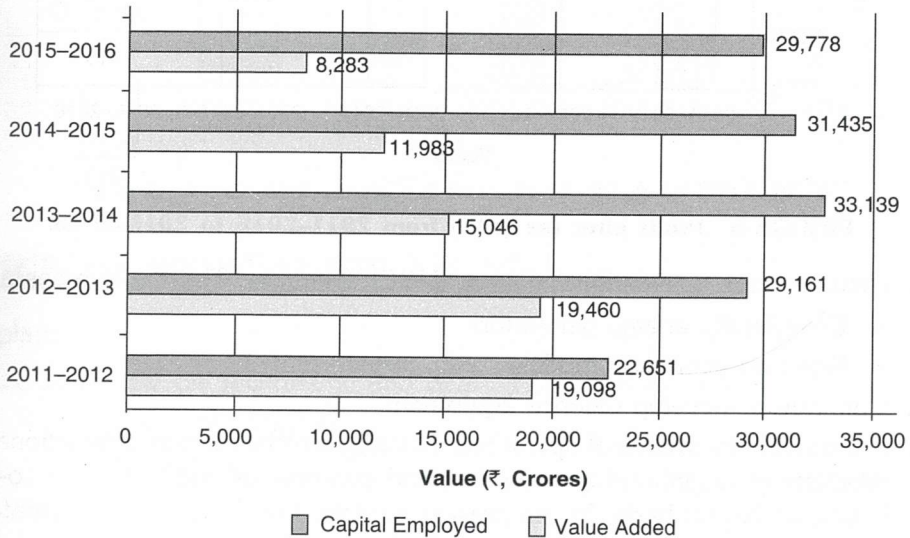


FIGURE 8 Value Added vs Capital Employed for 2011-2012 to 2015-2016.

Table 1 indicates the five-year summary of BHEL.

TABLE 1 Five-year Summary

	2015-16	2014-15	2013-14	2012-13	2011-12
(₹, Crores)					
I. EARNINGS/OUTGOINGS					
Earnings					
Turnover (Gross)	26,587	30,947	40,338	50,156	49,510
Revenue from operations (Net)	25,138	29,542	38,389	47,618	47,228
Other operational income	492	700	720	807	751
Other income	1,450	1,220	1,616	1,121	1,266
Total Earnings	27,080	31,462	40,725	49,546	49,245
Outgoings					
Cost of material consumption erection & engineering expenses	16,398	17,758	22,103	27,899	28,908
Increase/Decrease in work in progress & finished goods	210	(338)	1,054	116	(823)
Employee benefit expenses	5,541	5,450	5,933	5,753	5,466
Other expenses of manufacture, administration, selling and distribution (Incl. prior period items)	3,036	3,707	3,315	3,777	3,242
Provisions (Net)	2,455	1,604	2,259	1,566	1,403
Less: Cost of job done for internal use	47	28	68	76	104
Outgoings before finance cost & depreciation	27,594	2,153	34,596	39,035	38,092
Profit before depreciation, finance cost & tax	-514	3,309	6,129	10,511	11,153
Depreciation	936	1,077	983	953	800
Gross profit	-1,450	2,232	5,146	9,558	10,353
Finance cost	27	92	133	125	51
Profit before tax	-1,477	2,140	5,013	9,432	10,302
Tax expense (Net)	-564	721	1,553	2,817	3,262
Profit after tax	-913	1,419	3,460	6,615	7,040
Dividend	98	284	693	1,323	1,567
Corporate dividend tax	20	57	118	221	254
II. WHAT THE COMPANY OWNED					
Fixed assets					
Gross block	13,298	12,588	12,050	10,783	9,707
Less: Accumulated depreciation & lease adj.	9,335	8,448	7,357	6,325	5,410
Net block	3,963	4,140	4,693	4,458	4,297
Capital WIP incl. intangible assets under development	315	518	642	1,172	1,348

	2015-16	2014-15	2013-14	2012-13	2011-12
Non-current investments	663	416	420	429	462
Deferred tax assets (Net)	3,135	2,221	1,969	1,551	1,546
Current assets, loans & advances and other non-current assets	58,614	61,170	65,067	62,513	59,123
Total assets	66,690	63,467	72,791	70,128	66,776
III. WHAT THE COMPANY OWED					
Long term borrowings	126	61	105	129	123
Liabilities & Provisions	33,510	34,321	39,639	39,555	41,280
Total liabilities	33,636	34,382	39,744	39,684	41,403
IV. NET WORTH OF THE COMPANY					
Share capital	490	490	490	490	490
Reserves & surplus	32,564	33,595	32,557	29,954	24,883
Net worth	33,054	34,085	33,047	30,444	25,373
V. NET WORKING CAPITAL	25,152	26,877	28,026	24,273	17,892
VI. CAPITAL EMPLOYED	29,778	31,435	33,139	29,161	22,651
VII. VALUE ADDED	8,382	11,983	15,046	19,460	19,098
VIII. RATIOS					
PBDIT to total assets (%)#	-0.8%	4.7%	8.6%	15.4%	17.7%
Gross profit to capital employed (%)#	-4.7%	6.9%	16.5%	36.9%	53.0%
Turnover/gross block	2.0	2.5	3.3	4.7	5.1
Earnings per share (₹)+	-3.73	5.80	14.14	27.03	28.76
Net worth per share (₹)+	135.04	139.26	135.02	124.38	103.67
Current ratio	1.75	1.78	1.76	1.64	1.43
Total debt/equity	0.00	0.00	0.00	0.01	0.01
Return on net worth	-2.8%	4.2%	10.5%	21.7%	27.7%
Gross profit margin	-5.5%	7.2%	12.8%	19.1%	20.9%
Net profit margin	-3.4%	4.6%	8.6%	13.2%	14.2%

On the basis of average assets and capital employed

+ Figures are restated on post-split made in 2011-12 and bonus issue of 1:1 in 2007-08.

ISSUES FOR DISCUSSION

1. Examine the appropriateness of BHEL's current strategies in the background of current international competition.
2. Discuss the relevance of the theory of core competence with respect to the profile of BHEL. How far is it visible in its operations?
3. What strategic routes would you suggest to BHEL to attain competitive advantage over the next five years?
4. Evaluate the international business capability of BHEL?

Annexure

PRODUCT PROFILE, SYSTEMS AND SERVICES, AND COMPETITORS OF BHEL

Product Profile

1. Thermal sets
2. Gas turbines
3. Hydro sets
4. Equipment for nuclear power plants
5. Boilers and pressure vessels
6. Heat exchangers
7. Boiler auxiliaries
8. Pumps
9. Power station electronic equipment
10. Switch gear
11. Bus ducts
12. Transformers
13. Electrical machines
14. Control gear
15. Insulators
16. Capacitors
17. Industrial sets
18. Compressors
19. Transportation equipment
20. Oilfield equipment
21. Castings and forgings
22. Seamless steel tubes
23. Silicon rectifiers
24. Thyristor
25. Power devices
26. Non-conventional energy systems
27. Telecommunications
28. Aviation

Systems and Services

1. Turnkey power stations
2. Combined-cycle power plants
3. Modernisation and rehabilitation of power stations
4. Substations and switchyards
5. HVDC transmission systems
6. Shunt and series compensator systems
7. Traction systems
8. Electric trolley bus systems
9. Industrial drives and control systems
10. Erection, commissioning, operation and maintenance services
11. Spares management
12. Consultancy services

Competitors

1. Kirloskar Electric Company Limited
2. Jyoti Limited
3. NGEF
4. ABB
5. Crompton Greaves Limited
6. Bharat Bijlee Limited
7. Voltas
8. General Electric Company
9. Siemens AG
10. Larsen
11. Adani Ports
12. Alstom
13. NBCC India