

Retail Equity Research

**BHEL Ltd.**

Capital Goods - Electrical Equipment Products

**HOLD**

BSE CODE : 500103

NSE CODE: BHEL

BLOOMBERG CODE: BHEL:IN

SENSEX : 39,123

12M Investment Period

Rating as per Large Cap

**CMP Rs74 TARGET Rs77 RETURN +5%**

(Closing: 24-06-19)

**Margins improved, outlook yet to revive...**

- Q4FY19 revenue growth was flat at 2% YoY to Rs103bn and 40% sequentially. Power segment revenue was down 3% YoY at Rs81bn. Industry revenue was up 14% YoY at Rs17bn.
- EBITDA margin improved by 140bps YoY to 13.5% on account of lower-than-expected RM costs and improved operating leverage.
- Power segment EBIT margin was robust at 16.1% while industrial segment EBIT margin stood at 14.6%.
- PAT stood at Rs7bn (up 49% YoY and 256% QoQ) owing to decline in depreciation.
- BHEL is focusing on ramping up its execution to achieve better operating leverage and improve margins.
- The company's cost-cutting initiatives have helped it gain market share and improve margins. Thus, we expect a recovery in FY20 earnings
- We value the stock at a P/E of 15x on FY21E EPS and ascribe a target price of Rs77 and maintain a Hold rating.

**Slowdown in order inflow...**

BHEL reported order inflow of Rs66.3bn in 4QFY19 and Rs239bn in FY19, down 41% YoY from Rs409bn in FY18. Order backlog declined 8% YoY to Rs1,090bn. Award of many tenders was deferred owing to general elections. BHEL has won every BTG/EPC order for thermal power plant awarded in India over the past two years. BHEL is favorably placed in orders worth Rs245bn, primarily comprising EPC of 2x660MW Talcher, 1x800MW Singreni and 2x660 Neyveli projects. The L1 order position from power sector is worth Rs200bn including Rs80bn FGD and SCR packages. Because of deferment in order placement in FY19, the tender pipeline has expanded to 15GW, which would lead to bunching up of orders over the next two years.

**Muted revenue growth...**

BHEL's Q4FY19 revenues came in at Rs103bn, up 1.5% YoY. On the segmental front, power segment revenues declined 2.5% to Rs81bn on a YoY basis whereas industrial segment revenues grew 14% to Rs17bn YoY. EBITDA came in at Rs14bn 13.3% YoY, owing to reduced other operating expenses. PAT came in at Rs7bn registering robust growth of 49.4% YoY, owing mainly to a decline in depreciation. However, interest expense has increased 32.9%.

**Outlook & Valuations...**

BHEL's robust executable orders (3.6x FY19 revenue) and strategy to diversify orders to non-coal business, technology collaborations for emission control systems and expected pick-up in execution rate gives reasonable revenue visibility, going forward. However, receivables management from major customers will be closely watched. The company is expected to maintain growth momentum with revenue CAGR of 6.0% and PAT CAGR of 14.1% in FY19-21E. We value the stock at a P/E of 15x on FY21E EPS and ascribe a target price of Rs77 and maintain a Hold rating.

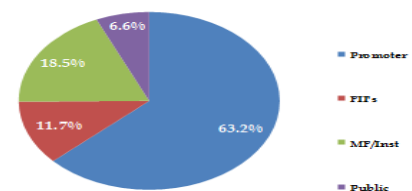
**Company Background...**

BHEL, majority owned by the government of India, is India's largest engineering company and dominates the supply of equipment for power plants in India. BHEL manufactures power plant equipment. The Company's products include gas turbines, generators, thermal sets, diesel shunters, turbo sets, hydro sets, power transformers, switch gears, circuit breakers and boilers. The Company also manufactures compressors, valves, rectifiers, pumps, capacitors, oil rigs, as well as castings and forgings.

**Company Data**

Market Cap (cr)	Rs.25,663
Enterprise Value (Cr)	Rs.20,718
Outstanding Shares (cr)	348.2
Free Float	36.8%
Dividend Yield	2.5%
52 week high	Rs.83
52 week low	Rs.56
6m average volume (cr)	14.2
Beta	1.27
Face value	Rs.2

**Shareholding Pattern as on March - 2019**



Standalone (Rs cr)	FY19A	FY20E	FY21E
Sales	29,349	33,114	35,903
Growth (%)	5	13	8
EBITDA	2,142	2,545	3,013
Margin (%)	7	8	8
PAT Adj	1,215	1,589	1,902
Growth (%)	50.7	31	20
Adj.EPS (Rs)	3	5	5
Growth (%)	54	35	20
P/E (x)	22	16	14
P/B (x)	0.8	0.8	0.8
EV/EBITDA (x)	10	8	7
ROE (%)	3.8	4.9	5.8

Source: Bloomberg - post event consensus

## Quarterly Financials

### Profit & Loss

Rs (cr)	Q4FY19	Q4FY18	YoY Growth %	Q3FY19	QoQ Growth %	Comments
Sales	10,297	10,148	1.5	7,336	40.4	
EBITDA	1,395	1,232	13.3	219	537.9	
EBITDA margins	13.5	12.1	141bps	3.0	1057bps	Margins improved due to lower other expenses
Depreciation	134	217	-38.2	112	19.4	
EBIT						
Interest	96	73	32.9	58	67.1	
Other Income	121	198	-38.9	227	-46.6	
Profit Before Tax	1,285	1,140	12.8	275	367.3	
Tax	603	683	-11.7	83	625.0	
Reported PAT	683	457	49.4	192	255.7	
Adjustment						
Adjusted PAT	683	457	49.4	192	255.7	Lower depreciation and taxes lead to better profitability
Diluted EPS (Rs)	2.0	1.3	49.4	0.5	255.7	

Source: Company

## Recommendation Summary (last 3 years)



Dates	Rating	Target
03 July 2013	Buy	140
08 Nov 2013	Reduce	63
07 April 2014	Reduce	108
29 May 2014	Reduce	120
15 January 2015	Reduce	134
13 February 2015	Reduce	133
28 May 2015	Reduce	127
03 March 2016	Reduce	46
11 January 2017	Hold	73
29 September 2017	Hold	80
08 March 2018	Hold	90
01 October 2018	Hold	73
25 June 2019	Hold	77

Source: Bloomberg, Geojit Research.

## Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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