

BSE SENSEX	S&P CNX
40,116	11,840
Bloomberg	BHEL IN
Equity Shares (m)	3,482
M.Cap.(INRb)/(USDb)	189.9 / 2.6
52-Week Range (INR)	79 / 41
1, 6, 12 Rel. Per (%)	22/-18/-35
12M Avg Val (INR M)	989
Free float (%)	36.8

Financials & Valuations(INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	303.5	310.7	331.4
EBITDA	21.4	19.5	20.3
PAT	12.2	11.7	12.2
EPS (INR)	3.5	3.4	3.5
EPS Gr. (%)	58.9	-3.4	3.8
BV/Sh. INR	90.2	90.4	90.6
RoE (%)	3.8	3.7	3.9
RoCE (%)	3.1	3.3	3.2
P/E (x)	15.6	16.2	15.6
P/BV (x)	0.6	0.6	0.6

Estimate change

TP change

Rating change

CMP: INR55
TP: INR52 (-5%)
Neutral
Disappoints on execution; working capital deteriorates further

- Provision reversal supports margins, offsetting weak execution:** Sales declined 8.2% YoY to INR62.3b (our estimate: INR71.3b) in 2QFY20. Gross margin shrank 420bp YoY to 37.2%. Net provisions were at -INR760m, leading to a 44% YoY decline in other expenses. Thus, EBITDA margin came in at 4.3% v/s our estimate of 3.5%, leading to a 10.8% YoY jump in EBITDA to INR2.7b. On account of higher interest expense of INR1.2b (+72% YoY), PBT declined 39% YoY to INR1.6b (13% miss). Effective tax rate stood at 27.9% v/s 31.8% last year. BHEL is still evaluating the option to move to new tax rates. As a result, adj. PAT was down 36% YoY at INR1.2b (16% miss). **For 1HFY20**, revenue declined 15.4% YoY to INR107.6b, whereas EBITDA was negligible. PAT level loss stood at INR977m.
- Power segment disappoints on execution:** Power sales (70% of sales) declined 18% YoY to INR42b, while Industrial sales (30% to sales) grew strongly by 24% YoY to INR18b. PBIT margin expanded 200bp YoY to 10.3% in Power but shrank 180bp YoY to 3.0% in Industrial segment.
- Order backlog at INR1.1t, inflow up 44% YoY to INR74b:** Order book stood at INR1.1t (-6.0% YoY). Order inflow stood at INR74b (+44% YoY) in 2QFY20. We build in order inflow of INR318b for FY20.
- Valuation and view:** Management refrained from commenting on any potential disinvestment. BHEL continues struggling on account of (a) the weak ordering environment in the power sector, (b) high receivables of INR380b and (c) high employee cost at ~21% of sales. At end-1HFY20, working capital deteriorated to 78% of sales from 65% at end-FY19 on account of higher inventories, slow movement in receivables and poor execution. We maintain our earnings estimates and **Neutral** rating on the stock with a TP of INR52 (15x FY21E EPS, in line with the 10-year average P/E).

Quarterly Performance

Y/E March	FY19				FY20E				FY19	FY20E	Est 2QE	Var. Vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Sales (Net)	59,355	67,799	73,364	1,02,972	45,317	62,257	77,592	1,25,550	3,03,490	3,10,716	71,290	-12.7%
Change (%)	6.3	7.7	10.1	1.5	-23.7	-8.2	5.8	21.9	4.9	2.4	5.1	
EBITDA	2,872	2,408	2,187	13,952	-2,667	2,669	3,492	16,037	21,420	19,530	2,495	7.0%
Change (%)	41.6	NA	-17.5	13.3	NA	10.8	59.6	14.9	10.8	-8.8	3.6	
As a % Sales	4.8	3.6	3.0	13.5	-5.9	4.3	4.5	12.8	7.1	6.3	3.5	
Interest	639	689	577	964	1,080	1,187	1,200	1,033	2,869	4,500	700	
Depreciation	1,761	521	1,124	1,342	1,148	1,193	1,200	1,245	4,748	4,786	1,300	
Other Income	1,786	1,517	2,265	1,209	1,455	1,356	1,300	1,331	6,776	5,443	1,400	
PBT	2,259	2,715	2,751	12,854	-3,440	1,645	2,392	15,090	20,579	15,687	1,895	-13.2%
Tax	703	863	831	6,027	-1,277	459	602	4,164	8,425	3,948	477	
Effective Tax Rate (%)	31.1	31.8	30.2	46.9	37.1	27.9	25.2	27.6	40.9	25.2	25.2	
Reported PAT	1,556	1,852	1,920	6,827	-2,162	1,186	1,790	10,926	12,154	11,739	1,418	-16.4%
Change (%)	92.5	60.4	25.3	49.3	NA	-36.0	-6.8	60.0	50.7	-3.4	-23.4	
Adj. PAT	1,556	1,852	1,920	6,827	-2,162	1,186	1,790	10,926	12,154	11,739	1,418	-16.4%
Change (%)	92.5	60.4	25.3	49.3	NA	-36.0	-6.8	60.0	50.7	-3.4	-23.4	

E: MOSL Estimates

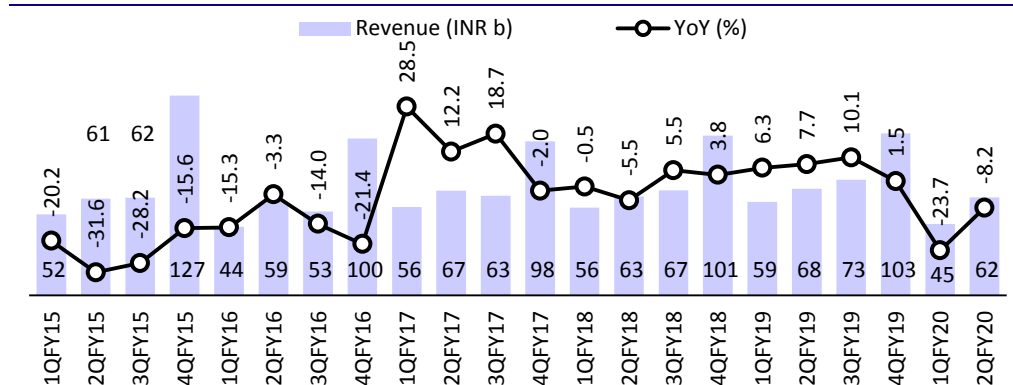
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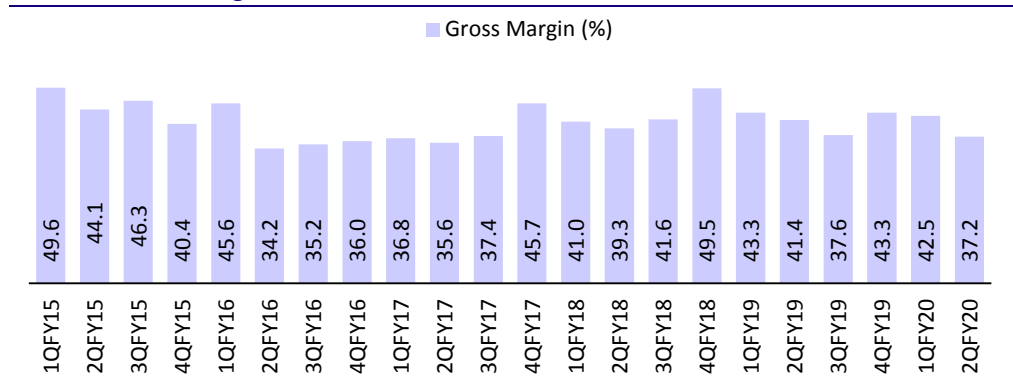
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Exhibit 1: Execution hurdles led to muted/declining revenues



Source: MOFSL, Company

Exhibit 2: Gross margin trend

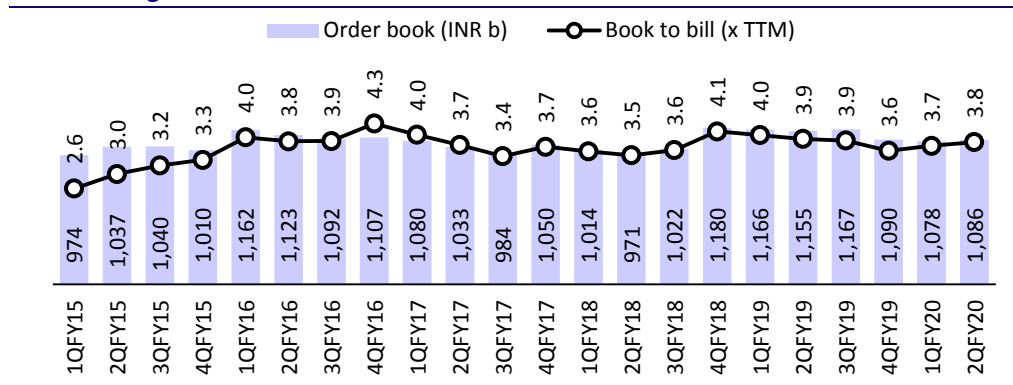


Source: MOFSL, Company

Order intake at INR74b in 2QFY20, L1 pipeline at INR210b

- Order book stood at INR1.1t (-6.0% YoY). Order inflow stood at INR74b (+44% YoY) in 2QFY20. We build in order inflow of INR318b for FY20.
- BHEL expects BTG ordering of 8GW of tenders to be finalized in FY21.

Exhibit 3: Although book-to-bill ratio has declined, executable orders have now increased to >85% as against 50% earlier



Source: MOFSL, Company

Segmental performance: Sharp margin contraction during the quarter

- **Power segment continues disappointing on execution:** Power sales (70% of sales) declined 18% YoY to INR42b, while Industrial sales (30% to sales) grew strongly by 24% YoY to INR18b.
- PBIT margin expanded by 200bp YoY to 10.3% in Power but shrank by 180bp YoY to 3.0% in Industrial segment.

Exhibit 4: Segmental revenues and margins

INR m	FY18				FY19				FY20	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Revenues	56,070	61,684	64,944	98,286	57,901	66,069	71,157	98,365	44,103	60,290
Power	43,356	50,647	53,558	83,081	46,362	51,532	55,123	81,034	34,915	42,215
Growth (%)	0.0	(3.6)	5.1	2.5	6.9	1.7	2.9	(2.5)	(24.7)	(18.1)
Industry	12,714	11,037	11,386	15,205	11,539	14,538	16,035	17,331	9,188	18,075
Growth (%)	(8.2)	(27.7)	(16.8)	(13.9)	(9.2)	31.7	40.8	14.0	(20.4)	24.3
EBIT	5,187	6,708	8,155	9,666	5,463	4,953	6,479	15,600	-193	4,883
Power	4,386	6,691	7,751	9,094	4,878	4,257	5,921	13,066	-541	4,337
Growth (%)	41.5	32.4	31.3	(19.5)	11.2	-36.4	(23.6)	43.7	NA	1.9
Industry	802	18	404	572	585	696	557	2,534	349	546
Growth (%)	(5.5)	(80.5)	(134.3)	(78.7)	(27.1)	3810	37.8	343.4	(40.3)	(21.5)
EBIT margin (%)	9.3	10.9	12.6	9.8	9.4	7.5	9.1	15.9	-0.4	8.1
Power	10.1	13.2	14.5	10.9	10.5	8.3	10.7	16.1	-1.6	10.3
Industry	6.3	0.2	3.6	3.8	5.1	4.8	3.5	14.6	3.8	3.0

Source: Company, MOFSL

Valuations and view

BHEL continues struggling on account of (a) the weak ordering environment in the power sector, (b) high receivables of INR380b and (c) high employee cost at ~21% of sales. At end-1HFY20, working capital deteriorated to 78% of sales from 65% at end-FY19 on account of higher inventories, slow movement in receivables and poor execution. We maintain our earnings estimates and **Neutral** rating on the stock with a TP of INR52 (15x FY21E EPS, in line with the 10-year average P/E).

Financials and Valuations

Income Statement					(INR m)
Y/E March	2017	2018	2019	2020E	2021E
Total Income	2,84,470	2,89,257	3,03,490	3,10,716	3,31,447
Change (%)	11.6	1.7	4.9	2.4	6.7
Staff Cost	53,946	60,265	62,613	66,369	69,688
Mfg. Expenses	1,71,100	1,61,435	1,77,641	1,83,322	1,95,553
Selling Expenses	48,811	48,229	41,816	41,494	45,863
EBITDA	10,614	19,329	21,420	19,530	20,342
Change (%)	-177.7	82.1	10.8	-8.8	4.2
% of Net Sales	3.7	6.7	7.1	6.3	6.1
Depreciation	8,488	7,864	4,748	4,786	5,117
Interest	3,506	2,546	2,869	4,500	4,500
Other Income	7,659	6,931	6,776	5,443	5,553
Extra-ord. Items (net)	0	0	0	0	0
PBT	6,278	15,850	20,579	15,687	16,278
Tax	1,320	7,784	8,425	3,948	4,097
Rate (%)	21.0	49.1	40.9	25.2	25.2
Reported PAT	4,959	8,066	12,154	11,739	12,181
Adjusted PAT	4,959	8,066	12,154	11,739	12,181
Change (%)	-165.5	62.7	50.7	-3.4	3.8

Balance Sheet					(INR m)
Y/E March	2017	2018	2019	2020E	2021E
Share Capital	4,895	7,343	6,964	6,964	6,964
Reserves	3,18,049	3,18,668	3,07,035	3,07,687	3,08,365
Net Worth	3,22,944	3,26,011	3,13,999	3,14,651	3,15,329
Loans	896	572	25,527	50,000	50,000
Differed Tax Liability	-38,414	-36,259	-35,145	-35,145	-35,145
Capital Employed	2,85,426	2,90,324	3,04,381	3,29,506	3,30,184
Gross Fixed Assets	53,725	56,344	60,084	64,237	68,667
Less: Depreciation	17,766	25,573	30,292	35,078	40,195
Net Fixed Assets	37,642	30,771	29,792	29,159	28,472
Capital WIP	1,683	1,945	2,232	2,232	2,232
Investments	6,614	6,907	6,694	6,744	6,794
Curr. Assets	5,29,632	5,62,009	5,70,297	6,12,598	6,28,967
Inventory	73,724	62,588	81,135	1,06,409	1,13,509
Debtors	3,18,633	3,54,935	1,59,448	4,25,638	4,35,875
Cash & Bank Balance	1,04,918	1,12,912	75,033	76,431	75,187
Loans & Advances	19,422	2,314	2,403	2,460	2,624
Other Current Assets	12,935	29,261	2,52,278	1,661	1,771
Curr. Liab. & Prov.	2,90,145	3,11,309	3,04,634	3,21,227	3,36,281
Creditors	93,403	1,09,969	1,17,798	1,13,586	1,18,756
Other Liabilities	1,03,130	1,14,282	1,07,436	1,26,350	1,30,811
Provisions	93,612	87,059	79,400	81,291	86,714
Net Current Assets	2,39,487	2,50,700	2,65,663	2,91,372	2,92,686
Appli. of Funds	2,85,427	2,90,324	3,04,381	3,29,506	3,30,184

Financials and Valuations

Ratios

Y/E March	2017	2018	2019	2020E	2021E
Basic (INR)					
EPS	1.4	2.2	3.5	3.4	3.5
Change (%)	-165.5	62.7	58.9	-3.4	3.8
Cash EPS	3.7	4.3	4.9	4.7	5.0
Book Value	88.0	88.8	90.2	90.4	90.6
DPS	0.8	1.8	2.0	2.8	2.9
Payout (incl. Div. Tax.)	59.3	82.8	57.3	82.8	82.8
Valuation (x)					
P/E	40.4	24.9	15.6	16.2	15.6
Cash P/E	14.9	12.6	11.2	11.5	11.0
EV/EBITDA	9.1	4.6	6.6	8.4	8.1
EV/Sales	0.3	0.3	0.5	0.5	0.5
Price/Book Value	0.6	0.6	0.6	0.6	0.6
Dividend Yield (%)	1.5	3.3	3.7	5.1	5.3
Return Ratio (%)					
RoE	1.5	2.5	3.8	3.7	3.9
RoCE	0.7	2.0	3.1	3.3	3.2
RoIC	0.8	2.8	3.8	3.9	4.0
Turnover Ratios					
Debtors (Days)	409	448	493	500	480
Inventory (Days)	95	79	98	125	125
Creditors. (Days)	120	139	142	133	131
Asset Turnover (x)	7.6	8.8	9.5	9.9	10.8
Leverage Ratio					
Debt/Equity (x)	-0.3	-0.3	-0.2	-0.1	-0.1

Cash Flow Statement

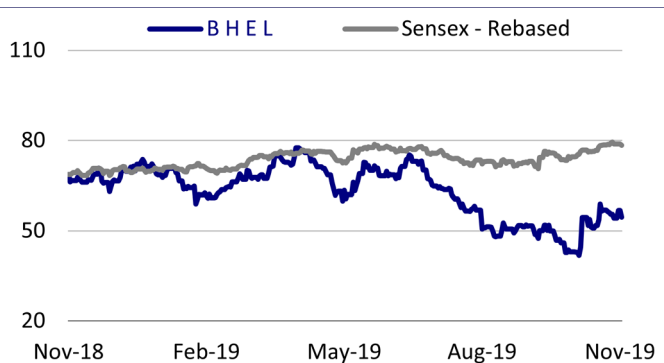
Y/E March	2017	2018	2019	2020E	2021E
(INR m)					
PBT bef. EO Items	6,278	15,850	20,579	15,687	16,278
Add : Depreciation	8,488	7,864	4,748	4,786	5,117
Less : Direct taxes paid	3,141	5,629	7,311	3,948	4,097
(Inc)/Dec in WC	-76	-1,537	-52,841	-24,312	-2,557
CF from Operations	11,550	16,548	-34,825	-7,787	14,740
EO Income	0	0	0	0	0
CF from Op. Incl. EO Items	11,550	16,548	-34,825	-7,787	14,740
(Inc)/dec in FA	-3,327	-2,938	-4,056	-4,153	-4,430
Free Cash Flow	8,223	13,610	-38,882	-11,940	10,310
(Pur)/Sale of Investments	27	-293	214	-50	-50
CF from Investments	-3,300	-3,231	-3,843	-4,203	-4,480
(Inc)/Dec in Networth	-473	170	-15,770	0	0
(Inc)/Dec in Debt	-368	-324	24,955	24,473	0
Dividend Paid	3,352	5,170	8,396	11,086	11,503
CF from Fin. Activity	-4,192	-5,324	789	13,387	-11,503
Inc/Dec of Cash	4,058	7,993	-37,878	1,397	-1,243
Add: Beginning Balance	1,00,860	1,04,918	1,12,912	75,033	76,431
Closing Balance	1,04,918	1,12,912	75,033	76,431	75,187

Corporate profile

Company description

BHEL is India's dominant producer of power and industrial machinery and a leading EPC company, established in the late 1950s as the government's wholly-owned subsidiary. The company has 14 manufacturing divisions, 8 service centers, 4 power sector regional centers besides project sites spread across all over India and abroad. It has a manufacturing capacity of 20GW spread across multiple factories in India; including for thermal, hydro and gas projects.

Exhibit 1: Sensex rebased



Source: MOFSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Sep-19	Jun-19	Sep-18
Promoter	63.2	63.2	63.1
DII	19.1	18.8	17.8
FII	11.4	12.1	13.6
Others	6.4	5.9	5.6

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
LIFE INSURANCE CORPORATION OF INDIA	11.6
SBI LONG TERM ADVANTAGE FUND-SERIES VI	2.1
AMUNDI FUNDS SBI FM EQUITY INDIA	1.6
ICICI PRUDENTIAL VALUE FUND - SERIES 15	1.4

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Nalin Shinghal	Chairman & Managing Director
Subodh Gupta	Director (Finance)
D Bandyopadhyay	Director (Human Resources)
Rajeev Kalra	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Manoj Kumar Varma	Desh Deepak Goel
Kamlesh Das	Rajesh Sharma
S Balakrishnan	Ranjit Rae
R Swaminathan	

*Independent

Exhibit 6: Auditors

Name	Type
J H & Associates	Cost Auditor
K B Saxena & Associates	Cost Auditor
K K Sachdeva & Associates	Secretarial Audit
KRJ & Associates	Cost Auditor
M B Gabhawala & Co	Statutory

Source: Capitaline

Exhibit 7: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
FY20	3.4	3.9	-13.4
FY21	3.5	4.7	-25.1

Source: Bloomberg

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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