

Bharat Bijlee Limited (BBL) - Sales Note

Bharat Bijlee Ltd (BBL) incorporated in 1946, is one of the leading player in electrical engineering in India. Its primary business segments are Transformers (capacity 15,000 MVA p.a), Projects, Electric Motors, Elevator Systems and Drives & Automation. It undertakes turnkey projects (switchyards) and is well positioned to provide complete 'concept to commissioning' services. The Company's manufacturing facilities are located in Airoli, Navi Mumbai on a 1,93,000 square meters campus, with a working area of approximately 50,000 square meters.

Business Mix

Power Systems (56.5% of FY17 revenue) – This segment comprises of Power Transformers upto 200 MVA, 220 KV voltage class and EPC projects for electrical substations upto 400 KV. Product range for transformer includes sub-station transformers, generator transformers, unit auxiliary transformer & 132/25 single phase traction transformers.

Industrial Systems (43.5% of FY17 revenue) - This segment comprises the marketing, engineering, design and manufacture of a full range of low and medium voltage industrial motors, permanent magnet technology machines and AC variable drives and drive systems.

Investment rationale

Revival in Power sector – The power deficit in India has significantly decreased but due to ~21% leakage in AT&C (aggregate technical and commercial) losses, most of state DISCOM faces losses. Further, governments scheme 'Electricity for all by 2019' will be the main demand driver for the power sector.

Government is taking major steps to strengthen the power transmission & distribution network and has undertaken initiatives such as Ujwal DISCOM Assurance Yojana (UDAY) for financial turnaround of power distribution companies. The Government of India has projected an investment of INR 146,000 crore in power transmission sector by FY 2019 to strengthen the transmission network thus increasing the demand for power transformers.

Improving investment & industrial activities – The industrial motors business is positively correlated with the overall economic environment in India. The Medium Voltage motor business has gained traction and continues to grow over time. The company has developed a range of high efficiency motors that will prepare it to compete with the best in the industry. BBL's other business to maintain a healthy growth trajectory with improving business environment.

Industrial activities have witnessed a slowdown, due to historic decisions like demonetisation in November 2016 followed by the rollout of the Goods and Service Tax (GST) in July 2017. With economy coming back on track, we expect the industrial activity to recover on the back of improving economy activity.

Financials :

(In Rs Cr.)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Total Revenue	542.5	486.5	610.9	639.5	662.6
EBDITA	14.9	10.6	-2.5	38.2	46.0
PAT	-4.9	-11.3	-34.0	7.2	19.6
EPS	-8.6	-20.0	-60.2	12.7	34.7
EV/EBITDA	19.4	31.7	-185.7	17.3	14.6

RATING: BUY

Target: 1399

Upside: 28%

CMP : 1091.6 (As on 08/12/2017)

Reuter Code : BBJL.NS

Bloomberg Code : BIJL IN

Market Data

Face Value (Rs)	10.0
Equity Share Capital (cr)	5.7
Share Outstanding (cr)	0.57
Market Cap (Rs cr)	616.9
Book Value / share	516.9
Daily Avj. Volume	21,622
52 W High	1,500.0
52 W Low	745.0

Shareholding	%
Promoter	33.84
Foreign	0.01
Institutions	15.22
Public & Others	50.93

Sensex and Stock Movement



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Improving financial health – BBL reported negative earnings loss in FY13-15 but since FY16 it has seen turnaround in earnings. In FY17, BBL's net sales grew by 3.6% y-o-y to INR 662.6 cr from INR 639.5 cr, operating profit climbed 19.4% y-o-y to INR 48.6 cr from INR 40.7 cr and PAT zoomed by 172.6% to INR 19.6 cr from INR 7.2 cr. Over, last three year net sales & operating profit grown by CAGR of 10.8% & 58.3% respectively.

For the quarter ended September 2017, net sales jumped 19.7% y-o-y to INR 175.1 cr. Operating profit up by 504.6% y-o-y to INR 10.5 cr from INR 1.7 cr and operating profit margin (OPM) jumped 480 bps to 6.0% from 1.2% (Q2 FY16). PAT down by 3.2% y-o-y to INR 6.34 crore, from INR 6.55 cr due to rise in finance cost & lower other income. In segment-wise, revenue from power systems was up by 20.6% y-o-y and an industrial system was down by 3.2% whereas EBIT margin improved in both the segment, for power segment margin jump from 4.8% (Q2 FY16) to 9.0% (Q2 FY17) and industrial segments from 4.8% (Q2 FY16) to 8.7% (Q2 FY17).

Segment	Q2 FY17	Q2 FY16	Y-o-Y (%)	Q1 FY17	Q-o-Q (%)
Power Systems	96.97	80.39	20.6%	92.32	5.0%
Industrial Systems	78.15	80.76	-3.2%	71.85	8.8%
Total	175.12	161.15	8.7%	164.17	6.7%
EBIT					
Power Systems	8.69	3.84	126.3%	2.76	214.9%
Industrial Systems	6.83	3.90	75.1%	-0.08	
Total	15.52	7.74	100.5%	2.68	479.1%
EBIT Margin					
Power Systems	9.0%	4.8%		3.0%	
Industrial Systems	8.7%	4.8%		-0.1%	

Source - Company, DSPL Research

For the six months ended September 2017, sales grew 15.6% y-o-y to INR 323.5 cr. Operating profit zoomed to INR 6.8 cr from INR 0.26 cr and OPM improved from 0.1% to 2.1%. PAT was down due to rise in finance cost & lower other income to INR 2.5 cr against INR 4.4 cr. In segment-wise, revenue from power systems was up by 22.2% y-o-y and an industrial system was down by 3.3% whereas EBIT margin improved in both the segment, for power segment margin jump from 3.6% (Q2 FY16) to 6.0% (Q2 FY17) and industrial segments from 3.9% (Q2 FY16) to 4.5% (Q2 FY17).

Segment	HI FY17	HI FY16	Y-o-Y (%)
Power Systems	189.29	154.89	22.2%
Industrial Systems	150.00	155.13	-3.3%
Total	339.29	310.02	9.4%
EBIT			
Power Systems	11.45	5.65	102.7%
Industrial Systems	6.75	6.02	12.1%
Total	18.2	11.67	56.0%
EBIT Margin			
Power Systems	6.0%	3.6%	
Industrial Systems	4.5%	3.9%	

Source - Company, DSPL Research

Outlook –

The transformer business was affected due to lack of demand, delay in CAPEX cycle, pricing pressure and cheap imports from China. The overcapacity in the transformer segment led to margin compression which impacted the company's profitability but the capital goods sector is slowly picking up, we see BBL benefiting from ongoing consolidation

We expect the company to report net sales of INR 690 cr (FY18E) & INR 759 cr (FY19E), PAT of INR 20.7 cr (FY18E) & INR 23.9 cr (FY19E) and EPS of INR 36.7 (FY18E) & INR 42.4 (FY19E). At current market price of INR 1086.3, the share trades at 29.6x (FY18E) & 42.4x (FY19E) earnings. We value BBL using sum-of-the-parts (SOTP) approach.

Sum of the Part Valuation (in INR Cr)			
Particular	FY18E	Multiple (x)	Value
Core Business (PAT)	20.7	25.0	518
Add - Investment Value (20% discount to market value)			272
Total Value			791
Value per share (INR)			1,399

Source - DSPL Research

Financials (in INR Cr.)

Profit & Loss Statement	FY 2015	FY 2016	FY 2017	Balance Sheet	FY 2015	FY 2016	FY 2017
Net Sales	610.9	639.5	662.6	Share Capital	5.7	5.7	5.7
Raw Material Cost	492.6	482.9	500.9	Reserves and Surplus	259.7	266.9	286.5
Gross Profit	118.3	156.6	161.7	Shareholders Fund	265.4	272.5	292.2
Employee Cost	75.1	81.9	85.7	Total Loan	133.4	168.7	177.6
Other Expenses	64.0	57.4	57.9	Deferred Tax Liabilities	-	-	-
Total Expenditure	631.6	622.3	644.5	Total Liabilities	398.8	441.3	469.7
Operating EBITDA	(20.7)	17.3	18.1	Net Fixed Assets	84.2	77.3	72.5
<i>Op. EBITDA Margin (%)</i>	<i>-3.4%</i>	<i>2.7%</i>	<i>2.7%</i>	Investments	8.1	8.1	4.0
Other Income	18.2	20.9	27.9	Sundry Debtors	212.3	223.9	223.6
Depreciation	11.9	10.3	9.9	Cash & Bank	7.1	8.0	19.6
EBIT	(14.5)	27.9	36.1	Loans & Advances	176.4	179.2	188.9
<i>EBIT Margin</i>	<i>-2.4%</i>	<i>4.4%</i>	<i>5.4%</i>	Inventories	91.1	106.1	123.2
Finance Cost	20.0	20.6	15.9	Other Current Assets	20.0	39.3	50.8
Exceptional Item	(0.4)	(0.4)	0.1	Total Current Assets	507.0	556.5	606.1
PBT	(34.0)	7.7	20.1	Sundry Creditors	154.8	150.8	155.5
Tax	-	0.5	0.5	Provision	11.4	12.9	11.3
PAT	(34.0)	7.2	19.6	Other Current Liabilities	34.3	36.9	46.1
Share O/S (in cr)	0.6	0.6	0.6	Total Current liabilities & Provision	200.6	200.7	212.9
EPS (INR)	(60.2)	12.7	34.7	Net Assets	306.4	355.8	393.2
Cash EPS (INR)	(39.1)	30.9	52.2	Total Assets	398.8	441.3	469.7

Cashflow Statement	FY 2015	FY 2016	FY 2017	Ratios Analysis	FY 2015	FY 2016	FY 2017
PBT	(34.4)	7.4	20.1	Per Share Value			
Depreciation & Amortization	11.9	10.3	9.9	EPS (Rs)	(60.2)	12.7	34.7
Finance Cost	19.95	20.56	15.95	BVPS (Rs)	469.5	482.2	516.9
Others	(16.6)	(19.7)	(26.8)	DPS (Rs)	-	-	-
(Incr)/Decr in Working Capital	(21.1)	(24.5)	(10.6)	Turnover Ratio			
Tax Paid	(0.5)	0.8	4.6	Inventory Days	64	56	63
Cash Flow from Operating	(40.7)	(5.1)	13.3	Debtors Days	111	124	123
(Incr)/ Decr in Gross PP&E	(2.6)	(3.5)	(4.7)	Creditors Days	89	87	84
Others	12.2	(7.8)	10.2	Cash Conversion Cycle	85	94	102
Cash Flow from Investing	9.6	(11.3)	5.5	Asset Turnover Ratio	1.0	1.0	1.0
(Decr)/Incr in Debt	73.6	35.3	8.9	Profitability Ratio			
Interest Paid	(20.5)	(20.8)	(15.8)	EBITDA Margin	-0.4%	6.0%	6.9%
Others	(21.6)	-	-	PAT margin	-5.6%	1.1%	3.0%
Dividend Paid	(0.1)	(0.1)	(0.1)	ROA	-5.7%	1.1%	2.9%
Cash Flow from Financing	31.3	14.4	(7.1)	ROE	-12.8%	2.6%	6.7%
Incr/(Decr) in Balance Sheet Cash	0.2	(2.0)	11.7	ROCE	-3.6%	6.3%	7.7%
Cash and cash equivalents at the Start of the Year	6.9	10.1	7.9	Solvency Ratio			
Cash and cash equivalents at the End of the Year	7.1	8.0	19.6	Debt / Equity Ratio	0.5	0.6	0.6
				Current Ratio	1.1	1.1	1.3
				Quick Ratio	1.1	1.1	1.2
				Interest Coverage Ratio	-0.1	1.9	2.9
				Valuation Ratios			
				PE (x)	(10.4)	70.4	26.4
				P/B (x)	1.3	1.9	1.8
				EV/EBITDA (x)	(185.7)	17.3	14.6
				Mcap/Sales (x)	0.6	0.8	0.8
				Earning Yield (%)	-9.6%	1.4%	3.8%
				Dividend Yield (%)	0.0%	0.0%	0.0%
				Free Cash Flow Yield (%)	-12.3%	-1.8%	1.7%

Source - DSPL Research

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