

Strong order inflow momentum continues...

Bhel's Q4FY19 revenues came in at ₹ 10297.2 crore, up 1.5% YoY (marginally below our estimate of ₹ 10730.1 crore). On the segmental front, power segment revenues declined 2.5% to ₹ 8103.4 crore on a YoY basis whereas industrial segment revenues grew 14% to ₹ 1733.1 crore YoY. EBITDA came in at ₹ 1395.2 crore (much above our estimate of ₹ 884.5 crore) up 13.3% YoY, owing to reduced other operating expenses. PAT came in at ₹ 682.7 crore (vs. our estimate of ₹ 423.2 crore) registering robust growth of 49.4% YoY, owing mainly to a decline in depreciation. However, interest expense has increased 32.9% to ₹ 96.4 crore. Bhel's order inflow for Q4FY19 came in at ₹ 6630 crore.

Decent order inflows across power, industrial business

During Q4FY19, order inflow was at ₹ 6630 crore, down 73% YoY on a high base. For FY19, order inflows came in at ₹ 23860 crore, of which power segment contributed ₹ 15500 crore, industrial segment contributed ₹ 7000 crore and exports contributed ₹ 1400 crore. Bhel's order backlog as on FY19 was at ₹ 110000 crore. Bhel has strengthened its position in emission control equipment (FGD) by winning further orders during the quarter. For FY19, FGD order inflow was at ₹ 8600 crore and favourably placed in orders worth ₹ 8300 crore.

Execution pick-up, operational efficiencies; key to growth.

Strong position in executable order backlog is expected to aid a gradual execution pick-up and revenue booking. While order inflows are expected to continue momentum with likely conversion of favourable position in orders worth ₹ 24500 crore with further tendering pipeline of ~15 GW worth ~₹ 60000 crore. We expect revenue to grow at a CAGR of 6.0%, albeit on a low base over FY19-21E with absolute EBITDA growing at CAGR of 3.5% over FY19-21E with margins of 6.6% in FY20E and 6.7% in FY21E. We build in order inflows to the tune of ₹ 25300 crore and ₹ 22600 crore in FY20E and FY21 E, respectively.

Valuation & Outlook

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 revise our fair value to ₹ 75 (17x FY21EPS) and maintain **HOLD** rating. However, long term power sector outlook remains key concern.



Particulars

Particular	Amount
Market Capitalization	₹ 25070.9 Crore
Total Debt (FY18)	₹ 57.2 Crore
Cash & Investments (FY18)	₹ 11291 Crore
EV	₹ 13836.8 Crore
52 week H/L	₹ 87 / 56
Equity capital	₹ 696.4 Crore
Face value	₹ 2

Key Highlights

- Q4FY19 order inflow was at ₹ 6630 crore while FY19 order inflow was at ₹ 23860 crore
- EBITDA came in at ₹ 1395.2 crore (much above our estimate of ₹ 884.5 crore) up 13.3% on YoY, owing to reduced other operating expenses
- We revise our fair value to ₹ 75 (16.5x FY21EPS) and maintain HOLD rating. However, long term power sector outlook remains key concern

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Key Financial Summary

Particulars (₹ crore)	FY17	FY18	FY19P	FY20E	FY21E	CAGR (FY19-FY21E)
Net Sales	28,300.5	28,666.9	30,349.0	32,116.7	34,078.7	6.0%
EBITDA	1,100.9	1,343.4	2,142.0	2,128.2	2,296.3	3.5%
EBITDA Margin (%)	3.9	4.7	7.1	6.6	6.7	
Net Profit	495.9	806.6	1,215.4	1,438.1	1,582.6	14.1%
EPS (₹)	2.0	3.3	3.5	4.1	4.5	
P/E (x)	29.6	18.2	17.2	14.5	13.2	
RoNW (%)	1.5	2.5	3.9	4.5	4.9	
RoCE (%)	3.0	5.6	6.9	7.5	7.9	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (Chg %)	Q3FY19	QoQ (Chg %)	Comments
Revenue	10,297.2	10,730.1	10,147.9	1.5	7,336.4	40.4	Revenues grow 1.5%, slightly below our estimates
Other Income	120.9	224.3	197.9	-38.9	226.5	-46.6	
Employee Expenses	1,980.9	1,916.5	1,880.5	5.3	1,301.5	52.2	
Raw Material Expenses	5,840.0	5,833.7	5,129.9	13.8	4,580.8	27.5	
Provision For Bad Debt	0.0	0.0	0.0	-	0.0	-	
Other Operating Expenses	1,081.1	2,095.5	1,906.0	-43.3	1,235.4	-12.5	
EBITDA	1,395.2	884.5	1,231.5	13.3	218.7	537.9	
EBITDA Margin (%)	13.5	8.2	12.1	141 bps	3.0	1057 bps	EBITDA margin improved substantially on the back of reduced depreciation and lower other operating expenses
Depreciation	134.2	435.8	217.1	-38.2	112.4	19.4	
Interest	96.4	55.1	72.6	32.9	57.7	67.1	
PBT	1,285.4	617.8	1,139.8	12.8	275.1	367.3	
Total Tax	602.7	194.6	682.7	-11.7	83.1	625.0	
PAT	682.7	423.2	457.1	49.4	191.9	255.7	Lower depreciation and taxes lead to better profitability

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E			FY21E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	34,405.7	32,116.7	-6.7	37,451.6	34,078.7	-9.0	We revise execution rates in tandem with order backlog
EBITDA	1,713.2	2,128.2	24.2	1,941.8	2,296.3	18.3	
EBITDA Margin (%)	5.0	6.6	-60bps	5.2	0.0	-70bps	
PAT	1,414.6	1,438.1	1.7	1,615.2	1,582.6	-2.0	
EPS (₹)	3.9	4.1	5.9	4.4	4.5	3.3	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier	
	FY18	FY19P	FY20E	FY21E	FY20E	FY21E
Order Inflow growth	75.7	-41.7	6.0	-10.7	-10.9	3.6
Order Backlog growth	12.4	-2.6	-5.2	-9.8	-10.4	-13.8
Revenue growth	1.3	5.9	5.8	6.1	10.0	8.9
EBITDA Margins	4.7	7.1	6.6	6.7	5.0	5.2

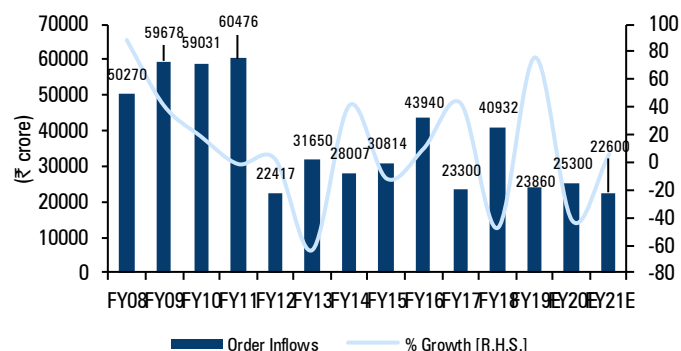
Source: Company, ICICI Direct Research

Key financial results highlights

- On revenue guidance, as per the excellent rating of the government, is ₹ 34000 crore including other income and ₹ 30000-31000 crore excluding other income for FY20
- During the quarter, order inflows came in at ₹ 6630 crore, out of which ~₹ 2600 crore is in industrial business and ~ ₹ 3900 crore in power business
- For FY19, order inflow was at ₹ 23860, out of which power contributed ₹ 15500 crore, industrial contributed ₹ 7000 crore and exports contributed ₹ 1400 crore
- For FY19, order inflows within industrial business came in from; transportation segment (~₹ 2600 crore), solar (₹ 725 crore), railway electrification (₹ 400 crore) and orders from defence and power transmission. It has got orders of 25 locomotive regenerative systems
- Favourable position in orders worth ₹ 24500 crore with further tendering pipeline of ~15 GW worth ~₹ 60000 crore. Also, few of the order bookings was deferred by customers due to elections and are expected to come shortly
- Focusing on improving productivity of employee to control overhead expenses
- For FY19, FGD order inflow was at ₹ 8600 crore and favourably placed in orders worth ₹ 8300 crore. Low margins of FGD orders could drag margins in FY20E, FY21E. Bhel has 34 FGD orders as on date
- On collections front, organisation level cash collection of more than ₹ 30000 crore for FY19, which has gone up 14% YoY. Hence, trade receivables has reduced over 9% and the trend is expected to continue. Trade receivables excluding contractual is ₹ 15955 crore vs. ₹ 17501 crore in FY18. Trade receivables consists of 50% from state, 33% from central, 12% from private and 6% from exports
- However, payment terms have gone substantial changes which will lead to more requirement on working capital side owing to which current ratio has gone down from 1.92x to 1.66x. Due to some delays on customer's sites on few orders, inventory has gone up marginally
- On foreign exchange gain/losses, for Q4FY19 exchange rate variation (ERV) there was a loss of ₹ 85 crore vs. gain of ₹ 192 crore in Q4FY18, due to which the impact was ₹ 277 crore in Q4FY19
- For FY19, provision for employee benefits was ₹ 1076 crore and provision for wage revision was around ₹ 760 crore, which was part of other expenses. Provisions net of revision is ₹ 1836 crore. In FY20, the company expects employee benefit expenses to stabilise at current level
- For FY19, withdrawal of wage provisions of ₹ 1394 crore, a few of which were shifted to employee benefit expenses from other expenses, has resulted in lower other expenses
- For FY19, the short term borrowings have increased to ₹ 2457 crore

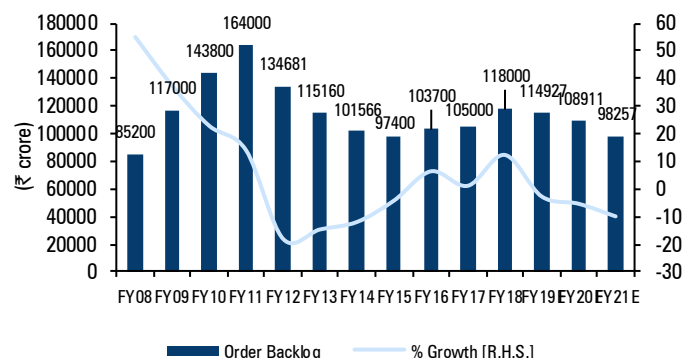
Financial Story in Charts

Exhibit 4: Order inflows trend over FY08-21E



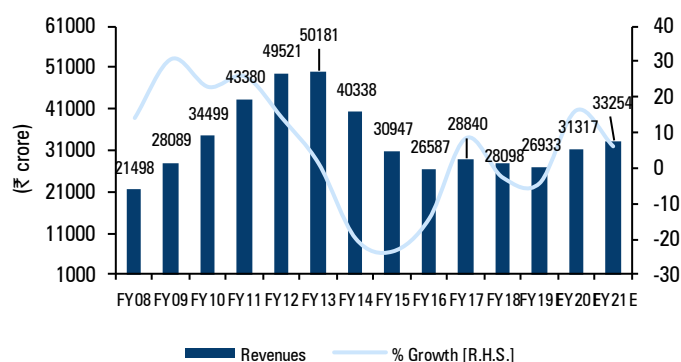
Source: ICICI Direct Research, Company

Exhibit 5: Order backlog trend in FY08-21E



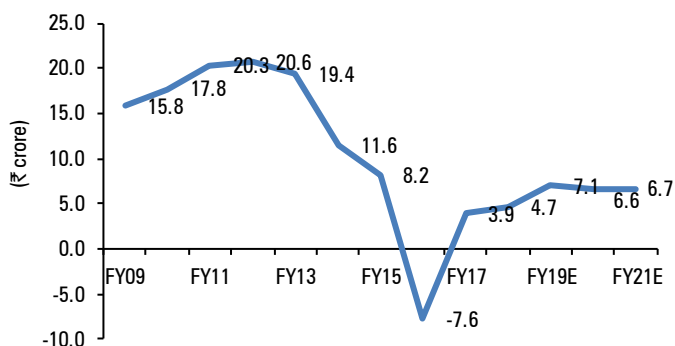
Source: ICICI Direct Research, Company

Exhibit 6: Overall revenue to stabilise in FY18-21E..



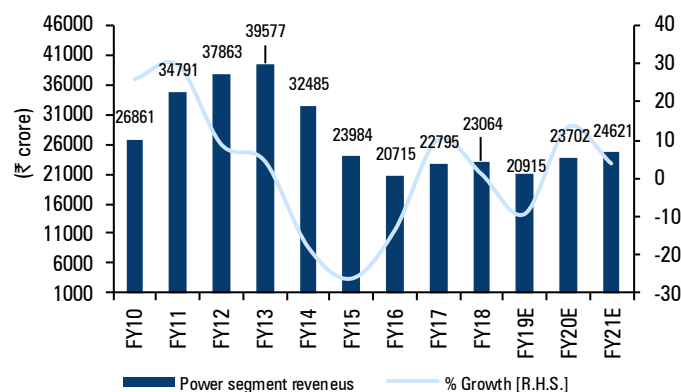
Source: Company, ICICI Direct Research

Exhibit 7: Trend in EBITDA margins...



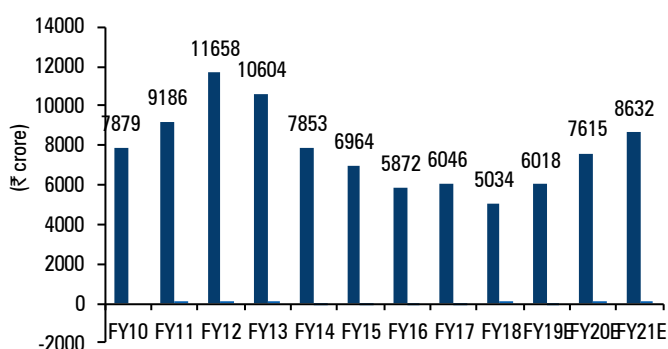
Source: Company, ICICI Direct Research

Exhibit 8: Power segment revenue trend..



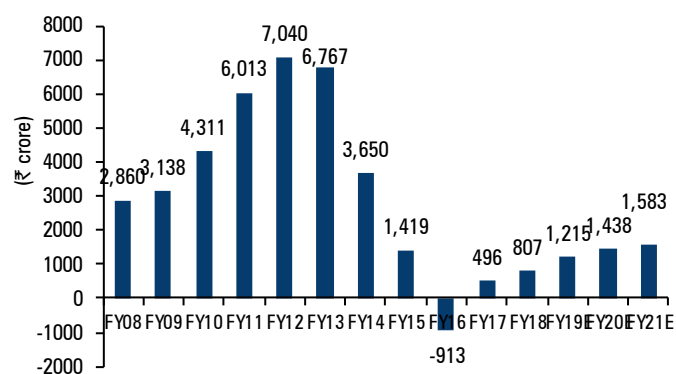
Source: Company, ICICI Direct Research

Exhibit 9: Industry segment revenue trend..



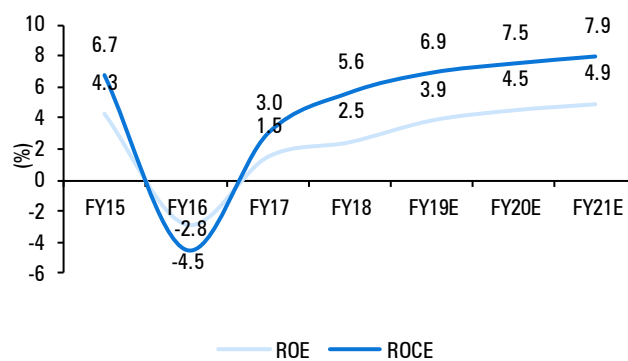
Source: Company, ICICI Direct Research

Exhibit 10: Trend in profitability...



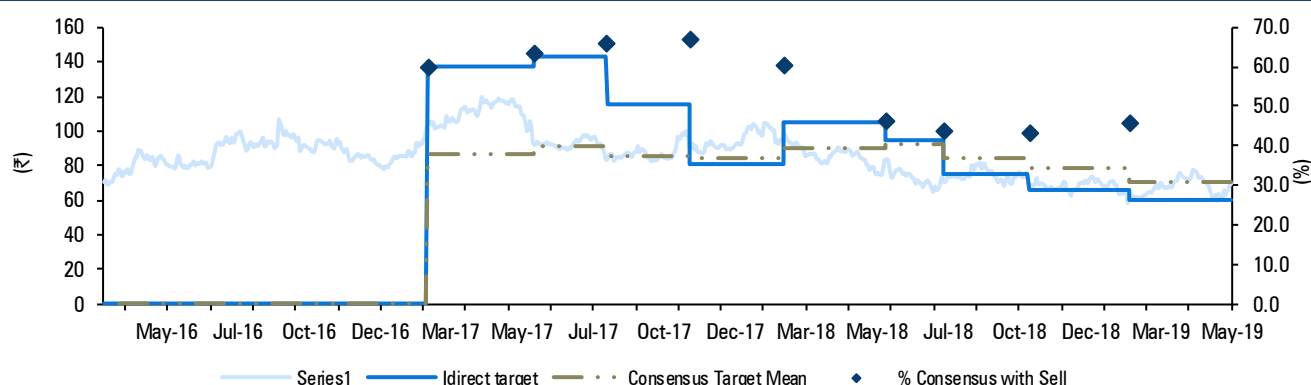
Source: Company, ICICI Direct Research

Exhibit 11: RoR, RoCE trend...



Source: Company, ICICI Direct Research

Exhibit 12: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 13: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Government of India	31-Mar-19	63.2	2199.7	0.0
2	Life Insurance Corporation of India	31-Mar-19	14.1	492.2	146.5
3	LIC Mutual Fund Asset Management Cor	18-Jan-19	4.8	168.3	0.0
4	SBI Funds Management Pvt. Ltd.	31-Mar-19	1.7	57.7	7.7
5	PineBridge Investments Asia Limited	18-Jan-19	1.0	36.1	-41.8
6	Reliance Nippon Life Asset Management	31-Mar-19	0.9	30.8	18.0
7	MFS Investment Management	31-Mar-19	0.9	30.2	0.5
8	The Vanguard Group, Inc.	31-Mar-19	0.9	29.9	0.1
9	J.P. Morgan Asset Management (Hong K	31-Mar-19	0.8	26.8	0.0
10	Fidelity Management & Research Compar	31-Mar-19	0.6	22.1	-0.7

Source: Reuters, ICICI Direct Research

Exhibit 14: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Life Insurance Corporation of India	+158.69M	+146.48M	PineBridge Investments Asia Limited	-38.11M	-41.80M
Reliance Nippon Life Asset Management Limited	+19.48M	+17.98M	BlackRock Asset Management Ireland Limited	-3.62M	-3.70M
HDFC Asset Management Co., Ltd.	+8.72M	+8.05M	JM Financial Asset Management Pvt. Ltd.	-2.83M	-2.97M
SBI Funds Management Pvt. Ltd.	+8.38M	+7.73M	HSBC Global Asset Management (Hong Kong) Limited	-2.60M	-2.66M
Kotak Mahindra Asset Management Company Ltd.	+7.61M	+7.02M	Aberdeen Asset Investments Limited	-2.50M	-2.38M

Source: Reuters, ICICI Direct Research

Exhibit 15: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	63.1	63.1	63.1	63.1	63.2
FII	13.0	13.0	13.6	12.1	11.7
DII	18.5	18.2	17.8	18.1	18.5
Others	5.4	5.7	5.6	6.8	6.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Total operating Income	28,666.9	30,349.0	32,116.7	34,078.7
Growth (%)	1.3	5.9	5.8	6.1
Raw Material Expenses	16,146.5	17,764.1	18,953.0	20,113.0
Employee Expenses	6,026.5	6,240.2	6,415.6	6,615.7
Other Operating Expenses	5,150.5	4,202.6	4,620.0	5,053.8
Provision For Bad Debt	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0
Total Operating Expenditure	27,323.5	28,207.0	29,988.5	31,782.4
EBITDA	1,343.4	2,142.0	2,128.2	2,296.3
Growth (%)	22.0	59.4	-0.6	7.9
Depreciation	786.4	474.8	758.9	773.3
Interest	254.6	286.9	255.2	247.9
Other Income	1,282.6	677.6	1,167.9	1,205.4
PBT	1,585.0	2,057.9	2,281.9	2,480.6
Others	0.0	0.0	0.0	0.0
Total Tax	778.4	842.5	843.9	898.0
PAT	806.6	1,215.4	1,438.1	1,582.6
Growth (%)	62.7	50.7	18.3	10.0
EPS (₹)	2.3	3.5	4.1	4.5

Source: Company, ICICI Direct Research

Exhibit 17: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	806.6	1,215.4	1,438.1	1,582.6
Add: Depreciation	786.4	474.8	758.9	773.3
(Inc)/dec in Current Assets	505.0	-1,871.5	-579.4	-2,645.4
Inc/(dec) in CL and Provisions	2,124.6	2,648.6	2,552.5	2,333.6
Others	3.3	3.0	5.0	5.0
CF from operating activities	4,222.6	2,467.3	4,170.1	2,044.1
(Inc)/dec in Investments	-29.3	-250.0	-50.0	-50.0
(Inc)/dec in Fixed Assets	-293.8	-405.7	-296.2	-529.9
Others	0.0	0.0	0.0	0.0
CF from investing activities	-2,890.8	-2,805.9	-2,570.2	-995.6
Issue/(Buy back) of Equity	244.8	0.0	0.0	0.0
Inc/(dec) in loan funds	-32.4	2,495.3	-490.0	70.0
Dividend paid & dividend tax	-583.3	-838.5	-1,048.1	-1,173.9
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	-532.3	84.9	-1,538.1	-1,103.9
Net Cash flow	799.4	-253.7	61.8	-55.4
Opening Cash	10,491.8	11,291.2	11,037.5	11,099.4
Closing Cash	11,291.2	11,037.5	11,099.4	11,044.0

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	734.3	734.3	734.3	734.3
Reserve and Surplus	31,866.8	30,671.9	31,061.8	31,470.6
Total Shareholders funds	32,601.1	31,406.1	31,796.1	32,204.8
Total Debt	57.2	2,552.5	2,062.5	2,132.5
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	0.0	0.0	0.0	1.0
Total Liabilities	41,539.0	42,989.3	43,039.3	43,668.0
Assets				
Gross Block	5,404.3	5,771.1	6,140.5	6,670.4
Less: Acc Depreciation	2,426.7	2,886.8	3,634.1	4,395.7
Net Block	2,977.5	2,884.3	2,506.4	2,274.7
Capital WIP	194.5	223.2	150.0	150.0
Total Fixed Assets	3,172.1	3,107.5	2,656.4	2,424.7
Investments	690.7	940.7	990.7	1,040.7
Inventory	6,258.8	8,113.5	6,643.9	8,479.7
Debtors	22,771.5	22,916.5	24,624.4	25,874.1
Loans and Advances	147.1	175.7	193.8	205.2
Other Current Assets	2,719.8	2,563.0	2,886.1	2,434.5
Cash	11,291.2	11,037.5	11,099.4	11,044.0
Total Current Assets	43,188.4	44,806.3	45,447.6	48,037.6
Creditors	10,586.9	11,096.4	12,011.9	12,754.9
Provisions	3,782.8	4,660.5	5,165.1	5,357.0
Total Current Liabilities	22,250.2	24,898.8	27,451.4	29,785.0
Net Current Assets	20,938.2	19,907.4	17,996.2	18,252.6
Others Assets	0.0	0.0	0.0	1.0
Application of Funds	41,539.0	42,989.3	43,039.3	43,668.0

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
EPS	2.3	3.5	4.1	4.5
Cash EPS	4.6	4.9	6.3	6.8
BV	93.6	90.2	91.3	92.5
DPS	2.0	2.0	2.5	2.8
Cash Per Share	32.4	31.7	31.9	31.7
Operating Ratios (%)				
EBITDA Margin	4.7	7.1	6.6	6.7
PBT / Total Operating income	5.7	7.0	7.3	7.5
PAT Margin	2.8	4.0	4.5	4.6
Inventory days	81.7	100.9	77.4	93.1
Debtor days	297.2	285.0	287.0	284.0
Creditor days	138.2	138.0	140.0	140.0
Return Ratios (%)				
RoE	2.5	3.9	4.5	4.9
RoCE	5.6	6.9	7.5	7.9
RoIC	4.2	13.1	13.2	14.5
Valuation Ratios (x)				
P/E	18.2	17.2	14.5	13.2
EV / EBITDA	10.3	7.7	7.5	7.0
EV / Net Sales	0.5	0.6	0.5	0.5
Market Cap / Sales	0.6	0.9	0.8	0.8
Price to Book Value	0.5	0.7	0.7	0.6
Solvency Ratios				
Debt/EBITDA	0.0	1.2	1.0	0.9
Debt / Equity	0.0	0.1	0.1	0.1
Current Ratio	1.4	1.4	1.3	1.2
Quick Ratio	1.2	1.0	1.0	1.0

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		(₹ Cr)	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E
L&T (LARTOU)	1574	1,680	Buy	218369	48.1	53.4	61.2	27.5	24.8	21.7	11.7	12.6	13.2	12.6	12.9	13.6
Bhel (BHEL)	72	75	Hold	25071	3.5	4.1	4.5	21.5	18.2	16.5	6.9	7.5	7.9	3.9	4.5	4.9
AIA Engineering (AIAENG)	1715	2,050	Buy	16176	54.4	59.6	68.2	32.2	29.4	25.7	18.9	19.9	20.3	14.6	14.7	15.1
Thermax (THERMA)	1029	1,170	Buy	12261	23.1	29.3	34.2	42.8	33.8	28.9	17.3	17.1	18.0	11.1	11.5	12.2
KEC International (KECIN)	334	315	Hold	8587	19.2	23.4	27.3	14.9	12.2	10.5	25.7	25.6	25.6	20.6	20.7	20.2
Kalpataru Power(KALPOW)	529	550	Buy	8118	26.1	31.5	37.0	17.8	14.8	12.6	18.3	19.0	19.9	12.6	13.0	13.4
Greaves Cotton (GREAVE)	145	150	Hold	3541	6.9	8.4	9.3	21.2	17.5	15.8	26.2	28.2	30.1	18.2	19.7	21.1
Bharat Electronics (BHAELE)	113	110	Buy	26803	6.6	7.0	7.8	11.4	10.6	9.6	25.6	25.0	25.3	18.2	17.4	17.3
Engineers India (ENGIND)	125	120	Hold	7141	5.9	6.6	7.8	19.3	17.0	14.5	21.3	23.3	24.2	16.3	18.0	20.1
VaTech Wabag (VATWAB)	320	270	Reduce	1629	19.2	18.8	24.3	15.6	15.9	12.4	14.6	17.7	20.3	9.5	9.2	11.0
Cochin Shipyard (COCSHI)	375	455	Buy	4,933	36.3	38.2	41.5	10.3	9.8	9.0	18.8	17.6	17.0	14.4	14.0	14.1
SKF (SKFIND)	1930	1,845	Hold	9729	65.4	69.4	76.8	27.6	26.0	23.5	29.4	27.1	26.3	19.8	18.1	17.3
Timken India (TIMIND)	717	640	Buy	4351	15.7	17.9	21.7	32.6	28.5	23.5	12.8	14.2	15.5	9.4	9.8	10.7
NRB Bearing (NRBBEA)	177	215	Buy	2084	9.5	11.9	13.7	19.6	15.6	13.6	23.0	24.4	24.3	21.1	22.6	22.3
Grindwell Norton (GRINOR)	600	625	Buy	6699	16.1	17.6	19.7	37.5	34.3	30.7	24.4	24.4	25.0	16.4	16.4	16.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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