

Execution headwinds impact growth...

Bhel's Q1FY20 revenues came in at ₹ 4531.7 crore, down 23.7% YoY (vs. our estimate of ₹ 6376.1 crore) impacted by execution headwinds due to land constraints, clearances and local agitations. On the segmental front, power segment revenues declined 24.7% to ₹ 3491.5 crore YoY whereas industrial segment revenues declined 20.4% to ₹ 918.8 crore YoY. It registered an EBITDA loss at ₹ 266.7 crore (vs. our estimate of ₹ 327.4 crore), owing to reduced revenues. It posted a net loss of ₹ 216.2 crore (vs. our estimated PAT of ₹ 153.6 crore), owing mainly to execution headwinds, increased interest cost, lower other income. For Q1FY20, order inflow came in at ₹ 3892 crore while order backlog was at ₹ 107806 crore.

Reasonable order inflows across power, industrial business

During Q1FY20, order inflow came in at ₹ 3892 crore, down 11% YoY, of which power segment contributed ₹ 1913 crore, industrial segment contributed ₹ 1926 crore. Bhel's order backlog as on Q1FY20 was at ₹ 107806 crore. The company has strengthened its position in emission control equipment (FGD) by winning further orders during the quarter and is favourably placed in orders worth ~₹ 14000 crore. It sees ~ 8-10 GW (~₹ 50000 crore) power sector opportunities to be finalised by year end. On the industrial side, five railway electrification tenders are in the pipeline while it also expects 75 more regenerative locomotive system order.

Execution revival, operational efficiencies; key to growth

Strong position in executable order backlog will aid gradual execution pick-up and revenue booking. However, recent execution headwinds due to land issues, local agitations and clearances need to be resolved quickly to recoup lost execution due to project delays. We expect revenues to grow at a CAGR of 5.3% in FY19-21E with absolute EBITDA growing at a CAGR of 1.3% in FY19-21E with margins of 6.4% in FY20E and 6.5% in FY21E. We build in order inflows to the tune of ₹ 25040 crore and ₹ 22100 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, and expected pick-up in execution rate gives reasonable revenue visibility, going forward. However, receivables management from major customers and recent project delays will be closely watched. The company is expected to maintain growth momentum with revenue CAGR of 5.3%, PAT CAGR of 4.5% in FY19-21E. We revise our fair value to ₹ 60 (16x FY21EPS) and maintain **HOLD** rating. Key risk: Elongated execution headwinds, concerning long term thermal power sector outlook.



Particulars

Particular	Amount
Market Capitalization	₹ 19847.8 Crore
Total Debt (FY19)	₹ 2552.7 Crore
Cash & Investments (FY19)	₹ 7503.4 Crore
EV	₹ 14897.1 Crore
52 week H/L	₹ 83 /55
Equity capital	₹ 696.4 Crore
Face value	₹ 2

Key Highlights

- Q1FY20 order inflow at ₹ 3892 crore, declining 11% YoY
- Reported EBITDA loss of ₹ 266.7 crore, owing to execution headwinds leading to reduced revenue
- Revise our fair value to ₹ 60 (16x FY21EPS) and maintain HOLD rating. However, execution headwinds, long term power sector outlook remains key concern

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Key Financial Summary

Particulars (₹ crore)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-FY21E)
Net Sales	28,300.5	28,666.9	30,349.0	31,563.2	33,608.5	5.2%
EBITDA	1,100.9	1,343.4	2,142.0	2,018.5	2,198.7	1.3%
EBITDA Margin (%)	3.9	4.7	7.1	6.4	6.5	
Net Profit	495.9	806.6	1,215.4	1,099.6	1,327.9	4.5%
EPS (₹)	2.0	3.3	3.5	3.2	3.8	
P/ E (x)	37.0	22.8	21.5	23.7	19.7	
RoNW (%)	1.5	2.5	3.9	3.5	4.2	
RoCE (%)	3.0	5.6	6.9	6.0	7.0	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (Chg %)	Q4FY19	QoQ (Chg %)	Comments
Revenue	4,531.7	6,376.1	5,935.5	-23.7	10,297.2	-56.0	Revenues impacted by execution delay due to local unrest and land contrants in Telangana and Tangedco
Other Income	145.5	150.0	178.6	-18.5	120.9	20.4	
Employee Expenses	1,450.9	1,425.8	1,418.0	2.3	1,980.9	-26.8	
Raw Material Expenses	2,607.3	3,731.0	3,367.7	-22.6	5,840.0	-55.4	
Provision For Bad Debt	0.0	0.0	0.0	-	0.0	-	
Other Operating Expenses	740.2	891.9	862.6	-14.2	1,081.1	-31.5	
EBITDA	-266.7	327.4	287.2	-192.8	1,395.2	-119.1	
EBITDA Margin (%)	-5.9	5.1	4.8	-1072 bps	13.5	-1943 bps	EBITDA impacted by lower revenue
Depreciation	114.8	171.6	176.1	-34.8	134.2	-14.5	
Interest	108.0	61.9	63.9	69.0	96.4	12.0	
PBT	-343.9	243.9	225.9	-252.3	1,285.4	-126.8	
Total Tax	-127.7	90.2	70.3	-281.7	602.7	-121.2	
PAT	-216.2	153.6	155.6	-239.0	682.7	-131.7	PAT impacted by lower revenue, other income, higher interest

Key Metrics

Power segment revenues	3,491.5	4,532.4	4,636.2	-24.7	8,103.4	-56.9
Industry segment revenues	918.8	1,748.8	1,153.9	-20.4	1,733.1	-47.0

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
(₹ Crore)							
Revenue	32,116.7	31,563.2	-1.7	34,078.7	33,608.5	-1.4	We revise execution rates in tandem with headwinds
EBITDA	2,128.2	2,018.5	-5.2	2,296.3	2,198.7	-4.3	
EBITDA Margin (%)	6.6	6.4	-20bps	6.7	6.5	-70bps	
PAT	1,438.1	1,099.6	-23.5	1,582.6	1,327.9	-16.1	
EPS (₹)	4.1	3.2	-23.0	4.5	3.8	-15.3	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier	
	FY18	FY19	FY20E	FY21E	FY20E	FY21E
Order Inflow growth	75.7	-41.7	5.0	-11.7	6.0	-10.7
Order Backlog growth	12.4	-4.7	-5.1	-10.0	-5.2	-9.8
Revenue growth	1.3	5.9	4.0	6.5	5.8	6.1
EBITDA Margins	4.7	7.1	6.4	6.5	6.6	6.7

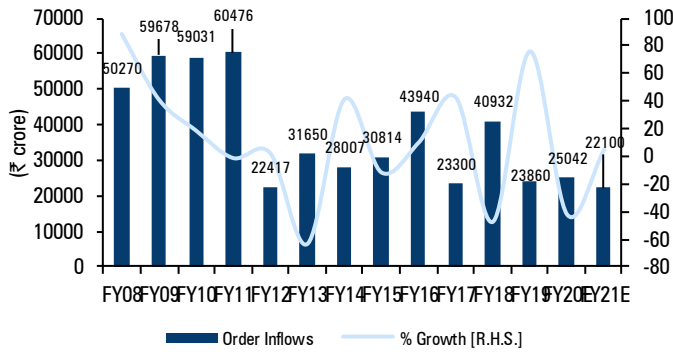
Source: Company, ICICI Direct Research

Key financial results highlights

- On revenue guidance, in keeping with the excellent rating of the government, is given as ₹ 33000 crore including other income and ₹ 30000-31000 crore excluding other income for FY20
- In Q1FY20, order inflows were at ₹ 3892 crore, out of which ~₹ 1913 crore was in power business and ~₹ 1926 crore in industrial business
- As on Q1FY20, Bhel's order backlog was at ₹ 107806 crore, of which power sector contributed ₹ 85789 crore, industrial segment contributed ₹ 20959 crore and exports segment contributed ₹ 1058 crore
- The drag in power segment revenue was due to execution headwinds in projects based in Telangana and Tangedco due to land issues, customer clearances and local agitation. The Bhel management expects to get these issues resolved by Q2FY20. While drag in industrial revenue is attributed to customers, there were minor internal issues, delay in imported modules from China
- Favourably placed in 15-16 GW of orders of which ~8-10 GW of power orders worth ~₹ 50000 crore to be finalised in current year
- Bhel has received FGD orders for ~23 GW so far consolidating to 41 sets and is further L1 in orders for ~19 GW. It expects tendering pipeline of ~30 GW by year end
- On collections front, organisation level cash collection has gone up 30% YoY. Total trade receivables were at ~₹ 37851 crore (including contractual assets worth ₹ 22662 crore) reducing over 9%. The trend is expected to continue. Trade receivables excluding contractual is ₹ 15188 crore vs. ₹ 15945 crore Q1FY19, which reduced 5%. Trade receivables consist of 49% from state, 33% from central, 12% from private and 6% from exports
- However, payment terms have gone through substantial changes, which will lead to more requirement on the working capital side. Recent headwinds along with customers becoming more specific about sequence of clearances and cash liquidity are delaying payments
- For FY19, the short-term borrowings have increased from ₹ 2457 crore to ~₹ 4000 crore. The capital employed has increased because of increase in inventory levels leading to excessive short-term borrowings
- For Q1FY20, it reported exchange rate variation (ERV) gain of ₹ 48 crore vs. gain of ₹ 85 crore in Q4FY19

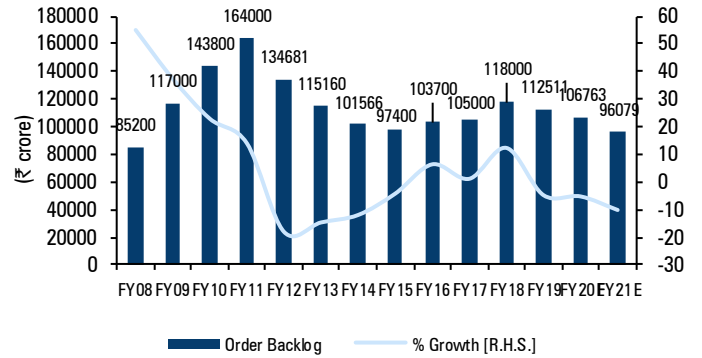
Financial story in charts

Exhibit 4: Order inflows trend over FY08-21E



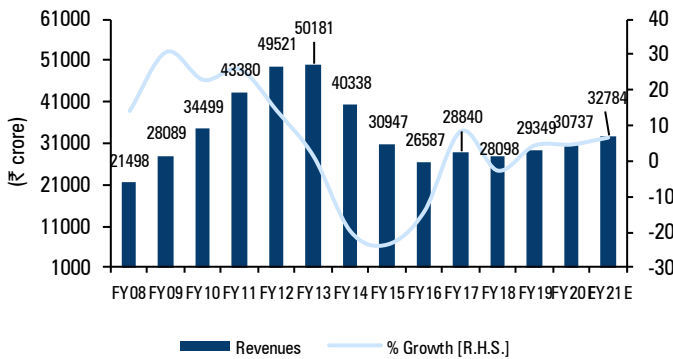
Source: ICICI Direct Research, Company

Exhibit 5: Order backlog trend over FY08-21E



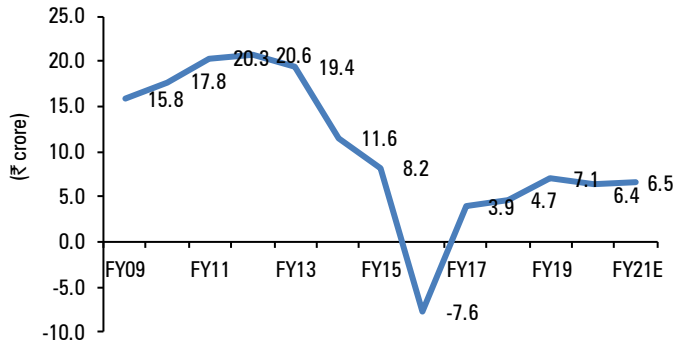
Source: ICICI Direct Research, Company

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



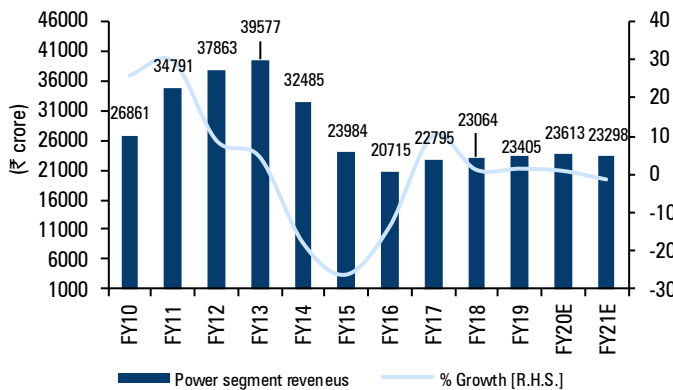
Source: Company, ICICI Direct Research

Exhibit 7: Trend in EBITDA margins...



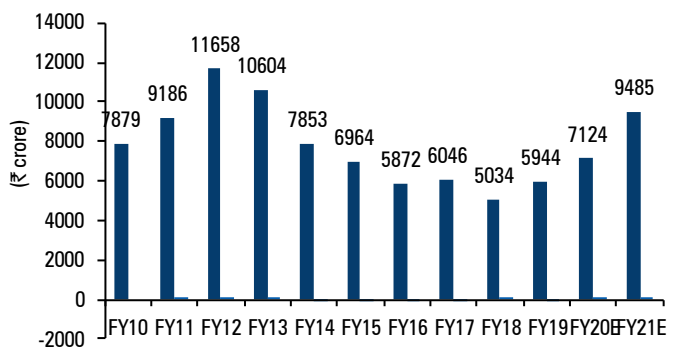
Source: Company, ICICI Direct Research

Exhibit 8: Power segment revenue trend...



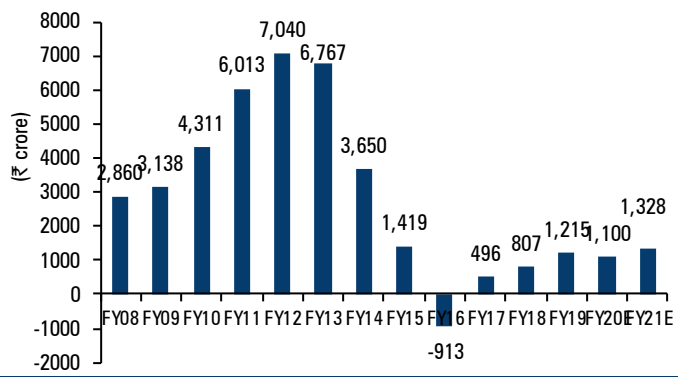
Source: Company, ICICI Direct Research

Exhibit 9: Industry segment revenue trend...



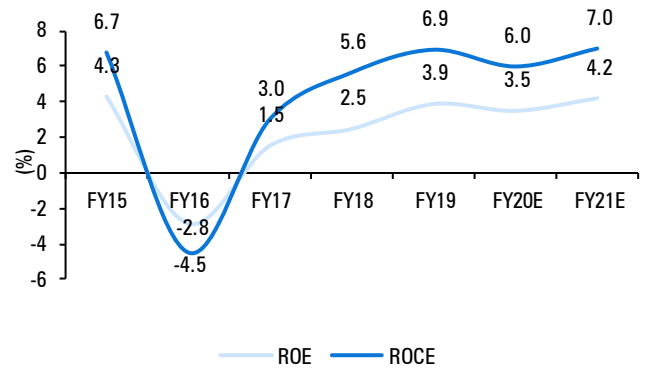
Source: Company, ICICI Direct Research

Exhibit 10: Trend in profitability...



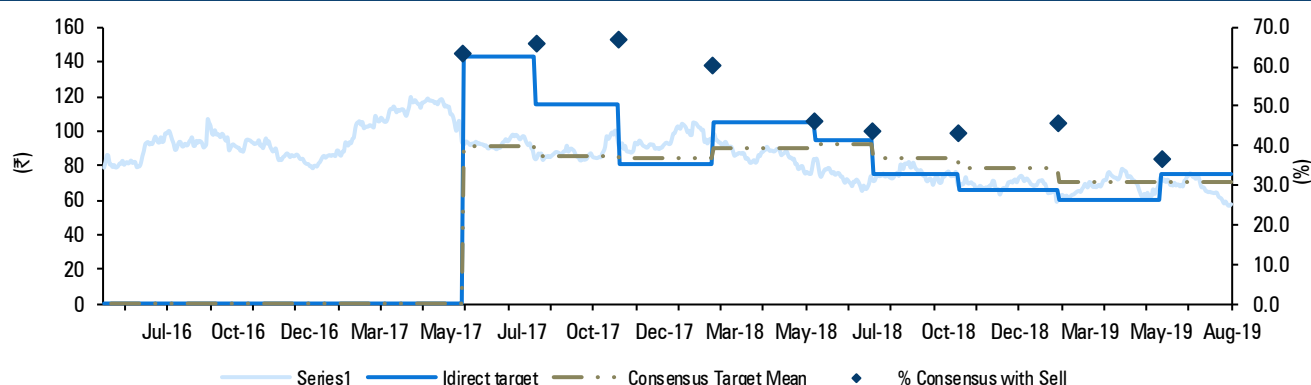
Source: Company, ICICI Direct Research

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	30-Jun-19	63.2	2199.7	0.0
2	LIC Mutual Fund Asset Management Co.	30-Jun-19	11.7	406.5	-85.7
3	SBI Funds Management Pvt. Ltd.	30-Jun-19	1.7	60.5	2.8
4	HDFC Asset Management Co., Ltd.	30-Jun-19	1.6	54.3	7.1
5	Reliance Nippon Life Asset Management	30-Jun-19	1.5	53.1	1.1
6	Amundi Asset Management	30-Jun-19	1.2	41.2	41.2
7	Amundi Hong Kong Limited	31-May-19	1.2	40.4	3.9
8	MFS Investment Management	30-Jun-19	1.1	38.0	6.3
9	The Vanguard Group, Inc.	30-Jun-19	0.8	28.9	-0.6
10	J.P. Morgan Asset Management (HK) Ltd	30-Jun-19	0.8	28.1	0.0

Source: Reuters, ICICI Direct Research

Exhibit 14: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Amundi Asset Management	+43.70M	+41.18M	LIC Mutual Fund Asset Management Company Ltd.	-90.90M	-85.66M
HDFC Asset Management Co., Ltd.	+7.58M	+7.14M	Grantham Mayo Van Otterloo & Co LLC	-2.39M	-2.63M
MFS Investment Management	+6.65M	+6.27M	The Vanguard Group, Inc.	-0.66M	-0.63M
Amundi Hong Kong Limited	+3.98M	+3.95M	Leith Wheeler Investment Counsel Ltd.	-0.66M	-0.61M
Kotak Mahindra Asset Management Company Ltd.	+3.22M	+3.04M	Union Asset Management Company Private Limited	-0.53M	-0.58M

Source: Reuters, ICICI Direct Research

Exhibit 15: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	63.1	63.1	63.1	63.2	63.2
FII	13.0	13.6	12.1	11.7	12.1
DII	18.2	17.8	18.1	18.5	18.8
Others	5.7	5.6	6.8	6.6	5.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating Income	28,666.9	30,349.0	31,563.2	33,608.5
Growth (%)	1.3	5.9	4.0	6.5
Raw Material Expenses	16,146.5	17,764.1	18,587.4	19,829.3
Employee Expenses	6,026.5	6,240.2	6,385.3	6,603.1
Other Operating Expenses	5,150.5	4,202.6	4,571.9	4,977.4
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	29,544.6	31,409.8
EBITDA	1,343.4	2,142.0	2,018.5	2,198.7
Growth (%)	22.0	59.4	-5.8	8.9
Depreciation	786.4	474.8	741.6	760.8
Interest	254.6	286.9	385.9	305.2
Other Income	1,282.6	677.6	845.8	948.7
PBT	1,585.0	2,057.9	1,736.9	2,081.4
Others	0.0	0.0	0.0	0.0
Total Tax	778.4	842.5	637.3	753.5
PAT	806.6	1,215.4	1,099.6	1,327.9
Growth (%)	62.7	50.7	-9.5	20.8
EPS (₹)	2.3	3.5	3.2	3.8

Source: Company, ICICI Direct Research

Exhibit 17: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	806.6	1,215.4	1,099.6	1,327.9
Add: Depreciation	786.4	474.8	741.6	760.8
(Inc)/dec in Current Assets	505.0	1,060.7	-851.7	-3,163.9
Inc/(dec) in CL and Provisions	2,124.6	-1,651.7	64.8	4,112.7
Others	3.3	3.0	5.0	5.0
CF from operating activities	4,222.6	1,099.1	1,054.3	3,037.5
(Inc)/dec in Investments	-29.3	21.4	-50.0	-50.0
(Inc)/dec in Fixed Assets	-293.8	-405.6	-407.1	-531.2
Others	0.0	0.0	0.0	0.0
CF from investing activities	-2,890.8	-4,965.9	313.3	-204.3
Issue/(Buy back) of Equity	244.8	-37.9	0.0	0.0
Inc/(dec) in loan funds	-32.4	2,495.5	1,490.0	-1,510.0
Dividend paid & dividend tax	-583.3	-763.0	-1,006.2	-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	78.9	527.7	-2,683.9
Net Cash flow	799.4	-3,787.8	1,895.4	149.4
Opening Cash	10,491.8	11,291.2	7,503.4	9,398.8
Closing Cash	11,291.2	7,503.4	9,398.8	9,548.1

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	734.3	696.4	696.4	696.4
Reserve and Surplus	31,866.8	30,703.5	30,840.8	30,994.9
Total Shareholders funds	32,601.1	31,399.9	31,537.2	31,691.3
Total Debt	57.2	2,552.7	4,042.7	2,532.7
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	43,817.5	45,594.9	44,389.0
Assets				
Gross Block	5,404.3	5,750.6	6,143.2	6,674.3
Less: Acc Depreciation	2,426.7	2,866.7	3,577.9	4,308.3
Net Block	2,977.5	2,883.9	2,565.3	2,366.0
Capital WIP	194.5	223.2	250.0	250.0
Total Fixed Assets	3,172.1	3,107.1	2,815.3	2,616.0
Investments	690.7	669.4	719.4	769.4
Inventory	6,258.8	8,113.5	7,212.8	8,954.4
Debtors	22,771.5	12,009.6	16,421.0	17,514.5
Loans and Advances	147.1	157.5	168.4	205.4
Other Current Assets	2,719.8	10,556.0	7,886.0	8,177.9
Cash	11,291.2	7,503.4	9,398.8	9,548.1
Total Current Assets	43,188.4	38,339.9	41,087.0	44,400.3
Creditors	10,586.9	11,375.1	11,621.0	13,293.0
Provisions	3,782.8	2,485.5	2,440.4	3,987.9
Total Current Liabilities	22,250.2	20,598.5	20,663.3	24,776.0
Net Current Assets	20,938.2	17,741.4	20,423.7	19,624.3
Others Assets	0.0	0.0	0.0	1.0
Application of Funds	41,539.0	43,817.5	45,594.9	44,388.9

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	2.3	3.5	3.2	3.8
Cash EPS	4.6	4.9	5.3	6.0
BV	93.6	90.2	90.6	91.0
DPS	2.0	1.8	2.4	2.8
Cash Per Share	32.4	21.5	27.0	27.4
Operating Ratios (%)				
EBITDA Margin	4.7	7.1	6.4	6.5
PBT / Total Operating income	5.7	7.0	5.7	6.3
PAT Margin	2.8	4.0	3.5	4.0
Inventory days	81.7	100.9	85.7	99.7
Debtor days	297.2	149.4	195.0	195.0
Creditor days	138.2	141.5	138.0	148.0
Return Ratios (%)				
RoE	2.5	3.9	3.5	4.2
RoCE	5.6	6.9	6.0	7.0
RoIC	4.2	12.1	8.9	10.9
Valuation Ratios (x)				
P/E	18.2	17.2	19.0	15.7
EV / EBITDA	6.4	7.0	7.2	5.8
EV / Net Sales	0.3	0.5	0.5	0.4
Market Cap / Sales	0.5	0.7	0.6	0.6
Price to Book Value	0.5	0.7	0.7	0.7
Solvency Ratios				
Debt/EBITDA	0.0	1.2	2.0	1.2
Debt / Equity	0.0	0.1	0.1	0.1
Current Ratio	1.4	1.5	1.5	1.4
Quick Ratio	1.2	1.1	1.2	1.0

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
L&T (LARTOU)	1365	1,675	Buy	189373	48.1	56.0	61.1	28.9	24.8	22.8	11.8	11.5	12.2	12.7	13.5	13.6
Bhel (BHEL)	57	60	Hold	19848	3.5	3.2	3.8	17.2	19.0	15.7	6.9	6.0	7.0	3.9	3.5	4.2
AIA Engineering (AIAENG)	1682	2,050	Buy	15865	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)	1093	1,170	Hold	13024	23.1	28.3	34.1	47.3	38.6	32.0	18.0	17.0	18.7	11.2	11.3	12.3
KEC International (KECIN)	293	330	Hold	7533	19.2	22.8	27.3	15.1	12.7	10.6	24.8	25.2	25.6	20.1	20.2	20.2
Kalpataru Power(KALPOW)	480	570	Buy	7366	26.1	30.7	36.4	17.8	15.2	12.8	19.6	19.3	20.1	12.7	12.7	13.2
Greaves Cotton (GREAVE)	117	145	Buy	2857	6.9	8.0	8.8	17.0	14.8	13.5	27.4	27.7	29.5	18.7	19.1	20.4
Elgi Equipment (ELGEQU)	247	300	Buy	3914	6.1	6.5	7.2	38.1	36.0	32.4	14.3	13.8	15.1	14.1	13.4	13.6
Bharat Electronics (BHAELE)	98	135	Buy	23879	7.9	7.4	8.2	12.6	13.5	12.2	30.0	26.2	27.0	21.4	18.1	18.3
Engineers India (ENGIND)	101	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)	281	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 Shipyards (COCSHI)	352	440	Buy	4,630	36.3	37.0	40.1	9.6	9.4	8.7	18.8	17.0	16.4	14.4	13.7	13.7
SKF (SKFIND)	1841	1,565	Reduce	9451	65.4	62.6	65.3	29.0	30.3	29.0	29.4	24.9	23.4	19.8	16.6	15.4
Timken India (TIMIND)	676	830	Buy	5085	19.8	24.1	27.7	34.9	28.6	24.9	15.7	17.0	17.3	11.1	12.0	12.3
NRB Bearing (NRBBEA)	83	185	Hold	804	11.2	10.1	12.2	15.2	16.9	14.0	21.0	20.0	21.3	19.5	18.3	19.3
Grindwell Norton (GRINOR)	545	635	Buy	6034	15.1	16.7	19.3	35.0	31.7	27.5	23.3	23.4	24.7	15.2	15.6	16.5

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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