

BHEL (BHEL IN)

Rating: HOLD | CMP: Rs39 | TP: Rs47

February 11, 2020

Q3FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	HOLD		HOLD	
Target Price	47		60	
Sales (Rs. m)	324,820	345,825	337,585	348,516
% Chng.	(3.8)	(0.8)		
EBITDA (Rs. m)	19,854	23,592	23,145	24,278
% Chng.	(14.2)	(2.8)		
EPS (Rs.)	3.9	4.8	4.6	4.9
% Chng.	(15.4)	(3.0)		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	303	287	325	346
EBITDA (Rs. bn)	21	10	20	24
Margin (%)	7.1	3.4	6.1	6.8
PAT (Rs. bn)	12	5	14	17
EPS (Rs.)	3.5	1.5	3.9	4.8
Gr. (%)	58.9	(56.7)	156.6	23.4
DPS (Rs.)	1.9	0.8	2.1	2.6
Yield (%)	4.9	2.1	5.4	6.7
RoE (%)	3.8	1.7	4.2	5.2
RoCE (%)	5.0	1.5	4.4	5.4
EV/Sales (x)	0.3	0.2	0.2	0.1
EV/EBITDA (x)	4.0	4.4	3.1	2.2
PE (x)	11.1	25.5	9.9	8.1
P/BV (x)	0.4	0.4	0.4	0.4

Key Data

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52-W High / Low	Rs.79 / Rs.38
Sensex / Nifty	41,216 / 12,108
Market Cap	Rs.134bn/ \$ 1,885m
Shares Outstanding	3,482m
3M Avg. Daily Value	Rs.1525.15m

Shareholding Pattern (%)

Promoter's	63.17
Foreign	9.96
Domestic Institution	19.24
Public & Others	7.63
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(13.7)	(32.2)	(38.5)
Relative	(12.9)	(38.1)	(45.7)

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Weak execution dents profitability

Quick Pointers:

- Revenue de-grew by 23% YoY due to low executional opening order book and some projects stuck due to issues relating to clearances.
- Order inflow de-grew by 23% YoY to Rs59.5bn (excluding L1 of Rs130bn) translating into an order backlog of Rs1.1trn.
- Net cash position as on date stands at Rs12bn.

BHEL's 3QFY20 results were lower than our and consensus estimates. Execution continues to be subdued with ~23% YoY decline in revenues, led by de-growth in both Power and Industry segment. Order inflow de-grew by 23% YoY due to muted ordering activity and overall stress in power sector. Current order backlog stands at Rs1.1trn and BHEL is L1 orders worth Rs130bn. While collectable debtors have gone down by ~10% to ~Rs143bn, total debtors (including deferred debtors) continues to be at elevated levels of Rs380bn as on 3QFY20. The company emphasized on strong focus on cash collection and execution going ahead. We have cut FY20/FY21E earnings by 15%/3% factoring weak 9MFY20 numbers and adverse macro environment (unfavorable payment terms, doubtful receivables and lower upfront advances). The stock is currently trading at 25.5/9.9x FY20/21E. We remain structurally negative on the stock given its ballooning debt levels, concern receivables and weak fundamentals. Thus, we maintain Hold rating on the stock with revised TP of Rs47 (12x FY21E).

3QFY20 results miss on weak execution: Sales came in at ~Rs57bn (down 23% YoY) vs (PLe ~Rs77bn) led by de-growth in Power/Industry segment by 26%/14% YoY. EBITDA grew by 50% YoY to Rs3.3bn with EBITDA margins expanding 280bps YoY at 5.8% due to lower other expenses. PBT de-grew by 17.7% YoY to Rs2.3bn on account of lower other income (down 33% YoY) and increase in interest cost (up 141% YoY). On the bottom line PAT declined by 17% YoY at Rs1.6bn (PLe ~Rs2bn) due to weak operating performance.

Order inflow stands at Rs59.5bn: BHEL's order inflow for the quarter came at Rs59.5bn (YTD ~Rs172bn), down 23% YoY where industry segment grew at 13% YoY to Rs23bn, while power segment de-grew by 9% YoY to ~Rs57bn mainly due to subdued ordering activity. Major power orders received were FGD orders for Nabhinagar and erection package for Kudankulam Nuclear Power project. Exports orders came in at Rs2.8bn. Order backlog at the end of 3QFY20 stands at Rs1.1trn, down 9% YoY. This includes Power segment Rs862bn, Industry Rs117bn and Exports Rs87bn. Management guided for order intake of Rs340bn for FY20E.

Other con-call highlights: 1) Other expenses came lower at 6.7% (as percentage of sales) from 16.8% in 3QFY19 on back of provisions which had withdrawal of Rs1.9bn, miscellaneous expense of Rs4.7bn, power and fuel expense which were down 15% YoY and ERV gain of Rs1.3bn. 2) Cash collection was up 8% YoY at Rs17.3bn. 3) NTPC talcher project is pending for clearance which is expected to

receive clearance by end of FY20E. 4) Collectible debtors have come down ~10% YoY to Rs143bn (~Rs159bn in 3QFY19). 5) Net cash position as on date is Rs12bn plus. 6) Company is L1 of Rs130bn where Power comprises of Rs105bn, Industry is Rs9bn and Exports is Rs19bn. Of the total L1 position quantum of NTPC Talcher projects is Rs63bn and other FGD projects is Rs42bn. 7) New order wins for FGD during the quarter stood at Rs58bn. 8) Outstanding order book for FGD projects stands at Rs90bn. 9) Of the total receivables of Rs380bn 48% comes from states, 32% from CPSE, 12% from private sector and 9% from exports. 10) Employee count as of today is 34500 employees and management indicated that every year around 1500-1600 employee retire.

Exhibit 1: Weak execution impacts profit (Rs mn)

Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	QoQ gr. (%)	9MFY20	9MFY19	YoY gr. (%)
Net Revenue	56,794	73,364	(22.6)	62,257	(8.8)	164,368	200,518	(18.0)
EBITDA	3,287	2,187	50.3	2,669	23.2	3,289	7,467	(56.0)
EBITDA Margin (%)	5.8	3.0		4.3		2.0	3.7	
Other Income	1,512	2,265	(33.2)	1,356	11.5	4,324	5,568	(22.3)
Depreciation	(1,145)	(1,124)	NA	(1,193)	(4.0)	(3,486)	(3,406)	NA
Interest	(1,391)	(577)	NA	(1,187)	17.2	(3,658)	(1,905)	NA
Profit before Tax	2,263	2,751	(17.7)	1,645	37.6	468	7,725	(93.9)
Tax	(675)	(831)	NA	(459)	46.9	143	(2,397)	NA
Reported PAT	1,588	1,920	(17.3)	1,186	33.9	612	5,327	(88.5)
Adjusted PAT	1,588	1,920	(17.3)	1,186	33.9	612	5,327	(88.5)
Net Margin (%)	2.8	2.6		1.9		0.4	2.7	
Adjusted EPS	0.5	0.5		0.3		0.2	1.5	

Source: Company, PL

Exhibit 2: De-growth across segments (Rs mn)

Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	QoQ gr. (%)
Revenue					
Power	40,727	55,123	(26.1)	42,215	(3.5)
Industry	13,851	16,035	(13.6)	18,075	(23.4)
Total	54,578	71,157		60,290	(9.5)
EBIT					
Power	4,326	5,921	(26.9)	4,337	(0.3)
Industry	759	557	36.1	546	38.9
Total	5,085	6,479		4,883	
EBIT Margin (%)					
Power	10.6	10.7		10.3	
Industry	5.5	3.5		3.0	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	303,490	286,863	324,820	345,825
YoY gr. (%)	5.3	(5.5)	13.2	6.5
Cost of Goods Sold	(178,228)	(173,552)	(194,892)	(208,533)
Gross Profit	125,261	113,311	129,928	137,293
Margin (%)	41.3	39.5	40.0	39.7
Employee Cost	(62,613)	(63,239)	(63,871)	(64,510)
Other Expenses	(32,814)	(31,010)	(36,256)	(38,601)
EBITDA	21,421	9,778	19,854	23,592
YoY gr. (%)	10.8	(54.4)	103.1	18.8
Margin (%)	7.1	3.4	6.1	6.8
Depreciation and Amortization	(4,748)	(4,847)	(5,037)	(5,232)
EBIT	16,673	4,931	14,817	18,361
Margin (%)	5.5	1.7	4.6	5.3
Net Interest	(2,869)	(5,070)	(4,355)	(4,080)
Other Income	6,776	7,183	7,614	8,027
Profit Before Tax	20,580	7,043	18,076	22,308
Margin (%)	6.8	2.5	5.6	6.5
Total Tax	(8,425)	(1,775)	(4,555)	(5,622)
Effective tax rate (%)	(40.9)	(25.2)	(25.2)	(25.2)
Profit after tax	12,156	5,269	13,520	16,687
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	12,156	5,269	13,520	16,687
YoY gr. (%)	50.7	(56.7)	156.6	23.4
Margin (%)	4.0	1.8	4.2	4.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12,156	5,269	13,520	16,687
YoY gr. (%)	50.7	(56.7)	156.6	23.4
Margin (%)	4.0	1.8	4.2	4.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,156	5,269	13,520	16,687
Equity Shares O/s (m)	3,482	3,482	3,482	3,482
EPS (Rs)	3.5	1.5	3.9	4.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	58,292	61,812	64,124	66,668
Tangibles	58,292	61,812	64,124	66,668
Intangibles	-	-	-	-
Acc: Dep / Amortization	28,622	35,163	40,200	45,432
Tangibles	28,622	35,163	40,200	45,432
Intangibles	-	-	-	-
Net fixed assets	29,670	26,649	23,924	21,236
Tangibles	29,670	26,649	23,924	21,236
Intangibles	-	-	-	-
Capital Work In Progress	2,354	2,354	2,354	2,354
Goodwill	-	-	-	-
Non-Current Investments	6,694	6,694	6,694	6,694
Net Deferred tax assets	35,145	35,169	35,169	35,169
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	81,135	78,593	88,992	94,747
Trade receivables	159,448	149,326	169,084	180,019
Cash & Bank Balance	75,033	114,150	91,342	101,525
Other Current Assets	252,278	238,457	270,009	287,082
Total Assets	644,160	653,664	690,140	731,564
Equity				
Equity Share Capital	6,964	6,964	6,964	6,964
Other Equity	307,035	308,992	314,015	314,015
Total Network	313,999	315,956	320,979	320,979
Non-Current Liabilities				
Long Term borrowings	25,527	22,974	18,380	18,380
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	120,781	106,279	108,618	114,768
Other current liabilities	183,853	208,454	242,164	269,401
Total Equity & Liabilities	644,160	653,664	690,141	723,527

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	20,579	7,043	18,076	22,308
Add. Depreciation	4,748	4,847	5,037	5,232
Add. Interest	2,869	5,070	4,355	4,080
Less Financial Other Income	6,776	7,183	7,614	8,027
Add. Other	10,198	(5,222)	(7,104)	(7,289)
Op. profit before WC changes	38,394	11,739	20,364	24,331
Net Changes-WC	(73,001)	36,716	(25,961)	(542)
Direct tax	(4,207)	(1,775)	(4,555)	(5,622)
Net cash from Op. activities	(38,815)	46,679	(10,152)	18,167
Capital expenditures	10	-	-	-
Interest / Dividend Income	6,216	6,891	7,104	7,289
Others	12,923	(3,519)	(2,313)	(2,544)
Net Cash from Invst. activities	19,149	3,371	4,792	4,745
Issue of share cap. / premium	-	0	-	-
Debt changes	25,117	(2,553)	(4,595)	1,838
Dividend paid	(7,870)	(3,311)	(8,498)	(10,487)
Interest paid	(946)	(5,070)	(4,355)	(4,080)
Others	(16,366)	-	-	-
Net cash from Fin. activities	(65)	(10,934)	(17,448)	(12,729)
Net change in cash	(19,731)	39,117	(22,808)	10,183
Free Cash Flow	(38,815)	46,679	(10,152)	18,167

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	3.5	1.5	3.9	4.8
CEPS	2.1	0.1	2.4	3.3
BVPS	90.2	90.7	92.2	92.2
FCF	(11.1)	13.4	(2.9)	5.2
DPS	1.9	0.8	2.1	2.6
Return Ratio(%)				
RoCE	5.0	1.5	4.4	5.4
ROIC	9.1	2.7	7.5	9.7
RoE	3.8	1.7	4.2	5.2
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.3)	(0.2)	(0.3)
Net Working Capital (Days)	144	155	168	169
Valuation(x)				
PER	11.1	25.5	9.9	8.1
P/B	0.4	0.4	0.4	0.4
P/CEPS	18.1	318.9	15.8	11.7
EV/EBITDA	4.0	4.4	3.1	2.2
EV/Sales	0.3	0.2	0.2	0.1
Dividend Yield (%)	4.9	2.1	5.4	6.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Net Revenue	102,972	45,317	62,257	56,794
YoY gr. (%)	0.8	(23.7)	(8.2)	(22.6)
Raw Material Expenses	(58,400)	(26,073)	(39,099)	(36,003)
Gross Profit	44,572	19,244	23,158	20,790
Margin (%)	43.3	42.5	37.2	36.6
EBITDA	13,952	(2,667)	2,669	3,287
YoY gr. (%)	7.8	(192.9)	10.8	50.3
Margin (%)	13.5	(5.9)	4.3	5.8
Depreciation / Depletion	(1,342)	(1,148)	(1,193)	(1,145)
EBIT	12,610	(3,815)	1,476	2,142
Margin (%)	12.2	(8.4)	2.4	3.8
Net Interest	(964)	(1,080)	(1,187)	(1,391)
Other Income	1,209	1,455	1,356	1,512
Profit before Tax	12,854	(3,440)	1,645	2,263
Margin (%)	12.5	(7.6)	2.6	4.0
Total Tax	(6,027)	1,277	(459)	(675)
Effective tax rate (%)	(46.9)	(37.1)	(27.9)	(29.8)
Profit after Tax	6,827	(2,163)	1,186	1,588
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	6,827	(2,163)	1,186	1,588
YoY gr. (%)	48.7	(239.0)	(36.0)	(17.3)
Margin (%)	6.6	(4.8)	1.9	2.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,827	(2,163)	1,186	1,588
YoY gr. (%)	48.7	(239.0)	(36.0)	(17.3)
Margin (%)	6.6	(4.8)	1.9	2.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,827	(2,163)	1,186	1,588
Avg. Shares O/s (m)	2,482	3,482	3,482	3,482
EPS (Rs)	2.8	(0.6)	0.3	0.5

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Jan-20	Hold	60	45
2	14-Nov-19	Hold	60	55
3	3-Oct-19	Hold	63	47
4	12-Aug-19	Hold	56	57
5	4-Jul-19	Hold	77	73
6	28-May-19	Hold	77	73
7	5-Apr-19	Reduce	78	73

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,514	1,322
2	Ahluwalia Contracts (India)	Accumulate	283	295
3	Apar Industries	Accumulate	646	396
4	Ashoka Buildcon	BUY	167	107
5	Bharat Electronics	Hold	108	101
6	BHEL	Hold	60	45
7	Capacite's Infraprojects	BUY	292	200
8	Container Corporation of India	Accumulate	595	572
9	Cummins India	Hold	580	601
10	Engineers India	BUY	146	95
11	GE T&D India	Reduce	150	157
12	H.G. Infra Engineering	BUY	304	266
13	IRB Infrastructure Developers	BUY	130	77
14	ITD Cementation India	BUY	80	58
15	J.Kumar Infraprojects	BUY	239	153
16	Kalpataru Power Transmission	BUY	662	421
17	KEC International	BUY	397	348
18	KNR Constructions	BUY	304	278
19	Larsen & Toubro	BUY	1,800	1,294
20	NCC	BUY	98	51
21	PNC Infratech	BUY	264	196
22	Power Grid Corporation of India	BUY	224	187
23	Sadbhav Engineering	BUY	203	125
24	Siemens	BUY	1,687	1,511
25	Simplex Infrastructure	NR	-	31
26	Thermax	Accumulate	1,143	1,073
27	Triveni Turbine	BUY	130	100
28	Voltamp Transformers	BUY	1,610	1,250

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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