

May 28, 2023

Q4FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	REDUCE		SELL	
Target Price	67		36	
Sales (Rs. m)	2,80,754	3,24,857	2,99,740	3,14,149
% Chng.	(6.3)	3.4		
EBITDA (Rs. m)	14,602	23,178	18,092	20,051
% Chng.	(19.3)	15.6		
EPS (Rs.)	2.5	4.5	3.0	3.4
% Chng.	(16.4)	31.5		

*Note- We have revised our estimates 1st time after Q4FY22 results

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	212	234	281	325
EBITDA (Rs. bn)	7	7	15	23
Margin (%)	3.5	3.1	5.2	7.1
PAT (Rs. bn)	4	4	9	16
EPS (Rs.)	1.2	1.3	2.5	4.5
Gr. (%)	(115.1)	9.1	97.2	76.1
DPS (Rs.)	0.4	0.4	0.4	0.4
Yield (%)	0.5	0.5	0.5	0.6
RoE (%)	1.5	1.7	3.2	5.4
RoCE (%)	1.3	1.4	3.3	5.4
EV/Sales (x)	1.2	1.1	0.9	0.8
EV/EBITDA (x)	34.1	36.7	17.7	11.0
PE (x)	67.0	61.4	31.1	17.7
P/BV (x)	1.0	1.0	1.0	0.9

Key Data

[BHEL.BO](#) | [BHEL IN](#)

52-W High / Low	Rs.92 / Rs.41
Sensex / Nifty	62,502 / 18,499
Market Cap	Rs.275bn / \$ 3,329m
Shares Outstanding	3,482m
3M Avg. Daily Value	Rs.1532.57m

Shareholding Pattern (%)

Promoter's	63.17
Foreign	8.58
Domestic Institution	15.50
Public & Others	12.75
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.9	(3.7)	57.3
Relative	(1.7)	(4.0)	36.5

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Execution and margins gradually picking up

Quick Pointers:

- Adjusting for net provisions of Rs 3.7bn, EBITDA margins came in at 7.5%.
- Company is favorably placed in thermal power order of 3,700MW and additional ~6,000MW is under bidding stage.

We roll forward to FY25E and upgrade to 'Reduce' (Sell earlier) with revised TP of Rs67 (Rs36 earlier) valuing it at 15x FY25E (12x FY24E), factoring in gradual revival of thermal tendering and execution pace. BHEL reported a revenue growth of 2.1% to Rs82.3bn, with Adj. EBITDA margins coming in at ~7.5% in Q4FY23 vs 3.8% in Q4FY22 (adjusting for net provision). FY23 order inflows came in at Rs235bn (flat YoY) and order book stands at Rs913bn (4.1x FY23 revenue). Thermal power ordering is witnessing a pickup, after a gap of three years owing to rising power demand. BHEL is favorably placed in ~3700MW of orders. Additionally, projects of ~6000MW are under bidding stage for Yamunanagar, Adani Mundra, Talabira and Nayveli, which augurs well for BHEL in the medium term. While in industrial segment management targets to gradually increase its revenue contribution (~21% as of FY23), owing to strong traction witnessed in defence (SRGM for Navy), railways (strong Vande Bharat prospects), nuclear and hydro.

We believe, pickup in thermal power orders and companies focus on diversification in segments such as railways, defence, nuclear, hydro augurs well for company in long term. However, execution pace, operational efficiency and margins in near term will be closely watched. The stock is trading at PE of 31.1x/17.7x FY24/25E. Upgrade to 'Reduce'.

Power segment drives revenue growth: On a standalone basis, revenue grew 2.1% YoY to Rs82.3bn (PL estimate of ~Rs92bn), led by growth in Power segment (up 3.9% YoY to Rs61.7bn), while Industry segment declined 0.7% YoY to Rs16.5bn. Company reported adj. EBITDA of Rs6.1bn, up ~98% YoY (PL estimate of Rs3.6bn), vs adjusted EBITDA of ~Rs3n in Q4FY22. Adj. EBITDA margins came in at 7.5% (PL estimate of 3.9%). Adj. PAT came in at ~Rs2.2bn, vs Rs669mn in Q4FY22, (PL estimate Rs2.1bn). partially impacted by higher interest cost (up ~68% to Rs1.6bn) and lower other income (down 12.6% YoY to Rs1.1bn).

Order book stands at Rs913bn: Order inflows in Q4FY23 came in at Rs57bn (32% YoY), driven by Industry segment (up 58% YoY – Rs47.8bn) and exports (Rs4bn in Q4FY23 vs Rs360mn in Q4FY22). Order book stands at Rs913bn (4.1x FY23 revenue), comprising of power (79%), Industry (16%) and exports (5%). Off which slow moving orders of Rs 178.5bn (Power – Rs170bn, Industry – Rs2.9bn and Exports Rs5.6bn). Key orders bagged in FY23 includes Power: 1) Renovation & Modernization of Steam Turbines for Ukai Thermal Power Station. 2) Order for flexible-operations from Tata Trombay and WBPDC Bakreshwar. Transportation: 1) Supply of 700 HP Diesel Electric Shunting Locomotive with dual driver's cabin.

Exhibit 1: EBITDA margins gradually picking up (Adj. EBITDA - ~7.5% in Q4FY23)

Y/e March (Rs mn)	Q4FY22*	Q1FY23	Q2FY23	Q3FY23	Q4FY23*	YoY gr. (%)	QoQ gr. (%)	FY23*	FY22*	YoY gr. (%)
Revenue	80,617	46,720	52,026	52,634	82,270	2.1	56.3	233,649	212,111	10.2
Total Revenues	80,617	46,720	52,026	52,634	82,270	2.1	56.3	233,649	212,111	10.2
Expenditure	77,518	48,419	54,465	51,191	76,128	(1.8)	48.7	234,954	219,992	6.8
<i>as % of sales</i>	<i>96.2</i>	<i>103.6</i>	<i>104.7</i>	<i>97.3</i>	<i>92.5</i>			<i>100.6</i>	<i>103.7</i>	
Consumption of RM	58,344	32,069	35,564	35,649	55,684	(4.6)	56.2	158,965	145,224	9.5
<i>as % of sales</i>	<i>72.4</i>	<i>68.6</i>	<i>68.4</i>	<i>67.7</i>	<i>67.7</i>			<i>68.0</i>	<i>68.5</i>	
Employee Cost	13,625	13,988	14,207	14,294	14,518	6.6	1.6	57,006	55,168	3.3
<i>as % of sales</i>	<i>16.9</i>	<i>29.9</i>	<i>27.3</i>	<i>27.2</i>	<i>17.6</i>			<i>24.4</i>	<i>26.0</i>	
Other expenditure	5,548	2,363	4,694	1,248	5,927	6.8	375.0	18,982	19,599	(3.1)
<i>as % of sales</i>	<i>6.9</i>	<i>5.1</i>	<i>9.0</i>	<i>2.4</i>	<i>7.2</i>			<i>8.1</i>	<i>9.2</i>	
EBITDA	3,099	(1,699)	(2,439)	1,443	6,141	98.2	325.7	(1,304)	(7,881)	(83.4)
Depreciation	860	667	586	625	726	(15.6)	16.2	2,603	3,141	(17.1)
EBIT	2,240	(2,366)	(3,025)	818	5,416	141.8	562.2	(3,908)	(11,021)	(64.5)
Other Income	1,278	798	2,245	989	1,116	(12.6)	12.9	5,148	3,678	40.0
Interest	956	979	1,232	1,393	1,611	68.5	15.7	5,214	3,547	47.0
PBT	2,562	(2,547)	(2,013)	414	4,921	92.1	1,087.9	(3,974)	(10,891)	(63.5)
Total Tax	1,893	(629)	(2,116)	104	2,660	40.5	2,450.6	21	267	(92.3)
Adjusted PAT	669	(1,919)	103	310	2,261	238.1	629.4	(3,995)	(11,158)	(64.2)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	669	(1,919)	103	310	2,261	238.1	629.4	(3,995)	(11,158)	(64.2)
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	669	(1,919)	103	310	2,261	238.1	629.4	(3,995)	(11,158)	(64.2)
Adjusted EPS	0.2	(0.6)	0.0	0.1	0.6	238.1	629.4	(1.1)	(3.2)	(64.2)
Margins (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	bps	bps	FY23	FY22	bps
EBIDTA	3.8	(3.6)	(4.7)	2.7	7.5	362	472	(0.6)	(3.7)	316
EBIT	2.8	(5.1)	(5.8)	1.6	6.6	381	503	(1.7)	(5.2)	352
EBT	3.2	(5.5)	(3.9)	0.8	6.0	280	519	(1.7)	(5.1)	343
PAT	0.8	(4.1)	0.2	0.6	2.7	192	216	(1.7)	(5.3)	355
Effective Tax rate	73.9	24.7	105.1	25.2	54.1	(1,984)	2,888	(0.5)	(2.5)	NA

Source: Company, PL – Note*- Number adjusted to net Provisions

Conference call Highlights

- Demand for new coal based thermal power plant has picked up after gap of three years, due to increase in industrial activities leading to higher demand for power.
- Order inflow came in at Rs235.5bn including Power Rs133.5bn, Industries Rs95.4bn and Exports Rs6.6bn.
- Order book stands at Rs913.4bn. Off which slow moving orders of Rs 178.5bn (Power – Rs170bn, Industry – Rs2.9bn and Exports Rs5.6bn).
- In Q1FY24, BHEL in consortium with Titagarh Wagon Ltd won order worth Rs235bn (80 Vande Bharat train sets). Order includes supply of train set (Rs96bn) and maintenance (~Rs136bn) for 35 years. We are awaiting BHEL share.
- BHEL is favorably placed in thermal power orders of ~3700MW. Additionally, projects of ~6000MW is under bidding stage for Yamunanagar, Adani Mundra, Talabira and Nayveli. Additionally, 9000MW of projects are expected to be tendered post FY25.
- Strong traction is being witnessed in sectors such as steel, cement and refineries.
- **Defence:** Orders inflows stood at worth Rs38bn in FY23 (16% of FY23 order inflows), including order for 20 upgrades for SRGM for Indian Navy.
- Signed MoU with Coal India Ltd. for joint development of coal to Ammonia plant, (conversion of 2000ton/day).
- Signed MoU with Indraprastha Gas Ltd. for joint collaboration for development, manufacturing & deployment of Type-IV Cylinders (CNG and/or Hydrogen) for city gas distribution and Fuel Cell based Power Backup Systems.
- Initiatives of Indian Railways to upgrade, modernize and decarbonize railway operations are creating new business opportunities.
- Trade receivables including contract assets stands at Rs362bn in FY23 vs Rs33.2bn in FY22, comprising of central utilities (39%), State utilities (41%), Private Sector (14%) and exports (6%).
- **Order booked in Q4FY23:** Power - 1) Renovation & Modernization of Steam Turbines for Ukai Thermal Power Station in Gujarat. 2) Order for flexible-operations from Tata Trombay and WBPDC Bakreshwar. Transportation: 1) Supply of 700 HP Diesel Electric Shunting Locomotive with dual driver's cabin. Transmission: 1) Supply & commissioning of 500 MVA, 765 kV Power Transformers at Khavda and Fatehgarh from PGCIL 3) EPC of Khavda Pooling Station (KPS2) 400kV GIS substation from PGCIL.
- **Nuclear:** No major package, however companies nuclear power segment sees some structural changes in the coming time, which is likely to provide good opportunity for BHEL.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	2,12,111	2,33,649	2,80,754	3,24,857
YoY gr. (%)	22.5	10.2	20.2	15.7
Cost of Goods Sold	1,45,224	1,58,965	1,79,682	1,98,163
Gross Profit	66,887	74,684	1,01,071	1,26,694
Margin (%)	31.5	32.0	36.0	39.0
Employee Cost	55,168	57,006	58,956	60,960
Other Expenses	19,602	10,512	23,583	29,562
EBITDA	7,379	7,166	14,602	23,178
YoY gr. (%)	(123.5)	(2.9)	103.8	58.7
Margin (%)	3.5	3.1	5.2	7.1
Depreciation and Amortization	3,141	2,603	3,551	4,681
EBIT	4,239	4,562	11,050	18,497
Margin (%)	2.0	2.0	3.9	5.7
Net Interest	3,547	5,214	4,953	4,665
Other Income	3,678	5,148	5,671	6,887
Profit Before Tax	4,370	4,496	11,768	20,719
Margin (%)	2.1	1.9	4.2	6.4
Total Tax	267	21	2,942	5,180
Effective tax rate (%)	6.1	0.5	25.0	25.0
Profit after tax	4,102	4,475	8,826	15,539
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,102	4,475	8,826	15,539
YoY gr. (%)	(115.1)	9.1	97.2	76.1
Margin (%)	1.9	1.9	3.1	4.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,102	4,475	8,826	15,539
YoY gr. (%)	(115.1)	9.1	97.2	76.1
Margin (%)	1.9	1.9	3.1	4.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,102	4,475	8,826	15,539
Equity Shares O/s (m)	3,482	3,482	3,482	3,482
EPS (Rs)	1.2	1.3	2.5	4.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	63,309	66,636	69,636	73,136
Tangibles	63,309	66,636	69,636	73,136
Intangibles	-	-	-	-
Acc: Dep / Amortization	39,946	42,549	46,100	50,781
Tangibles	39,946	42,549	46,100	50,781
Intangibles	-	-	-	-
Net fixed assets	23,363	24,087	23,536	22,355
Tangibles	23,363	24,087	23,536	22,355
Intangibles	-	-	-	-
Capital Work In Progress	4,931	4,211	4,555	4,935
Goodwill	-	-	-	-
Non-Current Investments	7,564	7,535	7,861	8,446
Net Deferred tax assets	35,301	34,226	34,226	34,226
Other Non-Current Assets	1,85,265	1,93,001	1,99,335	2,07,908
Current Assets				
Investments	-	-	-	-
Inventories	65,602	67,559	78,457	86,332
Trade receivables	62,286	65,439	76,150	87,222
Cash & Bank Balance	71,537	66,426	70,870	75,535
Other Current Assets	1,09,118	1,32,772	1,36,166	1,47,810
Total Assets	5,31,782	5,63,813	6,00,018	6,44,279
Equity				
Equity Share Capital	6,964	6,964	6,964	6,964
Other Equity	2,62,748	2,65,658	2,73,160	2,87,145
Total Networkth	2,69,712	2,72,622	2,80,124	2,94,109
Non-Current Liabilities				
Long Term borrowings	47,948	54,198	54,698	55,198
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	351	338	338	338
Trade payables	98,815	1,20,899	1,34,608	1,51,303
Other current liabilities	1,50,257	1,49,984	1,64,478	1,77,558
Total Equity & Liabilities	5,31,782	5,63,813	6,00,018	6,44,279

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	4,370	4,496	11,768	20,719
Add. Depreciation	3,141	2,603	3,551	4,681
Add. Interest	3,547	5,214	4,953	4,665
Less Financial Other Income	3,678	5,148	5,671	6,887
Add. Other	(14,406)	(9,774)	-	-
Op. profit before WC changes	(3,348)	2,540	20,273	30,065
Net Changes-WC	5,862	(11,059)	(3,441)	(10,169)
Direct tax	4,089	1,104	(2,942)	(5,180)
Net cash from Op. activities	6,603	(7,415)	13,889	14,716
Capital expenditures	(1,625)	(1,806)	(3,345)	(3,879)
Interest / Dividend Income	2,579	2,507	-	-
Others	(12,208)	14,104	(323)	(453)
Net Cash from Inv. activities	(11,253)	14,805	(3,668)	(4,332)
Issue of share cap. / premium	(584)	(570)	500	500
Debt changes	(888)	6,400	-	-
Dividend paid	(1,824)	(4,940)	(2,648)	(3,108)
Interest paid	-	-	(4,953)	(4,665)
Others	-	-	-	-
Net cash from Fin. activities	(3,295)	890	(7,101)	(7,273)
Net change in cash	(7,946)	8,279	3,120	3,112
Free Cash Flow	4,909	(9,299)	10,545	10,837

Source: Company Data, PL Research

Key Financial Metrics

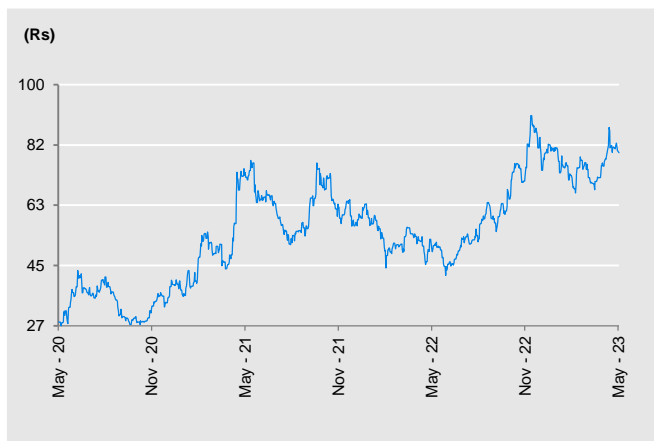
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	1.2	1.3	2.5	4.5
CEPS	2.1	2.0	3.6	5.8
BVPS	77.5	78.3	80.4	84.5
FCF	1.4	(2.7)	3.0	3.1
DPS	0.4	0.4	0.4	0.4
Return Ratio(%)				
RoCE	1.3	1.4	3.3	5.4
ROIC	1.6	1.8	3.2	5.2
RoE	1.5	1.7	3.2	5.4
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.0	(0.1)	(0.1)
Net Working Capital (Days)	50	19	26	25
Valuation(x)				
PER	67.0	61.4	31.1	17.7
P/B	1.0	1.0	1.0	0.9
P/CEPS	38.0	38.8	22.2	13.6
EV/EBITDA	34.1	36.7	17.7	11.0
EV/Sales	1.2	1.1	0.9	0.8
Dividend Yield (%)	0.5	0.5	0.5	0.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	46,720	52,026	52,634	82,270
YoY gr. (%)	61.0	1.8	2.5	2.1
Raw Material Expenses	32,069	35,564	35,649	55,684
Gross Profit	14,651	16,462	16,984	26,586
Margin (%)	31.4	31.6	32.3	32.3
EBITDA	(1,699)	(2,439)	1,443	9,861
YoY gr. (%)	(64.2)	735.9	61.7	(14.4)
Margin (%)	(3.6)	(4.7)	2.7	12.0
Depreciation / Depletion	667	586	625	726
EBIT	(2,366)	(3,025)	818	9,136
Margin (%)	(5.1)	(5.8)	1.6	11.1
Net Interest	979	1,232	1,393	1,611
Other Income	798	2,245	989	1,116
Profit before Tax	(2,547)	(2,013)	414	8,641
Margin (%)	(5.5)	(3.9)	0.8	10.5
Total Tax	(629)	(2,116)	104	2,660
Effective tax rate (%)	24.7	105.1	25.2	30.8
Profit after Tax	(1,919)	103	310	5,981
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(1,919)	103	310	5,981
YoY gr. (%)	(56.9)	(115.2)	117.4	(34.2)
Margin (%)	(4.1)	0.2	0.6	7.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(1,919)	103	310	5,981
YoY gr. (%)	(56.9)	(115.2)	117.4	(34.2)
Margin (%)	(4.1)	0.2	0.6	7.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(1,919)	103	310	5,981
Avg. Shares O/s (m)	3,482	3,482	3,482	3,482
EPS (Rs)	(0.6)	-	0.1	1.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-23	Sell	36	71
2	04-Jan-23	Sell	36	80
3	04-Oct-22	Sell	36	62
4	05-Jul-22	Sell	36	46

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	4,119	3,719
2	Apar Industries	BUY	3,832	3,056
3	Bharat Electronics	BUY	125	109
4	BHEL	Sell	36	71
5	Cummins India	Accumulate	1,750	1,649
6	Engineers India	BUY	85	74
7	GE T&D India	Hold	184	188
8	Harsha Engineers International	BUY	440	414
9	Kalpataru Power Transmission	BUY	625	527
10	KEC International	Accumulate	559	514
11	Larsen & Toubro	BUY	2,615	2,364
12	Praj Industries	BUY	495	343
13	Siemens	Accumulate	4,018	3,723
14	Thermax	BUY	2,613	2,280
15	Triveni Turbine	Accumulate	416	398
16	Voltamp Transformers	Hold	3,056	2,905

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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