

May 28, 2019

Q4FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		REDUCE	
Target Price	77		78	
Sales (Rs. m)	329,127	358,672	354,766	378,451
% Chng.	(7.2)	(5.2)		
EBITDA (Rs. m)	26,372	32,660	25,648	29,551
% Chng.	2.8	10.5		
EPS (Rs.)	4.5	5.9	4.9	5.6
% Chng.	(7.6)	6.7		

Key Financials

	FY18	FY19	FY20E	FY21E
Sales (Rs. bn)	288	303	329	359
EBITDA (Rs. bn)	19	21	26	33
Margin (%)	6.7	7.1	8.0	9.1
PAT (Rs. bn)	8	12	16	21
EPS (Rs.)	2.2	3.5	4.5	5.9
Gr. (%)	62.7	58.9	29.2	31.9
DPS (Rs.)	1.3	2.0	2.6	3.5
Yield (%)	1.8	2.8	3.6	4.8
RoE (%)	2.5	3.8	5.0	6.4
RoCE (%)	3.5	5.0	6.4	8.1
EV/Sales (x)	0.5	0.7	0.5	0.5
EV/EBITDA (x)	8.0	9.8	6.6	5.1
PE (x)	33.1	20.8	16.1	12.2
P/BV (x)	0.8	0.8	0.8	0.8

Key Data

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

52-W High / Low	Rs.87 / Rs.56
Sensex / Nifty	39,683 / 11,925
Market Cap	Rs.253bn/ \$ 3,640m
Shares Outstanding	3,482m
3M Avg. Daily Value	Rs.2169.02m

Shareholding Pattern (%)

Promoter's	63.17
Foreign	11.68
Domestic Institution	18.54
Public & Others	6.61
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.0	8.5	(3.1)
Relative	0.5	(2.9)	(14.7)

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Macro headwinds to delay the recovery

BHEL's 4QFY19 PAT of Rs6.8 bn was 8% higher than our estimate of Rs6.3 bn mainly on account of 80bps YoY improvement in EBITDA margin which was due to lower provisions and other cost saving measures. However, order inflow for the quarter was down 73.8% YoY (-42% YoY for FY19) due to deferment of certain orders in the power sector ahead of elections, taking year end order back log to slightly above Rs1 trn, down 8%YoY. The company is L1 in orders worth Rs250 bn mainly from the power sector. BHEL indicated market potential of around 20GW, out of which 15GW has already been tendered and 5GW is expected to be tendered out in few months. The company has restated its FY18 receivables in the reported number and seems to have classified some of it in the "Other Current" and "Other Non-current assets", the overall (addition of receivables and other assets) seems to have slightly increased. Total Debtors (including deferred debtors) have gone up from Rs329 bn at the end of FY18 to Rs346 bn at the end of FY19. The company has signed MoU for revenues of Rs330 bn for FY20 (+12%YoY). While there could be visible earnings growth in the near-term, adverse macro environment (unfavorable payment terms, uncertain account receivables and lower upfront advances) may delay the recovery. We recommend Hold on the stock with TP of Rs77 (13x FY21E).

4QFY19 PAT beat on high EBITDA margin: Revenue was flat at Rs103 bn due to 2.5% YoY decline in Power segment and 14% YoY growth in Industry segment. EBITDA margin improved 80bps YoY to 13.5% on account of lower provision (Rs7.6 bn provision withdrawn during the quarter) and other efficiency gains. Other income fell 11.8% YoY at Rs1.2 bn which was in-line with cash balances. Interest expenses increased 33% YoY to Rs726 mn due to increase in short term debt which stood at Rs25 bn at the end of FY19. Depreciation decreased by 38% YoY to Rs2.2 bn due to review and revision in the estimated useful life of certain item of PPE. Hence PAT for the quarter was up 49% YoY at Rs6.8 bn.

Industry segment supports FY19 OI: FY19 order inflow of Rs238 bn (down 42% YoY) included Rs26bn (+19% YoY) order from Transportation segment (Part of Industry segment), where the company has indigenously developed regenerative braking system for Indian Railways. Also, with ~60% share in the FGD order awards till date, the company seems well placed to capture the incremental tendering pertaining (~Rs80 bn) to Air Quality Control in Power as well as Industry. BHEL is favorably (L1) placed in orders worth Rs250 bn which are (1) Talcher order 1320MW (NTPC), (2) Hazirabagh expansion (800MW final negotiation stage), (3) Series of orders of retrofit of FGDS (Rs 60bn), Kudankulam - 3&4 (Rs10bn) etc. On the overseas market, the company is L1 in orders worth Rs20 bn.

Exhibit 1: Q4FY19 Result Overview (Rs mn)

Y/e March	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	FY19	FY18	YoY gr. (%)
Net Revenue	102,972	102,130	0.8	73,364	303,490	288,130	5.3
EBITDA	13,952	12,924	8.0	2,187	21,420	19,329	10.8
<i>EBITDA Margin (%)</i>	<i>13.5</i>	<i>12.7</i>		<i>3.0</i>	<i>7.1</i>	<i>6.7</i>	
Other Income	1,209	1,371	(11.8)	2,265	6,776	6,931	(2.2)
Depreciation	(1,342)	(2,171)	(38.2)	(1,124)	(4,748)	(7,864)	(39.6)
Interest	(964)	(726)	32.9	(577)	(2,869)	(2,546)	12.7
Profit before Tax	12,854	11,399	12.8	2,751	20,579	15,850	29.8
Tax	(6,027)	(6,827)	(11.7)	(831)	(8,425)	(5,787)	45.6
Reported PAT	6,827	4,572	49.3	1,920	12,154	8,066	50.7
Adjusted PAT	6,827	4,572	49.3	1,920	12,154	8,066	50.7
<i>Net Margin (%)</i>	<i>6.6</i>	<i>4.5</i>		<i>2.6</i>	<i>4.0</i>	<i>2.8</i>	
Adjusted EPS	2.0	1.2	57.5	0.5	3.5	2.2	58.9

Source: Company, PL

Exhibit 2: Segmental Performance (Rs mn)

Y/e March	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)
Revenue					
Power	81,034	83,123	-2.5	55,123	47.0
Industry	17,331	15,205	14.0	16,035	8.1
Total	98,365	98,328		71,157	
EBIT					
Power	13,066	9,094	43.7	5,921	120.7
Industry	2,534	572	343.4	557	354.6
Total	15,600	9,666		6,479	
EBIT Margin (%)					
Power	16.1	10.9		10.7	
Industry	14.6	3.8		3.5	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	288,130	303,490	329,127	358,672
YoY gr. (%)	0.7	5.3	8.4	9.0
Cost of Goods Sold	(162,503)	(177,641)	(195,610)	(216,039)
Gross Profit	125,627	125,848	133,517	142,633
Margin (%)	43.6	41.5	40.6	39.8
Employee Cost	(60,265)	(62,613)	(63,239)	(63,871)
Other Expenses	(42,741)	(41,816)	(43,907)	(46,102)
EBITDA	19,329	21,420	26,372	32,660
YoY gr. (%)	82.1	10.8	23.1	23.8
Margin (%)	6.7	7.1	8.0	9.1
Depreciation and Amortization	(7,864)	(4,748)	(4,847)	(5,105)
EBIT	11,465	16,672	21,525	27,555
Margin (%)	4.0	5.5	6.5	7.7
Net Interest	(2,546)	(2,869)	(5,272)	(4,261)
Other Income	6,931	6,776	7,183	7,614
Profit Before Tax	15,850	20,579	23,436	30,908
Margin (%)	5.5	6.8	7.1	8.6
Total Tax	(7,784)	(8,425)	(7,734)	(10,200)
Effective tax rate (%)	(49.1)	(40.9)	(33.0)	(33.0)
Profit after tax	8,066	12,154	15,702	20,708
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	8,066	12,154	15,702	20,708
YoY gr. (%)	62.7	50.7	29.2	31.9
Margin (%)	2.8	4.0	4.8	5.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	8,066	12,154	15,702	20,708
YoY gr. (%)	62.7	50.7	29.2	31.9
Margin (%)	2.8	4.0	4.8	5.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,066	12,154	15,702	20,708
Equity Shares O/s (m)	3,671	3,482	3,482	3,482
EPS (Rs)	2.2	3.5	4.5	5.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	56,261	59,052	62,121	65,497
Tangibles	56,261	59,052	62,121	65,497
Intangibles	-	-	-	-
Acc: Dep / Amortization	25,573	30,070	34,917	40,022
Tangibles	25,573	30,070	34,917	40,022
Intangibles	-	-	-	-
Net fixed assets	30,688	28,981	27,204	25,475
Tangibles	30,688	28,981	27,204	25,475
Intangibles	-	-	-	-
Capital Work In Progress	2,028	2,028	2,028	2,028
Goodwill	-	-	-	-
Non-Current Investments	6,907	6,907	6,907	6,907
Net Deferred tax assets	36,259	36,259	36,259	36,259
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	62,588	81,485	88,368	96,301
Trade receivables	354,935	390,795	414,790	442,198
Cash & Bank Balance	112,912	69,009	98,576	103,751
Other Current Assets	29,261	20,787	25,125	23,690
Total Assets	637,892	637,914	701,061	738,575
Equity				
Equity Share Capital	7,343	6,964	6,964	6,964
Other Equity	318,668	306,274	311,299	317,926
Total Networkth	326,011	313,238	318,263	324,890
Non-Current Liabilities				
Long Term borrowings	572	25,527	20,422	16,337
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	110,659	115,919	124,420	125,046
Other current liabilities	200,650	183,229	237,956	272,302
Total Equity & Liabilities	637,892	637,914	701,061	738,575

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	15,850	20,579	23,436	30,908
Add. Depreciation	7,864	4,748	4,847	5,105
Add. Interest	2,546	2,869	5,272	4,261
Less Financial Other Income	6,931	6,776	7,183	7,614
Add. Other	15,953	(6,264)	(6,891)	(7,104)
Op. profit before WC changes	42,212	21,932	26,664	33,170
Net Changes-WC	(32,703)	(57,792)	27,870	904
Direct tax	431	(8,425)	(7,734)	(10,200)
Net cash from Op. activities	9,941	(44,285)	46,800	23,874
Capital expenditures	114	-	-	-
Interest / Dividend Income	7,053	6,264	6,891	7,104
Others	2,440	(2,790)	(3,069)	(3,376)
Net Cash from Inv. activities	9,607	3,474	3,821	3,728
Issue of share cap. / premium	-	(379)	-	-
Debt changes	(504)	24,955	(5,105)	(4,084)
Dividend paid	(5,833)	(8,265)	(10,677)	(14,082)
Interest paid	(373)	(2,869)	(5,272)	(4,261)
Others	-	(16,283)	-	-
Net cash from Fin. activities	(6,710)	(2,840)	(21,054)	(22,427)
Net change in cash	12,838	(43,652)	29,567	5,175
Free Cash Flow	9,941	(44,285)	46,800	23,874

Source: Company Data, PL Research

Key Financial Metrics

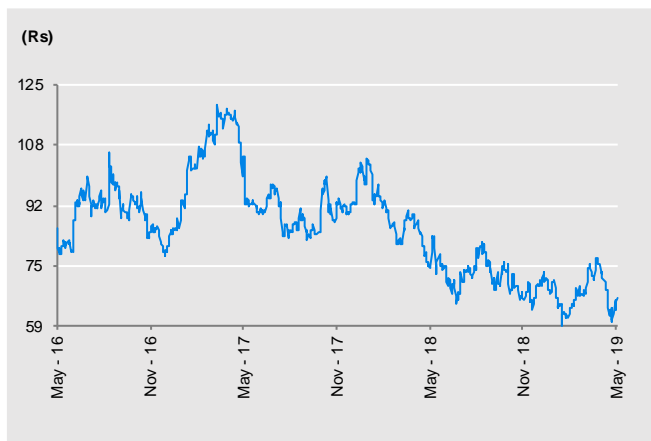
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	2.2	3.5	4.5	5.9
CEPS	0.1	2.1	3.1	4.5
BVPS	88.8	90.0	91.4	93.3
FCF	2.7	(12.7)	13.4	6.9
DPS	1.3	2.0	2.6	3.5
Return Ratio(%)				
RoCE	3.5	5.0	6.4	8.1
ROIC	8.1	8.9	11.9	15.5
RoE	2.5	3.8	5.0	6.4
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.1)	(0.2)	(0.3)
Net Working Capital (Days)	389	429	420	421
Valuation(x)				
PER	33.1	20.8	16.1	12.2
P/B	0.8	0.8	0.8	0.8
P/CEPS	1,321.3	34.2	23.3	16.2
EV/EBITDA	8.0	9.8	6.6	5.1
EV/Sales	0.5	0.7	0.5	0.5
Dividend Yield (%)	1.8	2.8	3.6	4.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Net Revenue	59,355	67,799	73,364	102,972
YoY gr. (%)	6.3	6.2	9.4	0.8
Raw Material Expenses	(33,677)	(39,757)	(45,808)	(58,400)
Gross Profit	25,678	28,042	27,556	44,572
Margin (%)	43.3	41.4	37.6	43.3
EBITDA	2,872	2,408	2,187	13,952
YoY gr. (%)	(77.8)	(16.2)	(9.2)	537.9
Margin (%)	4.8	3.6	3.0	13.5
Depreciation / Depletion	(1,761)	(521)	(1,124)	(1,342)
EBIT	1,111	1,887	1,063	12,610
Margin (%)	1.9	2.8	1.4	12.2
Net Interest	(639)	(689)	(577)	(964)
Other Income	1,786	1,517	2,265	1,209
Profit before Tax	2,259	2,715	2,751	12,854
Margin (%)	3.8	4.0	3.7	12.5
Total Tax	(703)	(863)	(831)	(6,027)
Effective tax rate (%)	(31.1)	(31.8)	(30.2)	(46.9)
Profit after Tax	1,556	1,852	1,920	6,827
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,556	1,852	1,920	6,827
YoY gr. (%)	92.5	60.4	25.3	48.7
Margin (%)	2.6	2.7	2.6	6.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,556	1,852	1,920	6,827
YoY gr. (%)	92.5	60.4	25.3	48.7
Margin (%)	2.6	2.7	2.6	6.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,556	1,852	1,920	6,827
Avg. Shares O/s (m)	2,482	2,482	2,482	2,482
EPS (Rs)	0.6	0.7	0.8	2.8

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	30-May-18	Reduce	90	84
2	11-Jun-18	Reduce	90	93
3	10-Jul-18	Reduce	90	70
4	25-Jul-18	Reduce	73	72
5	5-Oct-18	Reduce	73	74
6	5-Apr-19	Reduce	78	73

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,320	1,454
2	Apar Industries	Accumulate	762	681
3	Bharat Electronics	BUY	112	97
4	BHEL	Reduce	78	73
5	Cummins India	Accumulate	841	757
6	Engineers India	BUY	139	108
7	GE T&D India	Reduce	257	263
8	Kalpataru Power Transmission	BUY	565	457
9	KEC International	BUY	352	295
10	Larsen & Toubro	BUY	1,744	1,356
11	Power Grid Corporation of India	BUY	247	196
12	Siemens	Accumulate	1,263	1,130
13	Thermax	Accumulate	1,147	988
14	Triveni Turbine	Accumulate	124	110
15	Voltamp Transformers	BUY	1,380	1,125

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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