

BSE SENSEX	S&P CNX
34,949	10,633
Bloomberg	BHEL IN
Equity Shares (m)	3671.4
M.Cap.(INRb)/(USD\$b)	308.4/4.5
52-Week Range (INR)	108 / 74
1, 6, 12 Rel. Per (%)	-3/-15/-31
Avg. Val, INRm	851.0
Free float (%)	36.9

CMP: INR84
TP: INR70 (-17%)
Sell
Operating performance in-line; gross margin surprises

- 4QFY18 operating performance in line with expectations:** Sales grew 4% YoY to INR102b, below our estimate of INR107b. Gross margin expanded 380bp YoY to 49.5%, higher than our estimate of 41.4%, driven by (a) tight control over costs via design optimization, (b) indigenization of super-critical sets and (c) reduced sourcing costs. EBITDA grew 117% YoY to INR12.3b, with the margin expanding 630bp YoY to 12.1% (est. of 11.5%). Other expenses included provisions for bad debt/LDs of INR11.4b and a forex write-back of INR1.9b. PAT of INR4.6b (+112% YoY) was below our estimate of INR8.1b on account of a high tax rate (64% v/s our estimate of 26%). Higher tax rate due to write-down of deferred tax assets is no longer deemed recoverable as of 4QFY18.
- Executable order book at INR986b (+50% YoY); L1 in INR160b of orders:** Order book stands at INR1,181b, of which ~83% is executable. BHEL is L1 in INR160b of orders and has already won INR18b of orders in 1QFY19.
- Key highlights from earnings call:** (a) Expect industry-wide orders of 8-10GW in FY19. (b) RM costs have come down in Q4/FY18, led by an improved product mix and a focus on cost optimization. (c) Of total debtors of INR355b, ~INR175b is collectible and balance is deferred.
- Valuation view:** We maintain **Sell**, given a) the likelihood of constrained execution, b) a weak order pipeline for FY19/20 and c) continued pressure on margins due to execution of JDU projects. We cut our earnings by 2%/7% for FY19/20 to factor in a depleting order pipeline for BTG orders. Our revised target price is INR70 (15x FY20E EPS, in line with five-year average P/E).

Financials & Valuations(INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	289.3	321.9	360.7
EBITDA	19.3	19.1	26.1
PAT	8.1	10.4	13.7
EPS (INR)	2.2	2.8	3.7
Gr. (%)	64.1	29.5	29.5
BV/Sh (INR)	88.8	89.7	90.9
RoE (%)	2.5	3.2	4.1
RoCE (%)	1.8	2.4	3.5
P/E (x)	37.3	28.8	22.0
P/BV (x)	0.9	0.9	0.9

Estimate change

TP change

Rating change

Quarterly Performance

Y/E March	FY17				FY18				(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY17	FY18	Est 4QE	Var. Vs Est
Sales (Net)	56,118	66,645	63,210	97,795	55,056	62,971	66,264	101,470	282,222	289,257	106,712	-4.9%
Change (%)	28.7	12.2	18.7	-2.0	-1.9	-5.5	4.8	3.8	10.8	2.5	10.1	
EBITDA	710	1,551	2,239	5,687	-883	-954	2,954	12,316	8,270	19,329	12,290	0.2%
Change (%)	-133.9	-135.4	-113.9	-34.3	-224.3	-161.5	32.0	116.6	-160.5	133.7	89	
As a % Sales	1.3	2.3	3.5	5.8	-1.6	-1.5	4.5	12.1	2.9	6.7	11.5	
Interest	57	50	263	3,136	657	552	610	726	3,506	2,546	1,180	
Depreciation	2,182	2,080	2,088	2,139	2,001	1,872	1,820	2,171	8,488	7,864	1,858	
Other Income	2,493	1,961	1,358	2,274	4,622	4,850	1,375	1,979	9,961	6,931	1,760	
PBT	965	1,382	1,246	2,686	1,080	1,473	1,898	11,399	6,237	15,850	11,011	3.5%
Tax	188	292	310	530	272	318	367	6,827	1,320	7,784	2,909	
Effective Tax Rate (%)	19.4	21.1	24.9	19.7	25.2	21.6	19.3	59.9	21.2	49.1	26	
Reported PAT	778	1,090	935	2,155	808	1,154	1,532	4,572	4,917	8,066	8,102	-43.6%
Change (%)	129.5	-160.3	-108.6	-57.4	3.9	5.9	63.8	112.1	-169.3	64.1	276	
Adj. PAT	778	1,090	935	2,155	808	1,154	1,532	4,572	4,917	8,066	8,102	-43.6%
Change (%)	129.5	-160.3	-108.6	-57.4	3.9	5.9	63.8	112.1	-169.3	64.1	276	

E: MOSL Estimates

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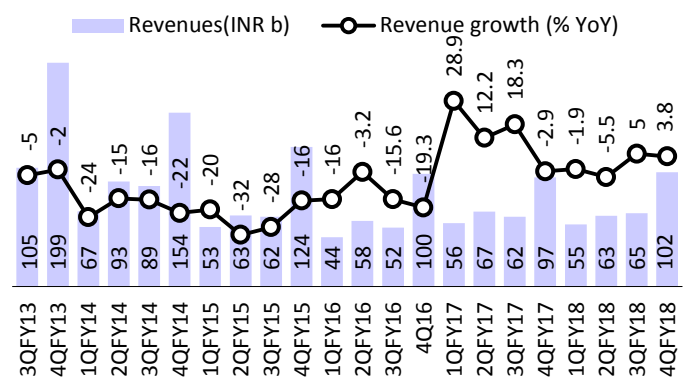
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4QFY18 results in line at the operating level; gross margin a positive surprise

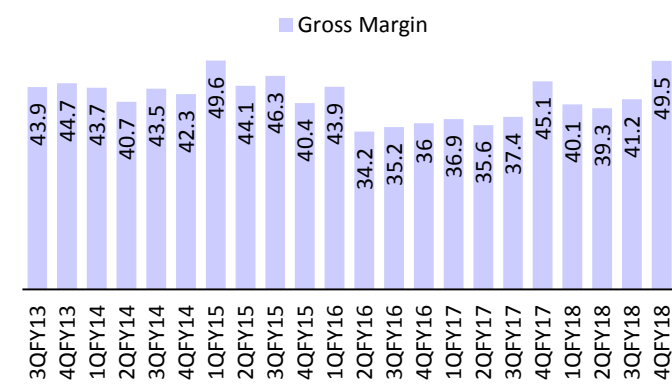
- Sales of INR102b (+4% YoY) were below our estimate of INR107b. Power segment revenue grew 3% YoY to INR83b, while industry segment revenue declined 14% YoY to INR15.2b.
- Gross margin expanded 380bp YoY to 49.5%, higher than our estimate of 41.4%, driven by (a) tight control over costs via design optimization, (b) indigenization of super-critical sets and (c) reduced sourcing costs.
- EBITDA grew 117% YoY to INR12.3b, with the margin expanding 630bp YoY to 12.1% (est. of 11.5%). Other expenses included provisions for bad debt/LDs of INR11.4b and a forex write-back of INR1.9b.
- PAT of INR4.6b (+112% YoY) was below our estimate of INR8.1b on account of a high tax rate (64% v/s our estimate of 26%). Higher tax rate due to write-down of deferred tax assets is no longer deemed recoverable as of 4QFY18.

Exhibit 1: Revenues rise despite weak execution in industrial segment (down 14% YoY)



Source: MOSL, Company

Exhibit 2: Gross margin improves 380bp YoY



Source: MOSL, Company

Segmental performance: Weak industrial sales offset growth in Power segment

- During the quarter, power segment revenue grew 3% YoY to INR83b, while industry segment revenue declined 14% YoY to INR15.2b. 9MFY18 sales had been subdued due to delays in finalization of key orders like Yedadri (non-availability of EC), Udangudi, Panki and Bhusawal.
- Margins in the industrial segment stood at 3.8%, while Power segment EBIT margin was at 11% in 4QFY18.

Exhibit 3: Segmental revenues and margins

INR m	FY17				FY18			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Revenues	57,212	67,800	64,649	98,743	56,070	61,684	64,944	98,286
Power	43,355	52,541	50,962	81,090	43,356	50,647	53,558	83,081
Growth (%)	31.8	10.5	18.2	3.1	0.0	(3.6)	5.1	2.5
Industry	13,857	15,260	13,686	17,653	12,714	11,037	11,386	15,205
Growth (%)	22.5	15.1	20.4	(21.0)	(8.2)	(27.7)	(16.8)	(13.9)
EBIT	3,948	5,144	4,722	13,974	5,187	6,708	8,155	9,666
Power	3,100	5,052	5,903	11,291	4,386	6,691	7,751	9,094
Growth (%)	43.9	(2,764.8)	(150.7)	2.9	41.5	32.4	31.3	(19.5)
Industry	848	91	-1,181	2,683	802	18	404	572
Growth (%)	2,824.8	(121.0)	21.4	(568.9)	(5.5)	(80.5)	(134.3)	(78.7)
EBIT margin (%)	6.9	7.6	7.3	14.2	9.3	10.9	12.6	9.8
Power	7.2	9.6	11.6	13.9	10.1	13.2	14.5	10.9
Industry	6.1	0.6	-8.6	15.2	6.3	0.2	3.6	3.8

Source: Company, MOSL

Order intake at INR252b in 4QFY18, L1 pipeline at INR160b

- In 4QFY18, BHEL's order intake stood at INR252b (+51% YoY). The company's order intake in FY18 stood at INR409b (+74% YoY), declining from peak levels of ~INR600b in FY10/FY11. Order backlog at the end of 4QFY18 stood at INR1181b, up 13% YoY.
- BHEL is L1 in orders worth INR160b and has already finalized orders worth INR18b in 1QFY19.
- Incrementally, BHEL expects BTG ordering of 8-10GW of tenders to be finalized in FY19. A total of 37GW of FGD orders have been tendered and are likely to be finalized in the coming quarters – these are primarily from NTPC and SEBs.

Exhibit 4: Industry BTG opportunity at 8-10GW in FY19

Upcoming tenders	MW
Singareni Collieries	800
NTPC Talcher	1,320
THDC, Khurja	1,320
SJVNL, Buxar	1,320
NTPC Singrauli	1,320
NLC - Nevelli	1,320
WBSCEDL - Sagardighi	660
NPCIL	1,400
Adani Power Goda	1,600
Adani Power Udipi	1,320

Source: MOSL, Company

Valuations and view

- We maintain **Sell**, given a) the likelihood of constrained execution, b) a weak order pipeline for FY19/20 and c) continued pressure on margins due to execution of JDU projects. We cut our earnings by 2%/7% for FY19/20 to factor in a depleting order pipeline for BTG orders. Our revised target price is INR70 (15x FY20E EPS, in line with five-year average P/E).



Concall Highlights

- FY19 MOU INR320b for excellent rating, INR310b for good rating - this includes other operating income.
- **Employee costs** - made provisions for workers wage revision at INR8b/year so INR60b in FY18 and overall employee to increase by another INR5b in FY19
- RM costs have come down in Q4/FY18 - product mix, pricing of order. Going forward RM is moving up, have already ordered RM for next year so hedged and for NTPC have a PVC clause.
- Executable order book now at INR986.2b of INR1181b; this was INR656b, a jump of 50% YoY; this will be executable in 3.5 years.
- Won INR18b of orders in Q119 - INR150-160b are well placed where BHEL can get orders from and another INR18b secured in Q119.
- 10-11GW of BTG tenders are in the pipeline and expect finalization of 8-10GW in FY19.
- Of the total debtors is INR354.9b - a) collectible is INR175b and deferred is balance. Majority from state and central utilities, SEB is INR131b and Private is INR55b and Central is INR147b.
- Have provided for INR20b as provision against private receivables.

Exhibit 5: Operation matrix

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Order Intake (INR b)										
Power	443	176	226	175	211	366	46	294	305	316
R&M	21	23	29	34	38	18	27	30	33	36
Industry	114	79	45	50	52	51	62	76	91	109
International Business	37	2	20	26	7	1	100	10	11	12
Cancellations	0	58	0	0	0	0	0	0	-	-
Total Order Intake	605	221	319	285	308	437	235	409	440	473
% YoY	2%	-63%	45%	-11%	8%	42%	-46%	74%	7%	8%
Segmental Revenues										
Power (including international business)	348	379	396	325	240	202	228	231	249	272
Industry	90	102	106	79	70	58	60	50	67	83
Total Revenues	450	495	502	403	309	261	288	281	315	354
EBITDA Margins (%)	19.9	20.3	19.4	11.6	7.0	-5.4	2.9	6.7	5.9	7.2
Contribution Margins (%)	40.3	41.5	43.5	42.4	43.9	36.7	39.4	44.2	40.7	40.7
Staff Costs (%)	13.5	11.4	5.2	3.1	-8.2	-1.3	0.4	11.6	10.0	10.0
Other Expenses (%)	9.5	9.4	12.2	15.7	18.9	21.0	17.3	16.7	14.2	13.2
Employees (in 000)	46.7	49.4	48.4	47.5	44.9	42.2	39.8	37.5	37.5	37.5
INR M/empl	0.0	1.1	1.2	1.2	1.2	1.3	1.4	1.6	1.8	1.9
Cash / (Debt), INR B										
Cash	96	67	77	119	98	101	105	113	100	84
Retention Money	97	135	159	179	173	202	186	191	191	191
Debt	-1	-1	-14	-27	-1	-1	-1	-1	-1	-1
Net Cash / (Debt)	192	200	222	271	270	301	290	303	291	274
INR/sh	79	82	61	74	74	82	79	83	79	75
Net Profit (INR B)	57	69	66	35	14	-7	5	8	10	14
EPS (INR / sh)	23.2	28.2	18.0	9.4	3.9	-1.9	1.3	2.2	2.8	3.7
ROE (%)	28.1	27.2	23.7	10.9	4.3	-2.1	1.5	2.5	3.2	4.1

Financials and Valuations

Income Statement							(INR m)	
Y/E March	2014	2015	2016	2017	2018	2019E	2020E	
Total Income	391,089	301,830	254,826	282,222	289,257	321,884	360,660	
Change (%)	-19.2	-22.8	-15.6	10.8	2.5	11.3	12.0	
Staff Cost	59,338	54,500	53,798	53,999	60,265	66,291	72,920	
Mfg. Expenses	225,188	169,205	161,188	171,100	161,435	190,910	213,908	
Selling Expenses	61,363	57,133	53,507	48,853	48,229	45,566	47,710	
EBITDA	45,200	20,992	-13,667	8,270	19,329	19,117	26,121	
Change (%)	-51.9	-53.6	-165.1	-160.5	133.7	-1.1	36.6	
% of Net Sales	11.6	7.0	-5.4	2.9	6.7	5.9	7.2	
Depreciation	9,829	10,773	9,357	8,488	7,864	7,960	9,291	
Interest	1,326	917	3,595	3,506	2,546	3,046	3,046	
Other Income	16,160	12,205	14,977	9,961	6,931	7,962	7,242	
Extra-ord. Items (net)	-61	-101	0	0	0	0	0	
PBT	50,144	21,406	-11,642	6,237	15,850	16,074	21,027	
Tax	15,535	7,210	-4,546	1,320	7,784	5,626	7,360	
Rate (%)	31.0	33.7	39.0	21.2	49.1	35.0	35.0	
Reported PAT	34,608	14,196	-7,096	4,917	8,066	10,448	13,668	
Adjusted PAT	34,669	14,297	-7,096	4,917	8,066	10,448	13,668	
Change (%)	-47.6	-58.8	-149.6	-169.3	64.1	29.5	30.8	

Balance Sheet							(INR m)	
Y/E March	2014	2015	2016	2017	2018	2019E	2020E	
Share Capital	4,895	4,895	4,895	4,895	7,343	7,343	7,343	
Reserves	325,575	335,951	316,916	318,049	318,668	321,970	326,289	
Net Worth	330,471	340,846	321,811	322,944	326,011	329,312	333,631	
Loans	26,548	610	1,263	896	572	572	572	
Differed Tax Liability	-19,690	-22,207	-36,592	-38,414	-36,259	-36,259	-36,259	
Capital Employed	337,329	319,249	286,482	285,426	290,324	293,625	297,944	
Gross Fixed Assets	120,734	125,910	48,960	53,725	56,401	66,057	76,877	
Less: Depreciation	73,604	84,510	9,335	17,766	25,630	33,590	42,880	
Net Fixed Assets	47,131	41,400	39,625	37,642	30,771	32,467	33,997	
Capital WIP	6,220	5,010	3,179	1,683	1,945	1,945	1,945	
Investments	4,202	4,350	6,642	6,614	6,907	6,957	7,007	
Curr. Assets	650,670	611,704	565,592	529,632	562,009	564,710	603,978	
Inventory	97,976	101,017	96,022	73,724	62,588	69,647	78,037	
Debtors	399,530	376,373	335,574	318,633	354,935	359,695	403,025	
Cash & Bank Balance	118,729	98,127	100,860	104,918	112,912	100,230	83,546	
Loans & Advances	31,910	34,437	23,321	19,422	2,314	2,575	2,885	
Other Current Assets	2,525	1,750	9,816	12,935	29,261	32,562	36,484	
Curr. Liab. & Prov.	370,893	343,215	328,652	290,145	311,309	312,455	348,983	
Creditors	94,090	94,569	94,528	93,221	100,726	107,717	120,302	
Other Liabilities	173,543	138,242	124,423	103,312	123,524	107,859	120,132	
Provisions	103,260	110,404	109,700	93,612	87,059	96,879	108,549	
Net Current Assets	279,777	268,489	236,940	239,487	250,700	252,255	254,995	
Appli. of Funds	337,329	319,249	286,481	285,427	290,324	293,625	297,944	

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR)							
EPS	9.4	3.9	-1.9	1.3	2.2	2.8	3.7
Change (%)	-47.6	-58.8	-149.6	-169.3	64.1	29.5	30.8
Cash EPS	12.1	6.8	0.6	3.7	4.3	5.0	6.3
Book Value	90.0	92.8	87.7	88.0	88.8	89.7	90.9
DPS	1.9	0.8	0.4	0.8	1.8	1.7	2.2
Payout (incl. Div. Tax.)	20.0	19.9	-21.4	59.8	82.8	60.0	60.0
Valuation (x)							
P/E	8.7	21.1	-42.4	61.2	37.3	28.8	22.0
Cash P/E	6.8	12.0	133.1	22.5	18.9	16.4	13.1
EV/EBITDA	4.6	9.7	-14.7	23.8	9.8	10.5	8.3
EV/Sales	0.5	0.7	0.8	0.7	0.7	0.6	0.6
Price/Book Value	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Dividend Yield (%)	2.3	0.9	0.5	1.0	2.2	2.1	2.7
Return Ratio (%)							
RoE	10.9	4.3	-2.1	1.5	2.5	3.2	4.1
RoCE	9.2	2.7	-2.9	0.7	1.8	2.4	3.5
RoIC	10.8	2.9	-6.3	-0.1	2.8	3.3	4.5
Turnover Ratios							
Debtors (Days)	373	455	481	412	448	408	408
Inventory (Days)	91	122	138	95	79	79	79
Creditors. (Days)	88	114	135	121	127	122	122
Asset Turnover (x)	7.3	6.5	6.0	7.5	8.8	9.4	10.0
Leverage Ratio							
Debt/Equity (x)	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2

Cash Flow Statement

Y/E March	2014	2015	2016	2017	2018	2019E	2020E
(INR m)							
PBT bef. EO Items	50,144	21,406	-11,642	6,237	15,850	16,074	21,027
Add : Depreciation	9,829	10,773	9,357	8,488	7,864	7,960	9,291
Interest	1,326	917	711	717	717	717	717
Less : Direct taxes paid	19,718	9,728	9,839	3,141	5,629	5,626	7,360
(Inc)/Dec in WC	4,126	-9,314	34,186	-76	-1,537	-14,236	-19,425
CF from Operations	44,381	13,137	22,062	11,508	16,549	4,172	3,534
EO Income	0	0	0	0	0	0	0
CF from Op. Incl. EO Items	44,381	13,137	22,062	11,508	16,549	4,172	3,534
(Inc)/dec in FA	-6,879	-3,833	-5,751	-3,327	-2,938	-9,657	-10,820
Free Cash Flow	37,502	9,304	16,311	8,181	13,611	-5,485	-7,286
(Pur)/Sale of Investments	90	-148	-2,292	27	-293	-50	-50
CF from Investments	-6,789	-3,981	-8,043	-3,300	-3,231	-9,707	-10,870
(Inc)/Dec in Networth	-475	-584	-10,206	-432	170	0	0
(Inc)/Dec in Debt	12,396	-25,938	653	-368	-324	0	0
Less : Interest Paid	1,326	917	711	717	717	717	717
Dividend Paid	8,104	3,237	1,733	3,352	7,617	7,146	9,349
CF from Fin. Activity	3,817	-29,758	-11,286	-4,151	-7,771	-7,146	-9,349
Inc/Dec of Cash	41,409	-20,602	2,733	4,058	5,546	-12,681	-16,685
Add: Beginning Balance	77,321	118,729	98,128	100,860	104,918	112,912	100,230
Closing Balance	118,729	98,128	100,860	104,918	110,465	100,230	83,546

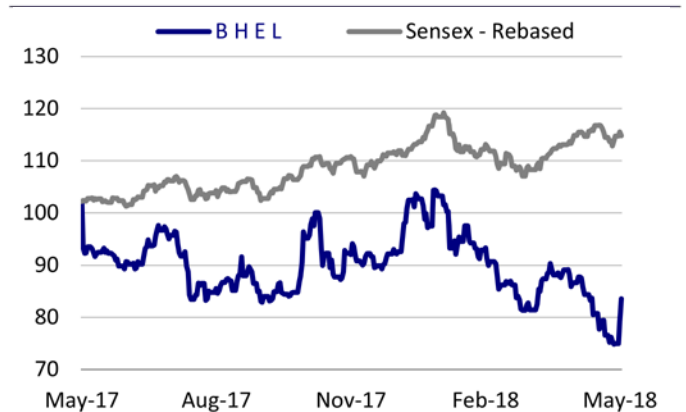
E: MOSL Estimates

Corporate profile

Company description

BHEL is India's dominant producer of power and industrial machinery and a leading EPC company, established in the late 1950s as the government's wholly-owned subsidiary. The company has 14 manufacturing divisions, 8 service centers, 4 power sector regional centers besides project sites spread across all over India and abroad. It has a manufacturing capacity of 20GW spread across multiple factories in India; including for thermal, hydro and gas projects.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-18	Dec-17	Mar-17
Promoter	63.1	63.1	63.1
DII	18.5	18.2	16.4
FII	13.0	13.1	15.9
Others	5.4	5.7	4.6

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
LIFE INSURANCE CORPORATION OF INDIA	9.4
LIC OF INDIA PENSION PLUS MIXED FUND	4.6
Reliance Capital Trustee Ltd - A/c RELIANCE TAX SAVER (ELSS) FUND	1.1
PINEBRIDGE INVESTMENT GF MAURITIUS LIMITED	1.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Atul Sobti	Chairman & Managing Director
T Chockalingam	Director (Finance)
D Bandyopadhyay	Director (Human Resources)
I P Singh	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Akhil Joshi	SubrataBiswas
Amitabh Mathur	A N Roy
HarinderHira	Keshav N Desiraju
R Swaminathan	Rajesh Kishore
Subhash Chandra Pandey	BhaskarJyotiMahanta

*Independent

Exhibit 6: Auditors

Name	Type
Anjaneyulu & Co	Statutory
DSP & Associates	Statutory
Jugal K Puri & Associates	Cost Auditor
M B Gabhawala & Co	Statutory
M Srinivasan & Associates	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	2.8	5.4	-48.3
FY20	3.7	-	-

Source: Bloomberg

Explanation of Investment Rating	Expected return (over 12-month)
Investment Rating	
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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