

BSE SENSEX
 36,858

S&P CNX
 11,132

CMP: INR72
TP: INR60 (-16%)
Sell

Motilal Oswal values your support in the **Asiamoney Brokers Poll 2018** for India Research, Sales and Trading team. We **request your ballot**.



Bloomberg	BHEL IN
Equity Shares (m)	3,671
M.Cap.(INRb)/(USD\$b)	262.9 / 3.8
52-Week Range (INR)	108 / 65
1, 6, 12 Rel. Per (%)	-8/-33/-41
12M Avg Val (INR M)	840
Free float (%)	36.9

Financials & Valuations(INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	289.3	321.9	360.7
EBITDA	19.3	22.6	28.5
PAT	8.1	11.7	15.0
EPS (INR)	2.2	3.2	4.1
Gr. (%)	64.1	45.6	45.6
BV/Sh (INR)	88.8	89.8	91.1
RoE (%)	2.5	3.6	4.5
RoCE (%)	1.8	3.1	3.9
P/E (x)	32.8	22.5	17.6
P/BV (x)	0.8	0.8	0.8

Estimate change

TP change

Rating change

Above estimate, but constrained execution/weak pipeline warrant caution

- 1QFY19 operating performance exceeds expectations:** Sales grew 6.3% YoY to INR59.4b, marginally below our estimate of INR60.3b. Gross margin expanded 230bp YoY to 43.3% (above our estimate of 41.0%), driven by (a) indigenization of super-critical sets and (b) reduced sourcing costs. EBITDA grew 42% YoY to INR2.9b (ahead of our estimate of INR1.7b), with the margin expanding 120bp YoY to 4.8% (est. of 2.8%). PAT of INR1.6b (+92.5% YoY) was meaningfully ahead of our estimate of INR1.1b.
- Executable order book stands at INR980b, L1 in INR170b of orders:** Order book stands at INR1.17t, of which ~83% is executable. BHEL is L1 in INR170b of orders, and order inflow for the quarter stood at INR44b (+143% YoY). BHEL expects ordering of 8-10GW for FY19. In the FGD segment, BHEL has till date received orders worth INR49b and is L1 in orders worth INR29b.
- Key highlights from earnings call:** (a) MoU target for FY19: Sales of INR300b for very good standard and INR320b for excellent standard. (b) Expect industry wide orders of 8-10GW in FY19. (c) RM costs have come down during the quarter, led by higher indigenization and better sourcing strategy adopted by the company. (d) Of total debtors of INR379b, deferred debtors stand at INR69b. Current receivables stand at INR238b and has been bought down to 261days. Of the total debtors, 82% is from government companies, 14% is from the private companies and balance is from exports.

Valuation view: We raise our earnings estimate by 12/10% for FY19/20E to factor in better-than-expected gross margins and lower-than-expected employee cost. We maintain **Sell** with a target price of INR60 (15x its FY20E EPS, in line with 10-year average P/E), given (a) likelihood of constrained execution and (b) a weak order pipeline for FY19/20.

Quarterly Performance

Y/E March	FY18				FY19				FY18	FY19	Est	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Sales (Net)	55,834	62,971	66,264	101,470	59,355	71,300	73,600	117,630	289,257	321,884	60,300	-1.6%
Change (%)	-0.5	-5.5	4.8	3.8	6.3	13.2	11.1	15.9	2.5	11.3	9.5	
EBITDA	2,029	-954	2,954	12,316	2,872	4,800	6,600	8,294	19,329	22,567	1,700	69.0%
Change (%)	185.7	-161.5	32.0	116.6	41.6	NA	123.4	-32.7	133.7	16.8	-293	
As a % Sales	3.6	-1.5	4.5	12.1	4.8	6.7	9.0	7.1	6.7	7.0	2.8	
Interest	657	552	610	726	639	650	800	957	2,546	3,046	600	
Depreciation	2,001	1,872	1,820	2,171	1,761	1,900	1,900	2,399	7,864	7,960	2,200	
Other Income	1,710	4,850	1,375	1,979	1,786	1,750	1,500	1,472	6,931	6,508	2,500	
PBT	1,080	1,473	1,898	11,399	2,259	4,000	5,400	6,411	15,850	18,069	1,400	61.3%
Tax	272	318	367	6,827	703	800	900	3,922	7,784	6,324	350	
Effective Tax Rate (%)	25.2	21.6	19.3	59.9	31.1	20.0	16.7	61.2	49.1	35.0	25	
Reported PAT	808	1,154	1,532	4,572	1,556	3,200	4,500	2,489	8,066	11,745	1,050	48.2%
Change (%)	3.9	5.9	63.8	112.1	92.5	177.2	193.8	-45.5	64.1	45.6	30	
Adj. PAT	808	1,154	1,532	4,572	1,556	3,200	4,500	2,489	8,066	11,745	1,050	48.2%
Change (%)	3.9	5.9	63.8	112.1	92.5	177.2	193.8	-45.5	64.1	45.6	30	

E: MOSL Estimates

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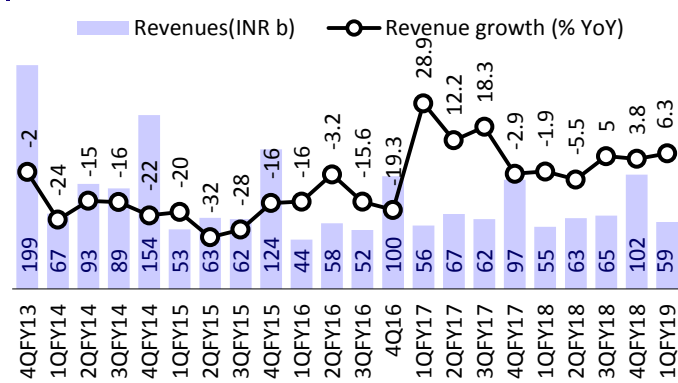
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1QFY19 results ahead of estimates at operating level; gross margin a positive surprise

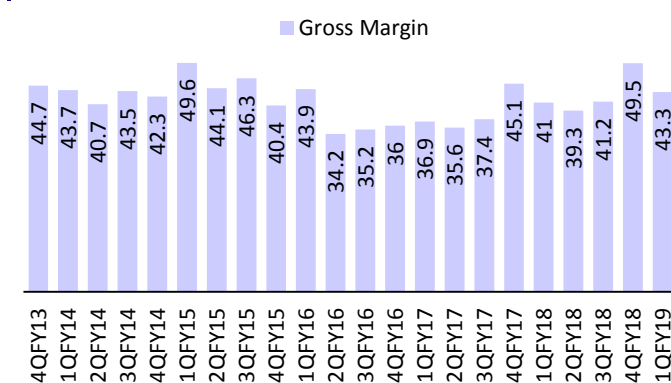
- Sales of INR59.4b (+6.3% YoY) were marginally below our estimate of INR60.3b. Power segment revenue grew 6.9% YoY to INR46.4b, while industry segment revenue declined 9% YoY to INR11.5b.
- Gross margin expanded 230bp YoY to 43.3%, higher than our estimate of 41%, driven by (a) indigenization of super-critical sets and (b) reduced sourcing costs.
- EBITDA grew 42% YoY to INR2.9b (ahead of our estimate of INR1.7b), with the margin expanding 120bp YoY to 4.8% (est. of 2.8%). Other expenses included provisions for bad debt/LDs of INR2b and a forex gain of INR850m.
- PAT of INR1.6b (+92.5% YoY) was meaningfully ahead of our estimate of INR1.1b.

Exhibit 1: Revenues rise despite weak execution in industrial segment (down 9% YoY)



Source: MOSL, Company

Exhibit 2: Gross margin improves 230bp YoY to 43.3%



Source: MOSL, Company

Segmental performance: Industrial segment impacted by delay in acceptance of orders from EESL

- During the quarter, power segment revenue grew 7% YoY to INR46.4b, while industry segment revenue declined 9.2% YoY to INR11.5b. Decline in the industry segment was on account of the delay in dispatch of solar orders worth INR400m led by delay from EESL accepting the order and as locomotives order supply to start from Sept 2018.
- Margins in the industrial segment stood at 5.1%, while Power segment EBIT margin was at 10.5% in 1QFY19.

Exhibit 3: Segmental revenues and margins

INR m	FY17				FY18				FY19
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Revenues	57,212	67,800	64,649	98,743	56,070	61,684	64,944	98,286	57,901
Power	43,355	52,541	50,962	81,090	43,356	50,647	53,558	83,081	46,362
Growth (%)	31.8	10.5	18.2	3.1	0.0	(3.6)	5.1	2.5	6.9
Industry	13,857	15,260	13,686	17,653	12,714	11,037	11,386	15,205	11,539
Growth (%)	22.5	15.1	20.4	(21.0)	(8.2)	(27.7)	(16.8)	(13.9)	(9.2)
EBIT	3,948	5,144	4,722	13,974	5,187	6,708	8,155	9,666	5,463
Power	3,100	5,052	5,903	11,291	4,386	6,691	7,751	9,094	4,878
Growth (%)	43.9	(2,764.8)	(150.7)	2.9	41.5	32.4	31.3	(19.5)	11.2
Industry	848	91	-1,181	2,683	802	18	404	572	585
Growth (%)	2,824.8	(121.0)	21.4	(568.9)	(5.5)	(80.5)	(134.3)	(78.7)	(27.1)
EBIT margin (%)	6.9	7.6	7.3	14.2	9.3	10.9	12.6	9.8	9.4
Power	7.2	9.6	11.6	13.9	10.1	13.2	14.5	10.9	10.5
Industry	6.1	0.6	-8.6	15.2	6.3	0.2	3.6	3.8	5.1

Source: Company, MOSL

Order intake at INR44b in 1QFY19, L1 pipeline at INR170b

- In 1QFY19, BHEL's order intake stood at INR43.7b (+143% YoY). Order backlog stood at INR1.17t of which ~83% is executable. BHEL is L1 in INR170b of orders
- Incrementally, BHEL expects BTG ordering of 8-10GW of tenders to be finalized in FY19. Ordering of 48GW can happen on account of replacement of capacities. BHEL has received FGD orders worth INR49b and is L1 in orders worth INR29b.

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

Upcoming tenders	MW
Singareni Collieries - BHEL is the lone bidder	800
NTPC Talcher	1,320
NTPC Singrauli	1,320
NTPC Lara	1,600
WBSCEDL - Sagardighi	660
NLC - Nevelli extension SC Lignite	1,320
THDC, Khurja	1,320
SJVNL, Buxar	1,320
NLC - Talanbeera	2,400
Tangedco, Ennore replacement	
Total	12,060

Source: MOSL, Company

Valuations and view

We raise our earnings estimate by 12/10% for FY19/20E to factor in better-than-expected gross margins and lower-than-expected employee cost. We maintain **Sell** with a target price of INR60 (15x its FY20E EPS, in line with 10-year average P/E), given (a) likelihood of constrained execution and (b) a weak order pipeline for FY19/20.

Exhibit 5: Change in Estimates

Description	New Estimates			Old Estimate		YoY Change (%)	
	FY18	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Sales	279,632	315,458	354,187	315,458	354,187	0%	0%
EBITDA	19,329	22,567	28,531	19,117	26,121	18%	9%
Margin(%)	6.9%	7.2%	8.1%	6.1%	7.4%	1%	1%
PAT	8,066	11,745	15,028	10,448	13,668	12%	10%
EPS	2.2	3.2	4.1	2.8	3.7	12%	10%

**Concall Highlights**

- FGD orders have started to flow in and momentum is expected to gather pace. Within FGD orders, INR49b has been received till now and BHEL is L1 in INR29b of orders. Pricing has been depressed.
- Signed an MoU with Government for sales of INR300b on very good basis and INR320b on excellent basis.
- INR190b is slow moving orders - INR50b yet to get zero date on these orders, INR23b stuck due to political issues (DVC Raghunathpur and Ramgarh, Rajasthan are stuck project).
- BHEL expects BTG ordering of 8-10GW of tenders to be finalized in FY19. Ordering of 48GW can happen on account of replacement of capacities.
- Of total debtors of INR379b, deferred debtors stand at INR69b as work amounting to INR238b is yet to be done by BHEL. Current receivables stand at INR238b and has been bought down to 261 days. Of the total debtors, 82% is from government companies, 14% is from the private companies and balance is from exports.

Exhibit 6: 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	7.0	7.9
Contribution Margins (%)	40.3	41.5	43.5	42.4	43.9	36.7	39.4	44.2	41.2	41.2
Staff Costs (%)	13.5	11.4	5.2	3.1	-8.2	-1.3	0.4	11.6	6.9	12.2
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	36.5	37.2
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	101	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	275
INR/sh	79	82	61	74	74	82	79	83	79	75
Net Profit (INR B)	57	69	66	35	14	-7	5	8	12	15
EPS (INR / sh)	23.2	28.2	18.0	9.4	3.9	-1.9	1.3	2.2	3.2	4.1
ROE (%)	28.1	27.2	23.7	10.9	4.3	-2.1	1.5	2.5	3.6	4.5

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	64,451	72,314
Mfg. Expenses	225,188	169,205	161,188	171,100	161,435	189,301	212,105
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	22,567	28,531
Change (%)	-51.9	-53.6	-165.1	-160.5	133.7	16.8	26.4
% of Net Sales	11.6	7.0	-5.4	2.9	6.7	7.0	7.9
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	6,508	6,926
Extra-ord. Items (net)	-61	-101	0	0	0	0	0
PBT	50,144	21,406	-11,642	6,237	15,850	18,069	23,120
Tax	15,535	7,210	-4,546	1,320	7,784	6,324	8,092
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	11,745	15,028
Adjusted PAT	34,669	14,297	-7,096	4,917	8,066	11,745	15,028
Change (%)	-47.6	-58.8	-149.6	-169.3	64.1	45.6	28.0

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	322,379	327,128
Net Worth	330,471	340,846	321,811	322,944	326,011	329,722	334,471
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	294,035	298,784
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	565,120	604,818
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	100,640	84,385
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	252,665	255,835
Misc. Expenses	0	0	0	0	0	0	0
Appli. of Funds	337,329	319,249	286,481	285,427	290,324	294,035	298,784

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	3.2	4.1
Change (%)	-47.6	-58.8	-149.6	-169.3	64.1	45.6	28.0
Cash EPS	12.1	6.8	0.6	3.7	4.3	5.4	6.6
Book Value	90.0	92.8	87.7	88.0	88.8	89.8	91.1
DPS	1.9	0.8	0.4	0.8	1.8	1.9	2.5
Payout (incl. Div. Tax.)	20.0	19.9	-21.4	59.8	82.8	60.0	60.0
Valuation (x)							
P/E	7.6	18.5	-37.3	53.8	32.8	22.5	17.6
Cash P/E	5.9	10.5	116.9	19.7	16.6	13.4	10.9
EV/EBITDA	3.8	7.9	-12.1	19.4	7.9	7.3	6.3
EV/Sales	0.4	0.6	0.6	0.6	0.5	0.5	0.5
Price/Book Value	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Dividend Yield (%)	2.6	1.1	0.6	1.1	2.5	2.7	3.4
Return Ratio (%)							
RoE	10.9	4.3	-2.1	1.5	2.5	3.6	4.5
RoCE	9.2	2.7	-2.9	0.7	1.8	3.1	3.9
RoIC	10.8	2.9	-6.3	-0.1	2.8	4.3	5.1
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	-0.3

Cash Flow Statement

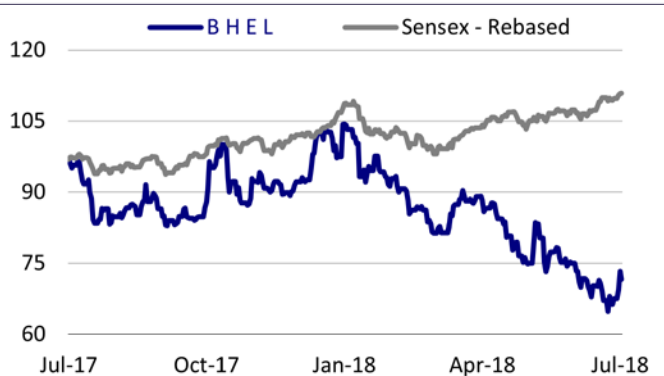
Y/E March	2014	2015	2016	2017	2018	2019E	2020E
(INR m)							
PBT bef. EO Items	50,144	21,406	-11,642	6,237	15,850	18,069	23,120
Add : Depreciation	9,829	10,773	9,357	8,488	7,864	7,960	9,291
Interest	1,326	917	711	717	717	717	717
Less : Direct taxes paid	19,718	9,728	9,839	3,141	5,629	6,324	8,092
(Inc)/Dec 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	5,469	4,894
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	5,469	4,894
(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	-4,188	-5,926
(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	8,034	10,279
CF from Fin. Activity	3,817	-29,758	-11,286	-4,151	-7,771	-8,034	-10,279
Inc/Dec of Cash	41,409	-20,602	2,733	4,058	5,546	-12,271	-16,255
Add: Beginning Balance	77,321	118,729	98,128	100,860	104,918	112,912	100,640
Closing Balance	118,729	98,128	100,860	104,918	110,465	100,640	84,385

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 (%)

	Jun-18	Mar-18	Jun-17
Promoter	63.1	63.1	63.1
DII	18.2	18.5	16.6
FII	13.0	13.0	15.8
Others	5.7	5.4	4.5

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
LIFE INSURANCE CORPORATION OF INDIA	9.4
LIC OF INDIA MARKET PLUS SECURED FUND	4.6
PINEBRIDGE INVESTMENTS GF MAURITIUS LTD	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	3.2	4.1	-21.3
FY20	4.1	5.1	-20.3

Source: Bloomberg

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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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