

BSE SENSEX	S&P CNX
36,617	10,934
Bloomberg	BHEL IN
Equity Shares (m)	3,671
M.Cap.(INRb)/(USDb)	216.2 / 3
52-Week Range (INR)	99 / 56
1, 6, 12 Rel. Per (%)	-20/-16/-43
12M Avg Val (INR M)	761
Free float (%)	36.8

CMP: INR59
TP: INR47 (-20%)
Sell
Sharp decline in gross margins a cause for concern

- Operating performance below expectations:** Sales grew 10.1% YoY to INR73.4b v/s our estimate of INR73.6b. Gross margin contracted 400bp YoY to 37.6% (below our estimate of 41%), impacted by higher imports during the quarter and adverse revenue mix. EBITDA stood at INR2.2b, which included forex loss of INR2.1b. Adjusting for this, EBIDTA stood at INR4.3b (below our estimate of INR4.6b). Adjusted EBIDTA margin stood at 5.8%, below our estimate of 6.3%. Depreciation stood at INR1.1b, down 38% from INR1.8b in 3QFY18 on account of revision in useful life of assets. PAT at INR1.9b (+25.3% YoY) was meaningfully below our estimate of INR2.6b. For 9MFY19, sales/EBITDA/PAT grew 8%/100%/52% YoY.
- Power Segment disappoints:** Power segment (contributes 78% to sales), registered muted growth of 3% YoY to INR55b. Industrial segment (contributes 22% to sales), registered healthy growth of 41% YoY to INR16b. Margins in the power segment declined 370bp YoY to 10.7%, impacting overall company's performance. Margins in the industrial segment stood stable at 3.5%.
- Order backlog at INR1.16t, L1 in INR220b of orders:** Order book stood at INR1.16t (+14% YoY), incrementally the company is L1 in INR220b of orders (Power: INR190b, FGD: INR37b, Industrial: INR10b, International: INR20b). Order inflow for the quarter stood at INR77b (-36% YoY) and we build in order inflow of INR340b for FY19. 9MFY19 order inflow stood at INR172b.
- Valuation view:** We cut our earnings estimate for FY19/FY20 by 6%/3%, as we factor in lower-than-estimated earlier order inflow for FY19 (INR340b v/s earlier estimate of INR400b) and lower gross margins. We maintain **Sell** with a TP of INR47 (13x FY20E EPS, in line with 10-year average P/E), given (a) the likelihood of constrained execution, and (b) the weak order pipeline for FY19/20.

Financials & Valuations(INR b)

Y/E Mar	2019E	2020E	2021E
Net Sales	311.0	327.4	368.8
EBITDA	17.6	22.5	27.0
PAT	11.1	13.2	15.6
EPS (INR)	3.2	3.8	4.5
EPS Gr. (%)	45.5	45.5	17.9
BV/Sh. INR	90.0	91.2	92.6
RoE (%)	3.5	4.2	4.9
RoCE (%)	2.9	3.5	4.1
P/E (x)	21.9	18.5	15.7
P/BV (x)	0.8	0.8	0.8

Estimate change
TP change
Rating change

Quarterly Performance
(INR m)

Y/E March	FY18				FY19				FY18	FY19	Est 3QE
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
Sales (Net)	55,834	62,971	66,661	101,470	59,355	67,799	73,364	110,437	289,257	310,955	73,600
Change (%)	-0.5	-5.5	5.5	3.8	6.3	7.7	10.1	8.8	1.7	7.5	11.1
EBITDA	2,029	-954	2,652	12,316	2,872	2,408	2,187	10,083	19,329	17,551	4,600
Change (%)	185.7	-161.5	18.5	116.6	41.6	NA	-17.5	-18.1	82.1	-9.2	56
As a % Sales	3.6	-1.5	4.0	12.1	4.8	3.6	3.0	9.1	6.7	5.6	6.3
Interest	657	552	610	726	639	689	577	1,141	2,546	3,046	800
Depreciation	2,001	1,872	1,820	2,171	1,761	521	1,124	1,475	7,864	4,881	1,400
Other Income	1,710	4,850	1,677	1,979	1,786	1,517	2,265	1,928	6,931	7,495	1,500
PBT	1,080	1,473	1,898	11,399	2,259	2,715	2,751	9,396	15,850	17,120	3,900
Tax	272	318	367	6,827	703	863	831	3,595	7,784	5,992	1,350
Effective Tax Rate (%)	25.2	21.6	19.3	59.9	31.1	31.8	30.2	38.3	49.1	35.0	35
Reported PAT	808	1,154	1,532	4,572	1,556	1,852	1,920	5,801	8,066	11,128	2,550
Change (%)	3.9	5.9	63.8	112.1	92.5	60.4	25.3	26.9	62.7	38.0	66
Adj. PAT	808	1,154	1,532	4,572	1,556	1,852	1,920	5,801	8,066	11,128	2,550
Change (%)	3.9	5.9	63.8	112.1	92.5	60.4	25.3	26.9	62.7	38.0	66

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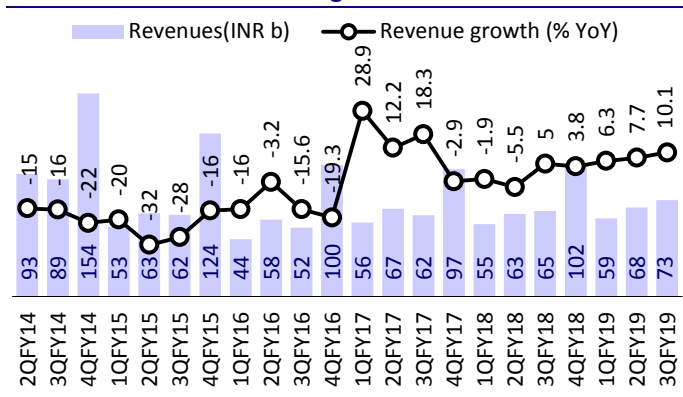
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3QFY19 results below expectations, impacted by weaker-than-estimated power segment performance

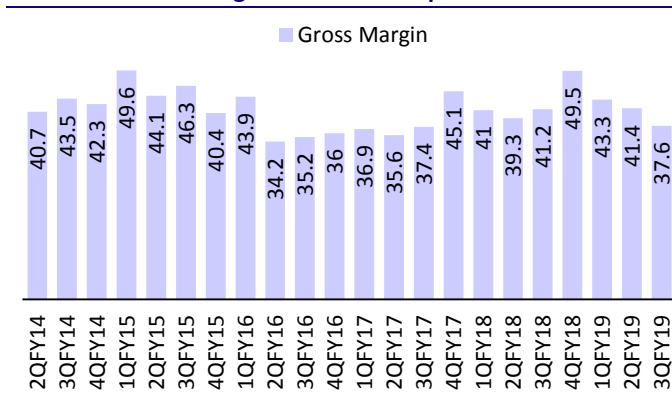
- Sales of INR73.4b (+10.1% YoY) were in line with our estimate of INR73.6b. Power segment revenue grew 2.9% YoY to INR55.1b, while industry segment revenue registered healthy growth of 41% YoY to INR16.0b.
- Gross margin contracted 400bp YoY to 36.7%, below our estimate of 41%. Gross margin contraction on YoY basis was on account of higher imports during the quarter and adverse revenue mix.
- EBITDA for the quarter stood at INR2.2b, which included INR2.1b of forex loss. Adjusting for this, EBITDA stood at INR4.3b (below our estimate of INR4.6b), with adjusted EBITDA margin at 5.8% (est. of 6.3%). PAT at INR1.9b (+25% YoY) was below our estimate of INR2.6b.

Exhibit 1: Revenue growth of 10% supported by better execution in the industrial segment



Source: MOSL, Company

Exhibit 2: Gross margin declined 400bp YoY



Source: MOSL, Company

Segmental performance: Weak execution in Power segment dents quarterly performance

- During the quarter, power segment revenue grew 2.9% YoY to INR55.1b, while industrial segment revenue registered healthy growth of 41% YoY to INR16.0b.
- Most Power segment orders were received in 4QFY18, but execution is yet to pick up. Weakness in execution impacted the overall revenue growth of the company.
- Margins in the industrial segment stood stable at 3.5% YoY, while Power segment EBIT margin was at 10.7% in 3QFY19 (down 400bp YoY).

Exhibit 3: Segmental revenues and margins

INR m	FY17			FY18			FY19		
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Revenues	64,649	98,743	56,070	61,684	64,944	98,286	57,901	66,069	71,157
Power	50,962	81,090	43,356	50,647	53,558	83,081	46,362	51,532	55,123
Growth (%)	18.2	3.1	0.0	(3.6)	5.1	2.5	6.9	1.7	2.9
Industry	13,686	17,653	12,714	11,037	11,386	15,205	11,539	14,538	16,035
Growth (%)	20.4	(21.0)	(8.2)	(27.7)	(16.8)	(13.9)	(9.2)	31.7	40.8
EBIT	4,722	13,974	5,187	6,708	8,155	9,666	5,463	4,953	6,479
Power	5,903	11,291	4,386	6,691	7,751	9,094	4,878	4,257	5,921
Growth (%)	(150.7)	2.9	41.5	32.4	31.3	(19.5)	11.2	-36.4	(23.6)
Industry	-1,181	2,683	802	18	404	572	585	696	557
Growth (%)	21.4	(568.9)	(5.5)	(80.5)	(134.3)	(78.7)	(27.1)	3810	37.8
EBIT margin (%)	7.3	14.2	9.3	10.9	12.6	9.8	9.4	7.5	9.1
Power	11.6	13.9	10.1	13.2	14.5	10.9	10.5	8.3	10.7
Industry	-8.6	15.2	6.3	0.2	3.6	3.8	5.1	4.8	3.5

Source: Company, MOSL

Order intake at INR77b in 3QFY19, L1 pipeline at INR220b

- In 3QFY19, BHEL's order intake stood at INR77b (-36% YoY). Order backlog stood at INR1.2t; incrementally, BHEL is L1 in INR220b of orders.
- BHEL expects BTG ordering of 8GW of tenders to be finalized in FY19.

Exhibit 4: Upcoming tenders

Description	MW
Singareni Collieries - BHEL is the lone bidder	800
NLC - Nevelli extension SC Lignite	1,320
NTPC Talcher	1,320
NTPC Singrauli	1,320
NTPC Lara	1,600
THDC, Khurja	1,320
SJVNL, Buxar	1,320
NLC - Talabeera	2,400
Tangedco, Ennore replacement	660
NTPC Lara Ph2	1,320
Total	11,400

Source: MOSL, Company

Valuations and view:

- We cut our earnings estimate for FY19/FY20 by 6%/3% as we factor in lower-than-estimated order inflow for FY19 (INR340b v/s earlier estimate of INR400b) and weaker-than-estimated gross margins. We maintain **Sell** with a TP of INR47 (13x FY20E EPS, inline with 10-year average P/E), given (a) the likelihood of constrained execution, and (b) the 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	302,273	318,679	305,929	335,553	-1%	-5%
EBITDA	19,329	17,551	22,465	19,954	23,612	-12%	-5%
Margin (%)	6.9%	5.8%	7.0%	6.5%	7.0%	-1%	0%
PAT	8,066	11,128	13,193	11,823	13,569	-6%	-3%
EPS	2.2	3.2	3.8	3.4	3.9	-6%	-3%



Concall Highlights

- 10% revenue growth in 3QFY19 has been the fastest growth for the company in FY19.
- BHEL is L1 in orders worth INR220b, of which power is at INR190b, industrial is at INR10b and international is at INR20b.
- In the industrial segment, BHEL is optimistic about railway electrification and railway locomotive opportunity.
- Forex exchange variation loss in 3QFY19 stood at INR2.1b, and for 9MFY19, forex gain is at INR1.5b.
- Total debtors stood at INR397b (+2%YoY). Of the total debtors, 51% is from states, 32% from central, 13% from private and 4% from exports.
- Most orders were won in 2HFY18; designing work will be achieved in the initial one year and execution should pick up in FY20.

Exhibit 6: Operating Metrics

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Order Intake (INR b)											
Power	443	176	226	175	211	366	46	304	215	316	316
R&M	21	23	29	34	38	18	27	30	33	36	39
Industry	114	79	45	50	52	51	62	75	83	99	119
International Business	37	2	20	26	7	1	100	1	10	11	12
Cancellations	0	58	0	0	0	0	0	0	-	-	-
Total Order Intake	605	221	319	285	308	437	235	409	340	462	487
% YoY	2%	-63%	45%	-11%	8%	42%	-46%	74%	-17%	36%	5%
Segmental Revenues											
Power (including international business)	348	379	396	325	240	202	228	231	240	244	270
Industry	90	102	106	79	70	58	60	50	63	75	90
Total Revenues	450	495	502	403	309	261	288	281	302	319	360
EBITDA Margins (%)	19.9	20.3	19.4	11.6	7.0	-5.4	3.7	6.7	5.6	6.9	7.3
Contribution Margins (%)	40.3	41.5	43.5	42.4	43.9	36.7	39.9	44.2	40.7	41.7	41.9
Staff Costs (%)	13.5	11.4	5.2	3.1	-8.2	-1.3	0.3	11.7	3.1	10.2	12.2
Other Expenses (%)	9.5	9.4	12.2	15.7	18.9	21.0	17.2	16.7	15.1	13.9	13.8
Employees (in 000)	46.7	49.4	48.4	47.5	44.9	42.2	39.8	37.5	36.5	37.2	38.0
INR M/empl	0.0	1.1	1.2	1.2	1.2	1.3	1.4	1.6	1.7	1.8	2.0
Cash / (Debt), INR B											
Cash	96	67	77	119	98	101	105	113	109	106	78
Retention Money	97	135	159	179	173	202	186	191	191	191	191
Debt	-1	-1	-14	-27	-1	-1	-1	-1	-7	-7	-7
Net Cash / (Debt)	192	200	222	271	270	301	290	303	293	290	262
INR/sh	79	82	61	74	74	82	79	83	84	83	75

Financials and Valuations

Income Statement

(INR m)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Total Income	391,089	301,830	254,826	284,470	289,257	310,955	327,389	368,794
Change (%)	-19.2	-22.8	-15.6	11.6	1.7	7.5	5.3	12.6
Staff Cost	59,338	54,500	53,798	53,946	60,265	62,108	68,418	76,765
Mfg. Expenses	225,188	169,205	161,188	171,100	161,435	184,428	190,901	214,249
Selling Expenses	61,363	57,133	53,507	48,811	48,229	46,869	45,605	50,754
EBITDA	45,200	20,992	-13,667	10,614	19,329	17,551	22,465	27,026
Change (%)	-51.9	-53.6	-165.1	-177.7	82.1	-9.2	28.0	20.3
% of Net Sales	11.6	7.0	-5.4	3.7	6.7	5.6	6.9	7.3
Depreciation	9,829	10,773	9,357	8,488	7,864	4,881	6,000	7,292
Interest	1,326	917	3,595	3,506	2,546	3,046	3,046	3,046
Other Income	16,160	12,205	14,501	7,659	6,931	7,495	6,876	7,243
Extra-ord. Items (net)	-61	-101	0	0	0	0	0	0
PBT	50,144	21,406	-12,118	6,278	15,850	17,120	20,296	23,932
Tax	15,535	7,210	-4,546	1,320	7,784	5,992	7,104	8,376
Rate (%)	31.0	33.7	37.5	21.0	49.1	35.0	35.0	35.0
Reported PAT	34,608	14,196	-7,572	4,959	8,066	11,128	13,193	15,556
Adjusted PAT	34,669	14,297	-7,572	4,959	8,066	11,128	13,193	15,556
Change (%)	-47.6	-58.8	-153.0	-165.5	62.7	38.0	18.6	17.9

Balance Sheet

(INR m)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Share Capital	4,895	4,895	4,895	4,895	7,343	6,964	6,964	6,964
Reserves	325,575	335,951	316,916	318,049	318,668	306,280	310,449	315,365
Net Worth	330,471	340,846	321,811	322,944	326,011	313,244	317,413	322,329
Loans	26,548	610	1,263	896	572	7,072	7,072	7,072
Differed Tax Liability	-19,690	-22,207	-36,592	-38,414	-36,259	-36,259	-36,259	-36,259
Capital Employed	337,329	319,249	286,482	285,426	290,324	284,057	288,226	293,142
Gross Fixed Assets	120,734	125,910	48,960	53,725	56,344	65,672	75,494	86,558
Less: Depreciation	73,604	84,510	9,335	17,766	25,573	30,454	36,453	43,746
Net Fixed Assets	47,131	41,400	39,625	37,642	30,771	35,219	39,041	42,812
Capital WIP	6,220	5,010	3,179	1,683	1,945	1,945	1,945	1,945
Investments	4,202	4,350	6,642	6,614	6,907	6,957	7,007	7,057
Curr. Assets	650,670	611,704	565,592	529,632	562,009	574,858	596,068	630,635
Inventory	97,976	101,017	96,022	73,724	62,588	67,282	70,838	79,797
Debtors	399,530	376,373	335,574	318,633	354,935	364,520	383,786	432,322
Cash & Bank Balance	118,729	98,127	100,860	104,918	112,912	109,111	105,706	78,258
Loans & Advances	31,910	34,437	23,321	19,422	2,314	2,488	2,619	2,950
Other Current Assets	2,525	1,750	9,816	12,935	29,261	31,456	33,119	37,307
Curr. Liab. & Prov.	370,893	343,215	328,652	290,145	311,309	334,922	355,835	389,308
Creditors	94,090	94,569	94,528	93,403	109,969	119,281	126,859	138,354
Other Liabilities	173,543	138,242	124,423	103,130	114,282	122,051	130,440	139,957
Provisions	103,260	110,404	109,700	93,612	87,059	93,589	98,536	110,997
Net Current Assets	279,777	268,489	236,940	239,487	250,700	239,936	240,233	241,327
Misc. Expenses	0	0	0	0	0	0	0	0
Appli. of Funds	337,329	319,249	286,481	285,427	290,324	284,057	288,226	293,142

Financials and Valuations

Ratios

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Basic (INR)								
EPS	9.4	3.9	-2.1	1.4	2.2	3.2	3.8	4.5
Change (%)	-47.6	-58.8	-153.0	-165.5	62.7	45.5	18.6	17.9
Cash EPS	12.1	6.8	0.5	3.7	4.3	4.6	5.5	6.6
Book Value	90.0	92.8	87.7	88.0	88.8	90.0	91.2	92.6
DPS	1.9	0.8	0.4	0.8	1.8	1.9	2.3	2.7
Payout (incl. Div. Tax.)	20.0	19.9	-20.1	59.3	82.8	60.0	60.0	60.0
Valuation (x)								
P/E	7.4	18.0	-33.9	51.8	31.9	21.9	18.5	15.7
Cash P/E	5.8	10.3	144.0	19.1	16.1	15.2	12.7	10.7
EV/EBITDA	3.6	7.6	-11.5	14.4	7.5	8.1	6.5	6.4
EV/Sales	0.4	0.5	0.6	0.5	0.5	0.5	0.4	0.5
Price/Book Value	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Dividend Yield (%)	2.7	1.1	0.6	1.1	2.6	2.7	3.2	3.8
Return Ratio (%)								
RoE	10.9	4.3	-2.3	1.5	2.5	3.5	4.2	4.9
RoCE	9.2	2.7	-3.0	0.7	2.0	2.9	3.5	4.1
RoIC	10.8	2.9	-6.4	0.8	2.8	4.0	5.1	5.3
Turnover Ratios								
Debtors (Days)	373	455	481	409	448	428	428	428
Inventory (Days)	91	122	138	95	79	79	79	79
Creditors. (Days)	88	114	135	120	139	140	141	137
Asset Turnover (x)	7.3	6.5	6.0	7.6	8.8	8.4	8.0	8.2
Leverage Ratio								
Debt/Equity (x)	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2

Cash Flow Statement

(INR m)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
PBT bef. EO Items	50,144	21,406	-12,118	6,278	15,850	17,120	20,296	23,932
Add : Depreciation	9,829	10,773	9,357	8,488	7,864	4,881	6,000	7,292
Interest	1,326	917	711	717	6,931	717	717	717
Less : Direct taxes paid	19,718	9,728	9,839	3,141	5,629	5,992	7,104	8,376
(Inc)/Dec in WC	4,126	-9,314	34,186	-76	-1,537	6,964	-3,702	-28,542
CF from Operations	44,381	13,137	21,586	11,550	9,618	22,972	15,490	-5,694
EO Income	0	0	0	0	0	0	0	0
CF from Op. Incl. EO Items	44,381	13,137	21,586	11,550	9,618	22,972	15,490	-5,694
(Inc)/dec in FA	-6,879	-3,833	-5,751	-3,327	-2,938	-9,329	-9,822	-11,064
Free Cash Flow	37,502	9,304	15,835	8,223	6,680	13,644	5,668	-16,758
(Pur)/Sale of Investments	90	-148	-2,292	27	-293	-50	-50	-50
CF from Investments	-6,789	-3,981	-8,043	-3,300	-3,231	-9,379	-9,872	-11,114
(Inc)/Dec in Networkth	-475	-584	-9,730	-473	170	-15,904	0	0
(Inc)/Dec in Debt	12,396	-25,938	653	-368	-324	6,500	0	0
Less : Interest Paid	1,326	917	711	717	9,329	717	717	717
Dividend Paid	8,104	3,237	1,733	3,352	7,617	7,612	9,024	10,640
CF from Fin. Activity	3,817	-29,758	-10,810	-4,192	1,607	-17,395	-9,024	-10,640
Inc/Dec of Cash	41,409	-20,602	2,733	4,058	7,993	-3,801	-3,405	-27,448
Add: Beginning Balance	77,321	118,729	98,128	100,860	104,918	112,912	109,111	105,706
Closing Balance	118,729	98,128	100,860	104,918	112,912	109,111	105,706	78,258

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

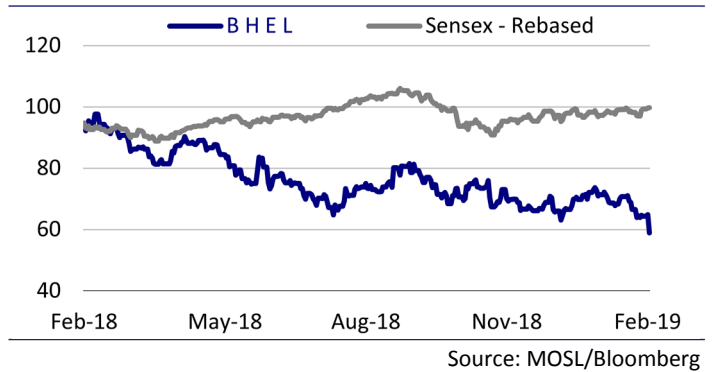


Exhibit 2: Shareholding pattern (%)

	Dec-18	Sep-18	Dec-17
Promoter	63.1	63.1	63.1
DII	18.1	17.8	18.2
FII	12.1	13.6	13.1
Others	6.8	5.6	5.7

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
LIFE INSURANCE CORPORATION OF INDIA	9.9
LIC CHILD FORTUNE PLUS BALANCE FUND	4.8
SBI ARBITRAGE OPPORTUNITIES FUND	1.4
PINEBRIDGE GLOBAL FUNDS- EQUITY	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	Subrata Biswas
Amitabh Mathur	A N Roy
Harinder Hira	Keshav N Desiraju
R Swaminathan	Rajesh Kishore
Subhash Chandra Pandey	Bhaskar Jyoti Mahanta

*Independent

Exhibit 6: Auditors

Name	Type
J H & Associates	Cost Auditor
KB Saxena & Associates	Cost Auditor
M Krishnaswamy & Associates	Cost Auditor
Narasimha Murthy & Co	Cost Auditor
R J Goel & Co	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	3.2	3.7	-13.2
FY20	3.8	4.6	-18.2
FY21	4.5	5.5	-17.7

Source: Bloomberg

NOTES

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

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