

November 14, 2019

Q2FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		HOLD	
Target Price	60		63	
Sales (Rs. m)	3,21,689	3,37,585	3,21,869	3,37,585
% Chng.	-	-	-	-
EBITDA (Rs. m)	18,688	23,145	23,424	24,259
% Chng.	(20.2)	(4.6)	-	-
EPS (Rs.)	3.4	4.6	4.4	4.8
% Chng.	(22.1)	(5.0)	-	-

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	303	322	338	349
EBITDA (Rs. bn)	21	19	23	24
Margin (%)	7.1	5.8	6.9	7.0
PAT (Rs. bn)	12	12	16	17
EPS (Rs.)	3.5	3.4	4.6	4.9
Gr. (%)	58.9	(1.8)	33.9	7.6
DPS (Rs.)	1.9	1.8	2.5	2.7
Yield (%)	3.4	3.4	4.5	4.9
RoE (%)	3.8	3.8	5.0	5.3
RoCE (%)	5.0	4.1	5.3	5.6
EV/Sales (x)	0.5	0.4	0.4	0.3
EV/EBITDA (x)	6.6	6.7	5.3	4.3
PE (x)	15.6	15.9	11.9	11.1
P/BV (x)	0.6	0.6	0.6	0.6

Key Data

BHEL.BO | BHEL IN

52-W High / Low	Rs.79 / Rs.41
Sensex / Nifty	40,116 / 11,840
Market Cap	Rs.190bn/ \$ 2,640m
Shares Outstanding	3,482m
3M Avg. Daily Value	Rs.2295.76m

Shareholding Pattern (%)

Promoter's	63.17
Foreign	11.36
Domestic Institution	19.09
Public & Others	6.38
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	26.8	(8.8)	(20.5)
Relative	20.5	(14.8)	(31.0)

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Miss on weak execution, order inflow revives

Quick Pointers:

- Debtors continue to be elevated due to increase in contract assets.
- Order inflow grew 44% YoY at Rs74 bn, L1 Rs210 bn.

BHEL's 2QFY20 results were lower than our and consensus estimates. Execution continues to be muted with ~9% YoY decline in revenue, mainly in the Power business which declined for third consecutive quarter. However, industry segment recovered on QoQ basis with strong double digit growth, partially cushioned to decline in Power segment. Order inflow revived with 44% YoY growth mainly led by 61% YoY growth in Power segment orders (FGD/Nuclear Projects). Current order backlog stands at Rs1.1 trn and favorably placed in bids worth Rs210 bn. While collectable debtors have gone down by ~12% at Rs140 bn, total debtors (including deferred debtors) continues to be at elevated level of Rs376 bn at the end of 2QFY20. The company emphasized on strong focus on cash collection and execution going ahead. We have cut FY20/FY21E earnings factoring weak 1HFY20 numbers and adverse macro environment (unfavorable payment terms, uncertain account receivables and lower upfront advances). The stock is currently trading at 16/12x FY20/21E. We maintain Hold on the stock with revised TP of Rs60 (13x FY21E).

2QFY20 results miss on weak execution: Sales were down 8% YoY at Rs62 bn (PLe Rs69 bn) where Industry segment grew by 24% YoY and Power segment grew by 18% YoY. While Gross margin compressed by 420bps YoY to 37.2% due to product mix, other expenses came lower at 9.3% (as percentage of sales) from 15.1% in 2QFY19 on the back of lower provisioning and other miscellaneous expenses. This led to EBITDA margin expansion by 70bps at 4.3%. Absolute EBITDA was up 10.8% YoY at Rs2.7 bn (PLe. Rs2.8 bn). Interest cost was up by 72% YoY at Rs1.2 bn. Depreciation cost was up by 129% YoY at Rs1.2 bn. Other income was down 11% YoY at Rs1.4 bn. Tax rate for the quarter came at 28% compared to 32% in 2QFY19. PAT for the quarter was down 36% YoY at Rs1.2 bn (PLe. Rs1.5 bn).

Power segment led to strong order inflow: BHEL's order inflow for the quarter doubled on QoQ basis, was up ~44% YoY at Rs74 bn. This was mainly led by Power segment orders which grew ~61% YoY at Rs56 bn. Major power orders received were FGD orders for Nabhinagar and erection package for Kudankulam Nuclear Power project. However, industry segment orders, mainly from Solar and transportation, declined by 19% YoY at Rs13.5 bn. Exports orders came in at Rs4 bn. Order backlog at the end of 1HFY20 stood at ~Rs1.1 trn, down 6% YoY. This includes Power segment Rs879 bn, Industry Rs112 bn and Exports Rs94 bn.

Debtors situation remains elevated: While collectable debtors have gone down by ~12% at Rs140 bn, total debtors (including deferred debtors) continues to be at elevated level of Rs376 bn (States Rs187 bn, Central Rs123 bn, Private Rs44 bn and Exports Rs 31 bn) at the end of 2QFY20. This was due to increase in contract assets (deferred debtors and unbilled revenue) increased from Rs223 bn to Rs236 bn. Management of indicated of higher contract assets going ahead as retention amount is going up. However, it emphasized on strong focus on cash collection efforts and execution going ahead.

Other con-call highlights: 1) Forex gain during the quarter stood at Rs420 mn against Rs2.7 bn in 2QFY19. 2) BHEL is favorably placed in bids worth Rs210 bn, out of which is Rs160 bn. 3) FGD orders are mainly been finalized by Central utilities (~50-60 GW). States are also coming for tendering but they may take time. 3) Management expects NTPC Singrauli, Talabira and SCCL Adilabad order by FY20. 4) The company has exposure to TANGEDCO (Rs 60 bn) and TSGENCO (Rs 38 bn), both are part of contract assets.

Exhibit 1: Q2FY20 Result Overview (Rs mn)

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	QoQ gr. (%)	H1FY20	H1FY19	YoY gr. (%)
Net Revenue	62,257	67,799	(8.2)	45,317	37.4	1,07,574	1,27,154	(15.4)
EBITDA	2,669	2,408	10.8	(2,667)	(200.1)	2	5,280	(100.0)
<i>EBITDA Margin (%)</i>	<i>4.3</i>	<i>3.6</i>		<i>(5.9)</i>		<i>0.0</i>	<i>4.2</i>	
Other Income	1,356	1,517	(10.6)	1,455	(6.8)	2,812	3,303	(14.9)
Depreciation	(1,193)	(521)	NA	(1,148)	3.9	(2,341)	(2,282)	NA
Interest	(1,187)	(689)	NA	(1,080)	9.9	(2,267)	(1,328)	NA
Profit before Tax	1,645	2,715	(39.4)	(3,440)	(147.8)	(1,795)	4,974	NA
Tax	(459)	(863)	NA	1,277	(136.0)	818	(1,566)	NA
Reported PAT	1,186	1,852	(36.0)	(2,163)	NA	(977)	3,408	NA
Adjusted PAT	1,186	1,852	(36.0)	(2,163)	NA	(977)	3,408	NA
<i>Net Margin (%)</i>	<i>1.9</i>	<i>2.7</i>		<i>(4.8)</i>		<i>(0.9)</i>	<i>2.7</i>	
Adjusted EPS	0.3	0.5		-0.6		-0.3	1.0	

Source: Company, PL

Exhibit 2: Segmental Performance (Rs mn)

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	QoQ gr. (%)
Revenue					
Power	42,215	51,532	(18.1)	34,915	20.9
Industry	18,075	14,538	24.3	9,188	96.7
Total	60,290	66,069		44,103	36.7
EBIT					
Power	4,337	4,257	1.9	-541	(901.1)
Industry	546	696	(21.5)	349	56.5
Total	4,883	4,953		-193	
EBIT Margin (%)					
Power	10.3	8.3		-1.6	
Industry	3.0	4.8		3.8	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	3,03,490	3,21,869	3,37,585	3,48,516
YoY gr. (%)	5.3	6.1	4.9	3.2
Cost of Goods Sold	(1,78,228)	(1,94,730)	(2,02,551)	(2,10,155)
Gross Profit	1,25,261	1,27,138	1,35,034	1,38,361
Margin (%)	41.3	39.5	40.0	39.7
Employee Cost	(62,613)	(63,239)	(63,871)	(64,510)
Other Expenses	(32,814)	(34,795)	(37,681)	(38,901)
EBITDA	21,421	18,688	23,145	24,278
YoY gr. (%)	10.8	(12.8)	23.8	4.9
Margin (%)	7.1	5.8	6.9	7.0
Depreciation and Amortization	(4,748)	(4,847)	(5,037)	(5,232)
EBIT	16,673	13,841	18,107	19,046
Margin (%)	5.5	4.3	5.4	5.5
Net Interest	(2,869)	(5,070)	(4,355)	(4,080)
Other Income	6,776	7,183	7,614	8,027
Profit Before Tax	20,580	15,954	21,366	22,994
Margin (%)	6.8	5.0	6.3	6.6
Total Tax	(8,425)	(4,020)	(5,384)	(5,794)
Effective tax rate (%)	(40.9)	(25.2)	(25.2)	(25.2)
Profit after tax	12,156	11,933	15,982	17,200
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	12,156	11,933	15,982	17,200
YoY gr. (%)	50.7	(1.8)	33.9	7.6
Margin (%)	4.0	3.7	4.7	4.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12,156	11,933	15,982	17,200
YoY gr. (%)	50.7	(1.8)	33.9	7.6
Margin (%)	4.0	3.7	4.7	4.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,156	11,933	15,982	17,200
Equity Shares O/s (m)	3,482	3,482	3,482	3,482
EPS (Rs)	3.5	3.4	4.6	4.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	58,292	61,812	64,124	66,668
Tangibles	58,292	61,812	64,124	66,668
Intangibles	-	-	-	-
Acc: Dep / Amortization	28,622	35,163	40,200	45,432
Tangibles	28,622	35,163	40,200	45,432
Intangibles	-	-	-	-
Net fixed assets	29,670	26,649	23,924	21,236
Tangibles	29,670	26,649	23,924	21,236
Intangibles	-	-	-	-
Capital Work In Progress	2,354	2,354	2,354	2,354
Goodwill	-	-	-	-
Non-Current Investments	6,694	6,694	6,694	6,694
Net Deferred tax assets	35,145	35,169	35,169	35,169
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	81,135	88,183	92,489	95,484
Trade receivables	1,59,448	1,67,548	1,75,729	1,81,419
Cash & Bank Balance	75,033	87,913	84,772	1,04,456
Other Current Assets	2,52,278	2,67,556	2,80,620	2,89,316
Total Assets	6,44,160	6,84,614	7,04,425	7,38,888
Equity				
Equity Share Capital	6,964	6,964	6,964	6,964
Other Equity	3,07,035	3,11,468	3,17,405	3,17,405
Total Network	3,13,999	3,18,432	3,24,369	3,24,369
Non-Current Liabilities				
Long Term borrowings	25,527	22,974	18,380	18,380
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,20,781	1,16,289	1,11,992	1,15,482
Other current liabilities	1,83,853	2,26,920	2,49,684	2,72,430
Total Equity & Liabilities	6,44,160	6,84,615	7,04,425	7,30,661

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	20,579	15,954	21,366	22,994
Add. Depreciation	4,748	4,847	5,037	5,232
Add. Interest	2,869	5,070	4,355	4,080
Less Financial Other Income	6,776	7,183	7,614	8,027
Add. Other	10,198	(5,222)	(7,104)	(7,289)
Op. profit before WC changes	38,394	20,649	23,654	25,016
Net Changes-WC	(73,001)	8,002	(7,208)	8,768
Direct tax	(4,207)	(4,020)	(5,384)	(5,794)
Net cash from Op. activities	(38,815)	24,631	11,062	27,990
Capital expenditures	10	-	-	-
Interest / Dividend Income	6,216	6,891	7,104	7,289
Others	12,923	(3,519)	(2,313)	(2,544)
Net Cash from Inv. activities	19,149	3,371	4,792	4,745
Issue of share cap. / premium	-	0	-	-
Debt changes	25,117	(2,553)	(4,595)	1,838
Dividend paid	(7,870)	(7,500)	(10,044)	(10,810)
Interest paid	(946)	(5,070)	(4,355)	(4,080)
Others	(16,366)	-	-	-
Net cash from Fin. activities	(65)	(15,123)	(18,995)	(13,052)
Net change in cash	(19,731)	12,879	(3,140)	19,684
Free Cash Flow	(38,815)	24,631	11,062	27,990

Source: Company Data, PL Research

Quarterly Financials (Rs m)

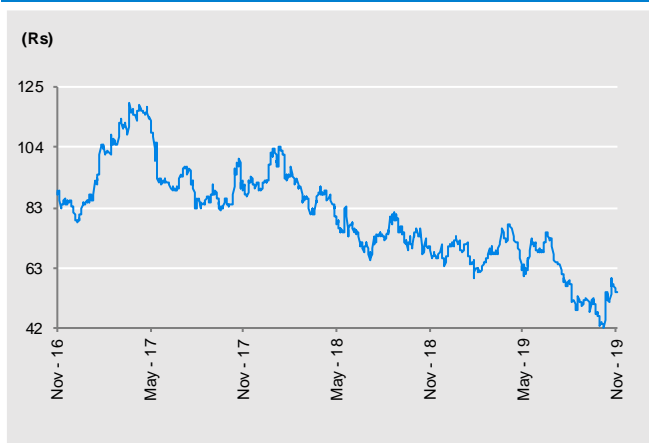
Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	73,364	1,02,972	45,317	62,257
YoY gr. (%)	9.4	0.8	(23.7)	(8.2)
Raw Material Expenses	(45,808)	(58,400)	(26,073)	(39,099)
Gross Profit	27,556	44,572	19,244	23,158
Margin (%)	37.6	43.3	42.5	37.2
EBITDA	2,187	13,952	(2,667)	2,669
YoY gr. (%)	(27.6)	7.8	(192.9)	10.8
Margin (%)	3.0	13.5	(5.9)	4.3
Depreciation / Depletion	(1,124)	(1,342)	(1,148)	(1,193)
EBIT	1,063	12,610	(3,815)	1,476
Margin (%)	1.4	12.2	(8.4)	2.4
Net Interest	(577)	(964)	(1,080)	(1,187)
Other Income	2,265	1,209	1,455	1,356
Profit before Tax	2,751	12,854	(3,440)	1,645
Margin (%)	3.7	12.5	(7.6)	2.6
Total Tax	(831)	(6,027)	1,277	(459)
Effective tax rate (%)	(30.2)	(46.9)	(37.1)	(27.9)
Profit after Tax	1,920	6,827	(2,163)	1,186
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,920	6,827	(2,163)	1,186
YoY gr. (%)	25.3	48.7	(239.0)	(36.0)
Margin (%)	2.6	6.6	(4.8)	1.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,920	6,827	(2,163)	1,186
YoY gr. (%)	25.3	48.7	(239.0)	(36.0)
Margin (%)	2.6	6.6	(4.8)	1.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,920	6,827	(2,163)	1,186
Avg. Shares O/s (m)	2,482	2,482	3,482	3,482
EPS (Rs)	0.8	2.8	(0.6)	0.3

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	3.5	3.4	4.6	4.9
CEPS	2.1	2.0	3.1	3.4
BVPS	90.2	91.4	93.2	93.2
FCF	(11.1)	7.1	3.2	8.0
DPS	1.9	1.8	2.5	2.7
Return Ratio(%)				
RoCE	5.0	4.1	5.3	5.6
ROIC	9.1	6.9	8.8	10.0
RoE	3.8	3.8	5.0	5.3
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	144	158	169	169
Valuation(x)				
PER	15.6	15.9	11.9	11.1
P/B	0.6	0.6	0.6	0.6
P/CEPS	25.7	26.8	17.4	15.9
EV/EBITDA	6.6	6.7	5.3	4.3
EV/Sales	0.5	0.4	0.4	0.3
Dividend Yield (%)	3.4	3.4	4.5	4.9

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Oct-19	Hold	63	47
2	12-Aug-19	Hold	56	57
3	04-Jul-19	Hold	77	73
4	28-May-19	Hold	77	73
5	05-Apr-19	Reduce	78	73

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,442	1,461
2	Apar Industries	Accumulate	646	521
3	Bharat Electronics	Hold	118	113
4	BHEL	Hold	63	47
5	Cummins India	Hold	543	540
6	Engineers India	BUY	156	111
7	GE T&D India	Reduce	150	167
8	Kalpataru Power Transmission	BUY	662	437
9	KEC International	BUY	375	265
10	Larsen & Toubro	BUY	1,800	1,432
11	Power Grid Corporation of India	BUY	224	192
12	Siemens	BUY	1,722	1,526
13	Thermax	Accumulate	1,300	1,153
14	Triveni Turbine	Accumulate	142	104
15	Voltamp Transformers	BUY	1,610	1,073

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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