

# Bharat Heavy Electricals

12 September 2020

Reuters: BHEL.BO; Bloomberg: BHEL IN

## Weak execution & higher than expected loss amid lockdown

Bharat Heavy Electricals (BHEL) posted 56% YoY decline in 1QFY21 revenue at Rs19.9bn, 5% above our estimate, but 21% below consensus estimate. Power segment revenue declined 68% YoY to Rs11.2bn (59% of total sales) while Industry segment revenue fell 15% YoY to Rs7.8bn (41% of total sales). Gross margin fell to 34.1% (vs. 42.5% YoY). Lower revenue led to negative EBITDA of Rs10.6bn (vs. negative Rs2.7bn YoY). The loss was higher than our/consensus estimate loss of Rs7.2bn/Rs6.8bn. PBT was negative Rs11.9bn. With deferred tax write-back of Rs3bn, net loss stood at Rs8.9bn (vs. loss of Rs2.2bn YoY). Net loss was higher than our/consensus estimate loss of Rs6.3bn/Rs6.5bn. Order inflow was muted at Rs14.9bn, down 62% YoY while order backlog was flat YoY/QoQ at Rs1,081bn. BHEL witnessed improvement in execution in 2QFY21 while it expects normalization by 3QFY21. BHEL had floated a global expression of interest (EOI), inviting firms to partner with it and leverage its manufacturing capabilities and facilities. BHEL has received 70 EOI responses and has signed three MOUs in the field of transportation, marine defence and armour trucks but discussions are in preliminary stages and would take time to materialize. Other EOIs related to small contract manufacturing could see some traction by FY21-end. We have rolled forward our valuation to 1HFY23E earnings and maintain Sell rating on BHEL with a revised target price of Rs30 (from Rs25 earlier) based on P/E of 12x.

**Order inflow position:** BHEL reported order inflow of Rs14.9bn in 1QFY21, down 62% YoY, with power/industry/exports mix of Rs9.8bn/Rs4.4bn/Rs590mn. In FY21E, key orders are likely from NTPC Talcher and FGD projects (30GW pipeline). Other EPC projects such as NTPC Lara, NTPC Singrauli, SCCL Adilabad and Adani Pench may take time to finalise. Order backlog was flat YoY/QoQ at Rs1,081bn, comprising of power (Rs866bn), industry (Rs134bn) and exports (Rs81bn). Executable order book stood at Rs880bn on gross basis (Rs750bn net of GST), while FGD packages account for Rs145bn. Average execution cycle for the executable order book is three years on net of GST basis.

**Other updates:** (1) Net receivables stood at Rs368bn (vs. Rs365bn QoQ) while the collectible debtors stood at Rs118bn (vs. Rs124bn QoQ). Debtors comprised of state utilities (48%), central PSUs (33%), private firms (12%) and exports (7%). (2) Retention money as on 1QFY21 stood at Rs154bn compared to Rs157bn QoQ. (3) Imports from China in FY20 stood at Rs10bn largely comprising FGD components, Air Cooled Condensers and Solar modules. BHEL aims to localize the sourcing of these imports. (4) Spares and services sales account for 11%-12% of total sales. Order inflow in FY20 declined to Rs31bn (vs. Rs38bn YoY) due to lower order placements in 4QFY20. (5) Net provisions in 1QFY21 was at Rs380mn (creation/withdrawal at Rs2.3bn/Rs1.9bn) versus Rs1.6bn YoY (creation/withdrawal at Rs5.5bn/Rs3.8bn). (6) Net cash position is at Rs11.7bn (gross cash & bank balances at Rs60.6bn and borrowings at Rs48.9bn). (7) Labour strength at site was at 60% by August-end while company expects to return to 100% levels by October-November. At peak lockdown, labour strength had reached a low of 16%.

**Outlook:** With a rising preference for renewable energy generation, we are structurally negative on thermal power capacity addition in India. With insufficient order placement activity, 4% RoE/RoCE in FY23E and a high debtor position (amid unfavourable payment terms), we expect BHEL's stress to continue.

**Key upside triggers:** Key upside triggers for BHEL are sudden revival in thermal power capex, fall in competitive intensity (leading to better realisation), foray into new business segments having potential for large-sized orders and favourable outcome of global EOI (strategic partnerships/takeover of assets).

## SELL

**Sector:** Capital Goods

**CMP:** Rs37

**Target Price:** Rs30

**Downside:** 19%

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### Key Data

Current Shares O/S (mn)	3,482.1
Mkt Cap (Rsbn/US\$bn)	129/1.8
52 Wk H / L (Rs)	61/18
Daily Vol. (3M NSE Avg.)	67,347,430

### Price Performance (%)

	1 M	6 M	1 Yr
BHEL	3.8	34.7	(28.0)
Nifty Index	1.3	9.6	4.4

Source: Bloomberg

Y/E March (Rsmn)	1QFY20	4QFY20	1QFY21	YoY (%)	QoQ (%)
<b>Net revenues</b>	<b>45,317</b>	<b>50,493</b>	<b>19,909</b>	<b>(56.1)</b>	<b>(60.6)</b>
Raw material costs	26,073	35,941	13,115	(49.7)	(63.5)
Staff costs	14,509	11,103	13,788	(5.0)	24.2
Other expenses	7,402	9,067	3,595	(51.4)	(60.3)
Total expenditure	47,984	56,111	30,498	(36.4)	(45.6)
EBITDA	(2,667)	(5,617)	(10,589)	NA	NA
<b>EBITDA margin (%)</b>	<b>(5.9)</b>	<b>(11.1)</b>	<b>(53.2)</b>	-	-
Depreciation	1,148	1,543	1,185	3.2	(23.2)
Interest costs	1,080	1,412	1,146	6.1	(18.8)
Other income	1,455	1,482	955	(34.4)	(35.5)
PBT	(3,440)	(7,090)	(11,964)	NA	NA
Tax	(1,277)	8,252	(2,993)	NA	NA
<b>PAT</b>	<b>(2,163)</b>	<b>(15,341)</b>	<b>(8,972)</b>	<b>NA</b>	<b>NA</b>
<b>PAT margin (%)</b>	<b>(4.8)</b>	<b>(30.4)</b>	<b>(45.1)</b>	-	-
<b>EPS (Rs)</b>	<b>(0.6)</b>	<b>(4.4)</b>	<b>(2.6)</b>	<b>NA</b>	<b>NA</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 1: Financial summary**

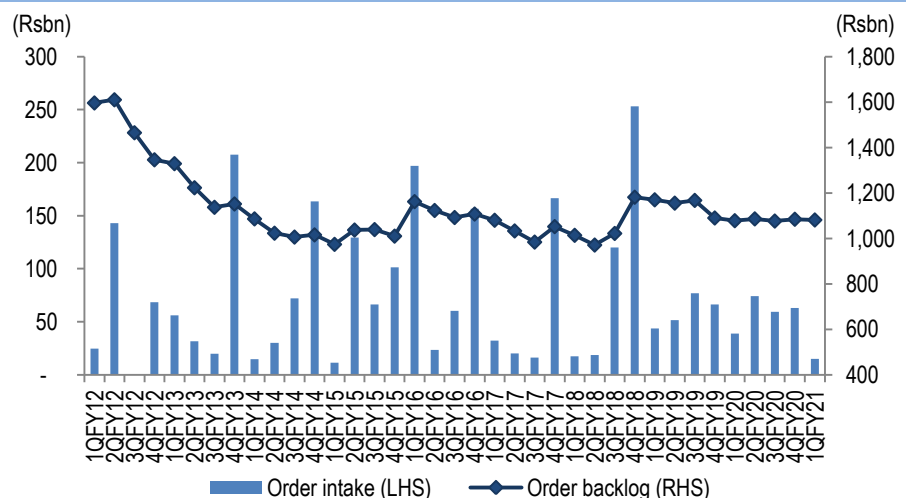
Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net revenues	304,227	214,861	196,402	257,113	299,580
EBITDA	21,320	(2,329)	(3,766)	12,085	19,485
Net profit	12,087	(14,730)	(4,149)	5,548	11,318
EPS (Rs)	3.5	(4.2)	(1.2)	1.6	3.3
EPS growth (%)	49.8	NA	NA	NA	104.0
EBITDA margin (%)	7.0	(1.1)	(1.9)	4.7	6.5
P/E (x)	10.7	NA	NA	23.2	11.4
P/BV (x)	0.4	0.4	0.4	0.4	0.4
EV/EBITDA (x)	3.7	(49.3)	(33.4)	9.9	5.8
Dividend yield (%)	5.4	0.0	0.0	0.8	1.9
RoCE (%)	4.9	(2.2)	(2.7)	1.9	4.0
RoE (%)	3.8	(5.0)	(1.4)	1.9	3.8

Source: Company, Nirmal Bang Institutional Equities Research

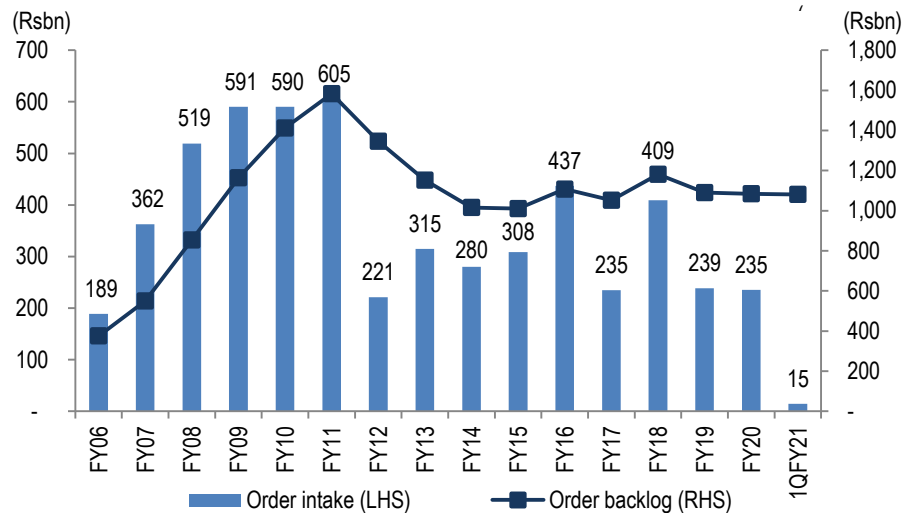
**Exhibit 2: Segment-wise snapshot**

Y/E March	1QFY20	4QFY20	1QFY21	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
<b>Revenues (Rsmn)</b>								
Power	34,915	31,747	11,194	(67.9)	(64.7)	234,739	149,604	(36.3)
Industry	9,188	14,189	7,772	(15.4)	(45.2)	59,490	55,302	(7.0)
<b>Revenue mix (%)</b>								
Power	79.2	69.1	59.0	-	-	79.8	73.0	-
Industry	20.8	30.9	41.0	-	-	20.2	27.0	-
<b>EBIT (Rsmn)</b>								
Power	(541)	(79)	(5,680)	NA	NA	28,023	8,043	(71.3)
Industry	349	(3,712)	(2,530)	NA	NA	4,369	(2,058)	NA
<b>EBIT margin (%)</b>								
Power	(1.6)	(0.2)	(50.7)	-	-	11.9	5.4	-
Industry	3.8	(26.2)	(32.5)	-	-	7.3	(3.7)	-

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Quarterly order inflow and backlog position**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Annual order inflow trend**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Actual performance versus our estimates, Bloomberg consensus estimates**

1QFY21 (Rsmn)	Actual	Our estimate	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenues	19,909	19,041	4.6	25,085	(20.6)
EBITDA	(10,589)	(7,199)	NA	(6,804)	NA
PAT	(8,972)	(6,322)	NA	(6,523)	NA

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

**Exhibit 6: Change in our estimates**

(Rsmn)	Old		New		Deviation (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Y/E March						
Revenues	196,402	277,339	196,402	257,113	-	(7.3)
EBITDA	(6,712)	14,547	(3,766)	12,085	NA	(16.9)
PAT	(12,412)	7,172	(4,149)	5,548	NA	(22.6)

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: Upcoming EPC/BTG projects pipeline**

Project	State	Developer	Unit size (MW)
Singreni (Adilabad) #	Telangana	SCCL	1x800
Talcher #	Odisha	NTPC	2x660
Talabira	Odisha	NLC	3x800
Lara	Chhattisgarh	NTPC	2x800
Singrauli	Uttar Pradesh	NTPC	2x660
Neyveli	Tamil Nadu	NLC	2x660
Ennore	Tamil Nadu	TANGEDCO	1x660
Pench	Madhya Pradesh	Adani Power	2x660

Note: # BHEL has L1 status; Source: Industry, Nirmal Bang Institutional Equities Research

**Exhibit 8: Key BTG projects awarded over the past six years in India**

Project	Developer	Winner	Value (Rsbn)	Unit size (MW)	Scope
Khurja	THDC	BHEL	16.0	2x660	TG
Khurja	THDC	L&T	26.0	2x660	Boiler
Buxar	SJVN	L&T	70.0	2x660	EPC
Sagardighi	WBPDCL	BHEL	35.0	1x660	EPC
Panki	UPRVUNL	BHEL	44.0	1x660	EPC
Patratu	NTPC-JBVNL	BHEL	117.0	3x800	EPC
Bhusawal	MAHAGENCO	BHEL	37.5	1x660	EPC
Udangudi	TANGEDCO	BHEL	73.0	2x660	EPC
Maitree (Rampal)	NTPC-BPDB	BHEL	100.0	2x660	EPC + extended BoP
Bithnok and Barsingsar	Neyveli Lignite	Reliance Infra	36.9	1x250 each	EPC
Ghatampur	Neyveli Lignite	Bharat Forge - Alstom	23.0	3x660	TG
Ghatampur	Neyveli Lignite	L&T	38.6	3x660	Boiler
Rourkela	NSPCL	BHEL	16.0	1x250	EPC
Uppur	TANGEDCO	BHEL	56.0	2x800	BTG
Tuticorin	SPIC Electric	BHEL	12.0	1x525	BTG
Karimnagar	NTPC	Bharat Forge - Alstom	15.0	2x800	TG
Karimnagar	NTPC	BHEL	35.0	2x800	Boiler
North Chennai	TANGEDCO	BHEL	27.6	1x800	BTG
Barh 1	NTPC	Doosan	20.0	3x660	Boiler
Vijaywada*	APGENCO	BHEL	23.1	1x800	BTG
Krishnapatnam*	APGENCO	BHEL	23.1	1x800	BTG
Harduaganj	UPRVUNL	Toshiba - JSW	35.0	1x660	EPC
Yadadri*	TSGENCO	BHEL	204.0	5x800	EPC
Khargone	NTPC	L&T	55.8	2x660	EPC
Manuguru*	TSGENCO	BHEL	50.0	4x270	EPC
Kothagudem*	TSGENCO	BHEL	38.1	1x800	EPC
Yelahanka	KPCL	BHEL	12.0	1x370	EPC
Wanakbori	GSECL	BHEL	35.4	1x800	EPC
Ennore SEZ	TNEB	BHEL	78.0	2x660	EPC + extended BoP
Shree Singaji	MPGENCO	L&T	51.0	2x660	EPC
Tanda	NTPC	L&T	18.9	2x660	Boiler
Tanda	NTPC	Bharat Forge - Alstom	11.4	2x660	TG
Ennore	TNEB	Lanco Infratech	39.6	1x660	EPC + extended BoP

Note: \*Three projects in Telangana and two projects in Andhra Pradesh awarded to BHEL on nomination basis

Source: Respective companies, Industry, Nirmal Bang Institutional Equities Research

## Financial statement

### Exhibit 9: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	304,227	214,861	196,402	257,113	299,580
YoY growth (%)	5.2	(29.4)	(8.6)	30.9	16.5
Raw material costs	178,465	137,116	124,554	163,266	191,718
Staff costs	55,016	54,035	53,029	52,708	52,426
Other overheads	49,426	26,039	22,586	29,054	35,950
Total expenditure	282,907	217,189	200,168	245,028	280,094
EBITDA	21,320	(2,329)	(3,766)	12,085	19,485
YoY growth (%)	10.4	NA	NA	NA	61.2
EBITDA margin (%)	7.0	(1.1)	(1.9)	4.7	6.5
Other income	6,776	5,806	5,303	5,656	5,992
Interest costs	2,873	5,070	4,959	4,909	4,758
Depreciation	4,748	5,029	5,228	5,419	5,594
Profit before tax	20,475	(6,621)	(8,649)	7,415	15,124
Tax	8,389	8,109	(4,500)	1,866	3,807
Net profit	12,087	(14,730)	(4,149)	5,548	11,318
PAT margin (%)	4.0	(6.9)	(2.1)	2.2	3.8
EPS (Rs)	3.5	(4.2)	(1.2)	1.6	3.3
YoY growth (%)	49.8	NA	NA	NA	104.0

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 11: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Share capital	6,964	6,964	6,964	6,964	6,964
Reserves	307,354	284,848	280,699	285,202	294,082
Net worth	314,318	291,812	287,663	292,166	301,047
Total loans	25,272	50,088	50,088	50,088	50,088
<b>Total liabilities</b>	<b>339,590</b>	<b>341,900</b>	<b>337,750</b>	<b>342,254</b>	<b>351,134</b>
Net block	28,839	27,355	26,195	23,276	20,682
Capital work in progress	3,185	3,926	1,859	1,859	1,859
Investments	6,694	6,695	6,695	6,695	6,695
Inventories	77,973	89,055	69,951	73,964	77,973
Debtors	157,960	123,781	126,451	144,406	164,153
Cash	75,033	64,186	53,282	58,927	66,664
Other current assets	259,653	270,156	258,552	292,193	319,483
Total current assets	570,619	547,176	508,236	569,490	628,273
Creditors	120,781	98,999	88,723	111,826	130,263
Other current liabilities & provisions	183,940	171,816	144,073	174,802	203,673
Total current liabilities	304,721	270,815	232,796	286,628	333,936
Net current assets	265,898	276,362	275,440	282,862	294,336
Deferred tax asset (net)	34,974	27,562	27,562	27,562	27,562
<b>Total assets</b>	<b>339,590</b>	<b>341,900</b>	<b>337,750</b>	<b>342,254</b>	<b>351,134</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 10: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
EBIT	16,572	(7,357)	(8,994)	6,667	13,891
(Inc.)/dec. in working capital	(51,923)	(21,311)	(9,981)	(1,778)	(3,737)
<b>Cash flow from operations</b>	<b>(35,352)</b>	<b>(28,669)</b>	<b>(18,975)</b>	<b>4,888</b>	<b>10,154</b>
Other income	6,776	5,806	5,303	5,656	5,992
Depreciation	4,748	5,029	5,228	5,419	5,594
Tax paid (-)	(7,103)	(697)	4,500	(1,866)	(3,807)
<b>Net cash from operations</b>	<b>(30,931)</b>	<b>(18,531)</b>	<b>(3,945)</b>	<b>14,097</b>	<b>17,933</b>
Capital expenditure (-)	(4,056)	(4,285)	(2,000)	(2,500)	(3,000)
<b>Net cash after capex</b>	<b>(34,987)</b>	<b>(22,816)</b>	<b>(5,945)</b>	<b>11,597</b>	<b>14,933</b>
Interest paid (-)	(2,873)	(5,070)	(4,959)	(4,909)	(4,758)
Dividends paid (-)	(8,148)	-	-	(1,045)	(2,437)
Inc./(dec.) in total borrowings	24,700	24,816	-	-	-
(Inc.)/dec. in investments	214	(2)	-	-	-
<b>Cash from financial activities</b>	<b>(1,387)</b>	<b>11,969</b>	<b>(4,959)</b>	<b>(5,953)</b>	<b>(7,196)</b>
Others	(352)	-	-	-	-
Opening cash balance	111,759	75,033	64,186	53,282	58,927
Closing cash balance	75,033	64,186	53,282	58,927	66,664
Change in cash balance	(36,725)	(10,848)	(10,903)	5,644	7,737

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 12: Key ratios

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
<b>Per share (Rs)</b>					
EPS	3.5	(4.2)	(1.2)	1.6	3.3
Book value	90.3	83.8	82.6	83.9	86.5
<b>Valuation (x)</b>					
P/E	10.7	NA	NA	23.2	11.4
P/BV	0.41	0.44	0.45	0.44	0.43
EV/EBITDA	3.7	(49.3)	(33.4)	9.9	5.8
EV/sales	0.3	0.5	0.6	0.5	0.4
<b>Return ratios (%)</b>					
RoCE	4.9	(2.2)	(2.7)	1.9	4.0
RoE	3.8	(5.0)	(1.4)	1.9	3.8
RoIC	6.4	(2.7)	(3.2)	2.4	5.0
<b>Profitability ratios (%)</b>					
EBITDA margin	7.0	(1.1)	(1.9)	4.7	6.5
EBIT margin	5.4	(3.4)	(4.6)	2.6	4.6
PAT margin	4.0	(6.9)	(2.1)	2.2	3.8
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	0.9	0.6	0.6	0.8	0.9
Debtor days	190	210	235	205	200
Inventory days	94	151	130	105	95
Creditor days	247	264	260	250	248

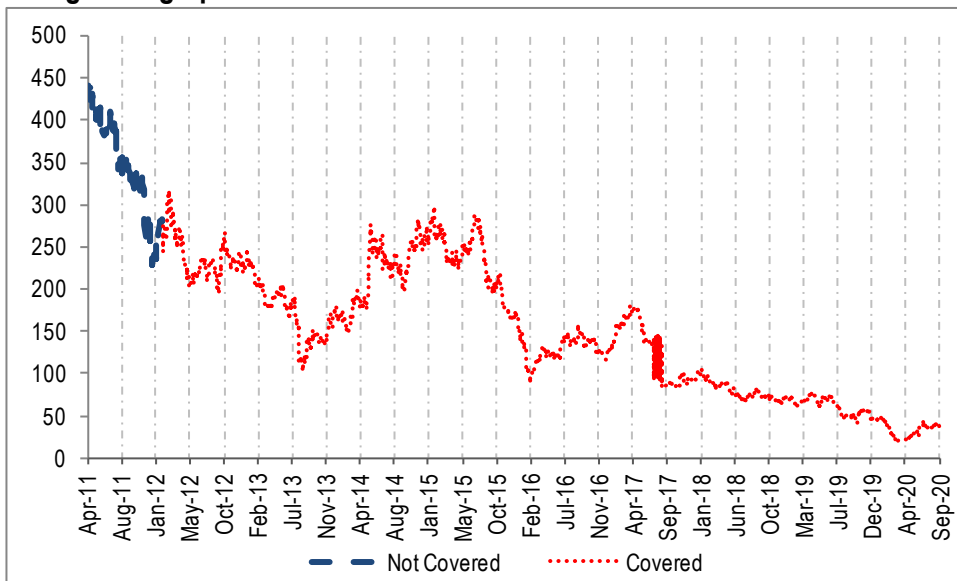
Source: Company, Nirmal Bang Institutional Equities Research

**Rating track**

Date	Rating	Market price (Rs)	Target price (Rs)
27 January 2012	Buy	281	327
30 January 2012	Buy	274	327
4 April 2012	Hold	264	286
13 April 2012	Hold	257	286
24 May 2012	Hold	209	221
27 July 2012	Hold	212	221
20 September 2012	Hold	216	221
4 October 2012	Sell	249	221
30 October 2012	Sell	227	221
7 January 2013	Sell	242	221
4 February 2013	Sell	225	215
26 March 2013	Sell	180	170
8 April 2013	Sell	183	170
9 April 2013	Sell	182	170
24 May 2013	Sell	196	165
9 July 2013	Sell	183	165
5 August 2013	Sell	150	130
7 October 2013	Sell	144	130
7 November 2013	Sell	140	113
7 January 2014	Sell	164	113
6 February 2014	Sell	161	107
7 April 2014	Sell	184	107
11 April 2014	Sell	186	107
2 June 2014	Sell	242	168
10 July 2014	Sell	243	168
13 August 2014	Sell	224	160
9 October 2014	Sell	219	160
17 November 2014	Sell	246	190
29 December 2014	Sell	251	190
9 January 2015	Sell	257	190
13 February 2015	Sell	268	202
7 April 2015	Sell	235	202
15 April 2015	Sell	242	202
27 May 2015	Sell	241	205
8 July 2015	Sell	259	205
10 August 2015	Sell	266	200
12 October 2015	Sell	202	200
9 November 2015	Sell	192	174
8 January 2016	Sell	164	174
12 February 2016	Sell	120	105
8 April 2016	Sell	119	105
12 April 2016	Sell	127	105
30 May 2016	Sell	128	105
12 July 2016	Sell	138	105
8 September 2016	Sell	160	120
13 October 2016	Sell	132	120
9 November 2016	Sell	143	130
10 January 2017	Sell	128	130
8 February 2017	Sell	152	126
14 February 2017	Sell	155	140
7 April 2017	Sell	175	140
30 May 2017	Sell	153	132
6 July 2017	Sell	136	132
11 August 2017	Sell	126	116
9 October 2017	Sell	87	77
8 November 2017	Sell	93	82
9 January 2018	Sell	101	82
9 February 2018	Sell	95	90
6 April 2018	Sell	87	90
30 May 2018	Sell	84	78
10 July 2018	Sell	72	78

26 July 2018	Accumulate	72	73
9 October 2018	Accumulate	70	73
26 October 2018	Accumulate	70	75
9 January 2019	Accumulate	70	75
6 February 2019	Accumulate	59	66
9 April 2019	Accumulate	71	71
28 May 2019	Accumulate	73	81
9 July 2019	Accumulate	67	81
9 August 2019	Accumulate	57	63
23 September 2019	Accumulate	52	56
7 October 2019	Accumulate	43	56
14 November 2019	Accumulate	54	56
9 January 2020	Accumulate	45	56
12 February 2020	Accumulate	38	40
26 March 2020	Accumulate	20	21
9 April 2020	Accumulate	22	21
15 June 2020	Sell	31	25
9 July 2020	Sell	42	25
12 September 2020	Sell	37	30

Rating track graph





## DISCLOSURES

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## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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