



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Abhilasha Satale (022) 67141435

Q2FY19 Result Update@ Dalal & Broacha

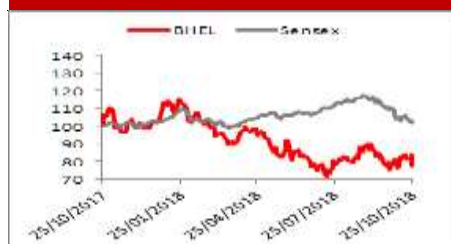
Neutral

Current Price	70
Target Price	86
Upside	22%
52 Week Range	64/108

Key Share Data

Market Cap (Rs.bn)	247
Market Cap (US\$ bn)	3.5
No of o/s shares (mn)	3671
Face Value	1
Monthly Avg. Vol(BSE+NSE) Nos ('000)	83800
BSE Code	500103
NSE Code	BHEL
Bloomberg	BHEL IN

Price performance



% Shareholding	Jun-18	Mar-18
Promoters	63.06	63.06
Public	8.00	8.00
Others	28.94	28.94
Total	100	100

Q2FY19 performance below expectations, GM declines

BHEL's result is below expectations. Revenue increased by 5.6% yoy to Rs66bn (Exp: 7% yoy). Revenue for power segment (78% of sales) increased 1.7% yoy and the same for industry segment (22% of sales) increased 31% yoy.

EBITDA margin came at 5.8% (-30bps yoy) as against expe of 8%. Decline in margin is mainly led by decline in GM from 42% to 40% yoy. EBITDA improved from negative Rs954mn to Rs2.4bn. In Q2FY18 BHEL made provisions worth Rs5.4bn impacting op. profit. Other income down 68% yoy to Rs1.5bn. Interest cost up 25% yoy to Rs689mn. PAT improved 84% yoy to Rs1.85bn but below expectations.

Other highlights

Order inflow of Rs51.6bn: BHEL received orders worth Rs51.6bn during the quarter. It includes Rs29bn from power segment, Rs556cr from spares, Rs1.6bn from industry and Rs1bn from exports. Current order book for BHEL stands at Rs1155bn (up 19% yoy). It has L1 status for orders worth Rs250bn.

L1 status for orders worth Rs250bn: It has L1 status for orders worth Rs250bn. Major orders includes orders from NTPC, WB Govt, Karnataka power corp. etc. It included Rs30bn FGD projects, Rs10bn spares, Rs15bn industrials and Rs20bn exports. BHEL expects order execution for projects like Yadadri and Patratu to pick up in H2 and FY20E. Management expects order inflows of 8-10GW.

Increase in working capital: Non-current receivables have increased 26% yoy to Rs187bn as payment terms have changed. Earlier BHEL used to get 10-15% advances which have discontinued on new orders. As per IND-As unbilled revenues of Rs400cr are included in receivables. Receivables include 29% from central PSUs, 53% from state utilities, 13% from private cos and 5% exports. Management expects receivables to remain at current level.

Buy back announced: BHEL has announced share buyback for 189 mn shares at a buyback price of `86/share amounting to cash outgo of `16.3 bn through a tender offer. The Board of Directors has fixed Nov 6, 2018 as the record date. Buyback size is equivalent to 5% of the net worth of the company. BHEL has sufficient cash to take care of buy back.

Valuation: Management is confident of improving execution in H2FY19 and FY20E of bog projects like Yadadri. Wage cost is likely to be maintained. We expect BHEL to post topline of Rs322bn in FY19E and Rs368bn in FY20E. We reduce our margin estimates for FY19E from earlier 6.5% to 5.5%. EPS is expected at Rs2.9 and Rs5.1 over FY19E and FY20E respectively. It is trading at 24x FY19E and 13.7x FY20E earnings. Although execution is expected to improve elevated working capital to keep return ratios subdued. We recommend investors to subscribe for Buy-back. Post which we expect stock to consolidated therefore we downgrade BHEL to 'Neutral'.

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY17	282,854	10.4	11,008.6	3.9%	4,958.4	(169.9)	1.4	49.2	1.54	3.0
FY18	289,257	2.3	19,328.9	6.7%	8,066.0	62.7	2.3	30.2	2.48	5.6
FY19E	322,242	11.4	17,698.9	5.5%	10,044.9	24.5	2.9	24.3	3.04	5.0
FY20E	368,999	14.5	27,772.0	7.5%	17,728.1	76.5	5.1	13.7	5.23	8.2


Q2FY19 Result Update@ Dalal & Broacha
Financial Performance

(in Rs mn)	2QFY19	2QFY18	YoY(%)	1QFY19	QoQ(%)
Net Sales	66,069	62,562	5.6%	57,901	14.1%
Other operational income	1,730	1,287	34.4%	1,454	
Net revenues	67,799	63,849	6.2%	59,355	14.2%
(Inc)/Dec in WIP	4,127	(3,350)		2,127	
Raw material consumption	(43,884)	(34,902)	25.7%	(35,804)	22.6%
Staff cost	(15,398)	(13,988)	10.1%	(14,180)	8.6%
Other items	(10,236)	(12,564)	-18.5%	(8,626)	18.7%
Total Expenditure	(65,391)	(64,803)		(56,483)	
EBIDTA	2,408	(954)	-352.4%	2,872	-16.2%
Other income	1,517	4,850	-68.7%	1,786	-15.1%
EBIDT	3,925	3,896		4,659	
Interest	(689)	(552)	24.7%	(639)	7.8%
Depreciation	(521)	(1,872)	-72.2%	(1,761)	-70.4%
VRS write-off, exceptional	-	-		-	
PBT	2,715	1,472	84.4%	2,259	20.2%
Tax	(863)	(318)		(703)	
PAT	1,852	1,154	60.5%	1,556	19.0%
Other comprehensive income	10	27		10	
Total comprehensive income	1,842	1,127	63.4%	1,546	19.1%
PBT before VRS					
PAT before VRS					
Execution (%)					
Key ratios					
Sales as % of opening order backlog					
Raw Material to Sales	59	60		57	
Staff Cost to sales	23	22		24	
Other exp to sales	15	20		15	
OPM	3.6	(1.5)		5	
Effective tax rate	32	22		31	
Gross margin	28,042	25,597		24,224	
Gross margin	42	41		42	
EPS	0.53	0.33		0.45	



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Abhilasha Satale (022) 67141435

Q2FY19 Result Update@ Dalal & Broacha

Profit & Loss (Rs Mn)	FY17	FY18	FY19E	FY20E	Cash Flow Statement (Rs Mn)	FY17	FY18	FY19E	FY20E
Net Sales	282,854	289,257	322,242	368,999	Pre tax Profit	6278	15850	14772	26071
Raw Materials	(171,100)	(161,435)	(190,339)	(217,956)	Add: Dep. & Amortization	8488	7864	9002	9437
Employee Cost	(53,999)	(60,265)	(63,597)	(66,641)	Total tax paid	(1320)	(7784)	(4727)	(8343)
Other Expenses	(46,746)	(48,229)	(50,607)	(56,630)	Other Adjustments	11730	35913	70699	(490255)
Cost of Sales	(271,845)	(269,928)	(304,543)	(341,227)	Cash Profit	25177	51843	89747	(463090)
Operating Profit	11,009	19,329	17,699	27,772	(Inc) / Dec in				
Depreciation	(8,488)	(7,864)	(9,002)	(9,437)	Sundry Debtors	1163	12975	(4873)	84138
PBIT	2,520	11,465	8,696	18,335	Inventories	11136	(25698)	(12810)	101096
Other Income	7,264	6,931	7,934	9,477	Loans & Advances	(145)	(33000)	(5124)	40438
Interest	(3,506)	(2,546)	(1,858)	(1,741)	Current liabilities & Trade payables	(27717)	3888	(19107)	239469
Prior period items	0	0	0	0	Change in Working Capital	(15563)	(41835)	(41914)	465141
Profit Before Tax	6,278	15,850	14,772	26,071	CF from Operating Activities	9614	10008	47832	2051
Provision for Tax	(1,320)	(7,784)	(4,727)	(8,343)	CF from Investing Activities	3969	2879	925	2468
PAT	4,958	8,066	10,045	17,728	CF from Financing Activities	(5113)	(7024)	(7605)	(10874)
Extra ordinary Items	0	0	0	0	Cash Generated (Utilised)	8469	5862	41152	(6355)
Share of JV/ Associate	0	0	0	0	Cash at the start of year	100860	104918	112912	154064
Adj. PAT	4,958	8,066	10,045	17,728	Cash at the end of year	104918	112912	154064	147709
Balance Sheet (Rs Mn)	FY17	FY18	FY19E	FY20E	Ratios	FY17	FY18	FY19E	FY20E
Equity Capital	4,895	6,964	6,964	6,964	OPM	3.9	6.7	5.5	7.5
Reserves	318,049	318,668	323,538	332,134	NPM	1.8	2.8	3.1	4.8
Net Worth	322,944	325,632	330,502	339,098	Tax Rate %	(21.0)	(49.1)	(32.0)	(32.0)
Long term borrowings	0	0	0	0	Growth Ratio (%)				
Short term borrowings	896	572	0	0	Net Sales	10.4	2.3	11.4	14.5
Total Debt	896	572	0	0	Operating Profit	(180.6)	75.6	(8.4)	56.9
Capital Employed	323,840	326,204	330,502	339,098	PAT	(169.9)	62.7	24.5	76.5
Gross Block	138,287	141,696	148,705	155,714	Per Share				
Accumulated Depreciation	102,328	111,008	120,010	129,447	Earning Per Share (EPS)	1.4	2.3	2.9	5.1
Net Block	35,959	30,688	28,695	26,267	Cash Earnings (CPS)	3.9	4.6	5.5	7.8
Capital WIP	1,595	1,945	1,945	1,945	Dividend	0.4	1.0	1.3	2.2
Total Fixed Assets	37,554	32,634	30,640	28,212	Book Value	92.7	93.5	94.9	97.4
Goodwill & Intangible	88	82	82	82	Free Cash flow	6,291	6,248	40,823	(4,958)
Investments	6,614	6,907	6,907	6,907	Valuation Ratios				
Inventories	73,724	62,588	88,286	101,096	P/E (x)	49.2	30.2	24.3	13.7
Sundry debtors	318,633	354,935	264,857	293,177	P/B (x)	0.8	0.8	0.8	0.7
Cash & bank	104,918	112,912	154,064	147,709	EV / Sales	0.5	0.5	0.3	0.3
Loans & advances and Oth	2,169	2,314	35,314	40,438	EV / EBITDA	13.3	7.2	5.5	3.7
Other current assets	30,188	29,261	29,261	29,261	Div. Yield (%)	0.6	1.4	1.8	3.1
Trade Payables	(93,403)	(92,240)	(79,265)	(84,138)	FCF Yield (%)	8,738	8,678	56,699	(6,886)
Current Liabilities	(103,130)	(132,010)	(141,098)	(155,331)	Return Ratios (%)				
Provisions	(91,929)	(87,059)	(94,426)	(104,196)	ROE	1.5	2.5	3.0	5.2
Working Capital	241,170	250,701	256,993	268,016	ROCE*	3.0	5.6	5.0	8.2
Deffered Tax Liabilities	38,414	35,880	35,880	35,880	* includes other income				
Capital Deployed	323,840	326,204	330,502	339,098					



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Abhilasha Satale (022) 67141435

Q2FY19 Result Update@ Dalal & Broacha

Disclaimer

Dalal&Broacha Stock Broking Pvt Ltd, hereinafter referred to as D & B (CIN_U67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

**DALAL & BROACHA**
STOCK BROKING PVT. LTD.

Analyst: Abhilasha Satale (022) 67141435

Q2FY19 Result Update@ Dalal & Broacha

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms.CharulataGaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Ms. Abhilasha Satale	Abhilasha.satale@dalal-broacha.com	022 67141439	Mid Cap
Mr. Mayank Babla	Mayank.babla@dalal-broacha.com	022 67141412	IT/Media/Telecom
Ms. Richa.Singh	richa.singh@dalal-broacha.com	022 67141444	Analyst

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021

Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667 Fax: 91-22-2287 0092
E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com