



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Abhilasha Satale (022) 67141435

Q3FY19 Result Update@ Dalal & Broacha

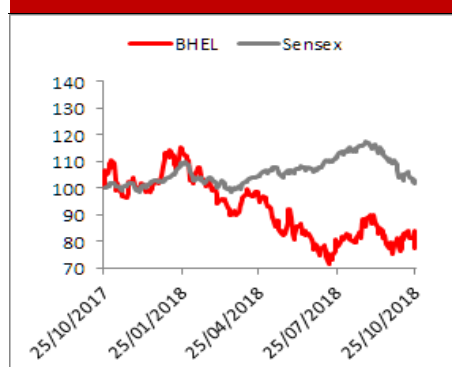
Neutral

Current Price	60
52 Week Range	56/99

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

Q3FY19 performance below expectations, GM declines

Revenue increased by 10% yoy to Rs71bn (Exp: Rs68.8bn). Revenue for power segment (78% of sales) increased 3% yoy and the same for industry segment (22% of sales) increased 41% yoy.

EBITDA margin came below expectations at 6.1% (-40bps yoy) as against expectations of 6.5%. Decline in margin is mainly led by decline in GM from 42% to 38% yoy. Bhel posted forex loss of Rs2bn which also had impact on margin. Has gone down by 26% yoy to Rs2.2bn (Exp: Rs3.1bn).

EBIT% for power division has gone down by 380bps yoy to 10.7% (Exp: 14%) and the same for industry division has remained stable at 3.5%.

Other income increased 65% yoy to Rs2.26bn as company has reported interest gain of Rs800mn on receipt of tax dues of Rs480cr.

Other highlights

Order inflow of Rs77bn: BHEL received orders worth Rs77bn (Down 36%yoy) 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).

L1 status for orders worth Rs220bn: It has L1 status for orders worth Rs220bn. Major orders includes orders from NTPC, WB Govt, Karnataka power corp. etc. Orders including Rs190bn from power, Rs10bn from industrials and Rs19bn from international segment. BHEL expects order execution for projects like Yadadri and Patratu to pick up in FY20E. Management is seeing good traction in orders from NTPC's Singrauli power plant and also from NLC's power plant. Overall 13GW (incl solar PP) of opportunity is expected over a period of time. Bhel has received orders from railways for locomotives and also electrification. Supplied 13 locomotives of 6000HP. The company bagged electrification order for 450km. Expect orders from railways to continue.

Working capital to increase: Although debtors during the quarter have gone down from Rs187bn to Rs178bn yoy. However, as SEBs contributes more than 51% of current order book receivable days are expected to increase. Earlier BHEL used to get 10-15% advances which have discontinued on new orders. Receivables include 29% from central PSUs, 53% from state utilities, 13% from private cos and 5% exports.

Valuation: BHEL's increased exposure to SEB's in current order book is likely to put pressure on margin and working capital. Also, in current scenario overall order inflows are likely to remain weak on the back of overcapacity prevailing in the industry. We expect BHEL to post topline of Rs317bn in FY19E and Rs355bn in FY20E. We reduce our margin estimates for FY19E from earlier 5.6% to 5.1% for FY20E. We reduced our EPS estimates further from Rs3.5 to Rs3.1 for FY19E and from Rs4.3 to Rs3.4 for FY20E. The stock is trading at 17.7x FY19E and 16x FY20E earnings. We feel upside from this level is limited. We maintain 'Neutral'.


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Financial Performance

(in Rs mn)	3QFY19	3QFY18	YoY(%)	2QFY19	QoQ(%)
Net Sales	71,157	64,944	9.6%	66,069	7.7%
Other operational income	2,207	1,319	67.3%	1,730	
Net revenues	73,364	66,263	10.7%	67,799	8.2%
(Inc)/Dec in WIP	4,905	1,004	388.4%	4,127	
Raw material consumption	(50,713)	(39,944)	27.0%	(43,884)	15.6%
Staff cost	(13,015)	(13,385)	-2.8%	(15,398)	-15.5%
Other items	(12,354)	(10,985)	12.5%	(10,236)	20.7%
Total Expenditure	(71,177)	(63,309)	12.4%	(65,391)	
EBIDTA	2,187	2,954	-26.0%	2,408	-9.2%
Other income	2,265	1,375	64.7%	1,517	49.3%
EBIDT	4,452	4,329	2.8%	3,925	
Interest	(577)	(610)	-5.5%	(689)	-16.2%
Depreciation	(1,124)	(1,820)	-38.2%	(521)	115.9%
VRS write-off, exceptional	-	-		-	
PBT	2,751	1,898	44.9%	2,715	1.3%
Tax	(831)	(367)	126.8%	(863)	
PAT	1,919	1,532	25.3%	1,852	3.6%
Other comprehensive income	-	27		10	
Total comprehensive income	1,919	1,505	27.5%	1,842	4.2%
Key ratios					
Sales as % of opening order backlog					
Raw Material to Sales	62	59		59	
Staff Cost to sales	18	20		23	
Other exp to sales	17	17		15	
OPM	3.0	4.5		4	
Effective tax rate	30	19		32	
Gross margin	27,556	27,323		26,312	
Gross margin	39	42		40	
EPS	0.55	0.44		0.53	



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Profit & Loss (Rs Mn)	FY17	FY18	FY19E	FY20E	FY21E	Cash Flow Statement (l)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	282,854	289,257	317,272	355,205	392,061	Pre tax Profit	6278	15850	15881	17312	19315
Raw Materials	(171,100)	(161,435)	(185,604)	(214,899)	(237,197)	Add: Dep. & Amortizati	8488	7864	7986	8372	8757
Employee Cost	(53,999)	(60,265)	(63,597)	(66,641)	(73,305)	Total tax paid	(1320)	(7784)	(5082)	(5540)	(6374)
Other Expenses	(46,746)	(48,229)	(50,279)	(55,717)	(61,377)	Other Adjsutments	11730	26639	62961	25613	(513141)
Cost of Sales	(271,845)	(269,928)	(299,480)	(337,257)	(371,879)	Cash Profit	25177	42569	81746	45757	(491443)
Operating Profit	11,009	19,329	17,792	17,948	20,182	(Inc) / Dec in					
Depreciation	(8,488)	(7,864)	(7,986)	(8,372)	(8,757)	Sundry Debtors	1163	14293	(5212)	(8537)	91696
PBIT	2,520	11,465	9,806	9,576	11,425	Inventories	11136	(24336)	(10392)	(10098)	107414
Other Income	7,264	6,931	7,934	9,477	9,516	Loans & Advances	(145)	(32456)	(4157)	(4039)	42966
Interest	(3,506)	(2,546)	(1,858)	(1,741)	(1,626)	Current liabilities &	(27717)	9938	(15695)	(25242)	255249
Prior period items	0	0	0	0	1	Change in Working Capi	(15563)	(32561)	(35456)	(47916)	497325
Profit Before Tax	6,278	15,850	15,881	17,312	19,316	CF from Operating Acti	9614	10008	46290	(2159)	5882
Provision for Tax	(1,320)	(7,784)	(5,082)	(5,540)	(6,374)	CF from Investing Activ	3969	2879	925	2468	2507
PAT	4,958	8,066	10,799	11,772	12,942	CF from Financing Activ	(5113)	(7024)	(7994)	(7806)	(8293)
Extra ordinary Items	0	0	0	0	0	Cash Generated (Utilise	8469	5862	39221	(7497)	97
Share of JV/ Associate	0	0	0	0	1	Cash at the start of yea	100860	104918	112912	152133	144636
Adj. PAT	4,958	8,066	10,799	11,772	12,943	Cash at the end of year	104918	112912	152133	144636	144732
Balance Sheet (Rs Mn)	FY17	FY18	FY19E	FY20E	FY21E	Ratios	FY17	FY18	FY19E	FY20E	FY21E
Equity Capital	4,895	6,964	7,343	7,343	7,343	OPM	3.9	6.7	5.6	5.1	5.1
Reserves	318,049	318,668	323,904	329,612	335,886	NPM	1.8	2.8	3.4	3.3	3.3
Net Worth	322,944	325,632	331,247	336,955	343,229	Tax Rate %	(21.0)	(49.1)	(32.0)	(32.0)	(33.0)
Long term borrowings	0	0	0	0	0	Growth Ratio (%)					
Short term borrowings	896	572	0	0	0	Net Sales	10.4	2.3	9.7	12.0	10.4
Total Debt	896	572	0	0	0	Operating Profit	(180.6)	75.6	(8.0)	0.9	12.4
Capital Employed	323,840	326,204	331,247	336,955	343,229	PAT	(169.9)	62.7	33.9	9.0	9.9
Gross Block	138,287	141,696	148,705	155,714	162,723	Per Share					
Accumulated Depreciation	102,328	111,008	118,994	127,365	136,122	Earning Per Share (EPS)	1.4	2.3	3.1	3.4	3.7
Net Block	35,959	30,688	29,711	28,349	26,601	Cash Earnings (CPS)	3.9	4.6	5.4	5.8	6.2
Capital WIP	1,595	1,945	1,945	1,945	1,945	Dividend	0.4	1.0	1.3	1.4	1.6
Total Fixed Assets	37,554	32,634	31,657	30,294	28,546	Book Value	92.7	93.5	95.1	96.8	98.6
Goodwill & Intangible	88	82	82	82	82	Free Cash flow	6,291	6,248	39,281	(9,168)	(1,127)
Investments	6,614	6,907	6,907	6,907	6,907	Valuation Ratios					
Inventories	73,724	62,588	86,924	97,316	107,414	P/E (x)	42.1	25.9	19.3	17.7	16.1
Sundry debtors	318,633	354,935	260,771	282,217	311,501	P/B (x)	0.6	0.6	0.6	0.6	0.6
Cash & bank	104,918	112,912	152,133	144,636	144,732	EV / Sales	0.3	0.0	0.0	0.0	0.0
Loans & advances and Oth	2,169	2,314	34,770	38,927	42,966	EV / EBITDA	8.1	4.6	5.0	5.0	4.4
Other current assets	30,188	29,261	29,261	29,261	29,261	Div. Yield (%)	0.7	1.7	2.2	2.4	2.6
Trade Paybles	(93,403)	(92,240)	(77,947)	(83,159)	(91,696)	FCF Yield (%)	3.0	3.0	18.8	-4.4	-0.5
Current Liabilities	(103,130)	(132,010)	(136,366)	(146,848)	(163,553)	Return Ratios (%)					
Provisions	(91,929)	(87,059)	(93,204)	(98,938)	(109,190)	ROE	1.5	2.5	3.3	3.5	3.8
Working Capital	241,170	250,701	256,342	263,412	271,435	ROCE*	3.0	5.6	5.4	5.7	6.1
Deffered Tax Liabilities	38,414	35,880	36,259	36,259	36,259	* Includes other income					
Capital Deployed	323,840	326,204	331,247	336,955	343,229						



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