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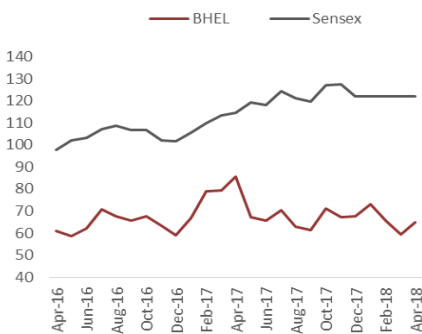
BUY

Current Price	90
Target Price	110
Upside/Downside	23%
52 Week Range	80-121

Key Share Data

Market Cap (Rs.bn)	329.3
Market Cap (US\$ mn)	4990
No of o/s shares (mn)	3671
Face Value	2
Monthly Avg. vol(BSE+NSE) Nos'000	5,527,007
BSE Code	500103
NSE Code	BHEL
Bloomberg	BHEL IN

Price performance



% Shareholding	Mar-17	Dec-17
Promoters	63.1	63.1
Institutions	18.5	18.2
Others	18.4	18.7
Total	100	100

We recently met BHEL in Delhi and talked about the company business, its orders and execution of the business. Following are the key takeaways:

Project execution progressing well

- BHEL management updated on the projects under execution 1) Yadadri project (Rs 200bn project) have started execution and some part of the revenues will trickle in Q4FY18 and the major chunk of revenue recognition will happen in FY19 & FY20. BHEL also won the order for Patratu (Rs 117bn) and Panki (Rs 44bn) and their execution will commence from next quarter.
- Currently BHEL is L1 in Talchar (2x660 MW), Neyveli (1.32GW), Singareni (800MW) on a nomination basis, Sagardighi (660 MW) totaling 4GW.
- BHEL order book stands at Rs 1022bn and the current executable order book stood at Rs 810bn
- Management is hopeful that a 2x660 MW THDC Khurja and 2x660 MW SJVN Buxar could get contracted out in FY19.
- The opportunity size in power ordering every year is to the tune of 9-10 GW as told by the management and in FGD it is 120 GW which being reported in CEA report. NTPC has floated bulk tenders for FGD (42 units) to meet emission norms (~33,00 MW), finalizations of these orders will take some time.

Diversification in new areas:

- In the Industry segment, BHEL is seeing good opportunities in Solar/Defense/Railways and Water.
- It is also looking at new areas like Metro coaches/Electric mobility/Locomotives/Propulsion systems/ Track Electrification/ charging units in transportation segment.
- Management was quite positive on the industry side of the business (Order inflow of Rs 40bn in Q3FY18) in which transportation business is doing fairly well (Order book of Rs21bn).
- In solar BHEL is currently handling 130 MW worth of EPC. It has the capacity to handle 236 MW.
- ISRO has entered into a Technology Transfer Agreement (TTA) with Bharat Heavy Electricals Limited (BHEL). This Li-ion cell Technology Transfer will enable BHEL to produce space grade Li-Ion cells which can meet the country's space programme requirements. This technology can also be adopted to cater to the Li-Ion cell requirement for other national needs like EV.
- Company is focused on cost control measures. It is managing its raw material cost through 1) design optimization 2) indigenization 3) better sourcing management and employee cost reduction is the focus area.

Outlook and Valuations:

BHEL is currently trading at PE multiple of 18x and 12.5x FY18E and FY19E EPS. We believe with new orders execution in place and diversification in new areas bodes well for BHEL. We remain positive on the stock and already have a buy recommendation on the stock.

Key Parameters (INR Mn)

Rs mn	Net Sales	% Growth	EBITDA	OPM%	PAT	% Growth	EPS	P/E (x)	ROE %	RoCE%
FY17	282854	10.4%	11009	3.9%	4958	-150.0%	1.4	67.4	1.5%	3.0%
FY18E	314230	11.1%	15546	4.9%	10224	106.2%	2.8	32.7	3.1%	4.5%
FY19E	350634	11.6%	20352	5.8%	18254	78.5%	5.0	18.3	5.3%	7.0%
FY20E	395286	12.7%	30402	7.7%	27036	48.1%	7.4	12.4	7.4%	9.9%



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Financials

Profit & Loss (Rs Mn)	FY17	FY18E	FY19E	FY20E	Cash Flow Statement (Rs Mn)	FY17	FY18E	FY19E	FY20E
Net Sales	282,854	314,230	350,634	395,286	Pre tax Profit	6278	13631	24339	36049
Raw Materials	(171,100)	(196,708)	(216,341)	(243,891)	Add: Dep. & Amortization	8488	9010	9330	9650
Employee Cost	(53,999)	(56,685)	(59,505)	(62,352)	Total tax paid	(1320)	(3408)	(6085)	(9012)
Other Expenses	(46,746)	(45,291)	(54,436)	(58,640)	Other Adjsutments	64783	(18904)	29777	(477078)
Cost of Sales	(271,845)	(298,684)	(330,282)	(364,884)	Cash Profit	78230	330	57361	(440391)
Operating Profit	11,009	15,546	20,352	30,402	(Inc) / Dec in				
Depreciation	(8,488)	(9,010)	(9,330)	(9,650)	Sundry Debtors	3388	4051	(4008)	89971
PBIT	2,520	6,536	11,021	20,751	Inventories	(20976)	(1365)	(1404)	97468
Other Income	7,264	8,550	13,317	15,297	Loans & Advances	(32267)	(3989)	(4893)	43319
Interest	(3,506)	(1,455)	0	0	Current liabilities & Trade paybles	(18762)	(2504)	(13325)	231123
Prior period items	0	0	0	0	Change in Working Capital	(68617)	(3807)	(23629)	461882
Profit Before Tax	6,278	13,631	24,339	36,049	CF from Operating Activities	9613	(3477)	33732	21490
Provision for Tax	(1,320)	(3,408)	(6,085)	(9,012)	CF from Investing Activities	3969	3550	8317	10297
PAT	4,958	10,224	18,254	27,036	CF from Financing Activities	(5113)	(5417)	(5476)	(8111)
Extra ordinary Items	0	0	0	0	Cash Generated (Utilised)	8469	(5344)	36573	23677
Share of JV/ Associate	0	0	0	0	Cash at the start of year	100860	104918	99574	136147
Adj. PAT	4,958	10,224	18,254	27,036	Cash at the end of year	104918	99574	136147	159824

Balance Sheet (Rs Mn)	FY17	FY18E	FY19E	FY20E
Equity Capital	4,895	7,343	7,343	7,343
Reserves	318,049	325,206	337,983	356,909
Net Worth	322,944	332,549	345,326	364,252
Long term borrowings	0	0	0	0
Short term borrowings	896	0	0	0
Total Debt	896	0	0	0
Capital Employed	323,840	332,549	345,326	364,252
Gross Block	138,287	143,287	148,287	153,287
Accumulated Depreciation	102,328	111,339	120,669	130,319
Net Block	35,959	31,948	27,618	22,968
Capital WIP	1,595	1,595	1,595	1,595
Total Fixed Assets	37,554	33,544	29,213	24,563
Goodwill & Intangible	88	88	88	88
Investments	6,614	6,614	6,614	6,614
Inventories	73,724	94,700	96,064	97,468
Sundry debtors	318,633	309,926	288,192	303,233
Cash & bank	104,918	99,574	136,147	159,824
Loans & advances and Other CA	2,169	34,436	38,426	43,319
Other current assets	30,188	30,188	30,188	30,188
Trade Paybles	(93,403)	(90,014)	(85,964)	(89,971)
Current Liabilities	(103,130)	(125,281)	(131,835)	(141,152)
Provisions	(91,929)	(102,087)	(102,669)	(110,783)
Working Capital	241,170	251,441	268,549	292,125
Deferred Tax Liabilities	38,414	40,861	40,861	40,861
Capital Deployed	323,840	332,549	345,326	364,252

Ratios	FY17	FY18E	FY19E	FY19E
OPM	3.9	4.9	5.8	7.7
NPM	1.8	3.3	5.2	6.8
Tax Rate %	(21.0)	(25.0)	(25.0)	(25.0)
Growth Ratio (%)				
Net Sales	10.4	11.1	11.6	12.7
Operating Profit	(180.6)	41.2	30.9	49.4
PAT	(169.9)	106.2	78.5	48.1
Per Share				
Earning Per Share (EPS)	1.4	2.8	5.0	7.4
Cash Earnings (CPS)	3.7	5.2	7.5	10.0
Dividend	0.4	0.7	1.3	1.9
Book Value	88.0	90.6	94.1	99.2
Free Cash flow	6,291	(8,477)	28,732	16,490
Valuation Ratios				
P/E (x)	67.4	32.7	18.3	12.4
P/B (x)	1.0	1.0	1.0	0.9
EV / Sales	0.8	0.7	0.6	0.4
EV / EBIDTA	20.9	15.1	9.7	5.7
Div. Yield (%)	0.5	0.8	1.4	2.1
FCF Yield (%)	6,913	(9,315)	31,573	18,121
Return Ratios (%)				
ROE	1.5	3.1	5.3	7.4
ROCE*	3.0	4.5	7.0	9.9

* includes other income



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