



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Avinash Kumar (022) 67141449

Result Update@ Dalal & Broacha

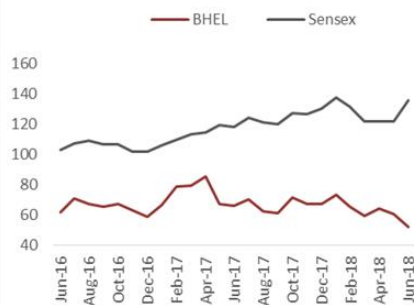
BUY

Current Price	72
Target Price	90
Upside/Downside	26%
52 Week Range	Rs.65/108

Key Share Data

Market Cap (Rs.bn)	263
Market Cap (US\$ mn)	4506
No of o/s shares (mn)	3671
Face Value	2
Monthly	9,090,727
Avg.vol(BSE+NSE) Nos	
BSE Code	500103
NSE Code	BHEL
Bloomberg	BHEL IN

Price performance



% Shareholding	Jul-18	Mar-18
Promoters	63.1	63.1
FII	13.3	13.3
DII	18.2	18.5
Others	5.4	5.1
Total	100.0	100.0

BHEL Q1FY19 results: Margin beat led by gross margin improvement: Revenues for BHEL came in at Rs 59bn (+7.8% YoY) which was a tad below our estimates (-4.9% est) was offset by higher margins. Revenue growth was mainly led by the power segment, which grew 6% YoY to INR 46.6bn, while Industrials declined 9% YoY to Rs 11.5bn. Revenue growth was lower due to deferment of industry segment revenues. EBITDA margins improved to 4.8% against a loss in Q1 FY18, led by various cost controls and higher gross margins, mainly due to 1) raw material as a percentage of sales to 57% from 59% in 1QFY18 (management maintains that raw mat to sales may remain at 58%-60% of sales in FY19) 2) staff costs as a percentage of sales to 24% from 26% in 1QFY18. Despite salary and wage revision, employee cost was flat as head count reduced from 39,044 as of Q1 FY18 to 36,829 as of Q1FY19. Forex gain of Rs.850mn in Q1FY19 (against Rs.2.1bn in Q1FY18) was accounted in other expenses. Lower depreciation and interest cost led to jump in PAT by 92.5% YoY

Order inflow jumped 2.5x to Rs.43.7bn as the company received two large orders from TSGENCO for supply and installation of FGD systems at TSGENCO's 1x800 MW Kothagudem Thermal Power Station (TPS) and 4x270 MW Bhadradi TPS in Telangana. Increased thrust by the company in non-coal business has led to significant order bookings in the industry segment. Power segment order pipeline for FY19 stands at 6-10GW which includes orders from replacement demand and PSU orders

Order book at the end of Q1 stood at Rs.1170bn, higher by 15.4% YoY. Further, the company is favourably placed in orders worth Rs.170bn. Yadadri project (Rs 200bn project) has started seeing execution and revenue recognition and would be spread over the next 36-42 months.

Outlook & Valuation:

We are positive on the stock 1) executable orders grown substantially providing good visibility 2) big project like Yadadri has started seeing execution and revenue recognition would be spread over 3) continuous focus on its gross margins and retaining it 3) employee cost reduction giving cushion to the operating margins. At the current CMP, the stock is trading at 19x FY19 & 12x FY20 EPS. We recommend Buy at current levels.

Key Financials

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	62.8	1.5%	3.0%
FY18	289257	2.3%	19329	6.7%	8066	62.7%	2.2	38.6	2.5%	5.6%
FY19E	328540	13.6%	23146	7.0%	13749	70.5%	3.7	22.6	4.1%	6.6%
FY20E	375922	14.4%	33531	8.9%	21644	57.4%	5.9	14.4	6.6%	9.8%



Conference call highlights

- The company is favorably placed in orders amounting to ~Rs.169bn, of which power segment accounts for Rs.140bn worth orders, while industry and international segment comprises of Rs.13bn and Rs.16bn, respectively. Management stated that replacement demand of 8- 10GW for main equipment is expected to be finalized over the next two years.
- The company has slow moving order book of ~Rs.200bn, of which Rs.50bn worth of orders are yet to be started and Rs.60- 70bn worth of orders have been cancelled.
- BHEL received FGD orders worth ~Rs.49bn so far and is favorably placed in orders amounting to Rs.28.6bn. Management sees huge opportunity of 57 units totalling to 36,690MW in FGD and other emission projects.
- BHEL saw order inflow of Rs.43.7bn in Q1 FY19, of which power segment contributed Rs.21.5bn to the total inflow and rest were industry and international orders worth Rs.16bn and 6.3bn respectively.
- The power sector orders comprised of supply and installation of FGD systems for control of SOx emissions at TSGENCO i.e. 1X800MW Kothagudem TPS and 4x270MW Bhadradi TPS in Telangana.
- In industry segment, company secured orders of a) 1x120MW blast furnace/ coke oven gas based captive power plant from Tata Steel, b) 20 MW Solar Photovoltaic (SPV) power project from Gujarat Alkalies & Chemicals Ltd., and c) 10 MW SPV project from Gujarat State Fertilizers & Chemicals Ltd.
- In the transportation segment, the company has bagged orders from Indian Railways for 94 sets of IGBT-based propulsion systems for electric locos, 263 nos. traction motors, 13 sets of IGBT-based 3 Phase electrics for AC-EMUs, and 91 sets of controls / 93 sets of transformers for MEMUs.
- Internationally, BHEL secured an order for setting up 900MW Arun-3 Hydroelectric Project from SJVN Arun-3 Power Development Company (SAP DC), Nepal.
- In FY19, management has targeted revenue of Rs.300bn in very good case and Rs.320bn in excellent case.
- Provision of Rs.3.1bn was made during the quarter, against Rs.2.4bn in Q1 FY18. Of this, one large provision amounting to Rs.800mn was provided against a private sector order.
- Total receivable as of Q1 stood increased to Rs.379bn as against Rs.355bn as of March' 2018. Of Rs.379bn receivables, collectable debtors are Rs.238bn. Government have the highest outstanding amount i.e. 82% of the total debtors, followed Private (14%) and Exports (4%).
- Debtor days which got reduced from 302 in FY16 to 254 days in FY18, increased slightly to 261 days on account of change in payment terms of certain orders.


BHEL 1QFY19 result snapshot

(in Rs mn)	1QFY19	1QFY18	YoY(%)	4QFY18	QoQ(%)
Net revenues	59,355	55,056	7.8%	101,469	-41.5%
(Inc)/Dec in WIP	2,127	(834)		(4,182)	
Raw material consumption	(35,804)	(32,120)	11.5%	(47,107)	-24.0%
Staff cost	(14,180)	(14,088)	0.7%	(18,805)	-24.6%
Other items	(8,626)	(8,897)	-3.0%	(19,060)	-54.7%
Total Expenditure	(56,483)	(55,939)		(89,154)	
EBIDTA	2,872	(883)	-425.4%	12,316	-76.7%
Other income	1,786	4,622	-61.4%	1,979	-9.8%
EBIDT	4,659	3,739		14,295	
Interest	(639)	(657)	-2.8%	(726)	-12.0%
Depreciation	(1,761)	(2,001)	-12.0%	(2,171)	-18.9%
VRS write-off, exceptional	-	-		-	
PBT	2,259	1,080	109.1%	11,399	-80.2%
Tax	(703)	(272)		(6,827)	
PAT	1,556	808	92.5%	4,572	-66.0%
Other comprehensive income	10	27		(753)	
Total comprehensive income	1,546	781	97.8%	5,325	-71.0%
PBT before VRS					
PAT before VRS					
Execution (%)					
Key ratios					
Sales as % of opening order backlog					
Raw Material to Sales	57	60		51	
Staff Cost to sales	24	26		19	
Other exp to sales	15	16		19	
OPM	4.8	(1.6)		12	
Effective tax rate	31	25		60	
Gross margin	25,678	22,102		47,030	
Gross margin	44	41		48	
EPS	0.42	0.22		1.25	


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Financials

Profit & Loss (Rs Mn)	FY17	FY18	FY19E	FY20E
Net Sales	282,854	289,257	328,540	375,922
Raw Materials	(171,100)	(161,435)	(190,773)	(218,662)
Employee Cost	(53,999)	(60,265)	(63,597)	(66,641)
Other Expenses	(46,746)	(48,229)	(51,024)	(57,088)
Cost of Sales	(271,845)	(269,928)	(305,395)	(342,391)
Operating Profit	11,009	19,329	23,146	33,531
Depreciation	(8,488)	(7,864)	(9,002)	(9,437)
PBIT	2,520	11,465	14,143	24,094
Other Income	7,264	6,931	7,934	9,477
Interest	(3,506)	(2,546)	(1,858)	(1,741)
Prior period items	0	0	0	0
Profit Before Tax	6,278	15,850	20,219	31,830
Provision for Tax	(1,320)	(7,784)	(6,470)	(10,185)
PAT	4,958	8,066	13,749	21,644
Extra ordinary Items	0	0	0	0
Share of JV/ Associate	0	0	0	0
Adj. PAT	4,958	8,066	13,749	21,644

Cash Flow Statement (Rs Mn)	FY17	FY18	FY19E	FY20E
Pre tax Profit	6278	15850	20219	31830
Add: Dep. & Amortization	8488	7864	9002	9437
Total tax paid	(1320)	(7784)	(6470)	(10185)
Other Adjustments	11730	38221	55081	(462294)
Cash Profit	25177	54151	77832	(431213)
(Inc) / Dec in				
Sundry Debtors	1163	12753	(4939)	84425
Inventories	11136	(27423)	(2682)	92693
Loans & Advances	(145)	(33690)	(5192)	41197
Current liabilities & Trade payables	(27717)	4217	(18463)	238495
Change in Working Capital	(15563)	(44143)	(31276)	456811
CF from Operating Activities	9614	10008	46556	25598
CF from Investing Activities	3969	2879	925	2468
CF from Financing Activities	(5113)	(7250)	(9898)	(13498)
Cash Generated (Utilised)	8469	5636	37582	14568
Cash at the start of year	100860	104918	112912	150494
Cash at the end of year	104918	112912	150494	165062

Balance Sheet (Rs Mn)	FY17	FY18	FY19E	FY20E
Equity Capital	4,895	7,343	7,343	7,343
Reserves	318,049	318,668	324,949	334,836
Net Worth	322,944	326,011	332,291	342,179
Long term borrowings	0	0	0	0
Short term borrowings	896	572	0	0
Total Debt	896	572	0	0
Capital Employed	323,840	326,583	332,291	342,179
Gross Block	138,287	141,696	148,705	155,714
Accumulated Depreciation	102,328	111,008	120,010	129,447
Net Block	35,959	30,688	28,695	26,267
Capital WIP	1,595	1,945	1,945	1,945
Total Fixed Assets	37,554	32,634	30,640	28,212
Goodwill & Intangible	88	82	82	82
Investments	6,614	6,907	6,907	6,907
Inventories	73,724	62,588	90,011	92,693
Sundry debtors	318,633	354,935	270,033	288,378
Cash & bank	104,918	112,912	150,494	165,062
Loans & advances and Other	2,169	2,314	36,004	41,197
Other current assets	30,188	29,261	29,261	29,261
Trade Payables	(93,403)	(92,240)	(79,486)	(84,425)
Current Liabilities	(103,130)	(132,010)	(140,546)	(154,070)
Provisions	(91,929)	(87,059)	(97,368)	(107,377)
Working Capital	241,170	250,701	258,403	270,719
Deffered Tax Liabilities	38,414	36,259	36,259	36,259
Capital Deployed	323,840	326,583	332,292	342,179

Ratios	FY17	FY18	FY19E	FY20E
OPM	3.9	6.7	7.0	8.9
NPM	1.8	2.8	4.2	5.8
Tax Rate %	(21.0)	(49.1)	(32.0)	(32.0)
Growth Ratio (%)				
Net Sales	10.4	2.3	13.6	14.4
Operating Profit	(180.6)	75.6	19.7	44.9
PAT	(169.9)	62.7	70.5	57.4
Per Share				
Earning Per Share (EPS)	1.4	2.2	3.7	5.9
Cash Earnings (CPS)	3.7	4.3	6.2	8.5
Dividend	0.4	1.0	1.7	2.7
Book Value	88.0	88.8	90.5	93.2
Free Cash flow	6,291	6,248	39,547	18,589
Valuation Ratios				
P/E (x)	53.3	32.8	19.2	12.2
P/B (x)	0.8	0.8	0.8	0.8
EV / Sales	0.6	0.5	0.3	0.3
EV / EBITDA	14.6	7.9	4.9	3.0
Div. Yield (%)	0.6	1.4	2.4	3.8
FCF Yield (%)	8,738	8,678	54,926	25,818
Return Ratios (%)				
ROE	1.5	2.5	4.1	6.3
ROCE*	3.0	5.6	6.6	9.8

* includes other income



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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
Mr. AvinashKumar	avinash.kumar@dalal-broacha.com	022 67141441	Capital Goods
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