



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

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**Result Update@ Dalal & Broacha**

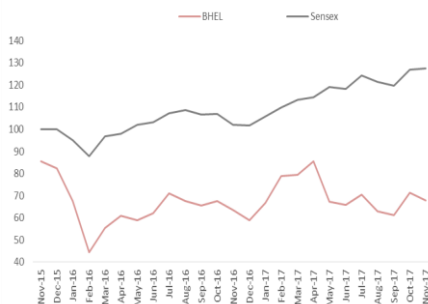
**BUY**

Current Price	91
Target Price	116
Upside/Downside	28%
52 Week Range	Rs.77/121

**Key Share Data**

Market Cap (Rs.bn)	334
Market Cap (US\$ mn)	5156
No of o/s shares (mn)	3671
Face Value	2
Monthly	13,421,452
Avg.vol(BSE+NSE) Nos	
BSE Code	500103
NSE Code	BHEL
Bloomberg	BHEL IN

**Price performance**



**% Shareholding Jun-17 Dec-17**

Promoters	63.1	63.1
FII	16.0	14.3
DII	16.6	17.3
Others	4.3	5.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

**BHEL results below expectations**

BHEL results were below expectation. Q2FY18 revenue was down 4.2% YoY at Rs 61.6 bn missing our estimate of Rs 70 bn. Gross margin at 39% was up 435 bps YoY was led by cost control measures. The revenue miss coupled with higher other expenses resulted in EBITDA loss of Rs 954mn. Higher other expenses were due to wage provisions of Rs 2.5 bn and secondly due to provision for contractual obligations of Rs 2.95 bn for the year totaling Rs 5.45 bn worth of provisioning. Higher other income (aided by FX gain Rs 186 crs) resulted in PAT at Rs 1.15 bn (up 5.9% YoY).

**Slow-moving backlog reducing:**

BHEL reported order inflow of ~Rs18.7bn in Q2FY18 and order book stood at Rs970.9bn (down 7% YoY). Out of the total order book, ~Rs216.4bn of orders is slow moving (was Rs396bn for Q2). BHEL received necessary approvals to start execution of Yadadri Power Plant (Rs200bn). BHEL is L1 in tenders worth ~5GW worth Rs260bn and expect finalization of L1 pipeline over next 3-6 months. Apart from L1, another ~ 4-5GW tenders have been floated in the market. NTPC has floated bulk tenders for FGD for 42 units to meet emission norms (~33,00MW); however finalization of this order is likely to take time. BHEL highlighted that pricing pressure continues to be high in the market.

**Diversification in new areas being a positive for BHEL**

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 in transportation segment.

**Outlook & Valuation**

We build these and more in our assumptions and remain optimistic on order inflows opportunity for BHEL over the medium term. We are positive on the stock in spite of short term challenges and recommend Buy at the current levels. We value the stock at 15x FY19E earnings.

**Key Financials**

Rs mn	Net Sales	% Growth	EBITDA	OPM%	PAT	% Growth	EPS	P/E (x)	ROE %	RoCE%
FY16	256127	-22.8%	-13666	7.0%	-7096	-59.0%	-1.9	-47.1	-2.2%	-2.5%
FY17	282854	10.4%	11009	3.9%	4958	-150.0%	1.4	67.4	1.5%	3.0%
FY18E	311504	10.1%	26750	8.6%	18626	275.6%	5.1	17.9	5.5%	7.8%
FY19E	341879	9.8%	36599	10.7%	28410	52.5%	7.7	11.8	7.9%	11.3%


**BHEL 2QFY18 result snapshot**

(in Rs mn)	2QFY18	2QFY17	YoY(%)	1QFY17	QoQ(%)
Gross Sales	61,684	67,800		56,070	
Less: Excise duty/Service tax	879	(2,293)		(2,264)	
Net Sales	62,562	65,508	-4.5%	53,806	16.3%
Other operational income	1,287	1,137		1,250	
Net revenues	63,849	66,645	-4.2%	55,056	16.0%
(Inc)/Dec in WIP	(3,350)	(2,886)		(834)	
Raw material consumption	(34,902)	(40,015)	-12.8%	(32,120)	
Staff cost	(13,988)	(14,794)	-5.5%	(14,088)	
Other items	(12,564)	(7,398)	69.8%	(8,897)	
Total Expenditure	(64,803)	(65,093)		(55,939)	
EBIDTA	(954)	1,551	-161.5%	(883)	8.1%
Other income	4,850	1,961		4,622	
EBIDT	3,896	3,512		3,739	
Interest	(552)	(50)		(657)	
Depreciation	(1,872)	(2,080)	-10.0%	(2,001)	
VRS write-off, exceptional	-	-		-	
PBT	1,472	1,382	6.6%	1,080	36.3%
Tax	(318)	(292)		(272)	
PAT	1,154	1,090	5.9%	808	42.8%
Other comprehensive income	(27)	(85)		(27)	
Total comprehensive income	1,181	1,175		835	
PBT before VRS	-				
PAT before VRS	-				
Execution (%)	-				
Key ratios	-				
Sales as % of opening order backlog	-				
Raw Material to Sales	60	64		60	
Staff Cost to sales	22	22		26	
Other exp to sales	20	11		16	
OPM	(1)	2		(2)	
Effective tax rate	22	21		25	
Gross margin	39	35		39	
EPS	0.31	0.30		0.22	



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**Financials**

Profit & Loss (Rs Mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	301,830	256,127	282,854	311,504	341,879
Raw Materials	(169,477)	(161,188)	(171,100)	(188,668)	(203,988)
Employee Cost	(54,500)	(53,798)	(53,999)	(56,685)	(59,505)
Other Expenses	(56,866)	(54,809)	(46,746)	(39,401)	(41,787)
Cost of Sales	(280,843)	(269,794)	(271,845)	(284,754)	(305,280)
<b>Operating Profit</b>	<b>20,986</b>	<b>(13,666)</b>	<b>11,009</b>	<b>26,750</b>	<b>36,599</b>
Depreciation	(10,773)	(9,357)	(8,488)	(9,010)	(9,330)
PBIT	10,213	(23,024)	2,520	17,739	27,268
Other Income	12,205	14,977	7,264	8,550	13,317
Interest	(917)	(3,595)	(3,506)	(1,455)	0
Prior period items	0	0	0	0	0
Profit Before Tax	21,501	(11,641)	6,278	24,835	40,586
Provision for Tax	(7,207)	4,546	(1,320)	(6,209)	(12,176)
<b>PAT</b>	<b>14,294</b>	<b>(7,096)</b>	<b>4,958</b>	<b>18,626</b>	<b>28,410</b>
Extra ordinary Items	(101)	0	0	0	0
Share of JV/ Associate	0	0	0	0	0
<b>Adj. PAT</b>	<b>14,193</b>	<b>(7,096)</b>	<b>4,958</b>	<b>18,626</b>	<b>28,410</b>

Balance Sheet (Rs Mn)	FY15	FY16	FY17	FY18E	FY19E
Equity Capital	4,895	4,895	4,895	7,343	7,343
Reserves	335,951	316,916	318,049	331,088	350,974
<b>Net Worth</b>	<b>340,846</b>	<b>321,811</b>	<b>322,944</b>	<b>338,430</b>	<b>358,317</b>
Long term borrowings	0	0	0	0	0
Short term borrowings	1,178	1,263	896	0	0
Total Debt	1,178	1,263	896	0	0
<b>Capital Employed</b>	<b>342,024</b>	<b>323,074</b>	<b>323,840</b>	<b>338,430</b>	<b>358,317</b>
Gross Block	125,888	133,465	138,287	143,287	148,287
Accumulated Depreciation	84,483	93,840	102,328	111,339	120,669
Net Block	41,405	39,625	35,959	31,948	27,618
Capital WIP	5,005	3,095	1,595	1,595	1,595
<b>Total Fixed Assets</b>	<b>46,410</b>	<b>42,720</b>	<b>37,554</b>	<b>33,544</b>	<b>29,213</b>
Goodwill & Intangible	173	84	88	88	88
Investments	4,177	6,642	6,614	6,614	6,614
Inventories	101,017	96,022	73,724	93,878	93,665
Sundry debtors	376,373	335,574	318,633	307,237	280,996
Cash & bank	98,127	100,860	104,918	105,700	153,327
Loans & advances and Other	34,437	2,422	2,169	34,137	37,466
Other current assets	1,750	30,714	30,188	30,188	30,188
Trade Payables	(110,806)	(94,446)	(93,403)	(85,816)	(79,456)
Current Liabilities	(121,437)	(124,506)	(103,130)	(125,525)	(132,950)
Provisions	(110,404)	(109,604)	(91,929)	(102,475)	(101,697)
Working Capital	269,057	237,036	241,170	257,323	281,540
Deffered Tax Liabilities	22,207	36,592	38,414	40,861	40,861
<b>Capital Deployed</b>	<b>342,025</b>	<b>323,074</b>	<b>323,840</b>	<b>338,430</b>	<b>358,317</b>

Cash Flow Statement (Rs Mn)	FY14	FY15	FY16	FY17	FY18E	FY19E
Pre tax Profit	50143	21400	(14767)	6278	24835	40586
Add: Dep. & Amortization	9890	10777	9357	8488	9010	9330
Total tax paid	(21313)	(10299)	(3074)	(1320)	(6209)	(12176)
Other Adjustments	(26077)	(80784)	(34086)	55511	(24646)	38275
<b>Cash Profit</b>	<b>12643</b>	<b>(58906)</b>	<b>(42570)</b>	<b>68957</b>	<b>2990</b>	<b>76015</b>
(Inc) / Dec in						
Sundry Debtors	3392	16360	1043	7586	6360	(4895)
Inventories	(3041)	4995	22298	(20154)	212	(3125)
Loans & Advances	(2526)	32015	253	(31968)	(3329)	(5552)
Current liabilities & Trade payables	34714	13291	22419	(14808)	(1065)	(14610)
<b>Change in Working Capital</b>	<b>32539</b>	<b>66661</b>	<b>46012</b>	<b>(59344)</b>	<b>2179</b>	<b>(28181)</b>
<b>CF from Operating Activities</b>	<b>45181</b>	<b>7755</b>	<b>3442</b>	<b>9613</b>	<b>5169</b>	<b>47834</b>
<b>CF from Investing Activities</b>	<b>(1681)</b>	<b>4643</b>	<b>529</b>	<b>3969</b>	<b>3550</b>	<b>8317</b>
<b>CF from Financing Activities</b>	<b>(2092)</b>	<b>(33000)</b>	<b>(1239)</b>	<b>(5113)</b>	<b>(7938)</b>	<b>(8523)</b>
Cash Generated (Utilised)	41409	(20602)	2733	8469	782	47628
Cash at the start of year	77321	118729	98127	100860	104918	105700
Cash at the end of year	118729	98127	100860	104918	105700	153327

Ratios	FY14	FY15	FY16	FY17	FY18E	FY19E
OPM	11.6	7.0	(5.3)	3.9	8.6	10.7
NPM	8.9	4.7	(2.8)	1.8	6.0	8.3
Tax Rate %	(30.9)	(33.5)	(39.0)	(21.0)	(25.0)	(30.0)

**Growth Ratio (%)**

Net Sales	(22.8)	(15.1)	10.4	10.1	9.8
Operating Profit	(53.6)	(165.1)	(180.6)	143.0	36.8
PAT	(59.0)	(150.0)	(169.9)	275.6	52.5

**Per Share**

Earning Per Share (EPS)	9.4	3.9	(1.9)	1.4	5.1	7.7
Cash Earnings (CPS)	12.1	6.8	0.6	3.7	7.5	10.3
Dividend	6.8	0.9	1.0	1.6	2.0	2.6
Book Value	90.0	92.8	87.7	88.0	92.2	97.6
Free Cash flow	12.1	3,305	(1,226)	10,145	3,421	2,639

**Valuation Ratios**

P/E (x)	9.7	23.5	-47.1	67.4	17.9	11.8
P/B (x)	1.0	1.0	1.0	1.0	1.0	0.9
EV / Sales	0.6	0.8	0.9	0.8	0.7	0.5
EV / EBITDA	5.4	11.3	-17.2	20.9	8.5	4.9
Div. Yield (%)	7.5	1.0	1.1	1.7	2.2	2.8
FCF Yield (%)	13.3	3,631	(1,347)	11,148	3,760	2,900

**Return Ratios (%)**

ROE	10.5	4.2	-2.2	1.5	5.5	7.9
ROCE*	14.4	6.6	-2.5	3.0	7.8	11.3

\* includes other income



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## Result Update Q1FY18@ Dalal & Broacha

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