DALAL & BROACHA
STOCK BROKING PVT. LTD.

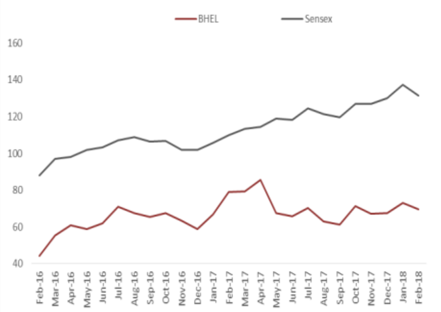
**Analyst:** Avinash Kumar (022) 67141449

**Result Update@ Dalal & Broacha**

| BUY | |
|---|---|
| Current Price | 95 |
| Target Price | 123 |
| Upside/Downside | 29% |
| 52 Week Range | Rs.77/121 |

| Key Share Data | |
|---|---|
| Market Cap (Rs.bn) | 350 |
| Market Cap (US$ mn) | 5462 |
| No of o/s shares (mn) | 3671 |
| Face Value | 2 |
| Monthly Avg.vol(BSE+NSE) Nos | 12,894,066 |
| BSE Code | 500103 |
| NSE Code | BHEL |
| Bloomberg | BHEL IN |

**Price performance**




| % Shareholding | Sept-17 | Dec-17 |
|---|---|---|
| Promoters | 63.1 | 63.1 |
| FII | 16.0 | 13.3 |
| DII | 16.6 | 18.2 |
| Others | 4.3 | 5.4 |
| **Total** | **100.0** | **100.0** |

**BHEL Q3FY18 results: Inline with expectations :** Q3FY18 revenue was up 5% YoY (excl excise) at Rs 64.9 bn inline with our our estimate of Rs 65.2 bn. Gross margin at 40% vs 36% was up 407 bps YoY was led by cost control measures. Employee cost reduction coupled with raw material management due to 1) design optimisation 2) indigenization 3) better sourcing led to improved EBITDA at Rs 4.3bn (+32% YoY). Margins at 4.5% vs 3.5 expanded 92bps. Interest cost at Rs 610mn vs Rs 263mn, Depreciation at Rs 1.8bn vs Rs 1.3bn, other income remained flat YoY at Rs 1.5mn. Tax rate at 19% vs 25% YoY. PAT came at Rs 1.5bn vs Rs 935mn (+64% YoY).

**Slow-moving backlog reducing**: BHEL reported order inflow of ~Rs15.8bn in Q3FY18 and order book stood at Rs1022bn (+ 4% YoY). Current executable order has gone up substantially from Rs 547 bn to Rs 810 bn(+48%). BHEL has started execution of Yadadri Power Plant (Rs200bn) and revenues would start trickling in from Q4FY18 but major revenue recognition would happen from FY19. BHEL is L1 in tenders worth ~4GW worth 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/ Electrification 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).

**Outlook & Valuation:**

We are positive on the stock in-spite of short term challenges and recommend Buy at the current levels. We value the stock at 12x FY20E earnings with a TP of Rs 123.

**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 | -53.3 | -2.2% | -2.5% |
| FY17 | 282854 | 10.4% | 11009 | 3.9% | 4958 | -150.0% | 1.4 | 76.3 | 1.5% | 3.0% |
| FY18E | 311504 | 10.1% | 26750 | 8.6% | 18626 | 275.6% | 5.1 | 20.3 | 5.5% | 7.8% |
| FY19E | 341879 | 9.8% | 36599 | 10.7% | 28410 | 52.5% | 7.7 | 13.3 | 7.9% | 11.3% |
| FY19E | 385062 | 12.6% | 47927 | 12.4% | 37502 | 32.0% | 10.2 | 10.1 | 11.3% | 13.9% |

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**Result Update@ Dalal & Broacha**

Details of projects where L1 position

| Company Thermal projects | Project name | Contract type | Size(MW) | Contract size for BHEL (Rs bn) | Remarks | Status |
|---|---|---|---|---|---|---|
| NTPC | Patratu | EPC | 3X800 | 117 | BHEL is L1 | Ordering process underway |
| NTPC | Pudimadaka, | TG | 4X1000 | 35 | Doosan is L1 for bolier and | EC pending; no further progress reported |
| | Visakhapatnam | | 4X1000 | 37 | BHEL is L1 for TG | |
| UPRVUNL | Panki | EPC | 1x660 | | BHEL is L1 | Environmental Clearance recently received |
| Hydroelectric projects | | NA | | | | |
| Telangana State | Palamuru Rangareddy | TG | 2,600 | 21 | BHEL is L1 | It was expected to receive final order in Feb-2017 but no update yet |
| NHPC | Pakal Dul | TG | 4x250 | 10 | BHEL is L1 | Matter is subjudice |
| BHEL-L1 | | | | 220 | | |

**BHEL 3QFY18 result snapshot**

| (in Rs mn) | 3QFY17 | 3QFY17 | YoY(%) | 2QFY17 | QoQ(%) |
|---|---|---|---|---|---|
| Net Sales | 64,944 | 61,830 | 5.0% | 62,562 | 3.8% |
| Other operational income | 1,319 | 1,380 | | 1,287 | |
| Net revenues | 66,264 | 63,210 | 4.8% | 63,849 | 3.8% |
| (Inc)/Dec in WIP | 1,004 | (912) | | (3,350) | |
| Raw material consumption | (39,944) | (38,674) | 3.3% | (34,902) | 14.4% |
| Staff cost | (13,385) | (14,208) | -5.8% | (13,988) | -4.3% |
| Other items | (10,985) | (7,176) | 53.1% | (12,564) | -12.6% |
| Total Expenditure | (63,309) | (60,971) | | (64,803) | |
| EBIDTA | 2,954 | 2,239 | 32.0% | (954) | -409.7% |
| Other income | 1,375 | 1,358 | 1.3% | 4,850 | -71.7% |
| EBIDT | 4,329 | 3,596 | | 3,896 | |
| Interest | (610) | (263) | 131.8% | (552) | 10.5% |
| Depreciation | (1,820) | (2,088) | -12.8% | (1,872) | -2.7% |
| VRS write-off, exceptional | - | - | | - | |
| PBT | 1,898 | 1,246 | 52.4% | 1,472 | 28.9% |
| Tax | (367) | (310) | | (318) | |
| PAT | 1,532 | 935 | 63.8% | 1,154 | 32.8% |
| Other comprehensive income | (27) | (60) | | (27) | |
| Total comprehensive income | 1,559 | 875 | 78.0% | 1,127 | 38.3% |

| | | | | |
|---|---|---|---|---|
| Sales as % of opening order backlog | | | | |
| Raw Material to Sales | 59 | 63 | | 60 |
| Staff Cost to sales | 20 | 22 | | 22 |
| Other exp to sales | 17 | 11 | | 20 |
| OPM | 4.5 | 3.5 | | (1) |
| Effective tax rate | 19 | 25 | | 22 |
| Gross margin | 40 | 36 | | 39 |
| EPS | 0.42 | 0.25 | | 0.31 |

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## Result Update@ Dalal & Broacha

## Financials

| Profit & Loss (Rs Mn) | FY16 | FY17 | FY18E | FY19E | FY20E |
|---|---|---|---|---|---|
| Net Sales | 256,127 | 282,854 | 311,504 | 341,879 | 385,062 |
| Raw Materials | (161,188) | (171,100) | (188,668) | (203,988) | (229,755) |
| Employee Cost | (53,798) | (53,999) | (56,685) | (59,505) | (62,352) |
| Other Expenses | (54,809) | (46,746) | (39,401) | (41,787) | (45,027) |
| Cost of Sales | (269,794) | (271,845) | (284,754) | (305,280) | (337,135) |
| **Operating Profit** | **(13,666)** | **11,009** | **26,750** | **36,599** | **47,927** |
| Depreciation | (9,357) | (8,488) | (9,010) | (9,330) | (9,650) |
| PBIT | (23,024) | 2,520 | 17,739 | 27,268 | 38,277 |
| Other Income | 14,977 | 7,264 | 8,550 | 13,317 | 15,297 |
| Interest | (3,595) | (3,506) | (1,455) | 0 | 0 |
| Prior period items | 0 | 0 | 0 | 0 | 0 |
| Profit Before Tax | (11,641) | 6,278 | 24,835 | 40,586 | 53,575 |
| Provision for Tax | 4,546 | (1,320) | (6,209) | (12,176) | (16,072) |
| **PAT** | **(7,096)** | **4,958** | **18,626** | **28,410** | **37,502** |
| Extra ordinary Items | 0 | 0 | 0 | 0 | 0 |
| Share of JV/ Associate | 0 | 0 | 0 | 0 | 0 |
| **Adj. PAT** | **(7,096)** | **4,958** | **18,626** | **28,410** | **37,502** |

| Balance Sheet (Rs Mn) | FY16 | FY17 | FY18E | FY19E | FY20E |
|---|---|---|---|---|---|
| Equity Capital | 4,895 | 4,895 | 7,343 | 7,343 | 7,343 |
| Reserves | 316,916 | 318,049 | 331,088 | 350,974 | 377,226 |
| **Net Worth** | **321,811** | **322,944** | **338,430** | **358,317** | **384,569** |
| Long term borrowings | 0 | 0 | 0 | 0 | 0 |
| Short term borrowings | 1,263 | 896 | 0 | 0 | 0 |
| Total Debt | 1,263 | 896 | 0 | 0 | 0 |
| **Capital Employed** | **323,074** | **323,840** | **338,430** | **358,317** | **384,569** |
| Gross Block | 133,465 | 138,287 | 143,287 | 148,287 | 153,287 |
| Accumulated Depreciation | 93,840 | 102,328 | 111,339 | 120,669 | 130,319 |
| Net Block | 39,625 | 35,959 | 31,948 | 27,618 | 22,968 |
| Capital WIP | 3,095 | 1,595 | 1,595 | 1,595 | 1,595 |
| **Total Fixed Assets** | **42,720** | **37,554** | **33,544** | **29,213** | **24,563** |
| Goodwill & Intagible | 84 | 88 | 88 | 88 | 88 |
| Investments | 6,642 | 6,614 | 6,614 | 6,614 | 6,614 |
| Inventories | 96,022 | 73,724 | 93,878 | 93,665 | 94,947 |
| Sundry debtors | 335,574 | 318,633 | 307,237 | 280,996 | 295,390 |
| Cash & bank | 100,860 | 104,918 | 105,700 | 153,327 | 185,803 |
| Loans & advances and Oth | 2,422 | 2,169 | 34,137 | 37,466 | 42,199 |
| Other current assets | 30,714 | 30,188 | 30,188 | 30,188 | 30,188 |
| Trade Paybles | (94,446) | (93,403) | (85,816) | (79,456) | (83,129) |
| Current Liabilities | (124,506) | (103,130) | (125,525) | (132,950) | (143,363) |
| Provisions | (109,604) | (91,929) | (102,475) | (101,697) | (109,592) |
| Working Capital | 237,036 | 241,170 | 257,323 | 281,540 | 312,442 |
| Deffered Tax Liabilities | 36,592 | 38,414 | 40,861 | 40,861 | 40,861 |
| **Capital Deployed** | **323,074** | **323,840** | **338,430** | **358,317** | **384,569** |

| Cash Flow Statement (Rs Mn) | FY16 | FY17 | FY18E | FY19E | FY20E |
|---|---|---|---|---|---|
| Pre tax Profit | (14767) | 6278 | 24835 | 40586 | 53575 |
| Add: Dep. & Amortization | 9357 | 8488 | 9010 | 9330 | 9650 |
| Total tax paid | (3074) | (1320) | (6209) | (12176) | (16072) |
| Other Adjsutments | (34086) | 55511 | (24646) | 33866 | (460491) |
| **Cash Profit** | **(42570)** | **68957** | **2990** | **71606** | **(413338)** |
| (Inc) / Dec in | | | | | |
| Sundry Debtors | 1043 | 7586 | 6360 | (3673) | 83129 |
| Inventories | 22298 | (20154) | 212 | (1281) | 94947 |
| Loans & Advances | 253 | (31968) | (3329) | (4732) | 42199 |
| Current liabilities & Trade paybles | 22419 | (14808) | (1065) | (14086) | 226492 |
| **Change in Working Capital** | **46012** | **(59344)** | **2179** | **(23773)** | **446767** |
| **CF from Operating Activities** | **3442** | **9613** | **5169** | **47834** | **33429** |
| **CF from Investing Activities** | **529** | **3969** | **3550** | **8317** | **10297** |
| **CF from Financing Activities** | **(1239)** | **(5113)** | **(7938)** | **(8523)** | **(11251)** |
| Cash Generated (Utilised) | 2733 | 8469 | 782 | 47628 | 32475 |
| Cash at the start of year | 98127 | 100860 | 104918 | 105700 | 153327 |
| Cash at the end of year | 100860 | 104918 | 105700 | 153327 | 185803 |

| Ratios | FY16 | FY17 | FY18E | FY19E | FY20E |
|---|---|---|---|---|---|
| OPM | (5.3) | 3.9 | 8.6 | 10.7 | 12.4 |
| NPM | (2.8) | 1.8 | 6.0 | 8.3 | 9.7 |
| Tax Rate % | (39.0) | (21.0) | (25.0) | (30.0) | (30.0) |
| **Growth Ratio (%)** | | | | | |
| Net Sales | (15.1) | 10.4 | 10.1 | 9.8 | 12.6 |
| Operating Profit | (165.1) | (180.6) | 143.0 | 36.8 | 31.0 |
| PAT | (150.0) | (169.9) | 275.6 | 52.5 | 32.0 |
| **Per Share** | | | | | |
| Earning Per Share (EPS) | (1.9) | 1.4 | 5.1 | 7.7 | 10.2 |
| Cash Earnings (CPS) | 0.6 | 3.7 | 7.5 | 10.3 | 12.8 |
| Dividend | 0.4 | 0.4 | 1.3 | 2.0 | 2.6 |
| Book Value | 87.7 | 88.0 | 92.2 | 97.6 | 104.7 |
| Free Cash flow | (2,064) | 6,291 | 169 | 42,834 | 28,429 |
| **Valuation Ratios** | | | | | |
| P/E (x) | -53.3 | 76.3 | 20.3 | 13.3 | 10.1 |
| P/B (x) | 1.2 | 1.2 | 1.1 | 1.1 | 1.0 |
| EV / Sales | 1.1 | 1.0 | 0.9 | 0.7 | 0.5 |
| EV / EBIDTA | -20.4 | 24.9 | 10.2 | 6.1 | 4.0 |
| Div. Yield (%) | 0.4 | 0.4 | 1.3 | 1.9 | 2.5 |
| FCF Yield (%) | (2,004) | 6,108 | 164 | 41,586 | 27,601 |
| **Return Ratios (%)** | | | | | |
| ROE | -2.2 | 1.5 | 5.5 | 7.9 | 9.8 |
| ROCE* | -2.5 | 3.0 | 7.8 | 11.3 | 13.9 |

* includes other income

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