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STOCK BROKING PVT. LTD.

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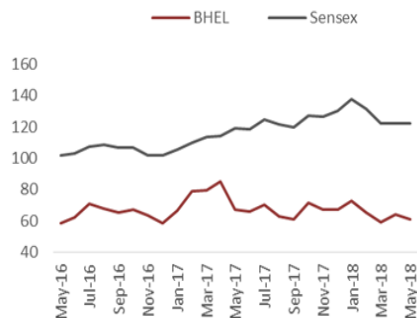
BUY

Current Price	83
Target Price	96
Upside/Downside	15%
52 Week Range	Rs.74/108

Key Share Data

Market Cap (Rs.bn)	304
Market Cap (US\$ mn)	4506
No of o/s shares (mn)	3671
Face Value	2
Monthly	8,214,833
Avg.vol(BSE+NSE) Nos	
BSE Code	500103
NSE Code	BHEL
Bloomberg	BHEL IN

Price performance



BHEL Q4FY18 results: Margin beat led by gross margin improvement:

Sales grew 4% YoY to Rs102bn. Gross margin expanded 380bp YoY to 49.5%, driven by (a) tight control over costs via design optimization, (b) indigenization of super-critical sets and (c) reduced sourcing costs. EBITDA grew 117% YoY to Rs12.3bn, with the margin expanding 630bp YoY to 12.1%. Other expenses included provisions for bad debt/LDs of INR11.4b and a forex write-back of INR1.9b. PAT of Rs4.6bn (+112% YoY) on account of a high tax rate (64%). Higher tax rate due to write-down of deferred tax assets is no longer deemed recoverable as of 4QFY18

Executable order book ramped up:

Executable order book at Rs986bn (+50% YoY); L1 in Rs160bn of orders: Order book stands at Rs1,181bn, of which ~83% is executable. BHEL is L1 in Rs160b of orders and has already won INR18b of orders in 1QFY19. Management is confident to achieve its MoU target ('Excellent' rating) of Rs320bn revenues on the account of large executable orderbook.

Diversification in new areas being a positive for BHEL:

In the Industry segment, BHEL is seeing good opportunities in Solar/Defense/Railways and Water. With focus on increasing non-coal business mix, Industry orders grew 22% in FY18 to Rs76bn, the highest intake over past six years. Growth was primarily driven by Transportation (2.1x YoY at Rs21.8bn), while CPP orders (Rs16bn) are also picking up. Defence orders remained flat at Rs5.9bn, while newer water segment has received orders of Rs0.7bn; BHEL also received solar orders of Rs5.3bn in FY18. It has also won orders from O&G, power T&D and other industrial segments

% Shareholding Mar-18 Dec-17

Promoters	63.1	63.1
FII	13.3	13.3
DII	18.5	18.2
Others	5.1	5.4
Total	100.0	100.0

Outlook & Valuation:

We are positive on the stock 1) executable orders grown substantially providing good visibility 2) continuous focus on its gross margins and retaining it 3) employee cost reduction giving cushion to the operating margins. The stock is trading at 23.7x FY19 & 15x 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%	23131	7.0%	12729	57.8%	3.5	24.5	3.8%	6.6%
FY20E	375922	14.4%	33496	8.9%	20667	62.4%	5.6	15.1	6.6%	9.8%


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Other Key highlights

- Its employee strength continues to reduce from 39,821 in FY17 to 37,542 in FY18. While it expects further reduction in headcount by ~2,000 in FY19, the decline will be partly offset by recruitment of experts in newer segments.
It expects further Rs5bn increase in employee costs in FY19, led by worker pay revision (negotiations commenced, finalisation likely in CY18).
- BHEL has recognised provisions and write offs of Rs22.8bn in FY18 (Rs11.4bn in 4Q), primarily towards disputed LD receivables.
- It has also changed the treatment of forex gains from recognition in other income to netting off against other expenses in FY18. Forex losses were already being recorded under other expenses.
- It has recognised forex gains of Rs5.2bn in FY18 (vs loss of Rs2.8bn in FY17). Thus, forex fluctuation benefit of Rs8bn has completely offset a similar jump in provisions in FY18.
- Interest expenses declined by 77% YoY to Rs726mn in 4QFY18, with unwinding of interest on provisions recorded under Ind-AS (Rs2.5bn in 4QFY17 vs Rs450mn in 4QFY18)
- Management indicated that out of total receivables of Rs355bn, collectible receivables were Rs175bn while deferred receivables were Rs165bn (47% of the mix). With focus on increasing non-coal business mix, Industry orders grew 22% in FY18 to Rs76bn, the highest intake over past six years.

New order Pipeline in FY19

Customer	Project	Size (MW)
Thermal		
NTPC	Singrauli	2x660
THDC	Khurja	2x660
Buxar Bijlee	Buxar	2x660
WBPDC	Sagardighi	x 660
NLC	Neyvelli	2x660
NLC	Talabira	3x800
Hydro		
CVPPPL	Pakal dul	4x250
NHPC	Loktak	2x33
UJVNL	Chila	R&M

Major Orders received in 2018

Customer	Project	Size(MW)	Rs Bn
Thermal	Patratu	3 x 800	117
NTPC	Udangudi	2 x 660	73
TANGEDCO	Bhusawal	1 x 660	44
MAHAGENC	Panki	1 x 660	28
UPRVUNL	Yadadari (scope expansion)		21
TSGENCO			
Nuclear			
NPCIL	Gorakhpur (steam generators)	2 x 700	7.3



BHEL 4QFY18 result snapshot

(in Rs mn)	4QFY18E	4QFY17	YoY(%)	3QFY17	QoQ(%)
Net Sales	98,319	94,049	4.5%	64,944	51.4%
Other operational income	3,151	2,832		1,319	
Net revenues	101,469	96,882	4.7%	66,263	53.1%
(Inc)/Dec in WIP	(4,182)	(3,884)		1,004	
Raw material consumption	(47,107)	(49,259)	-4.4%	(39,944)	17.9%
Staff cost	(18,805)	(10,634)	76.8%	(13,385)	40.5%
Other items	(19,060)	(26,597)	-28.3%	(10,985)	73.5%
Total Expenditure	(89,154)	(90,373)		(63,309)	
EBIDTA	12,316	6,509	89.2%	2,954	316.9%
Other income	1,979	1,452	36.3%	1,375	44.0%
EBIDT	14,295	7,961		4,329	
Interest	(726)	(3,136)	-76.9%	(610)	18.9%
Depreciation	(2,171)	(2,139)	1.5%	(1,820)	19.2%
VRS write-off, exceptional	-	-		-	
PBT	11,399	2,686	324.4%	1,898	500.4%
Tax	(6,827)	(530)		(367)	
PAT	4,572	2,155	112.1%	1,532	198.4%
Other comprehensive income	(753)	(68)		(27)	
Total comprehensive income	5,325	2,224	139.4%	1,559	241.6%
PBT before VRS					
PAT before VRS					
Execution (%)					
Key ratios					
Sales as % of opening order backlog					
Raw Material to Sales	51	55		59	
Staff Cost to sales	19	11		20	
Other exp to sales	19	27		17	
OPM	12.1	6.7		4	
Effective tax rate	60	20		19	
Gross margin	48	43		40	
EPS	1.25	0.59		0.42	


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Financials

Profit & Loss (Rs Mn)	FY17	FY18E	FY19E	FY20E
Net Sales	282,854	289,257	328,540	375,922
Raw Materials	(171,100)	(161,435)	(194,880)	(222,985)
Employee Cost	(53,999)	(60,265)	(59,505)	(62,352)
Other Expenses	(46,746)	(48,229)	(51,024)	(57,088)
Cost of Sales	(271,845)	(269,928)	(305,409)	(342,426)
Operating Profit	11,009	19,329	23,131	33,496
Depreciation	(8,488)	(7,864)	(9,002)	(9,437)
PBIT	2,520	11,465	14,129	24,059
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	20,204	31,795
Provision for Tax	(1,320)	(7,784)	(7,476)	(11,128)
PAT	4,958	8,066	12,729	20,667
Extra ordinary Items	0	0	0	0
Share of JV/ Associate	0	0	0	0
Adj. PAT	4,958	8,066	12,729	20,667

Cash Flow Statement (Rs Mn)	FY17	FY18E	FY19E	FY20E
Pre tax Profit	6278	15850	20204	31795
Add: Dep. & Amortization	8488	7864	9002	9437
Total tax paid	(1320)	(7784)	(7476)	(11128)
Other Adjustments	11730	38228	54817	(462295)
Cash Profit	25177	54158	76548	(432191)
(Inc) / Dec in				
Sundry Debtors	1163	12750	(4944)	84434
Inventories	11136	(27423)	(2682)	92693
Loans & Advances	(145)	(33690)	(5192)	41197
Current liabilities & Trade payables	(27717)	4213	(18468)	238504
Change in Working Capital	(15563)	(44150)	(31286)	456828
CF from Operating Activities	9614	10008	45262	24637
CF from Investing Activities	3969	2879	925	2468
CF from Financing Activities	(5113)	(7250)	(9344)	(12967)
Cash Generated (Utilised)	8469	5636	36843	14138
Cash at the start of year	100860	104918	112912	149755
Cash at the end of year	104918	112912	149755	163893

Balance Sheet (Rs Mn)	FY17	FY18E	FY19E	FY20E
Equity Capital	4,895	7,343	7,343	7,343
Reserves	318,049	318,668	324,483	333,924
Net Worth	322,944	326,011	331,826	341,267
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	331,826	341,267
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	149,755	163,893
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)	(79,490)	(84,434)
Current Liabilities	(103,130)	(132,010)	(140,546)	(154,070)
Provisions	(91,929)	(87,059)	(97,091)	(107,112)
Working Capital	241,170	250,701	257,937	269,806
Deffered Tax Liabilities	38,414	36,259	36,259	36,259
Capital Deployed	323,840	326,583	331,826	341,267

Ratios	FY17	FY18E	FY19E	FY20E
OPM	3.9	6.7	7.0	8.9
NPM	1.8	2.8	3.9	5.5
Tax Rate %	(21.0)	(49.1)	(37.0)	(35.0)

Growth Ratio (%)	FY17	FY18E	FY19E	FY20E
Net Sales	10.4	2.3	13.6	14.4
Operating Profit	(180.6)	75.6	19.7	44.8
PAT	(169.9)	62.7	57.8	62.4

Per Share	FY17	FY18E	FY19E	FY20E
Earning Per Share (EPS)	1.4	2.2	3.5	5.6
Cash Earnings (CPS)	3.7	4.3	5.9	8.2
Dividend	0.4	1.0	1.6	2.6
Book Value	88.0	88.8	90.4	93.0
Free Cash flow	6,291	6,248	38,253	17,628

Valuation Ratios	FY17	FY18E	FY19E	FY20E
P/E (x)	62.8	38.6	24.5	15.1
P/B (x)	1.0	1.0	0.9	0.9
EV / Sales	0.7	0.7	0.5	0.4
EV / EBITDA	18.8	10.3	7.0	4.4
Div. Yield (%)	0.5	1.2	1.9	3.1
FCF Yield (%)	7,419	7,368	45,110	20,787

Return Ratios (%)	FY17	FY18E	FY19E	FY20E
ROE	1.5	2.5	3.8	6.1
ROCE*	3.0	5.6	6.6	9.8

* includes other income



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