

June 13, 2020

## Q4FY20 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	HOLD		HOLD	
Target Price	34		50	
Sales (Rs. m)	2,19,642	2,92,252	2,64,492	3,14,072
% Chng.	(17.0)	(6.9)		
EBITDA (Rs. m)	4,120	16,503	8,437	19,042
% Chng.	(51.2)	(13.3)		
EPS (Rs.)	0.3	2.9	1.4	3.8
% Chng.	(81.7)	(25.1)		

### Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. bn)	303	215	220	292
EBITDA (Rs. bn)	21	(2)	4	17
Margin (%)	7.1	(1.1)	1.9	5.6
PAT (Rs. bn)	12	(15)	1	10
EPS (Rs.)	3.5	(4.2)	0.3	2.9
Gr. (%)	58.9	(221.2)	(106.2)	992.2
DPS (Rs.)	1.9	2.3	0.1	1.5
Yield (%)	6.0	7.2	0.4	4.9
RoE (%)	3.8	(4.9)	0.3	3.4
RoCE (%)	5.0	(2.2)	(0.3)	3.2
EV/Sales (x)	0.2	0.4	0.1	0.2
EV/EBITDA (x)	2.8	(40.9)	6.8	3.4
PE (x)	9.0	(7.4)	120.1	11.0
P/BV (x)	0.3	0.4	0.4	0.4

### Key Data

BHEL.BO | BHEL IN

52-W High / Low	Rs.76 / Rs.18
Sensex / Nifty	33,781 / 9,973
Market Cap	Rs.109bn / \$ 1,442m
Shares Outstanding	3,482m
3M Avg. Daily Value	Rs.2754.59m

### Shareholding Pattern (%)

Promoter's	63.17
Foreign	9.36
Domestic Institution	17.81
Public & Others	9.66
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	46.0	(30.5)	(54.0)
Relative	35.6	(16.5)	(45.8)

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## Weak execution, recovery awaited

### Quick Pointers:

- Execution impacted in 4QFY20 due to supply side constraints (since Jan'20), delay in receivables and nationwide lockdown.
- For FY20, order inflows came in at Rs235bn translating an order backlog of Rs1.08trn.

**BHEL reported weak performance for the quarter where both segments Power/Industry revenue de-grew by 61%/18% YoY. During the quarter, order inflows de-grew by 5% YoY led by muted ordering activity, deferment due to Covid-19 Pandemic and overall stress in power sector. Current order backlog stands at Rs1.08trn that provides revenue visibility for the future. Despite poor 4Q performance, the company witnessed some improvement in terms of debtors (down by 22%), operating cash flow (Rs10bn decline from FY19), rise in cash collection to billing ratio and lower operating expense (Rs23bn reduction in FY20). Going ahead, the company would continue to focus on cash collection, execution and high margins projects (venturing into new segments such Aerospace, Defence, Railways, etc).**

**In term short to medium term, BHEL would continue to face challenges such as lower order inflow traction, softer execution, margin pressure as well as higher receivables. This could hamper company's medium term prospects. Management's focus on transformation strategy to diversify in the non-power business would aid near term revenue visibility. We have cut FY21E/FY22E earnings by 81.7%/25.1% factoring weak macro environment and impact of pandemic and maintaining Hold with TP of Rs34.**

**Miss on all fronts due to weak execution:** Sales came in at ~Rs50.5bn (down 51% YoY) vs (PLe ~Rs86bn) due to delay in execution. EBITDA declined by 141% YoY which came in negative at Rs5.6bn (PLe ~Rs4bn) with EBITDA margins coming in at -11% in 4QFY20 vs 13% in 4QFY19 on account of higher RM cost and lower operating performance. PBT de-grew by 156% YoY which came negative at Rs7.1bn due to higher interest cost (up, 46% YoY) and depreciation (up, 15% YoY). Other income increased by 23% YoY at Rs1.5bn. On bottom line, BHEL reported loss of Rs15bn (PLe ~Rs2.8bn)

**Order inflow down 5% YoY:** BHEL's order inflow for the quarter came at Rs62.6bn down 5% YoY (OI for FY20 was flat YoY) majorly driven by industry segment which grew by 82% YoY in 4Q (For FY20 OI was up 25% YoY). This included higher order booking in solar, Defence and transmission verticals. Major orders received in power segment were 2\*660MW TG package, FGD projects for 10GW capacity, boiler modification for about 3GW capacity and ESP retrofit for about 2GW capacity of power plants. Order backlog at the end of 4QFY20 stands at Rs1.08trn, flat YoY. This includes OB of Power segment Rs869bn, Industry Rs133.5bn and Exports Rs82bn. The company is also on the lookout for diversification opportunities to open up more sales avenues.

**Exhibit 1: Miss on all fronts due to weak economic environment and pandemic (Rs mn)**

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
Net Revenue	50,493	1,03,709	(51.3)	56,794	(11.1)	2,14,861	3,04,227	(29.4)
EBITDA	(5,617)	13,852	NA	3,287	NA	(2,329)	21,320	NA
EBITDA Margin (%)	(11.1)	13.4		5.8		(1.1)	7.0	
Other Income	1,482	1,209	22.6	1,512	(2.0)	5,806	6,776	(14.3)
Depreciation	(1,543)	(1,342)	14.9	(1,145)	NA	(5,029)	(4,748)	5.9
Interest	(1,412)	(968)	45.8	(1,391)	NA	(5,070)	(2,873)	76.5
Profit before Tax	(7,090)	12,751	NA	2,263	NA	(6,621)	20,475	NA
Tax	(8,252)	(5,991)	NA	(675)	NA	(8,109)	(8,389)	NA
Reported PAT	(15,341)	6,760	NA	1,588	NA	(14,730)	12,087	NA
Adjusted PAT	(15,341)	6,760	NA	1,588	NA	(14,730)	12,087	NA
Net Margin (%)	(30.4)	6.5		2.8		(6.9)	4.0	
Adjusted EPS	-4.4	1.9		0.5		-4.2	3.5	

Source: Company, PL

**Exhibit 2: De-growth across segments (Rs mn)**

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	QoQ gr. (%)
<b>Revenue</b>					
Power	31,747	81,723	(61.2)	40,727	(22.0)
Industry	14,189	17,379	(18.4)	13,851	2.4
<b>Total</b>	<b>45,936</b>	<b>99,102</b>		<b>54,578</b>	<b>(15.8)</b>
<b>EBIT</b>					
Power	-79	12,967	(100.6)	4,326	(101.8)
Industry	-3,712	2,531	(246.7)	759	(589.2)
<b>Total</b>	<b>-3,791</b>	<b>15,498</b>		<b>5,085</b>	
<b>EBIT Margin (%)</b>					
Power	-0.2	15.9		10.6	
Industry	-26.2	14.6		5.5	

Source: Company, PL

## Conference Call Highlights:

- Apart from lockdown, the company was facing various execution challenges such as supply side issues from countries like China, Italy, European region, etc which impacted execution for 4QFY20.
- Management reiterates its strategy to become a global engineering company from power focus with exposure to better margins in emerging segments such as Contract manufacturing, Aerospace, Defence and Railways.
- Currently the situation continues to be challenging with issues like Labour, delay in payments and supply side constraints. As per the Management, it would take atleast 6-9months for operational efficiencies to come back to 85-90% (normal).
- Despite tepid economic environment (4% decline in IIP capital goods), the company was able to meet its order inflows guidance of Rs235bn in FY20. Of total inflows, power segment constitutes ~Rs138bn, Industry comprises of Rs87.6bn while remaining ~Rs10.06bn comprises from exports segments.
- Some of the key orders bagged in the power segment are a) 2 X 660MW TG package, b) FGD projects for 10GW capacity, c) boiler modification for about 3GW capacity and d) ESP retrofit for about 2GW capacity of power plants.
- The Industry segment witnessed a rise of 25% YoY in order inflows to Rs87.6bn (highest ever) primarily from Solar, Defence and Transmission verticals. However, management indicated margins could be challenging due to stiff competition primarily in the renewable space.
- On the international front, execution of 2 X 200MW oil fired boiler for thermal bas power plant in Syria has started again. Further, the company received notice to proceed for 1 X 660MW Sagar BG project which was on hold since 2018. The total project cost is ~Rs34.8bn
- Order book (OB) stands at ~Rs1.08trn as on 4QFY20 of which power sector constitutes ~Rs869bn, ~Rs133.5bn is constituted by industry sector and Rs81.8bn from exports.
- As strong tendering pipeline remains such as 2 X 660MW NTPC Talcher main plant package, FGD orders (~34GW FGD to be awarded), boiler modifications, 2 X 800MW NTPC Singrauli, 2 X 800MW NTPC Lara and 1 X 800MW SECL Adilabad extension.
- With constant measures, the company has seen some improvement in terms of debtors (down by 22%), operating cash flow has improved by Rs10bn from FY19, cash collection to billing ratio has been at 114% (highest in last 10 years) in FY20. Further, the company's focus on controlling & reducing its overheads has seen some fruits with operating expenses reducing by Rs23bn in FY20.

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Net Revenues</b>	<b>3,03,490</b>	<b>2,14,861</b>	<b>2,19,642</b>	<b>2,92,252</b>
YoY gr. (%)	5.3	(29.2)	2.2	33.1
Cost of Goods Sold	(1,78,228)	(1,37,116)	(1,31,785)	(1,78,273)
Gross Profit	1,25,261	77,745	87,857	1,13,978
Margin (%)	41.3	36.2	40.0	39.0
Employee Cost	(62,613)	(54,035)	(54,305)	(55,391)
Other Expenses	(32,814)	(19,593)	(23,062)	(33,609)
<b>EBITDA</b>	<b>21,421</b>	<b>(2,329)</b>	<b>4,120</b>	<b>16,503</b>
YoY gr. (%)	10.8	(110.9)	(276.9)	300.6
Margin (%)	7.1	(1.1)	1.9	5.6
Depreciation and Amortization	(4,748)	(5,029)	(5,037)	(5,232)
<b>EBIT</b>	<b>16,673</b>	<b>(7,357)</b>	<b>(918)</b>	<b>11,271</b>
Margin (%)	5.5	(3.4)	(0.4)	3.9
Net Interest	(2,869)	(5,070)	(5,479)	(6,005)
Other Income	6,776	5,806	7,614	8,027
<b>Profit Before Tax</b>	<b>20,580</b>	<b>(6,621)</b>	<b>1,217</b>	<b>13,293</b>
Margin (%)	6.8	(3.1)	0.6	4.5
Total Tax	(8,425)	(8,109)	(307)	(3,350)
Effective tax rate (%)	(40.9)	122.5	(25.2)	(25.2)
<b>Profit after tax</b>	<b>12,156</b>	<b>(14,730)</b>	<b>910</b>	<b>9,944</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>12,156</b>	<b>(14,730)</b>	<b>910</b>	<b>9,944</b>
YoY gr. (%)	50.7	(221.2)	(106.2)	992.2
Margin (%)	4.0	(6.9)	0.4	3.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>12,156</b>	<b>(14,730)</b>	<b>910</b>	<b>9,944</b>
YoY gr. (%)	50.7	(221.2)	(106.2)	992.2
Margin (%)	4.0	(6.9)	0.4	3.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,156	(14,730)	910	9,944
<b>Equity Shares O/s (m)</b>	<b>3,482</b>	<b>3,482</b>	<b>3,482</b>	<b>3,482</b>
<b>EPS (Rs)</b>	<b>3.5</b>	<b>(4.2)</b>	<b>0.3</b>	<b>2.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>58,292</b>	<b>61,006</b>	<b>64,124</b>	<b>66,668</b>
Tangibles	58,292	61,006	64,124	66,668
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>28,622</b>	<b>33,651</b>	<b>40,200</b>	<b>45,432</b>
Tangibles	28,622	33,651	40,200	45,432
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>29,670</b>	<b>27,355</b>	<b>23,924</b>	<b>21,236</b>
Tangibles	29,670	27,355	23,924	21,236
Intangibles	-	-	-	-
Capital Work In Progress	2,354	3,926	3,926	3,926
Goodwill	-	-	-	-
Non-Current Investments	6,694	6,695	6,695	6,695
Net Deferred tax assets	35,145	27,562	27,562	25,435
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	81,135	89,055	90,264	1,20,103
Trade receivables	1,59,448	1,23,781	1,32,387	1,52,131
Cash & Bank Balance	75,033	64,186	1,36,216	1,07,887
Other Current Assets	2,52,278	2,67,974	2,22,651	2,56,235
<b>Total Assets</b>	<b>6,44,160</b>	<b>6,12,714</b>	<b>6,46,152</b>	<b>6,97,011</b>
<b>Equity</b>				
Equity Share Capital	6,964	6,964	6,964	6,964
Other Equity	3,07,035	2,84,848	2,85,269	2,85,269
<b>Total Network</b>	<b>3,13,999</b>	<b>2,91,812</b>	<b>2,92,233</b>	<b>2,92,233</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	25,527	50,088	55,096	55,096
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,20,781	98,999	85,618	98,212
Other current liabilities	1,83,853	1,71,816	2,13,203	2,51,470
<b>Total Equity &amp; Liabilities</b>	<b>6,44,160</b>	<b>6,12,714</b>	<b>6,46,151</b>	<b>6,97,011</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	20,579	(6,621)	1,217	13,293
Add. Depreciation	4,748	5,029	5,037	5,232
Add. Interest	2,869	5,070	5,479	6,005
Less Financial Other Income	6,776	5,806	7,614	8,027
Add. Other	10,198	(5,806)	(7,614)	(8,027)
Op. profit before WC changes	38,394	(2,329)	4,120	16,503
Net Changes-WC	(73,001)	(21,547)	63,169	(41,128)
Direct tax	(4,207)	(8,109)	(307)	(3,350)
<b>Net cash from Op. activities</b>	<b>(38,815)</b>	<b>(31,984)</b>	<b>66,982</b>	<b>(27,976)</b>
Capital expenditures	10	-	-	-
Interest / Dividend Income	6,216	5,806	7,614	8,027
Others	12,923	(4,287)	(3,119)	(2,544)
<b>Net Cash from Inv. activities</b>	<b>19,149</b>	<b>1,519</b>	<b>4,495</b>	<b>5,484</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	25,117	24,560	5,009	5,510
Dividend paid	(7,870)	(9,258)	(489)	(5,342)
Interest paid	(946)	(5,070)	(5,479)	(6,005)
Others	(16,366)	9,384	-	-
<b>Net cash from Fin. activities</b>	<b>(65)</b>	<b>19,617</b>	<b>(960)</b>	<b>(5,837)</b>
<b>Net change in cash</b>	<b>(19,731)</b>	<b>(10,848)</b>	<b>70,518</b>	<b>(28,329)</b>
Free Cash Flow	(38,815)	(31,984)	66,982	(27,976)

Source: Company Data, PL Research

**Key Financial Metrics**

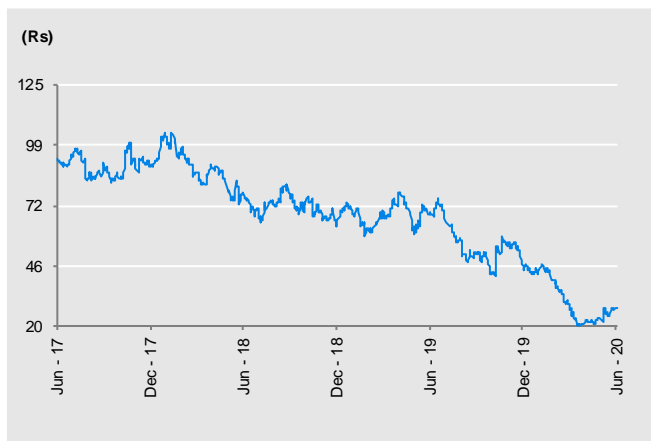
Y/e Mar	FY19	FY20	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	3.5	(4.2)	0.3	2.9
CEPS	2.1	(5.7)	(1.2)	1.4
BVPS	90.2	83.8	83.9	83.9
FCF	(11.1)	(9.2)	19.2	(8.0)
DPS	1.9	2.3	0.1	1.5
<b>Return Ratio(%)</b>				
RoCE	5.0	(2.2)	(0.3)	3.2
ROIC	9.1	0.6	(0.6)	5.9
RoE	3.8	(4.9)	0.3	3.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.2)	0.0	(0.3)	(0.2)
Net Working Capital (Days)	144	193	228	217
<b>Valuation(x)</b>				
PER	9.0	(7.4)	120.1	11.0
P/B	0.3	0.4	0.4	0.4
P/CEPS	14.8	(5.5)	(26.5)	23.2
EV/EBITDA	2.8	(40.9)	6.8	3.4
EV/Sales	0.2	0.4	0.1	0.2
Dividend Yield (%)	6.0	7.2	0.4	4.9

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Net Revenue</b>	<b>45,317</b>	<b>62,257</b>	<b>56,794</b>	<b>50,493</b>
YoY gr. (%)	(23.7)	(8.2)	(22.6)	(51.3)
Raw Material Expenses	(26,073)	(39,099)	(36,003)	(35,941)
Gross Profit	19,244	23,158	20,790	14,553
Margin (%)	42.5	37.2	36.6	28.8
<b>EBITDA</b>	<b>(2,667)</b>	<b>2,669</b>	<b>3,287</b>	<b>(5,617)</b>
YoY gr. (%)	(192.9)	10.8	50.3	(140.6)
Margin (%)	(5.9)	4.3	5.8	(11.1)
Depreciation / Depletion	(1,148)	(1,193)	(1,145)	(1,543)
<b>EBIT</b>	<b>(3,815)</b>	<b>1,476</b>	<b>2,142</b>	<b>(7,160)</b>
Margin (%)	(8.4)	2.4	3.8	(14.2)
Net Interest	(1,080)	(1,187)	(1,391)	(1,412)
Other Income	1,455	1,356	1,512	1,482
<b>Profit before Tax</b>	<b>(3,440)</b>	<b>1,645</b>	<b>2,263</b>	<b>(7,090)</b>
Margin (%)	(7.6)	2.6	4.0	(14.0)
Total Tax	1,277	(459)	(675)	(8,252)
Effective tax rate (%)	(37.1)	(27.9)	(29.8)	116.4
<b>Profit after Tax</b>	<b>(2,163)</b>	<b>1,186</b>	<b>1,588</b>	<b>(15,341)</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>(2,163)</b>	<b>1,186</b>	<b>1,588</b>	<b>(15,341)</b>
YoY gr. (%)	(239.0)	(36.0)	(17.3)	(327.0)
Margin (%)	(4.8)	1.9	2.8	(30.4)
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(2,163)</b>	<b>1,186</b>	<b>1,588</b>	<b>(15,341)</b>
YoY gr. (%)	(239.0)	(36.0)	(17.3)	(327.0)
Margin (%)	(4.8)	1.9	2.8	(30.4)
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>(2,163)</b>	<b>1,186</b>	<b>1,588</b>	<b>(15,341)</b>
Avg. Shares O/s (m)	3,482	3,482	3,482	3,482
<b>EPS (Rs)</b>	<b>(0.6)</b>	<b>0.3</b>	<b>0.5</b>	<b>(4.4)</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	16-Apr-20	Hold	50	21
2	11-Feb-20	Hold	47	39
3	03-Jan-20	Hold	60	45
4	14-Nov-19	Hold	60	55
5	03-Oct-19	Hold	63	47
6	12-Aug-19	Hold	56	57
7	04-Jul-19	Hold	77	73

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	836
2	Ahluwalia Contracts (India)	Accumulate	264	142
3	Apar Industries	BUY	587	368
4	Ashoka Buildcon	BUY	147	39
5	Bharat Electronics	Hold	89	70
6	BHEL	Hold	50	21
7	Capacite's Infraprojects	BUY	168	75
8	Container Corporation of India	Accumulate	595	572
9	Cummins India	BUY	493	385
10	Engineers India	BUY	83	67
11	GE T&D India	Hold	91	86
12	H.G. Infra Engineering	BUY	259	164
13	IRB Infrastructure Developers	BUY	127	53
14	ITD Cementation India	BUY	67	33
15	J.Kumar Infraprojects	BUY	340	185
16	Kalpataru Power Transmission	BUY	261	193
17	KEC International	BUY	295	197
18	KNR Constructions	BUY	305	197
19	Larsen & Toubro	BUY	1,192	955
20	NCC	BUY	83	23
21	PNC Infratech	BUY	205	94
22	Power Grid Corporation of India	BUY	205	160
23	Sadbhav Engineering	BUY	128	25
24	Siemens	BUY	1,402	1,049
25	Thermax	Accumulate	855	705
26	Triveni Turbine	BUY	109	66
27	Voltamp Transformers	BUY	1,244	1,020

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

## ANALYST CERTIFICATION

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