

Bharat Heavy Electricals

15 June 2020

Reuters: BHEL.BO; Bloomberg: BHEL IN

COVID-19 impacts execution; Outlook remains hazy

Bharat Heavy Electricals (BHEL) posted 51% YoY decline in 4QFY20 revenue at Rs50.5bn, much below our/consensus estimate of Rs82bn/Rs87bn, owing to loss of sales worth Rs40bn due to COVID-19 lockdown. Gross margin fell to 28.8% (vs. 42.9% YoY). Power segment revenue declined 61% YoY to Rs31.7bn (69% of total sales), while Industry segment revenue fell 18% YoY to Rs14.2bn (31% of total sales). Lower revenue led to negative EBITDA of Rs5.6bn in 4QFY20, leading to a negative EBITDA margin of 11.1% (vs. 13.4% YoY). While PBT stood at negative Rs7.1bn, tax expense was higher due to deferred tax worth Rs8.2bn. Consequently, net loss in 4QFY20 stood at Rs15.3bn (vs. profit of Rs6.8bn YoY). Order inflow in FY20 was flat YoY at Rs235bn while order backlog was also flat YoY/QoQ at Rs1,084bn. Being a large EPC firm BHEL is likely to face execution difficulties in FY21E due to lockdown, labour migration and weak financial health of SEBs. The challenging times for BHEL is likely to continue on account of lower order inflow traction, subdued execution, margin pressure and high receivables. To explore new business avenues, BHEL has floated a global expression of interest (EOI) inviting firms to partner with it by leveraging BHEL's manufacturing capabilities and facilities. However, whether it will offer any significant opportunities over the next two years is unknown at the moment. Factoring in the revised outlook, we have cut our earnings estimates and downgrade the stock to Sell (from Accumulate earlier) with a revised target price of Rs25 based on 12x FY22E earnings.

Order inflow position: BHEL reported order inflow of Rs235bn in FY20, flat YoY, with power/industry/exports mix of Rs138bn/Rs88bn/Rs10bn. In 4QFY20, order inflow was down 5% YoY at Rs63bn as award of tenders were deferred. BHEL expects projects such as NTPC Talcher, NTPC Lara, NTPC Singrauli, SCCL Adilabad and Adani Pench to be awarded in FY21E. Besides, FGD tenders worth 44GW are in the pipeline, of which 12GW are in advance stage of tendering. We are factoring in order inflow estimate of Rs300bn/Rs350bn for FY21E/FY22E. Order backlog was flat YoY/QoQ at Rs1,084bn, comprising segments of power (Rs869bn), industry (Rs133bn) and exports (Rs82bn).

Other updates: (1) Net receivables stood at Rs365bn in FY20 (v/s Rs387bn YoY) while the collectible debtors stood at Rs124bn in FY20 (v/s Rs158bn YoY). Debtors comprised of state utilities (47%), central PSUs (34%), private firms (11%) and exports (8%). (2) Retention money as on FY20 stood at Rs157bn compared to Rs149bn YoY. The higher retention money is on account of unfavourable project terms (earlier it used to be 10% of project value, now its 15%-20%) and certain customers purposefully delaying performance guarantee test to delay the payment to BHEL (~30% of retention money is stuck due to this). (3) BHEL is aggressively focusing on cost cutting initiatives in material costs, design, provisions (Rs22bn withdrawn in FY20) and other expenses (down by 47% YoY to Rs26bn in FY20). (4) BHEL has received good response to its global EOI with around 50 applications. Majority of them are in the sectors of defence, aerospace and railways. (5) BHEL aims to improve order book of R&M from Rs31bn to Rs50bn.

Outlook: With a rising preference for renewable energy generation, we are structurally negative on thermal power capacity addition in India. With insufficient order placement activity, 3% RoE/RoCE in FY22E and a high debtor position (amid declining financial health of SEBs), we expect BHEL's stress to continue.

Key upside triggers: Key upside triggers for BHEL are sudden revival in thermal power capex, fall in competitive intensity (leading to better realisation), foray into new business segments having potential for large-sized orders and favourable outcome of global EOI (strategic partnerships / takeover of assets).

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SELL

Sector: Capital Goods

CMP: Rs31

Target Price: Rs25

Downside: 20%

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Key Data

Current Shares O/S (mn)	3,482.1
Mkt Cap (Rsbn/US\$bn)	109.3/1.4
52 Wk H / L (Rs)	76/18
Daily Vol. (3M NSE Avg.)	56,673,170

Price Performance (%)

	1 M	6 M	1 Yr
BHEL	14.4	(32.7)	(54.3)
Nifty Index	9.2	(17.5)	(15.7)

Source: Bloomberg

Y/E March (Rsmn)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Net revenues	103,709	56,794	50,493	(51.3)	(11.1)	304,227	214,861	(29.4)
Raw material costs	59,223	36,003	35,941	(39.3)	(0.2)	178,465	137,116	(23.2)
Staff costs	10,697	13,709	11,103	3.8	(19.0)	55,016	54,035	(1.8)
Other expenses	19,936	3,795	9,067	(54.5)	138.9	49,426	26,039	(47.3)
Total expenditure	89,857	53,506	56,111	(37.6)	4.9	282,907	217,189	(23.2)
EBITDA	13,852	3,287	(5,617)	NA	NA	21,320	(2,329)	NA
EBITDA margin (%)	13.4	5.8	(11.1)	-	-	7.0	(1.1)	-
Depreciation	1,342	1,145	1,543	14.9	34.8	4,748	5,029	5.9
Interest costs	968	1,391	1,412	45.8	1.5	2,873	5,070	76.5
Other income	1,209	1,512	1,482	22.6	(2.0)	6,776	5,806	(14.3)
PBT	12,751	2,263	(7,090)	NA	NA	20,475	(6,621)	NA
Tax	5,991	675	8,252	37.7	1,122.8	8,389	8,109	(3.3)
PAT	6,760	1,588	(15,341)	NA	NA	12,087	(14,730)	NA
PAT margin (%)	6.5	2.8	(30.4)	-	-	4.0	(6.9)	-
EPS (Rs)	1.9	0.5	(4.4)	NA	NA	3.5	(4.2)	NA

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Financial summary

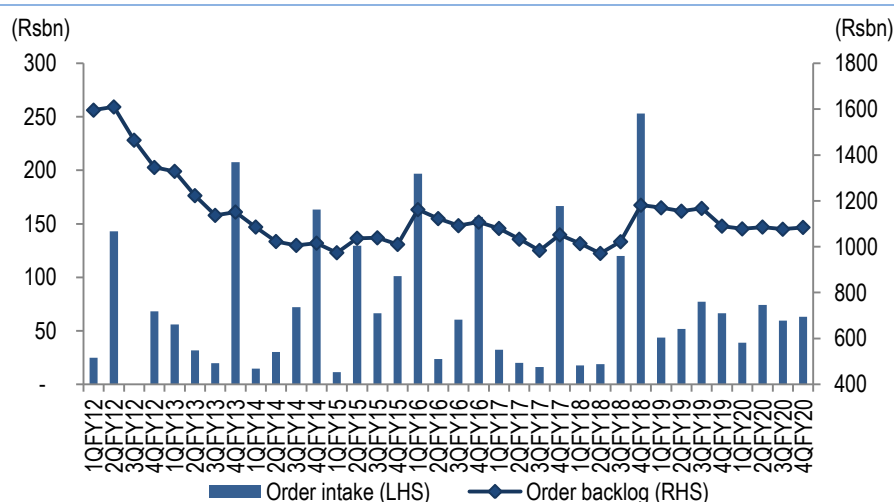
Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net revenues	289,257	304,227	214,861	196,402	277,339
EBITDA	19,317	21,320	(2,329)	(6,712)	14,547
Net profit	8,066	12,087	(14,730)	(12,412)	7,172
EPS (Rs)	2.3	3.5	(4.2)	(3.6)	2.1
EPS growth (%)	62.7	49.8	NA	(15.7)	NA
EBITDA margin (%)	6.7	7.0	(1.1)	(3.4)	5.2
P/E (x)	13.4	8.9	(7.3)	(8.7)	15.1
P/BV (x)	0.3	0.3	0.4	0.4	0.4
EV/EBITDA (x)	(0.2)	2.7	(40.3)	(16.9)	6.3
Dividend yield (%)	6.2	6.5	0.0	0.0	1.6
RoCE (%)	3.5	4.9	(2.2)	(3.9)	2.5
RoE (%)	2.5	3.8	(5.0)	(4.4)	2.5

Source: Company, Nirmal Bang Institutional Equities Research

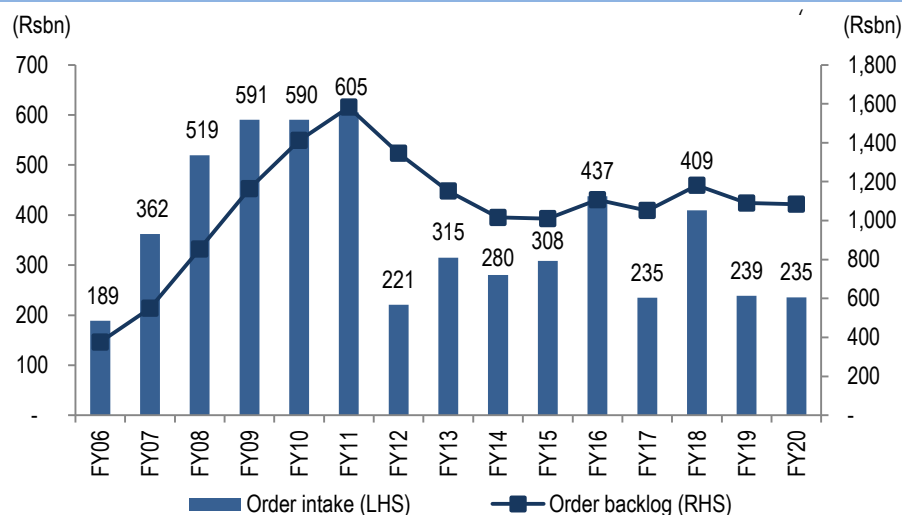
Exhibit 2: Segment-wise snapshot

Y/E March	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Revenues (Rsmn)								
Power	81,723	40,727	31,747	(61.2)	(22.0)	234,739	149,604	(36.3)
Industry	17,379	13,851	14,189	(18.4)	2.4	59,490	55,302	(7.0)
Revenue mix (%)								
Power	82.5	74.6	69.1	-	-	79.8	73.0	-
Industry	17.5	25.4	30.9	-	-	20.2	27.0	-
EBIT (Rsmn)								
Power	12,967	4,326	(79)	NA	NA	28,023	8,043	(71.3)
Industry	2,531	759	(3,712)	NA	NA	4,369	(2,058)	NA
EBIT margin (%)								
Power	15.9	10.6	(0.2)	-	-	11.9	5.4	-
Industry	14.6	5.5	(26.2)	-	-	7.3	(3.7)	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Quarterly order inflow and backlog position


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Annual order inflow trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Actual performance versus our estimates, Bloomberg consensus estimates

4QFY20 (Rsmn)	Actual	Our estimate	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenues	50,493	82,425	(38.7)	87,312	(42.2)
EBITDA	(5,617)	7,118	NA	8,977	NA
PAT	(15,341)	4,238	NA	5,176	NA

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 6: Change in our estimates

(Rsmn)	Old		New		Deviation (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenues	272,431	297,843	196,402	277,339	(27.9)	(6.9)
EBITDA	12,997	17,042	(6,712)	14,547	NA	(14.6)
PAT	7,092	10,583	(12,412)	7,172	NA	(32.2)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Upcoming EPC/BTG projects for bidding

Project	State	Developer	Unit size (MW)
Singreni (Adilabad) #	Telangana	SCCL	1x800
Talcher #	Odisha	NTPC	2x660
Talabira	Odisha	NLC	3x800
Lara	Chhattisgarh	NTPC	2x800
Singrauli	Uttar Pradesh	NTPC	2x660
Neyveli	Tamil Nadu	NLC	2x660
Ennore	Tamil Nadu	TANGEDCO	1x660
Pench	Madhya Pradesh	Adani Power	2x660

Note: # BHEL has L1 status; Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 8: Key BTG projects awarded over the past five years in India

Project	Developer	Winner	Value (Rsbn)	Unit size (MW)	Scope
Khurja	THDC	BHEL	16.0	2x660	TG
Khurja	THDC	L&T	26.0	2x660	Boiler
Buxar	SJVN	L&T	70.0	2x660	EPC
Sagardighi	WBPDC	BHEL	35.0	1x660	EPC
Panki	UPRVUNL	BHEL	44.0	1x660	EPC
Patratu	NTPC-JBVNL	BHEL	117.0	3x800	EPC
Bhusawal	MAHAGENCO	BHEL	37.5	1x660	EPC
Udangudi	TANGEDCO	BHEL	73.0	2x660	EPC
Maitree (Rampal)	NTPC-BPDB	BHEL	100.0	2x660	EPC + extended BoP
Bithnork and Barsingsar	Neyveli Lignite	Reliance Infra	36.9	1x250 each	EPC
Ghatampur	Neyveli Lignite	Bharat Forge - Alstom	23.0	3x660	TG
Ghatampur	Neyveli Lignite	L&T	38.6	3x660	Boiler
Rourkela	NSPCL	BHEL	16.0	1x250	EPC
Uppur	TANGEDCO	BHEL	56.0	2x800	BTG
Tuticorin	SPIC Electric	BHEL	12.0	1x525	BTG
Karimnagar	NTPC	Bharat Forge - Alstom	15.0	2x800	TG
Karimnagar	NTPC	BHEL	35.0	2x800	Boiler
North Chennai	TANGEDCO	BHEL	27.6	1x800	BTG
Barh 1	NTPC	Doosan	20.0	3x660	Boiler
Vijaywada*	APGENCO	BHEL	23.1	1x800	BTG
Krishnapatnam*	APGENCO	BHEL	23.1	1x800	BTG
Harduaganj	UPRVUNL	Toshiba - JSW	35.0	1x660	EPC
Yadadri*	TSGENCO	BHEL	204.0	5x800	EPC
Khargone	NTPC	L&T	55.8	2x660	EPC
Manuguru*	TSGENCO	BHEL	50.0	4x270	EPC
Kothagudem*	TSGENCO	BHEL	38.1	1x800	EPC
Yelahanka	KPCL	BHEL	12.0	1x370	EPC
Wanakbori	GSECL	BHEL	35.4	1x800	EPC
Ennore SEZ	TNEB	BHEL	78.0	2x660	EPC + extended BoP
Shree Singaji	MPGENCO	L&T	51.0	2x660	EPC
Tanda	NTPC	L&T	18.9	2x660	Boiler
Tanda	NTPC	Bharat Forge - Alstom	11.4	2x660	TG
Ennore	TNEB	LancoInfratech	39.6	1x660	EPC + extended BoP

Note: *Three projects in Telangana and two projects in Andhra Pradesh awarded to BHEL on nomination basis

Source: Respective companies, Industry, Nirmal Bang Institutional Equities Research

Financial statement

Exhibit 9: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	289,257	304,227	214,861	196,402	277,339
YoY growth (%)	1.7	5.2	(29.4)	(8.6)	41.2
Raw material costs	161,435	178,465	137,116	124,554	176,817
Staff costs	60,673	55,016	54,035	53,029	52,695
Other overheads	47,832	49,426	26,039	25,532	33,281
Total expenditure	269,941	282,907	217,189	203,114	262,793
EBITDA	19,317	21,320	(2,329)	(6,712)	14,547
YoY growth (%)	82.0	10.4	NA	188.2	NA
EBITDA margin (%)	6.7	7.0	(1.1)	(3.4)	5.2
Other income	6,943	6,776	5,806	5,303	6,101
Interest costs	2,546	2,873	5,070	5,009	4,909
Depreciation	7,864	4,748	5,029	5,994	6,156
Profit before tax	15,850	20,475	(6,621)	(12,412)	9,584
Tax	7,784	8,389	8,109	-	2,412
Net profit	8,066	12,087	(14,730)	(12,412)	7,172
PAT margin (%)	2.8	4.0	(6.9)	(6.3)	2.6
EPS (Rs)	2.3	3.5	(4.2)	(3.6)	2.1
YoY growth (%)	62.7	49.8	NA	(15.7)	NA

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
EBIT	11,453	16,572	(7,357)	(12,706)	8,391
(Inc.)/dec. in working capital	(2,690)	(51,923)	(21,311)	(10,984)	12,730
Cash flow from operations	8,763	(35,352)	(28,669)	(23,690)	21,121
Other income	6,943	6,776	5,806	5,303	6,101
Depreciation	7,864	4,748	5,029	5,994	6,156
Tax paid (-)	(5,629)	(7,103)	(697)	-	(2,412)
Net cash from operations	17,941	(30,931)	(18,531)	(12,393)	30,966
Capital expenditure (-)	(2,938)	(4,056)	(4,285)	(2,141)	(3,000)
Net cash after capex	15,003	(34,987)	(22,816)	(14,534)	27,966
Interest paid (-)	(2,546)	(2,873)	(5,070)	(5,009)	(4,909)
Dividends paid (-)	(7,818)	(8,148)	-	-	(1,741)
Inc./(dec.) in total borrowings	(324)	24,700	24,816	-	-
(Inc.)/dec. in investments	(293)	214	(2)	-	-
Cash from financial activities	(10,980)	(1,387)	11,969	(5,009)	(6,650)
Others	2,818	(352)	-	-	-
Opening cash balance	104,918	111,759	75,033	64,186	44,643
Closing cash balance	111,759	75,033	64,186	44,643	65,959
Change in cash balance	6,841	(36,725)	(10,848)	(19,543)	21,316

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	7,343	6,964	6,964	6,964	6,964
Reserves	318,668	307,354	284,848	272,436	277,866
Net worth	326,011	314,318	291,812	279,400	284,830
Total loans	572	25,272	50,088	50,088	50,088
Total liabilities	326,583	339,590	341,900	329,487	334,918
Net block	29,775	28,839	27,355	26,428	23,272
Capital work in progress	2,941	3,185	3,926	1,000	1,000
Investments	6,907	6,694	6,695	6,695	6,695
Inventories	62,588	77,973	89,055	71,305	72,970
Debtors	175,013	157,960	123,781	124,784	142,291
Cash	111,759	75,033	64,186	44,643	65,959
Other current assets	211,939	259,653	270,156	263,319	297,352
Total current assets	561,299	570,619	547,176	504,050	578,571
Creditors	110,659	120,781	98,999	88,723	121,108
Other current liabilities & provisions	199,939	183,940	171,816	147,525	181,074
Total current liabilities	310,598	304,721	270,815	236,248	302,182
Net current assets	250,700	265,898	276,362	267,802	276,389
Deferred tax asset (net)	36,259	34,974	27,562	27,562	27,562
Total assets	326,583	339,590	341,900	329,487	334,918

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Key ratios

Y/E March	FY18	FY19	FY20	FY21E	FY22E
Per share (Rs)					
EPS	2.3	3.5	(4.2)	(3.6)	2.1
Book value	93.6	90.3	83.8	80.2	81.8
Valuation (x)					
P/E	13.4	8.9	(7.3)	(8.7)	15.1
P/BV	0.33	0.34	0.37	0.39	0.38
EV/EBITDA	(0.2)	2.7	(40.3)	(16.9)	6.3
EV/sales	(0.0)	0.2	0.4	0.6	0.3
Return ratios (%)					
RoCE	3.5	4.9	(2.2)	(3.9)	2.5
RoE	2.5	3.8	(5.0)	(4.4)	2.5
RoIC	5.5	6.4	(2.7)	(4.6)	3.2
Profitability ratios (%)					
EBITDA margin	6.7	7.0	(1.1)	(3.4)	5.2
EBIT margin	4.0	5.4	(3.4)	(6.5)	3.0
PAT margin	2.8	4.0	(6.9)	(6.3)	2.6
Turnover ratios					
Total asset turnover ratio (x)	0.9	0.9	0.6	0.6	0.8
Debtor days	228	196	220	245	195
Inventory days	82	97	159	140	100
Creditor days	250	247	264	260	250

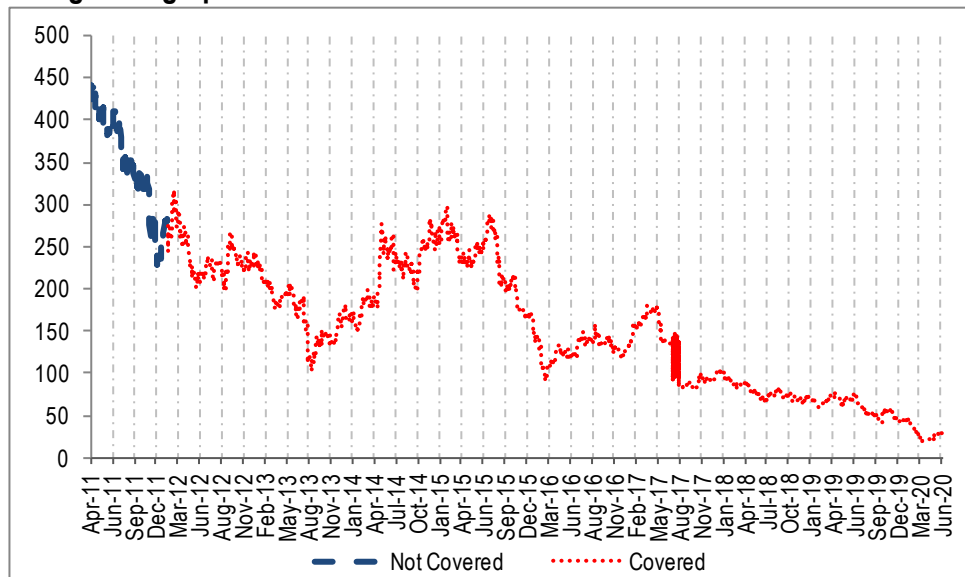
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
27 January 2012	Buy	281	327
30 January 2012	Buy	274	327
4 April 2012	Hold	264	286
13 April 2012	Hold	257	286
24 May 2012	Hold	209	221
27 July 2012	Hold	212	221
20 September 2012	Hold	216	221
4 October 2012	Sell	249	221
30 October 2012	Sell	227	221
7 January 2013	Sell	242	221
4 February 2013	Sell	225	215
26 March 2013	Sell	180	170
8 April 2013	Sell	183	170
9 April 2013	Sell	182	170
24 May 2013	Sell	196	165
9 July 2013	Sell	183	165
5 August 2013	Sell	150	130
7 October 2013	Sell	144	130
7 November 2013	Sell	140	113
7 January 2014	Sell	164	113
6 February 2014	Sell	161	107
7 April 2014	Sell	184	107
11 April 2014	Sell	186	107
2 June 2014	Sell	242	168
10 July 2014	Sell	243	168
13 August 2014	Sell	224	160
9 October 2014	Sell	219	160
17 November 2014	Sell	246	190
29 December 2014	Sell	251	190
9 January 2015	Sell	257	190
13 February 2015	Sell	268	202
7 April 2015	Sell	235	202
15 April 2015	Sell	242	202
27 May 2015	Sell	241	205
8 July 2015	Sell	259	205
10 August 2015	Sell	266	200
12 October 2015	Sell	202	200
9 November 2015	Sell	192	174
8 January 2016	Sell	164	174
12 February 2016	Sell	120	105
8 April 2016	Sell	119	105
12 April 2016	Sell	127	105
30 May 2016	Sell	128	105
12 July 2016	Sell	138	105
8 September 2016	Sell	160	120
13 October 2016	Sell	132	120
9 November 2016	Sell	143	130
10 January 2017	Sell	128	130
8 February 2017	Sell	152	126
14 February 2017	Sell	155	140
7 April 2017	Sell	175	140
30 May 2017	Sell	153	132
6 July 2017	Sell	136	132
11 August 2017	Sell	126	116
9 October 2017	Sell	87	77
8 November 2017	Sell	93	82
9 January 2018	Sell	101	82
9 February 2018	Sell	95	90
6 April 2018	Sell	87	90
30 May 2018	Sell	84	78
10 July 2018	Sell	72	78
26 July 2018	Accumulate	72	73
9 October 2018	Accumulate	70	73
26 October 2018	Accumulate	70	75
9 January 2019	Accumulate	70	75
6 February 2019	Accumulate	59	66
9 April 2019	Accumulate	71	71
28 May 2019	Accumulate	73	81
9 July 2019	Accumulate	67	81
9 August 2019	Accumulate	57	63

23 September 2019	Accumulate	52	56
7 October 2019	Accumulate	43	56
14 November 2019	Accumulate	54	56
9 January 2020	Accumulate	45	56
12 February 2020	Accumulate	38	40
26 March 2020	Accumulate	20	21
9 April 2020	Accumulate	22	21
15 June 2020	Sell	31	25

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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