

Execution further deteriorates amid Covid-19...

Bhel's Q4FY20 revenues were at ₹ 5049.3 crore with a significant fall of 51% YoY impacted by execution headwinds and Covid-19. It registered a loss of revenue of ~ ₹ 4000 crore owing to Covid-19. On the segmental front, power segment revenues declined 61% to ₹ 3174.7 crore YoY whereas industrial segment revenue declined 18% to ₹ 1419 crore YoY. The company registered EBITDA loss of ₹ 561.7 crore (vs. EBITDA of ₹ 1395 crore in Q4FY19) YoY owing to lesser revenue booking and higher-than-expected operating expenses. Net loss came in at ₹ 1534 crore (vs. net profit of ₹ 682.7 crore in Q4FY19) owing to significant increase in interest expense (up 46%, YoY) and higher effective tax rate (due to deferred tax adjustment).

Order inflows impacted by deferral of key projects...

During Q4FY20, order inflow came in at ₹ 6405 crore, down 3.4% YoY, (₹ 3031 crore from power segment, ₹ 3301 crore from industrial segment, ₹ 73 crore from exports segment). For FY20, order inflows were at ₹ 23547 crore, down 1%, YoY. Bhel's order backlog as on Q4FY20 was at ₹ 108443 crore. It is favourably placed in orders like Talcher power plant. However, few projects in the power sector including Lara, Singrauli, Pench power plants are getting deferred for awarding/ tendering and likely to get awarded in H2FY21E. On industrial side, Bhel expects to gain good traction in solar EPC, railway electrification, locomotives, aerospace and defence manufacturing owing to Atmanirbhar Bharat package and 'Make in India'.

Operational transformation, 'Make in India'; key to revival...

Bhel has initiated a transformational strategy to improve operational performance, working capital situation and recently floated a global expression on interest (EoI) for utilising its manufacturing facilities and industrial land under 'Make in India' in which it has received 50+ responses across contract manufacturing, defence, aerospace and railways and expects contract manufacturing to materialise in near term. However, recent execution headwinds due to various issues and Covid-19 need to pick up quickly to recover reduced revenues. We build in order inflows to the tune of ₹ 20000 crore and ₹ 22200 crore in FY21E and FY22E, respectively.

Valuation & Outlook

Execution challenges and high level of receivables (₹ 36471 crore, down 5.5% vs. FY19) are key concerns and could hamper medium term growth prospects. However, transformation strategy to optimise operational cost and initiatives like utilisation of manufacturing facilities & industrial land are likely to help diversify in non-power business and aid long term revenue visibility. We revise our target price to ₹ 33 (15x FY22EPS) and maintain our **HOLD** rating. Key risk: Power sector outlook and structural changes remain key concerns.



Particulars

Particular	Amount
Market Capitalization	₹10968.5 Crore
Total Debt (FY 20)	₹5008.7 Crore
Cash & Inv. (FY 20)	₹417.7 Crore
EV	₹9559.5 Crore
52 week H/L	₹76 /19
Equity capital	₹696.4 Crore
Face value	₹2

Key Highlights

- Q4FY20 order inflow at ~₹ 6405 crore, which declined 3.4% YoY
- Reported EBITDA loss of ₹ 561.7 crore (vs. EBITDA of ₹ 1395 crore in Q4FY19) YoY owing to less revenue booking and higher-than-expected operating expenses
- Revise our target price to ₹ 33 (15x FY22EPS) and maintain HOLD rating. However, execution headwinds, long term power sector outlook remains key concern.

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Key Financial Summary

Particulars (₹ crore)	FY18	FY19	FY20P	FY21E	FY22E	CAGR (FY20-FY22E)
Net Sales	28,666.9	30,349.0	21,486.1	17,366.4	23,090.0	3.7%
EBITDA	1,343.4	2,142.0	(232.8)	(290.7)	1,508.0	-
EBITDA Margin (%)	4.7	7.1	(1.1)	(1.7)	6.5	-
Net Profit	806.6	1,215.4	(1,472.9)	(725.7)	751.6	-
EPS (₹)	3.3	3.5	(4.2)	(2.1)	2.2	-
P/E (x)	9.1	8.6	(7.1)	(14.4)	13.9	-
RoNW (%)	2.5	3.9	(5.0)	(2.6)	2.7	-
RoCE (%)	5.6	6.9	(0.5)	(1.4)	4.5	-

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY19	YoY (Chg %)	Q3FY20	QoQ (Chg %)	Comments
Revenue	5,049.3	10,297.2	-51.0	5,679.4	-11.1	Revenue decline due to execution headwinds and Covid-19
Other Income	148.2	120.9	22.6	151.2	-2.0	
Employee Expenses	1,110.3	1,980.9	-43.9	1,370.9	-19.0	
Raw Material Expenses	3,594.0	5,840.0	-38.5	3,600.3	-0.2	Raw material expenses increased due to gross margin decline
Provision For Bad Debt	0.0	0.0	-	0.0	-	
Other Operating Expenses	906.7	1,081.1	-16.1	379.5	138.9	
EBITDA	-561.7	1,395.2	-140.3	328.7	-270.9	
EBITDA Margin (%)	-11.1	13.5	-2467 bps	5.8	-1691 bps	
Depreciation	154.3	134.2	14.9	114.5	34.8	
Interest	141.2	96.4	46.4	139.1	1.5	
PBT	-708.9	1,285.4	-155.2	226.3	-413.3	
Total Tax	825.2	602.7	36.9	67.5	1,122.8	
PAT	-1,534.1	682.7	-324.7	158.8	-1,065.9	PAT decline owing to increase in interest expense and effective tax rate (due to deferred tax adjustment)
Key Metrics						
Power segment rev.	3,174.7	8,172.0	-61.2	4,072.7	-22.0	
Industry segment rev.	1,418.9	1,737.0	-18.3	1,385.1	2.4	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
(₹Crore)							
Revenue	27,936.0	17,366.4	-37.8	-	23,090.0	-	Revise execution rates in tandem with headwinds
EBITDA	1,703.5	-290.7	-117.1	-	1,508.0	-	
EBITDA Margin (%)	6.1	-1.7	-20bps	-	6.5	-	
PAT	819.0	-725.7	-188.6	-	751.6	-	
EPS (₹)	2.4	-2.1	-186.8	-	2.2	-	

Source: Company, ICICI Direct Research

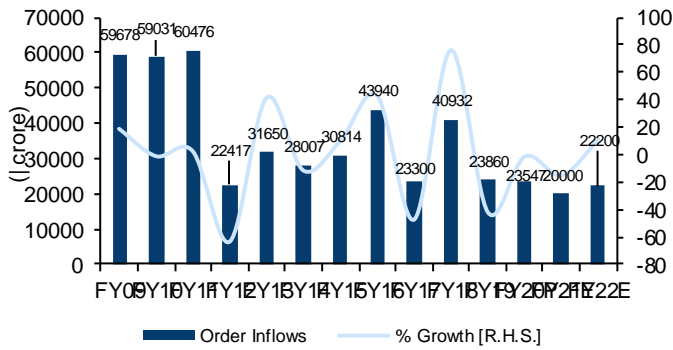
Exhibit 3: Assumptions

	Current				Earlier	
	FY 19	FY 20E	FY 21E	FY 22E	FY 21E	FY 22E
Order Inflow growth	-41.7	-1.3	-15.1	11.0	2.0	-
Order Backlog growth	-4.7	-3.6	3.2	-0.1	2.3	-
Revenue growth	5.9	-29.2	-19.2	33.0	5.7	-
EBITDA Margins	7.1	-1.1	-1.7	6.5	6.1	-

Source: Company, ICICI Direct Research

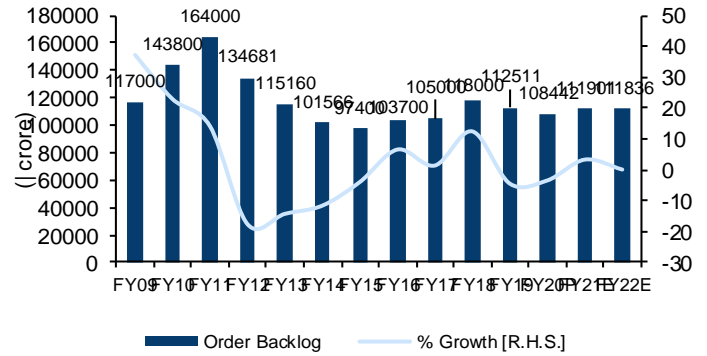
Financial story in charts

Exhibit 2: Order inflows trend over FY09-22E



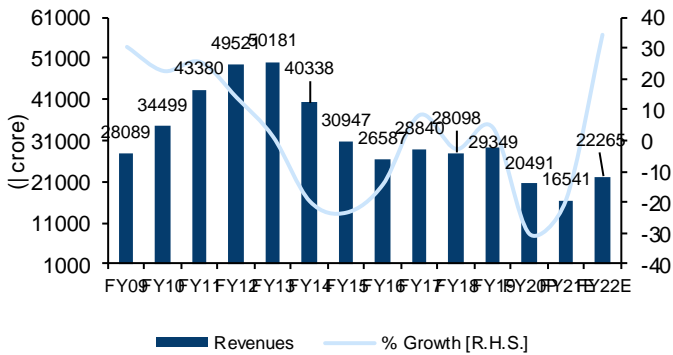
Source: ICICI Direct Research, Company

Exhibit 3: Order backlog trend over FY09-22E



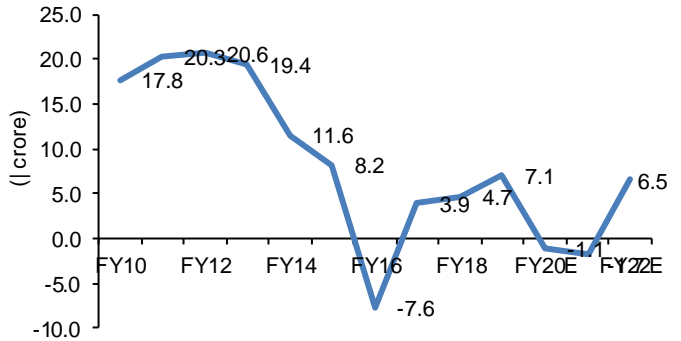
Source: ICICI Direct Research, Company

Exhibit 4: Overall revenue to decline over FY09-22E...



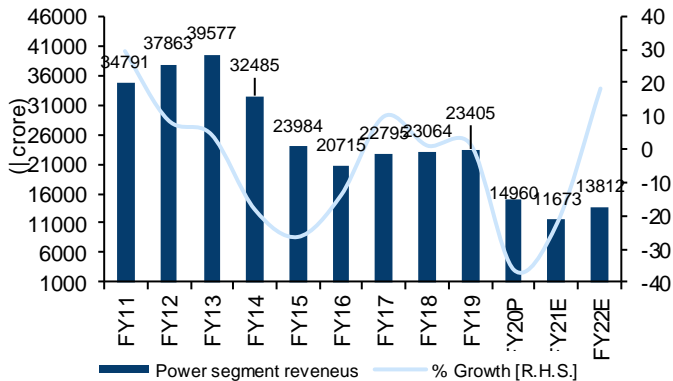
Source: Company, ICICI Direct Research

Exhibit 5: Trend in EBITDA margins...



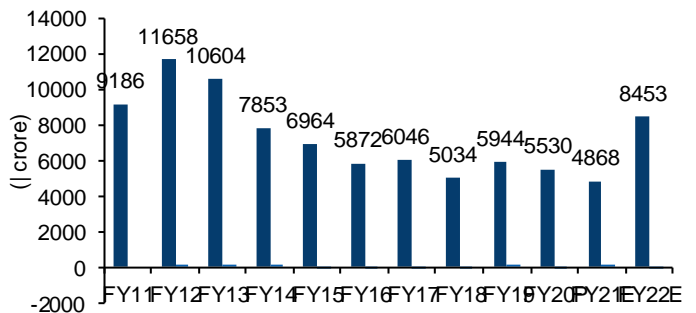
Source: Company, ICICI Direct Research

Exhibit 6: Power segment revenue trend...



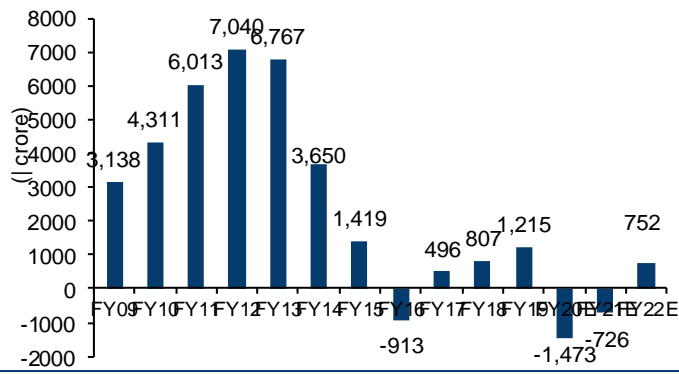
Source: Company, ICICI Direct Research

Exhibit 7: Industry segment revenue trend...



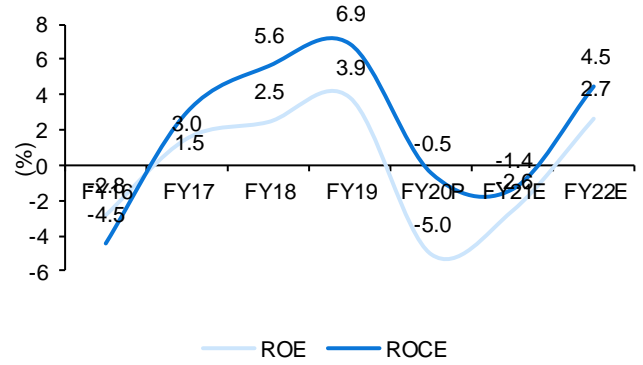
Source: Company, ICICI Direct Research

Exhibit 8: Trend in profitability...



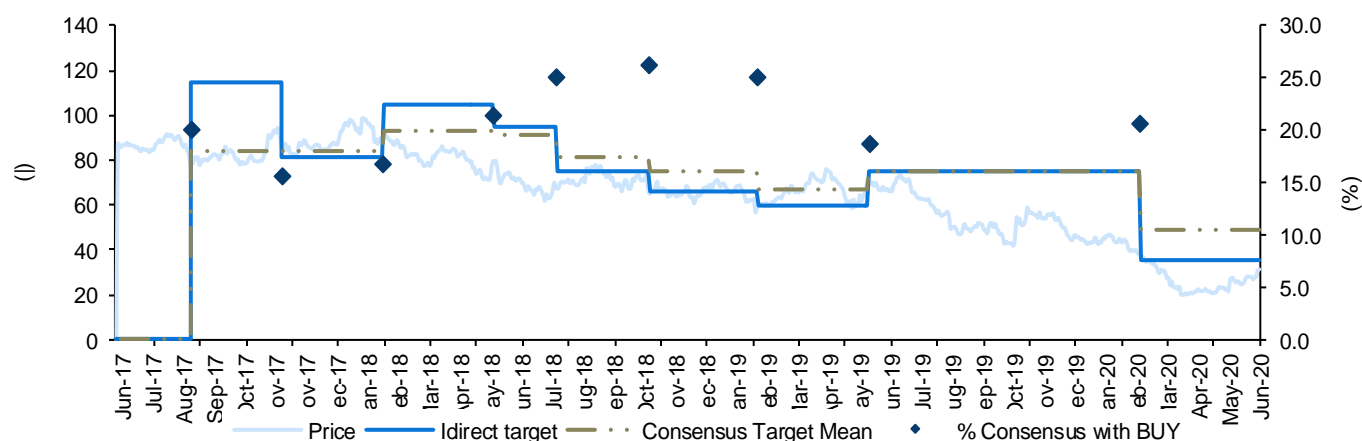
Source: Company, ICICI Direct Research

Exhibit 9: RoR, RoCE trend...



Source: Company, ICICI Direct Research

Exhibit 10: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (%)	Change
1	Government Of India	31-Mar-20	63.2	2,199.65m	0.00m
2	Life Insurance Corp	31-Mar-20	10.1	350.65m	0.00m
3	Sbi Funds Management	31-May-20	3.7	129.05m	17.65m
4	Invesco Ltd	30-Apr-20	2.3	78.93m	(3.23)m
5	Credit Agricole Grou	31-Mar-20	1.9	64.93m	0.00m
6	Hdfc Asset Managemen	30-Jun-19	1.6	54.29m	54.29m
7	Icici Prudential Gro	31-Mar-20	1.5	51.20m	51.20m
8	Icici Prudential Ass	31-May-20	1.3	44.64m	(8.94)m
9	Jpmorgan Chase & Co	31-Mar-20	0.8	28.77m	(17.37)m
10	Vanguard Group	30-Apr-20	0.6	21.98m	(0.54)m

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	63.2	63.2	63.2	63.2	63.2
FII	11.7	12.1	11.4	10.0	9.4
DII	18.5	18.8	19.1	19.2	17.8
Others	6.6	5.9	6.4	7.6	9.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Total operating income	30,349.0	21,486.1	17,366.4	23,090.0
Growth (%)	5.9	-29.2	-19.2	33.0
Raw Material Expenses	17,764.1	13,711.6	10,870.3	14,105.2
Employee Expenses	6,240.2	5,403.4	4,795.9	4,996.7
Other Operating Expenses	4,202.6	2,603.9	1,990.8	2,480.1
Provision For Bad Debt	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0
Total Operating Expenditure	28,207.0	21,718.9	17,657.0	21,582.0
EBITDA	2,142.0	-232.8	-290.7	1,508.0
Growth (%)	59.4	-110.9	24.8	-618.8
Depreciation	474.8	502.8	499.4	520.0
Interest	286.9	507.0	515.9	438.8
Other Income	677.6	580.6	336.2	455.1
PBT	2,057.9	-662.0	-969.7	1,004.4
Others	0.0	0.0	0.0	0.0
Total Tax	842.5	810.9	-244.1	252.8
PAT	1,215.4	-1,472.9	-725.7	751.6
Growth (%)	50.7	-221.2	-50.7	-203.6
EPS (₹)	3.5	-4.2	-2.1	2.2

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Profit after Tax	1,215.4	-1,472.9	-725.7	751.6
Add: Depreciation	474.8	502.8	499.4	520.0
(Inc)/dec in Current Assets	1,060.7	4,551.7	-1,157.1	-787.5
Inc/(dec) in CL and Provi-	-1,651.7	-2,110.9	1,876.3	1,010.5
Others	3.3	3.0	5.0	5.0
CF from operating act	1,099.1	1,470.7	493.0	1,494.6
(Inc)/dec in Investments	21.4	-800.0	150.0	0.0
(Inc)/dec in Fixed Assets	-405.6	-403.8	-273.8	-325.0
Others	0.0	0.0	0.0	0.0
CF from investing acti	-4,965.9	-4,267.3	-1,826.0	43.5
Issue/(Buy back) of Equi	-37.9	0.0	0.0	0.0
Inc/(dec) in loan funds	2,495.5	2,456.0	-210.0	-810.0
Dividend paid & dividend	-763.0	-838.5	-335.4	-586.9
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing acti	78.9	1,710.9	-594.9	-1,396.9
Net Cash flow	-3,787.8	-1,085.6	-1,928.0	141.2
Opening Cash	11,291.2	7,503.4	6,417.7	4,489.8
Closing Cash	7,503.4	6,417.7	4,489.8	4,630.9

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Liabilities				
Equity Capital	696.4	696.4	696.4	696.4
Reserve and Surplus	30,703.5	28,485.5	27,374.9	27,539.6
Total Shareholders funds	31,399.9	29,181.9	28,071.3	28,236.0
Total Debt	2,552.7	5,008.7	4,798.7	3,988.7
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	0.0	0.0	0.0	1.0
Total Liabilities	43,817.5	43,558.0	42,257.5	41,812.1
Assets				
Gross Block	5,750.6	6,048.1	6,463.4	6,738.4
Less: Acc Depreciation	2,866.7	3,337.0	3,812.6	4,310.5
Net Block	2,883.9	2,711.2	2,650.8	2,428.0
Capital WIP	223.2	306.7	200.0	250.0
Total Fixed Assets	3,107.1	3,017.9	2,850.8	2,678.0
Investments	669.4	1,469.4	1,319.4	1,319.4
Inventory	8,113.5	8,905.5	9,131.4	9,290.7
Debtors	12,009.6	7,107.6	7,568.2	7,808.0
Loans and Advances	157.5	135.0	136.3	139.8
Other Current Assets	10,556.0	10,136.8	10,606.0	10,991.0
Cash	7,503.4	6,417.7	4,489.8	4,630.9
Total Current Assets	38,339.9	32,702.6	31,931.7	32,860.4
Creditors	11,375.1	8,892.0	8,973.1	9,046.3
Provisions	2,485.5	3,855.4	4,890.4	5,246.9
Total Current Liabilities	20,598.5	18,487.6	20,363.9	21,374.4
Net Current Assets	17,741.4	14,215.0	11,567.8	11,486.0
Others Assets	0.0	0.0	0.0	1.0
Application of Funds	43,817.5	43,558.0	42,257.5	41,812.1

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Per share data (₹)				
EPS	3.5	-4.2	-2.1	2.2
Cash EPS	4.9	-2.8	-0.6	3.7
BV	90.2	83.8	80.6	81.1
DPS	1.8	2.0	0.8	1.4
Cash Per Share	21.5	18.4	12.9	13.3
Operating Ratios (%)				
EBITDA Margin	7.1	-1.1	-1.7	6.5
PBT / Total Operating inc	7.0	-3.2	-5.9	4.5
PAT Margin	4.0	-6.9	-4.2	3.3
Inventory days	100.9	158.6	201.5	152.3
Debtor days	149.4	126.6	167.0	128.0
Creditor days	141.5	158.4	198.0	148.3
Return Ratios (%)				
RoE	3.9	-5.0	-2.6	2.7
RoCE	6.9	-0.5	-1.4	4.5
RoIC	12.1	-6.1	-7.2	9.3
Valuation Ratios (x)				
P/E	8.6	-7.1	-14.4	13.9
EV / EBITDA	2.8	-41.1	-38.8	6.8
EV / Net Sales	0.2	0.5	0.7	0.5
Market Cap / Sales	0.4	0.5	0.7	0.5
Price to Book Value	0.3	0.4	0.4	0.4
Solvency Ratios				
Debt/EBITDA	1.2	-21.5	-16.5	2.6
Debt / Equity	0.1	0.2	0.2	0.1
Current Ratio	1.5	1.4	1.3	1.3
Quick Ratio	1.1	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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