

## Execution rebound amid headwinds...

Bhel's Q4FY21 revenues came in at ₹ 7171 crore, up 42% YoY, 61.1% QoQ amid a low base with some execution revival amid headwinds. On the segmental front, power segment revenues grew 50.9% YoY to ₹ 4789.3 crore whereas industrial segment revenue grew 38.4% YoY to ₹ 1963.4 crore. EBITDA level loss came in at ₹ 1264.3 crore (vs. EBITDA loss of ₹ 561.7 crore in Q4FY20) YoY owing to lower-than-expected execution and higher-than-expected operating expenses and provisions. Net loss came in at ₹ 1032.9 crore (vs. net loss of ₹ 1534.1 crore in Q4FY20) partly impacted by lower other income, which declined 43.2% to ₹ 84.2 crore.

## Deferral of key projects impact order inflows...

During Q4FY21, order inflow came in at ₹ 4375 crore, down 31.7% YoY, (₹ 2717 crore in power segment, ₹ 1669 crore in industrial segment). For FY21, order inflows declined 42.8% YoY to ₹ 13472 crore. Bhel's order backlog as on FY21 was at ₹ 102090 crore (₹ 84179 crore in power, ₹ 11344 crore in industrial, ₹ 6567 crore in exports). It is L1 in NPCIL turbine tender for 6x700 MW package worth ~₹ 10800 crore. It is favourably placed in Talcher (2x660 MW) plant, steam generator for nuclear power plants (12x700 MW) and other orders for FGD, etc. However, few power projects including Lara, Singrauli and Pench power plants are getting deferred for awarding/tendering thereby impacting overall visibility.

## Operational transformation, diversification, key to revival...

Bhel is focusing on a transformational strategy to improve its operational performance, working capital situation. The company floated a global expression of interest (EoI) to utilise its manufacturing facilities and industrial land under 'Make in India' under which it is seeking partnerships with global OEMS in new business areas like propulsion systems, EPC work in oil & gas, Industry 4.0, etc. Bhel expects to gain good traction in solar EPC, oil & gas, railway electrification, locomotives, aerospace and defence manufacturing with focus on in-house manufacturing of bought-out items.

## Valuation & Outlook

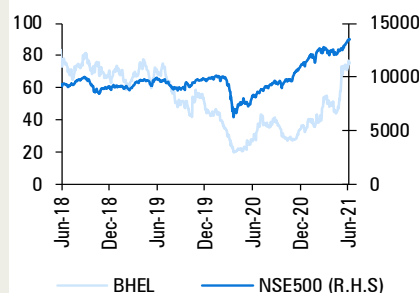
Execution challenges and high level of receivables (~₹ 31292 crore) are key concerns impacting long term growth prospects. However, strategy to optimise operational cost and initiatives like utilisation of manufacturing facilities & industrial land are likely to support diversification and provide better revenue visibility. We introduce FY23E estimates and revise our target price to ₹ 58 (earlier ₹ 35), which is at 20x FY23EPS in case any diversification, operational cost control measures pan out favourably, going ahead. However, thermal power sector outlook and structural changes continue to remain key risk and concern. Consequently, we change our rating from HOLD to **REDUCE**.



### Particulars

Particular	Amount
Market Capitalization	₹ 23678 Crore
Total Debt (FY21)	₹ 4935.8 Crore
Cash & Inv. (FY21)	₹ 6699.7 Crore
EV	₹ 21914.1 Crore
52 week H/L	₹ 80 /27
Equity capital	₹ 696.4 Crore
Face value	₹ 2

### Price Performance



### Key Risks to our call

- Any positive progress on diversification into non-power segments to aid performance in long term
- Better execution, tendering in power sector to help improve revenue visibility and aid profitability in long term

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### Key Financial Summary

Particulars (₹ crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY20-FY23E)
Net Sales	30,349.0	21,486.1	17,308.4	21,062.3	25,657.6	6.1%
EBITDA	2,142.0	(232.8)	(3,135.3)	(185.1)	1,607.9	-
EBITDA Margin (%)	7.1	(1.1)	(18.1)	(0.9)	6.3	-
Net Profit	1,215.4	(1,472.9)	(2,717.3)	(445.2)	1,029.0	-
EPS (₹)	3.5	(4.2)	(7.8)	(1.3)	3.0	-
P/ E (x)	16.9	(13.9)	(7.6)	(46.1)	20.0	-
RoNW (%)	3.9	(5.0)	(10.3)	(1.8)	4.0	-
RoCE (%)	6.9	(0.5)	(10.3)	(0.7)	5.7	-

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q4FY21	Q4FY20	YoY (Chg %)	Q3FY21	QoQ (Chg %)	Comments
Revenue	7,171.0	5,049.3	42.0	4,451.4	61.1	Revenue growth aided by execution revival and low base
Other Income	84.2	148.2	-43.2	85.3	-1.3	
Employee Expenses	1,232.3	1,110.3	11.0	1,379.6	-10.7	
Raw Material Expenses	4,946.1	3,594.0	37.6	2,941.1	68.2	
Provision For Bad Debt	0.0	0.0	-	0.0	-	
Other Operating Expenses	2,256.9	906.7	148.9	310.3	627.4	Higher other expenses owing to net provision of ₹ 1455 crore
EBITDA	-1,264.3	-561.7	125.1	-179.6	603.9	
EBITDA Margin (%)	-17.6	-11.1	-651 bps	-4.0	-1360 bps	
Depreciation	126.6	154.3	-18.0	112.8	12.2	
Interest	78.3	141.2	-44.6	85.8	-8.8	
PBT	-1,384.9	-708.9	95.4	-292.9	372.9	
Total Tax	-352.0	825.2	-142.7	-61.9	468.8	
PAT	-1,032.9	-1,534.1	-32.7	-231.0	347.2	Net losses partly impacted by lower other income
<b>Key Metrics</b>						
Power segment rev.	4,789.3	3,174.7	50.9	2,985.7	60.4	
Industry segment rev.	1,963.4	1,418.9	38.4	1,217.4	61.3	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY22E			FY23E		Comments
	Old	New	% Change	Introduced		
Revenue	23,090.0	21,062.3	-8.8	25,657.6		Revised execution rates in tandem with headwinds, pandemic
EBITDA	1,505.4	-185.1	-	1,607.9		
EBITDA Margin (%)	6.5	-0.9	-	6.3		
PAT	812.5	-445.2	-	1,029.0		
EPS (₹)	2.3	-1.3	-	3.0		

Source: Company, ICICI Direct Research

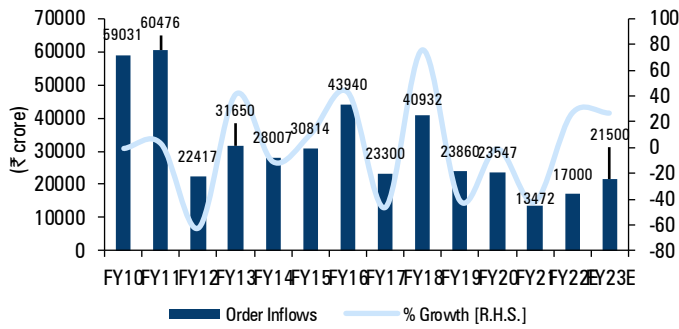
**Exhibit 3: Assumptions**

	Current				Earlier	
	FY20	FY21	FY22E	FY23E	FY22E	FY23E
Order Inflow growth	-1.3	-42.8	26.2	26.5	17.7	-
Order Backlog growth	-3.6	-2.6	-2.9	-3.0	-0.1	-
Revenue growth	-29.2	-19.4	21.7	21.8	33.1	-
EBITDA Margins	-1.1	-18.1	-0.9	6.3	6.5	-

Source: Company, ICICI Direct Research

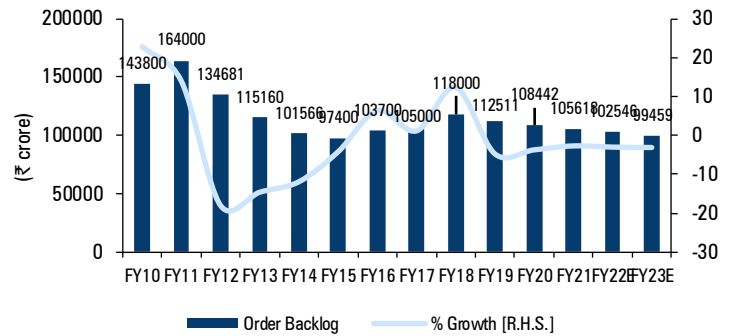
Financial story in charts

Exhibit 4: Order inflows trend over FY10-23E



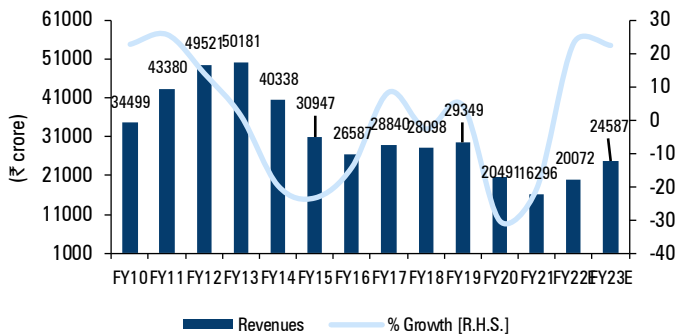
Source: ICICI Direct Research, Company

Exhibit 5: Order backlog trend over FY10-23E



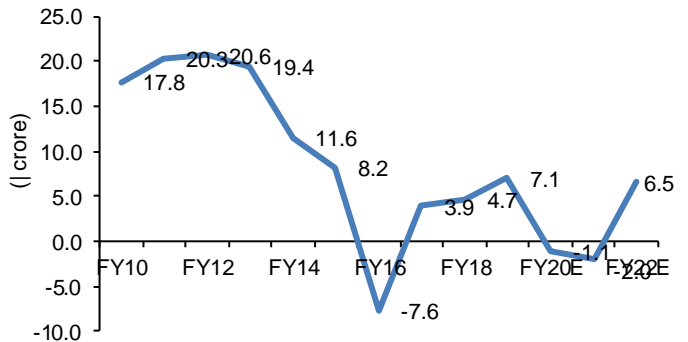
Source: ICICI Direct Research, Company

Exhibit 6: Overall revenue to decline over FY10-23E...



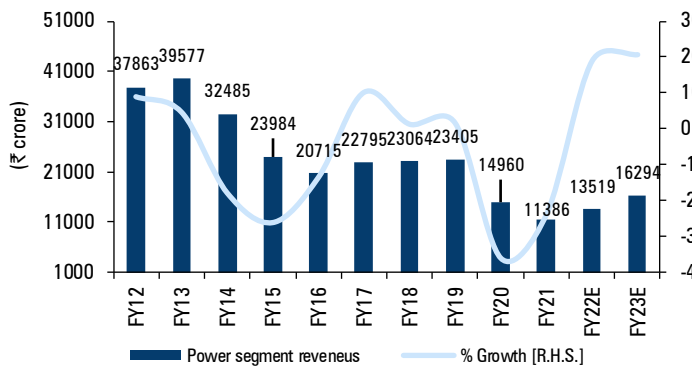
Source: Company, ICICI Direct Research

Exhibit 7: Trend in EBITDA margins...



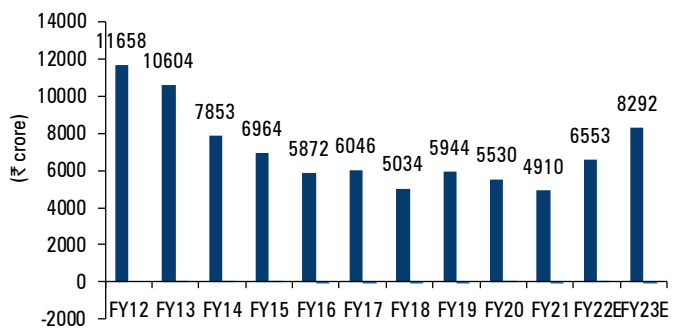
Source: Company, ICICI Direct Research

Exhibit 8: Power segment revenue trend...



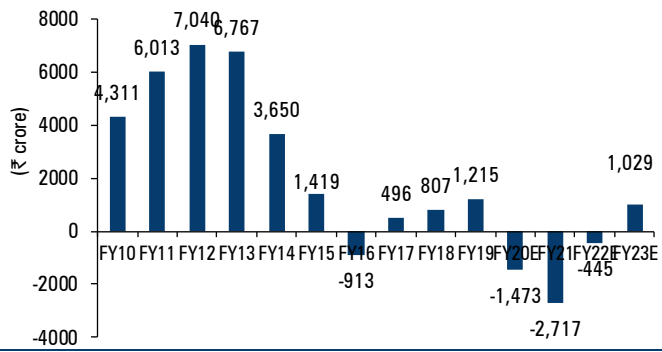
Source: Company, ICICI Direct Research

Exhibit 9: Industry segment revenue trend...



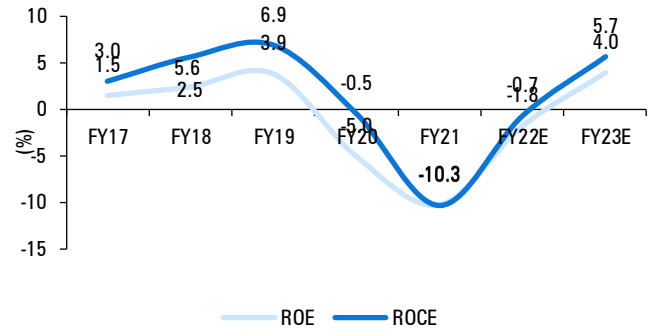
Source: Company, ICICI Direct Research

Exhibit 10: Trend in profitability...



Source: Company, ICICI Direct Research

Exhibit 11: RoR, RoCE trend...



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Total operating Income</b>	<b>21,486.1</b>	<b>17,308.4</b>	<b>21,062.3</b>	<b>25,657.6</b>
Growth (%)	-29.2	-19.4	21.7	21.8
Raw Material Expenses	13,711.6	11,581.9	13,228.0	15,067.7
Employee Expenses	5,403.4	5,372.3	5,296.2	5,549.4
Other Operating Expenses	2,603.9	3,489.6	2,723.2	3,432.5
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	21,718.9	20,443.7	21,247.4	24,049.7
<b>EBITDA</b>	<b>-232.8</b>	<b>-3,135.3</b>	<b>-185.1</b>	<b>1,607.9</b>
Growth (%)	-110.9	1,246.6	-94.1	-968.7
Depreciation	502.9	473.1	463.3	476.6
Interest	507.0	373.1	389.5	307.0
Other Income	580.6	369.8	443.0	550.8
PBT	-662.1	-3,611.7	-594.9	1,375.1
Others	0.0	0.0	0.0	0.0
Total Tax	810.9	-894.5	-149.7	346.1
<b>PAT</b>	<b>-1,472.9</b>	<b>-2,717.3</b>	<b>-445.2</b>	<b>1,029.0</b>
<b>EPS (₹)</b>	<b>-4.2</b>	<b>-7.8</b>	<b>-1.3</b>	<b>3.0</b>

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Profit after Tax	-1,472.9	-2,717.3	-445.2	1,029.0
Add: Depreciation	502.9	473.1	463.3	476.6
(Inc)/dec in Current Assets	4,551.6	4,650.4	-1,972.2	-2,232.1
Inc/(dec) in CL and Provisions	-2,884.5	-2,274.1	2,024.3	2,409.0
Others	3.3	3.0	5.0	5.0
<b>CF from operating activities:</b>	<b>697.0</b>	<b>132.1</b>	<b>70.3</b>	<b>1,682.5</b>
(Inc)/dec in Investments	-0.1	-0.5	0.0	0.0
(Inc)/dec in Fixed Assets	-428.5	-253.5	-393.7	-500.0
Others	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-3,492.1</b>	<b>201.9</b>	<b>-552.7</b>	<b>-415.7</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	2,456.1	-73.0	-200.0	-800.0
Dividend paid & dividend tax	-503.3	-335.4	-419.2	-503.1
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
<b>CF from financing activities</b>	<b>1,710.3</b>	<b>-52.9</b>	<b>-974.7</b>	<b>-1,303.1</b>
Net Cash flow	-1,084.8	281.1	-1,457.1	-36.2
Opening Cash	7,503.4	6,418.6	6,699.7	5,242.6
<b>Closing Cash</b>	<b>6,418.6</b>	<b>6,699.7</b>	<b>5,242.6</b>	<b>5,206.4</b>

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	696.4	696.4	696.4	696.4
Reserve and Surplus	28,484.8	25,787.6	24,567.7	25,093.6
Total Shareholders funds	29,181.2	26,484.1	25,264.1	25,790.0
Total Debt	5,008.8	4,935.8	4,735.8	3,935.8
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	0.0	0.0	0.0	1.0
<b>Total Liabilities</b>	<b>43,557.4</b>	<b>40,261.9</b>	<b>39,191.9</b>	<b>39,317.9</b>
<b>Assets</b>				
Gross Block	6,050.8	6,190.8	6,744.0	7,219.0
Less: Acc Depreciation	3,315.3	3,764.3	4,203.1	4,655.2
Net Block	2,735.5	2,426.5	2,540.9	2,563.8
Capital WIP	306.7	403.2	250.0	275.0
Total Fixed Assets	3,042.2	2,829.7	2,790.9	2,838.8
Investments	669.5	670.0	670.0	670.0
Inventory	8,905.5	7,191.4	7,876.6	8,424.6
Debtors	7,107.6	4,033.6	5,224.3	6,062.4
Loans and Advances	135.0	1.9	38.3	10.9
Other Current Assets	10,136.9	10,407.7	10,467.5	11,340.8
Cash	6,418.6	6,699.7	5,242.6	5,206.4
Total Current Assets	32,703.6	28,334.3	28,849.3	31,045.2
Creditors	8,892.0	6,677.7	8,155.4	9,497.8
Provisions	3,081.8	3,164.3	3,425.3	3,818.1
Total Current Liabilities	17,714.0	15,439.9	17,464.2	19,873.3
Net Current Assets	14,989.6	12,894.4	11,385.1	11,171.9
Others Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>43,557.4</b>	<b>40,261.9</b>	<b>39,191.9</b>	<b>39,317.8</b>

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	-4.2	-7.8	-1.3	3.0
Cash EPS	-2.8	-6.4	0.1	4.3
BV	83.8	76.1	72.6	74.1
DPS	1.2	0.8	1.0	1.2
Cash Per Share	18.4	19.2	15.1	15.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	-1.1	-18.1	-0.9	6.3
PBT / Total Operating income	-3.2	-22.2	-3.0	5.6
PAT Margin	-6.9	-15.7	-2.1	4.0
Inventory days	158.6	161.1	143.2	125.1
Debtor days	126.6	90.3	95.0	90.0
Creditor days	158.4	149.6	148.3	141.0
<b>Return Ratios (%)</b>				
RoE	-5.0	-10.3	-1.8	4.0
RoCE	-0.5	-10.3	-0.7	5.7
RoIC	-6.1	-38.8	-6.9	12.3
<b>Valuation Ratios (x)</b>				
P/E	-13.9	-7.6	-46.1	20.0
EV / EBITDA	-97.1	-7.1	-127.1	14.2
EV / Net Sales	1.1	1.4	1.2	0.9
Market Cap / Sales	1.2	1.5	1.2	1.0
Price to Book Value	0.7	0.8	0.8	0.8
<b>Solvency Ratios</b>				
Debt/EBITDA	-21.5	-1.6	-25.6	2.4
Debt / Equity	0.2	0.2	0.2	0.2
Current Ratio	1.5	1.4	1.4	1.3
<b>Quick Ratio</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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