

Estimate change	↔
TP change	↔
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Bloomberg	BHEL IN
Equity Shares (m)	3,482
M.Cap.(INRb)/(USD\$b)	207 / 2.8
52-Week Range (INR)	80 / 27
1, 6, 12 Rel. Per (%)	-10/51/22
12M Avg Val (INR M)	3469

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	173.1	218.2	247.1
EBITDA	-31.4	-4.6	10.3
PAT	-27.2	-6.9	4.2
EBITDA (%)	-18.1	-2.1	4.2
EPS (INR)	-7.8	-2.0	1.2
EPS Gr. (%)	NA	NA	NA
BV/Sh. (INR)	76.1	74.1	74.4

Ratios

Net D/E	-0.1	-0.1	0.0
RoE (%)	-10.3	-2.7	1.6
RoCE (%)	-8.8	-1.5	2.6
Payout (%)	(0.0)	-	70.0

Valuations

P/E (x)	NA	NA	49.1
P/BV (x)	0.8	0.8	0.8
EV/EBITDA (x)	NA	NA	19.6
Div Yield (%)	0.0	-	1.4
FCF Yield (%)	1.5	(0.8)	(4.4)

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	63.2	63.2	63.2
DII	12.4	12.5	18.1
FII	4.7	4.5	5.1
Others	19.8	19.9	13.6

FII Includes depository receipts

CMP: INR59 TP: INR40 (-33%) Sell

Another loss making quarter as execution disappoints

No respite in sight, land monetization may not be feasible

- BHEL reported another loss-making 1QFY22, with revenue coming in 12% below our expectation. It reported a net loss of INR4.5b, slightly higher than our expected loss of INR4.3b. If not for the provision reversal of INR1.8b, reported losses would have been even higher.
- Of the total order book of INR1.02t, the executable order book stands at INR708b. BHEL is favorably placed in a few L1 orders. However, these orders are yet to finalize into final awarding. With commodity prices surging since BHEL was declared L1 in these orders, we see a higher chance of margin turning adverse in new orders as well.
- Higher fixed cost continues to dent operating performance. The company is yet to show a significant improvement in pending receivables, with total debtors at INR309b in 1QFY22 (v/s INR313b at the end of last year). In spite of the management's ongoing efforts, we expect receivables to remain elevated in the near future. The **management revealed that BHEL only has right to use its land bank and can't monetize the same directly**. This leaves out the land monetization option value for any upside case in BHEL. We maintain our estimates, TP of INR40/share, as well as our Sell rating.

Operating performance disappoints

- Losses continue:** Revenue grew 46% YoY to INR29b and was 12% below our expectation. Gross margin declined by 90bp to 33.2%. Other expenses stood at just 2.8% of sales, on a provision reversal of INR1.8b. Despite lower other expenses, operating loss stood at INR4.7b, slightly higher than our estimate. Net loss came in at INR4.5b v/s our expectation of INR4.3b.
- Segmental highlights: a) Power:** Revenue rose 89% YoY to INR21.2b in 1QFY22. Operating loss stood at INR1.8b (v/s a loss of INR5.7b YoY). **Industry:** Revenue fell 22% YoY to INR6.1b in 1QFY22. Operating loss stood at INR1.2b (v/s a loss of INR2.5b YoY).
- Order book fell 6% YoY INR1,021b, with an order book-to-revenue ratio of ~6x. Segment-wise order book is as follows: Power – INR846b, Industry – INR112b, and international orders – INR63b.
- Order inflows stood ~INR32.5b in 1QFY22 (Power – INR25b, Industry – INR6.9b, and international orders – INR0.6b).

Highlights from the management commentary

- BHEL is favorably placed in: a) 2*660MW NTPC Talcher main plant package, b) steam generators (700MW, 12 units) for nuclear Power plants based on PHWR technology, and c) a number of FGD, boiler modifications, and emission control orders. It is L1 in NPCIL tender for the 6*700 MW turbine island package (~INR108b).
- Total receivable stood at INR309b v/s INR313b at the end of FY21, with Centre/state/private/export forming 36%/43%/13%/8%.

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- The management said the land parcels are not owned by the company, but has the right to use these land parcels. This implies that the company can't monetize its land bank directly as the ownership is with state governments.
- Of the INR1.02t order book, the executable order book stands at INR708b. BHEL is working hard to bring down the breakeven revenue level to INR300b. In our view, even a revenue base of INR300b is difficult to achieve with its current order book and ordering pipeline.

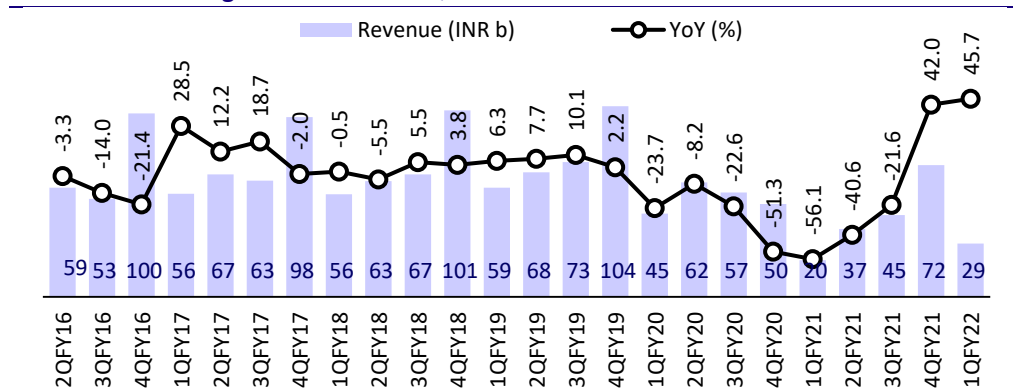
Valuation and view

- BHEL continues to struggle with: **a)** a weak ordering environment in the Power sector, **b)** higher receivables (over INR300b), and **c)** huge FY21 employee cost (~31% of sales). In FY21, working capital stood elevated ~101% of sales (99%/63% of sales FY20/FY19), weighed by a higher inventory and receivables, and poor execution.
- We maintain our earnings estimate (FY22E to be loss making) and our TP of INR40 (FY23E EV/EBITDA multiple of 12x) on the stock. We see further downside risk to order inflow and our revenue assumption for FY23E/FY24E. We maintain our Sell rating.

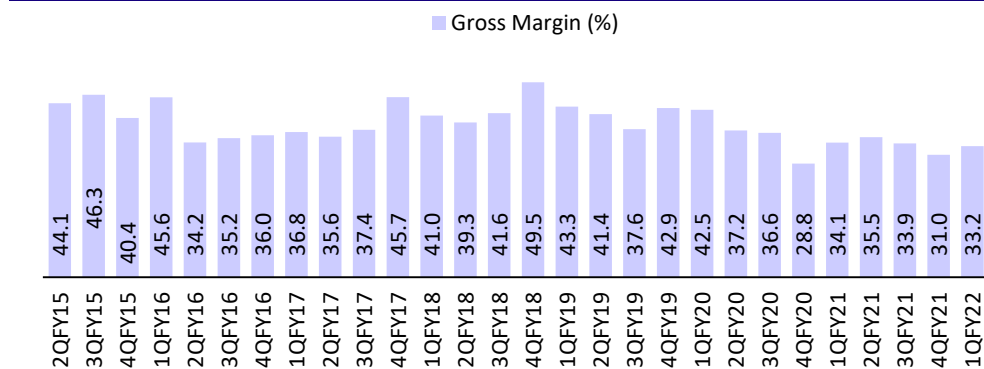
Quarterly performance

Y/E March	FY21				FY22E				FY21	FY22E	FY22E	(INR b)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	Var.
Sales (Net)	19.9	37.0	44.5	71.7	29.0	46.5	52.0	90.7	173.1	218.2	33.0	-12.1%
Change (%)	-56.1	-40.6	-21.6	42.0	45.7	25.8	16.8	26.5	-19.4	26.1	65.8	
EBITDA	-10.6	-6.3	-1.8	-12.6	-4.7	-1.8	-1.2	3.3	-31.4	-4.6	-4.4	NA
Change (%)	NA	-337.0	-154.6	NA	NA	NA	NA	NA	NA	NA	NA	
As a percentage of Sales	-53.2	-17.1	-4.0	-17.6	-16.3	-4.0	-2.4	3.6	-18.1	-2.1	-13.4	
Interest	1.1	0.9	0.9	0.8	0.8	0.9	0.9	1.1	3.7	3.7	0.9	
Depreciation	1.2	1.2	1.1	1.3	1.1	1.2	1.2	1.3	4.7	4.8	1.2	
Other Income	1.0	1.0	0.9	0.8	0.7	0.9	0.9	1.3	3.7	3.9	0.8	
PBT	-12.0	-7.4	-2.9	-13.8	-5.9	-3.0	-2.4	2.2	-36.1	-9.2	-5.7	NA
Tax	-3.0	-1.8	-0.6	-3.5	-1.5	-0.8	-0.6	0.5	-8.9	-2.3	-1.4	
Effective Tax Rate (%)	25.0	24.6	21.1	25.4	25.0	25.2	25.2	24.7	24.8	25.2	25.2	
Reported PAT	-9.0	-5.6	-2.3	-10.3	-4.5	-2.3	-1.8	1.6	-27.2	-6.9	-4.3	NA
Change (%)	NA	-569.0	-245.4	NA	NA	NA	NA	NA	NA	NA	NA	
Adj. PAT	-9.0	-5.6	-2.3	-10.3	-4.5	-2.3	-1.8	1.6	-27.2	-6.9	-4.3	NA
Change (%)	NA	-569.0	-245.4	NA	NA	NA	NA	NA	NA	NA	NA	

Exhibit 1: Revenue grew 46% YoY in 1QFY22 on a soft base



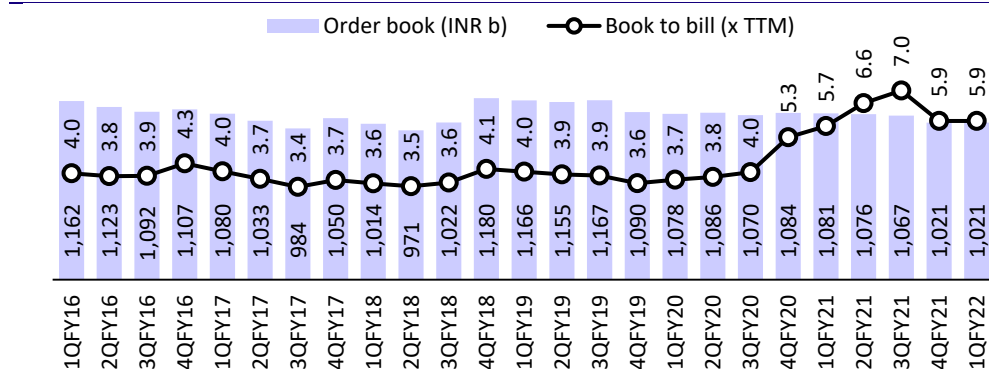
Source: MOFSL, Company

Exhibit 2: Gross margin moderates by 90bp YoY in 1QFY22, but increases by 220bp QoQ

Source: MOFSL, Company

Order book at INR1t; book-to-bill ~6x in 1QFY22

- Order book declined by 6% YoY to INR1t. Segment-wise order book is as follows: Power – INR846b, Industry – INR112b, and international orders – INR63b.

Exhibit 3: Order book fell 6% YoY, with lower execution leading to a book-to-bill of ~6x

Source: MOFSL, Company

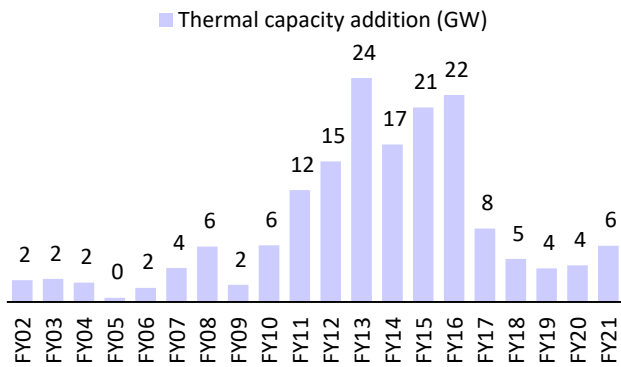
Segmental performance: Revenue hit across segments

- Power:** Revenue rose 89% YoY to INR27.2b in 1QFY22. Operating loss stood at INR1.8b (v/s a loss of INR5.7b YoY).
- Industry:** Revenue fell 22% YoY to INR6.1b in 1QFY22. Operating loss stood at INR1.2b (v/s a loss of INR2.5b YoY).

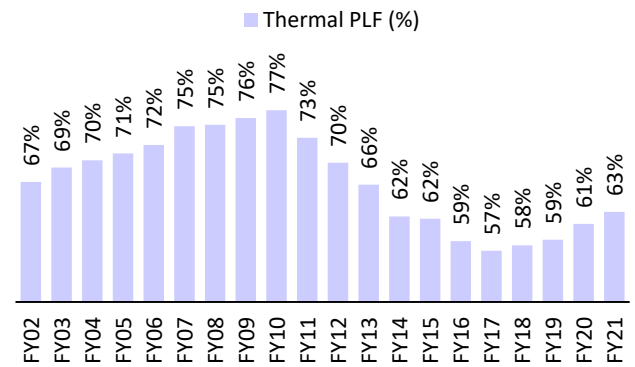
Exhibit 4: Segmental revenue and margin

INR m	FY20				FY21				FY22
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Revenues	44.1	60.3	54.6	45.9	19.0	34.4	42.0	67.5	27.2
Power	34.9	42.2	40.7	31.7	11.2	24.9	29.9	47.9	21.2
Growth (%)	(24.7)	(18.1)	(26.1)	(60.8)	(67.9)	(41.0)	(26.7)	50.9	89.1
Industry	9.2	18.1	13.9	14.2	7.8	9.5	12.2	19.6	6.1
Growth (%)	(20.4)	24.3	(13.6)	(18.1)	(15.4)	(47.3)	(12.1)	38.4	(21.9)
EBIT	(0.2)	4.9	5.1	(3.8)	(8.2)	(4.6)	(0.0)	(8.1)	(3.0)
Power	(0.5)	4.3	4.3	(0.1)	(5.7)	(3.7)	1.1	(4.2)	(1.8)
Growth (%)	(111.1)	1.9	(26.9)	(100.6)	NA	(185.7)	(73.6)	NA	NA
Industry	0.3	0.5	0.8	(3.7)	(2.5)	(0.9)	(1.2)	(3.9)	(1.2)
Growth (%)	(40.3)	(21.5)	36.1	(246.5)	NA	(264.9)	(256.3)	NA	NA
EBIT margin (%)	(0.4)	8.1	9.3	(8.3)	(43.3)	(13.4)	(0.1)	(12.0)	(11.2)
Power	(1.6)	10.3	10.6	(0.2)	(50.7)	(14.9)	3.8	(8.8)	(8.5)
Industry	3.8	3.0	5.5	(26.2)	(32.5)	(9.5)	(9.7)	(19.8)	(20.5)

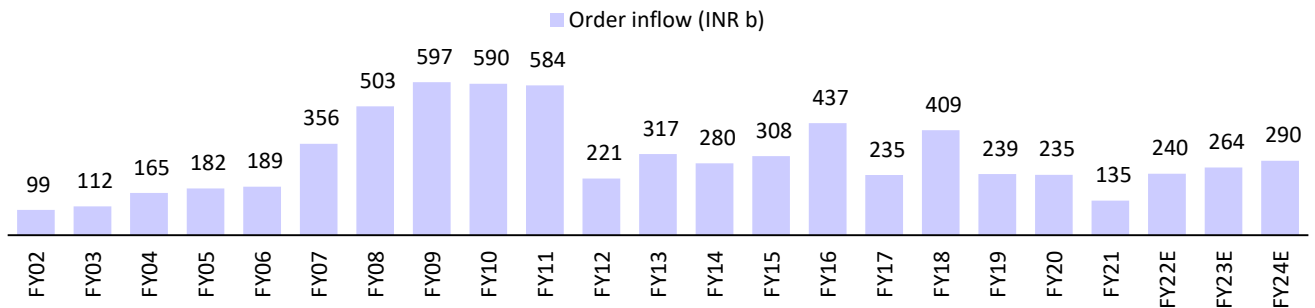
Source: Company, MOFSL

Exhibit 5: Thermal capacity averages ~18GW over FY13-17, but drops to ~5GW over FY18-21

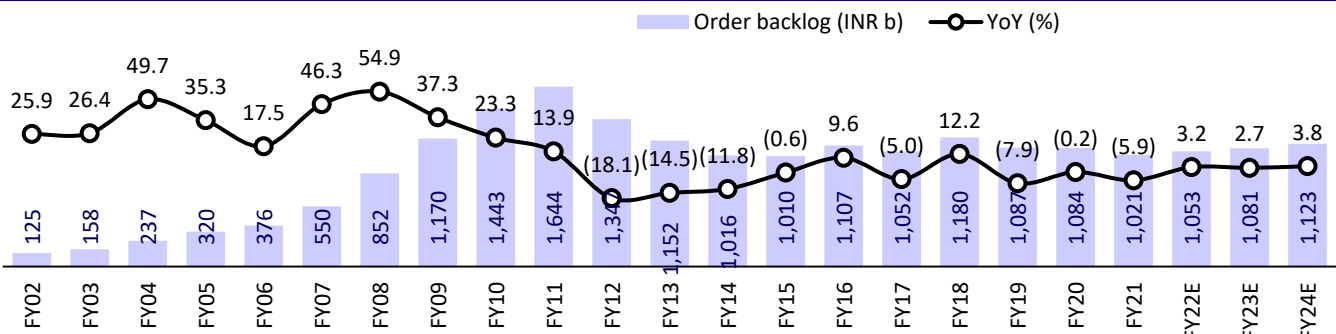
Source: MOFSL

Exhibit 6: Thermal PLF was on a rapid decline post FY10, but is recovering gradually post FY17

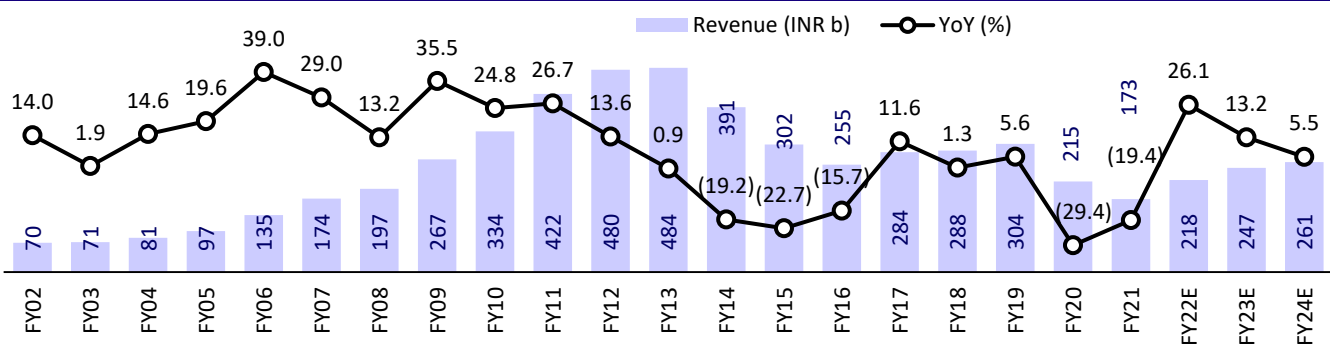
Source: MOFSL

Exhibit 7: Order inflows average INR550b over FY08-11, while lower thermal PLF leads to a significant decline in ordering thereafter

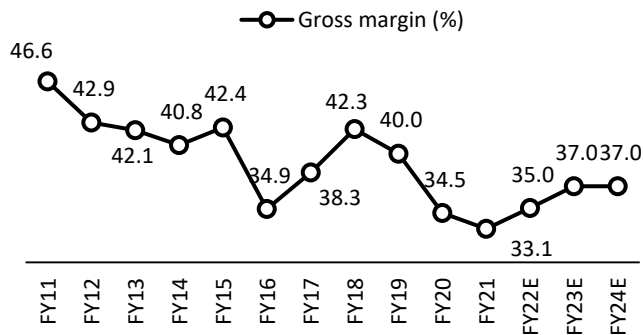
Source: MOFSL, Company

Exhibit 8: Order backlog declines post FY11 on lower inflows. It stood at INR1t in FY21 from a peak of INR1.6t in FY11

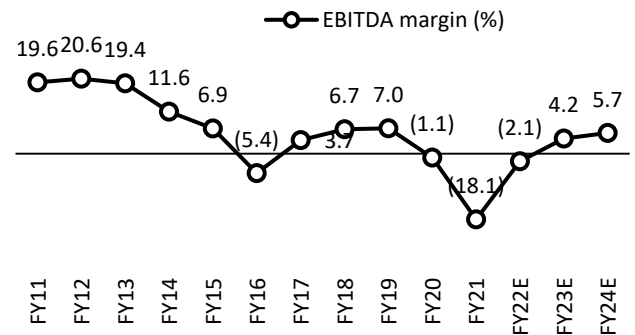
Source: MOFSL, Company

Exhibit 9: Revenue CAGR at -11% over FY14-21 due to lower order inflow and weak execution

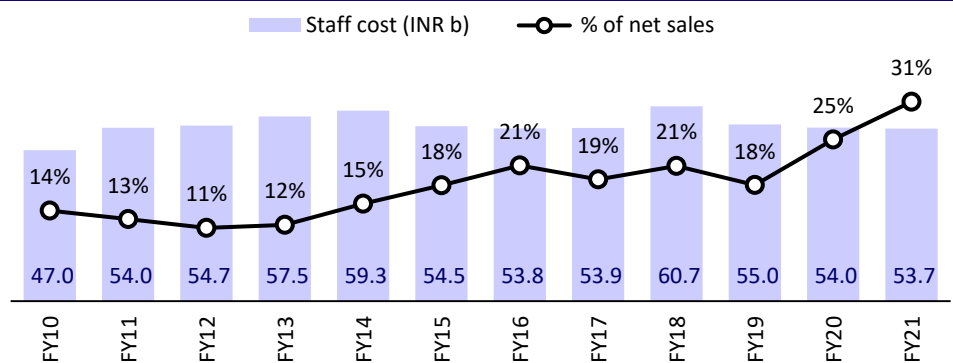
Source: MOFSL, Company

Exhibit 10: Gross margin on a decline since FY18...

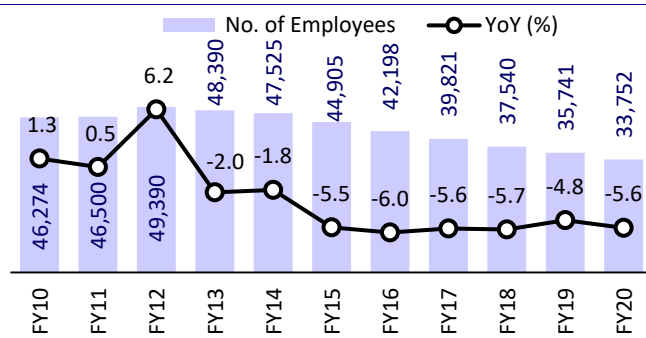
Source: MOFSL, Company

Exhibit 11: ...with lower absorption of fixed cost, leading to operating level loss in FY21

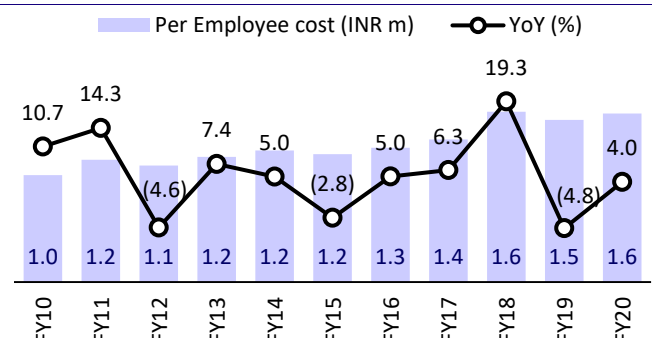
Source: MOFSL, Company

Exhibit 12: Staff cost, as a percentage of sales, stands at 31%, a key challenge for BHEL

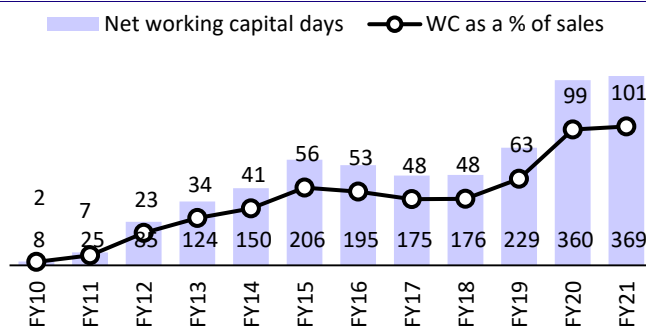
Source: MOFSL, Company

Exhibit 13: Employee count steadily declines since FY12

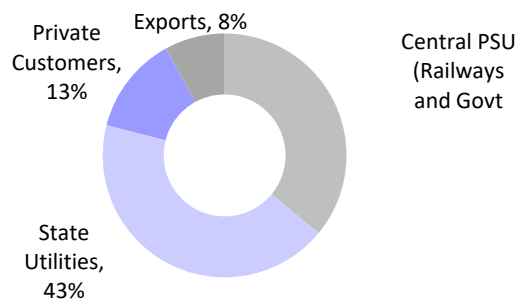
Source: MOFSL, Company

Exhibit 14: However, wage inflation leads to a rise in per employee cost from FY15

Source: MOFSL, Company

Exhibit 15: Rise in debtors led to an elongated working capital cycle...

Source: MOFSL, Company

Exhibit 16: ...with state utilities forming 43% of total debtors at the end of 1QFY22

Source: MOFSL, Company

Valuation and view

- BHEL continues to struggle with: **a)** a weak ordering environment in the Power sector, **b)** higher receivables (over INR300b), and **c)** huge FY21 employee cost (~31% of sales). In FY21, working capital stood elevated ~101% of sales (99%/63% of sales FY20/FY19), weighed by a higher inventory and receivables, and poor execution.
- We maintain our earnings estimate (FY22E to be loss making) and our TP of INR40 (FY23E EV/EBITDA multiple of 12x) on the stock. We see further downside risk to order inflow and our revenue assumption for FY23E/FY24E. We maintain our Sell rating.

Financials and valuations

Income Statement						(INR b)
Y/E March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Revenue	304	215	173	218	247	261
Change (%)	5.6	-29.4	-19.4	26.1	13.2	5.5
Staff cost	55	54	54	53	51	50
Manufacturing expenses	183	141	116	142	156	164
Other Expenses	45	23	35	28	30	31
EBITDA	21	-2	-31	-5	10	15
Change (%)	10.4	-110.9	NA	NA	NA	43.6
Margin (%)	7.0	-1.1	-18.1	-2.1	4.2	5.7
Depreciation	5	5	5	5	5	5
Interest	3	5	4	4	4	4
Other income	7	6	4	4	4	3
PBT	20	-7	-36	-9	6	9
Tax	8.4	8.1	(8.9)	(2.3)	1.4	2.3
Rate (%)	41.0	-122.5	24.8	25.2	25.2	25.2
Reported PAT	12	-15	-27	-7	4	7
Adjusted PAT	12	-15	-27	-7	4	7
Change (%)	49.8	-221.9	NA	NA	NA	65.3

Balance Sheet						(INR b)
Y/E March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	7	7	7	7	7	7
Reserves	307	285	258	251	252	254
Net Worth	314	292	265	258	259	261
Loans	25	50	49	49	49	49
Deferred Tax Liability	(35)	(28)	(37)	(37)	(37)	(37)
Capital Employed	305	314	278	271	272	274
Gross Fixed Assets	60	63	65	67	69	71
Less: Depreciation	30	35	40	45	49	54
Net Fixed Assets	30	28	25	22	19	16
Capital WIP	2	3	4	4	4	4
Investments	7	7	7	7	7	7
Curr. Assets	570	547	485	544	588	612
Inventory	78	89	72	60	68	71
Debtors	158	124	72	120	129	136
Cash and Bank Balance	75	64	67	66	54	48
Loans and Advances	2	2	-	-	-	-
Other Assets	256	268	274	299	338	357
Current Liab. and Prov.	304	271	243	306	347	366
Creditors	121	99	86	108	122	129
Other Liabilities	104	89	86	109	123	130
Provisions	79	83	71	89	101	107
Net Current Assets	266	276	242	238	242	247
Application of Funds	305	314	278	271	272	274

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)						
Adj. EPS	3.5	-4.2	-7.8	-2.0	1.2	2.0
Cash EPS	4.8	-2.8	-6.4	-0.6	2.6	3.4
Book Value	90.3	83.8	76.1	74.1	74.4	75.0
DPS	1.9	1.2	0.0	0.0	0.8	1.4
Payout (incl. Div. Tax.)	65.1	NA	0.0	0.0	70.0	70.0
Valuation (x)						
P/E	17.1	NA	NA	NA	49.1	29.7
Cash P/E	12.3	NA	NA	NA	23.1	17.5
EV/EBITDA	7.4	NA	NA	NA	19.6	14.0
EV/Sales	0.5	0.9	1.1	0.9	0.8	0.8
Price/Book Value	0.7	0.7	0.8	0.8	0.8	0.8
Dividend Yield (%)	3.2	2.0	0.0	0.0	1.4	2.4
Profitability Ratios (%)						
RoE	3.8	-5.0	-10.3	-2.7	1.6	2.7
RoCE	4.5	-1.1	-8.8	-1.5	2.6	3.6
ROIC	4.4	-6.8	-13.3	-3.5	2.0	3.4
Turnover Ratios						
Debtors (Days)	190	210	152	200	190	190
Inventory (Days)	94	151	152	100	100	100
Creditors (Days)	145	168	180	180	180	180
Asset Turnover (x)	9.5	6.9	6.0	8.3	10.5	12.6
Leverage Ratio						
Net Debt/Equity (x)	-0.2	0.0	-0.1	-0.1	0.0	0.0

Cash Flow Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22E	FY23E	FY24E
PBT before EO Items	20	(7)	(36)	(9)	6	9
Depreciation	5	5	5	5	5	5
Direct Taxes Paid	(4)	(3)	(2)	2	(1)	(2)
(Inc.)/Dec. in WC	(76)	(26)	26	3	(16)	(10)
CF from Operations	(39)	(29)	6	0	(7)	2
(Inc.)/Dec. in FA	(4)	(4)	(2)	(2)	(2)	(2)
Free Cash Flow	(43)	(33)	3	(2)	(9)	0
(Pur.)/Sale of Investments	6	6	4	4	4	3
CF from Investments	2	1	1	2	2	1
(Inc.)/Dec. in Net worth	(16)	0	(0)	-	-	-
(Inc.)/Dec. in Debt	25	25	(2)	-	-	-
Dividend Paid	8	5	0	-	3	5
CF from Fin. Activity	(0)	17	(4)	(4)	(7)	(9)
Inc./Dec. in Cash	(37)	(11)	3	(1)	(12)	(5)
Add: Beginning Balance	112	75	64	67	66	54
Closing Balance	75	64	67	66	54	48

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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