

Retail Equity Research

Bharat Heavy Electricals Limited

Capital Goods-Electrical Equipment Products

BSE CODE: 500103

NSE CODE: BHEL

Bloomberg CODE: BHEL:IN

SENSEX: 73,057

SELL

12 Months Investment Period

Rating as per Mid Cap

CMP Rs. 231

TARGET Rs. 203

RETURN -12% ↓

(Closing: 20-02-24)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↓

Robust order inflow; expensive valuation

BHEL, a public sector entity, is India's largest engineering company and dominates the supply of equipment for power plants in India. The company's products include gas turbines, generators, thermal sets, diesel shunters, turbo sets, hydro sets, power transformers, switch gears, circuit breakers and boilers. The Company also manufactures compressors, valves, rectifiers, pumps, capacitors, oil rigs, as well as castings and forgings.

- Robust performance of the industry segment lifted consolidated topline by 6.8% YoY to Rs. 5,273cr in Q3FY24. However, the power segment delivered a muted performance during the quarter.
- EBITDA was a negative Rs. 63cr versus Rs 144cr in Q3FY23. Thus, the company reported a loss after tax of Rs. 149cr.
- Order inflow was Rs. 36,048 in Q3FY24 vs Rs. 15,232cr in Q3FY23, registering a 137% YoY growth.
- Huge order backlog from Power and Industry segments will drive the top line. However, Upside potential is limited due to cost pressures and high valuations. Hence, we maintain a cautious outlook on the stock and downgrade our rating to SELL with a rolled-forward target price of Rs. 203, based 68X FY26E adjusted EPS.

Industry segment lifts topline; EBITDA remains negative

In Q3FY24, BHEL's consolidated revenue grew 6.8% YoY to Rs. 5,273cr, driven by the robust performance of the industry segment. However, muted growth in the power segment limited the revenue growth. The industry revenue increased 28.0% YoY to Rs. 1,213cr, while the power segment rose 1.7% YoY to Rs. 4,061cr. In Q3FY24, EBITDA remained negative at Rs. 63cr versus Rs. 144cr in Q3FY23. This was mainly due to higher cost of sales of Rs. 4,029cr, up 9.5% YoY because of a rise in the input cost. Consequently, after-tax loss was at Rs. 149cr.

Healthy order intake

Order inflow was at Rs. 36,048cr (+137% YoY), aided by growth in the core sectors of the economy, coupled with demand for defense products. This takes the order backlog to Rs. 1,08,618cr (+4.7% YoY), with the power segment alone contributing to 70% of the total backlog, while 26% is attributed to industry segment. At 4.55X TTM revenues, this order book backlog size provides top-line visibility for the medium term.

Key highlights

- BHEL recently awarded a Rs. 5,500cr power project from Haryana Power Corporation and a Rs. 15,000cr power project from NLC India Ltd for supply of equipment, erection and commissioning, and civil works to be executable in the 57 months and 64 months, respectively.

Valuation

BHEL reported topline growth, but posted a loss after tax due to higher cost of sales. We believe a pick-up in the industry segment, rising order inflow, strong pipeline, and rising government expenditure in favorable sectors are expected to drive the company's performance in the long run. However, cost pressures, posting net loss for the third consecutive quarter and recent significant jump in the stock price indicate that the stock is trading at higher valuation. Hence, we downgrade our rating to SELL on the stock with a rolled forward target price of Rs. 203, based on 68x FY26E adjusted EPS.

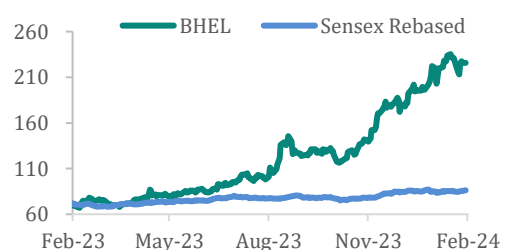
Company Data

Market Cap (cr)	Rs. 80,435
Enterprise Value (cr)	Rs. 83,745
Outstanding Shares (cr)	348.2
Free Float	37.0%
Dividend Yield	0.2%
52 week High	Rs. 243
52 week Low	Rs. 66
6m Average Volume (lacs)	27.9
Beta	1.1
Face value	Rs. 2

Shareholding (%)	Q1FY24	Q2FY24	Q3FY24
Promoters	63.2	63.2	63.2
FII's	7.8	7.2	7.0
MFs/Insti	16.4	16.0	17.6
Public	12.2	13.0	11.5
Others	0.5	0.6	0.7
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	63.9%	135.7%	222.9%
Absolute Sensex	11.3%	12.5%	20.4%
Relative Return*	52.6%	123.2%	202.5%

*over or under performance to benchmark index



Consolidated (cr)	FY24E	FY25E	FY26E
Sales	23,001	25,592	28,428
Growth (%)	3.9	11.3	11.1
EBITDA	(101)	933	1,844
EBITDA Margin (%)	(0.4)	3.6	6.5
Adj. PAT	(290)	411	1,037
Growth (%)	(160.8)	n.m.	152.4
Adj. EPS	(0.8)	1.2	3.0
Growth (%)	(160.6)	n.m.	152.4
P/E	n.m.	195.8	77.6
P/B	3.0	2.9	2.7
EV/EBITDA	n.m.	89.5	45.1
ROE (%)	(1.1)	1.5	3.5
D/E	0.4	0.3	0.3

Quarterly Financials (Consolidated)

Profit & Loss Account

Rs. cr	Q3FY24	Q3FY23	YoY Growth (%)	Q2FY24	QoQ Growth (%)	9MFY24	9MFY23	YoY Growth (%)
Revenue	5,273	4,939	6.8	4,945	6.6	15,037	14,317	5.0
EBITDA	(63)	144	<i>n.m.</i>	(388)	<i>83.8</i>	(815)	(270)	<i>(202.2)</i>
EBITDA margins	(1.2)	2.9	(410bps)	(7.8)	660bps	(5.4)	(1.9)	(350bps)
Depreciation	61	62	(3.0)	60	1.2	181	188	(3.9)
EBIT	(123)	82	<i>n.m.</i>	(448)	<i>72.4</i>	(995)	(457)	<i>(117.6)</i>
Interest	190	139	36.2	180	5.1	538	360	49.3
Other Income	96	91	5.8	180	(46.8)	390	377	3.4
Exceptional Items	-	-	-	-	-	-	-	-
Share of profit from Associate	22	20	13.9	12	86.9	50	43	16.8
PBT	(195)	53	<i>n.m.</i>	(436)	<i>55.3</i>	(1,093)	(398)	<i>(174.9)</i>
Tax	(46)	10	<i>n.m.</i>	(198)	76.7	(362)	(264)	(37.2)
Reported PAT	(149)	42	<i>n.m.</i>	(238)	<i>37.5</i>	(731)	(134)	<i>(447.0)</i>
Minority Interest	-	-	-	-	-	-	-	-
PAT att. to shareholders	(149)	42	<i>n.m.</i>	(238)	<i>37.5</i>	(731)	(134)	<i>(447.0)</i>
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	(149)	42	<i>n.m.</i>	(238)	<i>37.5</i>	(731)	(134)	<i>(447.0)</i>
No. of shares	348.2	348.2	-	348.2	-	348.2	348.2	-
Adj. EPS (Rs.)	(0.4)	0.1	<i>n.m.</i>	(0.7)	<i>37.5</i>	(2.1)	(0.4)	<i>(447.0)</i>

Change in Estimates

Year / Rs. cr	Old estimates		New estimates			Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY26E	FY24E	FY25E
Revenue	25,488	30,489	23,001	25,592	28,428	(9.8)	(16.1)
EBITDA	1,178	2,018	(101)	933	1,844	(108.5)	(53.8)
Margins (%)	4.6	6.6	(0.4)	3.6	6.5	(500bps)	(300bps)
Adj. PAT	636	1,370	(290)	411	1,037	(145.7)	(70)
Adj. EPS	1.8	3.9	(0.8)	1.2	3.0	(145.6)	(70.1)

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	20,153	22,136	23,001	25,592	28,428
% change	23.7	9.8	3.9	11.3	11.1
EBITDA	736	717	(101)	933	1,844
% change	-	(19.9)	(113.1)	(990.0)	100.1
Depreciation	314	260	265	276	292
EBIT	421	456	(365)	657	1,552
Interest	356	521	712	745	782
Other Income	405	545	630	720	825
PBT	470	479	(447)	632	1,595
% change	(113.1)	1.9	(193.2)	(241.5)	152.4
Tax	26	2	(156)	221	558
Tax Rate (%)	5.5	0.4	35.0	35.0	35.0
Reported PAT	445	477	(290)	411	1,037
PAT att. to common shareholders	445	477	(290)	411	1,037
Adj*	-	-	-	-	-
Adj PAT	445	477	(290)	411	1,037
% change	(116.5)	7.3	(160.8)	(241.5)	152.4
No. of shares (cr)	346.9	346.9	348.2	348.2	348.2
Adj EPS (Rs.)	1.3	1.4	(0.8)	1.2	3.0
% change	(116.5)	7.3	(160.6)	(241.5)	152.4
DPS (Rs.)	0.4	0.4	0.4	0.4	0.4

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Net inc. + Depn.	759	738	(26)	687	1,329
Non-cash adj.	(1,290)	(1,112)	(1,222)	(646)	(771)
Changes in W.C	1,191	(367)	(2,821)	445	59
C.F. Operation	660	(742)	(4,070)	485	616
Capital exp.	(162)	(181)	(196)	(223)	(247)
Change in inv.	(1,251)	1,384	-	-	-
Other invest.CF	288	277	-	-	-
C.F - Investment	(1,125)	1,480	(196)	(223)	(247)
Issue of equity	-	-	-	-	-
Issue/repay debt	(88)	640	4,000	100	75
Dividends paid	(0)	(139)	(139)	(139)	(139)
Other finance.CF	(242)	(412)	(0)	150	150
C.F - Finance	(329)	89	3,861	111	86
Chg. in cash	(795)	828	(405)	373	455
Closing cash	7,154	6,643	6,238	6,611	7,066

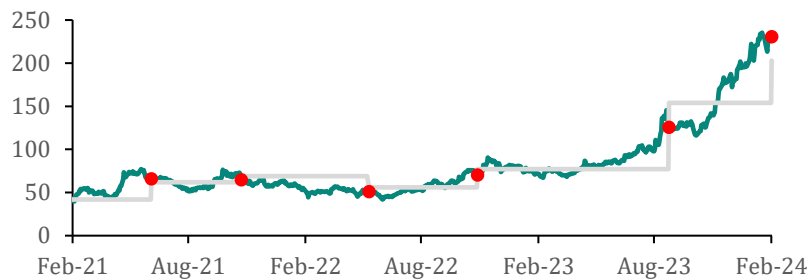
BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	7,154	6,643	6,238	6,611	7,066
Accounts Receivable	3,025	3,128	3,910	4,325	4,804
Inventories	6,560	6,756	7,618	8,023	8,773
Other Cur. Assets	11,123	13,555	14,562	15,306	16,102
Investments	205	235	238	240	243
Gross Fixed Assets	6,335	6,516	6,711	6,934	7,181
Net Fixed Assets	2,335	2,309	2,218	2,141	2,072
CWIP	423	445	467	490	515
Intangible Assets	71	77	73	70	67
Def. Tax (Net)	3,530	3,423	3,320	3,220	3,124
Other Assets	21,817	22,800	23,935	25,128	26,380
Total Assets	56,244	59,370	62,579	65,555	69,146
Current Liabilities	16,576	17,932	16,941	18,731	20,496
Provisions	3,771	4,101	4,019	3,939	3,860
Debt Funds	4,922	5,548	9,548	9,648	9,723
Other Liabilities	4,467	4,961	4,961	5,111	5,261
Equity Capital	696	696	696	696	696
Reserves & Surplus	25,810	26,132	26,414	27,430	29,110
Shareholder's Fund	26,507	26,828	27,110	28,126	29,806
Minority Interest	-	-	-	-	-
Total Liabilities	56,244	59,370	62,579	65,555	69,146
BVPS (Rs.)	76	77	78	81	86

RATIOS

Y.E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	3.6	3.2	(0.4)	3.6	6.5
EBIT margin (%)	2.1	2.1	(1.6)	2.6	5.5
Net profit mgn.(%)	2.2	2.2	(1.3)	1.6	3.6
ROE (%)	1.7	1.8	(1.1)	1.5	3.5
ROCE (%)	1.3	1.4	(1.0)	1.7	3.9
W.C & Liquidity					
Receivables (days)	54.8	51.6	62.1	61.7	61.7
Inventory (days)	161.9	151.3	164.3	160.6	160.2
Payables (days)	191.2	221.6	188.0	199.8	205.9
Current ratio (x)	1.3	1.3	1.2	1.2	1.2
Quick ratio (x)	0.8	0.6	0.6	0.6	0.6
Turnover & Leverage					
Gross asset T.O (x)	3.2	3.4	3.5	3.8	4.0
Total asset T.O (x)	0.4	0.4	0.4	0.4	0.4
Int. coverage ratio (x)	1.2	0.9	(0.5)	0.9	2.0
Adj. debt/equity (x)	0.2	0.2	0.4	0.3	0.3
Valuation					
EV/Sales (x)	0.7	1.0	3.6	3.3	2.9
EV/EBITDA (x)	20.2	32.4	n.m.	89.5	45.1
P/E (x)	38.5	51.0	n.m.	195.8	77.6
P/BV (x)	0.6	0.9	3.0	2.9	2.7

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
17-Jun-20	HOLD	30
10-Feb-21	HOLD	42
23-Jun-21	HOLD	62
11-Nov-21	HOLD	69
30-May-22	HOLD	56
16-Nov-22	HOLD	77
12-Sep-23	BUY	154
21-Feb-24	SELL	203

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note; **Reduce:** Reduce your exposure to the stock due to limited upside; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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