

How does our one year outlook change?

- We retain our negative stance on the stock. We expect BHEL's revenue to be flat yoy in FY16E. Revenue run-rate is expected to remain well below historical levels on the back of muted execution (client side and clearance delays) and subdued order book position (Rs. 1.1tn containing Rs. >350bn of non-moving orders).
- EBITDA margin (6.7% in FY16E) is expected to remain under pressure due to execution of low margin orders secured among intense competition, execution of orders with Joint deed of undertaking (JDUs, containing higher import content) and lack of operating leverage (relatively higher employee costs inspite of retirements)
- We expect order inflow to pick up from a low base in FY16E (Rs. 492bn, 59% y-o-y growth) but remain below sufficient levels to deliver robust revenue growth. While the management is optimistic on securing sizeable orders in FY16E (from overall market opportunity >15GW), we believe risk of ordering delays continues to prevail
- Working capital position is expected to remain at elevated levels (352 days in FY16E) on the back of payment delays from customers, lower order advances and slow pace of execution
- Given the poor execution pace, weak margin prospects and stretched working capital position, we continue to maintain our negative view on the stock. We maintain our **'Sell'** rating with a target price of Rs. 137

How does our 3 year outlook change?

- We have a muted 3 year outlook on BHEL. Recovery in order inflow from a low base in FY15E-16E is unlikely to deliver significant traction in revenue growth as risks of client side delays (especially private sector) and clearance issues continue to prevail
- Lack of operating leverage, relatively high employee costs (including 7th pay commission expenses) and execution of orders secured in highly competitive environment is expected to keep margins under pressure going forward. We believe EBITDA margin is unlikely to revert back to historical levels (>20%) in the foreseeable future.

2QFY16 Update				09 November, 2015	
Promoters	63.1			Bloomberg	BHEL IN
Institutions	33.4			Shares o/s	2,448mn
Public	3.6			Market Cap	Rs. 465.4bn
	1m	3m	12m	52-wk High-Low	Rs. 300-184
BHEL	-7%	-30%	-25%	3m Avg. Daily Vol	Rs. 866mn
Sensex	-2%	-7%	-6%	Index	BSE 30
CG Index	-8%	-21%	-9%		

Key estimate revision

	FY16E			FY17E		
	Old	New	Change	Old	New	Change
Revenue	3,06,038	2,99,357	-2.2%	3,38,713	3,35,748	-0.9%
EBITDA	26,004	19,931	-23.4%	37,009	31,134	-15.9%
Margin (%)	8.5%	6.7%	-184 bps	10.9%	9.3%	-165 bps
PAT	19,366	15,923	-17.8%	26,724	23,485	-12.1%
PAT Margin	6.3%	5.3%	-101 bps	7.9%	7.0%	-90 bps
EPS	7.9	6.5	-17.8%	10.9	9.6	-12.1%

All figures in Rs. mn, except EPS, which is in Rs.

Financial summary

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E (x)	RoE (%)
FY15	3,01,830	20,986	14,293	5.8	32.5	4.3
FY16E	2,99,357	19,931	15,923	6.5	29.2	4.7
FY17E	3,35,748	31,134	23,485	9.6	19.8	6.8

Quarterly Financial Results
CMP
Rs.190
Target
Rs. 137
Rating
SELL
Standalone Financial Result

Rs. mn\Period	30-Sep-15	30-Sep-14	YoY Growth	30-Jun-15	QoQ Growth
Revenues	59,380	61,440	-3.4%	43,617	36.1%
Material cost	39,100	34,338	13.9%	23,752	64.6%
Employee cost	14,816	15,956	-7.1%	14,615	1.4%
Other expenditure	10,205	8,231	24.0%	7,343	39.0%
Operating Expenses	64,122	58,525	9.6%	45,710	40.3%
EBITDA	-4,742	2,915	-262.6%	-2,093	NA
EBITDA margin (%)	-8.0%	4.7%	-1273 bps	-4.8%	-319 bps
Depreciation	2,249	2,662	-15.5%	2,425	-7.3%
Other income	3,733	1,961	90.3%	4,924	-24.2%
EBIT	-3,258	2,214	-247.1%	406	-903.3%
Interest	44	126	-65.4%	33	34.0%
PBT	-3,302	2,088	-258.1%	373	-985.2%
Tax	-1,253	840	-249.2%	34	-3774.2%
Effective tax rate	37.9%	40.2%		9.1%	
PAT	-2,049	1,248	-264.1%	339	NM
PAT margin (%)	-3.5%	2.0%	-548 bps	0.8%	-423 bps
EPS (Rs.)	(0.8)	0.5	-264.1%	0.1	NM

Order book break-up (Rs. bn)	FY13	FY14	FY15	FY16E	FY17E	FY18E
Power	936	838	859	1,045	1,149	1,167
YoY Growth(%)	-13%	-10%	-3%	5%	14%	14%
Industry	220	175	151	150	156	164
YoY Growth(%)	-18%	-21%	-2%	8%	16%	16%
Total	1,156	1,013	1,010	1,195	1,305	1,332
YoY Growth(%)	-14%	-12%	0%	18%	9%	2%

Order Inflow break-up (Rs. bn)	FY13	FY14	FY15	FY16E	FY17E	FY18E
Power	256	221	249	426	379	331
YoY Growth(%)	82%	-14%	13%	71%	-11%	-13%
Industry	61	57	59	65	75	86
YoY Growth(%)	-25%	-6%	4%	10%	15%	15%
Total	317	278	308	491	454	418
YoY Growth(%)	43%	-12%	11%	59%	-8%	-8%

Abridged Financial Statements

Rs. mn	FY15	FY16E	FY17E	FY18E
Profit & Loss				
Revenues	3,01,830	2,99,357	3,35,748	3,80,257
EBITDA	20,986	19,931	31,134	34,039
Other Income	12,204	14,416	15,273	16,706
Depreciation	10,773	10,250	11,000	11,750
EBIT	22,417	24,097	35,408	38,995
Interest	917	153	92	69
PBT	21,501	23,944	35,316	38,926
PAT	14,293	15,923	23,485	25,886
Adj PAT	14,192	15,923	23,485	25,886
Balance Sheet				
Net Worth	3,40,846	3,42,492	3,51,700	3,63,309
Total debt	610	305	229	172
Total Network and liabilities	3,41,456	3,42,797	3,51,929	3,63,481
Gross Fixed assets	1,26,661	1,36,661	1,46,661	1,56,661
Net fixed assets	41,578	41,329	40,329	38,579
CWIP	5,005	5,500	5,500	5,500
Investments	4,177	4,177	4,177	4,177
Inventories	1,01,017	1,06,620	1,14,982	1,25,016
Sundry Debtors	3,76,373	3,77,271	3,90,940	4,06,302
Cash and bank balances	98,127	93,903	1,06,698	1,10,531
Loans and advances	36,187	36,227	38,009	43,111
Current liabilities	3,43,216	3,44,438	3,70,913	3,91,943
Net current assets	2,68,489	2,69,584	2,79,716	2,93,017
Total assets	3,41,456	3,42,797	3,51,929	3,63,481
Cash Flow				
Cash flows from Operations	7,755	21,006	37,239	28,235
Cash flows from Investing	4,643	-10,495	-10,000	-10,000
Cash flows from Financing	(33,000)	(14,734)	(14,445)	(14,403)

Key metrics

	FY15	FY16E	FY17E	FY18E
Growth ratios				
Sales	-22.8%	-0.8%	12.2%	13.3%
EBITDA	-53.6%	-5.0%	56.2%	9.3%
PAT	-58.7%	11.4%	47.5%	10.2%
Margin ratios				
EBITDA	7.0%	6.7%	9.3%	9.0%
PAT	4.7%	5.3%	7.0%	6.8%
Performance ratios				
RoE	4.3%	4.7%	6.8%	7.2%
RoCE	4.3%	4.7%	6.8%	7.2%
RoA	2.4%	2.7%	3.9%	4.1%
Fixed asset turnover (x)	2.4	2.2	2.3	2.4
Total asset turnover (x)	0.4	0.4	0.5	0.5
Financial stability ratios				
Net Debt to Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Current ratio (x)	1.8	1.8	1.8	1.7
Inventory and debtor days	621	634	591	551
Creditor days	282	283	278	264
Working capital days	340	352	313	288
Interest cover (x)	24.5	158.0	387.0	568.2
Valuation metrics				
Fully Diluted Shares (mn)	2,447.6	2,447.6	2,447.6	2,447.6
Market cap (Rs.mn)	4,65,044	4,65,044	4,65,044	4,65,044
EPS (Rs.)	5.8	6.5	9.6	10.6
P/E (x)	32.5	29.2	19.8	18.0
EV (Rs.mn)	3,67,527	3,71,446	3,58,575	3,54,685
EV/ EBITDA (x)	17.5	18.6	11.5	10.4
BV/ share (Rs.)	139.3	139.9	143.7	148.4
Price to BV (x)	1.4	1.4	1.3	1.3

Recommendation History

CMP

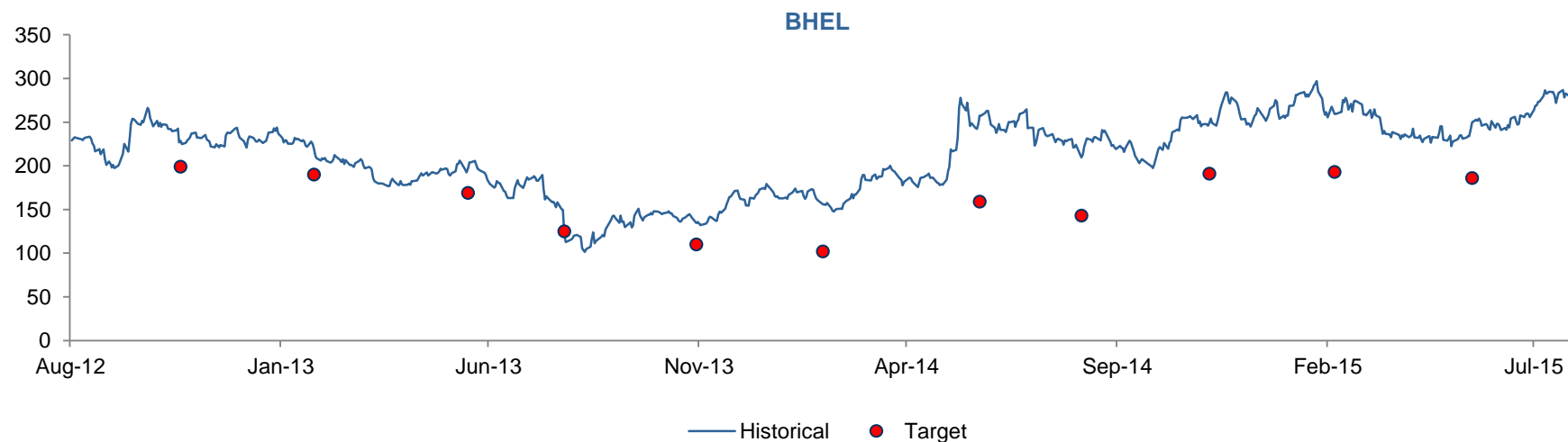
Rs.190

Target

Rs. 137

Rating

SELL



Report Date	CMP (Rs.)	TP (Rs.)	Recommendation
27/May/15	241	186	Sell
13/Feb/15	267	193	Sell
17/Nov/14	242	191	Sell
13/Aug/14	225	143	Sell
03/Jun/14	258	159	Sell
07/Feb/14	156	102	Sell
07/Nov/13	135	110	Sell
05/Aug/13	129	125	Reduce
27/May/13	193	169	Sell
04/Feb/13	225	190	Sell
30/Oct/12	226	199	Sell
27/Jul/12	212	201	Reduce

Absolute Rating Interpretation	BUY	Stock expected to provide positive returns of >15% over a 1-year horizon	REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
	ADD	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon	SELL	Stock expected to fall >10% over a 1-year horizon

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