

## India

**REDUCE** (no change)

Consensus ratings\*: Buy 1 Hold 4 Sell 21

Current price:	Rs72
Target price:	Rs38
Previous target:	Rs38
Up/downside:	-47.2%
InCred Research / Consensus:	1.6%
Reuters:	BHEL.NS
Bloomberg:	BHEL IN
Market cap:	US\$3,391m
	Rs251,057m
Average daily turnover:	US\$66.0m
	Rs4887.5m
Current shares o/s:	3,482.1m
Free float:	36.8%

\*Source: Bloomberg

**Key changes in this note**

- Lower FY23F EBITDA by 28%
- Lower FY23F PAT by 49.5%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.2	28.8	155.7
Relative (%)	9.5	15.9	80.2

Major shareholders	% held
Promoter (Govt of India)	63.2
Life Insurance Corporation	10.9

**Analyst(s)**

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# Bharat Heavy Electricals

## Order pipeline remains weak

- BHEL reported lower losses in 2QFY22, vs our estimates, led by higher-than-estimated sales, provision withdrawals and change in depreciation accounting.
- The core business outlook remains weak, in our view, while positive earnings support from diversification, if any, could take long.
- Reiterate Reduce rating on the stock.

### Lower-than-estimated losses aided by higher sales, lower provisions

2QFY22 sales (+38% yoy), led by 44%/39% growth in sales in the power/ industry segments, was 6% above our estimate on the execution of some large projects. Execution was better than in recent quarters, where sales were restrained as the company optimized cash realisation, rather than execution, considering elevated working capital levels. The 2Q EBITDA loss was much lower at Rs292m vs our estimated EBITDA loss of Rs1.9bn due to higher-than-estimated sales, lower other expenses (-45% yoy on provisions withdrawals) despite lower gross margin (-284bp yoy). 2Q saw net provision withdrawal of Rs1.8bn vs creation of Rs260m in 2QFY21. Depreciation was down 63% yoy due to the review of useful life of assets. Its 2Q loss stood at Rs675m vs our estimated loss of Rs3.2bn. The company does not have any major land bank monetization plans.

### Focus remains on curtailing working capital and cash flows

BHEL's total receivables declined yoy at Rs312bn in 1HFY22 vs Rs349bn in 1HFY21 but higher than Rs309bn qoq. Collectable debtors fell to Rs72bn from Rs73bn qoq, while contract assets increased qoq to Rs239bn from Rs236bn. Net working capital (ex-cash) on days of sales stood at 340 days of sales in 1HFY22 vs 392 days in FY21 mainly due to improved sales. Due to the absolute increase in working capital, cash flow from operations post working capital stood at a negative Rs3.4bn in 1HFY22 vs negative Rs646m in 1HFY21. Net cash stood at Rs13.85bn as at end 2QFY22 vs Rs17.66bn in FY21.

### Positive impact from diversification, if at all, could take time

2QFY22 order inflows were aided by the 6x700MW nuclear turbine island package worth Rs108bn (execution timeline would be 57/63 months for the first two package). BHEL is actively pursuing opportunities in downstream oil & gas (O&G), transportation, defence and aerospace. However, we believe a meaningful contribution to earnings could take long. Thermal order finalizations continue to be delayed due to customer's shift in focus to renewables.

### Reiterate Reduce rating on stock

BHEL's core business outlook remains weak while valuations are no longer at deep discounts considering overall earnings could remain weak for the next couple of years. We estimate higher loss in FY22F, and cut FY23F EPS by 50% on lower gross margin. We reiterate our Reduce rating with TP of Rs38 (at 0.5x FY22F P/BV). Upside risks include deals for diversification and improvement in receivables.

**Financial Summary**

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	204,906	162,956	206,580	238,787	255,313
Operating EBITDA (Rsm)	(2,329)	(31,353)	(3,681)	7,755	12,578
Net Profit (Rsm)	(14,730)	(27,171)	(5,071)	3,689	7,630
Core EPS (Rs)	(4.2)	(7.8)	(1.5)	1.1	2.2
Core EPS Growth	(225.2%)	84.5%	(81.3%)	(172.7%)	106.8%
FD Core P/E (x)	(17.04)	(9.24)	(49.51)	68.06	32.90
DPS (Rs)	1.2	0.0	0.0	0.5	1.1
Dividend Yield	1.66%	0.00%	0.00%	0.73%	1.52%
EV/EBITDA (x)	(101.75)	(7.43)	(62.37)	30.38	17.74
P/FCFE (x)	17.65	71.71	32.04	(65.13)	27.55
Net Gearing	(4.8%)	(6.9%)	(8.3%)	(5.9%)	(10.5%)
P/BV (x)	0.86	0.95	0.97	0.96	0.95
ROE	(4.9%)	(9.8%)	(1.9%)	1.4%	2.9%
% Change In Core EPS Estimates			51.18%	(49.47%)	
InCred Research/Consensus EPS (x)			1.49	0.51	0.68

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 9 NOV 2021

## Order pipeline remains weak

### 2QFY22 results review

#### Key takeaways from BHEL's 2QFY22 conference call ►

- **On order inflow:** The company expects 2H order inflows to be similar to 1H for the industrial sector as most opportunities are likely to fructify in FY23. For FY23, the company expects an uptick in orders from the Railways, Defence and EPC in oil and gas (refining order opportunity size is ~Rs200bn during the next 2-3 years). The company received Super Rapid gun mount (SPGM) orders worth Rs24bn during the current year for 20 guns and expects another 30 gun orders worth ~Rs40bn for SPGM in FY23. Some flue gas desulphurization (FGD) orders (82GW under execution) are expected in 2HFY22 but there was not much clarity on State and private sector orders.
- **NPCIL order:** The company received an order worth Rs108bn from NPCIL during 2QFY22. The order contains six packages, of which execution of the first two packages started in Aug 2021 and would be executed within 57 months and 63 months respectively. The commencement date of the next four packages have not been determined yet.
- **Gross margins:** Higher commodity prices, product mix (high civil content) and restrictions in sourcing impacted gross margins. Also 50% of the order backlog is under fixed pricing. The company is negotiating with customers for compensation of escalation in costs.
- **Break-even point:** The company has taken cost reduction measures to bring down the break-even point, while taking measures to improve sales. Earlier the company highlighted it would break even at revenues of Rs300bn.
- **On land bank monetization:** The company clarified that it did not have any major land monetization plans considering most of its land is classified as right of use, where sales are a long-drawn process and need state government involvement.
- **Depreciation:** Depreciation fell sharply during the quarter. The review and revision of the estimated useful life of certain items of fixed assets, considered prospectively w.e.f. 1 Apr 2021, in 2QFY22, led to the reduction of Rs580.4m in depreciation. BHEL expects annual depreciation for the year to be Rs3bn.
- **Other expenses:** The sharp dip in other expenses (-45%/yoy) was purely due to cost optimization measures and provision withdrawals.
- **Capex guidance:** BHEL will incur regular maintenance capex of Rs2.5bn in FY22 and FY23.

#### 2QFY22 results review ►

- BHEL reported 2QFY22 net revenue of Rs51.1bn (+38% yoy, and 18% below pre COVID 2QFY20 levels), 6% above our estimate of Rs48.3bn (10% above Bloomberg consensus). Segmental analysis highlights 44% yoy sales rise in the Power segment (6% above estimates) and 39% growth in sales of Industry segment (11% above estimate). Sales execution was better than the last few quarters considering the company is optimizing cash realization vs execution considering elevated working capital levels.
- 2QFY22 reported EBITDA loss of Rs292m (vs EBITDA loss of Rs6.32bn yoy in 2QFY21) vs our estimate of Rs1.9bn and Bloomberg consensus EBITDA loss estimate of Rs1.9bn.
- EBITDA margin for the quarter was -0.6% (vs -17% in 2QFY21 yoy) vs our estimate of -4% and Bloomberg consensus's -4.2% aided by higher-than-estimated sales and lower other expense (on account of cost optimization and provision withdrawals), despite the decline in gross margin (-284bp yoy, -56bp qoq). Staff expense was flattish yoy while other expense was down by 45%

yoy. Other expense includes forex gain/ losses and net provisions which are volatile on a quarterly basis. There was net withdrawal of provisions of Rs1.8bn during 2QFY22 vs net provisions of Rs260m during 2QFY21.

- Depreciation was down by 63% yoy to Rs428m vs our estimate of Rs1.15bn. Review and revision in the estimated useful life of certain items of PPE, considered prospectively w.e.f. 1 Apr 2021, in 2QFY22, reduced depreciation by Rs580.4m.
- BHEL reported a 2QFY22 PBT loss of Rs876m (vs PBT loss of Rs7.3bn in 2QFY21), vs our estimate of PBT loss of Rs3.2bn.
- Reported net loss stood at Rs675m (vs a net loss of Rs5.5bn in 2QFY21), vs our estimated loss of Rs3.2bn (Bloomberg consensus estimated net loss of Rs1.63bn).

### Segmental analysis ►

- Power sector sales rose by 44% yoy to Rs35.8bn vs our estimate of Rs33.9bn. Power segment EBIT margin was at 6.4% (vs -14.9% in 2QFY21).
- Industry segment sales increased by 39% yoy to Rs13.2bn (11% above our estimate). Industry segment post EBIT margin of 2% (vs -9.5% in 2QFY21).

### Order inflow and backlog ►

- 2QFY22 order inflows stood at Rs128.6bn (+244% yoy, +294% qoq). Order inflow from Power segment during 2QFY22 was Rs115.8bn (294%yoy), due to a major order worth Rs108bn received from NPCIL. Order inflow from the Industrial segment during 2QFY22 was Rs12.9bn (+84%yoy).
- Order backlog (OB) stood at Rs1.10tr (+2.6%yoy,+8% qoq), where currently executable OB stood at Rs900bn.

### Cash & net working capital ►

- Net working capital (ex-cash) on days of sales stood at 340 days of sales in 1HFY22, vs 465 in 1HFY21 from 392 in FY21, mainly due to improved sales. However absolute working capital stood at Rs173bn in 2HFY21 vs Rs175bn in FY21, led by the decline in inventories and receivables.
- Hence, cash flow from operations before working capital was negative Rs6.7bn as at end 1HFY22 vs negative Rs16.3bn in 1HFY21, but due to the absolute increase in working capital, cash flow from operations post working capital stood at negative Rs3.4bn vs negative Rs646m in 1HFY21 and positive Rs5.6bn in FY21.
- Total receivables rose qoq to Rs312bn (Rs309bn in 1QFY22). Collectable debtors fell qoq from Rs73.4bn in 1QFY22 to Rs72.2bn in 2QFY22, while contract assets rose qoq from Rs235.5bn in 1QFY22 to Rs239.4bn in 2QFY22 (of which Rs166bn are deferred contract assets). Receivables break-up in terms of customer was Central sector (mainly NTPC): 36%, State sector: 42%, private: 14% and exports: 8%.
- Net cash stood at Rs13.85bn as at end 2QFY22 vs Rs17.66bn in FY21.

**Figure 1: Result comparison (Rs bn)**

	2QFY22	2QFY21	yoy % chg	1QFY22	qoq % chg	1HFY22	1HFY21	yoy % chg	2QFY22F	deviation
Net revenues	51,122	36,952	38	29,013	76	80,135	56,861	40.9	48,301	5.8
<b>Expenditure</b>										
<b>RM cost</b>	<b>34,420</b>	<b>23,832</b>	<b>44.4</b>	<b>19,371</b>	<b>77.7</b>	<b>53,791</b>	<b>36,947</b>	<b>45.6</b>	<b>31,879</b>	<b>8.0</b>
Staff cost										
Other items	3,078	5,629	(45.3)	808	280.9	3,886	9,224	(57.9)	4,830	(36.3)
Total Expenditure	51,414	43,276	18.8	33,753	52.3	85,167	73,774	15.4	50,233	2.3
<b>EBITDA</b>	<b>-292</b>	<b>-6,325</b>	<b>NA</b>	<b>-4,740</b>	<b>NA</b>	<b>-5,032</b>	<b>-16,914</b>	<b>NA</b>	<b>-1,932</b>	<b>NA</b>
Other income	739	1,048	(29.4)	750	(1.4)	1,489	2,003	(25.7)	838	(11.8)
Interest	896	945	(5.2)	836	7.1	1,732	2,091	(17.2)	1,000	(10.4)
Depreciation	428	1,152	(62.8)	1,112	(61.5)	1,540	2,337	(34.1)	1,150	(62.8)
PBT	-876	-7,374	NA	-5,938	NA	-6,815	-19,338	NA	-3,244	NA
Tax	-201	-1,813	NA	-1,485	NA	-1,686	-4,805	NA	-	NA
<b>PAT</b>	<b>-675</b>	<b>-5,561</b>	<b>NA</b>	<b>-4,454</b>	<b>NA</b>	<b>-5,129</b>	<b>-14,533</b>	<b>NA</b>	<b>-3,244</b>	<b>NA</b>
Adjusted PAT	-675	-5,561	NA	-4,454	NA	-5,129	-14,533	NA	-3,244	NA
<b>Other Comprehensive Income</b>	<b>-145</b>	<b>183</b>	<b>NA</b>	<b>-145</b>	<b>NA</b>	<b>-291</b>	<b>365</b>	<b>NA</b>	<b>-</b>	<b>NA</b>
<b>Total Comprehensive Income</b>	<b>-530</b>	<b>-5,744</b>	<b>NA</b>	<b>-4,309</b>	<b>NA</b>	<b>-4,838</b>	<b>-14,898</b>	<b>NA</b>	<b>-</b>	<b>NA</b>
<b>Key ratios (%)</b>			bp (yoy)		bp (qoq)			bp (yoy)		
<b>RM to Sales</b>	<b>67.3</b>	<b>64.5</b>	<b>283.6</b>	<b>66.8</b>	<b>56.4</b>	<b>67.1</b>	<b>65.0</b>	<b>214.8</b>	<b>66.0</b>	
Staff Cost to sales	27.2	37.4	(1017)	46.8	(1957)	34.3	48.5	(1424.2)	28.0	
<b>EBITDA margin</b>	<b>(0.6)</b>	<b>(17.1)</b>	<b>1654.5</b>	<b>(16.3)</b>	<b>1577</b>	<b>(6.3)</b>	<b>(29.7)</b>	<b>2346.7</b>	<b>(4.0)</b>	
Effective tax rate	23.0	24.6	(161.7)	25.0	(203)	24.7	24.8	(11.2)	26.0	
<b>EPS (Rs)</b>	<b>(0.2)</b>	<b>(1.5)</b>	<b>NA</b>	<b>(1.2)</b>	<b>NA</b>	<b>(1.4)</b>	<b>(4.0)</b>	<b>NA</b>	<b>(0.9)</b>	
Adjusted EPS (Rs)	(0.2)	(1.5)	NA	(1.2)	NA	(1.4)	(4.0)	NA	(0.9)	
<b>Order details (Rs m)</b>	<b>2QFY22</b>	<b>2QFY21</b>		<b>1QFY22</b>		<b>1HFY22</b>	<b>1HFY21</b>		<b>2QFY22F</b>	
<b>Total Inflow</b>	<b>1,28,070</b>	<b>37,230</b>	<b>244.0</b>	<b>32,500</b>	<b>294.1</b>	<b>1,60,570</b>	<b>52,080</b>	<b>208.3</b>	<b>1,30,000</b>	
<b>Total backlog</b>	<b>11,04,000</b>	<b>10,76,450</b>	<b>2.6</b>	<b>10,20,980</b>	<b>8.1</b>	<b>11,04,000</b>	<b>10,76,450</b>	<b>2.6</b>		
<b>Segment results</b>	<b>2QFY22</b>	<b>2QFY21</b>	<b>yoy % chg</b>	<b>1QFY22</b>	<b>qoq % chg</b>	<b>1HFY22</b>	<b>1HFY21</b>	<b>yoy % chg</b>	<b>2QFY22F</b>	<b>deviation</b>
Power	35,863	24,917	43.9	21,169	69.4	57,032	36,111	57.9	33,887	5.8
Industry	13,244	9,518	39.1	6,069	118.2	19,313	17,290	11.7	11,898	11.3
Total	49,106	34,435	42.6	27,238	80.3	76,344	53,401	43.0	45,785	7.3
<b>Revenue Mix</b>										
Power (%)	73	72		78		75	68		74	
Industry (%)	27	28		22		25	32		26	
<b>EBIT</b>			<b>yoy % chg</b>		<b>qoq % chg</b>			<b>yoy % chg</b>		
Power	2,312	-3,716	NA	-1,802	NA	510	-9,397	NA	1,694	
Industry	260	-901	NA	-1,244	NA	-985	-3,430	NA	476	
<b>Total</b>	<b>2,572</b>	<b>-4,617</b>	<b>NA</b>	<b>-3,047</b>	<b>NA</b>	<b>-475</b>	<b>-12,827</b>	<b>NA</b>	<b>2,170</b>	
Less: Interest	896	945	(5.2)	836	7.1	1,732	2,091	(17.2)		
unallocable expense net of income	2,552	1,812	40.9	2,056	24.2	4,608	4,421	4.2		
<b>Total PBT</b>	<b>-876</b>	<b>-7,374</b>	<b>(88.1)</b>	<b>-5,939</b>	<b>(85.2)</b>	<b>-6,815</b>	<b>-19,338</b>	<b>(64.8)</b>		
<b>EBIT margin</b>			<b>bp (yoy)</b>		<b>bp (qoq)</b>			<b>bp (yoy)</b>		<b>bp</b>
Power (%)	6.4	-14.9	2,136	-8.5	1,496	0.9	-26.0	2,692	5.0	145
Industry (%)	2.0	-9	1,142	-20.5	2,246	-5.1	-19.8	1,474	4.0	-204

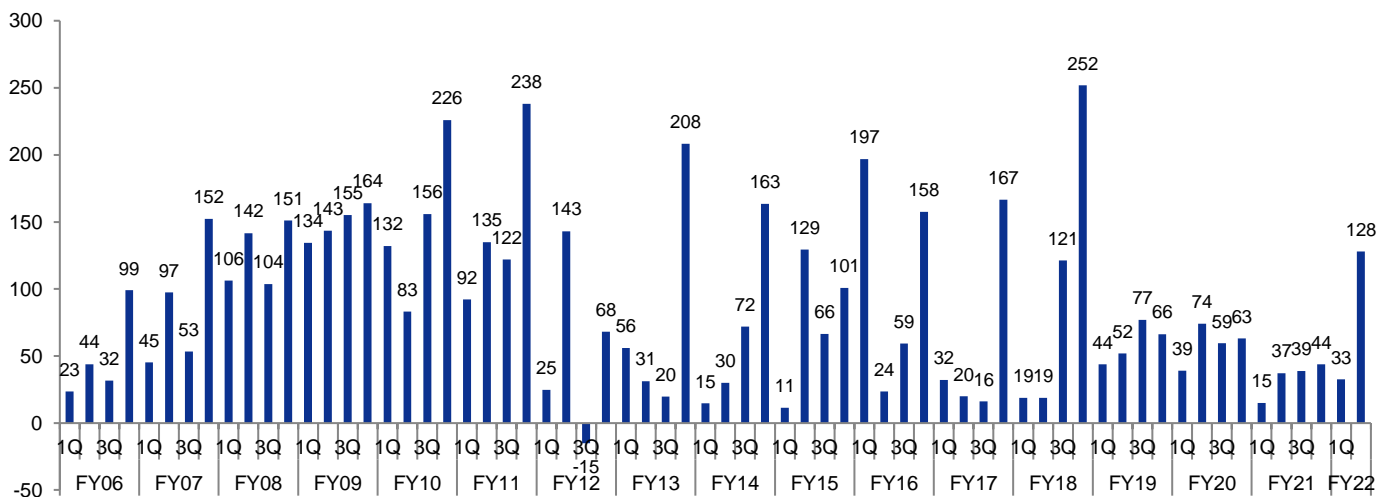
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 2: Balance sheet**

(Rs m)	1HFY16	FY16	1HFY17	FY17	1HFY18	FY18	1HFY19	FY19	1HFY20	FY20	1HFY21	FY21	1HFY22
<b>Sources of Funds</b>													
<b>Shareholders funds:</b>	<b>3,39,136</b>	<b>3,21,811</b>	<b>3,32,100</b>	<b>3,22,648</b>	<b>3,22,648</b>	<b>3,26,011</b>	<b>3,26,113</b>	<b>3,13,999</b>	<b>3,07,927</b>	<b>2,91,812</b>	<b>2,76,915</b>	<b>2,64,841</b>	<b>2,60,002</b>
Share capital	4,895	4,895	4,895	4,895	4,895	7,343	7,343	6,964	6,964	6,964	6,964	6,964	6,964
Reserves and Surplus	3,34,241	3,16,916	3,27,205	3,17,752	3,17,752	3,18,668	3,18,770	3,07,035	3,00,963	2,84,848	2,69,950	2,57,876	2,53,038
LOAN FUNDS	546	1,263	1,090	778	778	572	7,170	25,527	48,861	50,088	48,327	49,354	49,499
<b>TOTAL</b>	<b>3,39,682</b>	<b>3,23,074</b>	<b>3,33,190</b>	<b>3,23,425</b>	<b>3,23,425</b>	<b>3,26,583</b>	<b>3,33,283</b>	<b>3,39,526</b>	<b>3,56,788</b>	<b>3,41,900</b>	<b>3,25,241</b>	<b>3,14,194</b>	<b>3,09,501</b>
<b>APPLICATION OF FUNDS</b>													
Fixed Assets (Incl. CWIP)	43,184	42,804	39,011	34,441	34,441	32,716	31,337	32,024	31,700	31,281	29,694	29,079	28,142
Investments	5,549	6,642	6,642	13,161	13,161	6,907	6,738	6,694	6,694	6,695	6,695	6,700	6,700
Deferred Tax Assets (Net)	24,025	36,592	33,130	39,936	39,936	36,259	35,482	35,145	36,335	27,562	32,514	36,598	38,186
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>													
Inventories	1,09,399	96,022	84,655	66,682	66,682	62,588	77,466	81,135	94,418	89,055	84,016	71,912	71,509
Sundry Debtors	3,72,476	3,37,984	3,49,995	3,29,982	3,29,982	1,75,013	3,89,926	1,59,448	1,40,430	1,23,781	1,14,320	72,134	72,205
Cash and Bank balances	81,696	1,00,860	1,02,290	96,443	96,443	1,11,759	70,998	75,033	68,164	64,186	60,257	67,014	63,349
Other current assets	3,199	28,304	2,874	29,304	29,304	2,09,661	30,425	2,52,278	2,63,889	2,67,974	2,65,058	2,70,320	2,66,508
Loans and Advances	35,983	2,422	30,305	8,848	8,848	2,279	2,459	2,403	2,957	2,182	2,208	3,256	3,635
<b>Total Current Assets</b>	<b>6,02,753</b>	<b>5,65,592</b>	<b>5,70,119</b>	<b>5,31,259</b>	<b>5,31,259</b>	<b>5,61,299</b>	<b>5,71,274</b>	<b>5,70,297</b>	<b>5,69,859</b>	<b>5,47,176</b>	<b>5,25,858</b>	<b>4,84,636</b>	<b>4,77,205</b>
<b>Less: Current Liabilities and Provisions</b>													
Current Liabilities	2,25,971	2,18,952	2,09,083	1,99,866	1,99,866	2,23,539	2,24,656	2,25,234	2,06,470	1,87,518	1,82,371	1,72,048	1,69,486
Provisions	1,09,859	1,09,604	1,06,629	95,506	95,506	87,059	86,892	79,400	81,330	83,297	87,149	70,770	71,246
<b>Total Current Liabilities</b>	<b>3,35,830</b>	<b>3,28,556</b>	<b>3,15,711</b>	<b>2,95,372</b>	<b>2,95,372</b>	<b>3,10,598</b>	<b>3,11,548</b>	<b>3,04,634</b>	<b>2,87,800</b>	<b>2,70,815</b>	<b>2,69,520</b>	<b>2,42,818</b>	<b>2,40,732</b>
<b>Net Current Assets</b>	<b>2,66,923</b>	<b>2,37,036</b>	<b>2,54,408</b>	<b>2,35,887</b>	<b>2,35,887</b>	<b>2,50,700</b>	<b>2,59,726</b>	<b>2,65,663</b>	<b>2,82,059</b>	<b>2,76,362</b>	<b>2,56,339</b>	<b>2,41,818</b>	<b>2,36,473</b>
<b>TOTAL</b>	<b>3,39,682</b>	<b>3,23,074</b>	<b>3,33,190</b>	<b>3,23,425</b>	<b>3,23,425</b>	<b>3,26,583</b>	<b>3,33,283</b>	<b>3,39,526</b>	<b>3,56,788</b>	<b>3,41,900</b>	<b>3,25,241</b>	<b>3,14,194</b>	<b>3,09,501</b>
<b>Working capital (days of sales)</b>													
<b>Current assets</b>	<b>770</b>	<b>829</b>	<b>774</b>	<b>712</b>	<b>712</b>	<b>733</b>	<b>726</b>	<b>707</b>	<b>757</b>	<b>975</b>	<b>1247</b>	<b>1086</b>	<b>937</b>
Inventories	140	141	115	89	89	82	98	101	125	159	199	161	140
Sundry Debtors	476	496	475	442	442	228	495	198	187	220	271	162	142
Cash and Bank balances	104	148	139	129	129	146	90	93	91	114	143	150	124
Other current assets	4	41	4	39	39	274	39	313	351	477	629	605	523
Loans and Advances	46	4	41	12	12	3	3	3	4	4	5	7	7
<b>Current Liabilities &amp; provisions</b>	<b>429</b>	<b>482</b>	<b>428</b>	<b>396</b>	<b>396</b>	<b>405</b>	<b>396</b>	<b>378</b>	<b>382</b>	<b>482</b>	<b>639</b>	<b>544</b>	<b>473</b>
Current Liabilities	289	321	284	268	268	292	285	279	274	334	432	385	333
Provisions	140	161	145	128	128	114	110	98	108	148	207	159	140
<b>NWC (ex cash)</b>	<b>237</b>	<b>200</b>	<b>206</b>	<b>187</b>	<b>187</b>	<b>181</b>	<b>240</b>	<b>236</b>	<b>284</b>	<b>378</b>	<b>465</b>	<b>392</b>	<b>340</b>

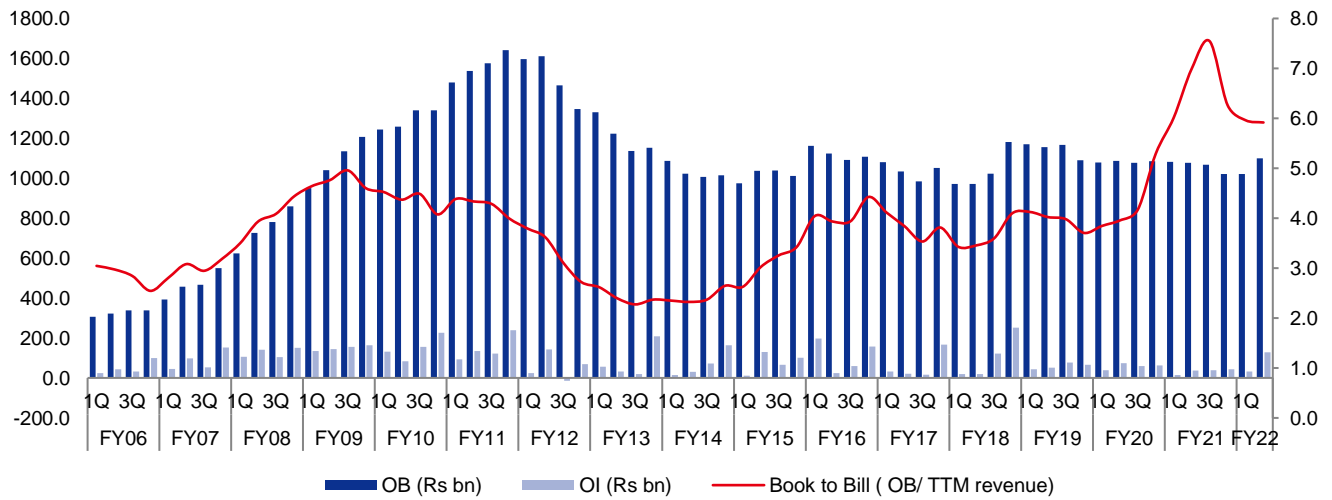
SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Large order inflow of Rs128bn aided by Rs108bn order from NPCIL (Rs bn)**



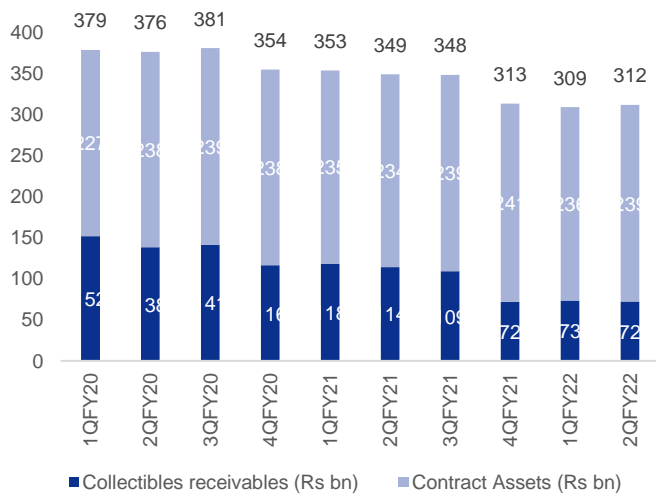
SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: Order backlog stood at Rs1.10tr (+2.6% yoy, +8.1% qoq) as at 1HFY22, OB to TTM sales optically looks higher to lower sales execution**



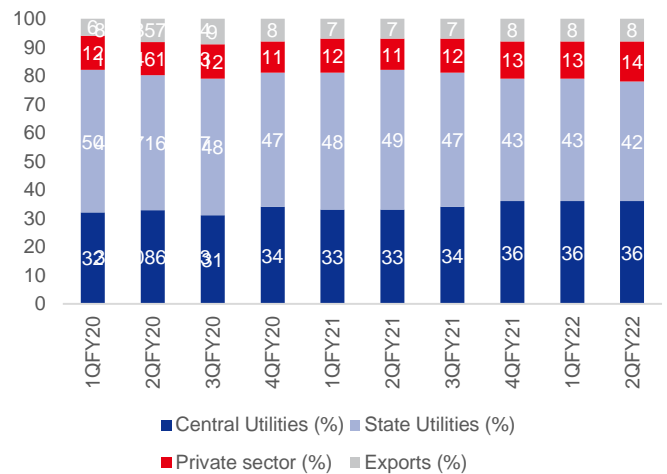
ORDER BACKLOG (OB)  
SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Collectible receivables declined, but contract assets remain elevated**



SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 6: Customer-wise proportion of total receivables**



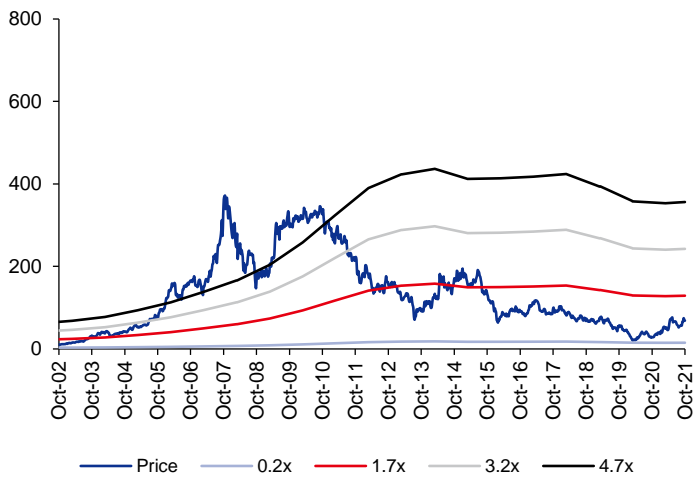
SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 7: Earnings revision summary**

(Rs m)	Old estimates		New estimates		Change (%)	
	2022F	2023F	2022F	2023F	2022F	2023F
Revenue	2,16,070	2,56,011	2,17,048	2,49,993	0.5%	-2.4%
EBITDA	785	10,827	-3,681	7,755	-568.9%	-28.4%
Core PAT	-3,354	7,300	-5,071	3,689	51.2%	-49.5%

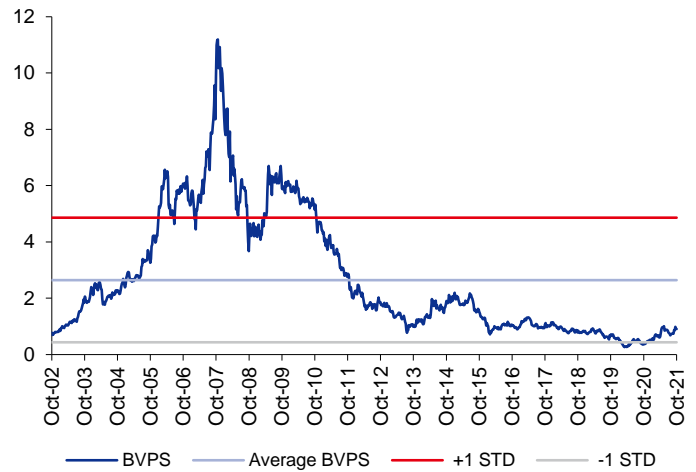
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 8: BHEL – one-year forward P/BV chart**



SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

**Figure 9: BHEL – current P/BV trading at below -1SD of its long-term average**



SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

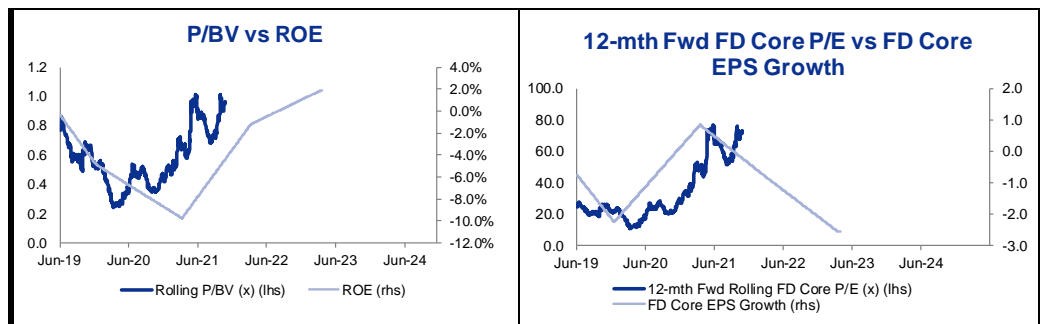
**Figure 10: Sector comparison**

Company	Bloomberg Ticker	Recom.	Price Rs	TP Rs	Mkt cap (US\$ m)	P/E (x)			P/BV (x)			EV/EBITDA (x)			Dividend yield (%)		
						FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
ABB India	ABB IN	Reduce	2,185	1,620	5,308	106	80	65	11.6	10.4	9.2	73	56	45	0.2	0.3	0.3
Bharat Heavy Electricals	BHEL IN	Reduce	72	38	3,285	-69	57	27	1.0	0.9	0.9	-803	24	14	0.0	0.0	0.0
Cummins India	KKC IN	Add	922	1,000	3,305	32	27	23	5.3	4.8	4.4	29	24	20	1.8	2.0	2.1
Larsen & Toubro	LT IN	Add	1,944	2,160	33,397	31	26	22	3.4	3.1	2.8	21	18	16	1.9	1.1	1.1
Siemens India	SIEM IN	Hold	2,409	1,850	10,304	77	60	50	8.4	7.7	6.9	52	40	34	0.5	0.5	0.5
Thermax	TMX IN	Hold	1,338	1,450	2,122	43	31	28	4.3	3.9	3.5	27	20	17	0.6	0.7	0.9
Voltas	VOLT IN	Hold	1,252	1,265	5,190	60	45	38	7.5	6.7	5.9	49	37	31	0.4	0.6	0.6
KEC International	KECI IN	Add	477	520	1,775	21	15	13	2.7	2.3	2.0	11	8	7	0.9	1.3	1.6

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 9 NOV 2021



## BY THE NUMBERS



### Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
<b>Total Net Revenues</b>	<b>214,861</b>	<b>173,084</b>	<b>217,048</b>	<b>249,993</b>	<b>266,923</b>
<b>Gross Profit</b>	<b>77,745</b>	<b>57,266</b>	<b>74,230</b>	<b>87,497</b>	<b>93,423</b>
<b>Operating EBITDA</b>	<b>(2,329)</b>	<b>(31,353)</b>	<b>(3,681)</b>	<b>7,755</b>	<b>12,578</b>
Depreciation And Amortisation	(5,029)	(4,731)	(3,096)	(3,214)	(3,343)
<b>Operating EBIT</b>	<b>(7,357)</b>	<b>(36,083)</b>	<b>(6,778)</b>	<b>4,541</b>	<b>9,234</b>
Financial Income/(Expense)	(5,070)	(3,731)	(3,476)	(3,293)	(2,836)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	5,806	3,698	3,514	3,656	3,743
<b>Profit Before Tax (pre-EI)</b>	<b>(6,621)</b>	<b>(36,116)</b>	<b>(6,740)</b>	<b>4,903</b>	<b>10,142</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>(6,621)</b>	<b>(36,116)</b>	<b>(6,740)</b>	<b>4,903</b>	<b>10,142</b>
Taxation	(8,109)	8,945	1,669	(1,214)	(2,512)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>(14,730)</b>	<b>(27,171)</b>	<b>(5,071)</b>	<b>3,689</b>	<b>7,630</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>(14,730)</b>	<b>(27,171)</b>	<b>(5,071)</b>	<b>3,689</b>	<b>7,630</b>
Recurring Net Profit	(14,730)	(27,171)	(5,071)	3,689	7,630
<b>Fully Diluted Recurring Net Profit</b>	<b>(14,730)</b>	<b>(27,171)</b>	<b>(5,071)</b>	<b>3,689</b>	<b>7,630</b>

### Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
<b>EBITDA</b>	<b>(2,329)</b>	<b>(31,353)</b>	<b>(3,681)</b>	<b>7,755</b>	<b>12,578</b>
Cash Flow from Invt. & Assoc.	(4,292)	(4,763)	(3,059)	(2,852)	(2,436)
Change In Working Capital	(26,195)	26,226	9,368	(8,551)	8,304
(Incr)/Decr in Total Provisions	2,444	12,411			
Other Non-Cash (Income)/Expense	5,029	4,731	3,096	3,214	3,343
Other Operating Cashflow	(162)				
Net Interest (Paid)/Received	(185)	308	(38)	(362)	(907)
Tax Paid	(3,219)	(1,904)	1,669	(1,214)	(2,512)
<b>Cashflow From Operations</b>	<b>(28,910)</b>	<b>5,655</b>	<b>7,356</b>	<b>(2,010)</b>	<b>18,370</b>
Capex	(4,252)	(2,485)	(2,500)	(2,500)	(3,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	22,617	2,060	3,514	3,656	3,743
<b>Cash Flow From Investing</b>	<b>18,365</b>	<b>(426)</b>	<b>1,014</b>	<b>1,156</b>	<b>743</b>
Debt Raised/(repaid)	24,767	(1,729)	(534)	(3,000)	(10,000)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(5,046)	(7)		(1,844)	(3,815)
Preferred Dividends					
Other Financing Cashflow	(3,104)	(2,213)	(3,476)	(3,293)	(2,836)
<b>Cash Flow From Financing</b>	<b>16,617</b>	<b>(3,949)</b>	<b>(4,010)</b>	<b>(8,138)</b>	<b>(16,651)</b>
Total Cash Generated	6,073	1,281	4,359	(8,992)	2,462
<b>Free Cashflow To Equity</b>	<b>14,223</b>	<b>3,501</b>	<b>7,835</b>	<b>(3,854)</b>	<b>9,113</b>
<b>Free Cashflow To Firm</b>	<b>(10,359)</b>	<b>4,922</b>	<b>8,407</b>	<b>(492)</b>	<b>20,021</b>

SOURCES: INCRED RESEARCH, COMPANY REPORTS



**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-20A</b>	<b>Mar-21A</b>	<b>Mar-22F</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
Total Cash And Equivalents	64,186	67,014	69,788	60,796	63,258
Total Debtors	123,781	72,134	80,278	92,463	95,068
Inventories	89,055	71,912	71,358	78,765	84,099
Total Other Current Assets	270,156	273,576	257,782	262,663	258,513
<b>Total Current Assets</b>	<b>547,176</b>	<b>484,636</b>	<b>479,206</b>	<b>494,687</b>	<b>500,938</b>
Fixed Assets	31,281	29,079	28,482	27,768	27,425
Total Investments	6,695	6,700	6,700	6,700	6,700
Intangible Assets					
Total Other Non-Current Assets	27,562	36,598	36,598	36,598	36,598
<b>Total Non-current Assets</b>	<b>65,538</b>	<b>72,377</b>	<b>71,780</b>	<b>71,066</b>	<b>70,723</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	166,191	154,228	154,196	161,417	166,808
Other Current Liabilities	104,624	89,072	90,268	98,970	105,672
<b>Total Current Liabilities</b>	<b>270,815</b>	<b>243,300</b>	<b>244,464</b>	<b>260,387</b>	<b>272,480</b>
Total Long-term Debt	50,088	48,872	48,338	45,338	35,338
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>50,088</b>	<b>48,872</b>	<b>48,338</b>	<b>45,338</b>	<b>35,338</b>
Total Provisions					
<b>Total Liabilities</b>	<b>320,902</b>	<b>292,172</b>	<b>292,802</b>	<b>305,724</b>	<b>307,817</b>
Shareholders Equity	291,812	264,841	259,770	261,614	265,429
Minority Interests					
<b>Total Equity</b>	<b>291,812</b>	<b>264,841</b>	<b>259,770</b>	<b>261,614</b>	<b>265,429</b>

<b>Key Ratios</b>					
	<b>Mar-20A</b>	<b>Mar-21A</b>	<b>Mar-22F</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
Revenue Growth	(30.4%)	(20.5%)	26.8%	15.6%	6.9%
Operating EBITDA Growth	(110.9%)	1,246.3%	(88.3%)	(310.7%)	62.2%
Operating EBITDA Margin	(1.1%)	(19.2%)	(1.8%)	3.2%	4.9%
Net Cash Per Share (Rs)	4.05	5.21	6.16	4.44	8.02
BVPS (Rs)	83.80	76.06	74.60	75.13	76.23
Gross Interest Cover	(1.45)	(9.67)	(1.95)	1.38	3.26
Effective Tax Rate				24.8%	24.8%
Net Dividend Payout Ratio	(28.4%)			50.0%	50.0%
Accounts Receivables Days	239.31	206.57	128.15	126.10	128.22
Inventory Days	222.31	253.64	183.08	168.60	171.31
Accounts Payables Days	(292.52)	(290.86)	(217.56)	(199.44)	(200.35)
ROIC (%)	(5.7%)	(11.4%)	(2.0%)	1.3%	2.7%
ROCE (%)	(2.2%)	(11.0%)	(2.2%)	1.5%	3.0%
Return On Average Assets	(0.7%)	(4.2%)	(0.5%)	1.1%	1.7%

<b>Key Drivers</b>					
	<b>Mar-20A</b>	<b>Mar-21A</b>	<b>Mar-22F</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
Order Intake (Rs m)					
Power	137,840	89,840	227,592	154,192	190,192
Industry	87,570	42,830	55,679	66,815	73,496
Order intake growth (%)					
Power	(11)	(35)	153	(32)	23
Industry	25	(51)	30	20	10
Revenues (Rs m)					
Power	149,604	113,861	152,894	179,251	188,339
Industry	55,302	49,095	53,686	59,536	66,973
Revenue growth					
Power	3	-36	-24	34	20
Industry	20	-7	-11	8	18

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021**

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CGET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

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- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.