



FINANCIAL PERFORMANCE OF BHEL IN POST-GLOBALIZATION PERIOD

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ABSTRACT :

In this paper the analysis of the financial performance of BHEL in post-globalization period has been carried out significantly as the researcher framed the objectives. This paper reveals the important methods of analysis and the inferences drawn in favour of the analytical tools.

KEYWORDS : Balance Sheet, Cash Flow Statement, Income Statement Analysis, Ratio Analysis.

INTRODUCTION

The research analysis has been grouped into:

- (i) Important ratio analysis as accessed easily from the financial reports of the company,
- (ii) The relationship of the short term long term and other profitability components,
- (iii) The trend analysis for the key components from the financial records as possible,
- (iv) The comparative income statement and comparative balance sheets analysed systematically,
- (v) The common size income statements and common size balance sheets analysed significantly.
- (vi) The inferences and the results are interpreted and compared simultaneously so as to conclude the financial performance of BHEL.

BHEL has announced its results for the year ended March 2018. Let us have a look at the detailed performance review of the company during FY 17-18.

BHEL INCOME STATEMENT ANALYSIS

- Operating income during the year rose 1.6% on a year-on-year (YoY) basis.
- The company's operating profit increased by 86.4% YoY during the fiscal. Operating profit margins witnessed a growth and up at 6.8% in FY 18 as against 3.7% in FY 17.
- Depreciation charges and finance costs decreased by 7.4% YoY and 27.4% YoY, respectively.
- Other income declined by 10.0% YoY.
- Net profit for the year declined by 3.7% YoY.
- Net profit margins during the year declined from 1.6% in FY 17 to 1.5% in FY 18.

Financial performance of BHEL (Rs billion)		
Year	Turnover	PAT
2015-16	250.91	-7.05
2016-17	277.40	4.55
2017-18	278.50	4.38
2018-19	293.49	10.09
H1 2019-20	104.39	-0.98

Source: BHEL annual reports

Table -1
BHEL Income Statement 2017-18

No. of Mths Year Ending		12 Mar-17*	12 Mar-18*	% Change
Net Sales	Rs m	284,770	289,404	1.6%
Other income	Rs m	7,532	6,780	-10.0%
Total Revenues	Rs m	292,302	296,184	1.3%
Gross profit	Rs m	10,570	19,701	86.4%
Depreciation	Rs m	8,498	7,873	-7.4%
Interest	Rs m	3,513	2,552	-27.4%
Profit before tax	Rs m	6,091	16,056	163.6%
Tax	Rs m	1,304	7,767	495.7%
Profit after tax	Rs m	4,552	4,382	-3.7%
Gross profit margin	%	3.7	6.8	
Effective tax rate	%	21.4	48.4	
Net profit margin	%	1.6	1.5	

* Results Consolidated

Interim results exclude extraordinary / exceptional items Source: Company Reports, Regulatory Filings, Equitymaster

BHEL Balance Sheet Analysis

- The company's current liabilities during FY 18 stood at Rs 222 billion as compared to Rs 201 billion in FY 17, thereby witnessing an increase of 10.3%.
- Long-term debt down at Rs 572 million as compared to Rs 896 million during FY 17, a fall of 36.1%.
- Current assets rose 1% and stood at Rs 432 billion, while fixed assets fell 13% and stood at Rs 33 billion in FY 18.
- Overall, the total assets and liabilities for FY 18 stood at Rs 635 billion as against Rs 613 billion during FY 17, thereby witnessing a growth of 4%.

Table -2
BHEL Balance Sheet as on March 2018

No. of Mths Year Ending		12 Mar-17*	12 Mar-18*	% Change
Networth	Rs m	323,890	323,350	-0.2
Current Liabilities	Rs m	201,426	222,115	10.3
Long-term Debt	Rs m	896	572	-36.1
Total Liabilities	Rs m	613,475	635,447	3.6
Current assets	Rs m	429,040	431,935	0.7
Fixed Assets	Rs m	37,695	32,760	-13.1
Total Assets	Rs m	613,475	635,447	3.6

* Results Consolidated

- Interim results exclude extraordinary / exceptional items Source: Company Reports, Regulatory Filings, Equitymaster

BHEL Cash Flow Statement Analysis

- BHEL's cash flow from operating activities (CFO) during FY 18 stood at Rs 10 billion, an improvement of 76.5% on a YoY basis.
- Cash flow from investing activities (CFI) during FY 18 stood at Rs 10 billion on a YoY basis.
- Cash flow from financial activities (CFF) during FY 18 stood at Rs-7 billion on a YoY basis.
- Overall, net cash flows for the company during FY 18 stood at Rs 13 billion from the Rs -5 billion net cash flows seen during FY 17.

Table -3
BHEL Cash Flow Statement 2017-18

Particulars	No. of months	12	12	% Change
	Year Ending	Mar-17	Mar-18	
Cash Flow from Operating Activities	Rs m	5,604	9,891	76.5%
Cash Flow from Investing Activities	Rs m	-5,652	9,612	-
Cash Flow from Financing Activities	Rs m	-4,679	-6,674	-
Net Cash Flow	Rs m	-4,726	12,829	-

* Results Consolidated

Interim results exclude extraordinary / exceptional items Source: Company Reports, Regulatory Filings, Equitymaster

CURRENT VALUATIONS FOR BHEL

- The trailing twelve-month earnings per share (EPS) of the company stands at Rs 1.2, an decline from the EPS of Rs 1.9 recorded last year.
- The price to earnings (P/E) ratio, at the current price of Rs 73.3, stands at 30.5 times its trailing twelve months earnings.
- The price to book value (P/BV) ratio at current price levels stands at 1.5 times, while the price to sales ratio stands at 1.7 times.
- The company's price to cash flow (P/CF) ratio stood at 16.6 times its end-of-year operating cash flow earnings.

Table 5.4
Per Share Data/Valuations

No. of Mths Year Ending		12 Mar-17*	12 Mar-18*
Sales per share (Unadj.)	Rs	116.3	78.8
TTM Earnings per share	Rs	1.9	1.2
Diluted earnings per share	Rs	1.2	1.2
Price to Cash Flow	x	13.5	16.6
TTM P/E ratio	x	20.4	30.5
Price / Book Value ratio	x	1.1	1.5
Market Cap	Rs m	179,409	269,006
Dividends per share (Unadj.)	Rs	0.8	1.8

* Results Consolidated

Interim results exclude extraordinary / exceptional items Source: Company Reports, Regulatory Filings, Equity master

Ratio Analysis for BHEL

• Solvency Ratios

Current Ratio: The company's current ratio improved and stood at 1.9x during FY 18, from 2.1x during FY 17. The current ratio measures the company's ability to pay short-term and long-term obligations.

Interest Coverage Ratio: The company's interest coverage ratio deteriorated and stood at 7.3x during FY 18, from 2.7x during FY 17. The interest coverage ratio of a company states how easily a company can pay its interest expense on outstanding debt. A higher ratio is preferable.

Profitability Ratios

Return on Equity (ROE): The ROE for the company declined and down at 1.4% during FY 18, from 1.4% during FY 17. The ROE measures the ability of a firm to generate profits from its shareholders capital in the company.

Return on Capital Employed (ROCE): The ROCE for the company improved and stood at 4.5% during FY 18, from 2.9% during FY 17. The

ROCE measures the ability of a firm to generate profits from its total capital (shareholder capital plus debt capital) employed in the company.

Return on Assets (ROA): The ROA of the company declined and down at 1.1% during FY 18, from 1.3% during FY 17. The ROA measures how efficiently the company uses its assets to generate earnings.

Table -5
Key Ratio Analysis

No. of Mths Year Ending		12 Mar-17*	12 Mar-18*
Current ratio	x	2.1	1.9
Debtors' Days	Days	283	287
Interest coverage	x	2.7	7.3
Debt to equity ratio	x	0.0	0.0
Return on assets	%	1.3	1.1
Return on equity	%	1.4	1.4
Return on capital employed	%	2.9	4.5

* Results Consolidated

Interim results exclude extraordinary / exceptional items Source: Company Reports, Regulatory Filings, Equitymaster

Table -6
BHARAT HEAVY ELECTRICALS LTD. (BHEL) - PROFIT AND LOSS

FIGURES IN RS CRORE	2018	2017	2016
INCOME			
SALES TURNOVER	29060.98	29699.82	26638.37
EXCISE DUTY	135.27	1252.78	1155.74
NET SALES	28925.71	28447.04	25482.63
OTHER INCOME	693.05	765.92	1497.72
STOCK ADJUSTMENTS	-736.13	-994.48	-210.49
TOTAL INCOME	28882.63	28218.48	26769.86
EXPENDITURE			
RAW MATERIALS	12118.35	13102.81	13001.86
POWER & FUEL COST	463.31	451.19	499.06
EMPLOYEE COST	6026.47	5394.59	5379.75
OTHER MANUFACTURING EXPENSES	4064.09	3763.76	3640.24
SELLING AND ADMINISTRATION EXPENSES	1402.93	1463.08	1031.71
MISCELLANEOUS EXPENSES	2213.34	2179.27	3132.76
LESS: PRE-OPERATIVE EXPENSES CAPITALISED	106.81	25.04	46.57
TOTAL EXPENDITURE	26181.68	26329.66	26638.81
OPERATING PROFIT	2700.95	1888.82	131.05
INTEREST	329.56	412.15	359.48
GROSS PROFIT	2371.39	1476.67	-228.43
DEPRECIATION	786.40	848.84	935.74
PROFIT BEFORE TAX	1584.99	627.83	-1164.17
TAX	778.39	131.97	-454.57
NET PROFIT	806.60	495.86	-709.60

Source: Company Reports, Regulatory Filings, Equity master

BHEL SHARE PRICE PERFORMANCE

Over the last one year, BHEL share price has moved up from Rs 84.8 to Rs 73.3, registering a loss of Rs 11.5 or around 13.6%.

Meanwhile, the S&P BSE CAPITAL GOODS Index is trading at Rs 16,659.3 (down 1.4%). Over the last one year it has moved down from 17,267.6 to 16,659.3, a loss of 608 points (down 3.5%). Overall, the S&P BSE SENSEX is up 6.8% over the year. (To know more, check out historical annual results for BHEL and quarterly results for BHEL)

From the above table it is worth noting that the profit proportion on sales before the tax payment was very strong and increasing over the study period. The ratio of profit before tax was 5.14 per cent in 2010-11. There was an increase of 4.57 per cent in 2001-02 and it was recorded as 9.71 per cent with a slight increase to 11.58 per cent in the year 2002-03. The profit on sales before tax proportion was 12.65 per cent in 2003-04 and 16.60 per cent in 2014-15. It shows the better organizational performance of financial activities. The ratios of the years 2015-16, 2016-17 and 2007-08 were respectively recorded as 19.17 per cent, 21.67 per cent and 22.95 per cent. The profit before tax ratio has come down as 18.50 in 2017-18.

It is concluded that the percentage of profit on sales before tax was increasingly constant and a hike of more than four times over the first year upto 2017-18 except in the year 2017-18. This shows the better profitability of the company.

The above statement shows the proportion of 3.39 per cent of net fixed assets in 2017-18 and 3.70 per cent in 2017-18. The depreciation provided has come down to 9.13 per cent in 2017-18. The lease adj. Account has been negatively decreasing. The capital work in progress has been 2.14 per cent and 2.84 per cent respectively of the total assets during 2017-18 and 2017-18. The investments have got a rise by Rs.44 crores with an increase of the population of 0.10 per cent.

The inventories have comprised 18.69 per cent in 2017-18 and 19.26 per cent in 2017-18. The sundry debtors constitute 39.02 per cent in 2017-18 and 39.26 per cent in 2017-18 of the total assets. The cash and bank balances exist as 27.32 per cent and 25.35 per cent during 2016-17 and 2017-18 respectively. The other current assets have been 1.38 per cent in 2016-17 and 0.86 per cent in 2017-18. The loans and advances have comprised of the total assets as 3.86 per cent and 5.95 per cent respectively during 2016-17 and 2017-18. The deferred tax assets are 4.36 per cent and 3.39 per cent in 2016-17 and 2017-18 of the total assets. There were no miscellaneous expenditures in both the years. Out of the total liabilities the share capital constitutes 1.60 per cent in 2016-17 and 1.20 per cent in 2017-18. The reserves and surplus comprise 33.51 per cent in 2016-17 and 30.60 per cent in 2017-18. The secured loans have not existed in both the years.

The unsecured loans constitute 0.31 per cent in 2016-17 and 0.37 per cent in 2017-18. The current liabilities have been 54.01 per cent in 2016-17 and 57.40 per cent in 2017-18. The short-term provisions have been 10.57 per cent in 2016-17 and 11.09 per cent in 2016-18 of the total liabilities.

CONCLUSION

Thus, it is found that the major part of the total assets in both the years was contributed by the sundry debtors, inventories, cash and bank balances. The depreciation went up in value. The investments have gone up. The major portion of the borrowings is from the short term liabilities and provisions. The capital remaining constant, whereas the reserves and surplus were increasing from 2016-17 to 2017-18.

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