

Bharat Bijlee

Rs 3826*Powers well*

Sensex: 67,481

Nifty: 20,268

FINANCIALS SUMMARY

	SALES	OPM (%)	OP	OTHER INCOME	PBDIT	INTEREST	PBDT	DEPRECIATION	PBT	TAX	PAT	EPS (Rs)*
2103 (12)	731.05	5.0	36.53	26.80	63.33	16.98	46.35	9.69	36.66	10.61	26.05	46.1
2203 (12)	1265.74	6.6	83.62	24.02	107.64	21.02	86.62	12.06	74.56	18.98	55.58	98.4
2303 (12)	1418.5	8.3	117.30	29.06	146.36	22.07	124.29	12.93	111.36	28.14	83.22	147.3
2403 (12P)	1812.24	9.3	168.18	32.80	200.98	24.09	176.89	14.18	162.71	42.36	120.34	213.0
2503 (12P)	2070.8	9.5	197.20	36.08	233.28	26.92	206.36	15.60	190.76	49.60	141.16	249.8

* EPS is on current equity of Rs 5.65 crore, Face value of Rs 10. (P): Projections. Figures in Rscore
Source: Capitaline Databases

Bharat Bijlee is a leading electrical engineering company in India. Established in 1946, the company has two primary business segments i.e. Power Systems that comprise Transformers and Projects divisions, and Industrial Systems segment comprising Electric Motors, Drives & Industrial Automation and Magnet Technology Machines.

Established player in electric motors & transformers with presence in power EPC

Power Systems segment comprises the design, commissioning and marketing of power transformers; EPC projects for electrical substations including delivery, rectification, commissioning and servicing of transformers; and marketing of maintenance products.

BBL has a strong presence in the power transformers segment and enjoys flagship position as preferred supplier for 220KV class transformers up to 200 MVA range. EPC projects for electrical substations were undertaken for projects upto 400 KV.

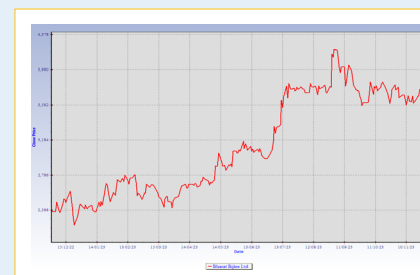
The Industrial Systems segment comprises the development, marketing and manufacture of a wide range of standard and customized electric motors of low and medium voltage for industrial applications, magnet technology machines and the engineering and supply of drives and automation solutions.

Its motor division manufactures and sells a wide range of standard as well as specially designed low tension (below 6.6 KV) motors. The company has also ventured into manufacturing high tension motors operating at 3.3KV-6.6KV. At present, it is involved in manufacturing motors ranging from 0.18KW (fractional kilo watt motors) to 1250KW motors.

In Motors the company continued its growth by enlarging product offerings, focusing on value engineering, and deepening its geographical reach. The Drives and Automation business has been developing newer applications with an eye on widening its sectoral reach. The MTM business has been focusing on value engineering, and offers solutions for Indian and export markets.

In FY23 while the industrial Systems accounted for 54% of the revenue, the power systems segment accounted for balance 46%. In terms of products motors accounted for about 46.98%, magnet technology machines 3.66%, servo motors 0.52% and drives 1.7%. The transformers accounted for about 40.79% of revenue.

The company's manufacturing facilities are in Airoli, Navi Mumbai (Maharashtra).



STOCK DATA

BSE Code	:	503960
BSE Group	:	A
NSE Code	:	BBL
Bloomberg	:	BIJL IN
Reuters	:	BBJL.BO
Par Value	:	Rs 10
52-week High/Low	:	Rs 4387 / 2141
Sector	:	Capital Goods - Electrical Equipments

SHAREHOLDING PATTERN*

Category	% of equity
Foreign	: 3.42
Institutions	: 5.67
Govt Holding	: 0.00
Corporate Holding	: 9.87
Promoters	: 33.86
Public & Others	: 47.18
Totals	: 100

* as on 30/09/2023. Source: Capitaline Databases

Transformers - focus on growing the non-tendered business and the emerging data center market

The company enjoys flagship position as preferred transformer suppliers with established client relationship.

Transformer industry for the last 10 years is hit by excess capacity and intense competitiveness for quality orders. In order to combat this, the company started focus more on non tendered business from customers. The recovery in real estate and industrial investment as well as renewable energy has also augured well. Thus increased focus on non tendered business and recovery in demand in end use segment which is largely non-tendered boosted the order intake of the company. The unexecuted order book (in rupee terms) of the company as end of March 2023 had increased by almost 50%YoY and is the highest ever.

Record high order win in 2022-23 improves revenue visibility of projects division

In project business, the company though continue to tread cautiously targeting orders from customers of repute to ensure timely completion of projects with reasonable profitability, it booked its largest ever project order (in rupee terms) from a single client during 2022-23. This large order allowed the company to secure and consolidate its presence in the GIS (Gas Insulated Switchgear) substation space. This was an important breakthrough as it opens up a much larger market for the company. So opening with strong order book on the back of record order booking, the company is expected to see strong execution driving the power systems revenue and profitability.

Geographical market expansion, breakthrough order win in e-bus and new range of motors are to boost industrial segments

Energy efficient motors, transportation, railways and water are sectors driving demand for electric motors.

In motors the efforts of the company to provide value engineering and expand its reach to newer application as well as newer geography facilitate the company to grab more volumes. Apart from geographical expansion into new territories and getting into new application, the company has refined its supply chain and developed vendor capacity and these measured helped it to achieve one of the highest product availability rates in the market.

The Drives and Automation division that also focuses on e-mobility has procured some breakthrough orders with e-bus manufacturers and these orders are under execution. So with breakthrough orders the company continue to expand its opportunity in e-mobility space. Similarly in-house developed IIOT (Industrial Internet of Things) solutions cater to the areas of predictive maintenance and Overall Equipment Effectiveness (OEE), which is a measure of how well a manufacturing operation is utilized as compared to its full potential. In this regard it has implemented pilot solutions in production monitoring and the feedback is positive.

In case of Magnet Technology Machines division, although demand for its gearless machines has increased, margins have been under pressure owing to competition from the Chinese and domestic players. The gearless elevator machines of the company continue to hold a flagship position in the domestic market despite entry of several international brands. Exports to Europe particularly have also been hurt due to the fallout of the Ukraine conflict. On a positive note its indigenously

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developed servo motors, supplied in an integrated solution by Drives and Automation vertical, have been working well, and reviews have been encouraging. A smaller range servo motor is under development; this will cater to industries like textiles, packaging and printing. The successful in-house development of these motors has been a great achievement.

The Magnet Technology Machines business in association with Permagsa has engineered 3000Nm direct drive motors, which is an air cooled motor has a modified PM rotor with special hollow shafts and end shields for increased efficiency. The company has during FY23 has exported its first 3000 Nm direct drive motor for a special printing press to its technology partner Permagsa in Spain.

The company in 2022-23 has showcased its energy-efficient SynchroVERT® IE5 motor technology and its benefits in GreenCo Forum meetings at Delhi & Mumbai. It has recently launched SynchroTorq® servo motor range and the same has been well received in the market.

More stringent regulations for energy efficient motors augurs well for the company

GOI required industrial users to move to IE2 or higher efficiency (IE3/IE4) motors through its regulation (mandatory IS12615) that came into effect on Oct 1, 2017 and there is gradual shift to higher energy efficient motors to save power & fuel cost. And this triggers demand for the industrial products of the company along with water/lift irrigation segment, transportation etc.

Acceptance of IE2 and higher efficiency motors in the market was not very encouraging before the new regulations were introduced. However, the Government's backing for IE2 efficiency helped the industry to overcome its inertia. Minimum motor efficiency standards have already been successfully put in place by countries like Brazil, Australia, China, and Saudi Arabia. The EU and US have taken things further with IE3 for even higher efficiency levels.

National Motor Replacement Program (NMRP) enables easier and faster adoption of premium efficiency IE3 motors by addressing the barrier of paying a higher & upfront cost by the industry. NMRP aims to replace the currently installed lower efficiency motors which are old and have been rewound multiple times over its lifetime, with new IE3 motors.

As per the new eco design regulations from the European Commission that dictates eco-design requirements for energy-using products, there are limitations set on electrical motors brought to the markets, including: 1) For new motors 0.75kW = Pmot = 1,000 kW, the efficiency classes IE1 and IE2 are not allowed anymore; 2) For motor powers 0.12kW = Pmot = 0.75kW at least the combination "IE2+Drive" or better efficiency is needed from July 2023; and 3) The motors of 75kW = Pmot = 200 kW should have an efficiency class of at least IE4 from July 2023.

Manufacturing of higher efficiency (IE3/IE4) motors are largely restricted to large motor manufacturers in organised sector rather than MSME motor manufacturers due to investment in test facilities and design costs etc., which the MSME sector could not afford.

Strong show in H1 of FY24

For the quarter ended Sep 2023, the standalone sales of the company were up 30% to Rs 419.82 crore. Upside in revenue was largely driven by 73% growth in

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revenue of power systems as the segment revenue of industrial systems was up by 3% to Rs 206.03 crore. EBIT was up 59% to Rs 52.14 crore with segment profit of power systems up by whopping 1242% to Rs 28.58 crore gained by higher sales and expansion in segment margin by 1130 bps to 13.4%. However with 410 bps drop in segment margin, the segment profit of industrial systems was down 23% to Rs 23.56 crore. With OPM stand higher by 180 bps to 9.2%, the operating profit was up 61% to Rs 38.49 crore. Eventually the PAT was up 65% to Rs 27.89 crore.

For the half year ended Sep 2023, the sales were up 43% to RS 861.27 crore and PAT was up 60% to Rs 53.22 crore. With OPM up by 70 to 8.3%, the OP was up 55% to Rs 71.14 crore.

Zero long term borrowings

Total borrowings of the company as end of Sep 2023 stood at Rs 205 crore (down from Rs 287.46 crore as end of Mar 2022) with non-current borrowings being nil and current borrowings being Rs 205 crore. Against this it has a non-current investment of Rs 932.51 crore, current investment of Rs 41.39 crore and cash & bank balance of Rs 289.93 crore (a jump from Rs 16.09 crore as end of Mar 2023). Thus it is a net debt free company as end of H1FY24 carrying on this trend of many years.

The non-current investment was largely on quoted investment in equity share of listed companies. As on March 2023 the company holds equity shares aggregating to a market value of Rs 858.99 crore. These share are of Siemens (2138160 numbers); ICICI Bank (87015 shares), HOEC (333333 shares); Bank of India (5400 shares) and HDFC Bank. The market cap of the company as end of Nov 24, 2023 stood at Rs 2111 crore.

Outlook

The Government's commitment to accelerating capital expenditure through various programmes such as PM Gati Shaktiman, Atmanirbhar Bharat, Production-linked Incentive Schemes, and other schemes will bolster private investment activities as corporate balance sheets are healthier than earlier. China plus one strategy in the global supply chain is set to increase the export opportunity for the country despite short-medium term geo political tensions boosting investment in manufacturing capacity in the country boosting demand for motors as well as transformers. Further more stringent norms encouraging usage of energy efficient motors with new norms coming into effect at regular time intervals both in domestic as well as overseas markets augur well for motor players.

The domestic motor demand is currently witnessing channel destocking with vendors turning cautious with anticipation of slowdown in industrial investment with General Election due, but that is temporary and given strong industrial investment outlook the medium to long term demand outlook will be strong.

Increased investment in modernisation of T&D network apart from T&D capacity expansion, increased investment in in-firm renewable and large pipeline of coal based power plants to tide over the surging peak power demand are to drive investment in evacuation infrastructure further boosting the transformer demand. The company is expected to continue to focus on growing the non-tendered business, the emerging data center market, and the industrial business as a whole.

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Typically most of the transformer orders especially to public sector come with price variation clause as per the IEEMA index especially for CRGO and copper. So the exposure is only limited to fixed price contracts both in transformer and motors, which is a short cycle business. Supply chain challenges as far as drives business is concerned persist as long lead times for items like semiconductors and electronic cards lead to build up of inventory.

Overall increased volume giving the benefit of operating leverage along with cherry picking of orders along with PVC clause to provide margin comfort going forward.

Valuation

We expect the company to register an EPS of Rs 213 for FY2024 and Rs 249.8 for FY25. The scrip trades at Rs 3826, which discounts the projected FY25 EPS by about 15 times.

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BHARAT BIJLEE : RESULTS									
	2309 (3)	2209 (3)	VAR.(%)	2309 (6)	2209 (6)	VAR.(%)	2303 (12)	2203 (12)	VAR%
Sales	419.82	323.55	30	861.27	600.69	43	1418.50	1265.74	12
OPM (%)	9.2	7.4		8.3	7.6		8.3	6.6	
OP	38.49	23.95	61	71.14	45.95	55	117.30	83.62	40
Other inc.	6.92	6.59	5	16.59	13.62	22	29.06	24.02	21
PBIDT	45.41	30.54	49	87.73	59.57	47	146.36	107.64	36
Interest	4.98	4.70	6	10.45	9.33	12	22.07	21.02	5
PBDT	40.43	25.84	56	77.28	50.24	54	124.29	86.62	43
Dep.	3.49	3.32	5	6.90	6.31	9	12.93	12.06	7
PBT after EO	36.94	22.52	64	70.38	43.93	60	111.36	74.56	49
Taxation	9.05	5.58	62	17.16	10.66	61	28.14	18.98	48
PAT	27.89	16.94	65	53.22	33.27	60	83.22	55.58	50
EPS (Rs)*	#	#		#	#		147.3	98.4	

* EPS is on current equity of Rs 5.65 crore, Face value of Rs 10. # EPS is not annualised due to seasonality of business. Figures in Rs crore.
Source: Capitaline Corporate Database