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India | Equity Research | Company Update

Bharat Heavy Electricals

Capital Goods

A call for > INR 1trn thermal tenders; sets up nicely for FY25E

The new fiscal (FY25) has started with an urgency to begin the awarding of new thermal power plants. While NTPC has called for new tenders for 10GW of thermal power plants, private sector had already chipped in. All tenders are for one package - EPC for the entire power plant. BHEL is likely to be a major beneficiary. Adani Power has awarded two power plants of 3.2GW worth INR 70bn to the company. We estimate BHEL to win tenders worth > INR 800bn due to lack of competition in new thermal power plants. We estimate the orderbook at INR 1.9trn at the end of FY25E. As a result, we expect execution and margins to improve FY26 onwards. We reiterate **BUY** on BHEL with target price at INR 370/share, valuing the stock at 40x FY26E EPS of INR 9.2/share.

A flurry of new tenders

NTPC has floated thermal EPC tenders worth 10.4GW. It has recently floated tenders for Meja II (2.4GW), Gadarwara (1.6GW), Telangana (2.4GW) and Nabinagar (2.4GW). It has also tendered Darlipalli II and Sipat II worth 1.6GW recently. We expect thermal tenders over 12GW to be awarded in FY25E.

A good start to the year

BHEL has started off FY25 with healthy order inflow worth INR 70bn for two thermal BTG packages from Adani Power with execution period of 35-42 months. Given the strong pipeline of projects and lower anticipated competition, BHEL is likely to remain a major beneficiary.

FY24 was a good year, FY25 could be even better

BHEL reported an order inflow of INR 780bn in FY24. We expect BHEL to win at least 70% of new EPC tenders for thermal power plant or > INR 700bn. Also, we expect some FGD and coal gasification orders to start contributing to order inflow in FY25. As a result, we expect BHEL to win > INR 800bn worth of new orders.

Maintain BUY with TP of INR 370/share

We maintain **BUY** on BHEL with target price of INR 370/share, valuing the stock at 40x FY26E EPS of INR 9.2/share.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	233,649	238,928	296,477	345,096
EBITDA	7,166	6,126	9,018	42,903
EBITDA Margin (%)	3.1	2.6	3.0	12.4
Net Profit	5,608	2,599	4,426	31,619
EPS (INR)	1.6	0.7	1.3	9.2
EPS % Chg YoY	9.2	(53.7)	70.3	614.5
P/E (x)	176.6	381.1	223.8	31.3
EV/EBITDA (x)	135.6	165.0	109.8	23.1
RoCE (%)	3.8	3.4	3.3	11.8
RoE (%)	2.1	1.0	1.8	11.9

Mohit Kumar

kumar.mohit@icicisecurities.com
+91 22 6807 7419

Abhijeet Singh

abhijeet.singh@icicisecurities.com

Nikhil Abhyankar

nikhil.abhyankar@icicisecurities.com

Nidhi Shah

nidhi.shah@icicisecurities.com

Market Data

Market Cap (INR)	990bn
Market Cap (USD)	11,858mn
Bloomberg Code	BHEL IN
Reuters Code	BHEL.BO
52-week Range (INR)	323 /83
Free Float (%)	37.0
ADTV-3M (mn) (USD)	107.6

Price Performance (%)	3m	6m	12m
Absolute	10.5	61.0	231.5
Relative to Sensex	7.3	51.4	209.4

Previous Reports

22-05-2024: [Q4FY24 results review](#)

14-02-2024: [Q3FY24 results review](#)

Outlook and valuation

We estimate 50GW of coal-based capacity to be more than 40 years old by FY32E. India’s peak demand is likely to be 375GW by FY32E, at 6% CAGR or 330GW at 5% CAGR (as per National Electric Plan-2022). Anticipating additional peak demand, the government is also looking to add 75GW of storage and 50GW of thermal capacity. Storage is still at a nascent stage with ~20% operational capacity at >40 years by CY32. In our opinion, India may, therefore, need to build a stronger arsenal of thermal power plants to ensure smooth energy transition.

Our conviction of the need to add more coal-based thermal capacity was recently validated when India’s Minister of Power mentioned the need to have 80GW of thermal capacity under construction in order to meet India’s power needs in the future. Thus, we believe India may need to add 5GW of coal-based thermal capacity every year for the next 10 years.

Some of the major orders BHEL received in FY24 include: EPP orders for Talabira, Yamuna Nagar, Singrauli, and Lara super-critical power plants, DTG package for Mahan and Raigad super-critical power plants from Adani Group and electromechanical package of 28, 2.8GW Dibang hydropower project, the largest in the country.

BHEL is also trying to diversify its orderbook and has recently, in consortium with Titagarh Wagons, won a Vande Bharat order worth INR 235bn to supply 80 trainsets and service them for 35 years thereafter. BHEL’s share in the order stands at INR 150bn. We expect more Vande Bharat orders in the next 2-3 years, where BHEL again stands to benefit from its experience.

BHEL has also developed a strong moat in defence orders and is the sole supplier of SRGM naval guns. In FY23, it won an order to supply 20 SRGM guns worth INR 38bn. It is working on defence indigenisation projects and hopes to participate in air defence guns, tanks and propulsion systems going forward.

We maintain **BUY** on BHEL with target price of INR 370, valuing the stock at 40x FY26E EPS of INR 9.2/share. We had raised the target multiple to 40x FY26E EPS after Q4FY24 result (vs 35x FY26E EPS earlier) on the back of strong OI and BHEL growing its total addressable market, as thermal capacity addition plans have been increased from 50GW to 88GW, from FY22-32E, and lower competitive intensity in bidding.

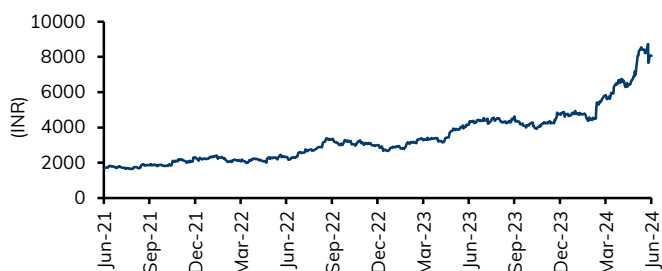
Key risk – 1) Delay in pending order book execution; 2) Delay in tender awards in FY25E.

Exhibit 1: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	63.2	63.2	63.2
Institutional investors	23.2	24.6	24.7
MFs and others	4.6	6.3	5.8
FIs/Banks	0.2	0.6	0.2
Insurance	11	10.7	9.6
FIIIs	7.4	7.0	9.4
Others	13.6	12.2	12.1

Source: Bloomberg

Exhibit 2: Price chart



Source: Bloomberg

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	233,649	238,928	296,477	345,096
Operating Expenses	63,477	64,731	64,731	64,731
Raw material expenses	163,007	168,071	222,728	237,462
EBITDA	7,166	6,126	9,018	42,903
EBITDA Margin (%)	3.1	2.6	3.0	12.4
Depreciation & Amortization	2,603	2,489	2,489	2,489
EBIT	4,562	3,637	6,529	40,414
Interest expenditure	5,214	7,313	7,463	7,719
Other Non-operating Income	5,148	5,879	6,465	7,843
Recurring PBT	4,496	2,203	5,532	40,537
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	(1,112)	(396)	1,106	8,918
PAT	5,608	2,599	4,426	31,619
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	5,608	2,599	4,426	31,619
Net Income (Adjusted)	5,608	2,599	4,426	31,619

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	336,490	379,765	428,245	486,741
of which cash & cash eqv.	66,426	61,575	43,569	48,345
Total Current Liabilities & Provisions	270,882	257,353	345,691	371,847
Net Current Assets	65,608	122,412	82,554	114,894
Investments	6,695	6,676	6,694	6,694
Net Fixed Assets	24,087	25,107	31,235	33,250
ROU Assets	-	-	-	-
Capital Work-in-Progress	3,539	3,084	1,500	1,500
Total Intangible Assets	-	-	-	-
Other assets	193,001	136,897	136,897	136,897
Deferred Tax assets	-	-	-	-
Total Assets	292,931	294,175	258,879	293,235
Liabilities				
Borrowings	54,535	88,316	49,527	54,527
Deferred Tax Liability	(34,226)	(42,013)	(42,013)	(42,013)
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	6,964	6,964	6,964	6,964
Reserves & Surplus	265,658	241,542	244,400	273,756
Total Net Worth	272,622	248,506	251,364	280,720
Minority Interest	-	-	-	-
Total Liabilities	292,931	294,175	258,879	293,235

Source Company data, I-Sec research

Exhibit 5: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	-	-	(16,455)	44,534
Working Capital Changes	5,627	4,772	(22,263)	19,344
Capital Commitments	(1,307)	(1,500)	(7,033)	(4,504)
Free Cashflow	-	-	(9,421)	49,038
Other investing cashflow	-	-	-	-
Cashflow from Investing Activities	-	-	(7,033)	(4,504)
Issue of Share Capital	-	-	-	-
Interest Cost	(1,245)	(987)	(7,463)	(7,719)
Inc (Dec) in Borrowings	(2,000)	(2,000)	(38,788)	5,000
Dividend paid	(3,446)	(4,459)	(871)	(1,567)
Others	-	-	52,604	(30,968)
Cash flow from Financing Activities	-	-	5,483	(35,254)
Chg. in Cash & Bank balance	(5,111)	(4,851)	(18,005)	4,775
Closing cash & balance	66,426	61,575	43,569	48,345

Source Company data, I-Sec research

Exhibit 6: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	1.6	0.7	1.3	9.1
Adjusted EPS (Diluted)	1.6	0.7	1.3	9.1
Cash EPS	2.4	1.5	2.0	9.8
Dividend per share (DPS)	0.4	0.3	0.4	0.6
Book Value per share (BV)	78.3	71.4	72.2	80.6
Dividend Payout (%)	24.8	33.5	35.4	7.2
Growth (%)				
Net Sales	10.2	2.3	24.1	16.4
EBITDA	(2.9)	(14.5)	47.2	375.7
EPS (INR)	9.2	(53.7)	70.3	614.5
Valuation Ratios (x)				
P/E	176.6	381.1	223.8	31.3
P/CEPS	120.6	194.7	143.2	29.0
P/BV	3.6	4.0	3.9	3.5
EV / EBITDA	135.6	165.0	109.8	23.1
P / Sales	4.2	4.1	3.3	2.9
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	30.2	29.7	24.9	31.2
EBITDA Margins (%)	3.1	2.6	3.0	12.4
Effective Tax Rate (%)	(24.7)	(18.0)	20.0	22.0
Net Profit Margins (%)	2.4	1.1	1.5	9.2
NWC / Total Assets (%)	0.1	0.1	0.1	-
Net Debt / Equity (x)	(0.1)	0.1	0.0	0.0
Net Debt / EBITDA (x)	(2.6)	3.3	(0.1)	0.0
Profitability Ratios				
RoCE (%)	3.8	3.4	3.3	11.8
RoE (%)	2.1	1.0	1.8	11.9
RoC (%)	3.8	3.4	3.3	11.8
Fixed Asset Turnover (x)	9.7	9.7	10.5	10.7
Inventory Turnover Days	111	112	130	116
Receivables Days	107	124	136	132
Payables Days	198	54	75	67

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
