

23 September 2024

India | Equity Research | Company Update

## Bharat Heavy Electricals

Capital Goods

### Holding all the aces

Thermal equipment ordering is scaling the summit. In our view, it would be overly hasty to write an obituary for thermal or coal-based power yet. We posit, the need to add reliability to the grid has led policymakers to push the pedal on the addition of new thermal power plants. As a result, developers are swiftly finalising and awarding equipment orders. In parallel, the largest coal-based player (NTPC) is on the ready to add another 26GW of new coal-based power; the largest private player has already placed an order for 11GW of coal-based equipment. In entirety, this is fuelling order inflow (OI) for BHEL. Note – BHEL has already announced OI of INR 364bn and is L1 in another 3.2GW (estimated at INR 200bn). As a result, we estimate OI of INR 1trn in FY25 for BHEL. Retain **BUY**; unchanged TP of **INR 370**.

### Strong guidance by largest thermal player

“The additional coal-based capacity requirement is 80GW, including 28GW which is currently under construction. Out of the 80GW, your company is expected to add 26GW of coal-based capacity, including 9.5GW which is under construction, and all these capacities are planned to be commissioned by 2031–32” – NTPC annual report ([Link](#)).

### Largest thermal private player has also pitched in...

Adani has also finalised orders for a total of 11GW to BHEL. Total OI amounts to INR 220bn. The scope in these orders is limited to the supply of boilers, turbines and generators.

### ...leading to a bulging order book (OB) of INR 1.6trn...

BHEL has already announced an OI of INR 341bn, as of FY25–TD (**Exhibit 2**) and it is L1 in another 3GW project worth ~INR 210bn.

### ....and pipeline remains robust

Note that there is another 6–8GW of BTG orders (~INR 240bn) likely to be finalised in the next couple of months. As a result, we expect BHEL to report OI of >INR 800bn in FY25E.

### Maintain BUY with a TP of INR 370

BHEL continues to benefit from an improving outlook for coal-based capacity addition. We maintain **BUY** with an unchanged TP of INR 370 per share.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	2,33,649	2,38,928	2,96,477	3,45,096
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	9.1
EPS % Chg YoY	9.2	(53.7)	70.3	614.5
P/E (x)	165.3	356.6	209.4	29.3
EV/EBITDA (x)	150.6	182.5	121.6	25.6
RoCE (%)	3.8	3.4	3.3	11.8
RoE (%)	2.1	1.0	1.8	11.9

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#### Market Data

Market Cap (INR)	927bn
Market Cap (USD)	11,093mn
Bloomberg Code	BHEL IN
Reuters Code	BHEL.BO
52-week Range (INR)	335 /114
Free Float (%)	37.0
ADTV-3M (mn) (USD)	68.7

Price Performance (%)	3m	6m	12m
Absolute	(9.3)	18.4	115.3
Relative to Sensex	(18.4)	1.2	88.8

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.0	2.5
EBITDA	(3.9)	1.3
EPS	(4.5)	1.0

#### Previous Reports

01-08-2024: [Q1FY25 results review](#)

27-05-2024: [Q4FY24 results review](#)

## Outlook and valuation

We estimate 50GW of coal-based capacity to be more than 40 years old by FY32. India's peak demand is likely to be 375GW by FY32, at 6% CAGR or 330GW at 5% CAGR (as per National Electric Plan, 2022). Anticipating additional peak demand, the government too is looking to add 75GW of storage and add 50GW of thermal. Storage is still at a nascent stage with ~20% operational capacity >40 years by 2032. 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 (Mr. RK Singh) 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 6–8GW of coal-based thermal capacity every year for the next ten years.

Some of the major orders BHEL received this year were EPC 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 the 28, 2.8GW Dibang hydropower project, the largest in the country.

BHEL is also trying to diversify its order book 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 is at INR 150bn. We expect more Vande Bharat orders in the next two-three 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 the stock with an unchanged target price of **INR 370**, valuing the stock at 40x FY26E EPS of INR 9.1/share.

Risks: 1) Delay in OI; and 2) no major improvement in execution of slow-moving orders

### Exhibit 1: Valuation

	FY26E PAT (INR mn)	FY26E EPS (INR)	Multiple (x)	Equity Value (INR mn)
Valuation	31,619	9.1	40	370

Source: I-Sec research

### Exhibit 2: Orders received as of FY25–TD

Customer	Date	Value (INR bn)	Plant	Order Size (GW)	Scope
Adani	Jun-24	35	Raipur TPP	1.6	BTG
Adani	Jun-24	35	Mirzapur TPP	1.6	BTG
DVC	Jul-24	100	Koderma Phase 2	1.3	EPC
Adani	Aug-24	110	Mahan & Kawai	4.8	BTG
NTPC	Sep-24	61	Sipat	0.8	EPC
<b>Total</b>		<b>341</b>		<b>10.1</b>	

Source: I-Sec research, Company data

**Exhibit 3: Estimated order pipeline for FY25**

Customer	Bid date	Value (INR bn)	Plant	Order Size (GW)	Scope
NTPC	Jul-24	180	Meja	2.4	EPC
NTPC	Jul-24	60	Darlipalli	0.8	EPC
NTPC	Sep -24	64	Gadarwara	1.6	BTG + EPC
NTPC	Sep -24	64	Telangana	1.6	BTG + EPC
NTPC	Sep -24	64	Nabinagar	1.6	BTG + EPC
MSPGCL	Bid submitted	52	Koradi	1.3	BTG + EPC
<b>Total</b>		<b>484</b>		<b>9.3</b>	

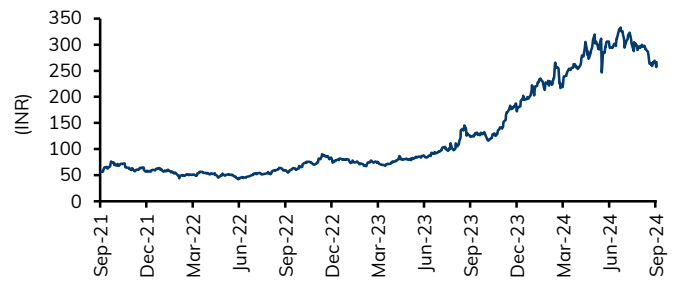
Source: I-Sec research, Mercom

**Exhibit 4: Shareholding pattern**

%	Dec'23	Mar'24	Jun'24
Promoters	19.1	19.1	19.1
Institutional investors	19.0	18.1	16.2
MFs and others	4.7	4.7	4.0
FIs/Banks	-	-	-
Insurance	0.9	0.8	0.7
FIIIs	13.4	12.6	11.5
Others	61.9	62.8	64.7

Source: Bloomberg

**Exhibit 5: Price chart**



Source: Bloomberg

## Financial Summary

### Exhibit 6: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Net Sales</b>	<b>2,33,649</b>	<b>2,38,928</b>	<b>2,96,477</b>	<b>3,45,096</b>
Operating Expenses	63,477	64,731	64,731	64,731
Raw material expenses	1,63,007	1,68,071	2,22,728	2,37,462
<b>EBITDA</b>	<b>7,166</b>	<b>6,126</b>	<b>9,018</b>	<b>42,903</b>
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
<b>Recurring PBT</b>	<b>4,496</b>	<b>2,203</b>	<b>5,532</b>	<b>40,537</b>
<b>Profit / (Loss) from Associates</b>	-	-	-	-
Less: Taxes	(1,112)	(396)	1,106	8,918
PAT	5,608	2,599	4,426	31,619
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>5,608</b>	<b>2,599</b>	<b>4,426</b>	<b>31,619</b>

Source Company data, I-Sec research

### Exhibit 7: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	3,36,490	3,79,765	4,28,245	4,86,741
of which cash & cash eqv.	66,426	61,575	43,569	48,345
Total Current Liabilities & Provisions	2,70,882	2,57,353	3,45,691	3,71,847
<b>Net Current Assets</b>	<b>65,608</b>	<b>1,22,412</b>	<b>82,554</b>	<b>1,14,894</b>
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	1,93,001	1,27,470	1,36,897	1,36,897
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>2,92,931</b>	<b>2,94,809</b>	<b>2,58,879</b>	<b>2,93,235</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>54,535</b>	<b>88,316</b>	<b>49,527</b>	<b>54,527</b>
<b>Deferred Tax Liability</b>	<b>(34,226)</b>	<b>(42,013)</b>	<b>(42,013)</b>	<b>(42,013)</b>
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	6,964	6,964	6,964	6,964
Reserves & Surplus	2,65,658	2,41,542	2,44,400	2,73,756
<b>Total Net Worth</b>	<b>2,72,622</b>	<b>2,48,506</b>	<b>2,51,364</b>	<b>2,80,720</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>2,92,931</b>	<b>2,94,809</b>	<b>2,58,879</b>	<b>2,93,235</b>

Source Company data, I-Sec research

### Exhibit 8: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	-	-	<b>(16,455)</b>	<b>44,534</b>
Working Capital Changes	5,627	4,772	(22,263)	19,344
Capital Commitments	(1,307)	(1,500)	(7,033)	(4,504)
<b>Free Cashflow</b>	-	-	<b>(9,421)</b>	<b>49,038</b>
<b>Other investing cashflow</b>	-	-	-	-
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)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(5,111)</b>	<b>(4,851)</b>	<b>(18,005)</b>	<b>4,775</b>
Closing cash & balance	66,426	61,575	43,569	48,345

Source Company data, I-Sec research

### Exhibit 9: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
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
<b>Growth (%)</b>				
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
<b>Valuation Ratios (x)</b>				
P/E	165.3	356.6	209.4	29.3
P/CEPS	112.9	182.2	134.0	27.2
P/BV	3.4	3.7	3.7	3.3
EV / EBITDA	150.6	182.5	121.6	25.6
P / Sales	4.7	4.6	3.7	3.2
Dividend Yield (%)	0.0	0.0	0.0	0.0
<b>Operating Ratios</b>				
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
<b>Profitability Ratios</b>				
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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