

Bharat Heavy Electricals | BUY

Momentum is building; catch the moment

Power deficit during non-solar hours is increasing. New drivers of power demand (data centres, electrification of industry, manufacturing, EVs and households' electrification) are gradually changing historical demand trend lines. India is likely to see power deficit FY26 onwards. Government is in fire fighting mode and plans to add 93 GW of thermal power generation capacity by FY32. Amidst this, BHEL is the only EPC player for new thermal projects. With a growing order book (bagged 1.3GW/ 9.6GW/ 10.4GW during FY23/ FY24/ YTD FY25), limited competitive environment (15 GW under tendering, 30GW under clearances) and, pick-up in execution, we anticipate BHEL to regain its profitable growth trajectory from 3QFY25 and to deliver Revenue/EBITDA/PAT CAGR of 34%/150%/233% over FY24-26E. We continue to maintain the BUY on the stock with a TP of INR 361 (40x FY26EPS) supported by healthy ordering, improving execution and the benefit of operating leverage.

- Opportunities:** Currently, 31,030 MW of thermal power plants are under construction. Out of these, around 17GW are likely to commission during FY25 and FY26. Rest will gradually commission in subsequent years 2-3GW/yr. Government is in fire fighting mode to control possible power deficit FY26 onwards. In past, the capacity additions in hydropower (13.2GW/ 7.4GW during FY04-13/FY14-23) and nuclear power (2GW/ 2GW during FY04-13/FY13-23) have been significantly below expectations. Deficit in non-solar hours is increasing. New drives of power demand are beginning to crystalize ([Data Centre: Estimating power demand](#)). Amidst this, the government has taken a policy U-turn for addition of 93GW of thermal power plants balancing energy security and sustainability. ([Steam blowing, again](#))
- Competition:** Since FY24, BHEL is the only bidder in all the tenders. During our recent visit to 2x660 MW SJVN Buxar Thermal power project, we observed a sense of disengagement in L&T (the EPC contractor) for thermal power business. The other prospective bidders viz. Thermax, GE Power, Toshiba, BGR have also not shown much interest in rebuilding capabilities and capacities for new stream of thermal projects. Recently, NTPC has cancelled its bulk tender for the EPC of 2x800 MW Gadawara, 3x800 MW Telangana, and 3x800 MW Nabinagar. It re-issued the same tender with change in scope from EPC to main-plant package (BTG+a few associated works) to encourage more participation.
- Order Book:** Presently 31 GW of thermal power projects are under construction, 15 GW are in tendering and, 30 GW are under clearances with a target of adding 93 GW by FY32 (['Power' vision for Modi 3.0](#)). BHEL received orders for 9,600 MW of thermal power projects during FY24- a step change from 1,320 MW during FY23. During FY25, it has already bagged orders for 10,400 MW of projects. Additionally, bids for 5,320 MW have been submitted. (Exhibit-1)
- Execution:** The pace of execution is gradually picking up at BHEL as per our channel checks. Given the favourable scope and flexible contractual terms, the company has already completed around 20% of BTG supplies for Unit-3 of 2X800 MW Adani Power's Mahan project vis-à-vis negligible for 2x800 MW NTPC Lara. The company has an order book for 12 units of 800 MW sets (9,600 MW) from Adani Power (Exhibit-2) indicating possibility of faster execution of these projects.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	361
Upside/(Downside)	31.7%
Previous Price Target	361
Change	0.0%

Key Data – BHEL IN

Current Market Price	INR274
Market cap (bn)	INR954.8/US\$11.4
Free Float	28%
Shares in issue (mn)	3,482.1
Diluted share (mn)	3,482.1
3-mon avg daily val (mn)	INR5,689.8/US\$68.1
52-week range	335/114
Sensex/Nifty	84,929/25,939
INR/US\$	83.6

Price Performance

%	1M	6M	12M
Absolute	-7.4	14.7	120.4
Relative*	-11.6	-1.7	71.3

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	2,01,533	2,21,363	2,29,205	3,09,231	4,15,897
Sales Growth (%)	23.7	9.8	3.5	34.9	34.5
EBITDA	7,377	9,528	6,126	10,776	38,365
EBITDA Margin (%)	3.5	4.1	2.6	3.4	9.0
Adjusted Net Profit	4,635	6,542	2,823	7,039	31,225
Diluted EPS (INR)	1.3	1.9	0.8	2.0	9.0
Diluted EPS Growth (%)	0.0	41.1	-56.9	149.4	343.6
ROIC (%)	1.8	2.7	1.7	2.4	10.3
ROE (%)	1.7	2.6	1.2	2.9	12.0
P/E (x)	205.9	145.8	338.0	135.5	30.6
P/B (x)	3.6	3.9	3.9	3.8	3.5
EV/EBITDA (x)	126.1	98.8	160.1	93.4	24.9
Dividend Yield (%)	0.1	0.1	0.1	0.2	1.0

Source: Company data, JM Financial. Note: Valuations as of 23/Sep/2024

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Exhibit 1. Tenders for thermal power projects in pipeline

Sr. No.	Project	MW	Sector	Tender issued
1	1x800 MW NTPC Darlipali-II	800	Central (NTPC)	Yes
2	3x800 MW NTPC Meja-II	2400	Central (NTPC)	Yes
3	3x800 MW NTPC Nabinagar TPS	2400	Central (NTPC)	Yes
4	3x800 MW NTPC Telangana Ph-II	2400	Central (NTPC)	Yes
5	2x800 MW NTPC Gadawara, Phase-II	1600	Central (NTPC)	Yes
6	2x660 MW Korba, CG	1320	State	Yes
7	1x660 MW Amarkantak, MP	660	State	Yes
8	1x660 MW Satpura TPP, MP	660	State	Yes
9	1x800 MW Mancherial, Singareni, SSCL Telangana	800	State	Yes
10	2x660 MW Koradi, Mah (BTG EPC)	1320	State	Yes
11	1x800 MW Ukai, Guj Unit-7	800	State	Yes
12	2x800 MW NTPC Patrati, Phase-II	1600	Central (NTPC)	
13	2x800 MW UPRVUNL, Obra-D TPS	1600	Central (NTPC JV)	
14	2x800 MW UPRVUNL, Anpara-D TPS	1600	Central (NTPC JV)	
15	2x660 MW DVC Raghunathpur (only TG)	1320	Central	
16	2x660 MW NLC Neyveli TPS-II Second Expn, Cuddalore	1320	Central	
17	2x5000 MW NLC Neyveli TPS, Cuddalore	1000	Central	
18	1x800 MW DVC Durgapur	800	Central	
19	1x660 MW SJVNL Buxar Extn.	1320	Central	
20	1x660 MW SECL Amarkantak (CIL)	660	Central	
21	2x800 MW MCL Sundargarh (CIL)	1600	Central	
22	1x800 MW NLC Talabira STPS	800	Central	
23	2x660 MW Tenughat Extn (CIL, JH govt JV)	1320	Central	
24	2x660 MW OPGC Extn, IB Valley Stage-III, Odisha	1320	State	
25	1x660 MW Chandrapur, Mah	660	State	
26	2x660 MW Chhabra, Raj	1320	State	
27	1x800 MW Kalisindh, Raj	800	State	
28	3x800 MW Pirpanti, Bihar	2400	State	
29	2x800 MW MBPP Sundergarh TPS	1600	State	
30	2x800 MW KTPCL Godhna TPS	1600	State	
31	2x800MW Essar Power, Dwarka	1600	Pvt.	
32	4x600MW Raigarh, JPL	2400	Pvt.	
		43,800		15,160

Source: Industry, JM Financial

Exhibit 2. Execution progress of two recent projects

First Unit		NTPC Lara	Adani Mahan
	Rating	2x800 MW	2x800 MW
	Notice to Proceed	29-Aug-23	20-Jun-23
BHEL scope		EPC	BTG
Boiler	Civil	19%	16%
	Structure	0%	16%
	Pressure parts	0%	16%
Turbine Generator	Civil	0%	20%
	Structure	0%	20%
	Turbine generator (TG)	0%	20%
Electrostatic precipitator (ESP)	Under progress	14%	20%
Flue-gas desulfurization (FGD)	Civil work	0%	10%
	Material supply	0%	10%
	Erection work	0%	10%

Source: CEA, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	2,01,533	2,21,363	2,29,205	3,09,231	4,15,897	
Sales Growth	23.7%	9.8%	3.5%	34.9%	34.5%	
Other Operating Income	10,577	12,286	9,723	10,695	11,764	
Total Revenue	2,12,110	2,33,649	2,38,928	3,19,926	4,27,661	
Cost of Goods Sold/Op. Exp	1,47,938	1,63,007	1,68,071	2,19,554	2,86,969	
Personnel Cost	55,168	57,006	56,288	57,977	60,296	
Other Expenses	0	0	0	0	0	
EBITDA	7,377	9,528	6,126	10,776	38,365	
EBITDA Margin	3.5%	4.1%	2.6%	3.4%	9.0%	
EBITDA Growth	0.0%	29.1%	-35.7%	75.9%	256.0%	
Depn. & Amort.	3,141	2,603	2,489	2,619	2,791	
EBIT	4,237	6,924	3,637	8,157	35,575	
Other Income	3,678	5,447	6,103	7,018	8,071	
Finance Cost	3,547	5,214	7,313	6,694	6,025	
PBT before Excep. & Forex	4,368	7,157	2,427	8,481	37,621	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	4,368	7,157	2,427	8,481	37,621	
Taxes	-267	615	-396	1,442	6,396	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	4,635	6,542	2,823	7,039	31,225	
Adjusted Net Profit	4,635	6,542	2,823	7,039	31,225	
Net Margin	2.2%	2.8%	1.2%	2.2%	7.3%	
Diluted Share Cap. (mn)	3,482.1	3,482.1	3,482.1	3,482.1	3,482.1	
Diluted EPS (INR)	1.3	1.9	0.8	2.0	9.0	
Diluted EPS Growth	0.0%	41.1%	-56.9%	149.4%	343.6%	
Total Dividend + Tax	1,393	1,393	1,395	2,112	9,368	
Dividend Per Share (INR)	0.4	0.4	0.4	0.6	2.7	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Profit before Tax	4,370	7,157	2,427	8,481	37,621	
Depn. & Amort.	3,141	2,603	2,489	2,619	2,791	
Net Interest Exp. / Inc. (-)	3,547	5,214	7,313	6,694	6,025	
Inc (-) / Dec in WCAP.	5,861	-7,966	-34,446	-35,681	33,167	
Others	-14,405	-15,519	-17,133	-7,018	-8,071	
Taxes Paid	4,089	1,104	2,222	-1,442	-6,396	
Operating Cash Flow	6,603	-7,406	-37,129	-26,346	65,137	
Capex	-2,243	-1,806	-2,236	-4,784	-4,756	
Free Cash Flow	4,360	-9,213	-39,365	-31,131	60,381	
Inc (-) / Dec in Investments	-3,573	13,842	11,135	-1,000	-1,000	
Others	1,060	2,769	4,410	7,018	8,071	
Investing Cash Flow	-4,756	14,805	13,309	1,233	2,315	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-2,039	-1,392	-1,395	-2,112	-9,368	
Inc / Dec (-) in Loans	-240	5,830	33,840	-8,808	-7,927	
Others	4,955	-3,548	-5,888	-6,694	-6,025	
Financing Cash Flow	2,676	890	26,557	-17,614	-23,319	
Inc / Dec (-) in Cash	4,522	8,288	2,737	-42,727	44,132	
Opening Cash Balance	67,015	71,537	66,981	69,718	26,991	
Closing Cash Balance	71,537	66,981	61,575	26,991	71,123	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	2,65,066	2,43,783	2,44,387	2,49,314	2,71,172	
Share Capital	6,964	6,964	6,964	6,964	6,964	
Reserves & Surplus	2,58,102	2,36,819	2,37,422	2,42,350	2,64,208	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	47,450	53,850	88,080	79,272	71,345	
Def. Tax Liab. / Assets (-)	-35,301	-42,465	-42,013	-33,870	-33,870	
Total - Equity & Liab.	2,77,215	2,55,167	2,90,454	2,94,717	3,08,647	
Net Fixed Assets	27,587	28,206	28,564	30,729	32,695	
Gross Fixed Assets	63,309	66,882	70,352	75,136	79,892	
Intangible Assets	87	93	260	260	260	
Less: Depn. & Amort.	39,946	42,122	44,611	47,230	50,021	
Capital WIP	4,223	3,446	2,823	2,823	2,823	
Investments	0	0	0	0	0	
Current Assets	4,99,464	4,98,437	5,19,218	6,38,439	7,45,406	
Inventories	65,602	67,559	72,206	1,00,799	1,34,743	
Sundry Debtors	3,31,686	65,439	80,101	3,33,074	3,51,502	
Cash & Bank Balances	71,537	66,981	61,575	26,991	71,123	
Loans & Advances	2,983	0	0	0	0	
Other Current Assets	27,656	2,98,458	3,05,337	1,77,575	1,88,038	
Current Liab. & Prov.	2,49,922	2,71,568	2,57,588	3,74,711	4,69,714	
Current Liabilities	1,20,942	1,48,570	1,54,412	2,17,074	2,75,181	
Provisions & Others	1,28,980	1,22,997	1,03,176	1,57,637	1,94,533	
Net Current Assets	2,49,542	2,26,869	2,61,630	2,63,727	2,75,692	
Total - Assets	2,77,215	2,55,167	2,90,454	2,94,717	3,08,647	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Margin	2.2%	2.8%	1.2%	2.2%	7.3%	
Asset Turnover (x)	0.4	0.4	0.4	0.5	0.6	
Leverage Factor (x)	2.0	2.1	2.2	2.5	2.8	
RoE	1.7%	2.6%	1.2%	2.9%	12.0%	

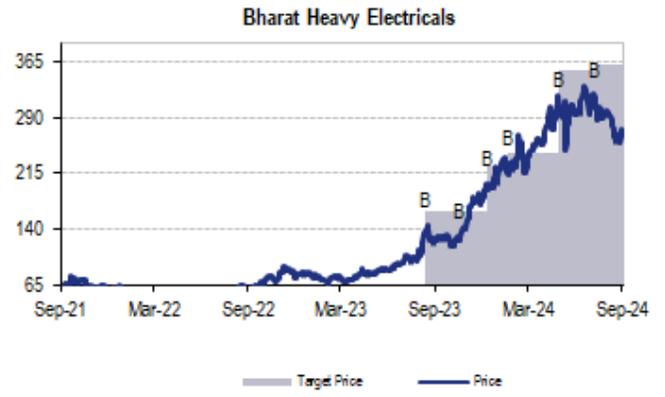
Key Ratios						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
BV/Share (INR)	76.1	70.0	70.2	71.6	77.9	
ROIC	1.8%	2.7%	1.7%	2.4%	10.3%	
ROE	1.7%	2.6%	1.2%	2.9%	12.0%	
Net Debt/Equity (x)	-0.1	-0.1	0.1	0.2	0.0	
P/E (x)	205.9	145.8	338.0	135.5	30.6	
P/B (x)	3.6	3.9	3.9	3.8	3.5	
EV/EBITDA (x)	126.1	98.8	160.1	93.4	24.9	
EV/Sales (x)	4.4	4.0	4.1	3.1	2.2	
Debtor days	571	102	122	380	300	
Inventory days	113	106	110	115	115	
Creditor days	176	195	172	204	216	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
4-Sep-23	Buy	165	
9-Nov-23	Buy	165	0.0
4-Jan-24	Buy	225	36.5
14-Feb-24	Buy	243	8.1
22-May-24	Buy	353	45.1
31-Jul-24	Buy	361	2.4

Recommendation History



APPENDIX I

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* REITs refers to Real Estate Investment Trusts.

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