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India | Equity Research | Q4FY24 results review

BHEL

Capital Goods

The year of thermal revival

Bharat Heavy Electricals Ltd. (BHEL) reported an order inflow (OI) of INR 780bn, 3x YoY. OI for the quarter was INR 420bn. FY24 saw strong order inflows worth INR 520bn in power owing to 9.6GW thermal order wins and Industry orders worth INR 220bn. The year saw a revival in thermal orders in India, with the country laying out bids for a total of 10GW, and BHEL had a 100% strike rate in the bids. It is expected that India will seek bids for the ordering of 10GW again over the next few years, leading to a healthy OI outlook. However, BHEL's execution and gross margins were subdued, as the company is still executing legacy orders. We expect the impact of the legacy orders to wear out and the new orders to start contributing meaningfully H2FY25 onwards. We reiterate **BUY** with TP INR 370 at 40x FY26E.

Nearly flat revenue growth; PAT fell by 42%

Revenues for the quarter stood flat at INR 83bn, up 0.4% YoY while the quarterly PAT stood at INR 5bn, declining 19% YoY. Revenues for the year stood at INR 239bn, growing 2.3% while PAT stood at INR 3bn, declining 42%. This was due to the negative PAT in H1FY24 and slow growth in the high-margin power business (up 1.2%, contributing to 77% of the revenue). Margins were also lower due to the ongoing execution of legacy orders.

Despite dampened earnings, OI remains strong

OI for the year stood at a whopping INR 780bn (3x of FY23). OI consisted mainly of orders totalling 9.6GW in the power sector (valued at INR 520bn) and INR 220bn in industry sector orders. This brings the total order book to INR 1,316bn.

Huge opportunities in the FDG projects

Of the 130GW opportunities already tendered out, BHEL has won ~30% of them. Another 100GW is yet to be tendered out, and the company expects to gain a similar share of these upcoming orders.

We reiterate BUY; TP revised to INR 370

With a strong orderbook, a solid pipeline of prospective orders and margin recoveries from H2FY25, we reiterate **BUY** on BHEL with a revised TP of INR 370, 40x FY26E (vs earlier TP of INR 300).

Financial Summary

Y/E Mar-31 (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)	198.2	427.7	251.2	35.2
EV/EBITDA (x)	152.5	184.7	123.2	25.9
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)	1,111bn
Market Cap (USD)	13,342mn
Bloomberg Code	BHEL IN
Reuters Code	BHEL.BO
52-week Range (INR)	323 / 77
Free Float (%)	37.0
ADTV-3M (mn) (USD)	108.2

Price Performance (%)	3m	6m	12m
Absolute	43.8	128.7	298.8
Relative to Sensex	42.6	116.0	278.9

Previous Reports

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

15-01-2024: [Company Update](#)

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 (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 5GW of coal-based thermal capacity every year for the next ten years.

Some of the major orders BHEL received this year were 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 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 a revised target price of INR 370, valuing the stock at 40x FY26E (earlier: 35x FY26E) EPS of INR 8.6/share. We raise the target multiple to 40x FY26E EPS (vs. 35x FY26E EPS earlier) on the back of strong OI and BHEL's growing total addressable market, as thermal capacity addition plans have been increased from 50GW to 88GW, from FY22-32E, and lower competitive intensity in bidding.

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

Exhibit 1: BUY with a TP of INR 370

Year to Mar	FY22	FY23	FY24	FY25E	FY26E
Revenue (INR mn)	2,12,111	2,33,649	2,38,928	2,96,477	3,45,096
Adjusted PAT (INR mn)	4,098	4,475	2,599	4,426	31,619
DEPS (INR)	1.2	1.3	0.7	1.3	9.1
Multiple					40x
TP					370

Source: I-Sec research

Exhibit 2: 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 3: Price chart



Source: Bloomberg

Financial Summary

Exhibit 4: Profit & Loss

(INR mn, year ending Mar-31)

	FY23A	FY24A	FY25E	FY26E
Net Sales	2,33,649	2,38,928	2,96,477	3,45,096
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
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 5: Balance sheet

(INR mn, year ending Mar-31)

	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
Net Current Assets	65,608	1,22,412	82,554	1,14,894
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	1,93,001	1,36,897	1,36,897	1,36,897
Deferred Tax assets	-	-	-	-
Total Assets	2,92,931	2,94,175	2,58,879	2,93,235
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	2,65,658	2,41,542	2,44,400	2,73,756
Total Net Worth	2,72,622	2,48,506	2,51,364	2,80,720
Minority Interest	-	-	-	-
Total Liabilities	2,92,931	2,94,175	2,58,879	2,93,235

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending Mar-31)

	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 7: Key ratios

(Year ending Mar-31)

	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	198.2	427.7	251.2	35.2
P/CEPS	135.4	218.5	160.7	32.6
P/BV	4.1	4.5	4.4	4.0
EV / EBITDA	152.5	184.7	123.2	25.9
P / Sales	4.8	4.7	3.7	3.2
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
