

August 1, 2024

Q1FY25 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	REDUCE		REDUCE	
Target Price	264		264	
Sales (Rs. m)	3,24,109	4,19,480	3,24,109	4,19,480
% Chng.	-	-	-	-
EBITDA (Rs. m)	21,853	55,375	21,853	55,375
% Chng.	-	-	-	-
EPS (Rs.)	3.5	10.6	3.5	10.6
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. bn)	234	239	324	419
EBITDA (Rs. bn)	10	6	22	55
Margin (%)	4.1	2.6	6.7	13.2
PAT (Rs. bn)	6	3	12	37
EPS (Rs.)	1.8	0.7	3.5	10.6
Gr. (%)	52.2	(58.4)	366.8	203.2
DPS (Rs.)	0.4	0.3	0.3	-
Yield (%)	0.1	0.1	0.1	-
RoE (%)	2.5	1.0	4.8	13.3
RoCE (%)	2.3	1.1	5.1	14.5
EV/Sales (x)	4.5	4.6	3.4	2.5
EV/EBITDA (x)	111.4	179.8	49.9	19.3
PE (x)	172.1	413.3	88.5	29.2
P/BV (x)	4.3	4.3	4.1	3.6

Key Data

BHEL.BO | BHEL IN

52-W High / Low	Rs.335 / Rs.95
Sensex / Nifty	81,868 / 25,011
Market Cap	Rs.1,074bn / \$ 12,830m
Shares Outstanding	3,482m
3M Avg. Daily Value	Rs.9909.16m

Shareholding Pattern (%)

Promoter's	63.17
Foreign	9.10
Domestic Institution	15.03
Public & Others	12.70
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.0	35.6	194.7
Relative	(1.0)	18.7	139.2

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Muted quarter; focus on execution

Quick Pointers:

- Order intake for Q1FY25 stood at Rs94.9bn with order book of Rs1.35trn.
- Industry revenue grew by 30.1% while EBIT margin turned positive to 4.7%.

BHEL reported revenue growth of 9.6% YoY with EBITDA margin improvement of 47bps YoY to -3.1% in Q1FY25. India's power sector outlook remains strong, with plans for ~80GW of thermal capacity additions by FY32. BHEL's technical expertise positions it well to capitalize on it. BHEL was also appointed to jointly develop 800 MW thermal plant with NTPC in Budget 2024. Beyond thermal, BHEL's strategic diversification into high-growth sectors such as transportation and RE transmission augurs well for the company. It is poised to capitalize on key opportunities including supplying motors and propulsion systems for Vande Bharat trains, and advanced transmission equipment for substations and HVDC systems (12GW to be added by FY27). It is set to leverage its dominant market share of ~30% in the ~100GW of FGD project tenders. Further growth opportunities are present in the supply of strategic defense equipment.

We believe 1) pickup in thermal power orders, 2) diversification into segments such as railways, defence, green hydrogen, coal gasification, etc., and 3) growing spares & services business augurs well for company in the long-term. However, execution pace and operational efficiency will be key monitorables. The stock is trading at a P/E of 88.5x/29.2x FY25/26E. We maintain 'Reduce' rating with an unchanged TP of Rs264, valuing it at a P/E of 25x FY26E (same as earlier.)

Weaker execution in Power while Industry segment grew: Standalone revenue was up 9.6% YoY to Rs54.8bn (PL: Rs62.2bn) driven by healthy growth in Industry segment sales (up 30.1% YoY to Rs13.6bn) while Power segment sales growth was moderate (up 4.2% YoY to Rs41.3bn). EBITDA came in at Rs-1.7bn (PL: Rs2.2bn) while EBITDA margin improved to -3.1% (vs -3.6% in Q1FY24) (PL: +3.5%) due to employee cost leverage (down 222bps YoY as % of sales) despite other expenses jumping to Rs3.4bn (vs Rs2.1bn in Q1FY24). Power margin turned negative to -1.3% (vs +1.3% in Q1FY24), while Industry margin came positive at 4.7% (vs -2.6% in Q1FY24). Loss before tax was flat YoY at Rs2.8bn (PL: +Rs1.1bn). Net loss was also flat YoY at Rs2.1bn (PL: +Rs787mn) due to the seasonality and lower other income (Rs1.1bn vs Rs1.4bn in Q1FY24).

Order book stands at ~Rs1.35trn: Order intake for Q1FY25 stood at Rs94.9bn (vs Rs156bn in Q1FY24), with contribution from Power (89.6%), Industry (9.7%) and Export (0.7%). Order book stands at ~Rs1.35trn (6.2x TTM revenue) comprising of Power (74.7%), Industry (22.4%) and Exports (2.8%). Key orders in the Q1 include Thermal EPC packages for 2x800 MW Koderma, 2x800 MW Railpur (Adani Power) and 2x800 MW Mirzapur (Mirzapur Thermal Energy Pvt. Ltd.).

Exhibit 1: EBITDA margin improved 47bps due to employee cost leverage despite higher other expenses

Y/e March	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY gr. (%)	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Revenue	50,034	51,253	55,038	82,603	54,849	9.6	(33.6)	238,928	233,649	2.3
Total Revenues	50,034	51,253	55,038	82,603	54,849	9.6	(33.6)	238,928	233,649	2.3
Expenditure	51,815	55,130	52,873	75,324	56,543	9.1	(24.9)	232,802	224,122	3.9
as % of sales	103.6	107.6	96.1	91.2	103.1			97.4	95.9	
Consumption of RM	35,478	36,266	40,293	55,206	38,776	9.3	(29.8)	168,071	163,007	3.1
as % of sales	70.9	70.8	73.2	66.8	70.7			70.3	69.8	
Employee Cost	14,200	12,821	14,420	14,847	14,349	1.0	(3.4)	56,288	57,006	(1.3)
as % of sales	28.4	25.0	26.2	18.0	26.2			23.6	24.4	
Other expenditure	2,137	6,043	(1,840)	5,271	3,418	60.0	(35.2)	8,442	4,109	105.5
as % of sales	4.3	11.8	(3.3)	6.4	6.2			3.5	1.8	
EBITDA	(1,781)	(3,877)	2,165	7,279	(1,694)	-	(123.3)	6,126	9,527	(35.7)
Depreciation	600	599	606	684	590	(1.7)	(13.8)	2,489	2,603	(4.4)
EBIT	(2,381)	(4,476)	1,559	6,595	(2,283)	-	(134.6)	3,637	6,924	(47.5)
Other Income	1,221	1,968	1,042	1,649	1,100	(10.0)	(33.3)	5,879	5,148	14.2
Interest	1,680	1,804	1,896	1,933	1,617	(3.7)	(16.3)	7,313	5,214	40.2
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
PBT	(2,839)	(4,313)	705	6,311	(2,801)	-	(144.4)	2,203	6,858	(67.9)
Total Tax	(715)	(1,979)	242	1,467	(676)	-	(146.1)	(396)	615	(164.3)
Reported PAT	(2,125)	(2,334)	463	4,844	(2,125)	-	(143.9)	2,599	6,243	(58.4)
Adjusted PAT	(2,125)	(2,334)	463	4,844	(2,125)	-	(143.9)	2,599	6,243	(58.4)
Adjusted EPS	(0.6)	(0.7)	0.1	1.4	(0.6)	-	(143.9)	0.7	1.8	(58.4)
Margins (%)						YoY bps	QoQ bps			YoY bps
Gross	29.1	29.2	26.8	33.2	29.3	21	(386)	29.7	30.2	(58)
EBITDA	(3.6)	(7.6)	3.9	8.8	(3.1)	47	(1,190)	2.6	4.1	(151)
EBIT	(4.8)	(8.7)	2.8	8.0	(4.2)	60	(1,215)	1.5	3.0	(144)
EBT	(5.7)	(8.4)	1.3	7.6	(5.1)	57	(1,275)	0.9	2.9	(201)
PAT	(4.2)	(4.6)	0.8	5.9	(3.9)	37	(974)	1.1	2.7	(158)
Effective Tax rate	25.2	45.9	34.3	23.2	24.1	(104)	88	(18.0)	9.0	(2,692)

Source: Company, PL

Exhibit 2: Industry margin turn positive with higher YoY revenue growth while Power segment disappoints

Segment Performance	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY gr. (%)	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Revenue (Rs mn)										
Power	39,606	40,705	42,379	61,683	41,281	4.2	(33.1)	177,096	174,990	1.2
Industry	10,429	10,547	12,659	20,920	13,568	30.1	(35.1)	52,109	46,373	12.4
Total	50,034	51,253	55,038	82,603	54,849	9.6	(33.6)	229,205	221,363	3.5
EBIT (Rs mn)										
Power	498	(1,582)	3,978	11,459	(540)	-	(104.7)	16,570	14,003	18.3
Industry	(269)	(376)	202	1,692	633	-	(62.6)	1,371	4,325	(68.3)
EBIT margin (%)						YoY bps	QoQ bps			YoY bps
Power	1.3	(3.9)	9.4	18.6	(1.3)	(256)	(1,988)	9.4	8.0	135
Industry	(2.6)	(3.6)	1.6	8.1	4.7	725	(342)	2.6	9.3	(670)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	2,33,649	2,38,928	3,24,109	4,19,480
YoY gr. (%)	10.2	2.3	35.7	29.4
Cost of Goods Sold	1,63,007	1,68,071	2,05,809	2,61,336
Gross Profit	70,642	70,857	1,18,300	1,58,144
Margin (%)	30.2	29.7	36.5	37.7
Employee Cost	57,006	56,288	58,202	60,821
Other Expenses	14,939	18,812	29,494	33,558
EBITDA	9,527	6,126	21,853	55,375
YoY gr. (%)	29.1	(35.7)	256.7	153.4
Margin (%)	4.1	2.6	6.7	13.2
Depreciation and Amortization	2,603	2,489	4,713	5,225
EBIT	6,924	3,637	17,139	50,150
Margin (%)	3.0	1.5	5.3	12.0
Net Interest	5,214	7,313	6,678	5,564
Other Income	5,148	5,879	6,871	7,970
Profit Before Tax	6,858	2,203	17,332	52,557
Margin (%)	2.9	0.9	5.3	12.5
Total Tax	615	(396)	5,200	15,767
Effective tax rate (%)	9.0	(18.0)	30.0	30.0
Profit after tax	6,243	2,599	12,133	36,790
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,243	2,599	12,133	36,790
YoY gr. (%)	52.2	(58.4)	366.8	203.2
Margin (%)	2.7	1.1	3.7	8.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,243	2,599	12,133	36,790
YoY gr. (%)	52.2	(58.4)	366.8	203.2
Margin (%)	2.7	1.1	3.7	8.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,243	2,599	12,133	36,790
Equity Shares O/s (m)	3,482	3,482	3,482	3,482
EPS (Rs)	1.8	0.7	3.5	10.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	66,210	68,970	72,470	74,970
Tangibles	66,210	68,970	72,470	74,970
Intangibles	-	-	-	-
Acc: Dep / Amortization	42,122	43,863	48,577	53,801
Tangibles	42,122	43,863	48,577	53,801
Intangibles	-	-	-	-
Net fixed assets	24,087	25,107	23,893	21,169
Tangibles	24,087	25,107	23,893	21,169
Intangibles	-	-	-	-
Capital Work In Progress	4,211	3,717	3,999	3,999
Goodwill	-	-	-	-
Non-Current Investments	8,122	8,737	10,047	9,648
Net Deferred tax assets	42,465	42,013	42,013	42,013
Other Non-Current Assets	1,69,555	1,36,897	1,78,260	2,09,740
Current Assets				
Investments	-	-	-	-
Inventories	67,559	72,206	93,237	1,09,180
Trade receivables	65,439	80,101	97,677	1,14,926
Cash & Bank Balance	66,981	61,575	62,383	64,150
Other Current Assets	1,23,257	1,61,425	1,45,849	1,67,792
Total Assets	5,31,076	5,52,162	6,18,263	7,03,960
Equity				
Equity Share Capital	6,964	6,964	6,964	6,964
Other Equity	2,41,160	2,41,542	2,52,804	2,88,380
Total Network	2,48,124	2,48,506	2,59,768	2,95,344
Non-Current Liabilities				
Long Term borrowings	54,198	88,329	78,329	58,329
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	338	236	236	236
Trade payables	1,19,618	1,09,890	1,50,955	1,99,971
Other current liabilities	1,51,265	1,47,214	1,70,988	1,92,093
Total Equity & Liabilities	5,31,076	5,52,162	6,18,263	7,03,960

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	6,858	2,203	17,332	52,557
Add. Depreciation	2,603	2,489	4,713	5,225
Add. Interest	5,214	7,313	6,678	5,564
Less Financial Other Income	5,148	5,879	6,871	7,970
Add. Other	(15,220)	(16,910)	-	-
Op. profit before WC changes	(545)	(4,905)	28,724	63,345
Net Changes-WC	(7,966)	(34,446)	(606)	(17,277)
Direct tax	1,104	2,222	(5,200)	(15,767)
Net cash from Op. activities	(7,407)	(37,129)	22,918	30,301
Capital expenditures	(1,806)	(2,236)	(3,782)	(2,500)
Interest / Dividend Income	2,507	3,993	-	-
Others	14,104	11,551	(779)	743
Net Cash from Invt. activities	14,805	13,309	(4,561)	(1,757)
Issue of share cap. / premium	(570)	(391)	(10,000)	(20,000)
Debt changes	6,400	34,230	-	-
Dividend paid	(1,392)	(1,395)	(871)	(1,213)
Interest paid	(3,548)	(5,888)	(6,678)	(5,564)
Others	-	(894)	343	(1,213)
Net cash from Fin. activities	890	25,664	(17,206)	(27,990)
Net change in cash	8,287	1,843	1,151	554
Free Cash Flow	(9,291)	(39,454)	19,135	27,801

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	1.8	0.7	3.5	10.6
CEPS	2.5	1.5	4.8	12.1
BVPS	71.3	71.4	74.6	84.8
FCF	(2.7)	(11.3)	5.5	8.0
DPS	0.4	0.3	0.3	-
Return Ratio(%)				
RoCE	2.3	1.1	5.1	14.5
ROIC	2.7	1.7	4.4	12.4
RoE	2.5	1.0	4.8	13.3
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.1	0.1	0.0
Net Working Capital (Days)	21	65	45	21
Valuation(x)				
PER	172.1	413.3	88.5	29.2
P/B	4.3	4.3	4.1	3.6
P/CEPS	121.4	211.1	63.8	25.6
EV/EBITDA	111.4	179.8	49.9	19.3
EV/Sales	4.5	4.6	3.4	2.5
Dividend Yield (%)	0.1	0.1	0.1	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	51,253	55,038	82,603	54,849
YoY gr. (%)	(1.5)	4.6	0.4	9.6
Raw Material Expenses	36,266	40,293	55,206	38,776
Gross Profit	14,987	14,745	27,397	16,074
Margin (%)	29.2	26.8	33.2	29.3
EBITDA	(3,877)	2,165	7,279	(1,694)
YoY gr. (%)	58.9	50.1	(30.6)	(4.9)
Margin (%)	(7.6)	3.9	8.8	(3.1)
Depreciation / Depletion	599	606	684	590
EBIT	(4,476)	1,559	6,595	(2,283)
Margin (%)	(8.7)	2.8	8.0	(4.2)
Net Interest	1,804	1,896	1,933	1,617
Other Income	1,968	1,042	1,649	1,100
Profit before Tax	(4,313)	705	6,311	(2,801)
Margin (%)	(8.4)	1.3	7.6	(5.1)
Total Tax	(1,979)	242	1,467	(676)
Effective tax rate (%)	45.9	34.3	23.2	24.1
Profit after Tax	(2,334)	463	4,844	(2,125)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(2,334)	463	4,844	(2,125)
YoY gr. (%)	(2,368.3)	49.4	(24.9)	-
Margin (%)	(4.6)	0.8	5.9	(3.9)
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(2,334)	463	4,844	(2,125)
YoY gr. (%)	(2,368.3)	49.4	(24.9)	-
Margin (%)	(4.6)	0.8	5.9	(3.9)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(2,334)	463	4,844	(2,125)
Avg. Shares O/s (m)	3,482	3,482	3,482	3,482
EPS (Rs)	(0.7)	0.1	1.4	(0.6)

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-24	Reduce	264	316
2	22-May-24	Reduce	264	302
3	12-Apr-24	UR	-	263
4	14-Feb-24	Reduce	200	224
5	09-Jan-24	UR	-	195
6	05-Oct-23	Reduce	67	127

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	8,400	8,679
2	Apar Industries	Accumulate	10,399	9,110
3	BEML	Hold	4,520	5,060
4	Bharat Electronics	Accumulate	341	321
5	BHEL	Reduce	264	316
6	Carborundum Universal	Hold	1,650	1,719
7	Cummins India	Hold	3,719	4,134
8	Engineers India	Hold	264	268
9	GE T&D India	Hold	1,601	1,585
10	Grindwell Norton	Accumulate	2,749	2,650
11	Harsha Engineers International	Hold	436	572
12	Hindustan Aeronautics	Hold	4,515	5,552
13	Kalpataru Projects International	Accumulate	1,413	1,327
14	KEC International	Hold	880	874
15	Larsen & Toubro	BUY	4,130	3,519
16	Praj Industries	BUY	804	700
17	Siemens	Accumulate	7,030	7,884
18	Thermax	Reduce	3,923	5,605
19	Triveni Turbine	Hold	653	633
20	Voltamp Transformers	Accumulate	14,922	14,174

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

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