



'CHARGING UP!'

Introduction

Bharat Heavy Electricals Limited (BHEL) is one of India's largest integrated manufacturers of power plant equipment, playing a pivotal role in the country's energy and industrial infrastructure development. Its operations include the design, engineering, manufacturing, installation, and servicing of a broad range of products and systems for power generation, transmission, and industrial applications. With state-of-the-art manufacturing facilities and advanced R&D capabilities, BHEL produces essential heavy electrical equipment such as turbines, boilers, generators, and transformers.

The company operates through two key business verticals i.e., *Power Segment*: This vertical focuses on thermal, gas, hydro, and nuclear power plants and related services, contributing 77% of the company's total revenue. *Industry Segment*: This segment manages major equipment supplies and executes EPC (Engineering, Procurement, and Construction) projects across diverse sectors, including transportation, transmission, defence, aerospace, captive power plants, and process industries. It accounts for 23% of the company's consolidated revenue.

Q2 FY25 Financial Performance Update

BHEL delivered robust Q2 FY25 results, with revenue rising 28% YoY to ₹6,584 crores, compared to ₹5,125 crores in the same quarter last year, driven by improved order execution and broad-based growth across both its Power and Industry segments. Gross margins expanded significantly by 509 basis points (bps) to 32.71%, up from 27.63% in the previous year. The company turned EBITDA positive, reporting ₹275 crores—a sharp turnaround from the EBITDA loss of ₹154 crores in the same period last year—resulting in a 718 bps improvement in EBITDA margins from -3% to 4.18%.

One Year Performance

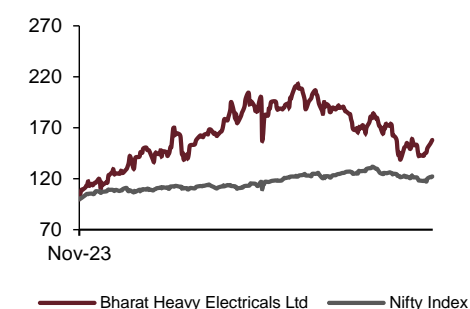
Rating	TP (Rs)	Up/Dn (%)
BUY	300	22

Market data

Current price	Rs	247
Market Cap (Rs.Bn)	(Rs Bn)	859
Market Cap (US\$ Mn)	(US\$ Mn)	10,191
Face Value	Rs	2
52 Weeks High/Low	Rs	335.4 / 151.5
Average Daily Volume	('000)	13,069
BSE Code		500103
Bloomberg		BHEL.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-24	Jun-24
Promoters	63.17	63.17
Public	36.83	36.83
Others		
Total	100	100

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This margin expansion was supported by better gross margins, operating leverage, and forex gains. On the bottom line, BHEL achieved profitability with a PAT of ₹141 crores, marking a significant improvement from the net loss of ₹202 crores recorded in the previous year.

India's Energy Landscape – The Big Picture

Global investors, rating agencies, and policymakers widely agree that India is poised to be one of the fastest-growing major economies over the next decade. This optimism is underpinned by the country's strong demographic dividend, supportive government policies promoting manufacturing, and the global push to diversify supply chains away from China. These factors signify a transformative shift in India's energy landscape. While India plans to significantly boost its renewable energy capacity from 203 GW (as of October 2024) to 500 GW by 2030, this expansion alone will not suffice to meet the surging demand driven by robust economic growth and industrial expansion.

For over a decade, the non-renewable energy sector has been constrained by financial distress, driven by heavily leveraged balance sheets, which limited capacity investments. Concurrently, government policies emphasizing carbon emission reductions significantly boosted investments in renewable energy, supported by favourable frameworks. However, this transition has disrupted energy demand-supply dynamics, as renewable sources often fail to meet consistent base-load demand, resulting in power shortages.

In response, the government has refocused on conventional power capacity additions, commissioning 60 GW over the last three years. Looking ahead, plans to add another 80 GW of conventional capacity by 2032 are expected to drive growth for engineering companies like BHEL, which stand to benefit from this renewed emphasis on conventional energy infrastructure.

Execution To Finally Pick Up!

BHEL has grappled with significant execution challenges over the past decade, including cost overruns, supply chain disruptions, delayed land acquisitions, and working capital constraints, all of which adversely impacted its financial and stock performance. However, with supply chain issues largely resolved and the legacy order backlog gradually declining, the company is well-positioned for a turnaround in execution. This recovery is further supported by a concerted push for faster project delivery and intervention from the Ministry of Heavy Industries, which has established a dedicated team to address commissioning challenges.

These measures are expected to enhance operational performance, driven by increased project deliveries. Consequently, BHEL is likely to achieve robust revenue growth, with operating leverage boosting margins and driving a substantial improvement in profitability.

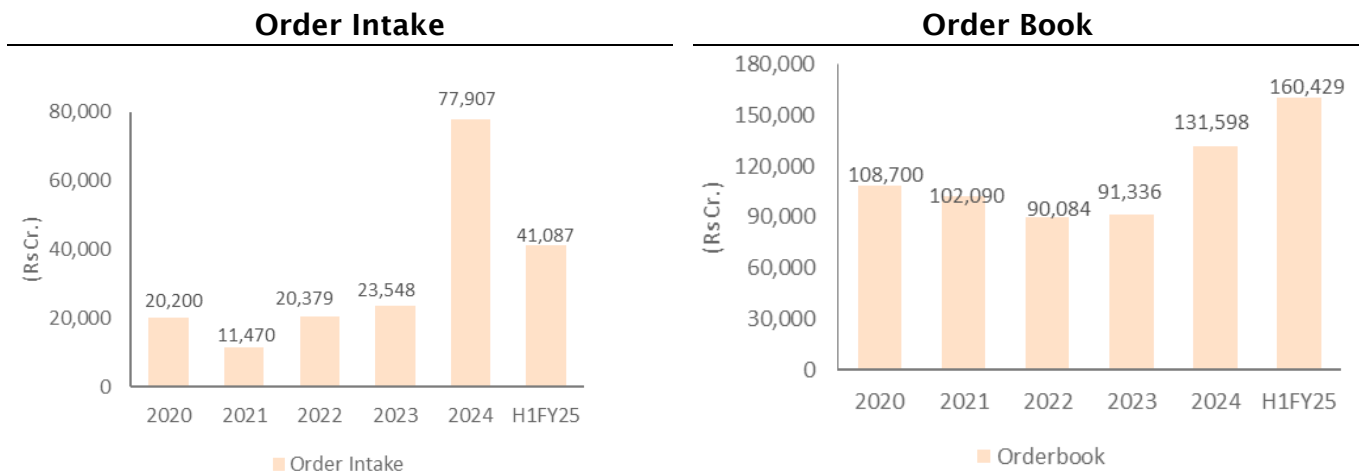
Orderbook Strength

BHEL boasts of a robust order book, valued at ₹1,60,429 crores as of Q2 FY25. This comprises ₹1,25,894 crores from the Power segment, ₹30,682 crores from the Industry segment, and ₹3,763 crores from export orders. With the election-related slowdown in project awards now largely over, the industry is experiencing a revival in order activity. BHEL has capitalized on this momentum, securing significant projects such as a 6,000 MW power transmission line (in partnership with Hitachi Energy) connecting Khavda in Gujarat to Nagpur in Maharashtra, and a 3x800 MW thermal power plant project for NTPC in Andhra Pradesh. This strong order book underscores BHEL's market leadership and provides substantial visibility for future earnings growth.

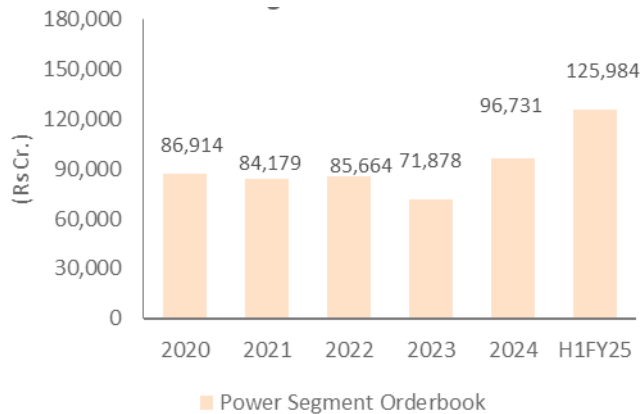
Outlook

We recommend a **Buy** on BHEL with a target price of ₹300, indicating an upside potential of 22% from the current market levels. This recommendation is underpinned by expected improvements in project execution, driving stronger financial performance, and a robust pipeline of order inflows, which enhances earnings visibility for the company.

Order Book Analysis



Power Segment Orderbook



Source: Company, Company, Dalal & Broacha Research

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