

Execution lags, favourable trajectory ahead...

About the stock: BHEL is one of the largest engineering and manufacturing company of its kind in India engaged in design, engineering, construction, testing, commissioning and servicing of a wide range of products and services with over 180 product offerings to meet the ever-growing needs of the core sectors of economy.

- It operates in Power (~74% revenue mix) and Industrial (~26%) sector largely in India.
- The stock is well placed to gain from the need for building base load thermal coupled with strong revenue visibility in the medium term.

Q1FY26 performance: BHEL reported muted Q1FY26 results with Revenue flat YoY at ₹5487 crore. As other expenses doubled to 12.3% of sales, EBITDA loss increased to ₹537 crore vs EBITDA loss of ₹169 crore last year. Consequently, loss during the quarter increased to ₹455 crore vs ₹213 crore last year, loss was slightly offset by rise in other income. On a segmental basis Power and Industry business revenues grew -6% and +17% YoY to ₹3898.86 crore and ₹1588 crore respectively. Power business incurred loss of ₹510 crore whereas, Industrial business made EBIT margins of 19% (+1470 bps YoY). The company received orders worth ₹13,445 crore taking the total order book to ₹204,375 crore.

Investment Rationale:

- Strong order inflows ~₹1.75 trillion over FY24-Q1FY26:** BHEL received orders for 19.4 GW of thermal power orders in the Power segment over FY24-Q1FY26 and further has bid pipeline of ~50 GW. This translates to order bid pipeline of roughly ₹4 trillion, BHEL being industry leader stands to secure significant portion of these orders. Further in the industry segment, BHEL has won HVDC orders in consortium with OEM, it further has order bid pipeline of more than ₹1 trillion in upgrading the transmission infrastructure of the country. Going ahead, we expect order inflow momentum to continue, pickup in execution pace, thus we have built in order inflows of ₹63700 crore & ₹49200 crore in FY26E and FY27E respectively.
- Execution to ramp up:** Although execution in Q1 was below expectations, however with reasonable backlog and strong order pipeline, with ~7x order book to bill ratio we expect execution ramp up in FY26E-FY27E with strong improvement in EBITDA margins from 4.4% in FY25 to 9.2% in FY27E on back of execution scale up of profitable order. Hence, we expect the revenues and PAT to grow at a CAGR of ~25% and 150% over FY25-FY27E with PAT. This will also improve ROCE from low single digit to ~11% ROCE in FY27E.

Rating and Target Price

- Good accretion of orders and strong ordering pipeline will keep order inflows strong coupled with strong pick in execution from FY26E onwards. This will also help margins and return ratios to improve meaningfully over the next 2-3 years. Hence, we rate the stock buy with fair value of ₹270 (30x FY27E EPS)



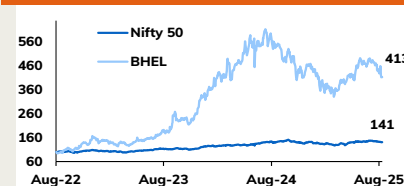
Market data

Particular	Rs. in crore
Market Cap	77,093.0
FY25 Gross Debt	9,015.0
F25 Cash	7,612.0
Enterprise Value	78,496.0
52 Week H/L (Rs.)	305/176
Equity Capital	696.4
Face Value (Rs.)	2.0

Shareholding pattern

	Sep-24	Dec-24	Mar-25	Jun-25
Promoter	63.2	63.2	63.2	63.2
FII	9.5	8.0	7.2	6.4
DII	14.7	15.5	16.3	18.5
Public	12.7	13.4	13.3	12.0

Price chart



Key risks

- delay in execution of the current backlog adversely affecting the margins
- slowdown or delay in fresh ordering will impact visibility

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Key Financial Summary

Particulars (Rs. in crore)	FY23	FY24	FY25	3-Year CAGR (FY22-FY25)	FY26E	FY27E	2-Year CAGR (FY25-FY27E)
Net Sales	23,364.9	23,892.8	28,339.5	10.1%	35,138.7	43,143.0	23.4%
EBITDA	952.8	612.6	1,242.4	19.0%	2,667.0	3,952.6	78.4%
EBITDA Margin (%)	4.1	2.6	4.4		7.6	9.2	
Net Profit	624.3	259.9	513.8	7.8%	2,054.0	3,135.3	147.0%
EPS (Rs.)	1.8	0.7	1.5		5.9	9.0	
P/ E (x)	124.9	300.1	151.8		38.0	24.9	
RoNW (%)	2.5	1.0	2.0		7.7	10.5	
RoCE (%)	4.0	2.8	4.3		8.5	10.8	

Key result highlights

- Order inflows (OI) for the quarter came in at ₹13,445 crore, a 42% growth YoY. OI were led by Industry segment (43% of order inflows) this year with 4.9x growth in order inflows whereas, Power segment (57%) saw a 10% YoY decline. Order book reached ₹204,375 crore in Q1FY26 with 79:29 mix of power and industry.
- Revenue for Q1FY26 was flat YoY at ₹5487 crore. The Power and Industrial division grew by -5% and +17% YoY respectively to ₹3899 and ₹1588 crore respectively.
- EBITDA and PAT loss at ₹537 crore. and ₹455 crore. This was mainly due to legacy orders being executed during the quarter. Segmentally Industry reported EBIT of 307 crore whereas, power reported loss of ₹510 crore. industry saw EBIT Expansion of 1470 basis points YoY.
- Power Business (71% of revenue mix) secured orders worth ₹7620 crore (57% of order inflows). BHEL secured 4.8 GW thermal power orders,
- The power segment also added ~1.8 GW of thermal capacity during Q1FY26.
- Industry business (29%) secured orders worth ₹5825 crore (43% of OI) up 4.9 times YoY, key orders received include 800kV, a 6000 MW 800kV Bhadla Fatehpur HVDC terminals in consortium with Hitachi Energy.
- India looks to add additional 80 GW of thermal capacity over the next decade to support growing energy demands thus requiring a stable base load capacity. Rise in generation to also require adequate transmission infrastructure to evacuate power generated. India looks to add significant HVDC and HVAC transmission capacity resulting in ordering prospects worth more than ₹5 trillion for BHEL.

Financial summary

Exhibit 1: Profit and loss statement ₹ crore				
(Year-end March)	FY24	FY25	FY26E	FY27E
Total operating income	23,892.8	28,339.5	35,138.7	43,143.0
Growth (%)	2.3	18.6	24.0	22.8
Raw Material Expenses	16,807.1	18,844.4	21,756.3	26,537.2
Employee Expenses	5,628.8	5,923.4	7,205.6	8,906.8
Other Operating Expenses	844.2	2,329.3	3,509.7	3,746.4
Provision For Bad Debt	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0
Total Operating Expenditure	23,280.2	27,097.1	32,471.7	39,190.4
EBITDA	612.6	1,242.4	2,667.0	3,952.6
Growth (%)	-35.7	102.8	114.7	48.2
Depreciation	248.9	272.0	345.6	334.9
Interest	731.3	748.3	707.3	664.1
Other Income	587.9	503.4	796.1	757.1
PBT	220.3	725.5	2,410.1	3,710.7
Others	0.0	0.0	0.0	0.0
Total Tax	-39.6	211.7	356.2	575.3
PAT	259.9	513.8	2,054.0	3,135.3
Growth (%)	-58.4	97.7	299.8	52.6
EPS (Rs.)	0.7	1.5	5.9	9.0

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore				
(Year-end March)	FY24	FY25	FY26E	FY27E
Profit after Tax	259.9	513.8	2,054.0	3,135.3
Add: Depreciation	248.9	272.0	345.6	334.9
(Inc)/dec in Current Assets	-5,991.8	-6,759.1	-7,024.1	-8,950.5
Inc/(dec) in CL and Provisions	-1,569.8	2,911.1	6,023.9	3,890.0
Others	0.0	0.0	0.0	0.0
CF from operating activities	-7,052.8	-3,062.3	1,399.4	-1,590.2
(Inc)/dec in Investments	1.8	-4.0	0.0	0.0
(Inc)/dec in Fixed Assets	-301.5	-531.7	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	3,273.5	38.8	780.4	780.4
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	3,412.8	125.8	990.0	990.0
Dividend paid & dividend tax	-139.3	-87.1	-209.6	-209.6
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-540.4	1,456.3	1,011.4	-5,170.5
Net Cash flow	6,697.4	6,157.0	7,613.3	8,624.7
Opening Cash	6,157.0	7,613.3	8,624.7	3,454.2
Closing Cash	6,157.0	7,613.3	8,624.7	3,454.2

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore				
(Year-end March)	FY24	FY25	FY26E	FY27E
Liabilities				
Equity Capital	696.4	696.4	696.4	696.4
Reserve and Surplus	24,153.8	24,417.0	26,111.3	29,037.1
Total Shareholders funds	24,850.2	25,113.4	26,807.8	29,733.5
Total Debt	8,831.6	8,957.4	9,947.4	10,937.4
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	42,892.2	49,043.8	52,432.1	57,051.7
Assets				
Gross Block	6,897.0	7,404.4	7,404.4	7,404.4
Less: Acc Depreciation	4,386.3	4,542.0	4,866.4	5,180.1
Net Block	2,510.7	2,862.4	2,538.0	2,224.3
Capital WIP	282.3	161.7	275.0	275.0
Total Fixed Assets	2,793.0	3,024.1	2,813.0	2,499.3
Investments	667.7	671.7	671.7	671.7
Inventory	7,220.6	9,869.5	11,582.3	14,773.1
Debtors	4,785.4	5,884.4	7,088.4	8,823.3
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	16,382.3	19,393.5	23,500.7	27,525.6
Cash	6,157.0	7,613.3	8,624.7	3,454.2
Total Current Assets	34,545.2	42,760.7	50,796.1	54,576.1
Creditors	8,696.2	9,540.9	11,658.6	14,323.6
Provisions	2,318.3	1,815.3	3,497.6	3,580.9
Total Current Liabilities	16,524.8	19,435.9	25,459.8	29,349.8
Net Current Assets	18,020.4	23,324.8	25,336.4	25,226.3
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	42,892.2	49,043.8	52,432.1	57,051.7

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY24	FY25	FY26E	FY27E
Per share data (Rs.)				
EPS	0.7	1.5	5.9	9.0
Cash EPS	1.5	2.3	6.9	10.0
BV	71.4	72.1	77.0	85.4
DPS	0.4	0.2	0.5	0.5
Cash Per Share	17.7	21.9	24.8	9.9
Operating Ratios (%)				
EBITDA Margin	2.6	4.4	7.6	9.2
PBT / Total Operating income	1.0	2.6	7.1	8.9
PAT Margin	1.1	1.8	5.8	7.3
Inventory days	115.0	127.1	124.2	128.9
Debtor days	76.2	75.8	76.0	77.0
Creditor days	138.5	122.9	125.0	125.0
Return Ratios (%)				
RoE	1.0	2.0	7.7	10.5
RoCE	2.8	4.3	8.5	10.8
RoIC	2.4	5.0	11.7	14.7
Valuation Ratios (x)				
P/E	300.1	151.8	38.0	24.9
EV / EBITDA	131.7	63.9	29.7	21.6
EV / Net Sales	3.5	2.8	2.3	2.0
Market Cap / Sales	3.4	2.8	2.3	1.9
Price to Book Value	3.8	3.7	3.5	3.2
Solvency Ratios				
Debt/EBITDA	14.4	7.2	3.7	2.8
Debt / Equity	0.4	0.4	0.4	0.4
Current Ratio	1.7	1.8	1.7	1.7
Quick Ratio	1.3	1.3	1.2	1.2

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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