nuvama institutional equities

BHEL

RESULT UPDATE

BRAVE HEART

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	245
12 month price target (INR)	353
52 Week High/Low	272/176
Market cap (INR bn/USD bn)	854/9.7
Free float (%)	36.8
Avg. daily value traded (INR mn)	1,655.2

SHAREHOLDING PATTERN

	Sep-25	Jun-25	Mar-25
Promoter	63.17%	63.17%	63.17%
FII	6.23%	6.36%	7.19%
DII	18.62%	18.45%	16.34%
Pledge	0%	0%	0%

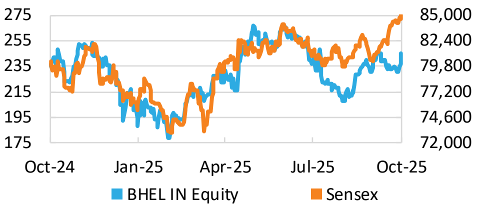
FINANCIALS (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Revenue	2,83,395	3,62,872	4,47,870	5,04,033
EBITDA	12,416	25,038	63,407	64,854
Adjusted profit	5,130	16,325	45,849	48,673
Diluted EPS (INR)	1.5	4.7	13.2	14.0
EPS growth (%)	97.4	218.2	180.9	6.2
RoAE (%)	2.1	6.3	16.1	14.9
P/E (x)	166.3	50.6	18.0	17.0
EV/EBITDA (x)	69.8	32.3	12.3	11.3
Dividend yield (%)	0.2	0.5	0.5	0.5

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	3,62,872	4,47,870	(1.6%)	0.0%
EBITDA	25,038	63,407	(18.7%)	0.0%
Adjusted profit	16,325	45,849	(21.8%)	(0.6%)
Diluted EPS (INR)	4.7	13.2	(21.8%)	(0.6%)

PRICE PERFORMANCE



FY26 'clean-up' to spur 'rebound' in FY27

BHEL reported strong Q2FY26 PAT (versus a loss in Q1) driven by EBITDA margins at 7.7%. This was led by potential write-backs in other-opex (provisions at INR100 mn in H1FY26 versus INR1.7bn YoY) along with forex gains. Order inflows of INR220bn (down 30% YoY on the back of a high base) lifted the order book to INR2.2tn (7.8x FY25 sales).

Retain 'BUY' as we expect FY26 to be a clean-up year with legacy low-margin projects nearing completion, enabling FY27 margin rebound as new orders gain pace and operating leverage kicks in. We are cutting FY26E/28E EPS by 22%/16%, reflecting lower FY26E OPM of 6.9% (earlier 8.4%) and baking in Eighth Pay Panel impact in FY28E, yielding a TP of INR353 (from INR335), roll over to 25x (unchanged) FY28E EPS.

Growth story intact

Execution was robust in Q2FY26 with revenue (+14% YoY) at INR75bn (6% below consensus). GM fell YoY to 30.6% (from 32.7%) while OPM rose 360bp YoY to 7.7% *on lower other expenses* (on lower provisions with H1FY26 provisioning at INR100mn versus INR1.7bn in H1FY25), forex gains of INR2.7bn (versus INR867mn). EBITDA jumped 2.1x to INR5.8bn (31%+ above consensus) while PAT was INR3.7bn (INR1bn in Q2FY25; 34% above consensus) with PAT margin at 4.9% (1.5% YoY). Fresh OI at INR220bn (-30% YoY on a large base) inched up OB to INR2.2tn (7.8x FY25 sales).

Power segment: Revenue increased 12.9% YoY to INR56.8bn and EBIT margin jumped to 10.5% during the quarter (versus 6.7% in Q1FY25).

Industrial segment: Revenue increased 18% YoY to INR18.4bn and EBIT margin expanded to 15.3% during the quarter (versus 13.9% in Q1FY25).

BHEL has successfully commissioned 1,630MW (Yadadri TPS/Khurja STPP/Punatsangchhu-IIHEP). We expect BHEL to complete most of its low margin older projects in FY26—implying execution pickup in FY27 of new orders (won over last two years) as well as potential freeing up of cash flows from older project completions (contract assets at INR290.6bn at end-Q2FY26).

Key variables to watch out for over next 12–24 months

We expect EBITDA margins to rebound to 14% by FY27–28E (4.4% as on FY25) on sharp operating leverage benefits ensuing from execution of INR2.2tn OB (*80% power mix*) and another 25–30GW in pipeline over next 18–36 months.

Key variables to monitor: Timely execution of current backlog, growth from non-thermal areas (rail, defence, hydrogen, etc.) and commissioning of legacy projects.

Financials

Year to March	Q2FY26	Q2FY25	% Change	Q1FY26	% Change
Net Revenue	75,118	65,841	14.1	54,869	36.9
EBITDA	5,809	2,750	111.2	(5,371)	(208.2)
Adjusted Profit	3,677	967	280.3	(4,549)	(180.8)
Diluted EPS (INR)	1.1	0.3	280.3	(1.3)	(180.8)

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Financial Statements

Income Statement (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Total operating income	2,83,395	3,62,872	4,47,870	5,04,033
Gross profit	94,943	1,21,199	1,58,516	1,83,574
Employee costs	59,234	68,946	60,657	72,581
Other expenses	23,293	27,215	34,452	46,139
EBITDA	12,416	25,038	63,407	64,854
Depreciation	2,720	3,401	4,110	4,275
Less: Interest expense	7,483	5,332	5,776	5,776
Add: Other income	5,034	5,460	7,610	10,094
Profit before tax	7,247	21,766	61,131	64,897
Prov for tax	2,117	5,442	15,283	16,224
Less: Other adj	0	0	0	0
Reported profit	5,130	16,325	45,849	48,673
Less: Excp.item (net)	0	0	0	0
Adjusted profit	5,130	16,325	45,849	48,673
Diluted shares o/s	3,482	3,482	3,482	3,482
Adjusted diluted EPS	1.5	4.7	13.2	14.0
DPS (INR)	0.5	1.2	1.2	1.2
Tax rate (%)	29.2	25.0	25.0	25.0

Balance Sheet (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Share capital	6,964	6,964	6,964	6,964
Reserves	2,44,166	2,56,312	2,97,982	3,42,477
Shareholders funds	2,51,130	2,63,276	3,04,946	3,49,441
Minority interest	0	0	0	0
Borrowings	90,146	88,860	88,860	88,860
Trade payables	1,17,117	1,65,529	1,98,188	2,19,492
Other liabs & prov	57,700	1,11,893	1,40,973	1,64,273
Total liabilities	6,44,116	7,57,581	8,60,990	9,50,088
Net block	28,625	27,942	26,616	25,195
Intangible assets	843	825	740	587
Capital WIP	1,954	1,954	1,954	1,954
Total fixed assets	31,422	30,721	29,311	27,736
Non current inv	6,717	6,717	6,717	6,717
Cash/cash equivalent	76,124	1,04,817	1,36,779	1,83,650
Sundry debtors	89,309	1,24,271	1,53,380	1,72,614
Loans & advances	10,167	10,370	10,578	10,789
Other assets	4,30,372	4,80,685	5,24,225	5,48,582
Total assets	6,44,116	7,57,581	8,60,990	9,50,088

Important Ratios (%)

Year to March	FY25A	FY26E	FY27E	FY28E
COGS (% of rev)	66.5	66.6	64.6	63.6
Employee cost (% of rev)	20.9	19.0	13.5	14.4
Other exp (% of rev)	8.2	7.5	7.7	9.2
EBITDA margin (%)	4.4	6.9	14.2	12.9
Net profit margin (%)	1.8	4.5	10.2	9.7
Revenue growth (% YoY)	19.3	27.5	23.4	12.5
EBITDA growth (% YoY)	102.7	101.7	153.2	2.3
Adj. profit growth (%)	97.4	218.2	180.9	6.2

Free Cash Flow (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Reported profit	5,130	16,325	45,849	48,673
Add: Depreciation	2,720	3,401	4,110	4,275
Interest (net of tax)	5,297	3,999	4,332	4,332
Others	(8,522)	1,333	1,444	1,444
Less: Changes in WC	17,295	17,128	(11,118)	802
Operating cash flow	21,919	42,185	44,617	59,525
Less: Capex	(2,681)	(2,700)	(2,700)	(2,700)
Free cash flow	19,238	39,485	41,917	56,825

Assumptions (%)

Year to March	FY25A	FY26E	FY27E	FY28E
GDP (YoY %)	6.5	6.6	7.0	7.5
Repo rate (%)	6.3	5.0	4.5	5.5
USD/INR (average)	84.6	87.5	87.0	88.0
Market size (GW)	24.0	24.0	12.6	12.6
BHEL market share (%)	70.0	70.0	70.0	70.0
Power OI (INR bn)	813.5	840.0	617.8	617.8
Industry OI (INR bn)	110.0	121.0	133.1	146.4
Power rev (% YoY)	13.6	31.5	26.2	12.6
Industry rev (% YoY)	35.6	(0.7)	13.0	12.2

Key Ratios

Year to March	FY25A	FY26E	FY27E	FY28E
RoE (%)	2.1	6.3	16.1	14.9
RoCE (%)	4.3	7.8	17.9	17.0
Inventory days	166	175	184	190
Receivable days	109	107	113	118
Payable days	218	213	229	238
Working cap (% sales)	114.9	85.2	71.6	63.5
Gross debt/equity (x)	0.4	0.3	0.3	0.3
Net debt/equity (x)	0.1	(0.1)	(0.2)	(0.3)
Interest coverage (x)	1.3	4.1	10.3	10.5

Valuation Metrics

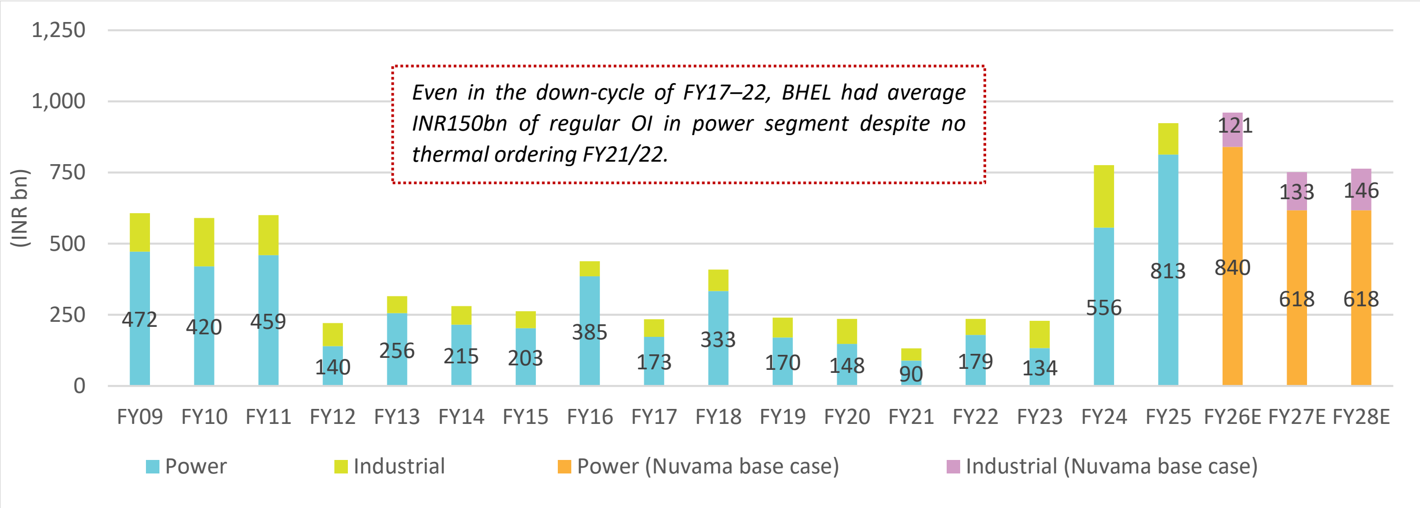
Year to March	FY25A	FY26E	FY27E	FY28E
Diluted P/E (x)	166.3	50.6	18.0	17.0
Price/BV (x)	3.4	3.1	2.7	2.4
EV/EBITDA (x)	69.8	32.3	12.3	11.3
Dividend yield (%)	0.2	0.5	0.5	0.5

Valuation Drivers

Year to March	FY25A	FY26E	FY27E	FY28E
EPS growth (%)	97.4	218.2	180.9	6.2
RoE (%)	2.1	6.3	16.1	14.9
EBITDA growth (%)	102.7	101.7	153.2	2.3
Payout ratio (%)	33.9	25.6	9.1	8.6

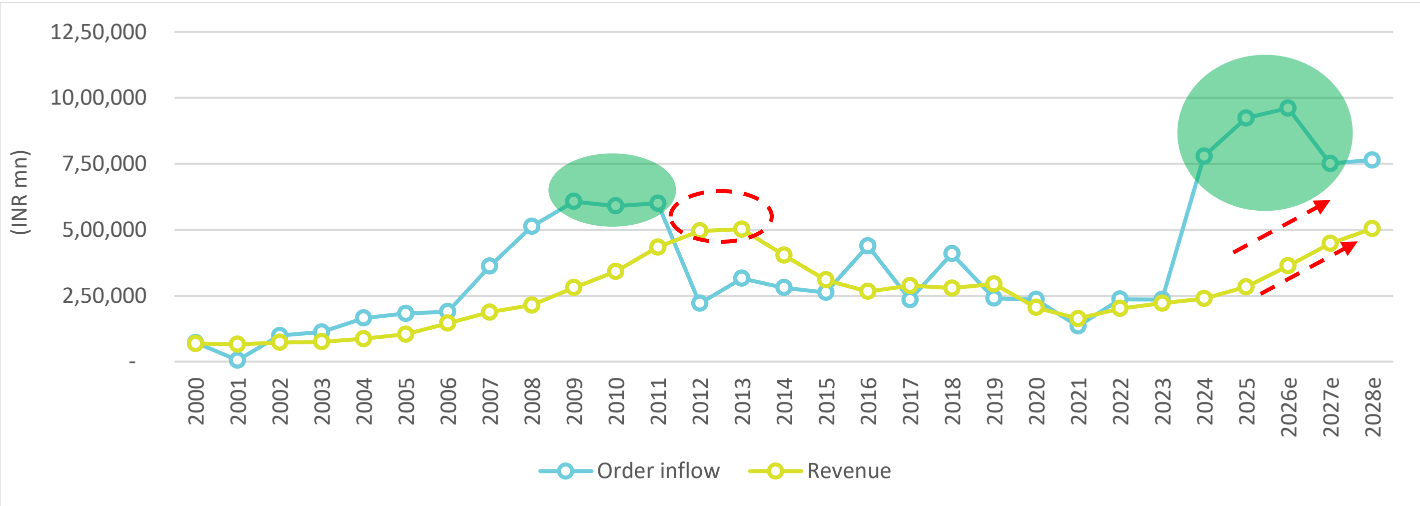
Source: Company and Nuvama estimates

Exhibit 1: BHEL sustains INR150–200bn of regular OIs even in down-cycle; revival in thermal capex adds to OIs over FY24–28E



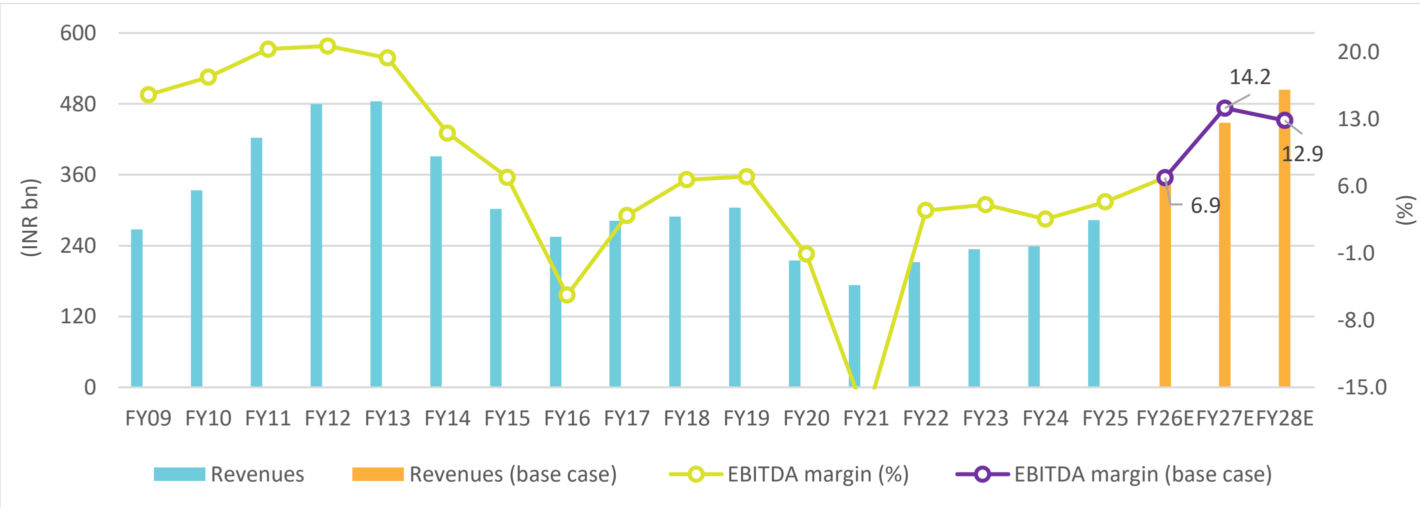
Source: Company, Nuvama Research

Exhibit 2: Revenue to accelerate as record thermal OI of 9.6GW/18.4GW in FY24/25 translates to incremental execution



Source: Company, Nuvama Research

Exhibit 3: OPMs to expand underpinned by strong operating leverage (OPMs in last cycle 15–20%)



Source: Company, Nuvama Research

Exhibit 4: Q2FY26 order book highlights

Order Book Highlights- Q2 FY 2025-26

1x660 MW Panki Thermal Power Plant

Prominent orders received during Q2 FY 2025-26

- EPC of 660 MW Amarkantak Thermal Power Project, U#6
- EPC of 660 MW Satpura Thermal Power Project, U#12
- BTG supply, and supervision of E&C, for 800 MW Anuppur Thermal Power Project
- Balance of System pkg for 300 MW Solar PV Project at Khavda
- Supply, and E&C for 150 MW BTG Package from industry
- Design, development and installation of KAVACH equipment, in locomotives and at trackside locations on 36 km section, of the SW Railways - ***maiden order for the Kavach system from Indian Railways***
- Supply of Self-Propelled Inspection Cars and other Traction equipment from Indian Railways
- Supply of several power transformers, auto transformers, shunt reactors from utilities and power plants.
- Design & Development of Pump Modules for Advanced Medium Combat Aircraft (AMCA) program
- Supply of Soot Blower spares to Fiji - **BHEL's global reference expands to 93 countries**

Source: Company

Exhibit 5: Q2FY26 operational highlights

Operations Highlights – Q2 FY 2025-26

Machine Hall of Punatsangchhu-II HEP, Bhutan

Key operations milestones achieved in Q2 FY 2025-26

Capacity Additions:

- 800MW, U#1 of Yadadri TPS, Telangana
- 660 MW of U#2 of Khurja STPP*
- 170 MW, U#5 of Punatsangchhu-II HEP, Bhutan

Synchronization:

- 800 MW U#4 of Yadadri TPS
- 660 MW U#1 of Udangudi STPP
- 65 MW STG for Rungta Mines Ltd
- 60 MW U#2 STG of Giridhan Metal Pvt. Ltd.

Others:

- Full Load of 800 MW of U#1 of Patratu TPS
- Commissioned 170 MW of U#6 Punatsangchhu-II HEP, Bhutan
- Completed Flexible Operations on 600 MW U#2 Adani Power Mahan Energen Ltd.

*BHEL Scope: TG Package

Source: Company

Exhibit 6: Achievements in Q2FY26

Notable Achievements in Q2 FY 2025-26

NISAR satellite

- Hon'ble Prime Minister of India flagged off MEMU passenger trains equipped with **BHEL's electrics** for
  - Vaishali – Gaya – Koderma Buddhist Circuit route
  - Katosan Road – Sabarmati route
- In the presence of the Hon'ble Raksha Mantri, multi-mission stealth frigates INS Udaygiri and INS Himgiri, equipped with **BHEL manufactured SRGMs**, were commissioned into the Indian Navy
- BHEL is proud to be associated with the NASA-ISRO SAR Mission (NISAR) mission. The NISAR satellite is powered by **BHEL-manufactured space-grade solar panels** and **Lithium-ion battery**. The launch vehicle also equipped with **BHEL made Li-ion cells**
- BHEL extended its **MoU with NPCIL** for collaboration in implementation of nuclear power plants based on Pressurized Heavy Water Reactor (PHWR) technology
- BHEL appointed as **Project Implementation Agency (PIA) for deployment of EV charging infrastructure,** under PM e-Drive, from Ministry of Heavy Industries

Source: Company

Exhibit 7: Financial snapshot (INR mn)

Year to March	Q2FY26	Q2FY25	YoY change (%)	Q1FY26	QoQ change (%)	FY26E	FY27E	FY28E
Total revenues (net)	75,118	65,841	14.1	54,869	36.9	3,62,872	4,47,870	5,04,033
Direct cost	52,135	44,301	17.7	38,865	34.1	2,41,673	2,89,354	3,20,459
Staff cost	14,800	14,672	0.9	14,625	1.2	68,946	60,657	72,581
Other operating expenses	2,374	4,118	(42.4)	6,751	(64.8)	27,215	34,452	46,139
Total expenditure	69,309	63,091	9.9	60,241	15.1	3,37,833	3,84,463	4,39,179
EBITDA	5,809	2,750	111.2	-5,371	NA	25,038	63,407	64,854
Depreciation	755	601	25.6	745	1.3	3,401	4,110	4,275
EBIT	5,055	2,149	135.2	-6,117	NA	21,637	59,297	60,579
Interest	1,952	2,014	(3.1)	1,812	7.7	5,332	5,776	5,776
Other income	1,818	1,184	53.5	1,854	(2.0)	5,460	7,610	10,094
Add: Exceptional items	-	-		-		0	0	0
PBT	4,920	1,319	272.9	-6,074	NA	21,766	61,131	64,897
Tax	1,243	353	252.5	-1,525	NA	5,442	15,283	16,224
Reported Profit	3,676.7	967	280.3	-4,549	NA	16,325	45,849	48,673
Adjusted Profit	3,677	967	280.3	-4,549	NA	16,325	45,849	48,673
Equity capital(FV:INR2)	6,964	6,964		6,964		6,964	6,964	6,964
No. of Diluted shares outstanding (mn)	3,482	3,482		3,482		3,482	3,482	3,482
Adjusted Diluted EPS	1.1	0.3		(1.3)		4.7	13.2	14.0
As % of net revenues								
Direct cost	69.4	67.3		70.8		66.6	64.6	63.6
Staff cost	19.7	22.3		26.7		19.0	13.5	14.4
Other operating expenses	3.2	6.3		12.3		7.5	7.7	9.2
EBITDA	7.7	4.2		(9.8)		6.9	14.2	12.9
Adjusted Profit	4.9	1.5		(8.3)		4.5	10.2	9.7
Tax rate	25.3	26.7		25.1		25.0	25.0	25.0

Source: Company, Nuvama Research

Company Description

Bharat Heavy Electricals Limited (BHEL) is the largest heavy engineering and manufacturing company in India in the energy-related/infrastructure sector. It manufactures over 180 products under 30 major product groups and caters to core sectors of the Indian economy viz., power generation & transmission, industry, transportation, telecommunications and renewable energy. The company has a wide network of 16 manufacturing units, two repair units, four regional offices, nine service centres, over 150 project sites and 15 regional marketing centres across the country. An extensive network enables BHEL to promptly cater to customers and provide them suitable products, systems and services.

Investment Theme

While the government focus has shifted towards renewables, we believe thermal ordering will revive given a challenging 2030 RE target. We expect the annual thermal market to be in the range of 7-12 GW, with limited participation from private players.

Limited competition (barring L&T), will enable BHEL garner higher share in the overall market (100% in FY18), currently estimating at 70% and better margins.

Reduction in slow moving order provides comfort to our revenue estimates for FY26/27/28.

Key Risks

Inability to reduce debtors will result in rising working capital and could affect profitability.

Delay/minimal thermal projects ordering could impact revenue visibility and hence profitability of BHEL.

Additional Data

Management

CMD	Koppu Sadashiv Murthy
CFO	Rajesh Dwivedi
Director (Regional Operations)	Vinay Kumar Bassi
Director (Power)	Tajinder Gupta

Holdings – Top 10*

	% Holding		% Holding
Nippon Life Ind	2.51	Mirae Asset Fin	0.84
SBI Pension Fun	1.65	ICICI Prudentia	0.55
Vanguard Group	1.54	Dimensional Fun	0.52
Blackrock Inc	1.06	Aditya Birla Su	0.51
SBI Funds Manag	0.93	HDFC Life Insur	0.47

**Latest public data*

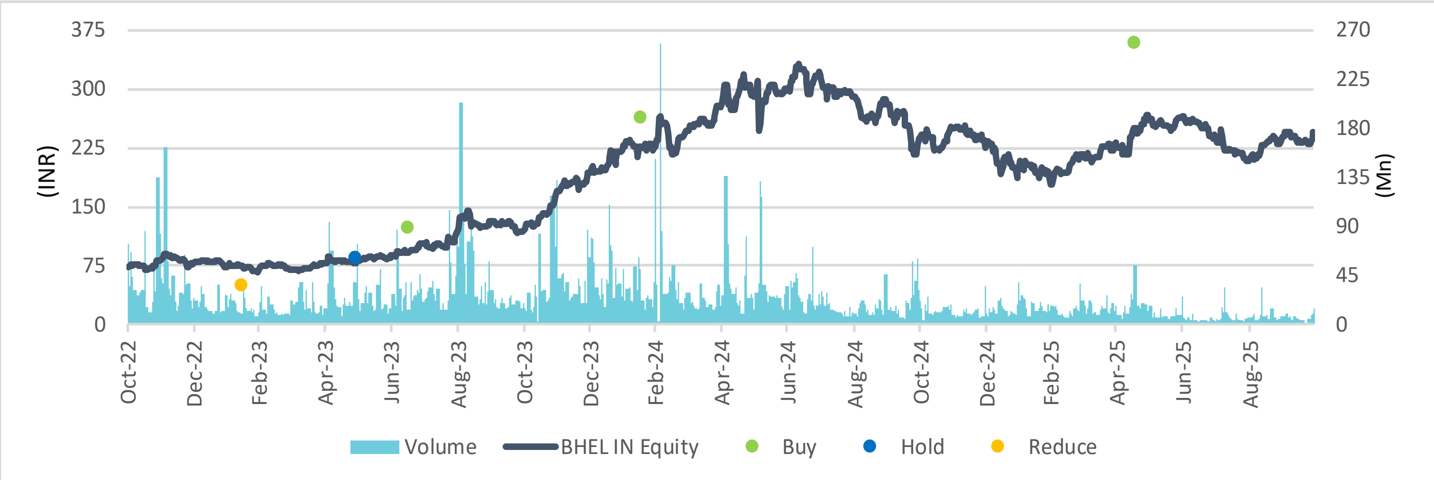
Recent Company Research

Date	Title	Price	Reco
06-Aug-25	Weak quarter; turnaround story intact; *Result Update*	239	Buy
16-May-25	Decent showing on rising gross margin; *Result Update*	250	Buy
29-Oct-24	Strong execution; large orders coming up; *Result Update*	229	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
08-Oct-25	Engineering and capital goods	HV T&D to power ahead; *Sector Update*
26-Sep-25	Engineering and capital goods	Decadal capex across grid and thermal; *Sector Update*
20-Aug-25	Engineering and capital goods	Power transmission OEMs shine; *Sector Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	205
Hold	<15% and >-5%	68
Reduce	<-5%	37

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