Stock Idea Note - Bharat Heavy Electricals Ltd.

Company Overview

Bharat Heavy Electricals Ltd. (BHEL), established in 1964, is India's largest engineering and manufacturing enterprise in the energy and infrastructure sectors 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 the economy. The company is a leading power equipment manufacturer globally and one of the earliest and leading contributors towards building an Aatmanirbhar Bharat. BHEL operates across 16 manufacturing units, two repair units, four regional offices, and project sites spread across India and overseas. It has a diversified business portfolio spanning power generation (thermal, hydro, nuclear, and solar), transmission, transportation, defense & aerospace, oil & gas, and emerging segments such as battery energy storage systems (BESS) and EV charging infrastructure. The company's product portfolio spans thermal, hydro, nuclear, and solar power equipment, transformers, switchgear, industrial motors, traction systems for railways, defense systems including gun mounts and propulsion systems, and space-grade batteries and solar panels for ISRO. With decades of domain expertise and a deep 'Make in India' commitment, BHEL has positioned itself as a strategic national asset capable of executing complex EPC projects end-to-end, serving both government and private sector customers across domestic and international markets.

Investment Rationale

Strong order book provides earnings visibility

BHEL continues to witness strong order momentum, reinforcing revenue visibility over the medium term. Order inflows in Q3FY26 grew 53.4% YoY, supported by robust thermal ordering activity. The outstanding order backlog stands at over Rs. 2,22,800 crores, with 80% concentrated in the Power segment and the remaining 20% in industry, including exports. Key wins during the quarter include the EPC contract for the 1×800 MW Darlipali STPP Stage-II, the E&M package for 3×16 MW Chanju-III HEP, and an industrial 265 TPH gas/oil-fired boiler EPC order. Additionally, the company secured a notable Rs. 66.5 billion EPC order from NTPC Limited for a 1×800 MW thermal unit. With a strong pipeline of thermal capacity additions driven by India's base-load requirements, BHEL remains well-positioned to capitalize on ordering opportunities, supported by its integrated manufacturing base and EPC execution capabilities.

Margin expansion driven by diversified industry portfolio

BHEL's industry segment is emerging as a meaningful growth driver and margin contributor. In Q3FY26, industry revenues grew 27.4% YoY to Rs. 21.5 billion, and EBIT margins in the segment surged by an impressive 1,348 bps YoY to 19.7%, reflecting strong operating leverage and a favorable project mix. The growth is supported by increasing traction across transmission, transportation (railways), oil & gas, and defence segments. During the quarter, BHEL secured orders for IGBT-based propulsion systems and traction motors for Indian Railways, high-voltage industrial motors, naval IPMS and control systems for shipbuilders, and space-grade battery systems for ISRO. This diversification is improving the overall business mix, with a higher share of margin-accretive segments, while also positioning the company to benefit from structural tailwinds in defense, railways, and energy infrastructure.

Stock Rating

BUY	HOLD	SELL
■		
> 15%	-5% to 15%	< -5%

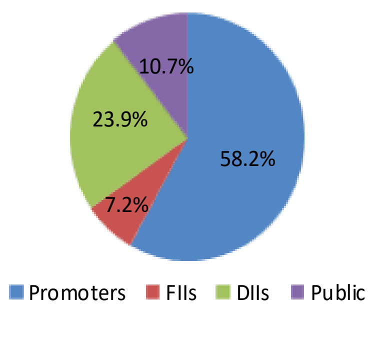
Sector Outlook Positive

Stock	
CMP (INR)	352
Target Price (INR)	410
NSE Symbol	BHEL
BSE Code	500103
Bloomberg	BHEL IN
Reuters	BHEL.BO

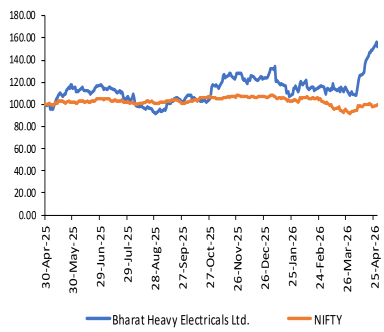
Key Data	
Nifty	23,998
52WeekH/L (INR)	358 / 205
O/s Shares (Cr.)	348.2
Market Cap (INR Cr.)	119,940
Face Value (INR)	2

Average volume	
3 months	16,393,767
6 months	15,032,408
1 year	11,846,335

Share Holding Pattern (%)



Relative Price Chart



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Valuation and Outlook

BHEL, India's largest state-owned engineering and manufacturing enterprise, is at a key turning point. The company has built a large order book of over Rs. 2,22,800 crores, supported by strong demand from India's power sector, which provides strong revenue visibility for the next several years. India's continued focus on thermal power capacity addition, modernization of state power utilities, expansion of the railway network, and rising indigenization in defense procurement all create a structurally favorable demand environment for BHEL. The company's entry into Oil & Gas EPC, growing space sector partnerships with ISRO, and defense export opportunities further widen its total addressable market. EBITDA margins have expanded meaningfully in Q3FY26, and sustained execution of the high-margin project backlog should support further improvement. BHEL's strategic positioning as a national infrastructure champion, its deepening technological capabilities, and accelerating financial recovery collectively make it a compelling long-term investment. **Thus, we give the stock a "BUY" rating. On the valuation front, we value the company at 52x FY27E earnings, arriving at a target price of Rs. 410 (16% upside from the current market price) with a 12-month investment horizon.**

Key Financials						
YE March (INR. Cr.)	**FY22**	**FY23**	**FY24**	**FY25**	**FY26E**	**FY27E**
Revenue	**21,211**	**23,365**	**23,893**	**28,339**	**36,453**	**40,216**
Revenue Growth (Y-oY)	*22.5%*	*10.2%*	*2.3%*	*18.6%*	*28.6%*	*10.3%*
EBIDTA	**828**	**1,044**	**711**	**1,399**	**2,013**	**3,654**
EBIDTA Growth (Y-o-Y)	*(127.2%)*	*26.1%*	*(31.9%)*	*96.8%*	*43.9%*	*81.5%*
Net Profit	**445**	**654**	**282**	**534**	**1,189**	**2,743**
Net Profit Growth (Y-o-Y)	*(116.5%)*	*47.0%*	*(56.8%)*	*89.2%*	*122.7%*	*130.7%*
Diluted EPS	**1.3**	**1.9**	**0.8**	**1.5**	**3.4**	**7.9**
Diluted EPS Growth (Y-o-Y)	*(116.5%)*	*46.9%*	*(56.9%)*	*88.9%*	*123.3%*	*130.7%*
Key Ratios						
EBIDTA margin (%)	**3.9%**	**4.5%**	**3.0%**	**4.9%**	**5.5%**	**9.1%**
NPM (%)	2.1%	2.8%	1.2%	1.9%	3.3%	6.8%
RoE (%)	**1.7%**	**2.7%**	**1.2%**	**2.2%**	**4.7%**	**9.9%**
RoCE (%)	1.6%	2.6%	1.4%	3.3%	4.9%	9.0%
Valuation Ratios						
P/E (x)	**275.3x**	**187.5x**	**435.1x**	**230.3x**	**103.2x**	**44.7x**
EV/EBITDA	145.2x	116.2x	176.2x	88.6x	61.4x	33.8x
P/BV (x)	**4.6x**	**5.0x**	**5.0x**	**5.0x**	**4.8x**	**4.4x**
Market Cap. / Sales (x)	5.8x	5.2x	5.1x	4.3x	3.4x	3.0x

Source: Bloomberg, BP Equities Research

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Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

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