

Gaining traction on robust railway capex...

Hind Rectifiers (HRL), incorporated in 1958, manufactures power electronic equipment like traction transformers for locomotives and electrical multiple unit (EMU), converters, rectifiers, power semiconductors and railway transportation equipment like switch board panels, regulated battery charger, inverters, etc. In addition, it provides power supply unit for electro static precipitators that are used in processing plants like refineries, power plants. The company has manufacturing facilities in Mumbai, Nashik and Uttarakhand.

Triggers

Robust order book provide near to medium term revenue visibility

Indian Railways, HRL's largest client, is on a significant capital investment spree. There has been strong momentum in tendering activity by Indian Railways over the past year. Continued order wins for HRL have resulted in a record high order book of ₹ 300 crore (90% - Railways and 10% industrial segment), up 40% since July 2018, 1.2x FY19E revenues. Traction transformers for locomotives (6531 kVA – Freight; 7775 kVA – Passenger), auxiliary converters and switch board panels together are expected to form ~85% of HRL's FY19 topline. Going forward, finalisation of large orders coupled with timely execution of existing orders remain key.

New products to boost HRL's topline & improve profitability

HRL received substantial order wins in FY19E. A majority of these orders resulted from new products HRL launched in the previous year. Some of the new products that are seeing some traction are

- Power supply unit for electrostatic precipitators - These find applications in any process plants: i.e. refineries, power plants, etc. power supply units with converter provide higher margins. With a sizeable global opportunity size, HRL aims to scale up its exports. It currently has a presence in Turkey, South America, etc
- 3*130 kVA auxiliary converter, regulated battery charger (used in LHB coaches), switch board panels, propulsion system for locomotives, etc

With focus on backward integration, HRL has been able to reduce their import cost for its products such as switch board panels, which has helped to boost its margins.

Change in product mix, improving utilisation, to aid margin, return ratios

On a product level, HRL derives sizeable revenue from supplying traction transformers (realisation per unit ~ ₹ 80-90 Lakhs) to both locomotives and EMUs. However, margins are comparatively lower due to intense competition from ABB, Crompton Greaves, Bhel, High-Volt Electricals, etc. Hence, there has been a conscious effort on part of HRL to scale up its high margin new products. Also, robust execution rate is expected to improve utilisation levels. Both these factors are expected to expand EBITDA margins to 12.5% in FY20E. Higher margin and asset turns to boost return ratios, ROCE is expected to grow from 7.7% in FY18 to 18.6% in FY20E.

Valuation & Outlook

Continued momentum in tendering by Indian Railways & aggressive order wins for HRL, timely execution, change in product mix & scalability of new products are expected to drive the company's profitability. Accordingly, we estimate topline growth of 2.4x with EBITDA growing 3.9x and PAT reporting multi-fold growth of 13.3x for HRL over FY18-20E. We value HRL at 14x P/E on an estimated EPS of ~₹ 10.6/share (FY20E) with a target price of ₹ 150. We have a **BUY** recommendation on the company.



Particulars

Particular	Amount
Market Capitalization	₹ 189 Crore
Total Debt (FY19E)	₹ 71.3 Crore
Cash & equivalents (FY19E)	₹ 1.8 Crore
EV (FY19E)	₹ 258.4 Crore
52 week H/L (₹)	165 / 97
Equity capital	₹ 3.3 Crore
Face value	₹ 2
Promoter holding (%)	42.1
MF holding (%)	0.0
FII holding (%)	0.0

Key Highlights

- HRL has seen significant traction in order inflows for FY19
- Historic order backlog at ₹ 300 crore, ~90% of orders are from Railway segment
- RoCE is expected to improve from 7.7% in FY18 to 18.6% in FY20E

Price Chart – Hind Rectifiers



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Key risk – Any material slowdown in tendering/finalisation of orders from Indian Railways could impact the company. In addition, deterioration in working capital cycle could lead to increased borrowings thereby impacting profitability.

Key Financial Summary

(Year-end March) P&L	FY16	FY17	FY18	FY19E	FY20E
Total Revenues (₹ crore)	94.5	121.1	127.5	244.8	305.5
EBIDTA (₹ crore)	2.1	4.7	9.8	25.5	38.2
Net Profit (₹ crore)	(1.5)	(7.1)	1.3	10.6	17.5
Balance Sheet					
Equity (₹ crore)	3.0	3.0	3.3	3.3	3.3
Net worth (₹ crore)	61.8	53.1	66.2	76.6	93.8
Debt (₹ crore)	31.9	39.9	48.3	71.3	90.2
Ratios					
RoNW (%)	(2.4)	(2.7)	2.0	13.9	18.7
RoCE (%)	1.2	4.0	7.7	15.7	18.6
RoIC (%)	0.6	3.7	7.6	16.4	18.5
Fixed Assets (₹ crore)	35.1	36.2	45.7	52.0	63.0
Asset turnover (x)	2.7	3.3	2.8	4.7	4.9
Earnings per share (₹)	(0.9)	(4.3)	0.8	6.4	10.6
Dividend per share (₹)	-	-	-	-	-
EV/EBIDTA (x)	105.2	48.4	24.2	10.1	7.3
P/E (x)	(125.1)	(130.5)	143.6	17.8	10.8

Source: ICICI Direct Research, Company

Exhibit 1: Select purchase orders - FY19

Description	Qty	Unit	Rate	Amount
			(₹ Lakhs)	(₹ Lakhs)
Main Transformer 7775 KVA Type Lot 7500 for WAP7 & WAP5	24	Set	94.2	2,260
Main Transformer 6531 KVA Type ABB Lot 6500	15	Set	88.2	1,323
Main Transformer 7775 KVA Type Lot 7500 FOR WAP7	8	Nos	98.6	789
Complete Filter Cubicle Alongwith All Equipments & Cabling to CLW	34	Set	27.0	918
IGBT based 3-Phase Drive Propulsion system & maintenance contract	2	Set	NA	477.9

Source: IREPS, ICICI Direct Research

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Buy: >10%/15% for large caps/midcaps, respectively;

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Sell: -10% or more;



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