

Solid Q1; robust railway capex to drive growth...

Hind Rectifiers (HRL) reported a beat in the operational performance for Q1FY20 across all parameters wherein topline, EBITDA, PAT grew 57.9%, 134.6%, 292.6%, respectively, YoY. Topline at ₹ 68.3 crore was driven by a traction in order execution. EBITDA margins improved 470 bps to 14.5%. Absolute EBITDA came in at ₹ 9.7 crore while PAT came in at ₹ 5.2 crore. The company continues to benefit from the capex carried out by Indian Railways and is well placed to achieve ~20% topline growth in FY20E.

Order book additions, traction in execution key driver

Indian Railways, HRL's largest client, has maintained strong momentum in tendering activity over the past year. Sizeable order-wins for HRL has translated in a record high order book of ₹ 330 crore, up ~55% YoY (80:20 mix in favour of railways & industrials segment). The company expects ₹ 220 crore worth of orders to be executed in FY20E providing strong revenue visibility for the year. On the railway side, key revenue drivers for HRL in Q1 were traction transformers for locomotives (6531 kVA – freight; 7775 kVA – passenger), auxiliary converters and switch board panels. On the industrial side, power supply unit for electrostatic precipitators and custom built rectifiers were key products sold.

Introduction of new products, export to aid profitable growth

HRL currently has ~48 new products under development across its railways and industrial segment. Some key ones that the management is upbeat are regulated battery charger (LHB coaches), propulsion unit (for locomotives). The company also aims to export products, which have a sizeable global opportunity. It has bagged trial/developmental orders in markets like Russia, Turkey, Ukraine and Austria for the same. With focus on backward integration, HRL has been able to reduce its import cost for its products such as switch board panels, which has helped to boost its margins. On the whole, there has been a constant effort to scale high margin products to boost profitability. These factors are expected to expand EBITDA margins to 13.1% in FY21E.

Valuation & Outlook

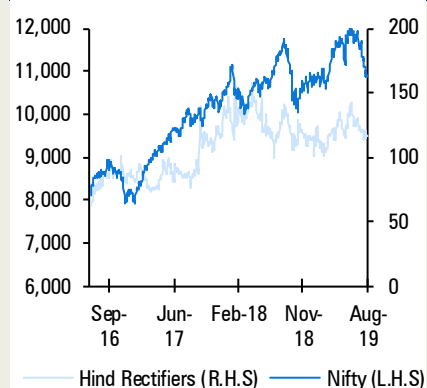
We remain positive on HRL's ability to improve its product mix, timely execute orders and scale up its new products to enable profitable future growth. Although there has been some slowdown in tendering activities during Q1 amid general elections, the management sees these as temporary and expects a revival within a month or so. We introduce FY21E estimates for the company. Overall, we estimate topline, EBITDA and PAT growth at a CAGR of 16%, 33% and 42%, respectively. We reiterate our **BUY** recommendation on the stock with a target price of ₹ 165 based on an estimated FY21E EPS of ₹ 14.4/share.



Particulars

Particular	Amount
Market Capitalization	₹ 209 Crore
Total Debt (FY19)	₹ 63.8 Crore
Cash & equivalents (FY19)	₹ 1.7 Crore
EV (FY19)	₹ 270.8 Crore
52 week H/L (₹)	145 / 102
Equity capital	₹ 3.3 Crore
Face value	₹ 2

Price Chart



Key Highlights

- Q1 revenue mix – Railways (82%) & Industrials (18%)
- Expect FY20E growth at 20% YoY
- New product launch, exports to drive profitable growth
- Reiterate our BUY recommendation on stock

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Key Financial Summary

	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Revenues (₹ crore)	120.6	127.1	255.1	298.5	343.3	16%
EBITDA (₹ crore)	4.7	9.8	25.3	39.0	44.9	33%
EBITDA margin (%)	3.9	7.7	9.9	13.1	13.1	
Net Profit (₹ crore)	(7.1)	1.3	11.8	20.2	23.9	42%
EPS (₹)	(4.3)	0.8	7.1	12.2	14.4	
P/E (x)	NA	161.3	18.0	10.5	8.9	
P/B (x)	4.0	3.2	2.7	2.2	1.8	
RoCE (%)	4.0	7.5	17.9	19.7	20.1	

Source: ICICI Direct Research, Company

Key Q1FY20 conference call highlights

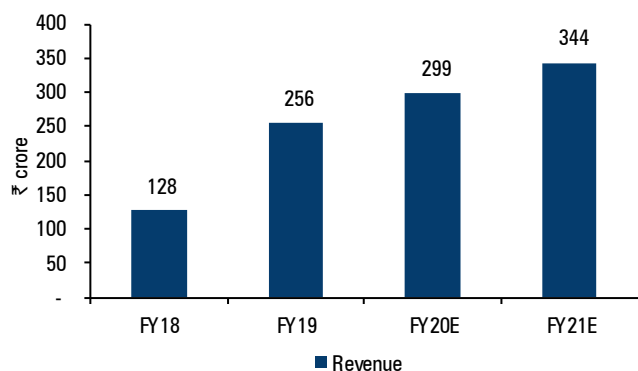
- Order book backlog - ₹ 330 crore as on Q1FY20. ₹ 220 crore worth orders are expected to be executed in FY20E
- Expect order wins of ~₹ 100 crore in Q2FY20
- Q1FY20 revenue breakup
Railways (82%) - Auxiliary converters, control panels, transformers etc.
Industrials (18%) – Power supply unit for Electrostatic precipitators, custom built rectifiers
- Auxiliary converter is the bestselling product. Recently, supplied 250th unit to Bombardier
- Look to develop export market, have received trial/developmental orders under for products under industrial segment in countries such as Russia, Ukraine, Turkey and Austria
- New products –Recently launched regulated battery charger. Another key product is propulsion system for locomotives. 39 new products under development for Railways and 9 under development for Industrials. Overall, 48 new products in pipeline
- Guidance – Target 20% YoY growth for FY20E and maintain Q1 margins for FY20E

Company's product profile

Hind Rectifiers (HRL) 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 such as refineries, power plants.

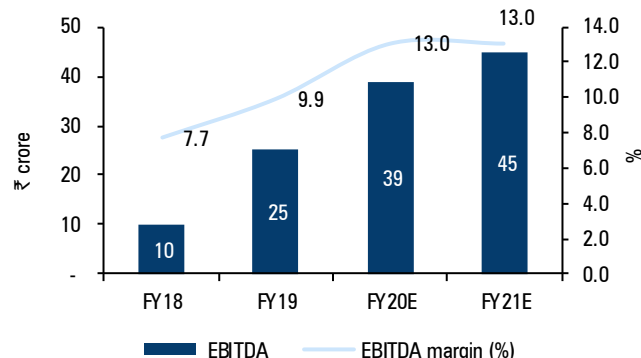
Financial Story in charts

Exhibit 1: Net sales trend



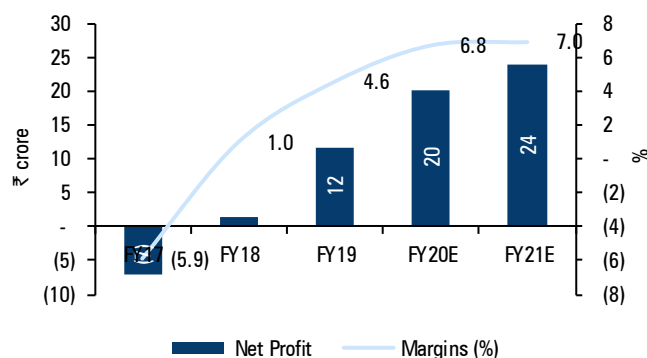
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA and EBITDA margin trend



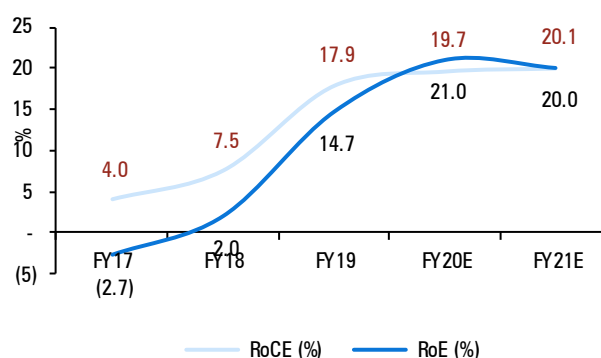
Source: Company, ICICI Direct Research

Exhibit 3: PAT and PAT margin trend



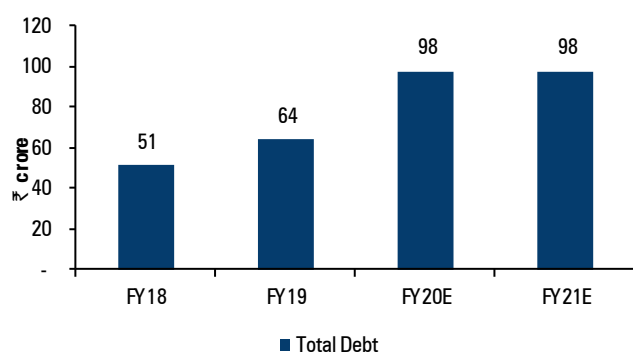
Source: Company, ICICI Direct Research

Exhibit 4: Return ratios trend



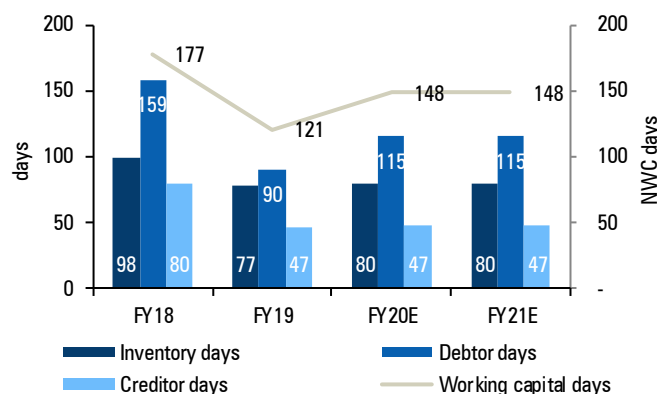
Source: Company, ICICI Direct Research

Exhibit 5: Total debt trend



Source: Company, ICICI Direct Research

Exhibit 6: Working capital trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement (₹ crore)				
	FY18	FY19	FY20E	FY21E
Net Sales	127.1	255.1	298.5	343.3
Operating income	0.0	0.0	0.0	0.0
Total Revenue	127.5	255.8	299.1	343.9
% Growth	34.9	100.5	17.0	15.0
Other income	0.5	0.6	0.6	0.6
Total	162.9	356.9	316.7	343.9
% Growth	71.2	119.1	-11.3	8.6
Raw material costs	87.9	185.9	209.0	240.3
Employee Expenses	18.3	22.3	28.4	32.7
other expenses	11.1	21.6	22.1	25.4
Operating Expense	117.3	229.8	259.5	298.4
EBITDA	9.8	25.3	39.0	44.9
% Growth	376.5	158.4	54.1	15.0
Interest	6.0	7.0	6.9	6.9
PBDT	4.3	18.9	32.8	38.6
Depreciation	2.3	2.7	3.9	4.5
PBT before excep item	2.0	16.2	28.9	34.2
Total Tax	0.7	4.9	8.7	10.2
PAT before MI	1.3	11.8	20.2	23.9
Minority Interest	0.0	0.0	0.0	0.0
PAT	1.3	11.8	20.2	23.9
% Growth	-187.1	797.0	71.4	18.3
EPS	0.8	7.1	12.2	14.4

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement (₹ crore)				
	FY18	FY19	FY20E	FY21E
Profit after Tax	1.3	11.8	20.2	23.9
Depreciation	2.3	2.7	3.9	4.5
Interest	6.0	7.0	6.9	6.9
CF before WC changes	9.6	21.5	31.0	35.2
Changes in inventory	(7.3)	(19.7)	(11.4)	(9.8)
Changes in debtors	(19.8)	(7.9)	(31.0)	(14.1)
Changes in loans & Advances	0.0	0.0	-	-
Changes in other current assets	(4.5)	1.5	(1.9)	(1.9)
Net Increase in Current Assets	(30.6)	(26.0)	(44.3)	(25.9)
Changes in creditors	15.5	5.1	5.7	5.8
Changes in provisions	0.1	2.5	0.9	0.9
Net Inc in Current Liabilities	15.2	7.3	3.7	6.9
CF from Operations	(5.7)	2.8	(9.6)	16.3
Changes in deferred tax assets	0.6	3.7	-	-
(Purchase)/Sale of Fixed Assets	(9.3)	(11.2)	(10.0)	(10.0)
CF from Investing	(9.6)	(9.2)	(10.4)	(10.5)
Dividend and Dividend Tax	-	(0.8)	(0.8)	(0.8)
CF from Financing	17.1	5.8	25.1	(7.7)
Net Cash flow	1.8	(0.6)	5.1	(1.8)
Opening Cash/Cash Equivalent	0.5	2.3	1.7	6.8
Closing Cash/ Cash Equivalent	2.3	1.7	6.8	4.9

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	FY18	FY19	FY20E	FY21E
Equity Capital	3.3	3.3	3.3	3.3
Reserve and Surplus	63.0	74.8	92.9	116.0
Shareholders Funds	66.3	78.1	96.2	119.3
Minority Interest	-	-	-	-
Total Debt	51.1	63.8	97.9	97.9
Total Liabilities	117.4	142.0	194.2	217.3
Gross Block	45.7	46.7	70.6	80.6
Acc: Depreciation	18.4	20.5	24.4	28.9
Net Block	27.3	26.2	46.2	51.7
Capital WIP	4.2	13.8	-	-
Total Fixed Assets	31.6	40.0	46.2	51.7
Non Current Assets	16.3	14.3	14.7	15.2
Inventory	34.4	54.1	65.6	75.4
Debtors	55.4	63.3	94.2	108.4
Loans and Advances	0.0	-	-	-
Other Current Assets	12.7	11.1	13.0	15.0
Cash	2.3	1.7	6.8	4.9
Total Current Assets	104.8	130.2	179.6	203.6
Current Liabilities	27.8	32.9	38.5	44.3
Provisions	2.5	4.9	5.8	6.6
Net Current Assets	69.5	87.7	133.3	150.4
Total Assets	117.4	142.0	194.2	217.3

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	FY18	FY19	FY20E	FY21E
Per Share Data				
EPS	0.8	7.1	12.2	14.4
Cash per Share	1.4	1.0	4.1	3.0
BV	40.0	47.2	58.1	72.0
Dividend per share	-	0.4	0.4	0.4
Dividend payout ratio	-	5.6	3.3	2.8
Operating Ratios				
EBITDA Margin	7.7	9.9	13.0	13.0
PAT Margin	1.0	4.6	6.8	7.0
Return Ratios				
RoE	2.0	14.7	21.0	20.0
RoCE	7.5	17.9	19.7	20.1
RoIC	7.5	19.8	20.1	20.3
Valuation Ratios				
EV / EBITDA	26.3	10.7	7.7	6.7
P/E	158.8	18.2	10.3	8.7
EV / Net Sales	2.0	1.1	1.0	0.9
Sales / Equity	1.9	3.3	3.1	2.9
Market Cap / Sales	1.6	0.8	0.7	0.6
Price to Book Value	3.1	2.7	2.2	1.7
Turnover Ratios				
Asset turnover	0.8	1.3	1.0	1.1
Inventory days	98.5	77.3	80.0	80.0
Debtor days	158.5	90.3	115.0	115.0
Solvency Ratios				
Debt / Equity	0.8	0.8	1.0	0.8
Current Ratio	3.4	3.1	3.9	3.9
Quick Ratio	2.3	1.8	2.4	2.4

Source: Company, ICICI Direct Research

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Sell : < -15%



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