

BUY**TP: Rs 3,500 | ▲ 17%****HITACHI ENERGY**

Capital Goods

07 February 2023

Chip shortage takes a toll

- Q3 revenue down 8% YoY due to the persistent chip shortage; EBITDA margin under pressure at 3.8%
- Order inflow robust, rising 109% YoY in 9MFY23. Traction seen in exports and services, with overall backlog at Rs 72bn
- We sharply lower FY23/FY24/FY25 EPS 63%/11%/9% on a weak margin outlook; retain BUY with a revised TP of Rs 3,500 (vs. Rs 3600)

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Q3 constrained by chip shortage: Hitachi Energy's (Hitachi) Q3FY23 revenue declined 8% YoY to Rs 10.3bn (Rs 12.9bn est.) due to supply chain constraints. The persistent chip shortage weighed on EBITDA margin, which contracted 170bps YoY to 3.8% (7.1% est.). Interest cost soared 81% YoY, further weighing on adj. PAT which dropped 87% YoY to Rs 46mn (Rs 469mn est.).

Margin to normalise in a couple of quarters: Hitachi estimates that the chip shortage caused a revenue loss of Rs 306mn (3%), while higher freight cost and forex losses impacted revenue to the extent of 2% and 1% respectively. Management expects supply chain constraints to ease in the next couple of quarters. Further, it does not see major challenges ahead as a bulk of the orders have a variable clause.

Order inflow strong: Order inflows in Q3 stood at Rs 12bn, up 31% YoY, with 9MFY23 orders at Rs 56bn, up 109% YoY. Exports contributed 20% of the Q3 order inflows, while services continued to attract healthy bookings in the company's gas insulated switchgears (GIS), substations, transformers, and high-voltage products. Management hopes to build on momentum in digitalisation, renewables integration into the grid, transportation orders from high-speed rail initiatives, and data centres.

Loco opportunities at Rs 4bn-4.5bn: Management pegs the opportunity size for the Indian Railways' recent locomotive orders (9,000HP, Vande Bharat and 12,000HP, EMU trainset) at Rs 40bn-45bn collectively, for locomotive transformers. It is also hopeful of orders from 8-10 metro projects to be awarded in the next 12M.

Maintain BUY: Given the soft quarter, we drop FY23/FY24/FY25 EBITDA margin forecasts by 200bps/20bps/20bps, driving EPS cuts of 62%/11%/9%. Hitachi is targeting high-growth areas such as data centres, e-mobility, railways and metros. We remain positive on the company as we expect order flows to gather momentum and achieve a 13% CAGR over FY22-FY25, in turn aiding a revenue/EBITDA/PAT CAGR of 8%/24%/28%. We roll forward to Dec'24E valuations and maintain BUY with a revised TP of Rs 3,500 (vs. Rs 3,600), valuing the stock at an unchanged 45x P/E, a 50% premium to its average multiple since listing

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	POWERIND IN/Rs 3,002
Market cap	US\$ 1.5bn
Free float	25%
3M ADV	US\$ 1.1mn
52wk high/low	Rs 4,043/Rs 2,699
Promoter/FPI/DII	75%/5%/2%

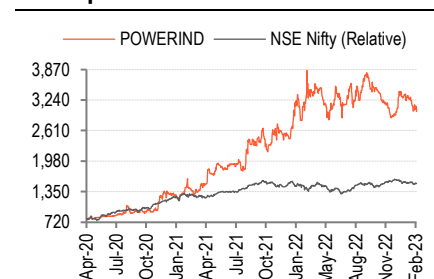
Source: NSE | Price as of 7 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	48,840	43,364	56,577
EBITDA (Rs mn)	3,107	1,908	4,624
Adj. net profit (Rs mn)	1,676	605	2,574
Adj. EPS (Rs)	39.5	14.3	60.7
Consensus EPS (Rs)	39.5	46.0	81.4
Adj. ROAE (%)	16.2	5.2	19.8
Adj. P/E (x)	75.9	210.5	49.4
EV/EBITDA (x)	42.0	66.5	27.7
Adj. EPS growth (%)	33.2	(63.9)	325.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



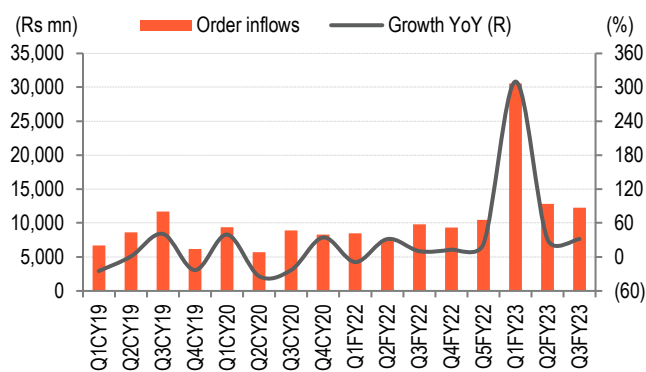
Fig 1 – Quarterly performance

Particulars (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Revenue	10,339	11,226	(7.9)	11,146	(7.2)
EBITDA	395	618	(36.1)	758	(47.9)
EBITDA Margin (%)	3.8	5.5	(170bps)	6.8	(300bps)
Depreciation	202	223	-	184	-
Interest	130	70	-	75	-
Other Income	71	150	-	4	-
PBT	134	475	(71.8)	502	(73.4)
Tax	88	124	-	131	-
Adjusted PAT	46	351	(87.0)	372	(87.7)
Exceptional item	0	(265)	-	0	-
Reported PAT	46	617	(92.6)	372	(87.7)
Adj. PAT Margin (%)	0.4	3.1	(270bps)	3.3	(290bps)
EPS (Rs)	1.1	8.3	(87.0)	8.8	(87.7)

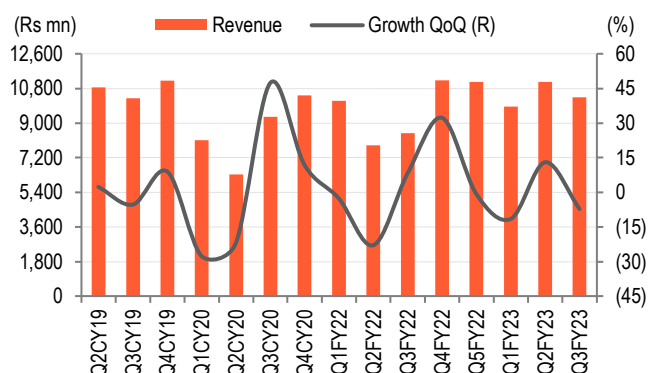
Source: Company, BOBCAPS Research

Fig 2 – Order backlog trend

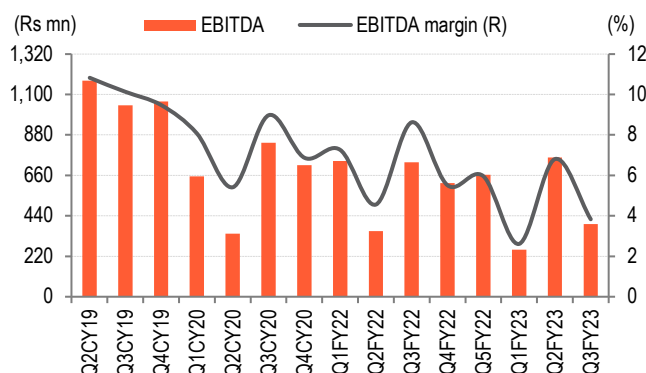
Source: Company, BOBCAPS Research

Fig 3 – Order inflow trend

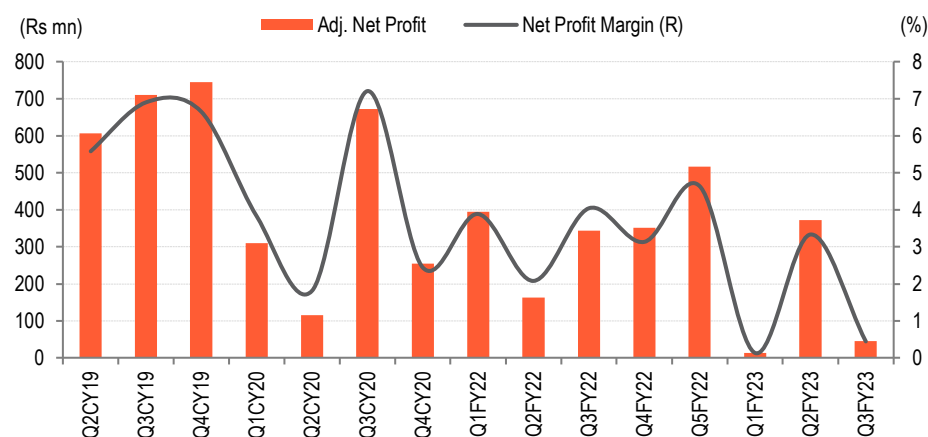
Source: Company, BOBCAPS Research

Fig 4 – Revenue trend

Source: Company, BOBCAPS Research

Fig 5 – EBITDA trend

Source: Company, BOBCAPS Research

Fig 6 – Profit trend

Source: Company, BOBCAPS Research

Earnings call highlights

- Hitachi's order backlog stood at Rs 72bn as of Q3FY23, which provides revenue visibility for over 20 months. Management indicated that decisions on Rs 3.8bn worth of orders, where the company is the lowest bidder (L1), have been delayed.
- Order inflows stood at Rs 12bn, up 31% YoY in Q3. Key order wins include:
 - 500MVA 765/400kV transformers plus 110MVAR 765kV shunt reactors for green energy corridors
 - first order for V-Connected transformers for high-speed rail
 - multiple AIS S/S orders for wind and solar plants
 - 400 kV AIS bay extension at Lapanga aluminum smelter
 - 64 units of traction transformers for Vande Bharat trains
 - multiple orders for dry-type transformers for data centres
- Management pegs the opportunity size for the Indian Railways' recent locomotive orders (9,000HP, Vande Bharat, 12,000HP, and EMU trainset) at Rs 40bn-45bn collectively, mainly for locomotive transformers.
- The company estimates that production loss on account of chip shortage, logistics cost, and forex loss was at Rs 1bn in Q3. No LDA was imposed during the quarter.
- Hitachi expects operating margins to normalise in the next couple of quarters as supply chain constraints (mainly related to semiconductors) are easing. Further, it does not see major challenges ahead as a bulk of the orders have a variable clause.
- Higher interest cost in Q3 was due to working capital movement and a rise in interest rate. Gross debt has come down from Rs 3.2bn to Rs 2.8bn.
- Revenue from the Kudus-Mumbai HVDC (high-voltage direct current) order are expected to kick in from mid-FY24.

- Management remains hopeful of winning one HVDC project per year. The Leh-Ladhakh project has received a Rs 83bn grant in the recent union budget. Further, two more HVDC projects are expected to be up for bidding in the coming year.
- Hitachi is currently midway through its journey of building up IT infrastructure, and the technical service agreement (TSA) with ABB is expected to continue till end-FY23.

Valuation methodology

Given the soft quarter, we drop FY23/FY24/FY25 EBITDA margin forecasts by 200bps/20bps/20bps, driving EPS cuts of 62%/11%/9%. Hitachi is targeting high-growth areas such as data centres, e-mobility, railways and metros. We remain positive on the company as we expect order flows to gather momentum and achieve a 13% CAGR over FY22-FY25, in turn aiding a revenue/EBITDA/PAT CAGR of 8%/24%/28%.

We roll forward to Dec'24E valuations and maintain BUY with a revised TP of Rs 3,500 (vs. Rs 3,600), valuing the stock at an unchanged 45x P/E, a 50% premium to its average multiple since listing.

Fig 7 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sales	43,364	56,577	61,349	45,292	55,045	60,551	(4.3)	2.8	1.3
EBITDA	1,908	4,624	5,861	2,896	4,611	5,901	(34.1)	0.3	(0.7)
PAT	605	2,574	3,490	1,623	2,893	3,850	(62.7)	(11.0)	(9.3)
EPS	14.3	60.7	82.4	38.3	68.3	90.8	(62.7)	(11.0)	(9.3)
EBITDAM (%)	4.4	8.2	9.6	6.4	8.4	9.7	(199.3)	(20.4)	(19.2)

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- Slowdown in T&D capex
- Increased royalty to parent

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ABB India	ABB IN	7.7	3,024	3,100	HOLD
AIA Engineering	AIAE IN	3.2	2,790	3,300	BUY
Cummins India	KKC IN	4.8	1,447	1,300	HOLD
Hitachi Energy	POWERIND IN	1.5	3,002	3,500	BUY
KEC International	KECI IN	1.4	458	500	HOLD
Larsen & Toubro	LT IN	36.7	2,165	2,440	BUY
Siemens India	SIEM IN	13.4	3,118	3,500	BUY
Thermax	TMX IN	2.9	2,000	2,100	HOLD

Source: BOBCAPS Research, NSE | Price as of 7 Feb 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	34,204	48,840	43,364	56,577	61,349
EBITDA	2,509	3,107	1,908	4,624	5,861
Depreciation	772	955	792	954	964
EBIT	1,737	2,152	1,116	3,670	4,897
Net interest inc./(exp.)	204	414	400	450	475
Other inc./(exp.)	185	669	200	220	242
Exceptional items	0	0	0	0	0
EBT	1,718	2,407	916	3,440	4,664
Income taxes	460	732	311	866	1,174
Extraordinary items	260	(359)	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	998	2,034	605	2,574	3,490
Adjustments	260	(359)	0	0	0
Adjusted net profit	1,258	1,676	605	2,574	3,490

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	15,780	16,190	16,039	18,601	19,329
Other current liabilities	9,646	5,915	9,504	12,400	13,446
Provisions	0	0	0	0	0
Debt funds	0	1,250	1,110	1,448	1,570
Other liabilities	281	560	497	649	704
Equity capital	85	85	85	85	85
Reserves & surplus	9,240	11,239	11,708	14,134	17,454
Shareholders' fund	9,325	11,324	11,793	14,219	17,539
Total liab. and equities	35,031	35,239	38,943	47,316	52,588
Cash and cash eq.	3,190	859	1,756	2,130	5,094
Accounts receivables	15,845	13,438	17,821	22,476	24,371
Inventories	4,951	7,073	5,346	6,975	6,723
Other current assets	3,754	5,443	5,346	6,975	7,564
Investments	0	0	0	0	0
Net fixed assets	6,558	6,525	6,733	6,779	6,816
CWIP	324	1,183	1,183	1,183	1,183
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	410	717	757	797	837
Total assets	35,031	35,239	38,943	47,316	52,588

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	6,097	(1,267)	2,275	1,073	3,996
Capital expenditures	(898)	(1,675)	(1,000)	(1,000)	(1,000)
Change in investments	(8)	0	0	0	0
Other investing cash flows	16	5	(103)	112	15
Cash flow from investing	(890)	(1,670)	(1,103)	(888)	(985)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(3,476)	1,250	(140)	338	122
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(422)	(644)	(136)	(148)	(170)
Cash flow from financing	(3,898)	606	(276)	190	(47)
Chg in cash & cash eq.	1,309	(2,331)	896	375	2,963
Closing cash & cash eq.	3,190	859	1,756	2,130	5,094

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	23.5	48.0	14.3	60.7	82.4
Adjusted EPS	29.7	39.5	14.3	60.7	82.4
Dividend per share	2.0	3.0	3.2	3.5	4.0
Book value per share	220.0	267.2	278.3	335.5	413.9

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales		2.7	2.9	2.3	2.1
EV/EBITDA		42.0	66.5	27.7	21.8
Adjusted P/E	101.1	75.9	210.5	49.4	36.5
P/BV	13.6	11.2	10.8	8.9	7.3

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	73.2	69.6	66.0	74.8	74.8
Interest burden (PBT/EBIT)	98.9	111.9	82.1	93.7	95.2
EBIT margin (EBIT/Revenue)	5.1	4.4	2.6	6.5	8.0
Asset turnover (Rev./Avg TA)	98.5	139.0	116.9	131.2	122.8
Leverage (Avg TA/Avg Equity)	3.9	3.4	3.2	3.3	3.1
Adjusted ROAE	14.2	16.2	5.2	19.8	22.0

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	5.7	42.8	(11.2)	30.5	8.4
EBITDA	(25.3)	23.8	(38.6)	142.3	26.7
Adjusted EPS	(35.8)	33.2	(63.9)	325.8	35.6

Profitability & Return ratios (%)

EBITDA margin	7.3	6.4	4.4	8.2	9.6
EBIT margin	5.1	4.4	2.6	6.5	8.0
Adjusted profit margin	3.7	3.4	1.4	4.5	5.7
Adjusted ROAE	14.2	16.2	5.2	19.8	22.0
ROCE	18.1	18.1	9.1	24.7	26.8

Working capital days (days)

Receivables	169	100	150	145	145
Inventory	53	53	45	45	40
Payables	168	121	135	120	115

Ratios (x)

Gross asset turnover	3.6	4.7	3.8	4.5	4.6
Current ratio	1.1	1.1	1.1	1.2	1.3
Net interest coverage ratio	8.5	5.2	2.8	8.2	10.3
Adjusted debt/equity	(0.3)	0.0	(0.1)	0.0	(0.2)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

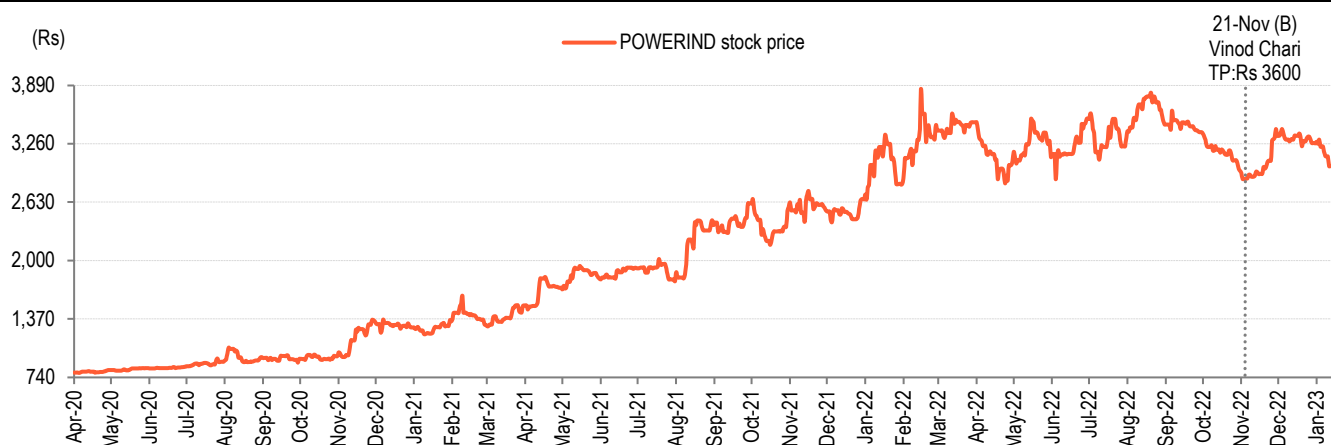
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): HITACHI ENERGY (POWERIND IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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