

**BUY**

TP: Rs 4,400 | ▲ 16%

**HITACHI ENERGY**

| Capital Goods

| 25 May 2023

### Improving outlook

- Q4 sequentially stronger as supply chain constraints eased; chip shortage guided to recede fully in next two quarters
- EBITDA margin grew 120bps YoY to 7.1%; double-digit margin targeted by FY25 on traction in domestic projects and improving exports
- We raise FY24/FY25 EPS by 2%/19% on higher margin assumptions; retain BUY with a revised TP of Rs 4,400 (vs. Rs 3,500)

**Improved momentum:** Hitachi Energy's (Hitachi) Q4FY23 revenue of Rs 13.3bn grew 20% YoY, though the persistent chip shortage weighed on margins with gross margin down 200bps YoY to 33.9%. EBITDA margin at 7.1% was up 120bps YoY on lower other expenses. Lower other income resulted in flat adj. PAT of Rs 508mn.

**Supply constraints guided to normalise by Q3:** Hitachi estimates a 4% revenue loss (Rs 500mn) in Q4 due to the chip shortage vs. the Rs 1bn loss in Q3. Management expects supply chain constraints to normalise in the next couple of quarters. Further, it does not foresee major challenges from commodity prices as 65% of its orders have a variable clause.

**Order inflow strong:** Order inflow in Q4 stood at Rs 12.6bn, up 21% YoY, with FY23 orders rising 50% to Rs 68.2bn, resulting in a backlog of Rs 70.7bn (~20 months of sales). Exports made up 20-22% of the revenue mix, while services continued to attract healthy bookings in gas-insulated switchgears, substations, transformers and high-voltage products. FY23 also saw orders of over 1GW for solar projects.

**FY24 outlook promising:** Management believes HVDC is a big opportunity where at least one order could be tendered every year in India with a Rs 80bn-100bn project size, 50% of which could fall under Hitachi's total addressable market. In railways, the company sees opportunities in 9,000HP and 12,000HP locomotives and trainsets.

**Targeting double-digit margins by FY25:** Hitachi expects to reach a 10% EBITDA margin run-rate in FY25 if raw material prices and chip constraints ease, likely to be led by higher exports and an increased share of higher growth segments like HVDC. In addition, 65% of its projects have a price variation clause that allows for cost pass-through. We model for an ~8% EBITDA margin in FY24, rising to 10% in FY25.

**Maintain BUY:** We remain positive on Hitachi's order flow momentum and raise our FY24/FY25 EPS estimates by 2%/19% to reflect the FY23 performance and anticipated margin expansion. On roll forward to Mar'25E valuations, we arrive at a revised TP of Rs 4,400 (vs. Rs 3,500), based on an unchanged 45x P/E multiple.

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### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	POWERIND IN/Rs 3,806
Market cap	US\$ 2.0bn
Free float	25%
3M ADV	US\$ 1.7mn
52wk high/low	Rs 4,095/Rs 2,840
Promoter/FPI/DII	75%/5%/2%

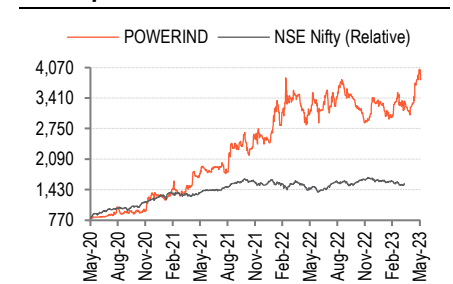
Source: NSE | Price as of 24 May 2023

### Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	44,685	56,851	66,149
EBITDA (Rs mn)	2,359	4,707	6,766
Adj. net profit (Rs mn)	939	2,613	4,139
Adj. EPS (Rs)	22.2	61.7	97.7
Consensus EPS (Rs)	22.2	67.9	94.0
Adj. ROAE (%)	8.0	19.5	24.9
Adj. P/E (x)	171.8	61.7	39.0
EV/EBITDA (x)	68.2	34.0	24.0
Adj. EPS growth (%)	(44.0)	178.3	58.4

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

### Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22*	YoY (%)
Revenue	13,340	11,135	19.8	10,339	29.0	44,685	38,684	15.5
EBITDA	951	663	43.4	395	141.0	2,359	2,369	(0.4)
<b>EBITDA Margin (%)</b>	<b>7.1</b>	<b>6.0</b>	<b>120bps</b>	<b>3.8</b>	<b>330bps</b>	<b>5.3</b>	<b>6.1</b>	<b>(80bps)</b>
Depreciation	211	147	-	202	-	802	753	-
Interest	112	96	-	130	-	401	333	-
Other Income	23	287	-	71	-	151	587	-
PBT	651	707	(7.9)	134	386.5	1,308	1,870	(30.0)
Tax	143	190	-	88	-	369	496	-
Adjusted PAT	508	517	(1.7)	46	1,009.4	939	1,374	(31.7)
Exceptional item	0	0		0		0	(265)	
Reported PAT	508	517	(1.7)	46	1,009.4	939	1,640	(42.7)
<b>Adj. PAT Margin (%)</b>	<b>3.8</b>	<b>4.6</b>	<b>(80bps)</b>	<b>0.4</b>	<b>340bps</b>	<b>2.1</b>	<b>3.6</b>	<b>(150bps)</b>
EPS (Rs)	12.0	12.2	(1.7)	1.1	1,009.4	22.2	32.4	(31.7)

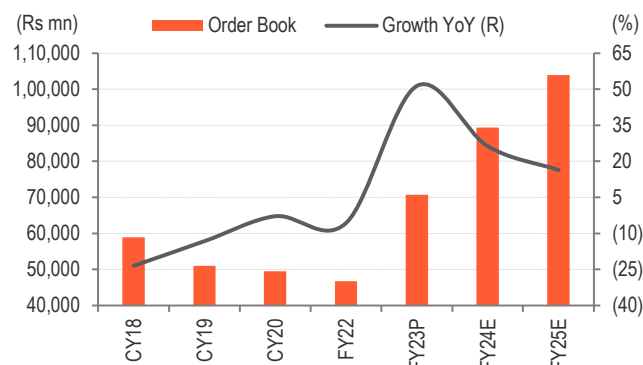
Source: Company, BOBCAPS Research | \*FY22 includes the four comparable quarters from 1 Apr 2021 to 31 Mar 2022 and not the 15-month period due to Y/E change

**Fig 2 – Quarterly order backlog trend**



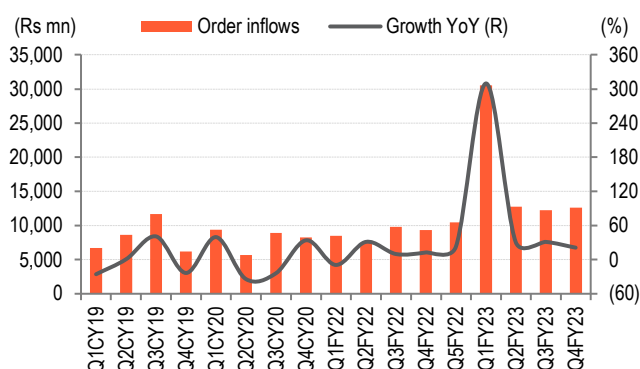
Source: Company, BOBCAPS Research

**Fig 3 – Annual order backlog trend**



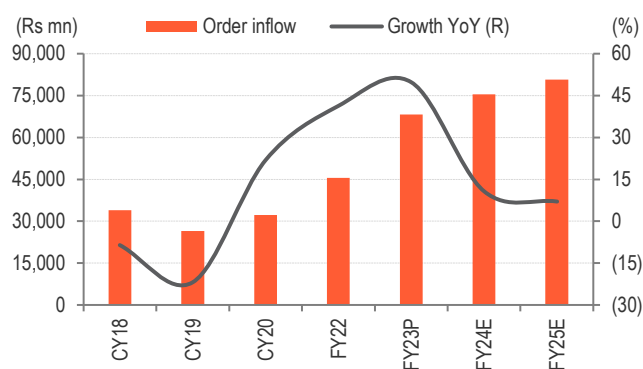
Source: Company, BOBCAPS Research

**Fig 4 – Quarterly order inflow trend**



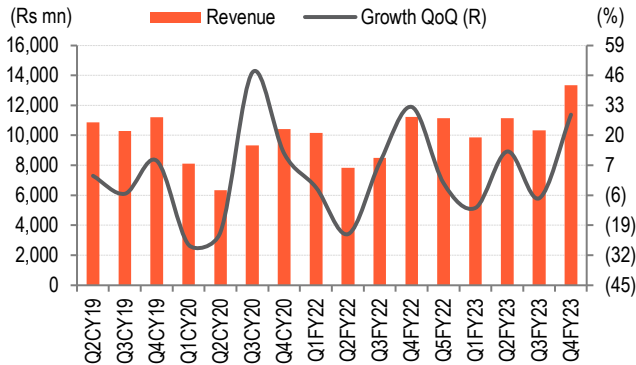
Source: Company, BOBCAPS Research

**Fig 5 – Annual order inflow trend**



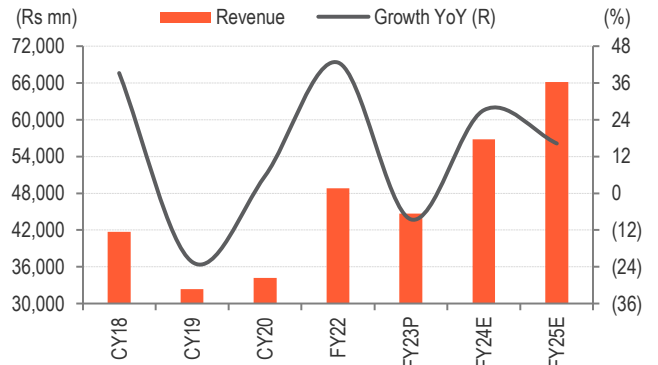
Source: Company, BOBCAPS Research

**Fig 6 – Quarterly revenue trend**



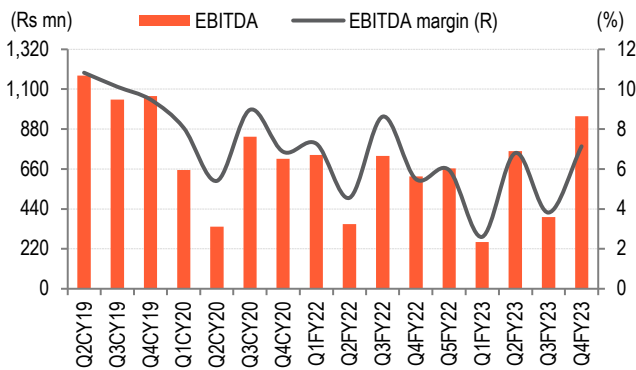
Source: Company, BOBCAPS Research

**Fig 7 – Annual revenue trend**



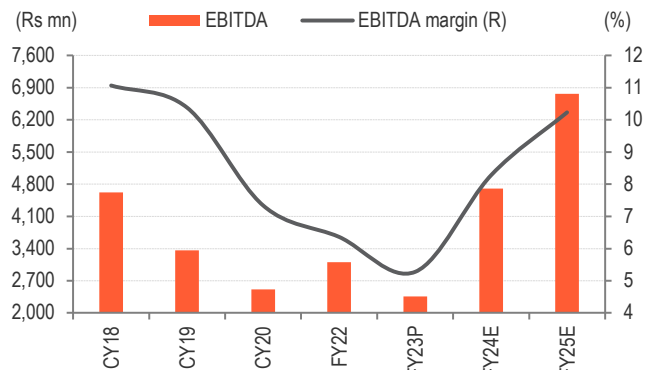
Source: Company, BOBCAPS Research

**Fig 8 – Quarterly EBITDA trend**



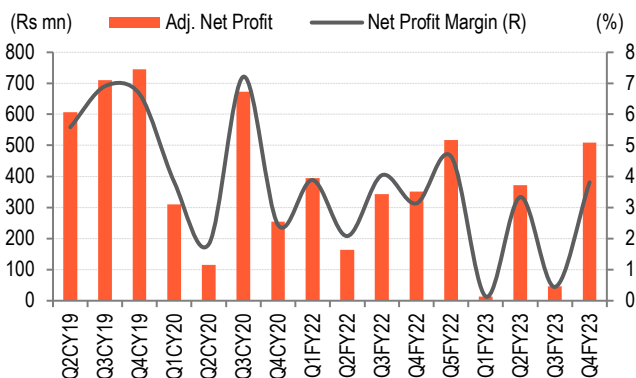
Source: Company, BOBCAPS Research

**Fig 9 – Annual EBITDA trend**



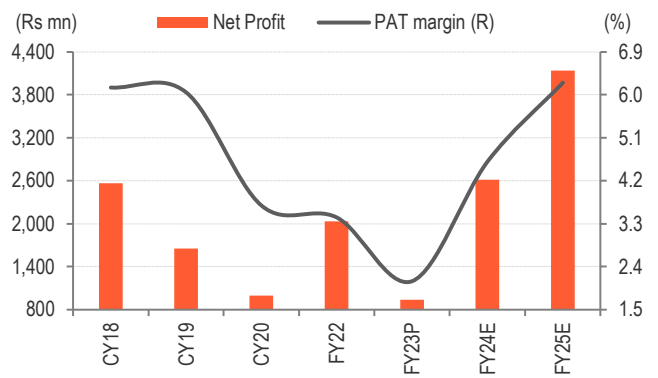
Source: Company, BOBCAPS Research

**Fig 10 – Quarterly profit trend**



Source: Company, BOBCAPS Research

**Fig 11 – Annual profit trend**



Source: Company, BOBCAPS Research

## Earnings call highlights

- **Order inflow:** Hitachi's FY23 order inflow increased to Rs 68.2bn (up 84% vs. the comparable 12 months of FY22), driven by utilities, transportation and railways. This includes orders in excess of 1GW for solar integration, marking 377% growth, and its highest-ever export bookings, which contributed 20-22% of revenue for the year. The company ended the year with an order backlog of Rs 70.7bn, signifying revenue visibility for 20 months.
- **Potential orders:** Hitachi is eyeing five large orders in the railway segment, including the 9,000HP and 12,000HP locomotives and trainsets. The company has also received a contract for a technology feasibility study of the Leh-Ladakh solar project from Power Grid Corp, which is expected to conclude in 6-9 months, and could translate to orders.
- **Profitability:** Management indicated that FY23 had headwinds from the semiconductor chip shortage, commodity supercycle and other cost difficulties owing to supply chain issues, geopolitical tensions and various unforeseen events. The semiconductor shortage has not yet been resolved, but management expects it to recede after two quarters. Hitachi pegs revenue loss due to the chip shortage at Rs 500mn in FY23 as compared Rs 1bn in FY22.
- **Chennai factory:** The company commissioned its HVDC and Power Quality factory in Chennai that will manufacture advanced power electronics for products such as HVDC Light, HVDC Classic, and STATCOM, together with MACH Control and protection systems. These technologies are key for growth in the transmission business, especially for the integration of renewables and electrical grid stability.
- **Royalty agreement:** The company will continue to pay royalties to the parent as the entire energy transition process requires a significant change in portfolio, which will require digitalisation, technology updates and large investments.

## Valuation methodology

Hitachi expects to reach a 10% EBITDA margin run-rate in FY25 if raw material prices and chip constraints ease. Margin expansion is likely to be led by exports and an increased share of higher growth segments such as HVDC. In addition, 65% of the company's projects have a price variation clause that allows for cost pass-through. We model for an ~8% EBITDA margin in FY24, rising to 10% in FY25.

We are positive on the company as order flows are likely to gather momentum in FY24 driven by the utilities, transportation and renewables verticals. We raise our FY24/FY25 EPS estimates by 2%/19% to reflect the FY23 performance and anticipated margin expansion, while rolling valuations forward to Mar'25E for a revised TP of Rs 4,400 (vs. Rs 3,500). Our valuation is based on an unchanged 45x target P/E multiple – a 50% premium to the stock's average multiple since listing. Maintain BUY.

**Fig 12 – Revised estimates**

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	56,851	66,149	56,577	61,349	0.5	7.8
EBITDA	4,707	6,766	4,624	5,861	1.8	15.4
PAT	2,613	4,139	2,574	3,490	1.5	18.6
EPS	61.7	97.7	60.7	82.4	1.5	18.6
EBITDAM (%)	8.3	10.2	8.2	9.6	10.6	67.5

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- slowdown in T&D capex, and
- increased royalty to parent.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ABB India	ABB IN	10.0	3,892	3,700	HOLD
AIA Engineering	AIAE IN	3.4	2,939	3,300	BUY
Cummins India	KKC IN	5.4	1,595	1,600	HOLD
Hitachi Energy	POWERIND IN	2.0	3,806	4,400	BUY
KEC International	KECI IN	1.6	516	500	HOLD
Larsen & Toubro	LT IN	37.3	2,185	2,630	BUY
Siemens India	SIEM IN	14.9	3,431	3,700	HOLD
Thermax	TMX IN	3.2	2,230	2,400	HOLD

Source: BOBCAPS Research, NSE | Price as of 24 May 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>34,204</b>	<b>48,840</b>	<b>44,685</b>	<b>56,851</b>	<b>66,149</b>
EBITDA	2,509	3,107	2,359	4,707	6,766
Depreciation	772	955	802	931	943
EBIT	1,737	2,152	1,558	3,775	5,823
Net interest inc./(exp.)	204	414	401	450	475
Other inc./(exp.)	185	669	151	167	183
Exceptional items	0	0	0	0	0
EBT	1,718	2,407	1,308	3,492	5,531
Income taxes	460	732	369	879	1,392
Extraordinary items	260	(359)	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>998</b>	<b>2,034</b>	<b>939</b>	<b>2,613</b>	<b>4,139</b>
Adjustments	260	(359)	0	0	0
<b>Adjusted net profit</b>	<b>1,258</b>	<b>1,676</b>	<b>939</b>	<b>2,613</b>	<b>4,139</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	15,780	16,190	15,146	18,691	20,842
Other current liabilities	9,646	5,915	8,648	12,460	14,498
Provisions	0	0	0	0	0
Debt funds	0	1,250	2,750	3,499	4,071
Other liabilities	281	560	488	621	723
Equity capital	85	85	85	85	85
Reserves & surplus	9,240	11,239	12,068	14,533	18,502
Shareholders' fund	9,325	11,324	12,153	14,618	18,587
<b>Total liab. and equities</b>	<b>35,031</b>	<b>35,239</b>	<b>39,185</b>	<b>49,889</b>	<b>58,721</b>
Cash and cash eq.	3,190	859	1,633	4,711	8,366
Accounts receivables	15,845	13,438	15,278	22,585	26,278
Inventories	4,951	7,073	8,179	7,009	7,249
Other current assets	3,754	5,443	5,629	7,009	8,155
Investments	0	0	0	0	0
Net fixed assets	6,558	6,525	7,133	7,202	7,259
CWIP	324	1,183	487	487	487
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	410	717	847	887	927
<b>Total assets</b>	<b>35,031</b>	<b>35,239</b>	<b>39,185</b>	<b>49,889</b>	<b>58,721</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>6,097</b>	<b>(1,267)</b>	<b>54</b>	<b>3,385</b>	<b>4,190</b>
Capital expenditures	(898)	(1,675)	(120)	(1,000)	(1,000)
Change in investments	(8)	0	0	0	0
Other investing cash flows	16	5	2	93	62
<b>Cash flow from investing</b>	<b>(890)</b>	<b>(1,670)</b>	<b>(118)</b>	<b>(907)</b>	<b>(938)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(3,476)	1,250	1,500	749	572
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(422)	(644)	(663)	(148)	(170)
<b>Cash flow from financing</b>	<b>(3,898)</b>	<b>606</b>	<b>837</b>	<b>600</b>	<b>403</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,309</b>	<b>(2,331)</b>	<b>773</b>	<b>3,078</b>	<b>3,655</b>
<b>Closing cash &amp; cash eq.</b>	<b>3,190</b>	<b>859</b>	<b>1,633</b>	<b>4,711</b>	<b>8,366</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	23.5	48.0	22.2	61.7	97.7
Adjusted EPS	29.7	39.5	22.2	61.7	97.7
Dividend per share	2.0	3.0	3.4	3.5	4.0
Book value per share	220.0	267.2	286.8	344.9	438.6

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales		3.4	3.6	2.8	2.5
EV/EBITDA		53.0	68.2	34.0	24.0
Adjusted P/E	128.2	96.3	171.8	61.7	39.0
P/BV	17.3	14.2	13.3	11.0	8.7

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	73.2	69.6	71.8	74.8	74.8
Interest burden (PBT/EBIT)	98.9	111.9	84.0	92.5	95.0
EBIT margin (EBIT/Revenue)	5.1	4.4	3.5	6.6	8.8
Asset turnover (Rev./Avg TA)	98.5	139.0	120.1	127.6	121.8
Leverage (Avg TA/Avg Equity)	3.9	3.4	3.2	3.3	3.3
Adjusted ROAE	14.2	16.2	8.0	19.5	24.9

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	5.7	42.8	(8.5)	27.2	16.4
EBITDA	(25.3)	23.8	(24.1)	99.5	43.7
Adjusted EPS	(35.8)	33.2	(44.0)	178.3	58.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	7.3	6.4	5.3	8.3	10.2
EBIT margin	5.1	4.4	3.5	6.6	8.8
Adjusted profit margin	3.7	3.4	2.1	4.6	6.3
Adjusted ROAE	14.2	16.2	8.0	19.5	24.9
ROCE	18.1	18.1	12.3	24.8	30.2
<b>Working capital days (days)</b>					
Receivables	169	100	125	145	145
Inventory	53	53	67	45	40
Payables	168	121	124	120	115
<b>Ratios (x)</b>					
Gross asset turnover	3.6	4.7	3.8	4.4	4.8
Current ratio	1.1	1.1	1.2	1.2	1.3
Net interest coverage ratio	8.5	5.2	3.9	8.4	12.3
Adjusted debt/equity	(0.3)	0.0	0.1	(0.1)	(0.2)

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

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**BUY** – Expected return >+15%

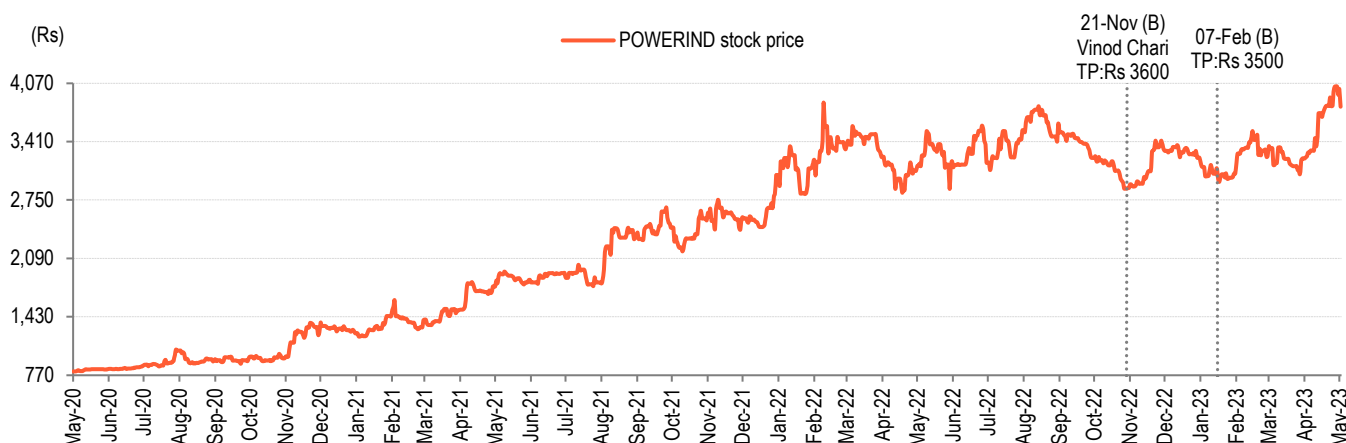
**HOLD** – Expected return from -6% to +15%

**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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