

Hitachi Energy

Estimate changes



TP change



Rating change



CMP: INR5,673

TP: INR4,500 (-21%)

Sell

Muted quarter; miss on all fronts

Hitachi Energy's 3QFY24 result was weaker than our expectations. The company reported 23%/72%/401% YoY growth in revenue/EBITDA/PAT on a low base of last year. Revenue growth was supported by a strong order book, while margin improvement was driven by moderating supply chain issues. EBITDA margin remained flat QoQ. We expect the company to be a key beneficiary of the uptick in spending across transmission, renewables, data centers, as well as the railways. We also expect its strategy to grow the share of services and exports to aid margin improvement. We roll forward our valuation to Mar'26 and revise our TP to INR4,500. The stock is currently baking in the possibility of potential HVDC wins as well as margin improvement. At 86x/54x P/E on FY25E/FY26E earnings, it is trading at a 20% premium to Siemens and at a 10% discount to ABB on FY26E. We retain our SELL rating on the stock and would look for better entry points. The key risk to our recommendation would come from sharper-than-expected improvement in margins over the next 1-2 years.

Miss on all parameters

Hitachi Energy's 3QFY24 result was below our expectations due to lower-than-expected ramp-up in execution and weaker-than-expected margins. Revenue grew 23% YoY, driven by a healthy order book of INR75.5b. The order inflow during the quarter moderated sequentially to INR12.4b, due to an exceptionally large order awarded in 2QFY24. Gross margin contracted ~540bp YoY to 35.1%, while sequentially it was flattish. The staff cost stood at 9.5% of sales and was largely flattish both YoY and QoQ; it was in line with the past quarter trends. Other expenditure declined 470bp YoY to 20.2% of sales. EBITDA margin was at 5.3% in 3QFY24, up 150bp YoY, led by easing of supply chain issues and moderation in other expenses; however, margins were largely flat sequentially. Interest expenses grew 5% YoY, while other income declined 69% YoY. PAT grew 401% YoY, due to the low base of last year and was driven by moderating supply chain issues. However, it was sharply below our estimates.

Will be a key beneficiary of the strong order pipeline

Order inflow during the quarter stood at INR12.4b, flat YoY. Data centers and renewables contributed significantly to the orders, while transmission and rail segments remained flat. Service orders were up by over 70% YoY, led by utilities and industries. Export order inflow grew by more than 60% YoY, on the back of transformers and HV products. The European and African markets drove the ordering for transformers, while demand for power quality solutions drove the ordering from LatAm, Africa, the US and Europe. The order pipeline is strong, and we expect Hitachi Energy to be a key beneficiary of this order pipeline across HVDC projects, renewables, data centers, and transmission projects both in domestic and international markets. Feasibility studies for the Leh-Ladakh HVDC project are likely to get over by Mar'24, and the finalization of Badla HVDC is expected in 1-2 months.

Bloomberg	POWERIND IN
Equity Shares (m)	42
M.Cap.(INRb)/(USD\$b)	240.4 / 2.9
52-Week Range (INR)	6280 / 2906
1, 6, 12 Rel. Per (%)	10/29/63
12M Avg Val (INR M)	154

Financials Snapshot (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Net Sales	50.7	62.1	76.0
EBITDA	2.8	5.3	7.6
PAT	1.0	2.8	4.4
EPS (INR)	24.7	66.0	104.9
GR. (%)	11.6	167.1	58.9
BV/Sh (INR)	311.3	377.3	482.2

Ratios

ROE (%)	7.9	17.5	21.7
RoCE (%)	9.0	17.1	21.0

Valuations

P/E (X)	229.6	86.0	54.1
P/BV (X)	18.2	15.0	11.8
EV/EBITDA (X)	87.2	45.7	31.2
Div Yield (%)	-	-	-

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	75.0	75.0	75.0
DII	8.5	8.0	7.6
FII	4.1	4.3	4.9
Others	12.4	12.4	12.5

FII Includes depository receipts

Improving exports & services, and easing supply chain issues to augur well

The share of exports and services has improved to 25% and 10% of the order book, respectively, at present with incremental orders generating from both segments. Exports have also reached 30% of sales for 9MFY24. The company has now been able to manage supply chain issues related to chip shortages that it was facing over the last few quarters. Revenue recognition from the Mumbai HVDC project will also start ramping up from 4QFY24, and this project is likely to be completed by Jun'25. We expect an improving share of exports & services, and an execution ramp-up to provide operating leverage benefits to the company, thereby supporting margin improvement in the coming quarters.

Further improvement in margins is awaited in the coming quarters

We expect a margin improvement of 10% by FY26 to be driven by ~190bp improvement in gross margin during FY23-26, and ~290bp improvement in other expenses over the same period. Though there is still a component of IT fees paid to the ABB Group (0.7% of sales for FY23), which will get over by 1HFY25, there will be a corresponding spend by Hitachi Energy once it shifts the systems on its own. The total payment (royalty, tech fee, trademark fee, IT, and group management fee) by Hitachi Energy to the group companies remained high and stood at 8.7%/6.8% for FY22/23. Hence, operating leverage and the increasing share of exports & services play a big role in shaping up the margin trajectory.

Financial outlook

We expect Hitachi Energy's sales/EBITDA/PAT to post 19%/48%/68% CAGR over FY23-26. We bake in a gradual margin improvement for the company to 10% by FY26E led by better gross margin and operating leverage benefits. This would enable the RoE to expand sharply to 22% by FY26E. We expect OCF/FCF to improve over the next three years on an improved working capital cycle.

Valuation and view

The stock is currently trading at 86x/54x P/E on FY25E/FY26E earnings. This is trading at a 10% discount to ABB and 20% premium to Siemens on FY26 estimates. Though we believe that the company is ideally positioned to participate in a strong prospect pipeline on renewables and can potentially win HVDC orders in upcoming tenders, the stock price is already factoring in these potential positives. Our EBITDA margin estimate of 10% by FY26 from 9MFY24 levels of 4.7% also factors in the corresponding reduction in other expenses from lower related-party royalty and tech fees. We roll forward our valuation to Mar'26 and maintain our SELL rating with a revised TP of INR4,500 (INR4,150 earlier). We would look for better entry points in the stock.

Quarterly performance (Standalone)

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	Var (%)
Net Sales	9,860	11,146	10,339	13,340	10,401	12,280	12,742	15,271	44,685	50,693	13,361	-5
Change (%)	25.8	31.3	-7.9	19.8	5.5	10.2	23.2	14.5	NA	13.4	29.2	
EBITDA	256	757	395	951	337	653	680	1,099	2,359	2,769	930	-27
Change (%)	-28.1	3.5	-36.1	43.5	31.3	-13.7	72.4	15.6	-24.1	17.4	135.8	
As of % Sales	2.6	6.8	3.8	7.1	3.2	5.3	5.3	7.2	5.3	5.5	7.0	
Depreciation	205	184	202	211	223	225	227	216	802	890	221	3
Interest	84	75	130	112	110	107	137	142	401	495	167	-18
Other Income	53	4	71	23	29	2	22	22	151	76	68	-67
PBT	21	502	134	651	34	324	338	764	1,308	1,460	609	-45
Tax	8	131	88	143	10	76	108	218	369	412	154	
Effective Tax Rate (%)	36.5	26.0	65.8	21.9	28.7	23.6	32.0	28.5	28.2	28.2	25.2	
Extra-ordinary Items												
Reported PAT	13	371	46	508	24	247	230	546	939	1,048	456	-50
Change (%)	-91.8	8.1	-92.6	-1.6	79.9	-33.3	401.5	7.5	-44.0	11.6	895.3	
Adj PAT	13	371	46	508	24	247	230	546	939	1,048	456	-50
Change (%)	-91.8	8.1	-92.6	-1.6	79.9	-33.3	402	7.5	-44.0	11.6	895.3	

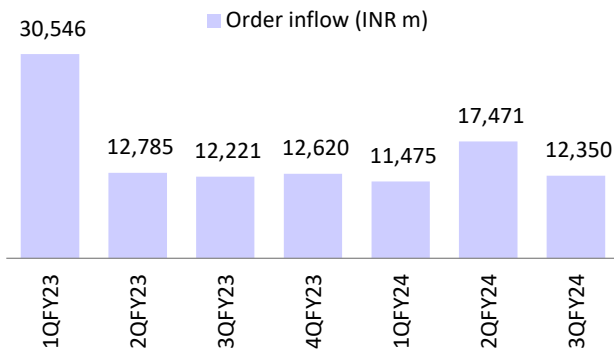


Conference call highlights

- Management highlighted that macroeconomic indicators continue to be robust, and growth drivers such as renewables, T&D, railways, data centers, steel, cement, etc. are expected to witness a long-term growth trajectory on the back of government's thrust on capex and manufacturing-led growth.
- During the quarter, order inflow momentum remained strong from renewables and data centers, while transmission and railways saw some moderation. However, the long-term outlook remains intact with a healthy investment pipeline in the form of HVDC, TBCB projects, metros, HSR, electrification, etc.
- Management maintained its double-digit EBITDA margin guidance by the end of FY25. Margin improvement will be driven by higher share of exports, services and operating leverage benefits from ramping up of recently-added capacities. The share of exports is at ~25% and services is ~9-10% in the current order book. 3QFY24 margin had an adverse impact of forex loss of INR98m.
- The Board has approved related-party transactions for an aggregate value up to INR7b, involving the purchase and sale of products and services to Hitachi Energy Sweden AB on an arms' length basis. Since it is above the threshold of 10% of previous year's revenue, minority shareholders' approval is being sought for the same (68% of INR7b has already been spent to date). Management assured that this transaction is not expected to have any bearing on the margin trajectory.
- Out of overall exports, ~50-60% are done to the parent entity and the balance to the third parties. Exports accounted for ~25% of the order book of INR75.5b.
- Revenue recognition for the Mumbai HVDC project will commence by 4QFY24 based on milestone completion. Similarly, the STATCOM project has an execution timeline of ~24 months. Revenue recognition can start upon receipt of technical, design and other approvals which are expected to take two quarters.
- Capacity utilization across various facilities is in the range of ~75-90%, and the new facilities are expected to ramp up soon, which should support further margin expansion.

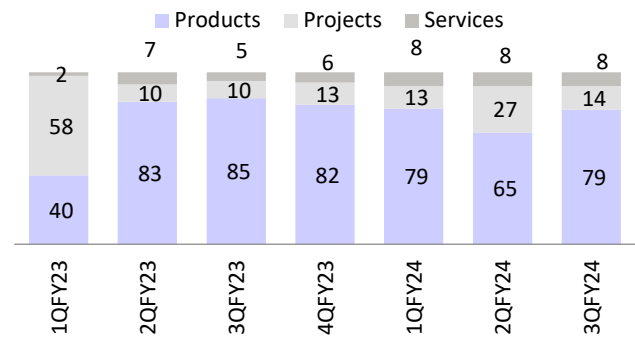
Key Exhibits

Exhibit 1: OI growth moderated to 1% YoY (INR m)



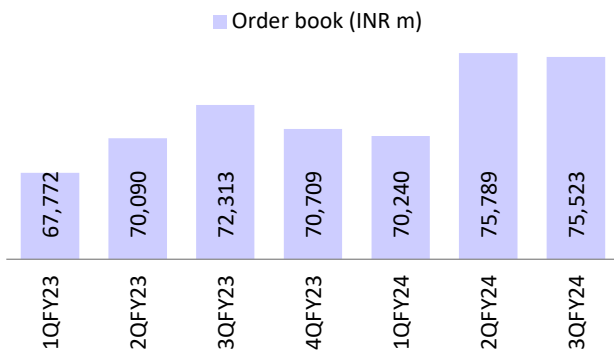
Source: Company, MOFSL

Exhibit 2: Share of products in OI back to normal levels (%)



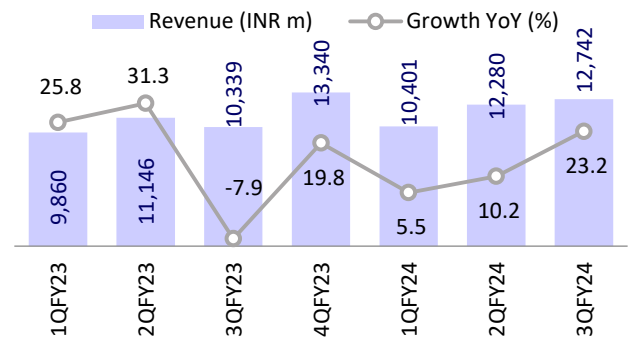
Source: Company, MOFSL

Exhibit 3: OB buoyed by a large order in 2QFY24 (INR m)



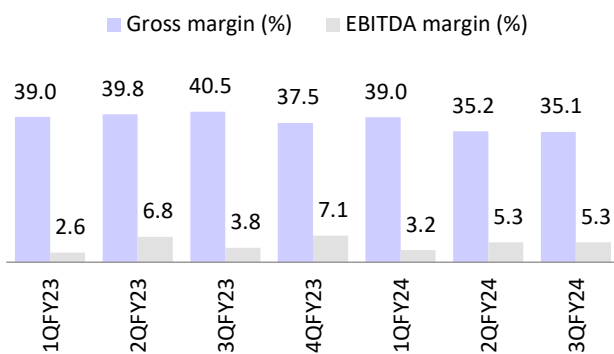
Source: Company, MOFSL

Exhibit 4: Revenue grew 23% YoY to INR12.7b in 3QFY24



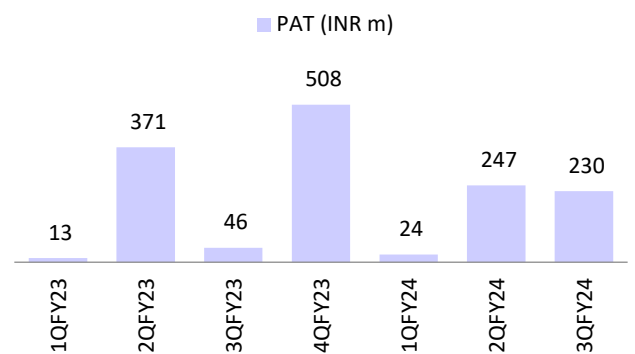
Source: Company, MOFSL

Exhibit 5: Margin up ~150bp YoY to 5.3% in 3QFY24



Source: Company, MOFSL

Exhibit 6: PAT grew 402% to INR230m on a low base



Source: Company, MOFSL

Exhibit 7: Key order wins in exports and services for Hitachi Energy during 3QFY24

Exports	Services
3 X 80 MVA 220kV and 3 X 80 MVA 110kV transformers order from EiffageFrance	Repair of 63 MVA Transformer for SKS Power Generation
330kV/145kV LTB/DS/IT order from Prime Group Azerbaijan	Digitalization of 2 x 75 MVA, 220 kV Transformer for STT Data Center
16 X 66kV GIS order from REE Spain	400 kV RIP Bushings Order from PGCIL
6 X 66kV GIS order from Portugal	11kV Busbar Retrofit Order from Reliance
	Training Order from STELCO, Maldives
	Commissioned 8 units of CSD for Qatar
	Successful repair of PPGCL -45 MVA transformer

Source: Company, MOFSL

Exhibit 8: Hitachi Energy's total payment to group companies stood around 6.8-8.7% of sales in the last two years (INR m)

Hitachi Energy	CY2019	CY2020	FY2022	FY2023
Total payment to group companies (INR m)	2,876	3,498	4,273	3,038
Total sales (INR m)	32,361	34,204	48,840	44,685
Royalty, tech, trade mark, IT and GM fee (% of sales)	8.9	10.2	8.7	6.8

Source: Company, MOFSL

Exhibit 9: Hitachi Energy's payment to group entities over the last four years (INR m)

Break up of royalty and technology fee	CY2019	CY2020	FY2022	FY2023
Hitachi Energy, Switzerland	-	644.6	1975.6	1462.2
ABB Schweiz AG, Baden, Switzerland	1,296	810.3		
Total	1,296	1,455	1,976	1,462
Break up of trade mark fee	CY2019	CY2020	FY2022	FY2023
Holding company	353			
Hitachi Energy Ltd		433		
Total	353	433	-	-
Break up of Information technology and group management expenses	CY2019	CY2020	FY2022	FY2023
Hitachi Energy Ltd	0.9	0	727.6	477.3
Hitachi Energy Technology Services	0	216.2	517.4	431.4
Hitachi Energy Holdings, Zurich	0	361.1	625.9	392.6
ABB India Limited; Bangalore, India	246.2	586.7	429.8	160.3
ABB Information Systems Ltd., Zurich, Switzerland	558.2	359.9	266.2	163.1
Other fellow subsidiaries	295.4	260.4	399.0	364.1
Total	1100.7	1784.3	2965.9	1988.8

Source: Company, MOFSL

Valuation and view

The stock is currently trading at 86x/54x P/E on FY25E/FY26E earnings. This is trading at a 10% discount to ABB and 20% premium to Siemens on FY26 estimates. Though we believe that the company is ideally positioned to participate in a strong prospect pipeline on renewables and can potentially win HVDC orders in upcoming tenders, the stock price is already factoring in these potential positives. Our EBITDA margin estimate of 10% by FY26 from 9MFY24 levels of 4.7% also factors in the corresponding reduction in other expenses from lower related-party royalty and tech fees. We roll forward our valuation to Mar'26 and maintain our SELL rating with a revised TP of INR4,500 (INR4,150 earlier). We would look for better entry points in the stock.

Key risks and concerns

- **Key downside risks:** 1) slowdown in order inflows from key government-focused segments (such as transmission and railways) due to election schedule; 2) aggression in bids to procure large-sized projects; 3) a sharp rise in commodity prices, particularly steel; and 4) delays in finalization of large-sized HVDC tenders.
- **Key upside risks:** 1) Earlier-than-expected recovery in margins and better-than-expected order inflows pose upside risks to our estimates.

Exhibit 10: Changes to our estimates

(INR M)	FY24E			FY25E			FY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	50,693	49,484	2.4	62,150	65,139	(4.6)	76,015	77,955	(2.5)
EBITDA	2,769	2,950	(6.1)	5,259	5,708	(7.9)	7,624	7,819	(2.5)
EBITDA (%)	5.5	6.0	-50 bps	8.5	8.8	-30 bps	10.0	10.0	0 bps
Adj. PAT	1,048	1,203	(12.9)	2,799	3,158	(11.4)	4,446	4,637	(4.1)
EPS (INR)	24.7	28.4	(12.9)	66.0	74.5	(11.4)	104.9	109.4	(4.1)

Source: MOFSL

Financials and valuation

Income Statement							(INR m)
Y/E March	CY19	CY20(12M)	FY22(15M)	FY23(12M)	FY24E	FY25E	FY26E
Net Sales	32,361	34,204	48,840	44,685	50,693	62,150	76,015
Change (%)	NA	5.7	42.8	-8.5	13.4	22.6	22.3
Raw Materials	17,583	17,606	27,712	27,110	30,755	36,835	44,697
Gross Profit	14,778	16,599	21,128	17,576	19,939	25,315	31,318
Subcontracting charges	2,695	2,668	2,865	1,506	1,708	2,094	2,486
Staff Cost	2,552	3,694	4,868	4,173	4,816	5,904	7,221
Other Expenses	6,174	7,728	10,289	9,538	10,646	12,057	13,987
EBITDA	3,358	2,509	3,107	2,359	2,769	5,259	7,624
% of Net Sales	10.4	7.3	6.4	5.3	5.5	8.5	10.0
Depreciation	484	772	955	802	890	977	1,072
Interest	264	204	414	401	495	495	495
Other Income	5	185	669	151	76	112	137
PBT	2,614	1,718	2,407	1,308	1,460	3,899	6,195
Tax	553	365	732	369	412	1,100	1,748
Rate (%)	21.1	21.2	30.4	28.2	28.2	28.2	28.2
Extra-ordinary Inc.(net)	-408	-355	359	0	0	0	0
Reported PAT	1,654	998	2,034	939	1,048	2,799	4,446
Change (%)	NA	-39.7	103.8	-53.8	11.6	167.1	58.9
Adjusted PAT	2,062	1,353	1,676	939	1,048	2,799	4,446
Change (%)	NA	-34.4	23.8	-44.0	11.6	167.1	58.9

E: MOFSL estimates

Balance Sheet (Standalone)							(INR m)
Y/E March	CY19	CY20(12M)	FY22(15M)	FY23(12M)	FY24E	FY25E	FY26E
Share Capital	85	85	85	85	85	85	85
Reserves	8,313	9,240	11,239	12,068	13,116	15,914	20,361
Net Worth	8,398	9,325	11,324	12,153	13,201	15,999	20,446
Loans	3,476	0	1,250	2,750	2,750	2,750	2,750
Deferred Tax Liability	42	-219	-348	-319	-319	-319	-319
Capital Employed	11,916	9,107	12,226	14,584	15,632	18,431	22,877
Gross Fixed Assets	7,319	8,779	9,547	10,802	11,802	13,002	14,202
Less: Depreciation	1,922	2,568	3,355	3,998	4,888	5,865	6,937
Net Fixed Assets	5,397	6,211	6,192	6,805	6,914	7,137	7,265
Capital WIP	567	324	1,183	487	487	487	487
Goodwill and intangibles	397	348	334	329	329	329	329
Investments	0	0	0	0	0	0	0
Curr. Assets	28,045	27,931	27,182	31,246	35,450	44,251	56,103
Inventory	4,932	4,951	7,073	8,179	9,279	11,376	13,913
Debtors	17,829	15,845	14,187	15,278	17,332	21,249	25,989
Cash & Bank Balance	1,880	3,190	859	1,633	1,855	3,063	5,727
Loans & Advances	129	163	54	57	64	79	97
Other Current Assets	3,275	3,783	5,009	6,100	6,920	8,484	10,377
Current Liab. & Prov.	22,490	25,706	22,665	24,282	27,547	33,772	41,307
Creditors	13,771	15,780	16,190	15,146	17,183	21,066	25,766
Other Liabilities	7,326	8,044	4,732	7,184	8,150	9,991	12,221
Provisions	1,393	1,882	1,743	1,952	2,214	2,715	3,321
Net Current Assets	5,555	2,225	4,517	6,964	7,903	10,479	14,797
Application of Funds	11,916	9,107	12,226	14,584	15,632	18,431	22,877

E: MOFSL estimates

Ratios

Y/E March	CY19	CY20(12M)	FY22(15M)	FY23(12M)	FY24E	FY25E	FY26E
Basic (INR)	39.0	23.5	48.0	22.1	24.7	66.0	104.9
Adjusted EPS	48.6	31.9	39.5	22.1	24.7	66.0	104.9
Growth (%)	-	-34.4	23.8	-44.0	11.6	167.1	58.9
Cash EPS	60.0	50.1	62.0	41.1	45.7	89.0	130.1
Book Value	198.1	219.9	267.1	286.6	311.3	377.3	482.2
DPS	0.0	0.0	2.0	3.0	0.0	0.0	0.0
Payout (incl. Div. Tax.)	0.0	0.0	5.0	13.5	0.0	0.0	0.0
Valuation (x)							
P/Sales	7.4	7.0	4.9	5.4	4.7	3.9	3.2
P/E (standalone)	116.7	177.8	143.6	256.3	229.7	86.0	54.1
Cash P/E	94.5	113.2	91.5	138.2	124.2	63.7	43.6
EV/EBITDA	72.1	94.6	77.6	102.5	87.2	45.7	31.2
EV/Sales	7.5	6.9	4.9	5.4	4.8	3.9	3.1
Price/Book Value	28.7	25.8	21.2	19.8	18.2	15.0	11.8
Dividend Yield (%)	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Profitability Ratios (%)							
RoE	24.6	14.5	14.8	7.7	7.9	17.5	21.7
RoCE	19.0	16.6	16.1	8.4	9.0	17.1	21.0
RoIC	22.6	23.1	13.2	8.6	9.8	20.0	27.4
Turnover Ratios							
Debtors (Days)	201	169	106	125	125	125	125
Inventory (Days)	56	53	53	67	67	67	67
Creditors. (Days)	155	168	121	124	124	124	124
Asset Turnover (x)	2.7	3.8	4.0	3.1	3.2	3.4	3.3
Leverage Ratio							
Net Debt/Equity (x)	0.2	-0.3	0.0	0.1	0.1	0.0	-0.1

E: MOFSL estimates

Cash Flow Statement

(INR m)

Y/E March	CY19	CY20(12M)	FY22(15M)	FY23(12M)	FY24E	FY25E	FY26E
PBT before EO Items	2,614	1,718	2,407	1,308	1,460	3,899	6,195
Add : Depreciation	484	772	955	802	890	977	1,072
Interest	259	189	405	395	495	495	495
Less : Direct Taxes Paid	737	454	928	666	412	1,100	1,748
(Inc)/Dec in WC	2,782	-3,787	4,447	1,817	717	1,367	1,654
Others	-157	440	-17	32	0	0	0
CF from Operations	-319	6,452	-1,625	54	1,716	2,904	4,359
(Inc)/Dec in FA	-732	-906	-1,675	-120	-1,000	-1,200	-1,200
Free Cash Flow	-1,051	5,547	-3,300	-66	716	1,704	3,159
(Pur)/Sale of Investments	0	0	0	0	0	0	0
Others	5	16	5	2	0	0	0
CF from Investments	-728	-890	-1,670	-118	-1,000	-1,200	-1,200
(Inc)/Dec in Net Worth	0	0	0	0	0	0	0
(Inc)/Dec in Debt	3,476	-3,572	1,104	1,364	0	0	0
Less : Interest Paid	142	327	414	401	495	495	495
Dividend Paid	0	0	84	127	0	0	0
Others	-408	-355	358	2	0	0	0
CF from Fin. Activity	2,927	-4,253	964	839	-495	-495	-495
Inc/Dec of Cash	1,880	1,309	-2,331	775	221	1,209	2,664
Add: Beginning Balance	0	1,880	3,189	858	1,633	1,855	3,063
Closing Balance	1,880	3,189	858	1,633	1,855	3,063	5,727

E: MOFSL estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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