



Particulars

Particular	Amount
Market Capitalisation (Rs crore)	1,498
FY23 Gross Debt (Rs crore)	598
FY23 Cash (Rs crore)	70
EV (Rs crore)	2,026
52 Week H/L (Rs)	269 / 75
Equity Capital	64.3
Face Value	10.0

Shareholding Pattern

	Dec-22	Mar-23	Jun-23	Sep-23
Promoter	72.7	72.7	72.7	72.7
FII	0.4	0.0	0.4	0.0
DII	0.8	0.3	0.2	0.2
Others	26.1	27.0	26.7	27.1

Risks to our call

- 1) Slowdown in economy or public capex
- 2) Increasing competition in the industry
- 3) Volatility in raw material prices

Price Performance



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Key Investment Thesis:

- Well positioned to capture significant share in enduring “Smart Meters” opportunity: We believe that the ‘Metering & Systems’ segment will be the key growth driving segment for HPL in the coming period. Govt is targeting installation of 25 crore smart meters nationwide, with an ambition of firming transmission & distribution network and reducing the distribution losses. With an annual meter capacity of 11 million units (Utilisation at 70-75%), HPL already commands the market leader position in domestic electric meters market with ~20% market share. The company’s order backlog stands at ₹ 2000+ crore (70%+ is contributed by smart meters) as of Nov-2023 (1.5x TTM revenues), ensures medium term revenue visibility
- Strong manufacturing & R&D capabilities with comprehensive product portfolio: With strong design, development & manufacturing capabilities led by backward integrated manufacturing facilities & R&D centers, company has been able to diversify its product portfolio which now covers a wide range of low-voltage electric products including metering solutions, switchgears, lighting products, wires & cables, solar solutions and modular switches. Company remain focused on improving its infrastructure, technology and market reach to maintain its consistent growth and strong position in smart meter, switchgear and wire & cable segments

Rating and Target Price

- HPL is well positioned to witness healthy growth led by strong demand arising in smart meters segment. Moreover, switchgear & wire & cable segments too is poised to grow considerably in the coming period. We estimate revenue, EBITDA and PAT to grow at 19.7%, 28% and 53% CAGR respectively over FY23-26E as against single digit growth over FY20-23
- We recommend BUY on HPL Electric & Power with a target price of ₹ 305 per share (based on 18x FY26E EPS)

Key Financial Summary

(Rs crore)	FY21	FY22	FY23	2 Year CAGR (FY21-23)	FY24E	FY25E	FY26E	3 Year CAGR (FY23-26E)
Revenues	875	1,014	1,262	20.1	1,500	1,822	2,166	19.7
EBITDA	119	125	157	14.8	204	268	329	28.0
EBITDA margin (%)	13.6	12.3	12.4		13.6	14.7	15.2	
Net Profit	10	8	30	73.6	50	81	108	53.0
EPS (Rs)	1.6	1.2	4.7		7.8	12.6	16.8	
P/E (x)	149.5	192.0	49.6		29.8	18.4	13.8	
EV/EBITDA (x)	16.6	15.8	12.9		10.6	8.4	7.3	
RoCE (%)	6.0	6.2	8.8		11.0	13.5	15.0	
RoE (%)	1.3	1.0	3.8		6.0	9.1	11.0	

Company Background

HPL Electric & Power Ltd (HPL), incorporated in 1992, is among India's leading electric equipment manufacturer with a formidable presence across two major segments, 1) Metering & Systems and 2) Consumer & Industrial. In Metering & Systems segment (which is largely institutional and B2B), company is involved in manufacturing of smart & conventional meters while in Consumer & Electrical segment (which is largely B2C), it is engaged in three sub-segments - switchgears, LED (Light-emitting diode) lighting and wires & cables

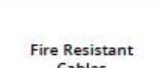
The company has seven state-of-the-art manufacturing facilities for design, product development, component design and commercial production. Of the seven facilities, five facilities are situated in Haryana (two at Gurugram, two at Kundli and one at Gharaunda) and two facilities are situated in Himachal Pradesh (Jabli). The company also has two Research & Development (R&D) centers at Gurugram & Kundli, with 100+ expert engineers

In terms of annual capacity, company has a capacity of 11 million units in metering & systems segment. In other segments, the company has an annual capacity of 16 million units in switchgears, 194 million meters in wires & cables and 26 million units in lighting equipments. As of FY23, Metering & systems segment contributes ~53% to total revenues while balance ~47% of revenue is contributed by consumer & industrial segment

In terms of distribution network, the company has established pan-India distribution network consisting of 90+ branch & representative offices, 15 warehouses, 900+ authorized dealers and 72,000+ retailers

Consolidated revenue of the company has grown by 8.9% CAGR in the last 3 years during the period FY20-23 while EBITDA and PAT have grown by 7.9% CAGR and 10.9% CAGR respectively over the same period. During FY23, company reported revenues of ₹ 1262.0 crore which increased by 24.5% YoY with EBITDA margin remained largely flattish YoY at 12.4%, leading to EBITDA growth of 25.4% YoY to ₹ 156.9 crore. PAT in FY23 increased significantly by 3.9x YoY to ₹ 30.2 crore

Exhibit 1: Product Range

Product Portfolio	Metering Solutions	Industrial Switchgears	Domestic Switchgears	Lighting Equipment	Wires and Cables
	Smart Meter 	Industrial Applications ACB  MCCB 	Domestic Applications Osafe MCB  Techno (N) MCB  RCCB 	Consumer LED Products Aries LED  LED Glow 9W 	Fire Resistant Cables 
Sub-brands	emfis	Solar Applications DC Disconnector  String Combiner Box  solar street light 	Phase Selector 	Commercial LED Products Mitered  CRCA Panel 	Co-axial Cables 
Customers	Power Utilities	Public & Private Enterprises	Residential & Commercial Users		

Source: Company, ICICI Direct Research

Investment Rationale

Well positioned to capture significant share in enduring “Smart Meters” opportunity

Being a leading player with a successful track record of supplying meters over the last two decades, we believe that HPL is well-positioned to capitalise on the smart meter opportunity, and is receiving good traction from customers.

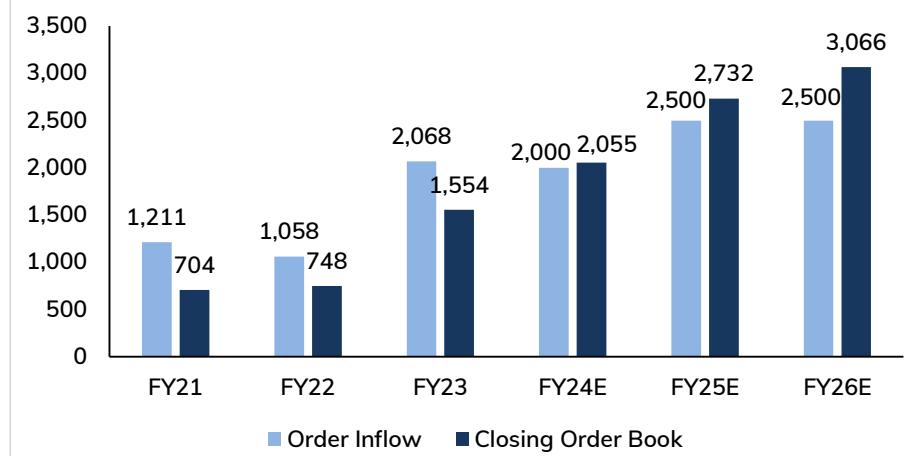
With an ambition of strengthening the transmission & distribution network and reducing the distribution losses, Indian government is committed in terms of making paradigm shift in nationwide conscious energy usage transition through installing about 25 crore smart meters across India.

The shift from conventional electronic meters to smart meters presents a monumental growth opportunity in India. Programmes such as the Revamped Distribution Sector Scheme (RDSS), National Smart Grid Mission (NSGM) and Integrated Power Development Scheme (IPDS) require installation of smart metering to strengthen the transmission & distribution network and reduce distribution losses. As per the company, this government's plan of installing 25-30 crore smart meters nationwide translates into a cumulative opportunity size in excess of ₹ 60,000 crore. As of December 2023, a total of 22.22 crore smart consumer meters have been sanctioned under various schemes, including the utility's own initiatives, of which awarding of 9.86 crore smart meters (~44% of total sanctions) have been done. In terms of installations, only 79.26 lakh meters have been installed as of now, which is ~8% of total awarding.

HPL currently has an annual capacity of 11 million units in metering & systems segment (with 70-75% capacity utilisation as of FY23) and commands the market leader position in domestic electric meters market with ~20% market share. The company's order backlog stands at ₹ 2000+ crore as of Sept-2023 (1.5x TTM revenues), which ensures revenue visibility for the short and medium term. Meters & systems segment contributes 85% of the total order book with smart meters comprising of more than 85% of these meter orders.

As per the management, enquiry base for metering tenders is at a healthy level as tenders amounting to ~ ₹ 10,000+ crore have been floated or are expected to be floated or expected to be issued in the near term. We believe that the 'Metering & Systems' segment will be the key growth driving segment for HPL Electric in the coming period. Order inflows in this segment remained strong at ~₹ 1660 crore during YTDFY24 (as against the total order inflow of ₹ 2068 crore in FY23). We expect order inflows to remain strong over the next few years led by smart meters segment. Revenue from "Metering & Systems" segment is expected to grow at 28% CAGR over FY23-26E to ₹ 1397 crore in FY26E from ₹ 670 crore in FY23.

Exhibit 2: Order inflows and order backlog position (₹ crore)



Source: Company, ICICI Direct Research

Strong manufacturing and R&D capabilities with comprehensive product portfolio

Company's backward integrated state-of-the art seven manufacturing facilities with two R&D centers have the capabilities of product design and development, component designing, tool manufacturing and commercial production. The in-house R&D capability has helped the company in innovating and developing new products on consistent basis. With this prowess, the company has been able to diversify its product portfolio which now covers a wide range of low-voltage electric products including metering solutions, switchgears, lighting products, wires & cables, solar solutions and modular switches

With strong manufacturing capabilities, brand presence and established pan-India distribution system with strong network of distributors and retailers, HPL has been able to hold market leadership position in domestic electric meters market with ~20% market share. In "on-load change-over switches" market too, the company holds leadership position with 50% market share. In switchgears market, company has 5% market share in low-voltage category. The company is also the 5th largest player in LED (Light-emitting diode) lighting products

Exhibit 3: State-of-the art manufacturing facilities



Gurugram



Jabli

Facility I: Electronic Meters, R&D Center for Smart Meters

Facility II: Lighting Equipment and Electronic Meter Parts

Facility I: Switchgear, Electronic Meters, and Parts of Lighting Equipment

Himachal Energy Facility II: Electronic Meters, Panel Meters and Clips for Panel Meters



Kundli

Facility I: Switchgears, Parts of Electronic Energy Meters and Parts of Lighting Equipment

Facility II: Lighting Equipment



Products: Wires and Cables

Source: Company, ICICI Direct Research

Though "Metering & Systems" will be the key driving segment for the company in the coming years, we believe that the "Consumer & Industrials" segment too hold substantial growth potential in the years to come. As per the industry reports, Indian switchgear and wires & cables market are projected to grow at ~15% CAGR over 2019-23. According to a report, Indian LED lighting market is also projected to grow at ~23% CAGR over 2019-25.

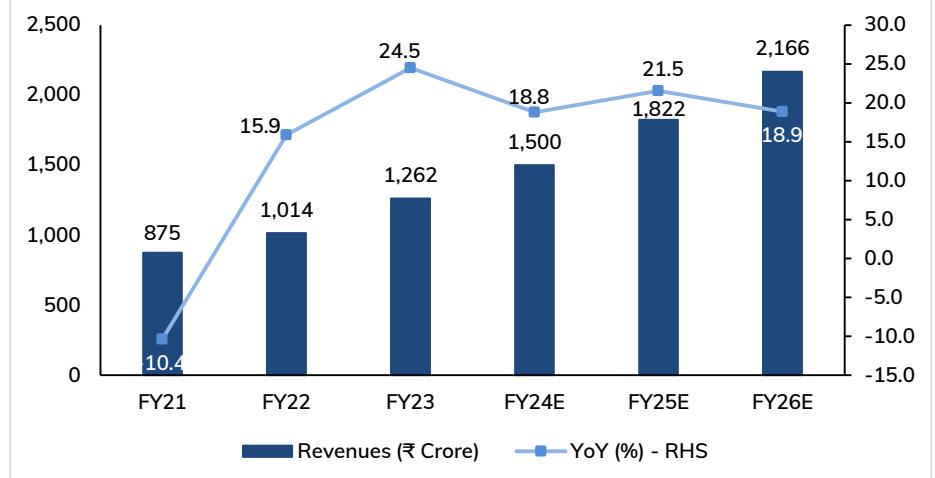
We believe that, the company is well positioned to witness the substantial growth in the coming period led by its strong design, development & manufacturing capabilities along with the significant industry tailwinds. Company is also confident of strong growth cycle unfolding over the next 3-5 years and thus remain focused on improving its infrastructure, technology and market reach to maintain its consistent growth and market-leading position, notably in the Smart Meter, Switchgear and Wire & Cable segments

Revenue growth expected at ~20% CAGR over FY23-26E

Company's revenue grew at 8.9% CAGR over the last 3 years (FY20-23), led by ~9% CAGR in both the segments - metering & systems and consumer & industrials. In consumer & industrials, the sub-segments – switchgears and lighting grew by 4-5% CAGR while cables witnesses sharp 29.4% CAGR during the period.

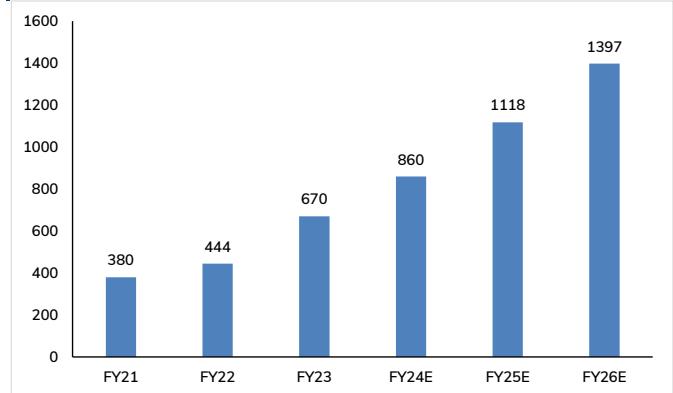
Going ahead, revenue growth is expected to be at ~20% CAGR over FY23-26E to ₹ 2166 crore in FY26E, mainly led by execution of strong order book and expected healthy order inflows in the smart meters segment. In consumer & industrials segment also, company is poised to do well in switch-gears and wires & cables segments with 15% CAGR and 12% CAGR respectively over the same period

Exhibit 4: Healthy revenue growth ahead



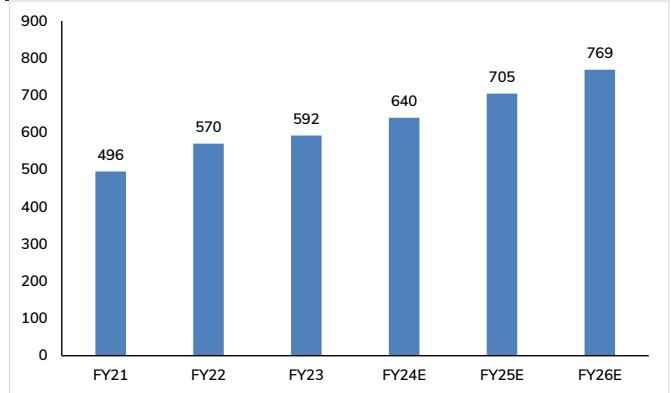
Source: Company, ICICI Direct Research

Exhibit 5: Metering & Systems segment – Revenue (₹ crore) expected to grow at 28% CAGR (FY23-26E)



Source: Company, ICICI Direct Research

Exhibit 6: Consumer & Industrials segment – Revenue (₹ crore) expected to grow at 9% CAGR (FY23-26E)

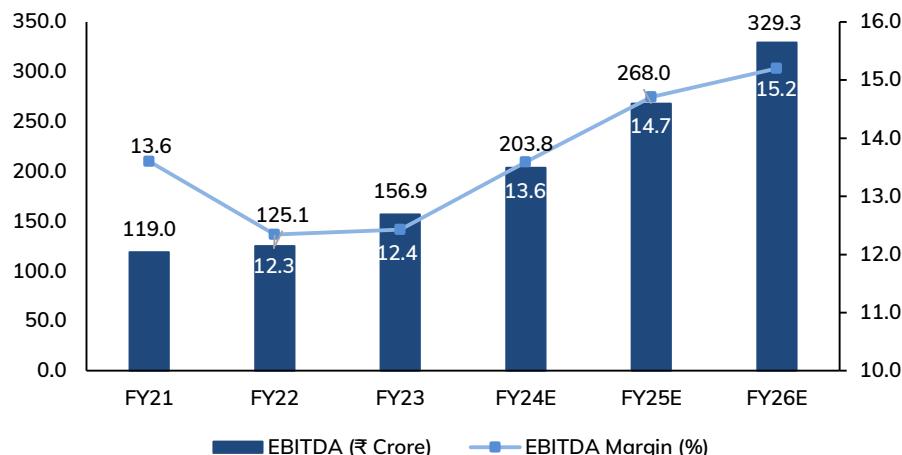


Source: Company, ICICI Direct Research

EBITDA margins expected to improve over FY23-26E; EBITDA expected at ~28% CAGR

Company's EBITDA margin stood at 12.3-12.4% during FY22-23, contracted from 13.6% in FY21 due to unpreceded rise in raw material costs. Going ahead, we estimate EBITDA margins to improve gradually to ~15% by FY26E led by pick-up in execution in meters business (where margins are relatively better) and positive operating leverage. We estimate EBITDA CAGR of 28% over FY23-26E to ₹ 329.3 crore in FY26E from ₹ 156.9 crore in FY23

Exhibit 7: EBITDA & EBITDA margin trend

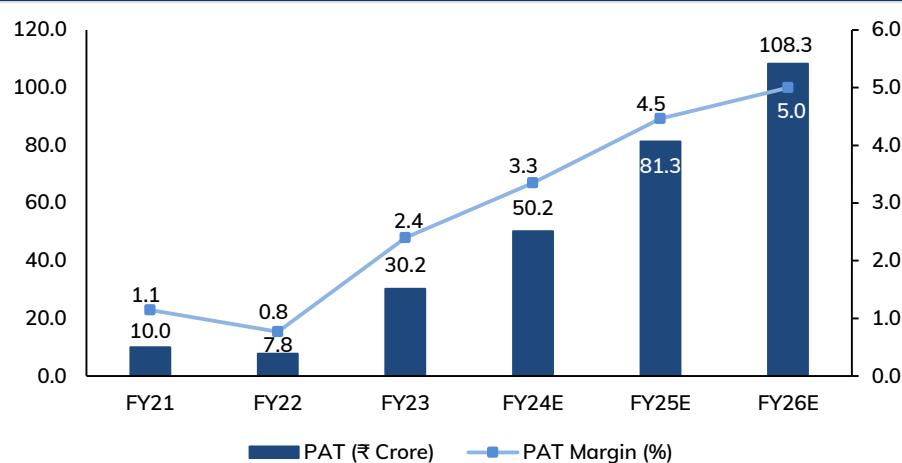


Source: Company, ICICI Direct Research

PAT expected to grow ~53% CAGR over FY23-26E

PAT increased significantly in FY23 by 3.9x YoY to ₹ 30.2 crore, mainly led by sharp growth in revenues and maintained operating margins during the year. Over the period FY20-23, PAT CAGR stands at 10.9% YoY. Going ahead, we estimate PAT CAGR of 53% over FY23-26E to ₹ 108.3 crore in FY26 led by strong revenue growth and improvement in margins

Exhibit 8: PAT trend

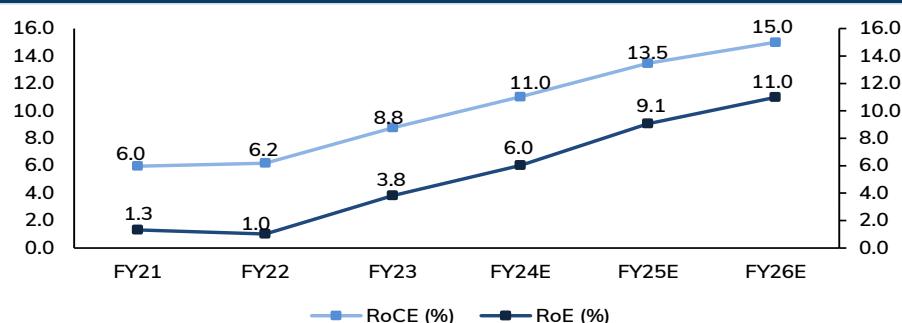


Source: Company, ICICI Direct Research

Return ratios to improve considerably over FY23-26E

Going ahead, we expect the return ratios to improve over the period FY23-26E as asset turnover ratio and margins are expected to see further improvement. RoCE (Return on Capital Employed) and Return on Equity (RoE) are estimated to improve to 15% and 11% by FY26E respectively from 8.8% and 3.8% respectively in FY23

Exhibit 9: Return ratios



Source: Company, ICICI Direct Research

Key risk and concerns

Increasing competition in the industry and challenges arising due to the transition from conventional to smart meter

Increasing competition in the smart meter industry and challenges arising due to the transition from conventional to smart meter may impact the opportunities to the company from this industry, which in-turn may impact the operations and financials

Volatility in raw material prices

Fluctuations in the prices of raw materials or unforeseen disruption in the procurement of raw materials on time may significantly impact the Company's manufacturing cost, further resulting in the inability to supply the products to customers at competitive prices

Slow macro-economic growth

The global economic slowdown and fear of global recession would directly and indirectly impact all the sectors in India including the power sector, resulting in demand compression and lower revenue for the Company. It may also impact the Company's export business

Financial summary

Exhibit 10: Profit and loss statement					₹ crore
(₹ Crore)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,014	1,262	1,500	1,822	2,166
% Growth	15.9	24.5	18.8	21.5	18.9
Other income	4.2	3.6	4.0	4.5	5.0
Total Revenue	1,014	1,262	1,500	1,822	2,166
% Growth	15.3	24.5	18.8	21.5	18.9
Total Raw Material Costs	653	842	997	1,203	1,419
Employee Expenses	124	144	167	194	228
other expenses	112	120	132	158	190
Total Operating Expenditure	889	1,105	1,296	1,554	1,837
Operating Profit (EBITDA)	125	157	204	268	329
% Growth	5.1	25.4	29.9	31.5	22.9
EBITDA Margin	12.3	12.4	13.6	14.7	15.2
Interest	68	75	89	103	121
PBTD	61	85	118	169	213
Depreciation	47	38	41	44	47
PBT before Exceptional Itc	14	47	77	125	167
Total Tax	6	16	27	44	58
PAT before MI	8	30	50	81	108
PAT	8	30.2	50	81	108
% Growth	(22.1)	287.3	66.1	62.0	33.1
EPS	1.2	4.7	7.8	12.6	16.8

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement					₹ crore
(₹ Crore)	FY22	FY23	FY24E	FY25E	FY26E
Profit after Tax	8	30	50	81	108
Depreciation	47	38	41	44	47
Interest	68	75	89	103	121
Cash Flow before WC changes	123	144	181	229	276
Changes in inventory	(64)	21	(110)	(103)	(132)
Changes in debtors	8	(98)	(112)	(134)	(160)
Changes in loans & Advances	(0)	(0)	-	-	-
Changes in other current assets	4	(5)	(11)	(5)	(9)
Net Increase in Current Assets	(54)	(78)	(233)	(243)	(301)
Changes in creditors	39	1	66	64	68
Changes in provisions	(2)	1	0	-	-
Net Inc in Current Liabilities	33	(14)	68	66	72
Net CF from Operating activities	102	52	16	52	47
Changes in def tax assets	3	8	(0)	-	(1)
(Purchase)/Sale of Fixed Assets	(40)	(43)	(43)	(40)	(40)
Net CF from Investing activities	(43)	(18)	(45)	(41)	(42)
Dividend and Dividend Tax	(1)	(6)	(10)	(16)	(22)
Net CF from Financing Activities	(57)	(43)	(20)	1	(8)
Net Cash flow	2	(10)	(49)	13	(3)
Opening Cash/Cash Equivalent	79	80	70	22	34
Closing Cash / Cash Equivalent	80	70	22	34	31

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet					₹ crore
(₹ Crore)	FY22	FY23	FY24E	FY25E	FY26E
Equity Capital	64.3	64.3	64.3	64.3	64.3
Reserve and Surplus	700	729	769	834	920
Total Shareholders funds	764	794	833	898	985
Total Debt	565	598	678	798	933
Total Liabilities	1,353	1,430	1,550	1,735	1,957
Gross Block	594	644	686	726	766
Acc. Depreciation	156	194	236	280	326
Net Block	438	450	450	446	440
Capital WIP	10	9	10	10	10
Total Fixed Assets	454	459	460	456	450
Non Current Assets	48	39	41	41	43
Inventory	507	486	596	699	831
Debtors	505	603	715	849	1,009
Loans and Advances	1	1	1	1	1
Other Current Assets	25	30	41	46	55
Cash	80	70	22	34	31
Total Current Assets	1,135	1,203	1,388	1,643	1,941
Current Liabilities	229	230	296	359	427
Provisions	7	8	8	90	91
Total Current Liabilities	285	270	339	405	476
Net Current Assets	851	933	1,049	1,238	1,464
Total Assets	1,353	1,430	1,550	1,735	1,957

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios					
(Year-end March)	FY22	FY23	FY24E	FY25E	FY26E
EPS	1.2	4.7	7.8	12.6	16.8
Cash per Share	12.5	10.9	3.4	5.3	4.9
BV	118.9	123.4	129.6	139.7	153.2
Dividend per share	0.1	1.0	1.6	2.5	3.4
Dividend payout ratio	0.1	0.2	0.2	0.2	0.2
EBITDA Margin	12.3	12.4	13.6	14.7	15.2
PAT Margin	0.8	2.4	3.3	4.5	5.0
RoE	1.0	3.8	6.0	9.1	11.0
RoCE	6.2	8.8	11.0	13.5	15.0
RoIC	6.2	9.0	10.9	13.5	15.0
EV / EBITDA	15.8	12.9	10.5	8.4	7.3
P/E	191.1	49.4	29.7	18.3	13.8
EV / Net Sales	1.9	1.6	1.4	1.2	1.1
Sales / Equity	1.3	1.6	1.8	2.0	2.2
Market Cap / Sales	1.5	1.2	1.0	0.8	0.7
Price to Book Value	2.0	1.9	1.8	1.7	1.5
Asset turnover	0.8	0.9	1.0	1.1	1.1
Debtors Turnover Ratio	2.0	2.3	2.3	2.3	2.3
Creditors Turnover Ratio	4.8	5.5	5.7	5.6	5.5
Debt / Equity	0.7	0.8	0.8	0.9	0.9
Current Ratio	3.7	4.3	4.1	4.1	4.1
Quick Ratio	1.9	2.4	2.3	2.3	2.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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