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MEDIUM-TERM investors can look out for listing gains due to relatively cheaper valuations; co to use funds to cut debt

Growth Prospects Make HPL a Buy for Long Term

IPO WATCH

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ET Intelligence Group: HPL Electric & Power will raise upto ₹361 crore from the primary market to reduce debt and to bring down cost of working capital. The immediate benefit of this will be seen in lower interest expense and higher earnings and net margin. However, the company's return on equity (RoE), which is less than half of some of its peers, may not improve in the near term due to infusion of equity capital.

Given its relatively cheaper valuation, the stock may report listing gains. Barring this, medium-term investors may not have much to look forth in the IPO. But, long-term investors with a horizon of at least two years may subscribe considering the improving condition of state electricity boards (SEBs) and its initiative to enter the consumer segment.

Business

HPL manufactures electric meters, switchgear, lighting and wire cables. It earned 47% of its FY16 revenues from sales of electric meters and commands 20% share in ₹3,000-crore market.

Financials

After the IPO, the company's total debt is expected to fall to ₹200 crore from ₹547 crore in FY16.

Risks & Valuation

The metering business is commoditised, while other segments are small where HPL has less than 5% market share. It plans to enter consumer business which may increase ad expense, thereby reducing profitability at least in the short term.

At upper band of ₹202, the stock will be valued 14.4 times the projected FY18 earnings — lower than the P/E of over 30 for peers such as Havells India, Crompton Greaves Consumer Electricals and V-Guard.

Financial Matrix

Fig in ₹ cr	2016	CAGR (4 yr)
Revenues	1121.2	12%
EBITDA Margin (%)	13.02	
Finance Cost	78.2	17%
Net Profit	36.6	7%
Debt	547.5	16%
Receivable	512.3	24%

SOURCE: IPO prospectus

IPO details

IPO size: **Upto ₹361 crore**

Price Band: **₹175-202 per share** in multiple of 70 shares

Issue opens: **Sept 22**, closes: **Sept 26**

Implied market cap: **₹1,173-1,298 crore**

Equity dilution of 27% on account of IPO

EXPECTED EARNING BOOST

After listing, HPL's P/E may jump over 17 based on earnings boost due to lower debt