

Publication: Money Control	Edition: Online
Date: September 22, 2016	Page:

HPL Electric IPO: 10 things to know before subscribing

Electric equipment manufacturer HPL Electric & Power is set to open its Rs 361-crore initial public offer for subscription on September 22. The price band is fixed at Rs 175-202 per share.

Electric equipment manufacturer HPL Electric & Power is set to open its Rs 361-crore initial public offer for subscription on September 22.

The price band is fixed at Rs 175-202 per share. The company has reduced its issue size from Rs 450 crore that was seen in draft red herring prospectus filed in February.

The issue will close September 26. Bids can be made for a minimum of 70 equity shares and in multiples of 70 equity shares thereafter. Equity shares are proposed to be listed on NSE and BSE.

The book running lead managers to the issue are SBI Capital Markets, ICICI Securities and IDFC Bank. Here are 10 things you should know before subscribing the issue:

1) About the company

HPL Electric manufactures various electric equipments, including, metering solutions, switchgears, lighting equipment and wires & cables. It currently sells its products under the brand 'HPL'. It has pan-India network of over 2,400 authorised dealers or distributors and 15,000 retailers, as on March 2016. Its carrying and forwarding agents supply products from warehouses located in 21 states and union territories in India. Further, it has over 90 branch offices and representative offices across India, which carry out marketing activities. It currently owns and operates seven manufacturing facilities located across the states of Haryana and Himachal Pradesh. HPL supplies products to power utilities, which primarily includes electricity boards & power distribution companies, and also to retail and industrial customers. For fiscal 2016, revenue from sales to power utilities contributed to 45.21 percent of net consolidated revenue from operations and the balance revenue was from sales through authorised dealer network. As on March 2016, it had confirmed orders amounting Rs 188.2 crore.

2) Market Share and Capacity

HPL had the largest market share in electricity energy meters and the fifth largest market share for LED lamps in India during FY15, according to Frost & Sullivan Report, February 2016. It is one of the oldest manufacturers of LV switchgears in India with nearly 50 percent market share in changeover switches in FY15, and has an established presence in the market for CFLs, with increasing focus on manufacture and supply of LED lamps, and wires and cables. As on March 2016, its aggregate installed capacity for manufacture of meters was nine million, including that of the Himachal Energy Manufacturing Facility, switchgears was 16.51 million, for lighting equipment was 26 million and wires and cables was 194.40 million meters.

3) Research & Development

It has two in-house research and development centres, one each at Kundli (Haryana) and Gurgaon (Haryana). Its research and development efforts include design and development of all types of

energy metering solutions. It also operates two tool rooms with these R&D centres, where it has in-house component designing and tool designing facilities. As on March 2016, it employed 97 engineers at these R&D centres.

4) Objects of Fund Raising

The New Delhi-based company will use issue proceeds for repayment of debt (Rs 130 crore) and funding working capital requirements (Rs 180 crore). 5) Debts on Books As on June 2016, the aggregate amount of secured loans outstanding was Rs 593.26 crore, comprising term loans of Rs 141.79 crore and secured working capital loans of Rs 451.47 crore. Additionally, it had availed of non-fund based working capital facilities aggregating to Rs 391.55 crore, on a standalone basis. "We believe that such repayment/prepayment of borrowings will reduce debt to equity ratio and finance costs and facilitate utilisation of internal accruals for further growth of business," the company said in its RHP.

5) Earnings

HPL's profit grew by 5.77 percent to Rs 36.62 crore in FY16 and 22 percent to Rs 34.62 crore in FY15 on year-on-year basis. Revenue in same period increased 6.6 percent to Rs 1,121.25 crore and 3.5 percent to Rs 1,051.85 crore. Exports contributed 1.21 percent to revenue in FY16 and 2.61 percent in FY15. Segmentwise revenue and each segment's contribution to revenue:

6) Capex and Working Capital

HPL invested around Rs 230 crore in capex over the last four years in anticipation of revival in demand. The company will be able to capitalise on revival in demand without any significant incremental capex, the company said. Net working capital days increased to 158 days in FY16 from 129 days in FY12. Significant increase in debtor days was largely responsible for increase in net working capital. Debtor days increased to 168 days in FY16 from 110 days in FY12. Significant increase in working capital was largely funded by debt leading to increase in leverage on books. HPL said it was focused on reducing working capital intensity by introducing measures like channel financing and clearing & forwarding agent model for inventory management. Impact of UDAY should also help improve payment cycle from SEBs, it added.

7) Growth and Competitors

The market for electric equipment is expected to grow at CAGR of 8-12 percent between 2016 and 2020, with the LED market expected to grow significantly, at a CAGR of 62 percent during the corresponding period. The large scale promotion of energy efficiency by the Government has resulted in greater acceptance of LED lamps that use up to 70 percent lesser energy than conventional luminaires, which is expected to drive the market for LEDs to reach Rs 31,010 crore by 2020. The market for electricity meters is expected to grow at a CAGR of 11.5 percent between 2016 and 2020, fuelled by various initiatives of the Government of India, such as UDAY, which is expected to revive the financial condition of power utilities. During this period, the market for prepayment meters is expected to grow at a CAGR of 15.1 percent and smart meters at a CAGR of 5.3 percent, while explosive growth in this market is expected after 2022, when proposed civil works for smart cities and smart grids near completion. (Source: Frost & Sullivan Report, February 2016) It currently exports products from India solely on receipt of confirmed

orders. It plans to enter new international markets, primarily in the Middle East, Africa and the south-east Asian region.

9) Shareholding

Shareholding of promoters and promoter group at the time of filing red herring prospectus with SEBI.

10) Management Team

Lalit Seth is the chairman and managing director of HPL with an experience of over 40 years in the electric equipment manufacturing industry. His sons Rishi Seth and Gautam Seth are the joint managing directors of the company, having 20 and 15 years of experience, respectively. Chandra Prakash Jain is the wholetime director. Vinod Ratan is the CFO as well as whole time director of the company. Senior management team is supported by other skilled, semi-skilled and contractual workers, including 97 engineers employed at R&D centres.

Link: http://www.moneycontrol.com/news/ipo-issues-open/hpl-electric-ipo-10-things-to-know-before-subscribing_7494041.html?utm_source=ref_article