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HPL to Raise ₹450 Cr via IPO

New Delhi-based diversified electrical equipment major HPL Electric & Power Ltd is planning to raise ₹450 crore through an initial public offering (IPO). As per the draft red herring prospectus filed with SEBI in February this year, the company is considering a pre-IPO placement of up to 42 lakh equity shares aggregating ₹125 crore with certain investors. The equity shares will be listed on the BSE and NSE.

In an exclusive interview with *SEL*, the company's joint managing director Gautam Seth (gautamseth@hplindia.com) states that the company has doubled its turnover from ₹568 crore in 2010-11 to over ₹1,300 crore in 2015-16, and emerged as one of the country's top-5 lighting players after entering the segment barely eight years ago. Seth believes it's time now for HPL to embark upon the next level of growth by tapping into its core capabilities, and partaking in the government's infra push. Here are excerpts of the interaction…

GETTING READY: Promoters Gautam Seth, Lalit Seth and Rishi Seth (L-R) are looking to script a new growth story

Q. How will you utilise the proceeds of the IPO?

We intend to utilise up to ₹2,427.90 million (about ₹243 crore) from the net proceeds towards repayment/prepayment of borrowings in fiscal 2017 in order to reduce our debt-to-equity ratio and our finance costs. Another ₹2,427.90 million (about ₹243 crore) shall be used to augment working capital.

The balance is proposed to be utilised for general corporate purposes, subject to such utilisation not exceeding 25% of the net proceeds, in compliance with the SEBI ICDR regulations. These purposes would include strategic initiatives, brand building and strengthening of marketing activities, and meeting ongoing general corporate exigencies or any other purposes as approved by our Board.

Q. What will attract an investor to subscribe to your IPO?

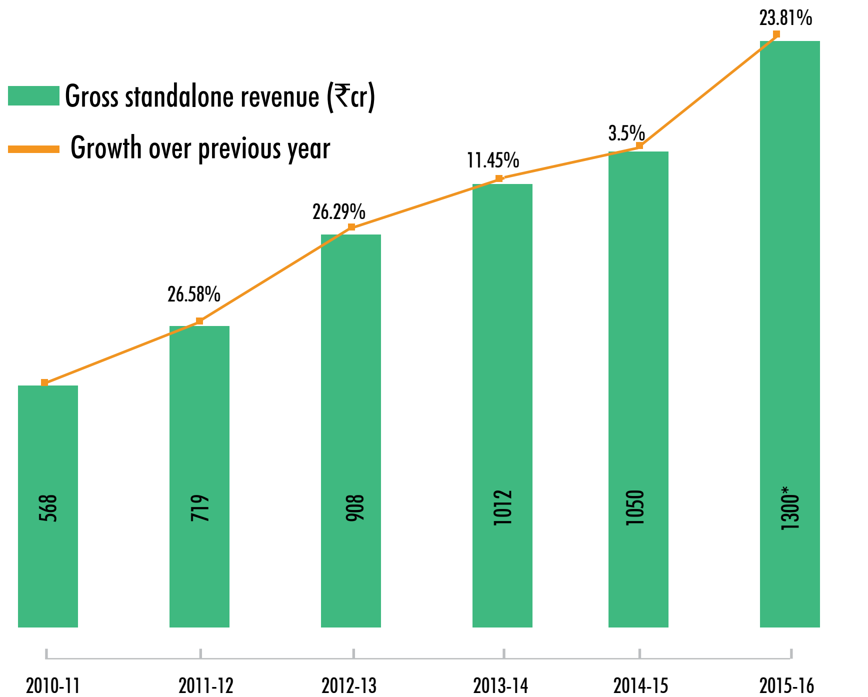
The fundamentals of the industry are very strong. Our company is into core products and manufacturing. Over the last five to six years, we have invested more than ₹270 crore in building up new facilities and upgrading the existing ones to some extent. We intend to utilise working capital for immediate growth. If we were to raise the fund and then go for capacity expansion, it would have involved a time lag of four to five years until the new facility comes up and subsequently contributes to the growth. Our company is bringing that kind of advantage on the table that will allow investors to reap the results from day one and not have to wait for five long years. Investors can expect to derive the benefits from the third quarter or calendar year end onwards. After this issue we will have leveraged books, and will be able to share growth with our investors.

Q. What are the growth opportunities for the company?

The growth triggers are very clear. The Energy Meter segment is expected to ride on the back of the government's initiatives such as Deen Dayal Upadhaya Gram Jyoti Yojna, Integrated Power Development Scheme, and UDAY. These initiatives include rural electrification, monitoring of distribution transformers, setting up new grid and sub-stations, and setting up metering infrastructure. The LV switchgears and Wires &

Cables segments are poised to take off with the government's reform push for expanding and developing T&D network, augmenting power capacity, and increasing demand for renewable energy. The revival of the industrial segment and growth in the residential segment is also expected to push overall demand.

The domestic LED lighting market is also a big driver. It is expected to reach ₹31,010 crore in 2020, growing at a CAGR of 62% between 2016 and 2020. The government's flagship Domestic Efficient Lighting Programme (DELP) - to replace all 77 crore incandescent bulbs sold in the country by LEDs - and Street Light National Programme (SLNP) - to replace 3.5 crore conventional streetlights by March 2019 - are expected to significantly increase demand for LEDs in the coming years. We will be able to tap into these bigger opportunities and others that will unfold as we go along.



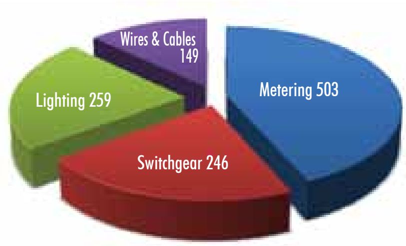
SEL Research

Market Share

- Energy Meters: 20%
- LV Switchgears: 5%
- LED lighting: 5%
- Wires & Cables: Among players categories as 'others organised' that controls 10%
- CFL Lighting: Among players categories as 'others' that controls 33%

Frost & Sullivan Report

Gross Segment Revenue 2014-15 (₹cr)



SEL Research

Q. What are your strengths?

Our company is one of the few manufacturers in the country that has pretty much backward integrated state-of-the-art manufacturing. We have two manufacturing facilities in Gurgaon, and one each in Kundli, Sonepat, Jabli and Gharaunda. Our company has R&D centres in Gurgaon and Kundli, which are approved by the Department of Scientific and Industrial Research (DSIR), Ministry of Science and Technology. These have in-house tool rooms and testing facilities and are manned by 105 engineers. We have become very strong in electronics manufacturing due to our 20-year experience in meter manufacturing. This has become our backbone to bring out LED drivers, PCBs and the entire electronics that go into lighting. We also have a pan-India distribution network with over 2,000 dealers and distributors, more than 12,000 retailers, besides 600-plus workforce in sales and marketing.

Q. How are you planning to build the HPL brand?

We manufacture and sell our products under the umbrella brand HPL, which has been registered in the country since 1975. We have been able to maintain and enhance the brand in the electric equipment industry. A key component of our competitive and growth strategy will be to boost our brand through innovative and focused marketing initiatives. Our company expects that the listing of equity shares will enhance its visibility and its brand image among the existing and potential customers. We will focus on appealing to the younger consumers, who are the future house owners with our next generation products such as smart metering, microprocessor-based MCCBs, lighting automation, and solar cables. We want to make HPL a household name. ●

Mrinmoy Bhattacharjee