

Hind Rectifiers Ltd.

₹ 82

*Equipped for the Railway Expansion !***Buy**

Oct 09, 2015

Company Background

Hind Rectifiers Ltd. (Hind Rect) was founded in 1958, in collaboration with Westinghouse, Brake & Signal, U.K. It has long standing tradition and experience in developing, designing, manufacturing and marketing Power Semiconductor, Power Electronic Equipments and Railway Transportation Equipments. In the Year 1959-60, Hind Rect shifted the activities to the present location of 20,000sq. Meters campus at Bhandup, Mumbai. Starting early 70's Hind Rect started Manufacture of equipments like battery chargers, High Voltage and High Current Rectifiers for Railway Applications were also started about the same time. In the year 2001, new manufacturing facilities were created in Bhandup, Mumbai for manufacturing 25 KVA inverter to 180 KVA convertor for Indian Railways. To commemorate its Golden Jubilee it inaugurated two more plants at Dehradun, Uttarakhand in 2007 to manufacture power equipments for Railways.

Key Highlights

- ➔ Hind Rect has started its quest for diversification in other industries looking at the past 2 year order stagnation from its major customer.
- ➔ To ease off the outdated technology problem Hind Rect has long back entered into technical tie-up with global leaders for sourcing state of art technologies. Its technical collaborators are: Transtechnik, Germany for manufacturing inverters and converters for railway application and Infineon Technologies, Germany for IGBT prime stacks. This ensures that its technology remains at par with the bidding Multinationals.
- ➔ Hind Rect has decided to acquire 50% stake in M/s. Gauranga Soft-Tech Pvt. Ltd., a company with skill sets in embedded systems development, software development & latest mobile based developments and M/s. Gauranga Systems Private Limited, a company specializing in manufacturing & related coordination, OEM support, field implementation etc at a total consideration of Rs.10 mn. Both these companies will help in developing various software and hardware needed by the Company for its business purpose. The cost of the products to be manufactured by the Company will be reduced and eventually it will reinforce, enhance and strengthen the bottom line of the Company.

Key Financials

Year Ended 31 st	Mar 13	Mar 14	Mar 15
Revenue (INR mn)	1,363.8	971.9	951.0
Rev. growth (%)	15.5	(28.7)	(2.2)
EBITDA (INR mn)	147.2	(28.9)	(13.3)
Net profit (INR mn)	101.3	(49.3)	(35.7)
Shares outstanding (mn)	15.1	15.1	15.1
EPS (INR)	6.7	(3.3)	(2.4)
EPS growth (%)	(15.9)	(148.7)	(27.6)
P/E (x)	7.6	(10.4)	(27.9)
RONW (%)	15.1	(7.4)	(6.5)
ROCE (%)	12.0	(5.7)	(4.7)

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Info Codes

Reuters	: HRCT.BO
Bloomberg	: HREC@IN
NSE	: HIRECT
BSE	: 504036

Market Data

52 Wk Range (₹)	: 45 / 105
Shares in Issue (mn)	: 15.1
Mkt. Cap (₹ bn)	: 1.20
BSE 2 Wk Avg Vol	: 6854

Share Holding Pattern (%)

Promoters	: 44.49
FII's	: 0.00
DII's	: 0.06
Others	: 55.45

Investment Theme

Hind Rect is one of the oldest and most reliable source of supply for the Indian Railways, and this legacy will only keep growing. With the new front runners and a change in governance, it seems that Indian Railways is headed towards great growth, and the company is geared up to match their demand, both in terms of manufacturing and technology. Further learning from the past stagnant 2 years where there was no major purchase by the Railways, Hind Rect is now looking to turn things around now. It plans to reduce dependency on just one industry and diversify the Product portfolio the reason it has switched to Heavy R&D and is also on the verge of opening a 3rd R&D Centre at Kolkata. Looking at the emerging opportunities in Railways and the fact that the company has a long association with the same. The coming railway budget may give the required push to the stock.

Time for a Rectification!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 13	Mar 14	% Chg	Mar 15	% Chg
Total Sales + Excise	1454.2	1019.1	(29.92)	990.3	(2.83)
Other Income	2.3	4.1	78.26	9.8	139.02
Change in Stocks	55.4	(6.7)	(112.09)	(24.8)	270.15
Raw Material Con.	942.0	685.3	(27.25)	634.3	(7.44)
Employee Exp.	158.3	156.4	(1.20)	163.4	4.48
Indirect Taxes	93.6	51.9	(44.55)	49.8	(4.05)
Other Exp.	174.7	156.7	(10.30)	148.3	(5.36)
Operating Exp.	1313.2	1057.0	(19.51)	1020.6	(3.44)
Operating Profit	141.0	(37.9)	(126.88)	(30.3)	(20.05)
Total Interest	10.2	17.7	73.53	24.7	39.55
Gross Profit	133.1	(51.5)	(138.69)	(45.2)	(12.23)
Net Dep.	22.0	19.1	(13.18)	8.4	(56.02)
Total Taxation	9.8	(21.3)	(317.35)	(17.9)	(15.96)
Net Profit/Loss	101.3	(49.3)	(148.67)	(35.7)	(27.59)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 12	Mar 13	Mar 14	Mar 15
SOURCES OF FUNDS	782.9	898.2	884.2	891.0
Equity Share capital	30.1	30.1	30.1	30.1
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	601.7	674.8	625.5	603.4
Long Term Loans	5.1	193.3	228.6	257.5
Short Term Loans	146.0	0.0	0.0	0.0
USES OF FUNDS	782.9	898.2	884.2	891.0
Gross Block	305.0	339.3	347.9	312.3
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	145.8	166.5	188.5	130.9
Net Block	159.2	172.8	159.4	181.4
Capital Work in Progress	0.0	0.0	0.1	13.3
Investments	0.0	0.0	0.0	0.0
Current Assets	871.9	970.9	972.5	969.4
Less : Current Liabilities	248.2	245.5	247.8	273.1
Total Net Current Assets	623.7	725.4	724.7	696.3
Misc. Expenses not writtenoff	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	0.0	0.0	0.0	0.0
Mkt Val. Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	38.8	38.0	36.5	55.9
Dividend (%)	80	80	10	0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 14	Dec 14	Mar 15	Jun 15
Net Sales	259.4	207.6	348.2	127.0
Cost Of Sales	268.0	219.4	328.3	142.7
Operating Profit	(8.6)	(11.8)	19.9	(15.7)
Other Income	0.7	0.7	1.6	0.6
Adjusted PBDIT	(7.9)	(11.1)	21.5	(15.1)
Financial Expenses	5.0	5.3	8.7	8.2
Depreciation	3.6	3.8	3.9	3.8
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	(16.5)	(20.2)	8.9	(27.1)
Tax Charges	0.0	0.0	(17.9)	0.0
Adjusted PAT	(16.5)	(20.2)	26.8	(27.1)
Non Recurring Items	0.0	0.0	5.6	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	(16.5)	(20.2)	32.4	(27.1)

52 Week Index Relative Percentage Appreciation



Hind Rect vs SENSEX

Risks Associated

➔ Major Business with few customers

Since the major business of the company comes through the Indian Railways the lacklustre in Budget spending of the Railways directly hampers the growth and development of the company This is evident for the past few years where very few orders were released.

➔ Competition, Price War & Policies

There can be severe undercutting of prices of various products supplied by the company and to withstand competition a pressure on margins or marketshare may happen. Further Policies of Indian Railways and the Government could influence growth. Delayed cash flow could put pressure on working capital and also hamper profitability of business.

➔ Sudden Change in Technology

The current focus of the Railways suddenly has turned to modernise technology and thereby improve service though there are many R&D products in the pipeline a lack of timely delivery of the same would hamper the company functions.

➔ Coordinative issues with orders

Considering the majority business is of assembly parts to various rail projects the orders can be held due to non delivery of other suppliers which can hamper the payment schedule.

Hind Rect

In a Nutshell

Hind Rectifiers Limited specialises in Designing, Manufacturing and Marketing of several types and ratings of manufactures highly technical & strenuously engineered products including rectifiers, transformers, inverters, converters, semi-conductors, power conductors & electrostatic precipitators using dynamic tools leading-edge technology & nonparallel design. A majority of its products are used primarily for Railways and Industrial Applications. Established in 1958 in Mumbai. Hind Rect, is a pioneer in the field of Semiconductors and Traction Inverters. Its manufacturing Units are located at Mumbai, Dehradun and Nashik. All units are equipped state of the art automated test set-ups and latest machines combined with modern operational processes to expedite output and enhance capacity. It also has a sales and service network expanded not only pan India but also globally. Having a strong presence in our Existing Industries, Hind Rect, now, plans to explore opportunities in diversified industries. Focussing more on existing Railway Supplies and banking on its R&D happening at Centres located at Mumbai, Dehradun and one opening shortly in Kolkata. Hind Rect is ready to compete with the multinational conglomerates of the world. The new dynamic Railway Ministry and the expansion set out in Indian Railways is expected to bring about a solid change in the company financials. We therefore recommend a buy on this stock.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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