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Q1FY22 result review,
reco change and
earnings revision

Capital Goods

Target price Rs296

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 2.4	↓ 0.9
EBITDA	↓ 91.0	↓ 26.5
EPS	↓ 87.1	↓ 21.5

Target price revision

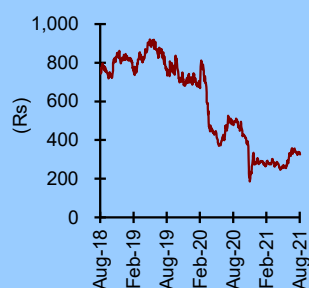
Rs296 from Rs407

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	68.6	68.6	68.6
Institutional investors	16.7	16.7	15.6
MFs and other	11.4	11.2	11.2
FIs/Banks	1.1	1.1	1.1
Insurance Cos.	2.6	3.0	2.0
FII	1.6	1.4	1.3
Others	14.7	14.7	15.8

Source: BSE

Price chart



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INDIA

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GE Power India

REDUCE

Downgrade from BUY

Weak execution and margin stress led to loss **Rs319**

GE Power India (GEPIL) reported muted revenue growth at 25% YoY to Rs5.4bn in Q1FY22 vs our estimate of Rs7.7bn. Company has a robust executable orderbook at Rs51bn (~1.5x TTM sales) and the order pipeline for FGD too is promising. GEPIL took a hit of Rs876mn due to cost overrun in the Subansiri hydro project while commodity price inflation hit the FGD segment. Together, these two factors led to overall EBIDTA loss of Rs1.3bn. Factoring-in the near-term stress on margins due to the high commodity prices and the effect of cost overrun provision, we marginally cut our FY22E and FY23E earnings by 87% and 21% respectively. We downgrade the stock to **REDUCE** (from *Buy*) with a revised SoTP target price of Rs296 (earlier: Rs407).

- **High commodity prices and cost overrun on hydro project results in EBIDTA loss:** Impacted by Rs876mn hit from cost overrun on the Subansiri hydro project and commodity price increase in FGD projects, the 'raw material to sales' ratio in Q1FY22 was high at 92%. This led to EBIDTA loss of Rs1.3bn.
- **Healthy growth in services order intake:** Company witnessed Rs1.5bn worth of orders from the services division during the quarter. The acquisition of 50% stake in NTPC GE Power Services Private Ltd (NGSL) for a consideration of Rs72mn, presents an opportunity to leverage NTPC's third-party O&M contracts.
- **Cashflows likely to be stronger FY22E onwards:** We factor-in a major uptick in FGD execution for FY22E, which we believe will lead the segmental revenues to peak. We believe, execution of the current orderbook will impact near-term working capital though cashflows are likely to improve FY22E onwards. This would be post completion of working capital intensive NTPC FGD orders.
- **Atmanirbhar push by government to help improve services market share:** Currently, ~Rs20bn of domestic coal plants are serviced by Chinese companies; however, given the government's reservations towards China, we believe majority of these contracts are likely to move to non-Chinese players. We believe, this will help improve GEPIL and Siemens' market shares (the two companies are the major third-party service solution providers).
- **Key highlights from FY21 annual report:** (i) There was net forex gain of Rs382mn under other income vs nil in FY20; (ii) provision write-back under other income reduced to Rs111mn from Rs461mn in FY20; (iii) under other expenses, GEPIL incurred an outgo of Rs620mn in reimbursement of value of cost apportioned on allocation of expenses with group company vs nil in FY20; (iv) data processing costs increased to Rs401mn from Rs133mn in FY20; (v) loss due to currency transactions was nil vs Rs201mn in FY20.
- **Downgrade to REDUCE due to cost pressures:** The impact of cost overruns and commodity price inflation is likely to keep margins under stress in FY22E. Even after adjustment of one-off cost overrun, the company booked EBIDTA loss of Rs450mn in Q1FY22. Given the cost pressures and muted execution outlook, we downgrade the stock to **REDUCE** with a revised SoTP-based target price of Rs296 (earlier: Rs407). Though the long-term growth prospects in services business in terms of margins, returns and cashflows are promising, we believe the current valuations are expensive.

Market Cap	Rs21.4bn/US\$288mn
Reuters/Bloomberg	GEPO.BO/GEPIL IN
Shares Outstanding (mn)	67.2
52-week Range (Rs)	535/177
Free Float (%)	31.4
FII (%)	1.3
Daily Volume (US\$'000)	1,210
Absolute Return 3m (%)	22.7
Absolute Return 12m (%)	(35.9)
Sensex Return 3m (%)	11.6
Sensex Return 12m (%)	43.5

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	24,459	33,430	31,807	25,836
EBITDA (Rs mn)	1,312	1,469	199	1,513
Net Income (Rs mn)	522	1,031	224	1,498
EPS (Rs)	7.8	15.3	3.3	22.3
P/E (x)	41.1	20.8	95.6	14.3
CEPS (Rs)	22.5	17.4	10.9	30.2
EV/E (x)	13.5	15.2	105.2	11.7
Dividend Yield	0.9	0.3	0.6	0.9
RoCE (%)	10.3	12.7	4.7	15.5
RoE (%)	5.8	10.9	2.3	14.3

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Outlook and valuation

GE Power (GEPIL) is focusing on ramping up its services business where it has a technological edge; this will aid medium to long term growth. Incremental addition of renewables in the overall power mix will require solutions towards flexibility for thermal power plants, which will open new vistas for growth in the long term.

Company has shifted its mill facility from Shahabad to Durgapur and will continue to execute hydro projects with its design team and equipment imported from other low-cost locations like China. The cost overrun on the Subansiri hydro project amounting to Rs876mn and, post adjustment for this, the loss of Rs450mn due to commodity and cost pressures in FGD projects, is likely to impact overall margins in FY22E. Given the stress on margins and overall impact on execution in near to medium term we downgrade the stock to **REDUCE** from **Buy**.

Assuming cost of equity at 11.5%, we arrive at a value of Rs17 per share for the FGD-related opportunity as per discounted cashflow (DCF). We value the cash separately at Rs55 and the ex-BHEL steam business at Rs9 (20x FY23E earnings), services business at Rs176 (50x FY23E earnings), hydro business at Rs12 (10x FY23E earnings), and gas outsourcing business at Rs27 (30x FY23E earnings). Given the stress on margins, execution headwinds and rich valuation, we downgrade the stock to **REDUCE** with a revised target price of Rs296 (earlier Rs407).

Table 1: SoTP valuation

SoTP	Method	Multiple (x)	FY23E PAT	Value (Rs mn)	Value per share
FGD	DCF			1,162	17
Ex-BHEL steam	PE multiple	20	31	628	9
Hydro	PE multiple	10	81	810	12
Gas outsourcing	PE multiple	30	60	1,800	27
Services	PE multiple	50	236	11,821	176
Cash (Ex-dividend)				3,669	55
Total				19,890	296

Source: I-Sec research

Table 2: Change in earnings estimate

(Rs mn)	FY22E			FY23E		
	Earlier	Revised	YoY (%)	Earlier	Revised	YoY (%)
Revenue	31,057	31,807	2.4	26,061	25,836	-0.9
EBIDTA	2,220	199	-91.0	2,059	1,513	-26.5
PAT	1,740	224	-87.1	1,908	1,498	-21.5
EBIDTA Margin (%)	7.1	0.6		7.9	5.9	

Source: I-Sec research

Table 3: Quarterly earnings trend

(Rs mn)	Q1FY21	Q1FY22	YoY(%)	Q4FY21	QoQ(%)	I-Sec est.	Var (%)	FY20	FY21	YoY(%)
Net Sales	4,320	5,404	25.1	9,305	(41.9)	7,776	(30.5)	24,459	33,430	36.7
EBITDA	(135)	(1,326)		532		376		1,312	1,469	12.0
Margin	(3.1)	(24.5)	-2140bps	5.7	-3025bps	4.8		5.4	4.4	-100bps
Depreciation	150	116	(22.6)	126	(7.6)	130	(10.8)	665	501	(24.7)
Finance Cost	85	192	124.9	182	5.4	130	47.8	493	672	36.5
Other Income	145	108	(25.5)	106	1.8	115	(6.2)	1,252	1,017	(18.8)
PBT	(226)	(1,526)		330		231		1,407	1,313	(6.7)
Tax	(46)	(378)		85		58		885	282	(68.1)
tax rate	20.5	25.0	445bps	25.9	-88bps	25.0		62.9	21.5	-4140bps
Exceptional	-	-		89		-		329	(363)	(210.3)
Reported PAT	(179)	(1,148)	540.1	156		173		851	668	(21.5)
Adjusted PAT	(179)	(1,148)	540.1	245		173		522	1,031	97.7
Margin(%)	(4.2)	(21.3)		2.6		2.2		3.5	2.0	-150bps
EPS	(2.7)	(17.1)		3.6		2.6		7.8	15.3	

Source: Company data, I-Sec research

Table 4: Segmental assumptions

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Ex- BHEL steam				
Revenues	5,061	2,174	1,896	838
Growth YoY (%)		-57	-13	-56
PBT margin assumption (%)	-	-	-	5
PBT	-	-	-	42
PAT			-	31
Services				
Revenues	3,752	4,202	4,092	6,304
PBT margin assumption (%)	5	2	3	5
PBT	199	84	123	315
PAT	149	63	92	236
Hydro				
Revenues	4,334	2,729	4,497	3,598
PBT margin assumption (%)	-	-	-20	3
PBT	-	-	-899	108
PAT			-675	81
Gas outsourcing business				
Revenues	2,000	2,000	2,000	2,000
PBT margin assumption (%)	6	2	4	4
PBT	110	40	80	80
PAT	83	30	60	60
FGD				
Revenues	4,809	20,324	17,322	11,596
PBT margin assumption (%)	1.0	1.0	0.3	2.0
FGD PBT	48	203	52	232
Other income	1,252	1,017	1,012	1,177
Exceptional	329	-363		
Calculated PBT (ex-cash)	154	291	-705	807

Source: Company data, I-Sec research

Table 5: Key assumptions*(Rs mn, year ending March 31)*

	FY20	FY21	FY22E	FY23E
FGD	4,809	20,324	17,322	11,596
Growth YoY (%)	-	322.7	-14.8	-33.1
Boiler / Steam	9,561	4,174	3,896	2,338
Growth YoY (%)	11.7	-56.3	-6.7	-40.0
Gas business outsourcing	2,000	2,000	2,000	2,000
Services	3,752	4,202	4,092	6,304
Growth YoY (%)	-14.3	12.0	-2.6	54.1
Hydro & others	4,334	2,729	4,497	3,598
Growth YoY (%)	-28.8	-37.0	64.8	-20.0
Total Revenue	24,456	33,430	31,807	25,836
Growth YoY (%)	28.5	36.7	-4.9	-18.8
Orderbook	88,726	54,107	41,801	37,464
FGD	44,965	26,649	19,327	17,731
Boiler	13,915	9,740	5,844	3,507
Service	4,204	2,728	6,636	10,332
Hydro	27,645	14,990	11,993	9,895
Order Intake	36,615	4,734	19,500	21,500
FGD	30,539	2,008	10,000	10,000
Boiler	980	-	-	-
Service	2,596	2,726	8,000	10,000
Hydro	2,500	-	1,500	1,500

Source: Company data, I-Sec research

Financial summary

Table 6: Profit & Loss statement
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Total Income	24,459	33,430	31,807	25,836
Operating Expenses	23,147	31,961	31,608	24,323
EBITDA	1,312	1,469	199	1,513
% margins	5.4	4.4	0.6	5.9
Depreciation & Amortisation	665	501	509	531
EBIT	647	969	(309)	983
Gross Interest	493	672	403	161
Other Income	1,252	1,017	1,012	1,177
PBT before exceptional	1,407	1,313	299	1,998
Add: Extraordinary				
/Exceptionals	329	(363)	-	-
Add: Share in associates				
PBT	1,736	950	299	1,998
Less: Taxes	885	282	75	499
Less: Minority Interests				
Net Income (Reported)	851	668	224	1,498
Adjusted Net Income	522	1,031	224	1,498

Source: Company data, I-Sec research

Table 7: Balance sheet
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	27,917	34,240	35,409	31,176
of which cash & cash eqv.	3,793	2,197	500	3,669
Total Current Liabilities & Provisions	24,528	27,089	31,095	25,494
Net Current Assets	3,389	7,151	4,314	5,682
Investments	27	27	29	32
Other Non-Current Assets	4,056	4,165	4,031	4,123
Net Fixed Assets	1,732	1,499	1,432	1,266
Goodwill	-	-	-	-
Total Assets	9,203	12,842	9,806	11,103
Liabilities				
Borrowings	-	3,126	-	-
Deferred Tax Liability	-	-	-	-
Minority Interest	-	-	-	-
Equity Share Capital	672	672	672	672
Face Value per share (Rs)	10.00	10.00	10.00	10.00
Reserves & Surplus	8,531	9,044	9,134	10,431
Net Worth	9,203	9,716	9,806	11,103
Total Liabilities	9,203	12,842	9,806	11,103

Source: Company data, I-Sec research

Table 8: Cashflow statement
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	1,186	1,532	733	2,029
Working Capital Changes	(5,906)	(5,668)	1,251	1,857
Capital Commitments	(105)	233	67	166
Free Cashflow	(4,825)	(3,904)	2,051	4,052
Cashflow from Investing Activities	2,123	1,328	(393)	2,207
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	-	3,126	(3,126)	-
Interest paid	(493)	(672)	(403)	(161)
Dividend paid	(244)	(67)	(134)	(202)
Extraordinary Items/Others	(1,049)	(1,406)	308	(2,727)
Chg. in Cash & Bank balance	(4,487)	(1,596)	(1,697)	3,169

Source: Company data, I-Sec research

Table 9: Key ratios
(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs)				
Diluted adjusted EPS	7.8	15.3	3.3	22.3
Recurring Cash EPS	22.5	17.4	10.9	30.2
Dividend per share (DPS)	3.0	1.0	2.0	3.0
Book Value per share (BV)	136.9	144.5	145.9	165.1
Growth Ratios (%)				
Operating Income	28.5	36.7	(4.9)	(18.8)
EBITDA	(26.6)	12.0	(86.5)	660.1
Recurring Net Income	(69.0)	97.7	(78.2)	567.7
Diluted adjusted EPS	(69.0)	97.7	(78.2)	567.7
Diluted Recurring CEPS	40.9	(22.9)	(37.3)	176.8
Valuation Ratios				
P/E	41.1	20.8	95.6	14.3
P/CEPS	14.2	18.4	29.3	10.6
P/BV	2.3	2.2	2.2	1.9
EV / EBITDA	13.5	15.2	105.2	11.7
EV / Operating Income	0.7	0.7	0.7	0.7
EV / Op. FCF (pre-capex)	(3.7)	(5.4)	10.6	4.6
Operating Ratios				
Raw Material/Sales (%)	69.6	76.2	77.5	69.0
SG&A/Sales (%)	9.9	8.0	9.9	11.0
Other Income / PBT (%)	89.0	77.4	338.2	58.9
Effective Tax Rate (%)	62.9	21.5	25.0	25.0
NWC / Total Assets (%)	18.9	57.7	62.8	38.7
Inventory Turnover (days)	34.3	21.9	30.0	28.0
Receivables (days)	198.0	241.6	210.0	200.0
Payables (days)	138.4	125.6	130.0	135.0
Net D/E Ratio (x)	(0.4)	0.1	(0.1)	(0.3)
Return/Profitability Ratios (%)				
Recurring Net Income Margins	2.1	3.1	0.7	5.8
RoCE	10.3	12.7	4.7	15.5
RoNW	5.8	10.9	2.3	14.3
Dividend Payout Ratio	38.7	6.5	59.9	13.5
Dividend Yield (%)	0.9	0.3	0.6	0.9
EBITDA Margins	5.4	4.4	0.6	5.9

Source: Company data, I-Sec research

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