

BSE SENSEX
 37,686

 S&P CNX
 11,189

CMP: INR178
TP: INR180 (+1%)
Neutral

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| | |
|-----------------------|-------------|
| Bloomberg | GETD IN |
| Equity Shares (m) | 256 |
| M.Cap.(INRb)/(USD\$b) | 45.5 / 0.7 |
| 52-Week Range (INR) | 331 / 175 |
| 1, 6, 12 Rel. Per (%) | -20/-45/-39 |
| 12M Avg Val (INR M) | 18 |
| Free float (%) | 25.0 |

Financials & Valuations (INR b)

| Y/E Mar | 2019 | 2020E | 2021E |
|-------------|------|-------|-------|
| Net Sales | 42.2 | 39.7 | 43.8 |
| EBITDA | 4.3 | 3.3 | 3.9 |
| PAT | 2.1 | 1.5 | 1.8 |
| EPS (INR) | 8.3 | 5.7 | 7.2 |
| Gr. (%) | 10.8 | -31.4 | 26.7 |
| BV/Sh (INR) | 55.8 | 59.3 | 63.8 |
| RoE (%) | 16.2 | 9.9 | 11.7 |
| RoCE (%) | 27.2 | 17.5 | 20.1 |
| P/E (x) | 25.8 | 37.6 | 29.6 |
| P/BV (x) | 3.8 | 3.6 | 3.4 |

Estimate change



TP change



Rating change



Big miss led by execution challenge

Cut estimates 30% for FY21

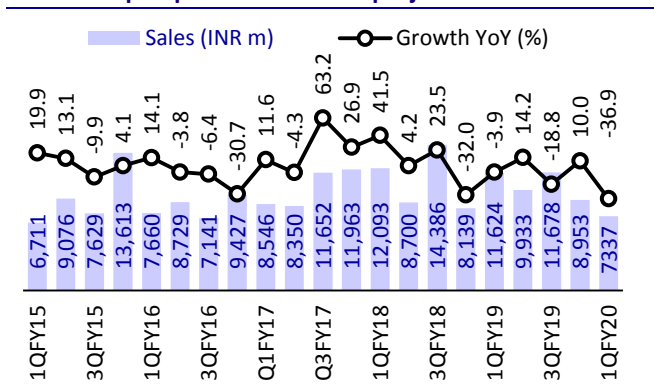
- Dragged by sub-par execution:** 1QFY20 sales declined 37% YoY to INR7.3b, below our est. of INR11.9b. Execution during the quarter was hurt by declining HVDC sales, non-execution of stressed projects and postponement of a few project executions to 2QFY20 (from 1QFY20). This, along with operating de-leverage led to EBIDTA miss (-71% YoY to INR424m v/s our est. of INR1.4b). Adj. PAT of INR34m (-96% YoY), too, was below our est. of INR776m.
- Execution challenges to impact FY20 revenues:** Revenue during the quarter witnessed sharp decline of 37% YoY due to (a) decline in HVDC revenue as the project nears completion (decline of INR650mYoY), (b) execution of a project worth INR2b being held back on stress witnessed due to delay in finalization of financial closure, and (c) execution of a State Utility project getting postponed to 2QFY20 on procedural delays from the client side. GET&D expects to recover some deferred sales over the next few quarters; however, revenues are expected to decline v/s flattish revenue guidance given for FY20 earlier.
- Margins decline sharply given operating de-leverage:** Gross margins improved 100bp YoY to 34.7% on reduced execution of the lower-margin CK order (INR221m v/s INR867m in 1QFY19). EBIDTA margin declined 660bp YoY to 5.8%, impacted by sharp decline in revenue booking. Revenue growth is expected to remain constrained on the lower order book available for execution (INR59.3b, -10% YoY). Operating margins are expected to remain under pressure. We bake in 170bp margin decline to 8.4% for FY20 to factor in the operating de-leverage due to weak execution.
- Order inflow/backlog declines in 1QFY20, but pipeline healthy:** Order intake declined 32% YoY to INR4.2b in 1QFY20, given delay in finalization of orders on account of elections. However, potential orders in the system remain healthy, considering (a) transmission infrastructure for 68GW of the renewable energy corridor are likely to be added over the next two years (expect pick-up in traction from 2HFY20), (b) USD2b substations are likely to be ordered out for the green energy corridor, and (c) near-term ordering for 28GW renewable energy capacity is likely to be concluded in CY19.
- Valuation and view:** We cut our FY20/FY21 earnings estimates by 36%/30% to factor in weaker-than-estimated execution and margins. Muted capex from PGCIL over the near-to-medium term also adds an element of uncertainty. We, thus, maintain our **Neutral** rating on the stock. We value GE T&D at 25x FY21E EPS of INR7.2 (in line with 10-year avg. P/E multiple) to arrive at a target price of INR180.

Quarterly Performance

(INR Million)

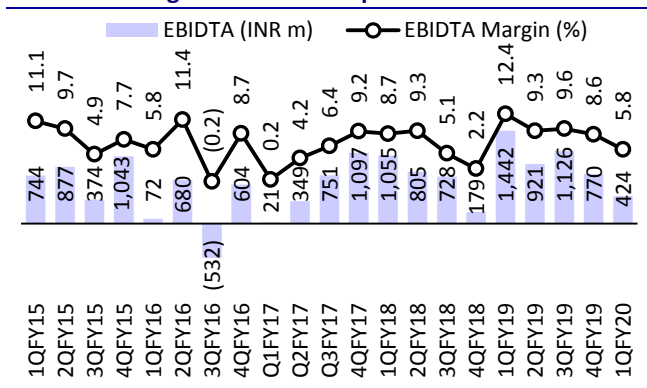
| Y/E March | FY19 | | | | FY20E | | | | FY19 | FY20E | MOFSL | Var. |
|------------------------|---------------|--------------|---------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | | | | |
| Sales | 11,624 | 9,933 | 11,678 | 8,953 | 7,337 | 9,926 | 11,514 | 10,927 | 42,188 | 39,704 | 11,863 | -38 |
| Change (%) | -3.9 | 14.2 | -18.8 | 10.0 | -36.9 | -0.1 | -1.4 | 22.1 | -2.6 | -5.9 | 2.1 | |
| EBITDA | 1,442 | 921 | 1,126 | 770 | 424 | 913 | 1,082 | 930 | 4,259 | 3,349 | 1,376 | -69 |
| Change (%) | 36.7 | 14.5 | 54.7 | 330.4 | -70.6 | -0.9 | -3.9 | 20.8 | -9.0 | -9.0 | -5 | |
| As of % Sales | 12.4 | 9.3 | 9.6 | 8.6 | 5.8 | 9.2 | 9.4 | 8.5 | 10.1 | 8.4 | 11.6 | |
| Depreciation | 217 | 215 | 202 | 198 | 220 | 207 | 212 | 225 | 832 | 864 | 216 | |
| Interest | 155 | 143 | 141 | 226 | 163 | 150 | 130 | 183 | 664 | 625 | 125 | |
| Other Income | 192 | 238 | 97 | 56 | 18 | 135 | 100 | 97 | 583 | 350 | 140 | |
| PBT | 1,262 | 801 | 880 | 402 | 60 | 691 | 841 | 619 | 3,346 | 2,211 | 1,175 | -95 |
| Tax | 442 | 287 | 350 | 141 | 27 | 235 | 286 | 226 | 1,219 | 774 | 400 | |
| Effective Tax Rate (%) | 35.0 | 35.8 | 39.7 | 35.0 | 44.2 | 34.0 | 34.0 | 36.6 | 36.4 | 35.0 | 34.0 | |
| Reported PAT | 820 | 515 | 531 | 261 | 34 | 456 | 555 | 392 | 2,127 | 1,437 | 776 | -96 |
| Change (%) | 33.0 | 8.3 | -26.1 | -6.2 | -95.9 | -11.4 | 4.6 | 50.4 | 1.8 | -32.4 | -5.4 | |
| Adj PAT | 820 | 515 | 531 | 261 | 34 | 456 | 555 | 392 | 2,127 | 1,437 | 776 | -96 |
| Change (%) | 33.0 | 8.3 | 1.8 | -14.6 | -95.9 | -11.4 | 4.6 | 50.4 | 10.8 | -32.4 | -5.4 | |

Exhibit 1: Sales below expectation due to lower execution of HVDC orders, non-execution of stressed projects and execution postponement of one project



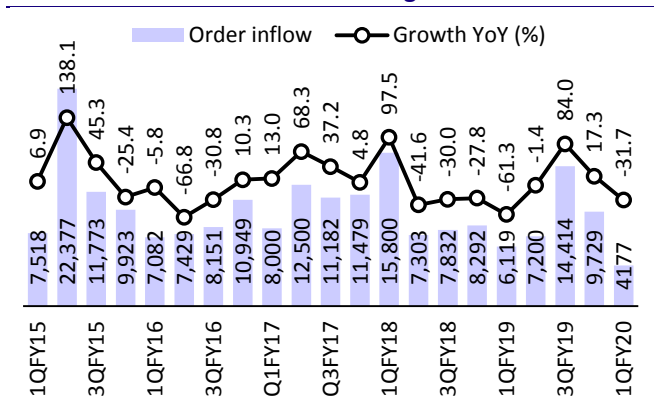
Source: Company, MOFSL

Exhibit 2: Margin declined 660bp YoY to 5.8%



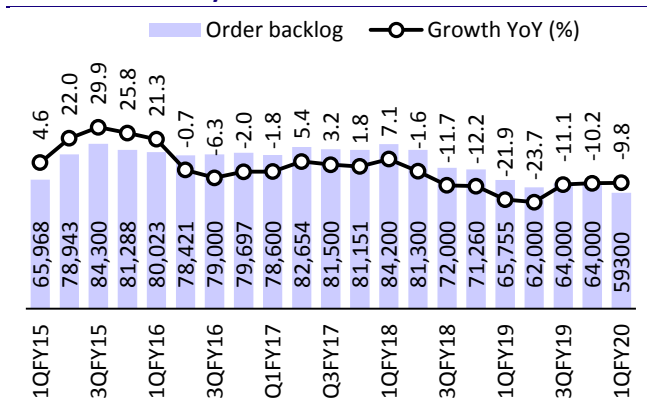
Source: Company, MOFSL

Exhibit 3: Order inflow declined sharply given delay in finalization of orders on account of general elections



Source: Company, MOFSL

Exhibit 4: Order backlog provides revenue visibility for next one and half years



Source: Company, MOFSL

Valuation and view

We cut our FY20/21 earnings estimates by 36%/30% to factor in weaker than estimated execution and margins going ahead. Muted capex from PGCIL over the near-to-medium term also adds an element of uncertainty. We, thus, maintain our **Neutral** rating on the stock. We value GETD at 25x FY21E EPS of INR7.2 (in line with 10-year avg. P/E multiple) to arrive at a target price of INR180.

Exhibit 5: Change in estimate

| Description | New | | Old | | % Change | |
|-------------|--------|--------|--------|--------|----------|-------|
| | FY20E | FY21E | FY20E | FY21E | FY20E | FY21E |
| Sales | 39,704 | 43,840 | 44,764 | 49,355 | -11% | -11% |
| EBITDA | 3,349 | 3,907 | 4,434 | 4,990 | -24% | -22% |
| Margins (%) | 8.4% | 8.9% | 9.9% | 10.1% | -1% | -1% |
| PAT | 1,437 | 1,820 | 2,241 | 2,613 | -36% | -30% |
| EPS | 5.6 | 7.1 | 8.8 | 10.2 | -36% | -30% |

Source: Company, MOFSL



Concall highlights

Orders: INR4.2b, (-32% YoY); order book at INR59.3b (-10% YoY)

- Weak quarter in orders: Order finalization delayed given the election period.
- TBCB orders are coming up for the next green corridor.
- Green energy corridors to be ordered in CY19; expect PGCIL tendering and orders in 2QFY20.
- Bangladesh HVDC - GE T&D has participated and faces competition from Indian and Chinese players; technical bids submitted; Price by end-Aug'19 and awarding by Sep'19.
- Ordering pick-up in green energy corridor to provide new opportunities for GE T&D.
- INR2b of orders stuck on account of delay in financial closure from the client's end, and is thus, slow moving.
- 65-70% of the order book is executable in the current financial year.
- Of the order book, 20% comes from Central Utility, 30% from State Utility and balance 50% from Private Utility.

Execution

- Execution delays faced by the company on account of (a) decline in HVDC revenue as project nears completion (decline of INR650mYoY), (b) execution of a project worth INR2b being held back on stress witnessed due to delay in finalization of financial closure, (c) execution of a State Utility project getting postponed to 2QFY20 given procedural delays from the client side.
- CK2 in the order book is at INR1.4b and will be completed in Mar'19/1QFY20.

Working capital and debt position

- Have seen some delays in payments from customers having financial issue. Net working capital currently stands at INR10b.
- Gross debt stand at INR2.5b and net debt at INR2b

Margins

- Given execution deferment, margins are expected to remain in higher single-digit for FY20.

Financials and valuations

| Income Statement | | | | | (INR Million) |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Y/E March | FY17 | FY18 | FY19 | FY20E | FY21E |
| Total Revenues | 40,521 | 43,317 | 42,188 | 39,704 | 43,840 |
| Change (%) | 22.7 | 6.9 | -2.6 | -5.9 | 10.4 |
| Raw Materials | 28,337 | 30,087 | 27,984 | 26,284 | 28,978 |
| Staff Cost | 4,033 | 3,878 | 3,829 | 4,062 | 4,308 |
| Other Expenses | 5,921 | 6,500 | 6,116 | 6,008 | 6,647 |
| EBITDA | 2,230 | 2,853 | 4,259 | 3,349 | 3,907 |
| % of Total Revenues | 5.5 | 6.6 | 10.1 | 8.4 | 8.9 |
| Other Income | 1,407 | 1,948 | 583 | 350 | 450 |
| Depreciation | 882 | 899 | 832 | 864 | 881 |
| Interest | 1,154 | 883 | 664 | 625 | 675 |
| PBT | 1,601 | 3,020 | 3,346 | 2,211 | 2,800 |
| Tax | 134 | 1,101 | 1,219 | 774 | 980 |
| Rate (%) | 8.4 | 36.4 | 36.4 | 35.0 | 35.0 |
| Adjusted PAT | 1,467 | 1,919 | 2,127 | 1,437 | 1,820 |
| Change (%) | 325.3 | 30.8 | 10.8 | -32.4 | 26.7 |
| Exceptional Items | -2,330 | 169 | 0 | 0 | 0 |
| Reported PAT | -863 | 2,088 | 2,127 | 1,437 | 1,820 |
| Change (%) | -350.0 | -342.1 | 1.8 | -32.4 | 26.7 |
| Balance Sheet | | | | | |
| Y/E March | FY17 | FY18 | FY19 | FY20E | FY21E |
| Share Capital | 512 | 512 | 512 | 512 | 512 |
| Reserves | 9,816 | 11,384 | 13,768 | 14,661 | 15,793 |
| Net Worth | 10,328 | 11,896 | 14,280 | 15,174 | 16,305 |
| Minority Intetest | 0 | 0 | 0 | 0 | 0 |
| Loans | 5,180 | 1,000 | 805 | 805 | 805 |
| Deferred Tax Liability | -1,804 | -1,089 | -854 | -777 | -777 |
| Capital Employed | 13,704 | 11,807 | 14,231 | 15,202 | 16,334 |
| Gross Fixed Assets | 8,296 | 8,393 | 8,573 | 8,752 | 8,932 |
| Less: Depreciation | 1,739 | 2,537 | 3,369 | 4,233 | 5,114 |
| Net Fixed Assets | 6,805 | 6,038 | 5,177 | 4,570 | 3,868 |
| Capital WIP | 248 | 182 | 51 | 51 | 51 |
| Investments | 0 | 0 | 0 | 0 | 0 |
| Curr. Assets | 42,531 | 40,621 | 35,710 | 35,705 | 40,174 |
| Inventory | 11,198 | 10,322 | 6,343 | 5,969 | 6,591 |
| Debtors | 22,713 | 17,992 | 19,980 | 18,790 | 20,770 |
| Cash & Bank Balance | 717 | 5,321 | 603 | 2,678 | 3,684 |
| Loans & Advances | 120 | 89 | 117 | 110 | 121 |
| Other Current Assets | 7,783 | 6,897 | 8,669 | 8,158 | 9,008 |
| Current Liab. & Prov. | 35,632 | 34,792 | 26,879 | 25,296 | 27,931 |
| Creditors | 16,626 | 17,092 | 11,549 | 10,869 | 12,001 |
| Other Liabilities | 19,006 | 17,701 | 15,330 | 14,427 | 15,930 |
| Net Current Assets | 6,899 | 5,829 | 8,831 | 10,409 | 12,243 |
| Application of Funds | 13,704 | 11,807 | 14,231 | 15,202 | 16,334 |

Financials and valuations

Ratios

| Y/E March | FY17 | FY18 | FY19 | FY20E | FY21E |
|---------------------------------|------|------|------|-------|-------|
| Basic (INR) | | | | | |
| Adj EPS | 5.7 | 7.5 | 8.3 | 5.6 | 7.1 |
| Cash EPS | 9.2 | 11.0 | 11.6 | 9.0 | 10.6 |
| Book Value | 40.3 | 46.5 | 55.8 | 59.3 | 63.7 |
| DPS | 1.8 | 1.8 | 2.6 | 1.8 | 2.2 |
| Payout (incl. Div. Tax.) | 31.4 | 31.4 | 31.4 | 31.4 | 31.4 |
| Valuation (x) | | | | | |
| P/E | 37.3 | 28.6 | 25.8 | 38.1 | 30.1 |
| EV/EBITDA | 26.6 | 17.7 | 12.9 | 15.8 | 13.3 |
| EV/Sales | 1.5 | 1.2 | 1.3 | 1.3 | 1.2 |
| Price/Book Value | 5.3 | 4.6 | 3.8 | 3.6 | 3.4 |
| Dividend Yield (%) | 0.8 | 0.8 | 1.2 | 0.8 | 1.0 |
| Profitability Ratios (%) | | | | | |
| RoE | 13.3 | 17.3 | 16.2 | 9.8 | 11.6 |
| RoCE | 16.3 | 22.5 | 27.2 | 17.5 | 20.1 |
| RoIC | 8.1 | 11.4 | 20.4 | 11.7 | 14.8 |
| Turnover Ratios | | | | | |
| Debtors (Days) | 205 | 152 | 175 | 175 | 175 |
| Inventory (Days) | 101 | 86 | 55 | 55 | 55 |
| Creditors. (Days) | 150 | 144 | 100 | 100 | 100 |
| Asset Turnover (x) | 3.0 | 3.7 | 3.0 | 2.6 | 2.7 |
| Leverage Ratio | | | | | |
| Debt/Equity (x) | 0.5 | 0.1 | 0.1 | 0.1 | 0.0 |

Cash Flow Statement

| Y/E March | FY17 | FY18 | FY19 | FY20E | FY21E |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| PBT before EO Items | -733 | 3,188 | 3,346 | 2,211 | 2,800 |
| Depreciation | 882 | 899 | 832 | 864 | 881 |
| Interest | 1,154 | 883 | 664 | 625 | 675 |
| Direct Taxes Paid | -225 | -1,377 | -1,219 | -774 | -980 |
| (Inc)/Dec in WC | -1,841 | 7,137 | -8,004 | 498 | -829 |
| CF from Operations | -763 | 10,729 | -4,380 | 3,423 | 2,548 |
| Others | 2,953 | 6 | 0 | 0 | 0 |
| CF from Oper. Incl. Others | 2,190 | 10,735 | -4,380 | 3,423 | 2,548 |
| (Inc)/Dec in FA | -482 | -180 | -180 | -180 | -180 |
| Free Cash Flow | 1,708 | 10,556 | -4,560 | 3,244 | 2,369 |
| Investment in liquid assets & Others | 0 | 104 | 0 | 0 | 0 |
| CF from Investments | -482 | -75 | -180 | -180 | -180 |
| (Inc)/Dec in Shares | -40 | 0 | 1,061 | 0 | 0 |
| (Inc)/Dec in Debt | 145 | -4,180 | 249 | 0 | 0 |
| Interest Paid | -1,154 | -1,396 | -664 | -625 | -675 |
| Dividend Paid | -553 | -555 | -804 | -543 | -688 |
| CF from Fin. Activity | -1,602 | -6,173 | -158 | -1,168 | -1,363 |
| Inc/Dec of Cash | 106 | 4,487 | -4,718 | 2,075 | 1,005 |
| Add: Beginning Balance | 612 | 717 | 5,321 | 603 | 2,678 |
| Closing Balance | 719 | 5,205 | 603 | 2,678 | 3,684 |

NOTES

| Explanation of Investment Rating | |
|----------------------------------|--|
| Investment Rating | Expected return (over 12-month) |
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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