Supreme Power Equipment Ltd — FY 2025 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**Supreme Power Equipment is transitioning from low-margin distribution to high-margin 400KV transmission equipment, positioning itself as a "Green Energy" proxy for India's renewable expansion.**	Positive
2	**Revenue grew 22% YoY to □102.21 Cr, driven by high asset utilization and successful entry into the renewable energy segment.**	Positive
3	***Raw material costs consume 76.72% of revenue, creating extreme margin sensitivity to copper and steel price volatility.***	Negative
4	**Employee costs are maintained at a lean 4.03% of revenue, providing significant operating leverage as the business scales.**	Positive
5	**The balance sheet has been significantly de-leveraged post-IPO, utilizing proceeds to repay □4.50 Cr in director loans to reach a negligible D/E ratio.**	Positive
6	***Earnings quality is constrained by poor cash conversion, with CFO remaining lower than PAT due to a 16.57 Cr inventory build and 31.18 Cr in total receivables.***	Negative
7	**Growth visibility is anchored by the □2.18 Cr CWIP for the Thirumazhisai plant, with a Dec 2025 commissioning catalyst for high-voltage products.**	Positive
8	***Credit risk is elevated with 4.22 Cr of trade receivables aged over 6 months, reflecting the payment stress inherent in State Electricity Board (SEB) customers.***	Negative
9	***Governance remains a primary concern with 27.58% of revenue routed through related parties and aggregate director pay reaching 12.8% of PAT.***	Negative
10	***Off-balance sheet exposure via Bank Guarantees of 12.45 Cr represents 88% of annual PAT, posing a material liquidity risk if technical failures occur.***	Negative
11	The company is shifting toward a more capital-intensive phase, evidenced by the strategic increase in borrowing limits to □300 Cr to fund technical expansion.	Neutral
12	Investment View: Watch; stance is contingent on Dec 2025 plant execution and monitoring for an increase in aged receivables beyond □6 Cr.	Neutral

1. Business overview (In Bullet Points)

- **Business Segments:** SPEL is a manufacturer of power and distribution transformers, currently undergoing a strategic pivot from standard distribution units to high-voltage transmission equipment (up to 160MVA/220KV initially, and 315MVA/400KV in Phase 2).
- **Revenue Drivers:** Growth is primarily driven by product sales (99.15% of revenue), specifically low-harmonic transformers for the Renewable Energy (RE) sector (solar and wind) and utility-scale transmission projects.
- **Cost Drivers:** Highly sensitive to commodity prices, with **Cost of Materials Consumed** (CRGO steel, copper, and transformer oil) accounting for 76.72% of revenue.
- **Industry Position:** Positioning as a "Green Energy" proxy in the SME segment, leveraging the 29.5 GW added to India's RE capacity in FY25.

- **Expansion Plans:** Developing a new 6-acre facility at Thirumazhisai with a 9,000 MVA/annum capacity, scheduled for commissioning by December 2025.
- **Acquisitions & JVs:** No formal acquisitions; however, the company maintains a deep structural dependency on **Danya Electric Company** (a partnership where SPEL holds a 90% profit share).
- **Capacity Additions:** The Dec 2025 milestone represents a massive capacity leap to enter the "remunerative" utility-scale transmission space.
- **Geographical Presence:** Currently heavily concentrated in the Tamil Nadu power sector (TANGEDCO); however, management is initiating an export strategy targeting Africa, Southeast Asia, and the Middle East to diversify risk.

2. Management commentary & outlook

- Management is executing a "Value Chain Migration" to escape the commoditized, low-margin distribution segment and enter high-voltage transmission.
- The new 9,000 MVA capacity plant is described as the "make-or-break" project for FY26, with construction currently on track.
- Strategic focus has shifted toward "talent acquisition" in high-voltage engineering to manage the technical complexity of 400KV equipment.
- Management is positioning the company as a "future-ready" entity, moving away from its family-run SME roots toward a corporate structure.
- The demand environment is viewed as highly optimistic due to the Indian government's push for Renewable Energy and grid modernization.
- Competitive intensity is being mitigated by moving into specialized, high-entry-barrier products like low-harmonic transformers.
- The export strategy is intended to improve payment cycles and secure USD-denominated margins, reducing dependency on State Electricity Boards (SEBs).
- Management highlights "operational efficiency" and high "asset sweating" as key drivers of the 22% revenue growth in the current year.
- Long-term vision involves becoming a major national player in the power equipment space with a diversified global footprint.
- **Management Tone:** The tone is aggressively expansionary and confident, characterized by an opportunistic "Growth Story" narrative. However, it remains structurally opaque regarding governance "clean-up," such as the continued use of partnership firms (Danya Electric) and regional auditors despite increasing business complexity. (Confident and Opportunistic, but Structurally Opaque).

3. Financial analysis

3.1 Financial statements

3.2 Financial analysis summary

- **Revenue** from operations reached □102.21 Cr, primarily driven by product sales (99.15%), but this growth is heavily tied to Trade Receivables of □31.18 Cr, which represent approximately 30% of annual turnover and have led to significant Working Capital absorption.
- The quality of **Revenue** is supported by a conservative "point in time" recognition policy, though a systemic risk exists due to customer concentration in Government Power Utilities, evidenced by □4.22 Cr of Trade Receivables being aged over 6 months.

- **EBITDA** margins (16.71%) are highly sensitive to commodity volatility, as the Cost of Materials Consumed stands at ₹78.42 Cr, or 76.72% of Revenue; any inability to pass on CRGO steel or copper price hikes poses a direct threat to PAT.
- **Finance Cost** of ₹1.88 Cr is linked to a Total Debt profile of ₹10.57 Cr, including ₹8.42 Cr in Working Capital Limits, though the company significantly deleveraged its Balance Sheet by using IPO proceeds to repay ₹4.50 Cr in loans to directors.
- **Inventory** levels of ₹16.57 Cr show a heavy skew toward raw materials (₹12.45 Cr) versus finished goods (₹4.12 Cr), signaling a strategic hedge against rising material costs for the ₹2.18 Cr CWIP factory expansion.
- **CFO** remains lower than PAT because cash is being trapped in Working Capital, specifically through the 111-day Receivable Days cycle and ₹1.45 Cr in Security Deposits required for new tenders.
- **Operating Leverage** is favorable as Employee Benefit Expenses are contained at 4.03% of Revenue, suggesting that the manufacturing process can scale without a linear increase in fixed overheads, potentially improving ROCE as the new Capex goes live.
- A forensic red flag is noted in **Other Expenses**, where ₹0.18 Cr was paid as Liquidated Damages, indicating production bottlenecks or delivery delays that could impact future Revenue if performance Bank Guarantees of ₹12.45 Cr are invoked.
- **Other Assets** include ₹1.45 Cr in Security Deposits for electricity and tenders, which acts as a persistent drag on liquidity as the company bids for larger utility contracts.
- **Other Expenses** are impacted by Freight and Forwarding costs of ₹1.15 Cr (1.13% of revenue), reflecting the logistical intensity of the transformer business.
- The **Balance Sheet** strength has improved post-listing with a negligible Debt/Equity ratio, providing headroom for the ₹1.85 Cr in Capital Commitments to be funded via internal accruals.
- **Depreciation** follows the conservative Written Down Value method, which front-loads expenses and improves the long-term quality of PAT by ensuring that the Net Block of Fixed Assets is not overstated.
- The dominant financial theme of the year is a transition from a de-leveraging phase to a high-growth, capital-intensive expansion phase, where strong top-line growth is currently being offset by heavy working capital requirements and commodity price sensitivity.

3.3 Contingent liabilities & commitments

- **Bank Guarantees (Performance/Financial):** ₹12.45 Cr (Significant off-balance sheet risk; exposure equals ~88% of annual PAT).
- **Letter of Credit:** ₹5.20 Cr.
- **Disputed Income Tax Demands:** ₹0.12 Cr (Immaterial relative to net worth).
- **Capital Commitments:** ₹1.85 Cr (Contractual obligations for the Thirumazhisai plant expansion).

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; inventory build and security deposits absorb CFO conversion.	—	Working Capital Deep Dive; CFO vs PAT analysis.
2	Receivables & channel-stuffing signal	Neutral — receivables growth lags revenue; no evidence of aggressive channel stuffing or loose credit.	—	Earnings Quality & Forensic Checks; Note 11.
3	Revenue timing	Profit ↑↓ — conservative point-in-time recognition prevents premature profit booking before control transfer.	—	Note 2.3 Revenue Recognition; KAM Revenue Cut-off.
4	Revenue from related parties %	Neutral — minimal revenue from related parties reduces risk of artificial top-line inflation.	—	Related Party Transactions.
5	Inventory vs revenue growth	Profit ↓ — high raw material inventory hedges prices but increases carrying costs and liquidity risk.	—	Note 10; Inventory Build-up analysis.
6	Inventory valuation method change	Profit ↑ — FIFO method may inflate profits during periods of rising copper and steel prices.	—	Accounting Policies Analysis; Inventory Valuation note.
7	Exceptional items in operating profit	Neutral — absence of exceptional items indicates high quality and predictability of operating earnings.	—	Other Expenses; Exceptional items note.
8	Depreciation rate vs useful life policy	Profit ↓ — WDV method front-loads depreciation expenses, leading to more conservative early-year earnings.	—	Note 2.4 Depreciation; Fixed Assets note.
9	Provision reversals boosting PAT	Profit ↑ — potential under-provisioning for aged SEB receivables may artificially support current PAT levels.	—	Note 11; Provisions policy analysis.
10	Tax rate consistency	Neutral — tax rate consistency suggests no aggressive tax maneuvering or reliance on one-time credits.	—	Earnings Quality & Forensic Checks; Tax Rate analysis.
11	CWIP age and stalling projects	Neutral — active factory expansion CWIP indicates growth investment rather than stalled or impaired assets.	—	Note 9; CWIP details from notes.
12	Deferred tax asset recognition adequacy	Neutral — standard tax treatment suggests DTA recognition is based on probable future taxable profits.	—	Deferred tax from notes; Earnings Quality section.
13	RPT quantum and trend	Profit ↑ — debt repayment to directors reduces interest burden and simplifies the balance sheet structure.	—	Related Party Transactions.
14	Dividend paid vs FCF adequacy	Profit ↓ — negative free cash flow potential due to heavy working capital needs limits dividend sustainability.	—	Working Capital Gap; CFO vs PAT analysis.
15	Auditor Technical Capacity	Neutral — Use of regional firm for □300 Cr borrowing limit and 400KV technical complexity.	—	Governance Analysis Section A.
16	RPT Circularity Risk	Profit ↑↓ — High dependency on partnership firm for 27% of business volume.	—	Related Party Transactions Table.
17	Production Bottleneck Signal	Revenue ↓ — Liquidated damages indicate execution friction in the order book.	—	Other Expenses.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion Type:** Unqualified. * **KAM: Inventory Verification:** The auditor prioritized physical verification of Work-in-Progress (WIP) and raw materials (specifically CRGO steel and copper) due to their specialized nature and high value. Management responded by maintaining a granular tracking system for material consumption. * **KAM: Revenue Cut-off:** Focus was placed on ensuring revenue is recognized only after the "Factory Acceptance Test" (FAT) is completed and control is transferred upon dispatch. This mitigates the risk of aggressive revenue recognition during high-volume year-end periods. * **Auditor Details:** M/s PPN and Company (Peer-reviewed Cert No. 013578). While compliant, the regional nature of the firm warrants monitoring as SPEL scales to 400KV complexity and ₹300 Cr+ debt.

B. Related Party Transactions | Party | Relationship | Nature | Amount (₹Cr) | Concern | | ------- | ------------- | -------- | ---------- | --------- | | Danya Electric Company | Partnership (Directors Interested) | Purchase of Goods | 12.78 Cr | High dependency; 12.5% of Revenue | | Danya Electric Company | Partnership (Directors Interested) | Sale of Goods | 11.64 Cr | Circular transaction risk | | Jai Bharat Exchangers | Partnership (Directors Interested) | Purchase of Goods | 2.67 Cr | Potential margin leakage | | Jai Bharat Exchangers | Partnership (Directors Interested) | Sale of Goods | 1.10 Cr | Related party sourcing | | Promoters/Directors | KMP | Loan Repayment | 4.50 Cr | **Positive** balance sheet cleaning | | Promoter Group | KMP | Rent Paid | 0.24 Cr | Arm's length administrative cost | | Vee Rajmohan/V.N. Pradeep | KMP | Remuneration | 1.82 Cr | Aggregate Director Pay |

RPT Analysis: Total RPTs of ₹28.19 Cr represent 27.58% of Revenue. Management is seeking to increase the RPT limit for Danya Electric to ₹75 Cr for FY26. SPEL holds a 90% profit share in Danya, but the remaining 10% is held personally by promoters, creating a channel for value diversion.

C. Shareholding * **Promoter Pledged Shares:** Zero (based on Non-Disqualification certificates).

D. Board Composition + KMP Compensation * **Total Directors:** 5 | **Independent %:** 40.00% (2 of 5) — *Below the 50% threshold preferred for high-governance entities.* * **Women Directors:** 1 (Saimathy Soupramanien). * **KMP Compensation:** * **Vee Rajmohan (CMD):** ₹0.96 Cr (4.59% of EBITDA). * **V.N. Pradeep Kumar (WTD):** ₹0.86 Cr (4.11% of EBITDA). * **Analysis:** Aggregate KMP pay is stable (0% growth for top directors) despite 13.9% EBITDA growth. However, directors also benefit from the 10% profit share in Danya Electric, which is not captured in remuneration.

F. Capital Allocation & Capex | Action | FY current (₹Cr) | FY prior (₹Cr) | Signal | | ------- | ------------- | -------- | --------- | | Net Debt Change | 14.69 Cr | -14.18 Cr | — | | Receivables Reduction | -10.97 Cr | 20.18 Cr | **Positive** | | Capex (CWIP) | 2.18 Cr | 1.15 Cr | — | | Loan Repayment to Directors | 4.50 Cr | 2.45 Cr | **Positive** |

CAPEX Analytical Notes: * **CFO Coverage:** CFO is lower than PAT due to inventory and security deposits; the funding gap for the ₹**16.33 Cr** working capital requirement is being bridged by new debt. * **Nature of Capex:** Growth-oriented; ₹**2.18 Cr in CWIP** for the factory expansion to reach 9,000 MVA capacity by Dec 2025. * **Deployment Efficiency:** Revenue grew 22% on a stable fixed asset base, indicating high sweating of existing assets. **Materialistic Impact:** The increase in borrowing limits to ₹**300 Cr** suggests a high-leverage phase is beginning.

H. Risks * ***Raw Material Volatility***: Material costs consume 76.72% of revenue. Impact: A 5% unhedged price spike could wipe out 25% of PBT. (Severity: High) * ***SEB Collection Risk***: ₹4.22 Cr of receivables are aged >6 months. Impact: Potential for "cashless profits" and future write-offs if TANGEDCO delays payments. (Severity: Medium) * ***Off-Balance Sheet Risk***: Bank Guarantees of ₹12.45 Cr. Impact: Exposure equals ~88% of annual PAT; invocation would cause a liquidity crisis. (Severity: High) * ***RPT Dependency***: 27% of revenue and 90% profit-share partnership with Directors. Impact: High risk of value shifting to the 10% private interest held by promoters. (Severity: High)

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	3	→	22% Revenue growth; 77% RM/Sales	Moderate diversification with high commodity sensitivity and SEB concentration.
Financial health	4	↑	D/E Negligible post-IPO; Interest Coverage 9.08x	Strong balance sheet post-listing, though working capital remains heavy.
Earnings quality	3	→	CFO < PAT; ₹4.22 Cr receivables > 6m	Positive earnings but constrained by cash conversion and SEB payment cycles.
Management & governance	2	↓	RPTs = 27% of Revenue; 40% Independent Board	Significant RPT dependency and promoter interest in partnership firms.
Capital allocation & earnings visibility	4	↑	₹2.18 Cr CWIP; Dec 2025 plant catalyst	Disciplined capex with clear revenue visibility from the 400KV transition.

Business positives (for this company this year) * **Revenue Growth:** Delivered 22% YoY revenue growth (₹102.21 Cr) through high asset sweating. * **Debt Reduction:** Utilized IPO proceeds to repay ₹4.50 Cr in loans to directors, cleaning the balance sheet. * **Strategic Pivot:** Successful entry into the Renewable Energy segment, positioning as a "Green Energy" proxy. * **Capacity Catalyst:** On-track construction of the 9,000 MVA Thirumazhisai plant (Dec 2025 commissioning). * **Operating Leverage:** Employee costs maintained at a low 4.03% of revenue, allowing for scalable growth.

Business negatives / concerns (for this company this year) * **Governance Risk:** 27.58% of revenue is routed through Related Parties (Danya Electric), where promoters hold a 10% personal interest. * **Cash Conversion:** CFO remains lower than PAT due to ₹16.57 Cr inventory build and ₹1.45 Cr in security deposits. * **Credit Risk:** ₹4.22 Cr of trade receivables are aged over 6 months, primarily due to stressed SEB customers. * **Commodity Sensitivity:** Raw material costs consume 76.72% of revenue, leaving margins vulnerable to copper/steel price spikes. * **Off-Balance Sheet Exposure:** Bank Guarantees of ₹12.45 Cr represent 88% of annual PAT, posing a high liquidity risk.

Overall scorecard summary Supreme Power Equipment Ltd is in a state of aggressive transition, characterized by strong financial health post-IPO but weak governance structures. While the balance sheet is currently clean with negligible debt and high interest coverage, the business is structurally reliant on high-risk related party transactions and stressed government customers. The earnings quality is adequate but hampered by poor cash conversion. The company is on a stable-to-improving trajectory fundamentally, contingent entirely on the successful technical execution of the 400KV plant expansion by December 2025.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Final line: "Total: 7/10 — Governance Rating: 3"

Part c: investor verdict

Thesis: SPEL is a high-growth "Green Energy" proxy transitioning from low-margin distribution to high-margin transmission equipment, currently undervalued by its SME governance structure.

Overall stance: Watch

Rationale: Strong top-line growth and a massive capacity catalyst in Dec 2025 are offset by significant RPT risks and poor cash flow conversion. Re-evaluate when: CFO/PAT exceeds 0.80x OR RPTs drop below 10% of revenue. BULL CASE: Successful commissioning of the 400KV plant leads to a 50% revenue jump and margin expansion to 20%+. BEAR CASE: Invocation of □12.45 Cr in Bank Guarantees due to technical failure in new high-voltage products. Key monitorable: Trade Receivables > 6 months: □4.22 Cr → Watch for increase > □6 Cr.

7. Year-over-year analysis

7.1 Changes

Metric / theme	Summary a status	Summary b status	Forensic takeaway
Capital Allocation & Debt	Aggressive de-leveraging; Debt reduced to □1.64 Cr (D/E 0.02x).	Re-leveraging phase; Debt rose to □10.57 Cr with borrowing limits hiked to □300 Cr.	The company has pivoted from post-IPO debt cleanup to an aggressive, high-leverage expansion strategy.
Revenue Growth Trajectory	High-octane growth of 38.86%.	Decelerated growth of 22.00%.	Top-line momentum is slowing as the entity reaches the limits of its current asset base ahead of the 2025 capacity catalyst.
Working Capital Quality	Massive □20.18 Cr spike in receivables/inventory (1.25x revenue growth rate).	Absolute receivables dropped, but □4.22 Cr (13.5%) now aged >6 months.	While the absolute working capital drag eased, the underlying credit quality is deteriorating due to aging SEB dues.
Management Tone	Focused on balance sheet fortification and IPO deployment.	Confident, expansionary, and focused on "Value Chain Migration" to 400KV.	Management has transitioned from a defensive "cleanup" narrative to an opportunistic, high-risk technical pivot.
Margin Trajectory	Material costs at 78% of revenue; weak pricing power.	Material costs at 76.72% of revenue; slight optimization.	Margins remain structurally capped by extreme commodity sensitivity, showing no significant "value-added" expansion yet.

7.2 Persistent patterns

- **High Related Party Transaction (RPT) dependency** remains a core structural risk, with 25-27% of revenue consistently involving promoter-interested entities like Danya Electric.
- **Poor cash conversion (CFO < PAT)** is a recurring behavior, as accounting profits are perpetually trapped in inventory builds and security deposits.
- **Significant off-balance sheet risk** persists via □12.45 Cr in Bank Guarantees, a figure that consistently rivals or exceeds the company's total annual PAT.
- **Governance stagnation** is evident through the continued reliance on a regional audit firm and a board composition that remains below the 50% independence threshold.
- **High customer concentration** in the government utility sector (SEBs) continues to dictate the company's stretched and risky receivable cycles.
- **Extreme commodity sensitivity** remains the primary margin driver, with raw material costs consistently consuming over 75% of total revenue.