Supreme Power Equipment Ltd — FY 2024 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**Supreme Power Equipment operates as a pure-play transformer manufacturer, delivering 38.86% YoY revenue growth to ₹104.45 Cr driven by renewable energy demand.**	Positive
2	**Top-line expansion is robust, supported by a ₹61.47 Cr order book providing six months of visibility, though growth is concentrated in cyclical infrastructure segments.**	Positive
3	***Material costs escalated to 77.9% of revenue, signaling weak pricing power and high vulnerability to volatile copper and steel commodity cycles.***	Negative
4	**PAT margins improved to 11.46%, though this was primarily a function of reduced finance costs following IPO-led de-leveraging rather than operational efficiency.**	Positive
5	**The balance sheet has been significantly de-risked with total debt plummeting 89.6% to ₹1.64 Cr, resulting in a conservative D/E ratio of 0.02x.**	Positive
6	***Earnings quality is critically low with a CFO/PAT ratio of 0.12, as 20.18 Cr in incremental working capital absorption neutralized most of the reported profits.***	Negative
7	***Working capital stress is evident in the 170-day cycle, with receivables growing at 1.25x the rate of revenue, indicating deteriorating collection efficiency.***	Negative
8	Planned ₹75 Cr Capex aims to scale capacity from 25 MVA to 160 MVA by Dec 2025, a high-stakes expansion into the Extra High Voltage (EHV) segment.	Neutral
9	***Off-balance sheet risk is substantial, as outstanding Bank Guarantees of 12.45 Cr exceed the company's total annual PAT of 11.97 Cr.***	Negative
10	***Governance is a primary concern with Related Party Transactions (RPTs) accounting for 25.28% of revenue and KMP compensation exceeding 8% of PAT.***	Negative
11	Management guidance targets 10-30% revenue growth for FY25, contingent on managing raw material volatility and executing the capacity pivot.	Neutral
12	**Investment Stance: Watch; monitor for a CFO/PAT recovery above 0.60 and a reduction in receivable days below 120 to validate earnings quality.**	Neutral

Final research summary: supreme power equipment ltd (spel)

1. Business overview

- **Business Model Transition:** SPEL is evolving from a traditional manufacturer of distribution transformers into a specialized player targeting high-growth infrastructure and renewable energy niches.
- **Revenue Drivers:** Primary growth is driven by three verticals: Renewable Energy (Wind/Solar), Public Utilities (Distribution), and Infrastructure (Railways/Data Centers).
- **Segment Performance:** The Manufacturing of Transformers segment accounts for 100% of total revenue (₹104.45 Cr).

- **Industry Position:** Currently limited to distribution and small power segments with a 25 MVA capacity ceiling; positioning as a "technocrat-led" national infrastructure enabler.
- **Expansion Plans:** Developing a new 6-acre facility to upgrade capability from 25 MVA to 160 MVA (Extra High Voltage power transformers), expected operational by December 2025.
- **Capacity Additions:** The planned shift to 160 MVA allows bidding for large-scale utility power transformers with higher entry barriers.
- **Geographical Presence:** Moving from a local utility supplier to a national presence, specifically targeting the "Green Energy Corridor" and "PM Surya Ghar" initiatives.
- **Cost Drivers:** Major costs include Copper and CRGO steel; material costs rose from 72% to 78% of revenue in FY24.
- **Order Book:** Currently stands at □61.47 Cr, providing approximately 6 months of revenue visibility.

2. Management commentary & outlook

- Management has provided a wide revenue growth guidance of 10% to 30% YoY, suggesting a conservative baseline with significant upside potential post-capacity expansion.
- The strategic focus is pivotally shifting toward the Renewable Energy sector, specifically windmill and solar transformers designed for high voltage fluctuations.
- The Railways segment is identified as a secondary driver, with increasing demand for 66 kV to 132 kV transformers for modernization.
- Management identifies Data Centers and Green Hydrogen as emerging tailwinds for long-term demand.
- A significant capacity upgrade (6x increase in MVA rating) is the cornerstone of the long-term vision to enter the utility power transformer market.
- The company is seeking to increase borrowing limits from □75 Cr to □200 Cr to fund the □70-75 Cr capex for the new facility.
- Management highlights a track record of supplying over 17,000 units as evidence of execution capability.
- The recent credit rating upgrade by ICRA to BB+ (Stable) is cited as a reflection of improved financial discipline post-IPO.
- **Management Tone:** The management tone is characterized by "Inaugural Enthusiasm" and aggressive growth orientation with high execution confidence. They successfully connect macro themes like Net Zero 2070 to micro-expansion plans. However, the heavy reliance on Related Party Transactions and the ambitious jump in technical capacity suggests a high-risk, high-reward strategy where the real "signal" depends on the timely commissioning of the new 6-acre facility.

3. Financial analysis

3.1 Financial statements

3.2 Financial analysis summary

- The company achieved a robust 38.86% YoY growth in **Revenue from Operations** to □104.45 Cr, entirely driven by the Manufacturing of Transformers segment and increased demand in renewable energy; however, this growth translated into a disproportionate 48.73% spike in Trade Receivables to □42.15 Cr on the Balance Sheet, indicating that revenue quality is being impacted by slower collection cycles from State Electricity Boards.
- **PAT** margins improved to 11.46% from 8.48% despite significant margin compression at the gross level, as Cost of Materials Consumed rose to 77.91% of Revenue (up from 72.06% in FY23) due to rising Copper and

CRGO steel prices; the bottom-line strength was primarily supported by a 20.24% reduction in Finance Cost following the repayment of high-cost debt using IPO proceeds.

- **Working Capital** efficiency deteriorated as the cash conversion cycle stretched to 170 days from 140 days, driven by Inventory increasing 55.63% to ₹17.82 Cr and Trade Receivables ageing, with ₹3.73 Cr now outstanding for over 6 months; this massive absorption of liquidity meant that CFO of ₹1.42 Cr covered only 12% of PAT, a significant "Earnings Divergence" signal.
- The **Balance Sheet** underwent a structural transformation following the December 2023 IPO, with Net Worth surging to ₹68.35 Cr and Total Debt plummeting by 89.63% to just ₹1.64 Cr, resulting in a superior Debt/Equity ratio of 0.02x compared to 1.10x in the previous year.
- **Capital Allocation** was focused on de-leveraging and liquidity, with ₹12.00 Cr of IPO proceeds used to settle borrowings and ₹5.00 Cr allocated to Working Capital; meanwhile, Fixed Assets (Net Block) grew by 20.30% to ₹6.52 Cr, funded by internal accruals and IPO funds, though Asset Turnover moderated to 1.28x as the expanded asset base and cash balance are yet to be fully sweat.
- **Finance Cost** coverage improved dramatically to 13.04x from 6.14x, reflecting the elimination of promoter loans (₹2.45 Cr) and high-interest working capital limits, which is further validated by the Cash Flow Statement showing a net financing inflow of ₹14.99 Cr.
- **Other Current Liabilities** saw a 115% increase in Advance from Customers to ₹3.12 Cr, which serves as a positive lead indicator for future Revenue growth, although this is offset by a 53.32% increase in Bank Guarantees to ₹12.45 Cr, creating a significant off-balance sheet risk that nearly equals the annual PAT.
- **ROE** and ROCE moderated to 17.51% and 24.96% respectively, down from 44.37% and 37.51% in FY23; this dilution is a direct result of the massive equity infusion from the IPO which has not yet been fully deployed into revenue-generating Fixed Assets, coupled with the high Inventory and Trade Receivables drag on the denominator.
- **Depreciation** policy remains conservative using the Written Down Value (WDV) method, with ₹0.88 Cr charged in the P&L, while the lack of significant CWIP suggests that new capacity at the Thirumazhisai plant is being operationalized quickly to meet the 38.86% Revenue growth.
- **Other Assets** analysis reveals a spike in Capital Advances to ₹1.15 Cr and GST Input Credit to ₹2.45 Cr; the latter mirrors the inventory buildup, suggesting large raw material purchases were made just before year-end to support the order book.
- **Other Expenses** including Freight & Forwarding (₹1.12 Cr) and Legal & Professional (₹0.42 Cr) increased, with the latter reflecting IPO-related and compliance costs for the newly listed entity.
- Supreme Power Equipment delivered a year of high-octane **Revenue** growth and successful de-leveraging that fortified the Balance Sheet, yet the business faces a critical challenge in converting accounting PAT into CFO as aggressive Working Capital expansion and raw material price volatility continue to consume the majority of its operating cash flows.

3.3 Contingent liabilities & commitments

Type of contingency	FY 2024 (₹Cr)	FY 2023 (₹Cr)
Bank Guarantees	12.45	8.12
Letters of Credit	4.50	3.20
Tax Disputes	0.00	0.00
Capital Commitments	0.00	0.00

- **Analytical Note:** The 53.32% increase in Bank Guarantees is consistent with order book growth for utility projects. However, the ₹12.45 Cr exposure exceeds the annual PAT (₹11.97 Cr), representing a significant off-balance sheet risk if performance guarantees are invoked.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; ₹20.18 Cr working capital spike limits CFO to ₹1.42 Cr vs ₹11.97 Cr PAT.	—	Divergence caused by heavy investment in receivables and inventory despite high profitability.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — collection risk; combined assets grew ₹20.18 Cr (50.7%) vs 38.8% revenue growth.	—	Receivables growth at 1.25x revenue rate suggests aggressive year-end billing or slower SEB payments.
3	Revenue timing	Revenue ↑ — strong order visibility; customer advances rose 115% to ₹3.12 Cr signaling future dispatches.	—	No significant contract assets; revenue recognized at point of dispatch.
4	Revenue from related parties %	Neutral — minimal leakage risk; RPTs limited to rent and remuneration with no disclosed sales to related entities.	—	Related party transactions are <1% of total revenue; primarily administrative in nature.
5	Inventory vs revenue growth	Profit ↓ — liquidity lock-up; inventory grew 55.6% vs 38.8% revenue, primarily in WIP and raw materials.	—	WIP (₹8.45 Cr) and RM (₹7.12 Cr) buildup indicates preparation for Q1 FY25 orders.
6	Inventory valuation method change	Neutral — consistent accounting; FIFO method maintained for valuation at lower of cost or NRV.	—	No change in valuation policy; however, no specific provision for obsolescence is recorded.
7	Exceptional items in operating profit	Neutral — clean operating earnings; no exceptional or extraordinary items reported in the P&L.	—	Earnings are driven entirely by core manufacturing operations and IPO-related debt reduction.
8	Depreciation rate vs useful life policy	Profit ↑ — conservative accounting; WDV method used which front-loads expenses compared to SLM.	—	WDV method provides higher quality of earnings by accelerating asset write-downs.
9	Provision reversals boosting PAT	Neutral — no earnings manipulation; no significant reversals of old provisions or bad debt allowances.	—	Management maintains zero ECL provision for SEB dues, citing zero historical default risk.
10	Tax rate consistency	Neutral — high tax quality; effective tax rate of 25.8% aligns with statutory corporate rates.	—	Small DTA of ₹0.14 Cr indicates accounting profits are closely aligned with taxable income.
11	CWIP age and stalling projects	Neutral — minimal capital risk; no significant CWIP reported as most capex is for plant maintenance.	—	Focus remains on utilizing existing capacity at Thirumazhisai rather than large-scale greenfield CWIP.
12	Deferred tax asset recognition	Neutral — conservative balance sheet; DTA is minimal and backed by timing differences in depreciation.	—	No reliance on carry-forward losses or aggressive DTA recognition to boost net worth.
13	RPT quantum and trend	Profit ↑ — improved governance; 100% repayment of ₹2.45 Cr promoter loans removes inter-mingling risk.	—	Elimination of unsecured promoter debt using IPO proceeds reduces interest leakage and governance risk.
14	Dividend paid vs FCF adequacy	Profit ↓ — negative FCF; company is not paying dividends as cash is consumed by working capital.	—	Despite ₹11.97 Cr PAT, cash is tied up in SEB receivables, precluding dividend distributions.
15	Auditor Technical Capacity	Neutral — Regional auditor (PPN and Company) for ₹1,000 Cr+ market cap entity.	—	Warrants monitoring for technical capacity vs. increasing business complexity.
16	RPT Dependency (Danya Electric)	Profit ↓ — Potential value shifting; Proposed RPT limits of ₹70-100 Cr for FY25-26.	—	Massive scale of RPTs relative to revenue (₹113 Cr) suggests high dependency on private partnership.

4. Management & governance

A. Auditor report & key audit matters

- **Audit Opinion Type:** Unqualified.
- **Key Audit Matters (KAMs):**
  - **Revenue Recognition:** Auditor flagged the timing of revenue recognition due to high year-end transaction volumes. Management utilizes a "Proof of Delivery" (POD) tracking system to mitigate cut-off risks.
  - **Inventory Verification:** Technical estimation required for the "percentage of completion" of Work-in-Progress (WIP) for large power transformers was identified as a valuation risk.
  - **ECL Provisioning:** Auditor noted the absence of a formal Expected Credit Loss (ECL) model for State Electricity Board (SEB) receivables. Management contends government dues carry zero historical default risk.
- **Auditor Fees:** Appointment of a regional firm (PPN and Company) for a company with a □1,000 Cr+ market cap warrants monitoring for technical capacity vs. complexity.

B. Related party transactions

Party	Relationship	Nature	Amount (□ Cr)	Concern
Danya Electric Company	Partnership (Directors Interested)	Purchase/Sale/ Services	25.01	High volume; 23.9% of Revenue
Jai Bharat Exchangers	Partnership (Directors Interested)	Purchase/Sale/ Services	1.40	Potential margin leakage
Promoters	KMP/Promoter Group	Repayment of Loans	2.45	Cleaning balance sheet
Promoters	KMP/Promoter Group	Rent Paid	0.18	Stable YoY
Vee Rajmohan & Others	KMP	Remuneration	0.96	Aligned with size

- **RPT Risk:** 25.28% of Revenue is routed through related parties. The request to increase limits for Danya Electric to □100 Cr by FY26 signals significant potential for value shifting away from public shareholders into private partnership structures.

C. Shareholding

- **Promoter Pledged Shares:** Not disclosed in AR.

D. Board composition + KMP compensation

- **Total Directors:** 5 | **Independent %:** 40.00% | **Women Directors:** 1 (Saimathy Soupramanien).
- **KMP Compensation: Vee Rajmohan** (CMD) received □0.96 Cr. Total KMP compensation grew by 33.33%, outpacing EBITDA growth of 27.43%.
- **Family Relations:** The board includes Vee Rajmohan (CMD); individual breakdowns for other KMPs are not provided in the aggregate remuneration note.

F. Capital allocation & capex

Action	FY current (□Cr)	FY prior (□Cr)	% of CFO	Signal
Net Debt Change	-14.18	0.00	-998.59%	**Positive**
Working Capital Investment	20.18	0.00	1,421.13%	***Concern***
Interest Payments	1.34	1.68	94.37%	—
Equity Issuance (IPO)	17.00	0.00	1,197.18%	**Positive**
Capital Advances (Capex)	1.15	0.05	80.99%	—

- **CAPEX Analytical Notes:**
  - **CFO Coverage of Capex:** Ratio is 1.23; leaves zero room for debt servicing or dividends.
  - **Nature of Capex:** Primarily maintenance currently; however, a **□70 Cr to □75 Cr investment** in a new facility is planned for Dec 2025.
  - **Deployment Efficiency:** Revenue grew 38.86% on a stagnant asset base, suggesting **high sweating of existing assets**.

H. Risks

- ***Raw Material Volatility***: Fluctuations in Copper and CRGO steel prices. Impact: Margin compression; material costs rose to 78% of revenue. (Severity: High)
- ***Working Capital Stress***: Long payment cycles from SEBs. Impact: CFO (□1.42 Cr) is only 12% of PAT (□11.97 Cr). (Severity: High)
- ***Off-Balance Sheet Risk***: High volume of Bank Guarantees. Impact: □12.45 Cr exposure exceeds annual PAT. (Severity: Medium)
- **Execution Risk**: Construction of new □75 Cr facility. **Impact: Significant debt/dilution risk if project costs overrun.** (Severity: Medium)

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	3	—	100% revenue from one segment; 38.8% growth	Moderate diversification with high cyclicality and pricing pressure from RM costs.
Financial health	4	—	D/E 0.02x; Interest Coverage 13x	Excellent de-leveraging post-IPO, though CFO/PAT is weak at 0.12.
Earnings quality	2	—	CFO □1.42 Cr vs PAT □11.97 Cr	Significant earnings divergence due to massive working capital absorption.
Management & governance	2	—	RPTs at 25% of revenue; □100 Cr RPT limit	High dependency on promoter-controlled entities for core operations.
Capital allocation & earnings visibility	3	—	□75 Cr Capex planned; 6-month order book	Disciplined de-leveraging but future returns depend on high-risk capacity expansion.

Business positives (for this company this year) * **De-leveraging:** Total Debt reduced by 89.6% to □1.64 Cr, resulting in a D/E of 0.02x. * **Revenue Growth:** Achieved 38.86% YoY growth driven by renewable energy demand. * **Interest Coverage:** Improved to 13.04x from 6.14x following repayment of promoter loans. * **Order**

Visibility: Order book of ₹61.47 Cr provides ~6 months of revenue visibility. * **Customer Advances:** 115% increase in advances (₹3.12 Cr) indicates strong near-term dispatch pipeline.

Business negatives / concerns (for this company this year) * **Cash Flow Divergence:** CFO (₹1.42 Cr) is only 12% of PAT (₹11.97 Cr) due to working capital stress. * **RPT Dependency:** 25.28% of revenue involves related parties; proposed limits increase to ₹100 Cr. * **Working Capital Cycle:** Stretched to 170 days; Receivables grew at 1.25x the rate of revenue. * **Margin Compression:** Material costs rose to 77.9% of revenue, indicating weak pricing power. * **Off-Balance Sheet Risk:** Bank Guarantees of ₹12.45 Cr exceed the total annual PAT.

OVERALL SCORECARD SUMMARY Supreme Power Equipment is in a transitional phase, having successfully utilized its IPO to clean the balance sheet and de-leverage. While revenue growth is robust, the quality of earnings is currently poor due to massive working capital absorption and a significant divergence between PAT and CFO. Governance is the primary area of concern, given the high and increasing reliance on Related Party Transactions for core operations. The trajectory is stable but high-risk, contingent on the successful execution of the ₹75 Cr capacity expansion.

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	—

Total: 7/10 — Governance Rating: 2

Part c: investor verdict

Thesis: A de-leveraged transformer manufacturer pivoting to high-voltage renewable energy niches, currently trading cash flow for aggressive revenue growth. **Overall stance:** Watch **Rationale:** Strong top-line growth and clean balance sheet are offset by poor cash conversion and high related-party dependency. **Re-evaluate when:** CFO/PAT exceeds 0.60 for two consecutive quarters. **BULL CASE:** Successful commissioning of 160 MVA plant by Dec 2025 leads to 30%+ margin expansion in EHV segment. **BEAR CASE:** Invocation of ₹12.45 Cr Bank Guarantees or continued working capital stretch leads to fresh debt/dilution. **Key monitorable:** Receivable Days: 147 Days → Watch for reduction below 120 Days.