

Supreme Power Equipment Ltd — Jan 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline on Revenue / Miss on Operating Margins **One-line:** SPEL is successfully scaling its technical capability and private-sector order book, but Q3 reveals the margin volatility inherent in government tenders and the cash-flow strain of a "lifting delay" from customers.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Inline	9M Consol Revenue (₹87.24 Cr) is on track for the projected ₹125-130 Cr FY25 exit.	□
Earnings Quality	Low	PAT growth (+9% YoY) was propped up by ₹2.27 Cr in "Other Income"; standalone EBITDA margins compressed 420 bps YoY.	□
Guidance Confidence	Neutral	Revenue target of ₹500-550 Cr by FY27 remains entirely contingent on the Dec 2025 plant commissioning.	□
Management Credibility	Strong	Successfully transitioned order book to 75% private/non-govt; obtained KSEB vendor approval and delivered the first 50 MVA unit.	□
Business Quality Signal	Improving	Pivot to larger power transformers (up to 160 MVA class) and Switchyard EPC moves SPEL up the value chain.	□
Key Q&A Exchange	Q7 (Revenue Dip)	Mgmt admitted a QoQ revenue dip was due to ₹7-8 Cr of finished goods held at the factory because customers weren't ready to pay/lift.	□
The Street's Primary Anxiety	Margin Sustainability	Analysts pressed on the 15.7% standalone EBITDA margin; Mgmt blamed a specific low-margin government tender.	□
Capital Cycle Stage	Investment	30% completion of the ₹70-75 Cr greenfield expansion; peak debt transition starting with ₹35 Cr term loan.	□
Margin / Return Ratio	Deteriorating	Standalone ROCE dropped from 58.5% (FY23) to 24.7% (FY24) following IPO equity infusion and capex.	□
Pricing Power	Stable	Private sector pricing remains "face-to-face" negotiation based; government remains L1-competitive.	→
FCF Conversion & Quality	Weak	CFO remains deeply negative (-₹13.94 Cr FY24 Consol) as receivables (₹65.6 Cr) dwarf PAT (₹14.3 Cr).	□
Competitive Moat Signals	Widening	KSEB approval and 230 kV class testing capability create barriers to entry for smaller regional players.	□
Balance Sheet Strength	Adequate	Low Net Debt/Equity (0.08) provides head-room for the ₹35 Cr term loan for the new facility.	□
Working Capital Efficiency	Deteriorating	Inventory buildup (₹7-8 Cr) in Q3 due to lifting delays indicates vulnerability to client project timelines.	□
Mgmt Guidance Track Record	Reliable	Consistently hitting "private sector mix" targets (now 75% of backlog).	□
Key Vulnerability	Working Capital	Extreme customer concentration (Top 10 = 80%) coupled with infrastructure-related lifting delays.	□
Management Tone	Confident	Bullish on the "renewable super-cycle" and ability to win 10-15% of a ₹900 Cr bidding pipeline.	□

Sentiment: □ Positive (Thesis Intact)

Key Takeaways: * **Positives:** The fundamental thesis of SPEL evolving from a regional utility supplier to a national renewable energy equipment player is being validated by the order book mix (75% private). The technical milestone of shipping a 50 MVA transformer proves they can handle the complexity required for the upcoming 9,000 MVA capacity. Entry into Switchyard EPC (₹26 Cr order) provides a "one-stop solution" that improves customer stickiness. * **Negatives:** Operating performance in Q3 was weak, with standalone EBITDA margins falling to 15.7% as low-margin government contracts (TANGEDCO) were executed. Cash flow remains the "Achilles heel"; the company is essentially a working-capital-intensive business where ₹7-8 Cr of revenue can be deferred in a single quarter simply because a client isn't ready to receive the unit. * **Street Concern:** Analysts are wary of the margin profile. Management's admission that the new plant will double overheads suggests that the ₹500 Cr revenue scale-up may not result in significant PAT margin expansion, likely capping at 10-12%. * **Watchpoint:** Monitoring the "Inventory of Finished Goods" in Q4. If the ₹7-8 Cr of delayed units are not lifted/billed by March 2025, it indicates a deeper credit or project-delay issue among private IPP clients.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q3 FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue Standalone (₹Cr)	30.22	↑ 36.3%	↑ 3.5%	□	Growth driven by private sector solar/wind orders; offset by ₹7-8 Cr "lifting delay."
Revenue Consol (₹ Cr)	29.11	↑ 22.8%	↓ 1.1%	□	Consol revenue slightly lower than standalone due to subsidiary timing/eliminations.
EBITDA Standalone (₹Cr)	4.75	↑ 7.5%	↓ 18.5%	□	Margin compression due to execution of an old, low-margin govt (TANGEDCO) tender.
EBITDA Margin % (Stand.)	15.72%	↓ 421 bps	↓ 424 bps	↓	Management expects recovery to 18-20% in Q4 as private mix dominates execution.
PAT Consol (₹Cr)	3.24	↑ 9.1%	↓ 11.2%	□	Propped up by ₹2.27 Cr Other Income (vs ₹0.07 Cr YoY) from IPO fund deposits.
ROCE (%) (FY24 Stand.)	24.71%	↓ 3379 bps	N/A	↓	Drop due to expanded equity base post-IPO; expected to rise as new plant ramps up.
Cash Flow (OCF) (FY24)	(13.94)	↓ 365%	N/A	□	CFO-to-PAT ratio is -0.97x; massive cash burn due to ₹65.66 Cr receivables.
Net Debt / Equity (x)	0.08	↓ 82.2%	→	□	Standalone ratio; remains healthy post-IPO; ₹35 Cr term loan recently sanctioned.
Interest Coverage (x)	10.54	↑ 11.9%	N/A	□	Based on FY24 Standalone; interest costs well-covered despite rising debt.
Order Book (₹Cr)	91.50	↑ 47.6%*	↑ 47.6%	□	*Vs ₹62 Cr in prior quarter. 75% private sector; includes ₹26 Cr solar project.

2B. SEGMENT BREAKDOWN (Product Wise FY24 Data)

Segment	Revenue (₹ Cr)	% of Total	Margin	Trend	vs Company Avg	Key Development
Distribution & Energy Eff.	54.02	50%	Moderate	↓	Below	Transitioning to "replacement only" in the private sector.
Power Transformers	45.12	42%	High	↑	Above	Technical focus; first 50 MVA unit shipped this year.
Solar Transformers	8.03	7.5%	Very High	↑	Above	Contribution rising from 5% to 10%; target 20% mix.
Switchyard EPC	New	N/A	~10%	↑	Below	₹26 Cr order secured; seen as a "gateway" for manufacturing orders.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	₹500 - ₹550 Cr (FY27)	Needs 5x jump from current annual run-rate; feasible only at 85%+ utilization of new 9k MVA plant.	In Progress	High
Guidance	Margins	11-12% PAT Margin	H1 FY25 was 12.4%; sustainable if private mix stays >75%.	Delivered	Low
Guidance	Capacity	9,000 MVA by Dec 2025	Requires doubling current construction pace (30% in 12 months vs 70% in next 11).	On Track	Moderate
Guidance	Capex Plan	₹70 - ₹75 Crore	Partially funded by ₹35 Cr term loan and internal accruals.	On Track	Low
Strategy	Customer Mix	20-25% Govt Exposure	Achieved; current backlog is only 25% Government.	Delivered	Low
Macro	Bidding Pipeline	₹900 Cr Pipeline	Success rate of 10-15% required to maintain growth; bidding in Punjab, Kerala, Karnataka.	Improving	Moderate
Balance	Debt Target	Peak Debt ₹35-40 Cr	Mgmt maintaining disciplined D/E despite massive expansion.	Reliable	Low

4. ANALYST Q&A

Q#	Rel.	Analyst	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
1	4.0	Jairaj Jain	Financials	"What is an order book as on date and how much of our order book will be executed in Q4?"	Management stated the confirmed order book is ₹1.5 Cr, with 30-40% slated for execution in Q4 FY25. This implies a strong revenue finish to the year (~₹30-35 Cr in Q4).	None	5.0	Specific
2	4.5	Paras Chheda	Financials	"There has been significant drop in the operating margin. It's come down to some 7.5%. What is the reason?"	Management clarified the standalone EBITDA margin drop was due to low-margin TANGEDCO (govt) supplies, where price negotiations were finalized months after bidding. This confirms that govt tenders continue to be a drag on profitability.	None	4.0	Candid
3	3.5	Paras Chheda	Financials	"Do you think you'll be able to make it up, sir, because this quarter is more like 7.5?"	Management expressed confidence in recovering to 18-20% EBITDA margins in Q4 because the majority of the current backlog is private sector. Recovery depends entirely on timely lifting by private clients.	None	3.0	Consistent
4	4.0	Paras Chheda	Strategy	"Why are we struggling with the margins... is it because this particular product is in low demand?"	Management explained that the transformer market is tight, but government tenders involve retrospective price negotiations that compress margins. Shifting 75% of the book to private sector is their primary margin-protection strategy.	None	4.0	Strategic
5	5.0	Paras Chheda	Management	"What is the pipeline value today that you bid for?"	Management revealed a bidding pipeline of ₹900 Cr across multiple states, with an expected success rate of 10-30%. If even 15% converts, SPEL could see a ₹135 Cr inflow, supporting FY26 targets.	None	4.5	Quantified
6	3.0	Sahil Raj	Strategy	"What is the significance of the new office that you have opened in Cochin?"	Management stated the office is to support their new status as a KSEB vendor and to manage 7-8 active tenders in the Kerala region. This signals geographic diversification	None	4.0	Directional

Q#	Rel.	Analyst	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
					away from the Tamil Nadu home market.			
7	4.5	Gyanendra Agarwal	Business	"Why our capacity utilization is still around 40%, whereas our competitors are almost at 80%, 90%?"	Management explained that the current facility has a physical bottleneck (max 25 MVA) and they must keep "cushion" capacity for large distribution tenders. High utilization (>80%) is only achievable after the 9,000 MVA plant opens.	None	4.0	Logical
8	5.0	Srinivas Agarwal	Financials	"I can see a decrease in revenue from Q2 versus Q3. Historically Q3 is stronger. Why was there a decrease?"	Management admitted to a ₹7-8 Cr inventory buildup because customers had not provided delivery clearance or made payments. This highlights the vulnerability of the "bill-and-hold" model and customer site readiness risks.	None	5.0	Critical
9	4.0	Vikram	Financials	"What is this other income, sir, INR2.7 crores?"	Management initially deferred the answer but later linked it to deposits of IPO proceeds. This non-operating gain heavily masked the underlying weakness in operating profit this quarter.	Verified later	3.0	Propped up
10	4.0	Paras Chheda	Capex	"New capacity... will be accepted in the market right away? Do you need any qualification?"	Management confirmed existing products can move to mass production immediately, but larger units (160 MVA) will require a 3-6 month qualification process with utilities. This pushes the real "revenue kick" of the new plant to H2 FY27.	None	4.0	Realistic

PATTERN FLAGS & SENTIMENT * The "Government Hangover": Analysts focused heavily on the margin compression. Management was defensive but honest, admitting that government tenders (TANGEDCO) are low-margin and prone to negotiation. The resolution lies in the fact that they have already reduced this exposure to 25% of the backlog. * **The Lifting Delay:** The revelation of ₹7-8 Cr in finished goods sitting on the floor was the most significant negative signal. It suggests that while the order book is strong, SPEL's revenue is at the mercy of client-side project delays and payment terms (no credit policy). * **Expansion Skepticism:** Analysts are questioning the jump from ₹130 Cr to ₹550 Cr. Management's response about "technical bottlenecks" in the old plant vs "mass production" in the new plant was logical but execution-heavy.

Analyst Sentiment Verdict: Analysts were **skeptical** this quarter. While the order book growth was praised, the margin compression and the "lifting delay" generated friction. Management's credibility remains intact because

they are delivering on the "Private Sector Pivot," but the "Other Income" boost to PAT was clearly seen as a low-quality earnings beat.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Margin Stability | "Healthy growth and EBITDA" | Standalone margins crashed to 15.7% | Realized margins are far more volatile than the 9M average suggests. | Moderate | | Revenue Cycle | Consistent QoQ growth expected | ₹7-8 Cr revenue "stuck" in inventory | Business is prone to seasonal and client-side project volatility. | Moderate | | Operating Leverage | Efficiency gains from new plant | "Overheads will also increase... PAT may reduce 0.5%" | Expansion will not lead to massive margin expansion; it is a volume play. | High |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (H1 FY25)	This Quarter (Q3 FY25)	Direction
Order Book	₹62.00 Cr	₹91.50 Cr	↑
EBITDA Margin	20.53% (Consol)	18.27% (Consol) / 15.7% (Stand.)	↓
Vendor Status	Applied for KSEB	Officially Approved KSEB Vendor	↑
Inventory Status	Normal	₹7-8 Cr buildup (Lifting delay)	↓
Leverage	No major term debt	₹35 Cr Term Loan sanctioned	↓
Technical Milestone	Shipped first 50 MVA	Shipping validated; bidding for 160 MVA units	↑
Geographic Focus	Tamil Nadu/Private	Cochin Office Opened (Kerala expansion)	↑
Earnings Quality	Core-business driven	Propelled by ₹2.27 Cr "Other Income"	↓

INVESTOR NOTE: This quarter highlights that SPEL is a "lumpy" business. The underlying thesis—moving to 160 MVA units and private-sector solar—is progressing, but the cash-flow cycle is worsening as finished goods pile up. The CFO-to-PAT ratio is a critical metric to watch in Q4; if it remains negative, the ₹70 Cr capex will require significant external debt, potentially eroding the low-leverage advantage. STOP HERE.