Supreme Power Equipment Ltd — Jun 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat on Revenue and Cash Flow; Inline on Margins. **One-line:** SPEL has successfully de-risked its business model by pivoting to 74% private/renewable revenue while solving its "Achilles heel" of working capital, with the massive 3.6x capacity expansion now 70% complete.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	FY25 Consol Revenue (□149.54 Cr) exceeded the □125-130 Cr exit target projected in Q3.	□
Earnings Quality	High (Core driven)	CFO-to-PAT ratio of 2.08x indicates high-quality earnings and successful receivable liquidation.	□
Guidance Confidence	Strong	Visible revenue of ~□228 Cr (□168 Cr backlog + □60 Cr NLC order) makes FY26 target of □200-250 Cr conservative.	□
Management Credibility	Strong	Delivered on the pivot to private sector (74% of revenue) and significantly reduced receivable days.	□
Business Quality Signal	Improving	Transition from a regional repair shop to a national player with 160 MVA class capabilities and NLC/KSEB approvals.	□
Key Q&A Exchange	Q21 (Bidding)	Mgmt quantified an □800 Cr bidding pipeline with a 10-15% success rate, providing clear multi-year visibility.	□
The Street's Primary Anxiety	Margin Dilution	Fears that expansion overheads will crush margins; Mgmt guided for a modest 1-1.5% PAT dip to 10-12%.	□
Capital Cycle Stage	Investment	In the final 30% of an □80-85 Cr capex cycle; peak investment phase before Jan 2026 production.	□
Margin / Return Ratio	Stable	Consol EBITDA margin of 19.4% remains robust despite hiring-related overhead increases.	□
Pricing Power	Stable	Solar/Private orders negotiated "across the table" allow for cost pass-through of CRGO/Copper.	→
FCF Conversion & Quality	Strong	Massive turnaround in OCF (□39.50 Cr vs -□10.73 Cr YoY) as old government dues were collected.	□
Competitive Moat Signals	Widening	Approved vendor for KSEB, KPTCL, and Ministry of Coal (NLC); technical capability now reaches 230kV class.	□
Balance Sheet Strength	Adequate	Consol Net Debt/Equity is 0.18; IPO funds and □35 Cr term loan fully fund the expansion.	□
Working Capital Efficiency	Improving	Receivable days slashed from 190 to 110; "lifting delays" noted in Q3 have been resolved.	□
Mgmt Guidance Track Record	Reliable	Consistently hitting the private sector mix targets; capex timeline remains on schedule (Dec 2025).	□
Key Vulnerability	Execution Risk	Scaling from □150 Cr to □500 Cr revenue potential requires massive organizational ramp-up.	□
Management Tone	Confident	CMD was highly bullish on the "8-year renewable super-cycle" and solar IDT demand.	□

Sentiment: □Positive (Thesis Strengthened)

Key Takeaways: * **Positives:** The fundamental thesis is no longer just about "potential"; SPEL has proven it can move from 59% government dependency (FY23) to 74% private (FY25). The earnings quality has undergone a sea change: the negative cash flow from operations that plagued the IPO year has been reversed into a □39.50 Cr inflow. Technically, the company has entered the "big leagues" by securing a □61 Cr order from NLC and shipping its first 50 MVA units. * **Negatives:** The massive greenfield expansion (□80-85 Cr) will introduce a "J-curve" effect on margins in FY26. Management has pre-emptively guided for a slight PAT margin compression (10-12% vs current ~12.5%) as they hire workforce ahead of the Jan 2026 production start. * **Street Concern:** Analysts remain wary of the scalability of a small-cap player into a □500 Cr+ revenue bracket. Management's strategy to maintain a separate subsidiary (Danya) to maximize government bidding slots while focusing the parent on high-value solar projects is a clever, albeit complex, structure. * **Watchpoint:** The commissioning of the new 6-acre facility in December 2025. Any delay in the January 2026 production start will directly impact the FY26 exit run-rate and the ability to service the □800 Cr pipeline.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current FY25 (Consol)	YoY Change	Trend	Mgmt Commentary
Revenue (□Cr)	148.72	↑ 31.1%	□	Driven by surge in Power and Inverter Duty (Solar) Transformers.
Revenue Standalone (□Cr)	144.80	↑ 35.1%	□	Core business growing faster than utility-focused subsidiary.
EBITDA (□Cr)	29.07	↑ 24.6%	□	Growth slightly lagged revenue due to overhead hiring for expansion.
EBITDA Margin %	19.55%	↓ 101 bps	□	Margin compression from 20.56% to 19.55% due to hiring costs.
PAT (□Cr)	18.93	↑ 32.4%	□	Reported Net Profit after minority interest is □18.60 Cr.
ROCE (%)	23.84%	↓ 87 bps	→	Stable despite massive capital deployment in new facility.
Cash Flow (OCF) (□ Cr)	39.50	↑ 468%	□	Drastic improvement as receivables were collected from govt/private clients.
Net Debt / Equity (x)	0.18	↑ 125%	□	Increased from 0.08 (vs Q3) as term loans for capex were drawn.
Interest Coverage (x)	11.44	↑ 57%	□	Calculated as EBIT / Finance Costs (□28.6 / □2.5).
Receivable Days	110	↑ 42%	□	Improved significantly from 190 days in the prior year.

2B. SEGMENT BREAKDOWN (Product Wise Standalone)

Segment	Revenue (□ Cr)	% of Total	Margin	Trend	vs Company Avg	Key Development
Distribution & Energy Eff.	58.06	40%	Moderate	→	Below	Maintaining baseline with utility tenders.
Power Transformers	40.55	28%	High	↓	Above	Revenue dipped YoY (from □45 Cr) as solar took priority.
Inverter Duty (Solar)	25.49	18%	Very High	↑	Above	3x growth from FY24 (□8 Cr); now 40% of order book.
Others (Gen/ Furnace/Rect)	20.69	14%	High	↑	Above	Includes new high-capacity specialized units.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	□200 - □250 Cr (FY26)	Needs 50% YoY growth; feasible as □228 Cr is already visible in backlog/major orders.	Delivered	Low
Guidance	Revenue	□500 - □550 Cr (Full Capacity)	Requires 3.5x jump; only possible by FY28 after new plant ramps up for 2 years.	In Progress	High
Guidance	Margins	10% - 12% PAT Margin	Current H2 was 12.7%; buffer of 1-2% for expansion overheads is realistic.	Delivered	Low
Guidance	Capacity	9,000 MVA by Dec 2025	Construction 70% complete (□65 Cr spent); needs □20 Cr finish in 6 months.	On Track	Moderate
Strategy	Customer Mix	75% Non-Govt Revenue	Achieved 74% in FY25; ahead of the original post-IPO schedule.	Delivered	Low
Strategy	Geography	National Expansion	Now registered in Kerala (KSEB) and Telangana; status L1 in several tenders.	New	Low
Macro	Sector Demand	8-Year Super Cycle	Based on solar integration/grid upgrades; management hiring workforce now.	N/A	Low
Balance	Capex Funding	□80 - □85 Cr Total	Funded by IPO proceeds + □35 Cr Term Loan; no further equity dilution planned for 12-18 months.	On Track	Low

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
1	4.0	Garvit Goyal / Nvest	Financials	"Is it correct to assume that this entire order book [INR 167 cr] will get executed this year itself?"	Management clarified that the ₹167 Cr backlog is a mix of deliveries spanning 4 to 18 months. This implies a steady revenue baseline for FY26 but cautions against expecting a 100% conversion in 12 months.	None	5.0	Specific
2	5.0	Garvit Goyal / Nvest	Management	"What is the top line guidance [for FY26]?"	Management guided for revenue between ₹200 Cr and ₹250 Cr for the next financial year. This represents a ~50% growth target, which is underpinned by the current high-visibility backlog.	None	5.0	Quantified
3	4.5	Garvit Goyal / Nvest	Financials	"What kind of margins do we expect when we say we are going to do INR200 crores to INR250 crores top line this year?"	Management expects PAT margins to settle between 10% and 12%, accounting for a ~1-1.5% drop due to increased overheads from capex hiring. This provides a realistic floor for earnings projections during the expansion phase.	None	4.0	Realistic
4	4.5	Abhishek Sharma / JC	Capex	"What is the roadmap post the complete of your new manufacturing facility and how soon do you expect to reach optimal utilization?"	Management expects to reach optimal utilization of the 9,000 MVA plant within 2 to 3 years, with a revenue peak of ₹500 Cr. This defines the medium-term valuation ceiling for investors.	None	4.5	Clear Roadmap
5	4.0	Abhishek Sharma / JC	Management	"How are you preparing to complete nationally as you expand beyond Tamil Nadu and any specific region you are targeting first?"	Management identified Kerala (KSEB) and Telangana (L1 status) as the primary expansion markets following approvals. Geographic diversification reduces the "TANGEDCO concentration risk" highlighted in previous quarters.	None	4.5	Strategic
6	3.5	Dhanraj Solani	Governance	"What is the long-term vision for Danya Electric	Management intends to keep Danya separate to maximize bidding opportunities in state	None	3.0	Tactical

Q#	Rel.	Analyst / Firm	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
				Company... any plan for fully integration?"	tenders where contracts are split by the number of participants. This confirms a strategic (if slightly opaque) governance structure for state utility bidding.			
7	4.0	Dhanraj Solani	Financials	"Despite the revenue jump, EBITDA margins slightly dropped Y-o-Y?"	Management attributed the marginal drop to tough negotiations on large orders and a slight shift in customer mix. This confirms that bulk orders, while positive for revenue, carry lower marginal pricing power.	None	3.5	Candid
8	5.0	Abhiruchi / Sagefarm	Financials	"Would you raise more debt or equity capital for that [the □500 Cr target]?"	Management admitted they may dilute equity in 2026 or 2027 to fund the next stage of growth. This signals a future equity overhang for long-term investors once the current capex ramps up.	None	4.0	Forward Signal
9	4.0	Abhiruchi / Sagefarm	Macro	"Are we seeing any cost pressure... say in CRGO steel specifically?"	Management stated that for private sector clients, they negotiate based on current spot prices of copper and CRGO, effectively passing through costs. This confirms margin protection in the now-dominant 74% private revenue segment.	None	4.0	Defensive
10	4.5	Priya Jain / Green Cap	Business	"NSE [NLC] India around 61 crores... how will this impact your revenues and especially margin?"	Management confirmed the □61 Cr NLC order has a tight 6-month execution window and carries "reasonable margins." This order will be a primary driver for Q2 and Q3 FY26 earnings.	None	4.5	Specific
11	4.5	Raj Tripathi	Financials	"What risk management frameworks are in place to mitigate delays in payment?"	Management highlighted that receivable days dropped from 190 to 110 days through an improved collection mechanism and advance payment terms for private buyers. This addresses the primary	None	5.0	Verifiable

Q#	Rel.	Analyst / Firm	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
					cash-flow concern from the previous quarter.			
12	5.0	Garvit Goyal / Nvest	Financials	"What is the total capex that we are planning for?"	Total capex is revised to ₹80-85 Cr (up from ₹75 Cr), with ₹60-65 Cr already spent. This indicates the project is in the final installation phase, reducing capital risk.	None	5.0	Quantified
13	4.5	Garvit Goyal / Nvest	Management	"Success rate in those [INR 800 cr] bids?"	Management expects a 10% to 15% success rate on the current ₹800 Cr pipeline. This conversion rate implies ₹80-120 Cr in potential new inflows, supporting the FY26 guidance.	None	4.5	Feasible

PATTERN FLAGS & SENTIMENT * **The Scaling Anxiety:** Analysts focused heavily on the jump to ₹500 Cr revenue and the associated "execution baggage." Management's response was structured: hiring is already underway, and utilization will ramp over 2-3 years, not overnight. This moderated some of the "hockey stick" growth skepticism. * **The "Separate Subsidiary" Strategy:** There is persistent questioning (Abhiruchi, Dhanraj) about why Danya Electric (90% subsidiary) remains separate. Management was unusually transparent—it's a tactical move to "game" state utility bidding logic where more entities = more order allocation. This is a practical, if not textbook, governance choice. * **Margin Transition:** The pivot from 18-20% EBITDA to 10-12% PAT was a key friction point. Management didn't hide from the overhead increase, framing it as a necessary cost of scaling to a national level.

Analyst Sentiment Verdict: Analysts were **cautiously optimistic**. The massive turnaround in cash flow (OCF) silenced the biggest critics from the IPO year. While the 10-12% PAT guidance is lower than some bull-case expectations, management's quantified bidding pipeline (₹800 Cr) and the status of the capex (70% done) provided sufficient comfort to the fundamental thesis.

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5. WHAT CHANGED vs PRIOR QUARTER

vs Prior Quarter (Q3 FY25)

What Changed	Prior Quarter (Q3 FY25)	This Quarter (FY25 Full Year)	Direction
Order Book Visibility	□91.50 Cr	□168.00 Cr + □61 Cr (NLC)	↑
Cash Flow Health	Deeply Negative CFO (-□13.94 Cr)	Strong Positive CFO (□39.50 Cr)	↑
Revenue Quality	75% Private Backlog	74% Private Realized Revenue	↑
Receivable Cycle	190 Days (FY24)	110 Days (FY25)	↑
Capex Completion	30% Completed	70% Completed	↑
Capex Budget	□70 - □75 Cr	□80 - □85 Cr	↓
Lifting Delays	□7-8 Cr inventory buildup	Resolved / Liquidated	↑
Vendor Registration	Applied for KSEB	Officially Approved KSEB & NLC	↑
Earnings Support	□2.27 Cr "Other Income" boost	Core-business driven (Other Income 2.4% of Income)	↑
Guidance Tone	Cautious (due to site readiness)	Bullish (due to 8-year super-cycle)	↑

INVESTOR NOTE: The "working capital trap" that threatened SPEL during its IPO year has been decisively broken. The company generated more cash from operations (□39.5 Cr) than its total net profit (□18.9 Cr) in FY25, a rare feat for a capital goods player. The slight increase in the capex budget (to □85 Cr) is a minor price to pay for a facility that will provide a 3.6x capacity leap. The primary risk has shifted from "Will they get paid?" to "Can they manage the massive workforce ramp-up required for Jan 2026?".

STOP HERE.