Supreme Power Equipment Ltd — Nov 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline **One-line:** SPEL is successfully pivoting from low-margin utility distribution to high-value renewable power transformers, with the first 50 MVA unit shipment validating the technical path toward their 3.6x capacity expansion.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Inline	H1 Revenue (Consol) □58.61 Cr (+11.5% YoY); tracking for ~□125-130 Cr FY25.	□
Earnings Quality	Moderate	PAT growth (+10.6%) lags EBITDA (+15.9% standalone) due to higher interest/tax; heavy receivables persist.	□
Guidance Confidence	Neutral	□500-550 Cr revenue target remains dependent on Dec 2025 plant commissioning.	□
Management Credibility	Strong	Shipped first 50 MVA unit (technical milestone) and secured a landmark □26 Cr switchyard order.	□
Business Quality Signal	Improving	Non-government revenue now 86% of mix (vs 65% in FY24), reducing TANGEDCO payment risk.	□
Key Q&A Exchange	Q2 (Utilization)	Mgmt explained 50% utilization is a "technical floor"—existing plant cannot handle the high-demand >25 MVA units.	□
The Street's Primary Anxiety	Competitive Moat	Analysts questioned if competitors are also adding capacity; Mgmt cited 0.5% market share as plenty of "room to grow."	□
Capital Cycle Stage	Investment	Significant construction phase (20-30% complete) for the □75 Cr new facility.	□
Margin / Return Ratio	Improving	Consolidated EBITDA margin expanded to 20.53% (up 77 bps YoY) on better product mix.	□
Pricing Power	Stable	Realizations are steady at □11-12L/MVA for Power and □20-22L/MVA for Distribution.	→
FCF Conversion & Quality	Weak	CFO remains negative (-□13.94 Cr in FY24) as receivables (□65 Cr) dwarf PAT (□14 Cr).	□
Competitive Moat Signals	Widening	Moving into 160 MVA/230 kV class and Switchyard EPC creates a higher "technical barrier" than simple distribution.	□
Balance Sheet Strength	Adequate	Net Debt/Equity is negligible (0.08) post-IPO; raising limits to □200 Cr for the next growth leg.	□
Working Capital Efficiency	Deteriorating	Receivables increased to □65.66 Cr (Consol FY24) from □32.61 Cr; collection cycles remain long.	□
Mgmt Guidance Track Record	Reliable	Delivered on the "private sector shift" and "higher MVA testing" promised in the IPO prospectus.	□
Key Vulnerability	Raw Material	100% dependency on imported CRGO steel with tightening market supply.	□
Management Tone	Confident	Bullish on "renewable super-cycle" and ability to replicate success in the North American market.	□

Sentiment: □Positive (Thesis Intact)

Key Takeaways: * **Positives:** The business model is undergoing a structural upgrade. Management has successfully reduced dependency on volatile government tenders (now only 14% of H1 revenue) in favor of private Solar/Wind projects. The shipment of a 50 MVA transformer is a critical "proof of concept" for the new 9,000 MVA facility. EBITDA margins at 20.5% are healthy and sustainable due to the technical complexity of Inverter Duty Transformers (IDT). * **Negatives:** Cash flow generation is poor. The business is currently "eating cash" to fund a massive working capital cycle, with trade receivables sitting at ~55% of annual revenue. While debt is low now, the transition to a □75 Cr Capex cycle will test liquidity. The order book (□62 Cr) provides only ~6 months of visibility at the current run-rate. * **Street Concern:** Analysts are focused on the "utilization gap" (30-50%). Management's response—that the current plant is physically too small for high-demand, high-capacity units—places the entire growth thesis on the timely completion of the December 2025 facility. * **Watchpoint:** Monitoring the construction progress of the 6-acre facility and the first bidding success in the 230 kV class.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *DATA SOURCE: PPT figures are primary; Concall used for commentary.*

Metric	Current H1 FY25	YoY Change	Trend	Mgmt Commentary
Revenue Standalone (□Cr)	56.74	↑ 14.8%	□	Driven by solar/wind transformer demand; offset by □4-5 Cr delay in one large order.
Revenue Consol (□ Cr)	58.61	↑ 11.5%	□	Volume growth in higher MVA classes; Q2/H2 expected to be stronger due to seasonality.
EBITDA (□Cr)	12.03	↑ 15.8%	□	Consolidated EBITDA expanded faster than revenue due to high-margin private mix.
EBITDA Margin %	20.53%	↑ 77 bps	□	Shift from Distribution (lower margin) to Power/Solar (higher margin).
PAT (□Cr)	7.29	↑ 10.6%	□	Margin expansion partially offset by higher depreciation and tax expense.
Order Book (□Cr)	62.00	↑ 29.2%*	□	Includes a new □26 Cr order; Switchyard EPC is a new revenue stream. (*Vs □48 Cr in June).
Utilization (%)	30-50%	→	□	Existing plant is at a "bottleneck" for larger units; new plant needed to scale.
Exports (%)	< 3%	→	□	Currently servicing African markets; eyeing North America post-expansion.
Net Debt / Equity (x)	0.08	↓ 82.2%	□	Strong equity base post-IPO (Net worth □73.9 Cr).
Interest Coverage (x)	10.54	↑ 11.9%	□	Based on FY24 Standalone; interest costs well-covered by operating profit.
Trade Receivables (□ Cr)	65.66 (FY24)	↑ 101%	↓	YoY comparison vs FY23; indicates long credit cycles in infrastructure projects.

2B. SEGMENT BREAKDOWN (Based on H1 Revenue Commentary)

Segment	Revenue Contribution	Margin Profile	Trend	Key Development
Power Transformers	~60%	High (12-14%)	↑	Focus on 10 MVA - 25 MVA units; first 50 MVA unit commissioned.
Distribution Transf.	~30%	Moderate (9-11%)	↓	Strategy to move this to existing plant; focus is on private sector replacements.
Solar/Wind (IDT)	~10%	Very High	↑	Critical for H2 growth; IDTs for renewable pooling substations offer best margins.
Switchyard EPC	New	High	↑	₹12 Cr current order; potential for ₹10-30 Cr per order in FY26.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	₹500 - ₹550 Cr (Post-Expansion)	Needs 4.5x jump from current H1 run-rate. Feasible only at 70%+ utilization of 9,000 MVA plant.	First target	High
Guidance	Margins	10-12% PAT Margin	Consistent with H1 FY25 (12.4%). Sustainable if mix remains private-heavy.	Delivered	Low
Guidance	Capacity	9,000 MVA by Dec 2025	Construction is 20-30% complete. Needs 100% completion in 14 months.	On track	Moderate
Capex	New Facility	₹70 - ₹75 Crore	Fully funded post-IPO/Internal accruals. All approvals (7/7) in place.	On track	Low
Strategy	Sector Mix	85%+ Private / Non-Govt	Achieved 86% in H1 FY25 vs 60% historical. Pivot successful.	Delivered	Low
Strategy	Geography	National / Export Expansion	Bidding in Punjab, Kerala, Maharashtra. Bidding ratio is 10-20%.	Improving	Moderate
Macro	Input Costs	CRGO Supply Management	Mgmt relies on 20-30 year vendor relationships to secure imported steel.	Managing	Moderate

4. ANALYST Q&A

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.0	Jayraj Jay, BKC	Order Book	Financials	"What is the revenue receipt period for our company current order book of INR60 crores?"	Management confirmed the full 60 Cr backlog will be recognized as revenue by March 2025. This ensures a strong H2 and validates the FY25 growth trajectory.	None	5.0	Clear/ Quantifi
2	4.5	Shivakumar	Utilization	Business Overview	"Why we are not able to have the complete utilization of the current plant? It is still at 50% to 60%."	Management clarified the bottleneck is technical; existing facility can only handle up to 25 MVA, while the market demand is for >50 MVA. This justifies the 75 Cr Capex as a necessity rather than an optionality.	None	4.0	Directio
3	3.5	Shivali	Growth	Financials	"Are we expecting a degrowth this year based on current numbers?"	Management refuted degrowth, noting an 11% YoY rise and predicting a much stronger H2 due to seasonal procurement cycles. This calms fears of a slowdown in the core transformer business.	None	3.0	Consist
4	3.0	Bhuvan, Tiger Assets	Realization	Financials	"Can we expect increase in margins if we reach 80-90% utilization?"	Management appeared cautious, stating that maintaining current margins is a	Potential for leverage	3.0	Hedged

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						"challenge" and they don't see PAT exceeding 14-15%. This tempers expectations for massive operating leverage gains in the near term.			
5	5.0	Anurag Jain	Concentration	Governance	"Top 10 customers give the 80% concentration. What are the steps to mitigate?"	Management confirmed the concentration is high (70-80%) but highlighted the shift away from TANGEDCO to multiple private IPPs. While client count is low, the risk profile has improved by switching from government to private credit.	None	3.5	Candid
6	4.0	Venkateshwar	Substation	Capex/Alloc	"What revenue can we expect from substation works for current year and FY '26?"	Management expects 12 Cr this year and is negotiating 2-3 additional projects valued at 10-30 Cr each. This identifies "Switchyard EPC" as a major new growth vertical alongside manufacturing.	FY26 specific numbers	4.0	Specific
7	4.5	Laxman	Delays	Financials	"How many crores of this order has not	Management quantified the delay at 4-5	None	4.5	Quantifi

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					been realized because of the delay?"	Cr, caused by a client-side lifting delay, which will now hit in H2. This explains the slight revenue "miss" in H1 vs internal targets.			
8	3.5	Laxman	Competition	Business Overview	"Who is the biggest competitor for us in the renewable transformers in Tamil Nadu?"	Management named SNR (Hyderabad) as a peer but noted that larger players like Indotech are fully booked, leaving a pricing gap for SPEL. This confirms a "sweet spot" in the mid-market where SPEL has pricing advantages.	None	3.5	Directio
9	4.0	Sanjeev, Fractal	Expansion	Capex/Alloc	"What are the challenges before we start getting orders from this facility (Testing/ Certification)?"	Management explained they are using the current plant to "seed" the market (e.g., the 50 MVA unit) to gain pre-qualification status. This tactical move significantly de-risks the ramp-up of the new 9,000 MVA plant in 2026.	None	4.0	Strategi

PATTERN FLAGS & SENTIMENT * **Capacity Bottleneck:** A recurring theme was the 50% utilization of the current plant. Management was consistent in explaining that they have reached a "physical ceiling" for the size of transformers the market now demands (50-100 MVA). Analysts appeared to accept this as a valid reason for the massive Capex. * **Customer Concentration:** Analysts pressed on the 80% revenue concentration from 10 customers. Management's defense—that they are moving from "bad" government debtors to "good" private renewable players—satisfied the credit risk concern but leaves the "revenue volatility" risk live. * **Analyst Sentiment:** Analysts were generally constructive but focused heavily on the execution of the new plant. There is a sense of "watchful waiting" regarding the Dec 2025 deadline. Management's credibility improved this quarter by shipping the first 50 MVA unit, proving they can handle the technical transition.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (PPT/Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Margin Expansion | Potential for higher margins post-IPO | PAT above 14% is a "big challenge" | Mgmt is capping margin expectations despite higher utilization. | Low (Prevents over-optimism) | | Order Book | Strong momentum (₹62 Cr) | ₹4-5 Cr already delayed by 1 month | Indicates execution is lumpy and dependent on client site readiness. | Moderate (Revenue lumpiness) |

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5. WHAT CHANGED vs PRIOR QUARTER

Comparison based on Prior Context summary (June 2024).

What Changed	Prior Quarter	This Quarter	Direction
Order Book	₹48.00 Cr	₹62.00 Cr	↑
Technical Capability	Testing phase for 50 MVA	First 50 MVA unit successfully shipped/commissioned	↑
Revenue Mix (Govt)	35-40%	14% (for H1 FY25)	↑ (Risk Reduction)
Expansion Progress	Planning/Approvals	20-30% Civil Construction completed	↑
New Vertical	Pure Manufacturing	Entry into Switchyard EPC (₹12 Cr order)	↑
Working Capital	DSO focus	Delayed lifting impact (₹4-5 Cr) acknowledged	↓
Geographic Reach	Primarily Tamil Nadu	Bidding in 4+ other states and eyeing USA	↑

Note: The primary driver for the thesis change is the successful "up-scaling" of technical capacity. Moving from 25 MVA to 50 MVA units while simultaneously securing Switchyard EPC work transforms SPEL from a component supplier into a system provider. STOP HERE.