

Retail Research	IPO Note
Sector: Power Equipment	Price Band (Rs): 401 – 425
11th February, 2025	Recommendation: Subscribe for Long-Term Investment Horizon

Quality Power Electrical Equipments Ltd.

Company Overview:

Quality Power Electrical Equipments Ltd. (Quality Power) is a technology-driven company specializing in the provision of power products & solutions across power generation, transmission, distribution and automation sectors. The company offers high voltage equipment and solutions for electric grid connectivity and energy transition. The company is among the few global manufacturers of critical high voltage equipment for High Voltage Direct Current (HVDC) and Flexible AC Transmission Systems (FACTS) network.

Key Highlights:

1. Comprehensive product portfolio: Quality Power's offerings include reactors, transformers, line traps, composites, capacitor banks, harmonic filters, SVC Systems and reactive power compensation systems. Further, the company's grid interconnection solutions feature technologies such as satellite communication (SATCOM) and static VAR compensator systems (SVC). Further, Quality Power's offerings are customized and have a typical life of over 15 years and are used for long term critical energy projects. The products have high switching costs for the customers which acts as an exit barrier and disincentivises changes for the customers.

2. Diversified customer base: As of Sep'24, the company's customer base stood at 143 customers, with end customers in various industries including i) Power utilities, ii) Renewable energy, iii) Automobiles, iv) Oil & Gas, v) Cement, vi) Chemicals, vii) Steel & Metal, viii) Traction & locomotives. These customers have specific pre-approval criteria based on past experiences, test qualifications, and brand preferences which significantly influence their purchase decisions, guiding them towards products and services that meet their standards and expectations. The company believes it has developed long term business relationships with most of its customers due to its quality of products & services. Further, Quality Power has a robust geographical reach including customers from Asia, Middle East, North & South America, Australia and Europe.

3. Poised for industry tailwinds: Quality Power's product portfolio which includes high voltage equipment and solutions contributes to the global advancing trend of decarbonization, sustainability & green energy. Further, the adoption of HVDC & SATCOM technologies is vital for green energy transition as they facilitate efficient and stable integration of renewables into the power grid. As governments and businesses around the world intensify their efforts to decarbonize the energy sector, the market for energy transition equipment will continue to expand, driven by technological advancements, supportive policies and increasing public awareness of the need for climate action. The company with its comprehensive product portfolio and presence across 100 countries is positioned to harness the overall industry tailwinds.

Valuation: Quality Power is valued at FY24 P/E and EV/EBITDA multiple of 59.3x and 80.8x respectively based on the upper price band on the post-issue capital which looks expensive. The proforma FY24 P/E and EV/EBITDA multiples (post acquisition of 51% stake in Mehru Electrical) is 50.1x/59.0x respectively which appears to be expensive looking at the relatively smaller scale of business. Although the company is doing well on financial metrics (Revenue/EBITDA/PAT CAGR of 28.3%/27.8%/14.6% respectively over FY22-FY24) and generates healthy return ratios in the range of 34-36%, we believe the listing gains can be muted due to relatively stretched valuations. Hence, we recommend investors only with long term investment horizon to subscribe to the issue at the cut-off price.

Issue Details	
Date of Opening	14 th February 2025
Date of Closing	18 th February 2025
Price Band (Rs)	401 – 425
Offer for sale (shares)	1,49,10,500
Fresh Issue (Rs cr)	225
Issue Size (Rs cr)	823 – 859
No. of shares	2,05,21,473 – 2,02,04,618
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	3,118 – 3,291
BRLMs	Pantomath Capital Advisors Pvt Ltd.
Registrar	MUFG Intime India Pvt Ltd.
Bid Lot	26 shares and in multiple thereof
QIB shares	75%
Retail shares	10%
NIB shares	15%

Objects of Issue	
	Estimated utilization from net proceeds (Rs cr)
Payment of the purchase consideration for the acquisition of Mehru Electrical & Mechanical Engineers Pvt Ltd	117.0
Funding capex requirements for purchase of plant & machinery	27.2
Funding inorganic growth through unidentified acquisitions and other strategic initiatives and general corporate purposes [^]	-
Total proceeds from fresh issue	225.0

[^] The amount to be utilised for unidentified acquisitions and general corporate purposes shall not exceed 35% of the Gross Proceeds. The amount utilised for general corporate purposes alone shall not exceed 25% of the Gross Proceeds.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	7,21,49,960	100.0
Public & Others	40	0.0
Total	7,21,50,000	100.0

Post Issue @ Lower Price Band	No. of Shares	%
Promoter & Promoter Group	5,72,39,460	73.6
Public & Others	2,05,21,513	26.4
Total	7,77,60,973	100.0

Post Issue @ Upper Price Band	No. of Shares	%
Promoter & Promoter Group	5,72,39,460	73.9
Public & Others	2,02,04,658	26.1
Total	7,74,44,118	100.0

Source: RHP, SSL Research

Key Financials

Particulars (Rs cr)	FY22	FY23	FY24	1HFY25
Revenue from operation	182.6	253.3	300.6	155.7
EBITDA	23.2	32.2	37.8	31.6
PAT	42.2	39.9	55.5	50.1
EBITDA Margin (%)	12.7	12.7	12.6	20.3
PAT Margin (%)	23.1	15.8	18.5	32.2
ROE (%)	45.6	35.6	36.2	-
ROCE (%)	48.4	40.8	34.1	-
P/E (x)*	72.6	76.9	55.3	-

Source: RHP, SSL Research

*Pre-issue based on upper price band

Risk Factors

- **Geographical risk:** The company derived 74.3%/76.9%/80.7%/75.8% of its FY22/FY23/FY24/1HFY25 revenue from its international business respectively.
- **Customer concentration risk:** The company does not enter into long-term supply agreements with any of its customers. Further, the top 10 customers contributed to 52.7%/55.7%/58.2% 55.4% of FY22/FY23/FY24/1HFY25 revenue respectively.
- **Raw material risk:** Cost of raw materials stood at 66.3%/69.7%/76.5%/68.8% of FY22/FY23/FY24/1HFY25 revenue respectively which opens the company to raw material sourcing and price volatility related risks.
- **Product quality risk:** The company is subject to stringent quality requirements by customers and failure to comply may lead to cancellation of orders, product recalls and exposure to product liability claims.
- **Legal risk:** The company has 1 outstanding material civil litigation with aggregate amount involved of Rs 12.7 cr. Further, there is another material civil litigation against a director of the company.

Growth Strategy

- Focus on R&D and building engineering capabilities to develop innovative systems and solutions.
- Expand manufacturing facilities and increase operating capacity.
- Harness industry growth in the energy transition sector.
- Improve manufacturing efficiencies.
- Focus on growth through organic and inorganic acquisitions.

Revenue Mix – Geography split

Particulars	FY22		FY23		FY24		1HFY25	
	Rs cr	as a % of total	Rs cr	as a % of total	Rs cr	as a % of total	Rs cr	as a % of total
International	135.7	74.3	194.8	76.9	242.5	80.7	118.0	75.8
Domestic	39.5	21.6	51.9	20.5	49.0	16.3	35.2	22.6
Other Operating Revenue	7.5	4.1	6.5	2.6	9.1	3.0	2.5	1.6
Total	182.6	100.0	253.3	100.0	300.6	100.0	155.7	100.0

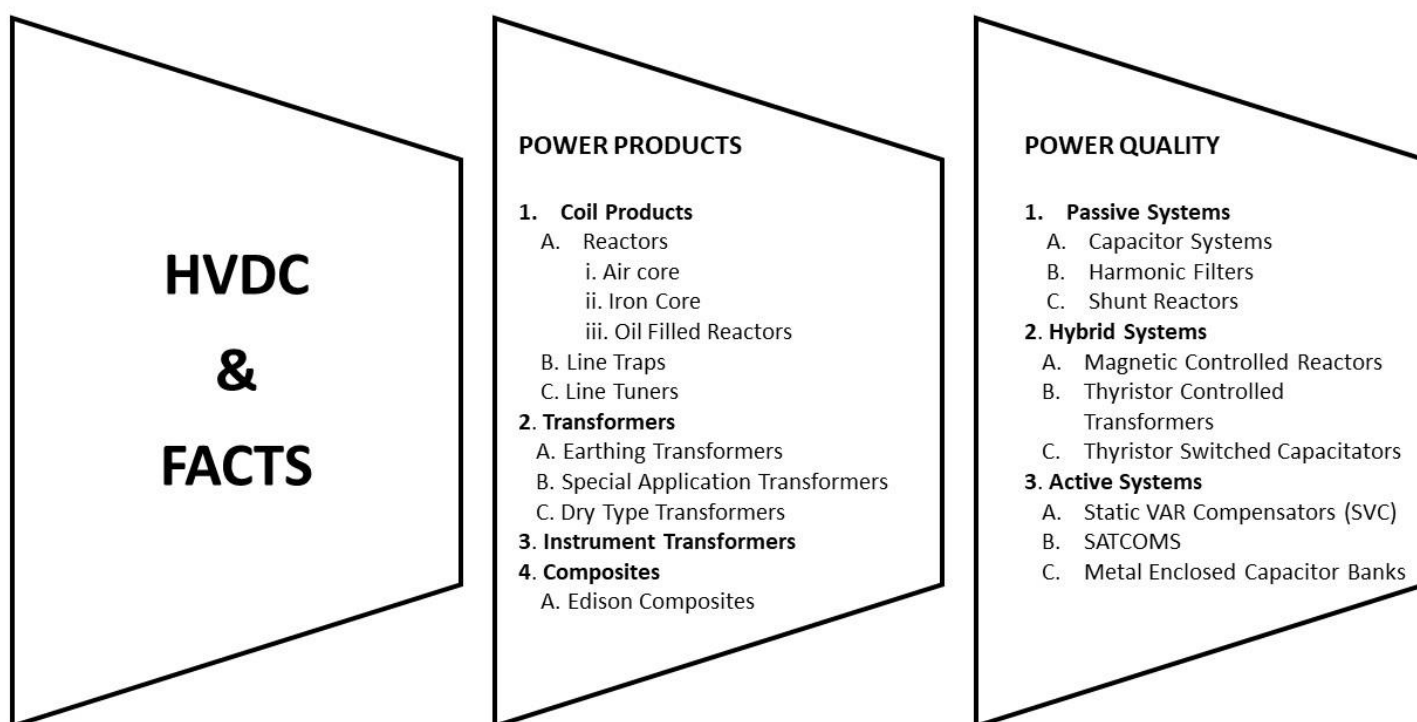
Source: RHP, SSL Research

Revenue Mix – Product wise

Particulars	FY22		FY23		FY24		1HFY25	
	Rs cr	as a % of total	Rs cr	as a % of total	Rs cr	as a % of total	Rs cr	as a % of total
Power Quality Equipment	113.5	62.2	161.8	63.9	167.6	55.8	83.4	53.6
Power Products	61.6	33.7	84.9	33.5	123.9	41.2	69.8	44.8
Others	7.5	4.1	6.5	2.6	9.1	3.0	2.5	1.6
Total	182.6	100.0	253.3	100.0	300.6	100.0	155.7	100.0

Source: RHP, SSL Research

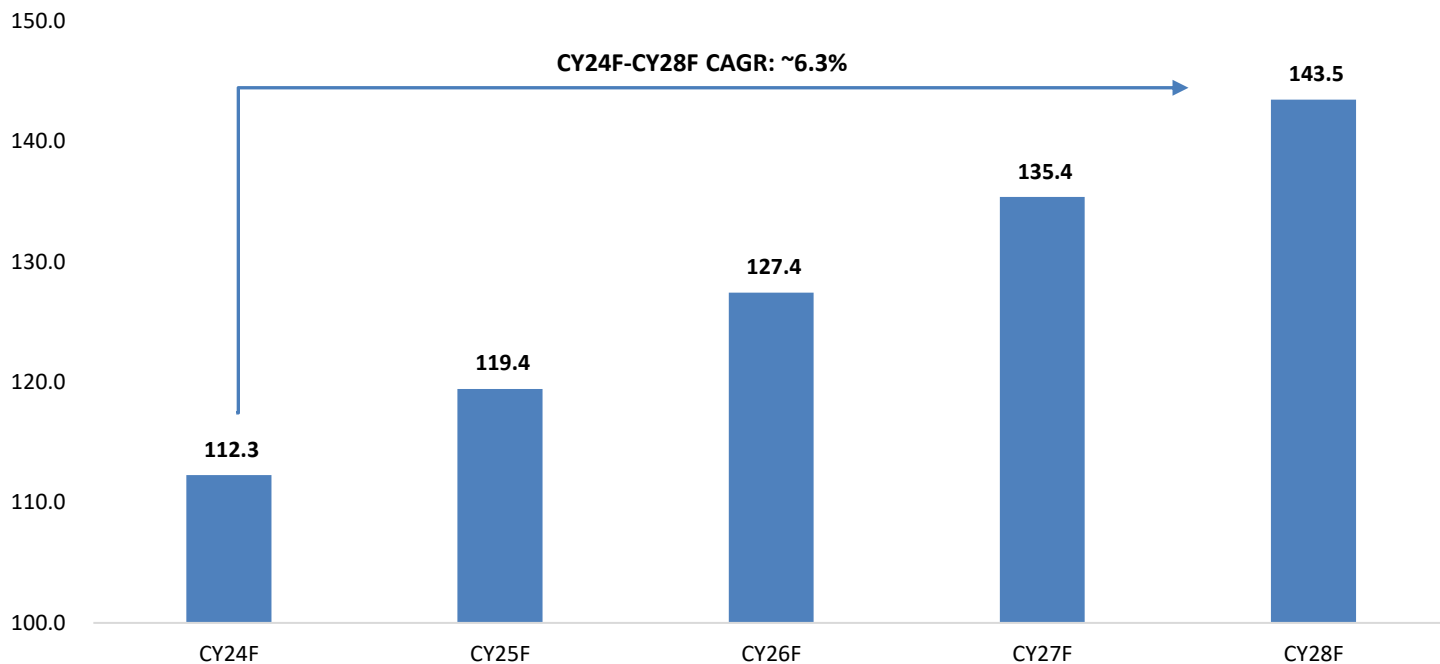
Product Portfolio as of Sep'24



Source: RHP, SSL Research

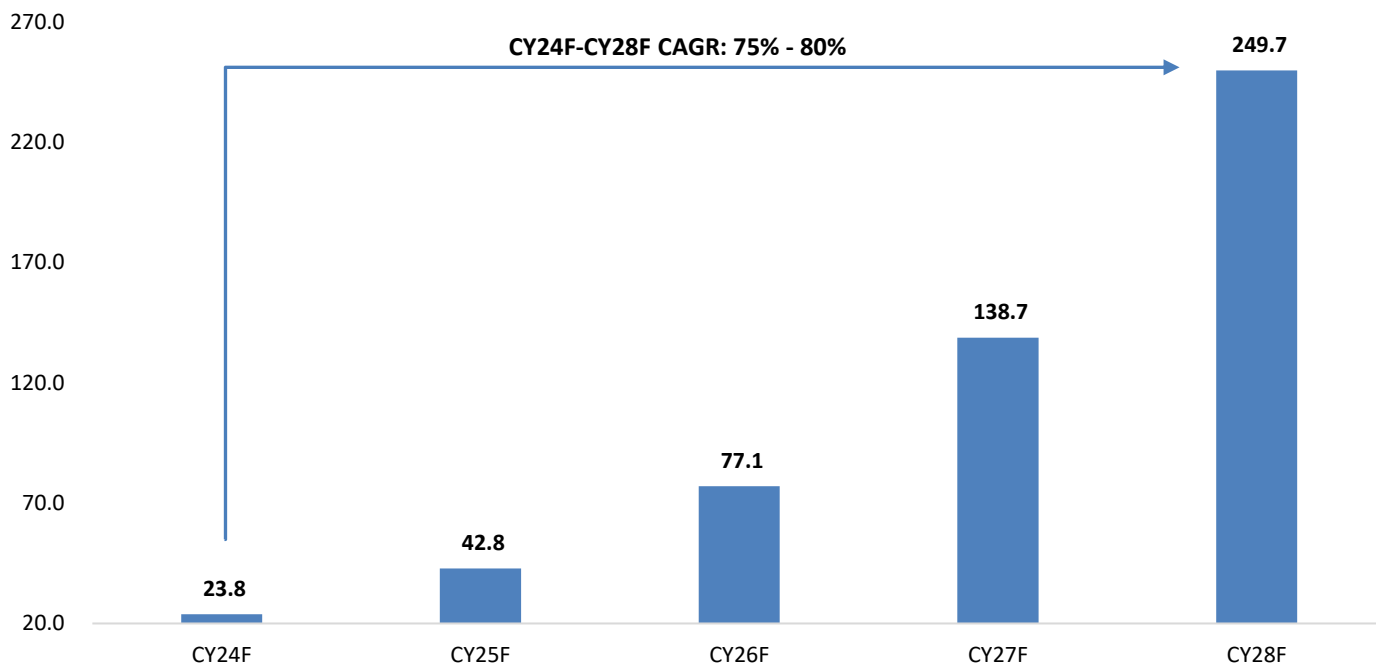
Industry Overview

Global Electricity Transmission Market (USD bn)



Source: RHP, SSL Research

Global HVDC and FACTS Market (USD bn)



Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT			
Particulars (Rs cr)	FY22	FY23	FY24
Revenue from Operations	183	253	301
YoY growth (%)	-	38.7%	18.7%
Cost Of Revenues (incl Stock Adj)	107	160	200
Gross Profit	75	93	100
Gross margin (%)	41.3%	36.9%	33.4%
Employee Cost	17	20	25
Other Operating Expenses	36	41	38
EBITDA	23	32	38
EBITDA margin (%)	12.7%	12.7%	12.6%
Other Income	29	20	31
Interest Exp.	1	3	2
Depreciation	2	2	3
PBT	49	47	63
Tax	7	8	8
PAT	42	40	55
PAT margin (%)	23.1%	15.8%	18.5%
EPS	5.9	5.5	7.7

BALANCE SHEET			
Particulars (Rs cr)	FY22	FY23	FY24
Assets			
Net Block	34	39	65
Capital WIP	-	1	2
Intangible Assets	-	1	1
Other Non-current Assets	38	52	60
Current Assets			
Current Investment	0	29	46
Inventories	41	48	23
Trade receivables	54	65	79
Cash and Bank Balances	68	52	48
Other Current Assets	19	26	35
Total Current Assets	181	220	232
Current Liabilities & Provisions			
Trade payables	27	53	64
Other current liabilities	52	72	64
Total Current Liabilities	80	125	128
Net Current Assets	101	95	103
Total Assets	173	188	231
Liabilities			
Share Capital	-	-	72
Reserves and Surplus	92	112	81
Total Shareholders' Funds	93	112	153
Minority Interest	68	64	37
Total Debt	12	11	38
Other Long-Term Liabilities	1	1	2
Total Liabilities	173	188	231

Cashflows (Rs cr)	FY22	FY23	FY24
Cash flow from Operating Activities	9	44	52
Cash flow from Investing Activities	21	(31)	(39)
Cash flow from Financing Activities	2	(4)	25
Free Cash Flow	5	37	16

RATIOS			
	FY22	FY23	FY24
Profitability (%)			
Return on Capital Employed	48.4	40.8	34.1
Return on Equity	45.6	35.6	36.2
Margin Analysis (%)			
Gross Margin	41.3	36.9	33.4
EBITDA Margin	12.7	12.7	12.6
Net Profit Margin	23.1	15.8	18.5
Short-Term Liquidity			
Current Ratio (x)	2.3	1.8	1.8
Quick Ratio (x)	1.8	1.4	1.6
Avg. Days Sales Outstanding	108	94	97
Avg. Days Inventory Outstanding	139	109	43
Avg. Days Payables	93	120	117
Fixed asset turnover (x)	5.4	6.5	4.6
Debt-service coverage (x)	3.9	3.8	1.6
Long-Term Solvency			
Gross Total Debt / Equity (x)	0.1	0.1	0.2
Interest Coverage Ratio (x)	34.1	18.8	28.5
Valuation Ratios			
EV/EBITDA (x)	129.8	94.1	80.8
P/E (x)	72.6	76.9	55.3
P/B (x)	33.1	27.4	20.0
EV/Sales (x)	16.5	11.9	10.2

Source: RHP, SSL Research

Peer Comparison – FY24

Particulars (Rs cr)	Quality Power Electrical Equipments Ltd.	Quality Power Group Proforma [^]	Transformers & Rectifiers (India) Ltd.	Hitachi Energy India Ltd.	GE Vernova T&D India Ltd.
CMP (Rs)	425.0	425.0	915.0	12,200.0	1,654.0
Sales	300.6	519.0	1,294.7	5,237.5	3,167.9
EBITDA	37.8	55.6	134.1	349.0	319.0
Net Profit	55.5	65.7	47.0	163.8	181.1
Mkt Cap	3,291.4	3,291.4	13,732.6	51,705.6	42,350.0
Enterprise Value	3,057.0	3,281.5	13,986.8	51,727.6	42,218.5
EBITDA Margin (%)	12.6	10.7	10.4	6.7	10.1
Net Margin (%)	18.5	12.7	3.6	3.1	5.7
RoE (%)	36.2	42.9	8.5	12.0	14.6
RoCE (%)	34.1	40.2	14.2	17.8	23.4
P/E (x)	59.3	50.1	292.1	315.7	233.9
EV/EBITDA (x)	80.8	59.0	104.3	148.2	132.4
EV/Sales (x)	10.2	6.3	10.8	9.9	13.3

Source: RHP, SSL Research

For Quality Power Electrical Equipments Ltd. the Market cap, P/E(x), and EV/EBITDA (x), EV/Sales (x) are calculated on post-issue equity share capital based on the upper price band.

CMP for peer companies as on 10th February, 2025.

Note: There is no like-to-like peer comparison for Quality Electrical Equipments Ltd as companies within the HVDC segment manufacture different products.

[^]Quality Power Group includes proforma financials for impact of acquisition of 51% stake in Mehru Electrical & Mechanical Engineers Pvt Ltd.

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