

IPO Note
T D Power Systems Ltd

Recommendation	Not Rated	
Price Band	Rs. 256-261	
Bidding Date	24th Aug – 26th Aug	
Book Running Lead Manager	ENAM Securities, Antique Capital, Equirus	
Registrar	Link Intime India Pvt Limited	
Sector	Capital Goods	
Retail Application - Detail At Cut off Price		
Number of Shares	766	
Application Money	Rs. 199926	
Amount Payable	Rs. 199926	
Discount to retail	0%	
Financials (Rs in Crs)	FY10	FY11
Total Income	745.4	874.6
EBITDA	71.8	89.4
PAT	43.5	56.7
Valuations	Lower Band	Upper Band
EPS*	17.04	17.13
P/E ratio*	15.02	15.23
*calculated on diluted equity		
Post Issue Shareholding Pattern		
Promoters	65.9%	
Others	7.8%	
Public	26.7%	
Offer structure for different categories		
QIB (Including Mutual Fund)	50.0%	
Non Institutional	15.0%	
Retail	35.0%	
Post issue Equity (Rs. in crore)	33.06	
Issue Size (Rs. in crore)	227	
Face Value (Rs.)	10	
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Background

T D Power Systems Ltd (TDP) is one of the leading manufacturers of AC Generators with output capacity in the range of 1 MW to 52 MW for prime movers, such as steam turbine generators, horizontal hydro generators, vertical hydro generators, diesel engine generators, wind turbine generators, gas engine generators, gas turbine generators, special applications generators, high voltage motors and generators for Geo Thermal and Solar thermal applications.

TDP also executes Turbine Generator (TG) island projects for steam turbine power plants with output capacity up to 52 MW using a Japanese turbine combined with its own generator. This is their projects segment of business.

TDP through its subsidiary “DF Power Systems Private Ltd” is also in the business of Engineering, Procurement and Construction (EPC), executing Boiler-Turbine Generator (BTG) island projects and the balance of plant (BOP) portion for steam turbine power plants with output capacity from 52 MW up to 150 MW.

The current order book of Rs. 1094.69 cr comprises of Rs. 380.66 cr from its manufacturing business, Rs 183.14 cr from its projects business and Rs. 530.89 cr from its EPC business.

Revenue contribution for FY11 from its three business segments is as follows: Manufacturing – 37.4%, Projects – 19.02% and EPC – 43.51%

TDP has delivered strong performance in the last 3 years. Total income has grown at a CAGR of 31.3%, EBITDA at a CAGR of 28% and PAT at a CAGR of 14.2% during FY 2008-2011.

CARE has assigned a ‘Grade 4’ to the TD Power Systems Ltd IPO which indicates ‘Above Average Fundamentals’.

Objects of the Issue

- Finance the expansion of manufacturing plant in Dabaspet (Rs. 94.6 cr)
- Construct a project office in Bangalore city (Rs. 28.9 cr)
- Repay debt (Rs. 30.2 cr)
- Fund working capital requirements of Company (Rs.40 cr)
- General corporate purposes (Rs. 33.25 cr)

Business

TDP's business is divided into three segments

- **Manufacturing – AC Generators & Engines**

TDP manufactures AC Generators with output capacity in the range of 1 MW to 52 MW for prime movers such as steam turbines, gas turbines, hydro turbines, wind turbines, diesel and gas engines. Since inception the company has manufactured 1,538 generators with an aggregate output capacity of 12,657 MW, of which 233 generators have been supplied to customers across 34 countries.

- **Project Business – TG Island projects**

The company executes Turbine Generator (TG) island projects for steam turbine power plants with output capacity up to 52 MW. The scope of work of the TG island projects consists of design services, procurement and supply of equipment, assembly, installation & commissioning. Since inception the company has completed a total of 92 TG island projects with an aggregate output capacity of 1,799 MW which includes projects executed in Uganda, Kenya, Zambia and Philippines.

- **EPC Business – BTG Island projects**

The company is into the business of Engineering, Procurement and Construction of Boiler-Turbine Generator (BTG) island projects and the balance of plant (BOP) portion for steam turbine power plants with output capacity from 52 MW up to 150 MW. The company has completed a total of 2 BTG island projects with an aggregate output capacity of 111.50 MW. The EPC work of the company is done through its 100% owned subsidiary "DF Power Systems Pvt Ltd"

Segment Revenue Contribution (FY11)

Manufacturing	Rs. 323.53 cr
Projects Business	Rs. 164.34 cr
EPC Business	Rs. 375.84 cr
Total	Rs. 863.7 cr

Source: Company data

Order Book Break up:

Manufacturing	Rs. 380.66 cr
Projects Business	Rs. 183.14 cr
EPC Business	Rs. 530.89 cr
Total	Rs. 1094.69 cr

Source: Company data

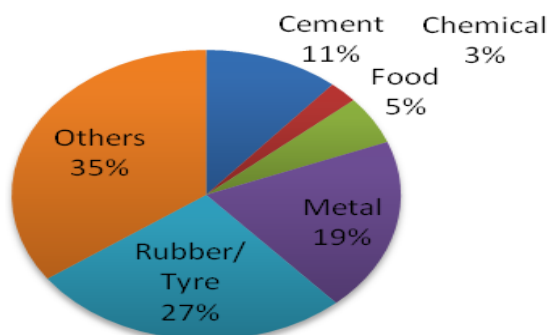
TDP has delivered strong performance in the last 3 years. Total income has grown at a CAGR of 31.3%, EBITDA at a CAGR of 28% and PAT at a CAGR of 14.2% during FY 2008-2011.

Investment Rationale

Diversified Product Portfolio:

TDP has a diversified product portfolio which includes steam turbine generators, hydro generators diesel engine generator, wind turbine generator, gas engine generator, gas turbine generator, high voltage motors and generators for Geo Thermal & Solar Thermal applications. This diversified product portfolio has helped the company build a diversified customer base and supplies its products to a whole range of industries like power, cement, sugar, steel etc. This diversified customer base provides stability to the company as it reduces its dependency on one particular industry and also gives growth opportunities.

FY11 Sales – Customer Diversification



Source: RHP

Technology ownership, international tie-ups and in house design expertise:

The company has a strong track record of successful absorption of technology for manufacturing its AC Generators. TDP commenced business providing TG project solutions and subsequently, in August 2001, forayed into manufacturing of generators up to 30 MW under a license from Toyo Denki Seizo K.K., a leading manufacturer of power and electric equipments located in Japan. TDP currently owns the technology, which was originally licensed from Toyo Denki, and has further developed in-house capability to manufacture generators up to 40 MW.

TDP entered into a Product Development Cooperation and Manufacturing Agreement with Voith Hydro Holding GmbH & Co. for jointly developing electric generators. Under the agreement, the parties are to jointly develop and design electric generators.

The company has also entered into arrangement with international companies like Siemens and Sicme Motori which gives access to the latest know how, design and technology to manufacture AC Generators.

Technology/License Agreements

Year	Name of Licensor	Type of Prime Mover	Permitted Output Capacity
2007	Siemens AG	Steam/Gas Turbine	20MW - 52MW
2008	Sicme Motori	Wind Turbine	1MW
2010	Toshiba Mitsubishi Electric	High Voltage Motors	Upto 10MW

Source: RHP

The company's in-house design team works with its international partners which helps maintain cost efficiency and improve quality and design.

Strong Project Execution Capabilities

Since inception TDP and its subsidiary until June 30, 2011, has completed a total of 94 projects with an aggregate output capacity of 1910.50 MW which includes projects executed in India, Uganda, Kenya, Zambia and Philippines. It has gained significant experience and has an established track record and reputation for efficient project management, execution and timely completion of projects in the power generation sector. This experience and capability in the execution of different types of projects has given TDP the ability to adapt to and operate in different work conditions on complex power plant projects. The company has experienced teams for its Power Project Business which consists of over 195 employees as of June 30, 2011, of which 162 are engineers having expertise in the fields of planning and procurement, design and development, and execution. This proven project execution capabilities has ensured that the company enjoys a high degree of repeat orders for its business.

Manufacturing Business

	FY09	FY10	FY11
New Orders	26	22	11
Repeat Orders	219	259	328
Total	245	281	339

Source: RHP

Power Projects Business

	FY09	FY10	FY11
New Orders	27	19	16
Repeat Orders	24	13	4
Total	51	32	20

Source: RHP

*figures are for number of orders

Strategy

- **Enhancing its product portfolio** - exploring opportunities to expand its manufacturing capabilities to produce generators up to 300MW.
- **Strengthen presence in developed and emerging markets and explore new geographies** - plan to further expand its geographical coverage by selling products to global OEMs manufacturing prime movers that are located in developed countries such as Japan, Germany, Austria, Italy, etc.
- **Constant focus on technology, operational efficiency and cost competitiveness** – focus on technology upgradation and technical tie-ups and focus on kaizen techniques to improve efficiency.
- **Expansion of Power Project Business** - plans to bid for projects up to 300 MW. Also examining the possibility of executing projects including civil works.

Key Concerns

- Slowdown in investment cycle will result in companies delaying their expansion plans, which will have an impact on the order inflow for the company. Any delays in execution of current orders due to slowdown in the industry will also impact the topline of the company.
- TDP is dependent on certain technology transfer agreements for the technology to manufacture some of its products. Termination or alteration of the terms of these agreements would materially affect its income and operations.
- The company derives a significant portion of its sales from a limited number of customers (top ten customers – 76.6% of FY11 sales). The loss of, or a significant reduction in the sales TDP receives from, one or more of these customers, may adversely affect its business.

Valuation and Peer Comparison

TDP does not have direct comparables; however it does compete with BHEL in smaller size generators that it manufactures. The other closest comparables are Thermax and Alstom Projects. TDP has lower operating and profit margins as compared to its peers, however its RoE on pre diluted equity is strong and comparable to the industry average.

FY11	BHEL	Alstom Projects	Thermax	TDP
EBITDA (%)	20.6	16.4	11.9	10.4
PAT (%)	13.7	9.2	7.0	6.5
RoE (%)	33.6	31.7	30.7	31.5**
EPS	123.7	23.6	30.6	17.1
P/E (x)	14.1	22.5	16.3	15.2

Source: Capita Line, Company data, Nirmal Bang Research

**Pre-diluted Equity

TDP at its upper price band of Rs. 261 is being offered at 15.2x (post dilution) its FY11 earnings. Whereas BHEL is available at discount to this offering. Similarly Thermax which is a much larger and established player than TDP trades at par with the offer price. The order book to sales ratio of TDP is at 1.2 which is lower as compared to its peers like BHEL & Thermax. We believe that the company has strong fundamentals which is evident from its track record of maintaining its margin and delivering consistently high RoE, however the offer price seems to be stretched considering the market conditions and overall industry scenario in which it operates.

Income Statement

Rs. In crs.	FY 2009 A	FY 2010A	FY 2011A
Revenues	496.1	738.2	863.7
Other income	10.5	7.2	10.9
Net total income	506.6	745.4	874.6
Expenses	445.2	666.4	774.3
EBITDA	50.8	71.8	89.4
EBITDA (%)	10.2%	9.7%	10.4%
Depreciation	3.3	5.7	8.0
Interest Expense	2.6	4.2	6.7
Profit before tax	55.4	69.1	85.6
Tax expenses	18.7	25.6	28.9
Profit after tax	36.8	43.5	56.7
Exceptional items	0.0	0.0	0.0
Net Profit	36.8	43.5	56.7
Net Profit (%)	7.3%	5.8%	6.5%

Source: Company data, Nirmal Bang Research

Balance Sheet

Rs. In crs.	FY 2009A	FY 2010A	FY 2011A
Share capital	6	6	24
Share application money	0	0.4	0
Reserves and surplus	88.5	125.1	156
Minority Interest	0.2	4.4	0
Net worth	95	132	187
Secured Loans	29	68	61
Unsecured Loans	0	0	25
Deferred Tax Liability	4	7	7
Total Liabilities	128	211	280
Current liabilities	227.1	373.5	376.7
Provisions	7.5	7.6	12.6
Net block	52.1	110.4	113.2
CWIP	0.9	0.0	2.0
Investments	0	0.4	0
Current assets, Loans and advances	309	482	554
Total assets	128	211	280

Source: Company data, Nirmal Bang Research

NOTE

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