

# TD Power Systems

6 June 2014

Reuters: TDPS.BO; Bloomberg: TDPS IN

We had a meeting with the management of TD Power Systems (TDPS) recently to get the latest business update. The management was optimistic about likely revival in demand for generators, while it sounded cautious on its projects business. Following are the key takeaways:

**Generator business to be a growth driver:** The management is optimistic about the prospects of the generator and engine manufacturing business (64% of FY14 revenue) in FY15, driven by a healthy order book, rising penetration in export markets and likely recovery in demand. The segment reported a 11% YoY revenue growth in FY14 at Rs3.2bn, while its order inflow rose 13% YoY at Rs3.7bn. The management expects a top-line growth of 20% YoY in FY15, primarily driven by exports, with operating margin maintained at 16%. In order to benefit from further scale-up in exports and likely revival in domestic demand, TDPS incurred a capex of Rs2.3bn to set up two additional manufacturing plants in Bangalore and currently has the capacity to manufacture generators worth Rs9bn.

**Diversified presence across applications:** TDPS supplies generators across turbine applications like steam (up to 200MW), gas (customised), hydro (up to 52MW) and wind (1MW). It also makes diesel engines (up to 15MW) and gas engines (up to 12MW). The company supplied 2,230 generators as of FY14-end to over 55 countries. Its products are sold to key global OEMs like Siemens (steam), Voith (hydro) and GE (gas and wind). Among product applications, steam generators accounted for 44% of revenue, while hydro generators formed 39% in FY14. While the steam generator market is a bit tepid, TDPS expects healthy growth in hydro, gas and wind generators in FY15.

**Exports likely to scale up further:** While overall order inflow of TDPS grew 13% YoY at Rs3.7bn in FY14, overseas orders increased 24% YoY at Rs1.6bn, forming 45% of total order inflow. Out of the order backlog of the manufacturing segment worth Rs2.8bn as of FY14-end, exports accounted for a 42% share while including the deemed exports the share jumped to 72%, at Rs2.0bn. Consequently, the management expects the share of export revenue to rise from Rs1.3bn in FY14 to Rs2.0bn in FY15E. It expects strong business for the hydro segment from Central America and Europe. Gas engine business continues to do well worldwide, with America, Africa, Australia and Indonesia being the key contributors. The steam generator business is also likely to pick up pace as TDPS has tied up with a couple of more European OEMs (original equipment manufacturers).

**Terms of trade for domestic market:** The domestic market continues to remain soft, but the management expects revival in this market from FY16 driven by industrial capex recovery. TDPS has a healthy market share of 75% in steam generators (up to 55MW), 80% in diesel generators and 50% in hydro generators.

Y/E March (Rsmn)	FY10	FY11	FY12	FY13	FY14
Net sales	7,382	8,637	10,316	5,871	4,802
EBITDA	718	894	919	495	198
Depreciation	57	80	91	124	150
Other income	72	109	224	308	341
Interest costs	42	67	66	34	36
PBT	691	856	986	644	354
Tax	256	289	326	227	174
Adjusted PAT	404	567	671	417	227
EBITDA margin (%)	9.7	10.4	8.9	8.4	4.1
PAT margin (%)	5.5	6.6	6.5	7.1	4.7

Source: Company, Nirmal Bang Institutional Equities Research

## NOT RATED

Sector: Capital Goods

CMP: Rs314

Chirag Muchhala

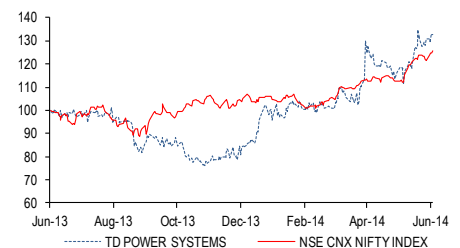
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### Key Data

Current Shares O/S (mn)	33.2
Mkt Cap (Rsbn/US\$m)	10.4/176
52 Wk H / L (Rs)	350/175
Daily Vol. (3M NSE Avg.)	7,708

### One Year Indexed Stock Performance



### Price Performance (%)

	1 M	6 M	1 Yr
TDPS	11.8	57.1	33.7
Nifty Index	11.6	19.7	26.2

Source: Bloomberg

Bharat Heavy Electricals (BHEL) is the key domestic competitor, while a couple of new foreign players have also set up manufacturing plants in India including Brazilian firm WEG and French firm Jeumont. TDPS has not compromised on payment terms and it receives 10% advance from customers while the balance 90% is collected on delivery of generators.

### **EPC business affected by lack of new orders**

In the power project business, TDPS executes steam turbine generator (TG) island projects up to 52MW and complete EPC of steam turbine power plants up to 150MW through its wholly-owned subsidiary, DF Power Systems (DFPS). The power project segment accounted for 36% of FY14 revenue. For the EPC projects business, FY14 revenue stood at Rs1.2bn, down 25% YoY, with a negative EBITDA margin of 9.8%. The competitiveness was also affected by sharp appreciation in the Japanese yen. TDPS has witnessed cancellation of an EPC order worth Rs2.2bn from a North-East cement company as the renegotiation of commercial terms were found to be unfavourable. Consequently, order book of the EPC segment remains low at Rs1.4bn, made up of two orders – from a cement plant in Karnataka and a waste heat recovery plant of Shree Cement in Raipur. Both these orders are scheduled for completion in 2HFY15. TDPS is looking at booking fresh orders over FY15, but the new project pipeline remains muted and as a result the competition is intense. However, TDPS has framed a strategy of not compromising on the working capital/payment terms while bidding. Its criteria to bid for orders are healthy advance payment from customers, negative working capital (which TDPS has maintained so far) and the backing of Letter of Credit (LC) for orders. The management is careful about not blocking the working capital in the power project business.

### **TG island project business to be wound up**

The TG island (up to 52MW) project business witnessed a sharp fall in revenue by 64% YoY - from Rs1.7bn in FY13 to Rs613mn in FY14. TDPS is in the process of gradually exiting this business post execution of the current order book amounting to Rs1bn, which comprises six projects that would be largely executed in FY15.

### **Company background**

Incorporated in 1999, TDPS is one of the leading manufacturers of AC generators for a diverse range of prime movers, with output capacity in the range of 1MW-52MW. As of 31 March 2014, TDPS supplied over 2,230 generators globally with an aggregate output capacity of around 18,500MW. The company has developed in-house capability to manufacture generators up to 52MW and entered into technology and licensing agreement with global players of repute to manufacture and supply generators. It has tied up with Siemens for steam generators, Voith Hydro for hydro generators and Sicme Motori for wind generators. The company is further expanding its portfolio of generators to up to 200MW through a licence agreement with Siemens. Along with other products like gas engines and high voltage motors, the generator business accounted for 64% of FY14 revenue of TDPS. A large part of generator sales take place through OEMs, but TDPS has been able to diversify its customer base well with top 10 customers accounting for 52% of FY14 revenue compared to 77% in FY11. TDPS also has presence in power project business where it offers TG island package (up to 52MW) and complete EPC of steam turbine power plants (up to 150MW). The company has completed 102 TG island projects with aggregate output capacity of ~2,080MW in key geographies like India, Uganda, Kenya, Zambia and the Philippines. In the EPC business, TDPS has completed 11 projects with aggregate output capacity of ~950MW. The power project business accounted for 36% of FY14 revenue. TDPS became a public limited company in September 2011.

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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