

**The Issue**

Type of Issue	Issue size Rs. Mn
Fresh Issue	2,250
Offer for sale	6,337
<b>Total</b>	<b>6,440</b>
<b>Post issue mkt cap*</b>	<b>32,914</b>
Lot size	26 shares

**\*At Upper Price Band**
**Issue Break-Up**

Reservation for	% of Issue
QIB	75%
NII	15%
Retail	10%
<b>Total</b>	<b>100%</b>

**Indicative Offer Timeline**

Indicative Offer Timeline	Indicative Date
Bid/Offer Opening Date	14 Feb, 2025
Bid/Offer Closing Date	18 Feb, 2025
Finalization of the Basis of Allotment	19 Feb, 2025
Credit of shares	20 Feb, 2025
Listing Date	21 Feb, 2025

**Use of Proceeds**

Use of Proceeds	Rs. Mn
Payment of purchase consideration for acquisition of 51% stake in Mehru Electrical and Mechanical Engineers	1,170
Capex	272
General Corporate Purpose	

**BRLM & Registrar**

<b>Manager</b>	Pantomath Capital Advisors
<b>Registrar</b>	MUFG Intime India

**Global Power electrical equipment supplier in HVDC**
**Company Overview:**

- **Quality Power Electrical Equipments** provides high voltage electrical equipment and solutions for electrical grid connectivity and energy transition globally.
- Their offerings include reactors, transformers, line traps, instrument transformers, capacitor banks, converters, harmonic filters, and reactive power compensation systems. These equipment finds application in High Voltage Direct Current (HVDC) and Flexible AC Transmission Systems (FACTS) networks.
- In 2011, Quality Power acquired 51% stake in Turkish enterprise Endoks Enerji Anonim Sirketi ("Endoks") which specializes in providing energy solution in smart grid technologies and power quality Management.
- They are currently operating with three manufacturing facilities, with two in India, located in Sangli, Maharashtra and Aluva, Kerala. The third facility is located in Ankara, Turkey (through acquisition of Endoks).
- The company also specializes in grid interconnection equipment, which addresses infrastructure and devices needed to connect multiple power grids or electrical systems.
- Quality Power caters to clients involved in the business of (i) Power transmission (ii) Power distribution and (iii) Power automation. Their end user consists of power utilities, power industries and renewable energy entities.
- Business is heavily dependent on global operations with international business contributing 74.3%/76.9%/80.7% to consolidated revenue over FY22/FY23/FY24.

**Valuation and Outlook:** At an upper price band of Rs 425, Quality Power Electricals Equipment is valued at a FY 24 PE of 88.5x (Adj. for minority interest) and EV/EBITDA of 86.7x. Over FY22-24, the company's Revenue/EBITDA/APAT grew at a CAGR of 28.3%/27.8%/50.6% respectively. The ROCE of 15% in FY 24 remains in line with the peer's average. Based on the reported performance, the business seems to be growing strongly, however we feel the post-IPO valuation for the company seems expensive in the current weak market environment. We thereby assign "**Subscribe for Long-Term**" rating to the issue.

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Source: RHP

Indsec Research is also available on [www.indsec.com](http://www.indsec.com) and Bloomberg RESP\_ISFL <GO>, Thomson Reuters, Factset and Bluematrix

**FEBRUARY 14, 2025**

## Quality Power Electrical Equipments Ltd.

Shareholding Pattern	Holding (%)	
	Pre Issue	Post Issue*
Promoters & Promoter Group	100.0	73.9
Others/Public	0.0	26.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\* At upper price band

Issue Structure (Rs. Mn)	Floor	Cap
<b>Net Offer</b>	<b>8,229</b>	<b>8,587</b>
QIB Portion (75% of Offer)	6,172	6,440
Non Institutional portion (15% of Offer)	823	859
Retail portion (10% of Offer)	1,234	1,288

Key Financial Summary (Rs. Mn)	FY22	FY23	FY24	CAGR (FY22-24)	H1FY25
Revenue	1,826	2,533	3,006	28.3%	1,557
EBITDA	232	322	378	27.8%	316
<i>EBITDA margin (%)</i>	<i>12.7%</i>	<i>12.7%</i>	<i>12.6%</i>	-	<i>20.3%</i>
Adj. PAT	164	204	372	50.6%	332
<i>Adj. PAT margin (%)</i>	<i>9.0%</i>	<i>8.1%</i>	<i>12.4%</i>	-	<i>21.3%</i>
EPS (Adj for issue)	2.1	2.6	4.8	50.6%	4.3

## Quality Power Electrical Equipments Ltd.

### Financials vs Peers

Particulars	Market Cap (Rs Mn)	FY22-24			TTM			
		Revenue CAGR	EBITDA CAGR	PAT CAGR	ROE	ROCE	EV/EBITDA (x)	PE (x)
Quality Power Electrical Equipments Ltd	32,914	28.3%	27.8%	14.6%	24.3%	15.0%	86.7	88.5
<b>Listed Peers</b>								
Transformers & Rectifiers (India) Ltd	1,20,907	5.6%	34.6%	78.1%	9.3%	14.8%	41.7	75.5
Hitachi Energy India Ltd	4,81,074	17.8%	18.2%	4.2%	12.7%	17.8%	85.0	152.0
GE Vernova T&D India Ltd	3,77,669	1.6%	N/A	N/A	15.7%	23.1%	52.0	77.4
<b>Average</b>							<b>59.6</b>	<b>101.6</b>

### Key Risks:

- **International market exposure:** The company has been consistently generating more than 75% of its total revenue from operation from international markets. They have presence in over 100 countries. This exposes the company to geopolitical risks, trade barriers, fluctuation in currency and global supply chain issues.
- **Dependent on HVDC and FACTS market:** The company manufactures equipment for application in HVDC and FACTS. Failure or resistance in adoption in these technologies, change in technology or change in regulatory policy related to power sector could lead to decline in revenue and inventory pile up.
- **Delay, shortage, or disruption in supply of raw materials:** The company follow just in time and lean operating processes for procurement of raw materials. Any kind of delay, shortage, or disruption in the supply chain of raw materials might affect the operations, leading to penalty or cancellation of order.
- **High capital intensive business:** Capital goods supplier business requires high amount of WC capital to effectively run their business.

## Quality Power Electrical Equipments Ltd.

### Strengths:

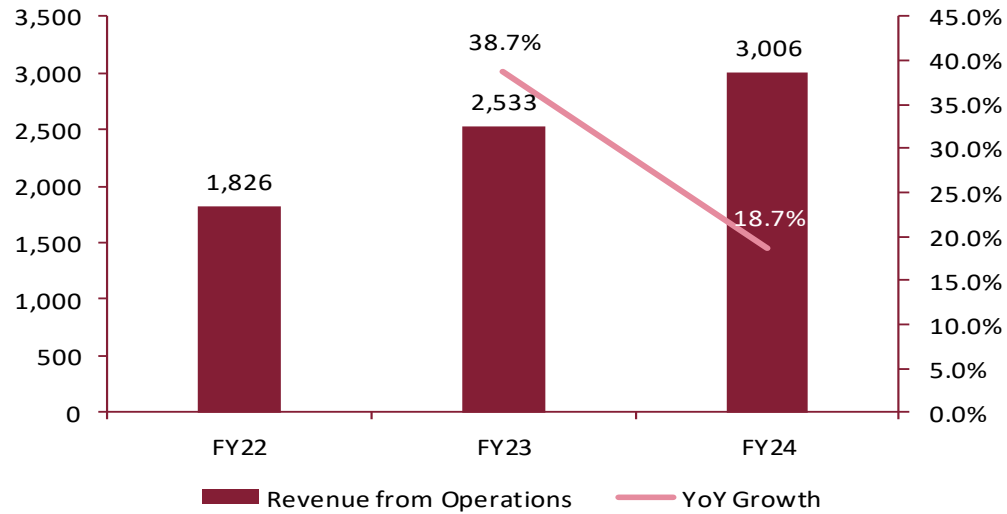
- ⇒ **Global player capitalizing on rising shift towards renewable energy:** The company has presence across 100 countries and is recognized among few global manufacturers of critical high voltage equipment for HVDC and FACTS networks. As per Care report, the energy transition equipment and power technologies market is poised for significant growth in the coming decades as governments and businesses around the world intensify their efforts to decarbonize the energy sector. Established position in international market, adoption of HVDC and STATCOM vital for green energy transition adds to the company's strength to leverage its facilities and capitalize on growth .
- ⇒ **Diversified global customer base with long standing relationships:** As of September 30, 2024, they had 143 customers spanning across power utilities, renewable energy players and industries like automobiles, oil and gas industries, cement, chemical, renewables, traction & locomotives, steel & metal industries, power utilities. The company has developed long standing relationship with most of these customers on back of quality offerings and timely delivery of its products and services. This serves as an anchor for the company to secure new orders and drive business growth.
- ⇒ **Comprehensive Product Portfolio:** The company provides a wide range of products, including reactors, transformers, line traps, composites, capacitor banks, harmonic filters, SVC Systems and reactive power compensation systems. Their products are subject to quality standards and rigorous product approval systems, which acts a significant entry barrier for new players. Any change in the vendor of the product may require significant time and expense on part of the customers, which acts an exit barrier and disincentives any such changes for them. Two decades of experience, wide product offerings and high entry barriers further solidifies the company's strength.

### Strategies:

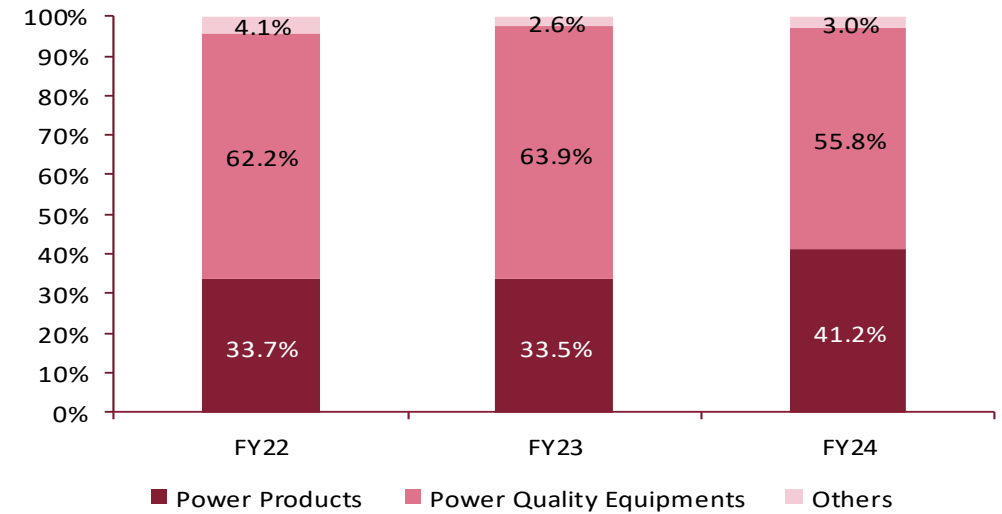
- ⇒ **Focus on growth through organic and inorganic acquisitions:** The company's strategic vision includes continued focus on organic and inorganic acquisitions that align with their core values and business objectives. These acquisitions will be targeted towards further enhancing their technological capabilities, expanding global reach, and driving innovation in key sectors such as smart industries and sustainable energy solutions.
- ⇒ **Focus on research and development and engineering capabilities:** The company will continue to prioritize research and development alongside enhancing engineering capabilities. Sustained R&D would enable the company to meet client specific demands and streamlining production processes will not only reduces costs but also enables timely delivery of products to clients.
- ⇒ **Expanding operating facilities and increase operating capacity:** The company intends to set up a new facility for manufacturing high voltage electrical equipment in Sangli, Maharashtra. This facility would enable the company to cater to the escalating demand for their products both domestically and globally.

## Quality Power Electrical Equipments Ltd.

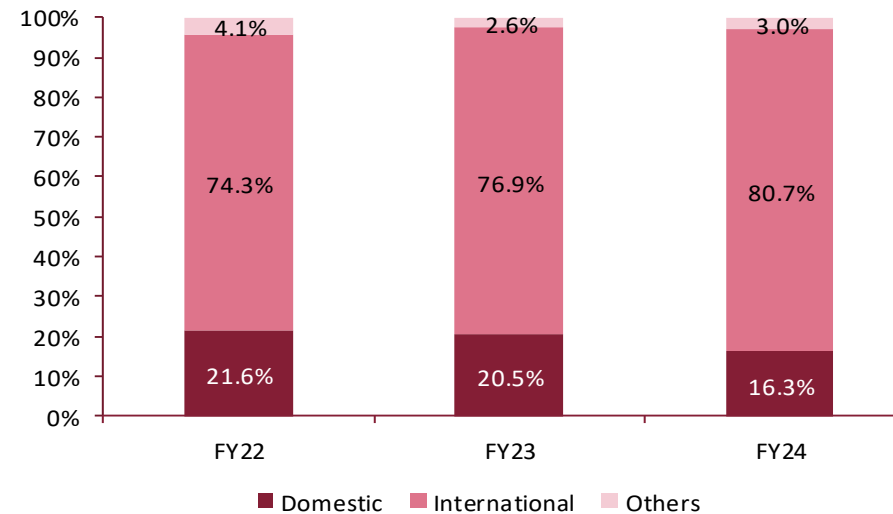
### Revenue from Operations (Rs. Mn)



### Revenue by Segment

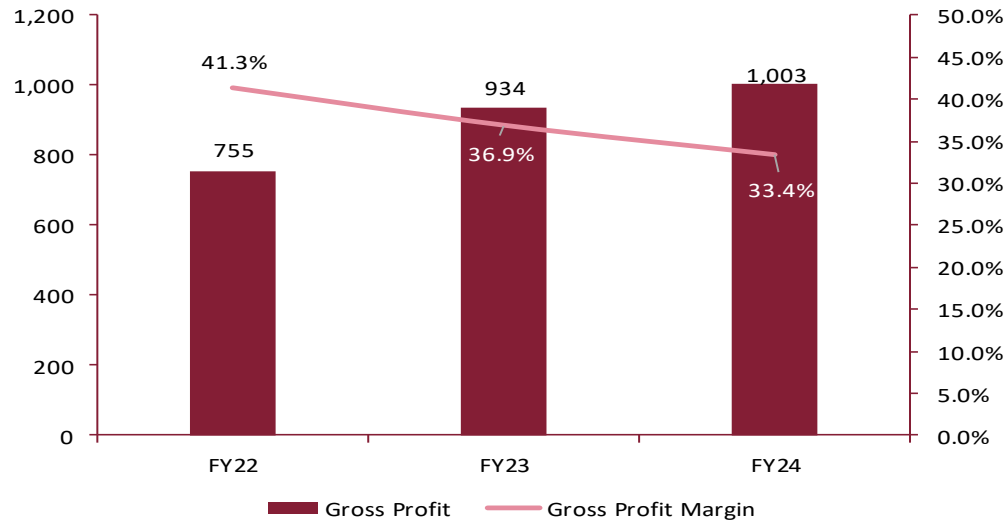


### EBITDA (Rs. Mn) & EBITDA Margin (%)

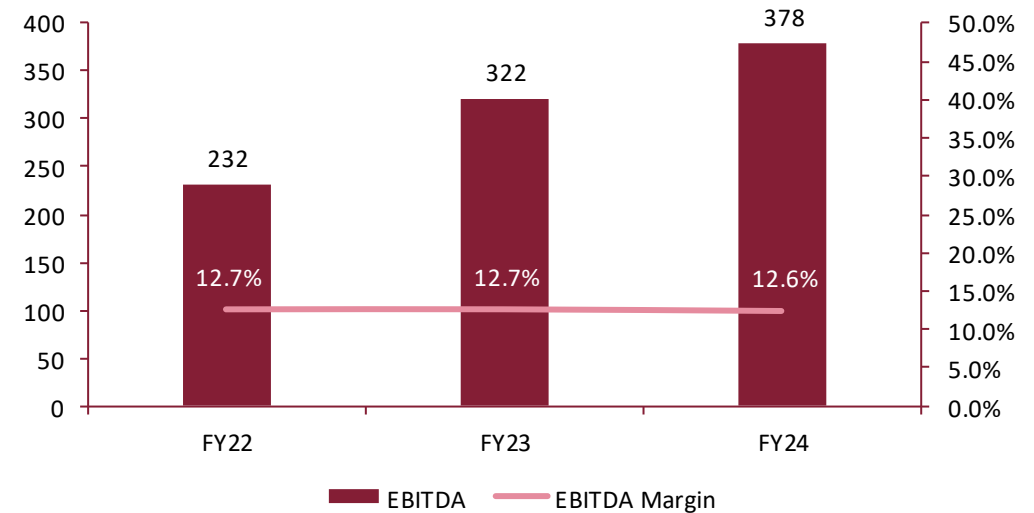


## Quality Power Electrical Equipments Ltd.

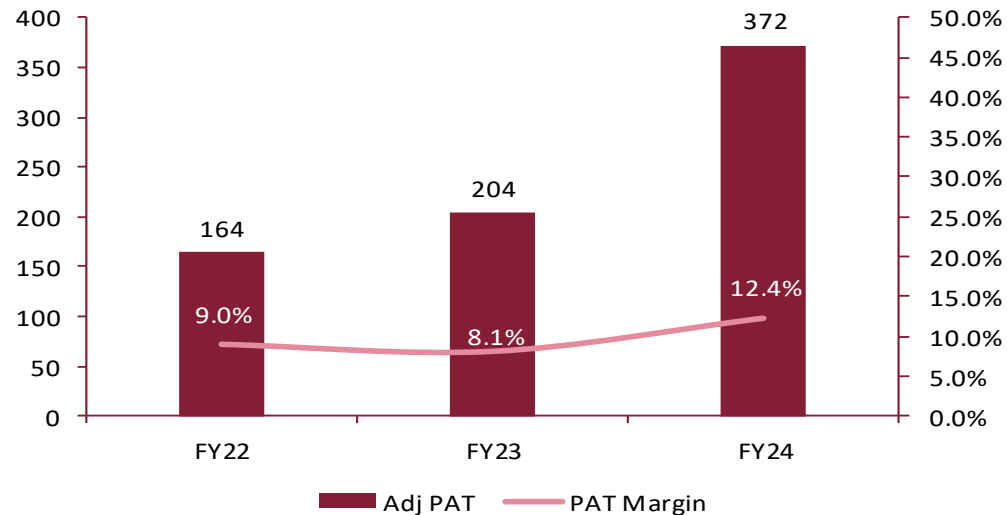
**Gross Profit (Rs. Mn) & Gross Profit Margin (%)**



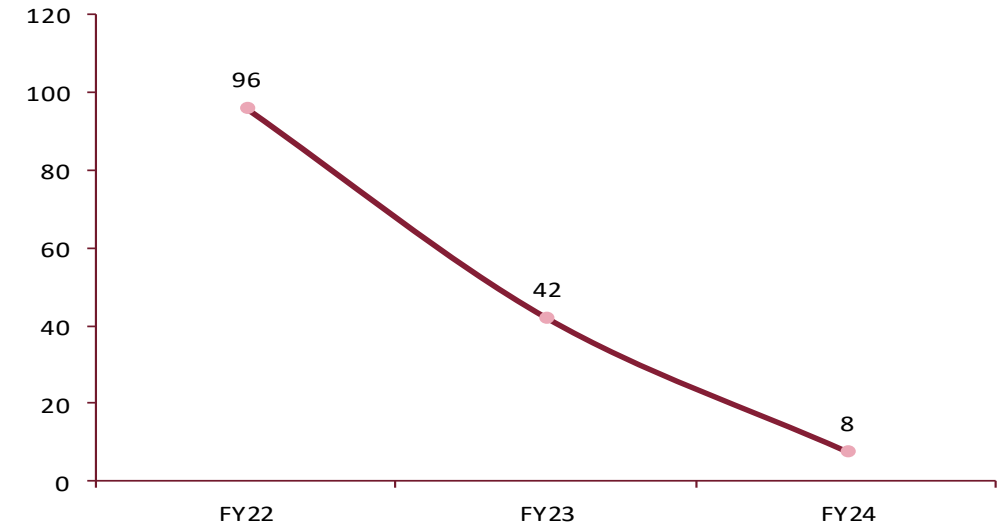
**EBITDA (Rs. Mn) & EBITDA Margin (%)**



**Adj. Profit after Tax (Rs. Mn) & Net Profit Margin (%)**

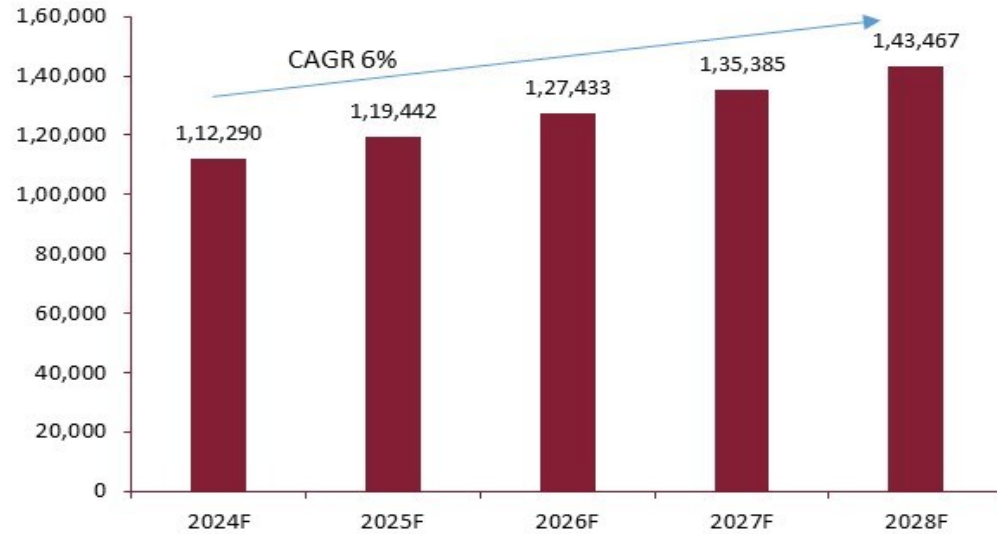


**Cash Conversion Cycle**

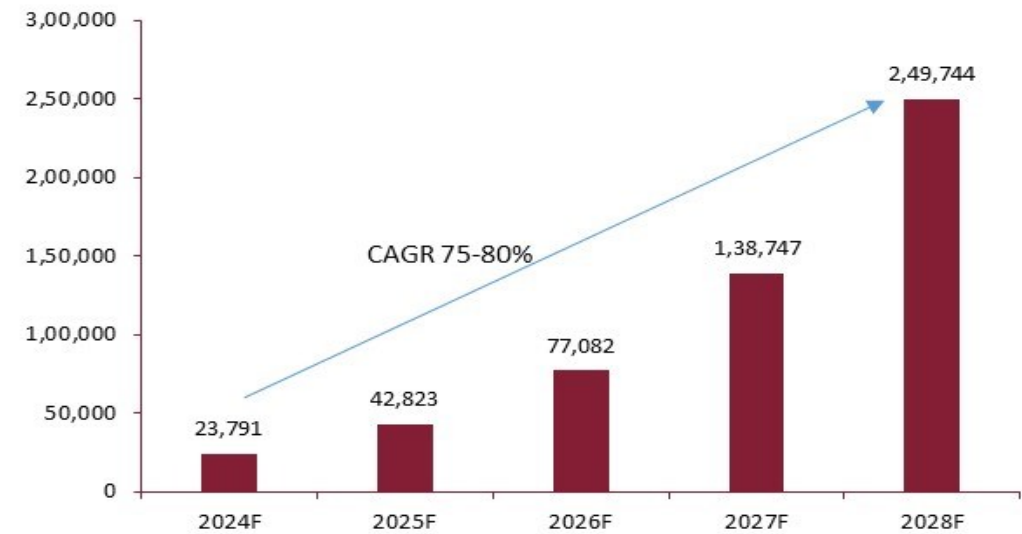


## Industry Overview

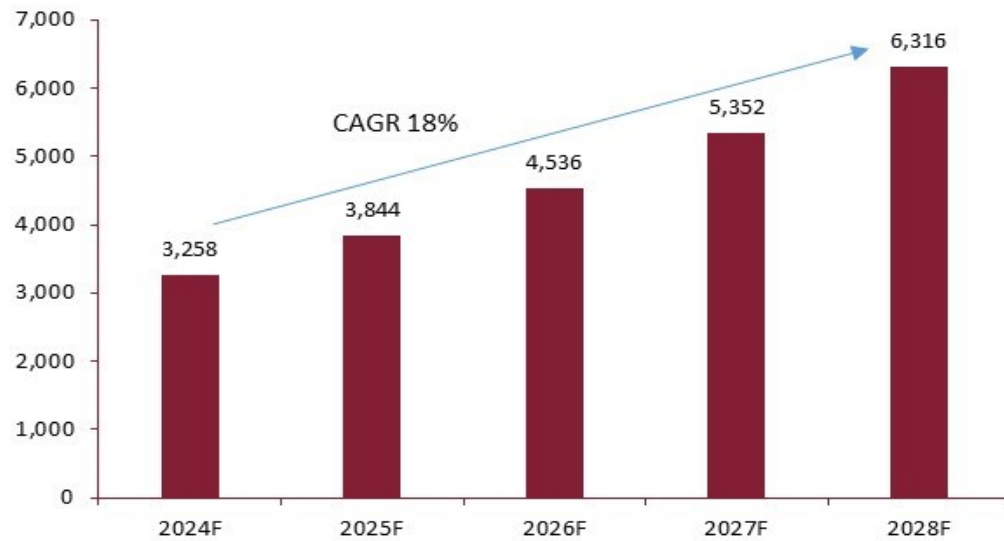
**Global Electricity Transmission Sector Market (\$ Mn)**



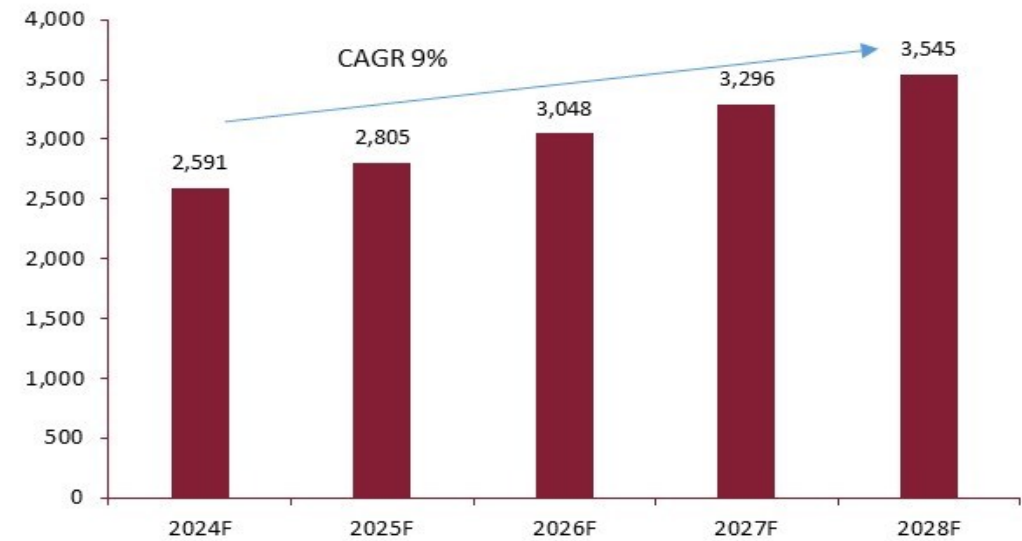
**Global HVDC and FACTS Market (\$ Mn)**



**Market of Reactor (\$ Mn)**

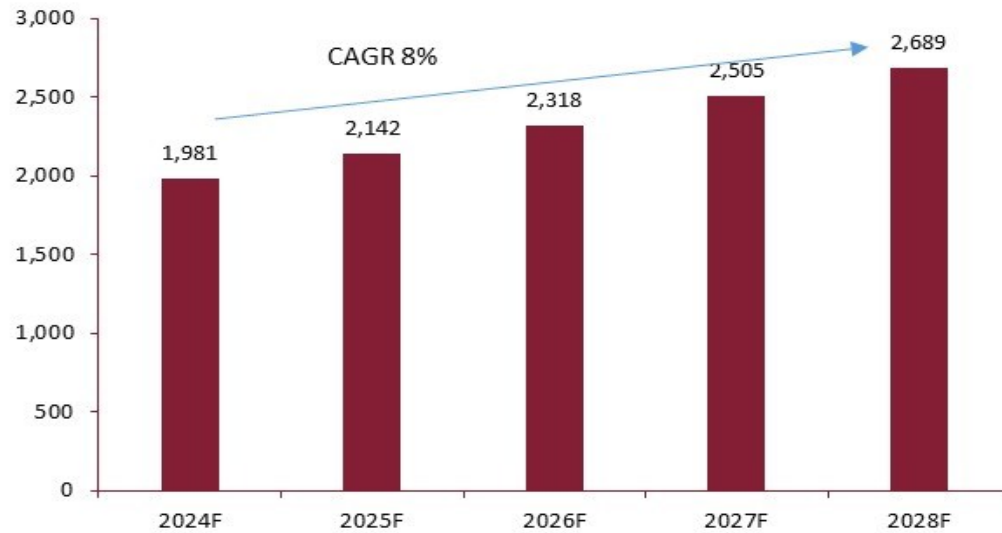


**Market of Capacitor (\$ Mn)**

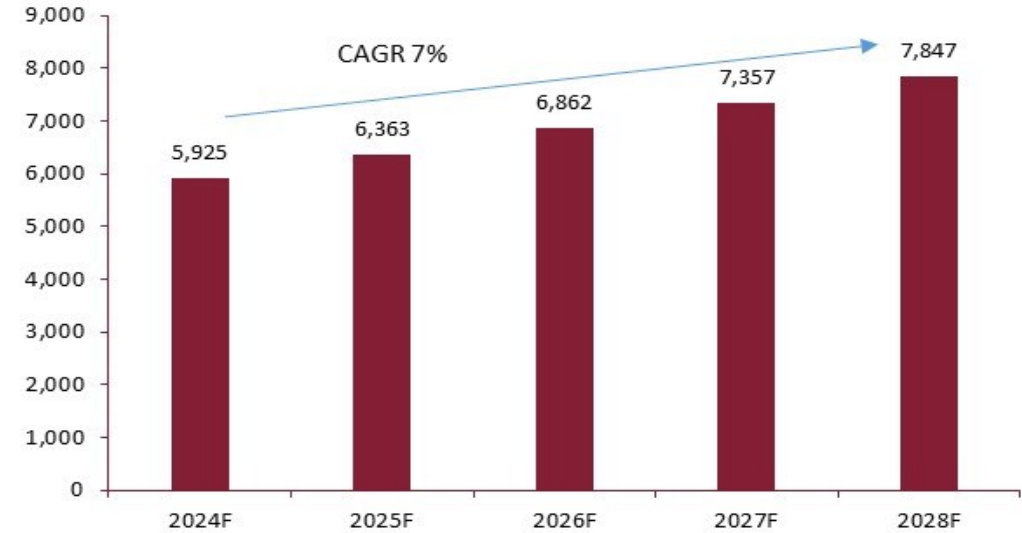


## Industry Overview

Market of Instrument Transformers (\$ Mn)



Market of Other Instruments (\$ Mn)





## INDSEC Rating Distribution

**BUY** : Expected total return of over 15% within the next 12-18 months.

**HOLD** : Expected total return between 0% to 15% within the next 12-18 months.

**SELL** : Expected total return is negative within the next 12-18 months.

**NEUTRAL**: No investment opinion, stock under review.

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