

IPO Note – Quality Power Electrical Equipments Ltd.

Beneficiary of the global energy transition story.

13 February 2025

Quality Power Electrical Equipments Limited (QPL) specializes in high-voltage electrical equipment and solutions for grid connectivity and energy transition, supporting power generation, transmission, distribution, and automation. It is among the few global manufacturers of critical **HVDC** and **FACTS** equipment, essential for integrating renewable energy into traditional grids. The company operates 3 mfg. facilities in Sangli & Kerala and a facility in Turkey for design, assembly, and project management. Majority revenue comes from international markets, including its Turkish subsidiary, Endoks. Quality Power serves key regions across Asia, the Middle East, North and South America, Australia, and Europe. With the proposed acquisition of Mehru, it aims to expand into Southeast Asia and Africa. As of March 2024, it had 210 customers, including power utilities, industries, and renewable energy entities.

Strong growth with focus on R&D: Quality Power has delivered a 28% revenue CAGR over FY22-24, reaching ₹300 crore with an 18% PAT margin. In H1FY25, PAT margins improved to 32% due to better gross margins and operating leverage. It leads peers in export share, increasing from 64% in FY22 to 80.7% in H1FY25, and has consistently achieved the highest Return on Equity. Focused on cost-efficient, high-performance power solutions, the company spent 5.75% of total expenses on R&D in H1FY25, driving operational excellence. The company operates at ~90% capacity utilization and has planned capex to increase the capacity 4x.

Sectoral tailwinds with inorganic growth strategy: India's HVDC and FACTS market grew at a 7% CAGR from \$576 million in 2019 to \$743 million in 2023 and is expected to grow at 18% CAGR, reaching \$1.7 billion by 2028, driven by renewable energy integration. India has planned HVDC projects worth ₹760 billion, with ₹300-400 billion in additional tenders expected in the next 4-5 years, significantly expanding the market. QPL has historically made strategic acquisitions to enhance its offerings into the segment. In April 2024, it agreed to acquire a 51% stake in Mehru Electrical for ₹1,200 million, enabling entry into new markets like Southeast Asia and Africa, expanding into 400 kV instrument transformers, and enhancing product bundling and margins.

Key Risks: - 1) Slowdown in Indian/ global energy transition capex. 2) Changes in regulatory environment. 3) Supply chain disruptions due to trade wars resulting in pressure on profitability or production.

Financials & valuation –

The company plans to raise Rs. 225 cr. as fresh issue with an intent to deploy the funds towards Mehru acquisition and capex funding. **At the upper band of ₹425/ share**, the issue is available at a **P/E of 31x** at extrapolated earnings of proforma financials which according to us is a fair premium in context of company's growth potential & lean balance sheet. We recommend **'Subscribe for long-term'** to the issue.

Key financials/ Parameters	Mar-22	Mar-23	Mar-24	Sep-24	Sep-24 (P)
Operating Revenue (Rs. crs.)	182.6	253.3	300.6	155.7	267.2
Adjusted EBITDA (Rs. crs.)	23.2	32.2	37.8	19.3	38.1
EBITDA Margins (%)	13%	13%	13%	12%	14%
Other Income (Rs. crs.)	29.1	20.3	30.8	27.0	27.5
Net Profit/ Loss (Rs. crs.)	42.2	39.9	55.5	50.1	53.8
Net Worth (Rs. crs.)	160.3	175.7	190.3	238.6	300.70
ROE (%)	26%	23%	29%	21%	18%

Source: ABML Research, RHP, company presentation. P- proforma financials

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Rating	Subscribe for long-term
Issue Details	
Issue Opens	14-Feb-25
Issue Closes	18-Feb-25
Face Value (₹)	10
Price Band (₹)	401-425
Bid Lot	26
Issue Size at higher price band (₹ Cr)	858.7
Market cap. @ upper price band (₹ cr)	3,291.4
Listing	NSE/BSE
BRLMs	Pantomath Capital Advisors
Registrar	MUFG Intime India Pvt. Ltd.

Shareholding Pattern (%)		
	Pre-Issue	Post Issue
Promoter	100	73.9
Public	0	26.1
Issue Structure (In cr. no. of shares)		
Issue size	2.02	
OFS	1.49	
Break-up of net issue to public (%):		
QIB's portion	75%	
Non-Institutional portion	15%	
Retail Portion	10%	

Source: ABML Research, RHP

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