13TH JAN 2023

5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

TD POWER SYSTEMS

WHAT WE LIKE

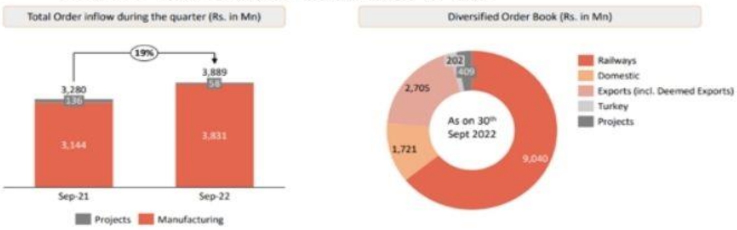
STRONG TRACK RECORD

Diversified product portfolio customized for a wide range of turbines (steam, gas, hydro and wind) and engines (diesel and gas). Specially designed and tailor-made to suit the needs of the customers.

- *5535* generators manufactured
- Exported to **100** countries
- **40042 MW** aggregate output capacity
- Leading manufacturer of AC generator
- **Wide product spectrum**: 1 to 250 MVA

DE-RISKED MODEL: DIVERSIFIED PRODUCTS & USER INDUSTRIES

GOOD ORDER BOOK GROWTH



DIVERSIFYING TO SUNSHINE INDUSTRIES + CAPEX REVIVAL

- Diversifying from steam to geo thermal, waste heat recovery & other renewable energy sources which are sunshine industries coupled with major income coming from railways which is undergoing a strong capex cycle.
- Capex cycle revival: The sectors leading demand are steel, metals, distilleries, cement & railways helping the company to secure its best performance after a decade

STRONG GROWTH IN NUMBERS & BALANCE SHEET STRENGTH

Compounded Sales Growth	
10 Years:	-3%
5 Years:	16%
3 Years:	20%
TTM:	13%

Compounded Profit Growth	
10 Years:	0%
5 Years:	77%
3 Years:	172%
TTM:	46%

A debt free Balance Sheet with ROE has a scope of improving if the growth kicks in and margin improves.

WHAT WE DON'T LIKE

HIGHLY CYCLICAL

We at SSS believe that the demand of TDPS products is derived from sectors that are highly co-related with the economic cycle. This makes its operating performance vulnerable to economic cycles and sudden shocks. Hence, recent good performance cannot guarantee better performance going ahead of the economy get a setback due to any external factors.

CUSTOMER CONCENTRATION RISK

B2B businesses have this risk of high concentration of clients. Hence, TDPS is no different. Their top 10 manufacturing segment customers contribute 80% of total revenue. This makes them vulnerable to customer concentration risk. However, the management believes that they expect this to normalize as more customers from diverse sector join.

HIGH SECTOR CONCENTRATION

Railways today form the bulk of the order. And everything looks good at the moment. However, if the tide goes out, things can become really difficult for TDPS. In the past also, their dependency on the power sector led to a very lackluster performance for 3-5 years post FY12. Hence, with a high dependency on Railways today, that risk is still on.

SUBDUED ROE & LOW CASH CONVERSION

Return on Equity	
10 Years:	3%
5 Years:	5%
3 Years:	9%
Last Year:	13%

As you can see above, ROE has been sub-par for over a decade now coupled with heavy cash in the balance sheet affecting the returns negatively.

Lower cash conversion: Although management has explained that this is due to billing taking place in March coupled with higher sales to subsidiaries leading to higher receivables at the end of the year, this needs to be monitored carefully.

RISK FROM TURKEY

Increased contribution from Turkey in the past is a risk to monitor in the future as well. Turkey is currently suffering from currency devaluation & foreign exchange crisis which led to Govt taking steps to promote local production Vs imports.