

## 1. About Company:

Danish Power Limited operates in the manufacturing sector, specializing in the design, development, and production of power and distribution transformers. The company also manufactures associated equipment such as control and relay panels, substation automation systems, packaged compact substations, battery chargers, and LT switchgear panels. Danish Power Limited serves industries like energy distribution and renewable energy, catering to clients' specific requirements for electrical equipment, including stringent quality and performance standards.

### Company's Products:

- a) Transformers for Renewables Energy (Inverter Duty Transformers & WTG Duty Transformers): **69.17% of total sales.**
- b) Distribution Transformers for stepping down the voltage at the distribution network.: **25.47% of total sales.**
- c) Dry Type Cast Resin Transformers which can be used without oil.
- d) Power Transformers for stepping up the voltage. **Nil**
- e) Control Relay Panels. **3.85% of total sales.**
- f) Substation Automation System. **All other 1.52% of total sales.**

**Currently, the company is not selling power transformers, which are typically large transformers.**

### Risks in the Business:

- a) **Corporate Governance:** The Company has encountered certain issues and discrepancies in its corporate records and regulatory compliance, which present potential risks.

Certain of corporate records relating to forms filed with the Registrar of Companies prior to the year 2002 in respect of Increase in Authorized Capital, Allotment of Equity Shares, Sub-division of shares, appointment of Statutory Auditor, appointment & resignation of directors (if any), filing of financial statements etc. and other certain records are not traceable.

- b) **Replacement cost:** Currently, the government is making substantial investments across the entire power sector, leading to a significantly large Total Addressable Market (TAM) for the industry. As a result, Danish Power Limited is expected to experience considerable growth in the near term. However, once this investment cycle concludes, the growth trajectory may be impacted. This is because transformers have a long operational life, typically around 30 years, meaning the demand for replacement or new transformers may slow down after the initial surge in installations is completed.

## 2. Summary of Unit Economics (Based on FY 24 data)

- a) **Sales and Cost Structure:**
  - o **Sales:** ₹332.47 Cr.
  - o **Cost of Goods Sold (COGS):** ₹246.47 Cr.
  - o **Gross Profit (GP):** ₹85.99 Cr.
  - o **Gross Profit Margin:** 25.87%

The company maintains a healthy gross profit margin, indicating that around 26% of its revenue is retained after covering the direct costs of production.

- b) **Employee Costs:** ₹19.34 Cr.
  - o **Employee Cost Ratio:** 5.82%
  - o Employee expenses account for nearly 6% of total sales, which shows a reasonable labor cost structure.
- c) **Other Expenses:** ₹10.81 Cr.
  - o **Other Expenses Ratio:** 3.25%
  - o Other operational costs contribute approximately 3.25% of sales, maintaining efficient management of miscellaneous costs.
  - o Other expenses also include Freight outward (Outwards Logistics) and packing charges amounting to Rs. 3.29 Crores, around 1% of sales.
- d) **Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA):**
  - o **EBITDA:** ₹55.83 Cr.
  - o EBITDA represents 16.79% of total sales, reflecting good profitability before non-operational expenses.
- e) **Depreciation:** ₹3.31 Cr.
  - o **Depreciation Ratio:** 1.00%
  - o Depreciation accounts for around 1% of total sales, indicating a moderate level of capital expenditure
- f) **Interest:** ₹3.53 Cr.
  - o **Interest Ratio:** 1.06%
  - o Interest expenses are relatively low, amounting to just over 1% of sales, suggesting manageable debt levels.
- g) **Tax Expenses ₹ 13.07 Cr.** Tax Ratio 3.93%.
- h) **Final Net profit ratio in the hands of the company is around 11%.**

The unit economics of the company indicate a strong gross profit margin, efficient cost management, and healthy profitability. Employee costs and other expenses are well-contained, contributing to solid EBITDA margins. Interest and depreciation are kept at low levels, highlighting the company's ability to generate robust operating earnings while maintaining financial stability.

### 3. The supply chain in the transformer manufacturing business, like Danish Power Limited, typically involves the following key components:

- a) **Raw Material Sourcing:** The company sources essential materials such as CRGO (Cold Rolled Grain Oriented) steel, copper, aluminum, and transformer oil from suppliers. These materials are critical for transformer production, and any disruptions in the supply chain can impact manufacturing timelines.
- b) **Component Suppliers:** In addition to raw materials, Danish Power would rely on various component suppliers for items like control and relay panels, switchgear, insulators, and bushings. These components are essential for the assembly of transformers and associated electrical equipment.
- c) **Manufacturing and Assembly:** Once raw materials and components are procured, they undergo the manufacturing process, which includes cutting, molding, winding, and assembly to create the final transformer products.
- d) **Logistics and Distribution:** The company would manage the logistics of distributing finished products to customers, which may include utility companies, industrial plants, and government agencies. Efficient transportation is critical, especially for large power transformers.
- e) **After-Sales Service:** After delivering the products, the supply chain also involves after-sales support, including maintenance, repairs, and parts supply over the transformer's lifecycle, which spans around 30 years.

Overall, the supply chain in this industry is heavily dependent on sourcing quality materials, managing supplier relationships, ensuring efficient production, and handling large-scale logistics for delivery. Any disruptions at any stage of the supply chain could impact business operations.

### 4. The transformer manufacturing industry, in which Danish Power Limited operates, is an integral part of the broader power and energy sector. Here's an analysis of the industry:

#### a) Growing Demand

The global and Indian power sector is experiencing significant growth due to increased infrastructure development, electrification of rural areas, and a focus on renewable energy sources. The government's investment in modernizing the power grid, expanding renewable energy capacity, and upgrading transmission systems creates a large demand for transformers and related electrical equipment.

### b) Market Drivers

- **Government Initiatives:** In India, government programs such as the "Ujwal Discom Assurance Yojana (UDAY)" and the "Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY)" are aimed at improving power distribution and transmission, which directly boosts the demand for transformers.
- **Urbanization and Industrialization:** Rapid urbanization and industrialization continue to fuel demand for reliable power supply, creating a need for robust power infrastructure.
- **Renewable Energy Growth:** The increasing shift towards solar and wind energy, which require new grid connections, drives demand for specialized transformers.

### c) Challenges

- **Cyclical Nature:** The transformer market is somewhat cyclical, with periods of high demand followed by reduced growth once infrastructure projects are completed. Since transformers have long lifecycles (around 30 years), replacement demand is slow.
- **Raw Material Volatility:** The cost of essential materials such as copper, steel, and oil can fluctuate significantly, impacting manufacturers' profit margins.
- **Competition:** The industry faces high competition from both domestic and international players, making it challenging to maintain pricing power and market share.

### d) Technological Advancements

Transformers are also becoming more technologically advanced with increased efficiency, smart-grid capabilities, and digital monitoring. Companies that invest in R&D and adopt these new technologies are likely to gain a competitive edge.

### e) Regulatory Environment

The transformer industry is subject to various government regulations related to energy efficiency, safety standards, and environmental impact. Compliance with these regulations adds operational complexity but also provides opportunities for companies to differentiate through high-quality products.

## 5. Management of the Business:

The company's leadership, headed by **Dinesh Talwar** as Chairman and **Shivam Talwar** as Managing Director, benefits from deep industry knowledge and experience. Their long-standing presence in the power sector positions them well to navigate the complexities of the industry, including fluctuating demand cycles and evolving regulatory landscapes. The involvement of **Puneet Sandhu Talwar** as a promoter adds further stability and strategic oversight to the business. Under its current leadership, Danish Power Limited has been able to secure in-principle approval to list on the SME platform of NSE. This demonstrates management's ambition to expand the company and tap into capital markets for future growth. It also shows their understanding of financial structuring and market strategies.

## 6. Financials

(In crores)

Particulars	For 3 months ended June 30, 2024	FY 2023-24	FY 2022-23	FY 2021-22
Revenue	71.93	332.47	188.70	148.63
EBITDA	15.92	57.98	16.89	11.15
EBITDA Margin	22.13%	17.44%	8.95%	7.50%
PAT	9.98	38.07	8.57	5.24
PAT Margins	13.87%	11.45%	4.54%	3.52
CFOA	23.97	25.72	28.92	5.64

## 7. Peer Analysis:

Companies	Revenue	EBITDA	PAT	MCap	P/E
<b>Danish Power (FY 2024)</b>	332.47	57.98 (17.44%)	38.07 (11.45%)	748.28 Cr.	19.65
<b>Indo Tech Transformers Limited (TTM)</b>	492 Cr.	69 Cr. (14.02%)	49 Cr. (9.95%)	2684 Cr.	54.50
<b>Shilchar Technologies Ltd (TTM)</b>	437 Cr.	137 Cr. (31.35%)	99 Cr. (22.65%)	5,465 Cr.	54.90
<b>Voltamp Transformers Limited (TTM)</b>	1,722 Cr.	445 Cr. (25.84%)	336 (20.82%)	13,455 Cr.	40
<b>Alfa Transformers (TTM)</b>	46.71 Cr.	3.41 Cr. (7.31%)	0.84 Cr. (1.79%)	118 Cr.	19.20
<b>Transformers &amp; Rectifiers India (TTM)</b>	1,666 Cr.	240 Cr. (14.41%)	124 Cr. (7.44%)	12,442 Cr.	103

## 8. Conclusion:

Danish Power Limited is well-positioned in a growing power sector with significant **government investment**, offering near-term growth opportunities. The company's **low Price-to-Earnings (PE) ratio** makes it an attractive value investment, indicating potential for stock price appreciation. However, with transformers having **long life cycles**, demand may slow after the current infrastructure cycle ends. To sustain growth, Danish Power will need to manage cyclical risks and invest in innovation, particularly in smart grids and energy-efficient solutions.