

Mr. Nikhil Kumar,  
Jt. Managing Director,  
TD Power Systems Ltd.,  
Plot No.27-29, KIADB Industrial Area,  
Dabaspur, Nelamangala Taluk,  
Bangalore – 562 111

August 1, 2011

Confidential

Dear Sir,

IPO Grading

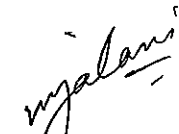
Please refer to your letter dated April 29, 2011, requesting for grading of your company's Initial Public Offering (IPO).

2. CARE has assigned a '**CARE IPO Grade 4**' to the proposed IPO issue of TD Power Systems Ltd. (TDPS). '**CARE IPO Grade 4**' indicates **Above Average Fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer. TDPS proposes an initial public offering with an approximate size of Rs.250 crore, through 100% book building route.
3. The rationale for this grading shall be communicated to you separately.
4. Please arrange to get the grading revalidated, in case the proposed IPO issue is not made within two months from the date of this letter. The grading can be revalidated for a period of six months from the date of this grading letter, failing which, the grading would stand withdrawn.
5. Please note that the IPO grading is a one time exercise undertaken before an IPO issue and it does not have any ongoing validity.
6. Please note that as per the existing regulations, CARE is required to disclose all IPO gradings, as such, in the absence of any request for review of grading within a week of this letter, CARE will disclose this IPO grading to the public.

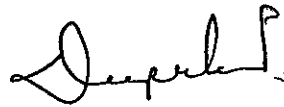


7. CARE's IPO grading does not take cognizance of the price of the security, it is not a recommendation to buy, sell or hold shares/securities. They are not a comment on the offer price or the listed price of the scrip. They do not imply that CARE performs an audit function or forensic exercise to detect fraud.
8. If you need any clarification, you are welcome to approach us in this regard. We are indeed, grateful to you for entrusting this assignment to CARE.

Thanking you,  
Yours faithfully,



**[Naresh M. Golani]**  
Manager



**[Deepak Prajapati]**  
Asst. General Manager

**DISCLAIMER**

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.

August 1, 2011

TD Power Systems Limited  
#27, 28, 29 KIADB Industrial Area  
Dabaspeta, Nelamangala Taluk  
Bangalore 562 111  
Karnataka, India

Dear Sir/Madam,

**Proposed Initial Public Offering (the "Issue") of equity shares of Rs 10 each (the "Equity Shares") by TD Power Systems Limited (the "Company")**

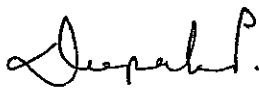
We, the undersigned, hereby consent to being named as the IPO Grading Agency to the Issue and to our name being inserted as the IPO Grading Agency to the Issue in the updated Draft Red Herring Prospectus, Red Herring Prospectus and the Prospectus intended to be filed by the Company with SEBI, the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited (collectively, the "Exchanges") and the Registrar of Companies, Karnataka (Bangalore) (the "RoC"), as may be applicable in respect of the Issue. The following details with respect to us may be disclosed:

Name : Credit Analysis & Research Ltd.  
Address : 4<sup>th</sup> Floor, Godrej Coliseum, Somaiya Hospital Road,  
Off. Eastern Express Highway,  
Sion (East), Mumbai -400022.  
Tel : (022)-67543456 (Board)  
: (079)-40265608 (Direct)  
Fax : (022)-67543457  
Email : deepak.prajapati@careratings.com  
Website : www.careratings.com  
Contact Person : Deepak Prajapati

We also consent to the inclusion of our grading report dated August 1, 2011 with respect to the Equity Shares in the Red Herring Prospectus and Prospectus. We also consent to our name being disclosed as an expert to the Company under Sections 57 and 58 of the Companies Act, 1956. We also authorize you to deliver a copy of this letter of consent to the RoC, pursuant to the provisions of Sections 60 and 60B of the Companies Act, 1956, as amended.

Sincerely,

For Credit Analysis & Research Ltd,



Authorised Signatory

Mr. Nikhil Kumar,  
Jt. Managing Director,  
**TD Power Systems Ltd.,**  
Plot No.27-29, KIADB Industrial Area,  
Dabaspur, Nelamangala Taluk,  
Bangalore – 562 111

August 1, 2011

Dear Sir,

**IPO Grading**

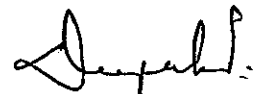
Please refer to our letter dated August 1, 2011 on the above subject.

2. The rationale for the grading is attached as an **Annexure - I**. Kindly note that the rationale would be published in the forthcoming issue of our quarterly journal, 'CAREVIEW'.
3. A write-up on the above grading is proposed to be issued to the press shortly. A draft of the press release is enclosed for your perusal as **Annexure - II**.
4. We request you to peruse the Rationale and Press Release and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by August 1, 2011, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,



**[Deepak Prajapati]**  
**Asst. General Manager**

Encl: As above

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**Annexure I**  
***Grading Rationale***  
**TD POWER SYSTEMS LTD. (TDPS)**

**Grading**

Particulars	Amount	Grading <sup>1</sup>	Remarks
IPO Grade	Rs.250 crore	<b>'CARE IPO Grade 4'</b> <b>[Four]</b>	Assigned

CARE has assigned a **'CARE IPO Grade 4'** to the proposed Initial Public Offer of TD Power Systems Ltd. (TDPS). **'CARE IPO Grade 4'** indicates **Above Average Fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.

TDPS proposes an initial public offering of equity shares of face value of Rs.10 each aggregating Rs.250 crore through 100% book building route.

**Grading Rationale**

*The grading takes into account TDPS' leading position in domestic market for AC generators up to 52 Mega Watt (MW), its strong technology tie-up with leading global generator manufacturers, demonstrated ability of technology absorption and experienced & qualified promoters. The grading is also supported by strong financial risk profile, long standing relationship with customers characterized by a significant number of repeat orders for generators and robust business model with established manufacturing facilities. The grading is constrained by the competitive nature of industry mainly in projects and EPC business, volatile prices of major raw materials and exposure to foreign exchange fluctuation risk.*

**Background**

Incorporated in 1999, Bengaluru based TDPS was promoted by technocrats Mr. Hitoshi Matsuo, (Managing Director) and Mr. Nikhil Kumar (Jt. Managing Director). The technocrats were subsequently joined by Mr. Mohib Khericha, an experienced investment banker, in 2001 who is now its non executive chairman.

<sup>1</sup> Complete definitions of the grading assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

Mr. Hitoshi Matsuo has over 44 years of related work experience including with Toyo Denki, Japan. He is responsible for managing the Japan branch's operations of TDPS. Mr. Nikhil Kumar has over 20 years of related work experience. He is responsible for overall management of TDPS' operations, planning, technology, alliances and marketing.

TDPS sourced its initial technology from Toyo Denki, Japan. TDPS started manufacturing AC generators upto 30 MW under license from Toyo Denki Seizo K.K. (Toyo Denki). Presently, the company owns this technology and has further developed in-house capability to manufacture generators upto 40MW. Apart from this TDPS over the years, has entered into technical tie-ups with various reputed generator manufacturers. In 2007, TDPS has entered into a license agreement with Siemens AG to manufacture generators in the range of 20MW to 52MW. Subsequently it signed a production technology agreement with Simec Motori SrL (in 2008) for manufacturing generators for wind mills up to 1 MW, Voith Hydro (in 2009) for jointly developing electric hydro generators, Toshiba Mitsubishi (in 2010) for manufacture of high voltage and medium capacity motors.

TDPS had installed manufacturing capacity of 360 generators per annum (p.a.) as on March 31, 2011. The company has well developed vendor/ ancillary base around Bengaluru for supply of key input material mainly copper, fabrications units, electrical panels and stampings and procures forged products mainly from China.

### **Operations**

TDPS operates under three divisions. **First** is the manufacturing division under which company manufactures AC Generators with output capacity upto 52 MW (*comprising 37% of total income for FY11*), **second** is the projects division under which it executes 'Turbine Generator' island projects for steam turbine power plants with capacity upto 52 MW. TDPS combines its own generators with turbines sourced from Japan and also does design, assembly, installation and commissioning (*comprising 19% of total income for FY11*) and **third** is the EPC division (Engineering, Procurement and Construction) for power plants with capacity from 52 MW to 150 MW comprising installation and commissioning of Boiler-Turbine-Generator (BTG) (excluding civil construction) which are sourced from various original equipment manufacturers (OEM) worldwide (*comprising 44% of total income for FY11*). The EPC business is undertaken by its 99.99% subsidiary, DF Power Systems Pvt. Ltd. (DFPS), which was incorporated in February 2007 and became fully owned subsidiary of TDPS from October 2010.

As on June 30, 2011, TDPS manufactured a total of 1,538 nos. generators with an aggregate capacity of 12,657 MW and executed 92 TG island projects with an aggregate capacity of 1,799 MW & two BTG projects with an aggregate capacity of 111.5 MW since inception. The company had a total order book of Rs.1,095 crore as on June 30, 2011 spread across all three divisions (1.25x of total income for FY11).

The manufacturing division had fairly diversified order book of Rs.381 crore which were mainly from OEMs with most of it being repeat orders. This is mainly due to TDPS' ability to manufacture custom-built generators with various applications to service customers from diverse industries and sectors. TDPS' manufacturing division is mainly exposed to raw material price fluctuation risk, however, key raw material like copper is purchased with a back to back arrangement which largely mitigates the price volatility risk.

Projects division had an order backlog of Rs.183 crore mainly from companies having enough waste heat recovered from their operations to feed co-generation turbine-generator sets. This includes companies from sugar, cement and steel sector.

The EPC division had an order book of Rs.531 crore mostly from end use industries viz. power and steel sectors. The projects and EPC division have limited number of customers owing to the big ticket size of orders.

All the divisions are exposed to forex risk, though the same is largely mitigated with a partial natural hedge. This is evident from the fact that during the past three years there has been no major impact on the profitability of the company due to input price volatility or forex fluctuations.

### **Corporate Governance**

TDPS has complied with the clause 49 of the listing agreement in respect of the constitution of board and committees. The company's board has eight directors consisting of one non-executive Chairman, who is also one of the individual promoters, Managing Director and Joint Managing Director (both of them being the individual promoters), one executive director and four independent directors.

The promoters' holding would be approximately 75% of the post issue capital.

### **Object of the issue**

The object of the proposed IPO issue of approximately Rs.250 crore is to finance the expansion of the existing manufacturing plant at Dabaspur, near Bengaluru for around

Rs.100 crore, to increase the manufacturing capacity of generators from 360 generators p.a. to 600 generators p.a.

Further, TDPS plans to construct office building for its 'Projects' and EPC business division in Bengaluru city for a cost of around Rs.29 crore. From the balance portion, TDPS proposes to prepay term debt of around Rs.33 crore, fund working capital requirement of around Rs.40 crore and fund other general corporate purposes.

### **Financial Analysis (Consolidated)**

TDPS registered growth of 49% in total income during FY10 over FY09 on the commencement of EPC division under its subsidiary DFPS. Further, during FY11, TDPS registered growth of 14% in total income on account of good orders in manufacturing and EPC division on the back of good demand from end use industry.

PBILDT margin dipped in FY10, mainly owing to dip in profitability in projects division due to economic slowdown and increase in income share of projects and EPC division (*with inherently lower profitability as compared to manufacturing*) to 65% in FY10 as compared to 57% in FY09. However, PBILDT margin improved during FY11 mainly due to improvement in profitability in projects division and increase in income share of manufacturing division with favourable industry scenario.

The debt-equity and overall gearing ratio increased marginally as on March 31, 2010, as compared to previous year end, on account of disbursement of new term loans for expansion and increase in bank borrowings due to increase in scale of operations. However, the same improved as on March 31, 2011 on the back of repayment, accretion of profits and infusion of capital by the promoters.

Interest coverage remained healthy over the past three years till FY10, though there was marginal decline during FY10 due to higher interest cost on the back of increased bank borrowings and disbursement of new term loans but the same improved during FY11 with improvement in profitability.

The liquidity position of the company was comfortable with stable current ratio on the back of largely stable operating cycle and comfortable average fund based working capital utilisation of 64% for the 12 month period ended March 31, 2011.

Both EPS and book value per share declined during FY11 due to issue of fresh equity and capitalisation of reserves resulting into increase in equity base. This also resulted into marginal decline in RONW during FY11.



### **Industry Analysis**

India has a total power generation capacity of 167.3 GW as on October 31, 2010, with coal based generation (53.7%) being the major contributor followed by generation from hydel (22.3%), gas (10.5%) and other (nuclear, biomass, liquid fuels, solar and wind) energy sources. Power sector is monitored and controlled by GoI and regulatory bodies as it is an important sector facilitating the accelerated industrial growth of the country.

GoI had set a target to add 78.7 GW capacity during 11th Five Year Plan (2007-12) out of which only 34.4% was achieved by FY10. In December 2010, keeping in view the shortfall in achievement of targets, GoI has reduced the target of capacity addition to 58.0 GW.

The average per capita consumption of electricity in India was 733.4 kWh during 2008-09, which is fairly low when compared to that of some of the developed and emerging nations. During April-November, 2010, all-India energy demand deficit was 8.9% and peak demand deficit was 10.2%.

GoI has initiated several reform measures to create a favourable environment for addition of new generating capacities in the country. It is estimated that around 115 GW of capacity would be added during 2011-15 (CAGR of 12%) led by contribution mainly from private sector players and supported by central & state level utilities.

Power capacity addition in the country is hindered by inadequate supply of power equipment as BHEL is the only major player, with a market share of nearly 65-70%. BHEL has a total capacity of 15MW, which would be insufficient to meet the huge capacity additions as planned by GoI. The generator industry in India caters to the power requirements of large and small units, commercial establishments and the domestic sector as a whole. The production of AC generator grew at 15% YOY in year 2007-08, but was flat in 2008-09 due to the economic slowdown. In 2009-10, production grew at meager rate of 1.2% as a number of projects were delayed. The demand for generator is expected to grow with incremental power capacity in India growing at CAGR of 15% over the next five years till FY15.

### **Prospects**

The prospects of TDPS in the medium to long-term would be governed by its ability to increase its scale of operations and leverage on technology tie-up opportunities for generators of higher ratings that is available through its EPC division & source more orders

in projects and EPC division. TDPS' ability to protect its margins on the back increase in competition would also be crucial.

### Financial Performance (Consolidated)

(Rs. crore)

Y.E. / As on	31/03/09	31/03/10	31/03/11
	Audited	Audited	Audited
<b>Working Results</b>			
Income from Operations	512.26	764.19	874.07
PBILDT	61.34	82.26	104.49
Depreciation	3.29	5.65	8.05
PBIT	58.06	76.61	96.44
Interest	6.99	9.91	11.39
PBT	55.84	69.08	85.62
PAT (After def Tax)	37.14	43.51	56.69
Gross Cash Accruals	42.08	52.38	64.90
<b>Financial Position</b>			
Equity Share capital	6.34	6.34	24.37
Tangible Net Worth	98.86	143.28	194.47
<b>Key Ratios</b>			
<b>Profitability (%)</b>			
PBILDT / Total OI	11.98	10.76	11.95
APAT / Total OI	7.25	5.69	6.49
ROCE	58.27	46.44	39.46
RONW	45.71	35.94	33.57
EPS (Rs)	58.55	68.59	23.26
Book-value per share (Rs.)	155.85	225.85	79.80
<b>Solvency(times)</b>			
Debt Equity Ratio	0.17	0.28	0.17
Overall Gearing	0.29	0.48	0.44
Interest coverage	8.82	8.52	9.17
Term Debt/GCA (Years)	0.40	0.76	0.50
Total Debt /GCA (Years)	0.68	1.30	1.32
<b>Liquidity (times)</b>			
Current ratio	1.20	1.13	1.22
Quick ratio	1.07	1.04	1.05
Avg. Collection Period (days)	75	68	85
Avg. Inventory (days)	19	19	27
Avg. Creditors (days)	66	53	60
Op. cycle (days)	28	34	51

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## Annexure II

### Press Release

#### CARE assigns 'CARE IPO Grade 4' to the proposed IPO of TD Power Systems Ltd.

#### Grading

Particulars	Amount	Grading <sup>1</sup>	Remarks
IPO Grade	Rs.250 crore	'CARE IPO Grade 4' [Four]	Assigned

CARE has assigned a 'CARE IPO Grade 4' to the proposed Initial Public Offer of TD Power Systems Ltd. (TDPS). 'CARE IPO Grade 4' indicates **Above Average Fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.

TDPS proposes an initial public offering of equity shares of face value of Rs.10 each aggregating Rs.250 crore through 100% book building route.

#### Grading Rationale

The grading takes into account TDPS' leading position in domestic market for AC generators up to 52 Mega Watt (MW), its strong technology tie-up with leading global generator manufacturers, demonstrated ability of technology absorption and experienced & qualified promoters. The grading is also supported by strong financial risk profile, long standing relationship with customers characterized by a significant number of repeat orders for generators and robust business model with established manufacturing facilities. The grading is constrained by the competitive nature of industry mainly in projects and EPC business, volatile prices of major raw materials and exposure to foreign exchange fluctuation risk.

#### Company Profile

Incorporated in 1999, Bengaluru based TDPS was promoted by technocrats Mr. Hitoshi Matsuo, (Managing Director; *earlier employed with Toyo Denki, Japan*) and Mr. Nikhil Kumar (Jt. Managing Director). The technocrats were subsequently joined by Mr. Mohib Khericha, an experienced investment banker, in 2001 who is now its non executive chairman.

TDPS sourced its initial technology from Toyo Denki, Japan. Further, TDPS has also grown by absorbing new technologies acquired through several technical tie-ups with global leaders such as Siemens, Sicme Motori SrL, Voith Hydro Toshiba-Mitsubishi and others.

TDPS operates under three divisions at present, **first** is the manufacturing division under which company manufactures AC Generators with output capacity upto 52 MW (*comprising 37% of total income for FY11*), **second** is the projects division under which it executes 'Turbine Generator' island projects for steam turbine power plants with capacity upto 52 MW by using its own generators with turbines sourced from Japan (*comprising 19% of total income for FY11*) and **third** is the EPC division (Engineering, Procurement and Construction) for power plants with capacity from 52 MW to 150 MW comprising installation and commissioning of Boiler-Turbine-Generator (BTG) (excluding civil construction) sourced from various original equipment manufacturers (OEM) worldwide (*comprising 44% of total income for FY11*). The EPC business is undertaken by its 99.99% subsidiary, DF Power Systems Pvt. Ltd. (DFPS).

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TDPS had order book of Rs.1,095 crore as on June 30, 2011 spread across all three division viz. manufacturing (Rs.381 crore), projects (Rs.183 crore) and EPC division (Rs.531 crore).

The object of the proposed IPO of Rs.250 crore (approx.) is to finance the expansion of existing manufacturing plant at Dabaspur to increase its generator manufacturing capacity from present 360 generator to 600 generator p.a., construction of the office building for its Projects and EPC division in Bengaluru city, prepayment of outstanding term debt, funding incremental working capital requirements and other general corporate purpose.

On a consolidated basis, TDPS registered a total income of Rs.874 crore with PAT of Rs.57 crore during FY11 as compared to total income of Rs.764 crore with PAT of Rs.44 crore in FY10.

**Analyst Contact**

Name: Deepak Prajapati

Tel # 079-40265608

Mobile # 9099028864

Email: deepak.prajapati@careratings.com

*CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.*

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