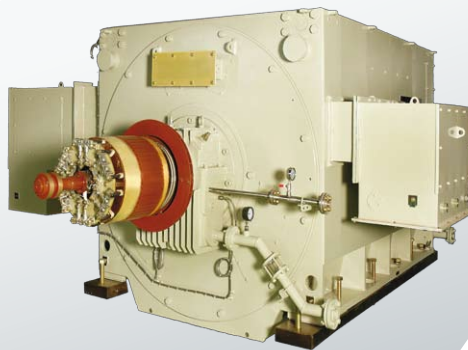


TD POWER SYSTEMS LIMITED



Powering ahead...



Annual Report
2012

Powering ahead...



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Corporate Information

BOARD OF DIRECTORS

Mr. Mohib N. Khericha
Chairman

Mr. Hitoshi Matsuo
Managing Director

Mr. Nikhil Kumar
Joint Managing Director

Mr. Tadao Kuwashima
Director - Technical

Mr. Salil Baldev Taneja
Director

Mrs. Nandita Lakshmanan
Director

Dr. Arjun Kalyanpur
Director

Mr. Nitin Bagamane
Director

JAPAN BRANCH OFFICE

Towa Building
4th Floor, 3-3 Kitashinagawa
3 Chome, Shinagawa-KU.
Tokyo-140-0001. Japan
Tel No.: 0081-3-5783-5380
Fax No.: 0081-3-5783-5381

CITY OFFICE

"RMJ Mandoth Towers"
#37, 7th Cross, Vasanthnagar
Bangalore – 560 052
Phone: +091-080-22017800
Fax: +91 80 22017850

REGISTERED OFFICE & PLANT

27, 28 & 29 KIADB Industrial Area
Dabaspet, Nelamangala Taluk
Bangalore, Karnataka - 562 111
Phone: + 091-080-22995700
Fax: + 9180 7734439

WEB SITE

www.tdps.co.in

INVESTORS GRIEVANCE REDRESSAL E MAIL ID

investor.relations@TDPS.co.in

STATUTORY AUDITORS

B.K. Ramadhyani & Co.
Chartered Accountants
4B, Chitrapur Bhavan
No.68, 8th Main, 15th Cross
Malleswaram
Bangalore – 560 055

BANKERS

Bank of Baroda
Corporate Financial Services Branch,
No.72, 1st Floor
Nitesh Lexington Avenue
Brigade Road
Bangalore - 560025

EQUITY SHARES LISTED AT

Bombay Stock Exchange Limited (BSE)
National Stock Exchange of India
Limited (NSE)

Company Secretary

Mr. N. Srivatsa

Chief Financial Officer

Mr. K. G. Prabhakar



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DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting the Thirteenth Annual Report together with the audited Financial Statements of the Company for the year ended March 31, 2012.

INITIAL PUBLIC OFFER

During the year the Company successfully completed its Initial Public Offering (IPO) of 8,867,187 Equity Shares of Rs.10/- each through Book Building process. The Issue was priced at Rs. 256/- per Share and raised Capital aggregating to Rs.22700 lakhs. The Company's shares were listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) on September 8, 2011.

WORKING RESULTS

The Company's working has resulted in

	As at 31.3.2012 (Rs. in lakhs)	As at 31.3.2011 (Rs. in lakhs)
Gross Profit amounting to	8,289.49	7060.46
Less:		
Depreciation	899.87	789.11
Loss on Sale of Asset	7.03	3.64
Provision for Taxation	2,252.30	2076.45
Deferred Tax (Net)	148.48	27.21
Net Profit for the Year	4,981.81	4164.03
Add:		
Surplus brought forward from the Previous Year	12,086.39	10429.75
Less: Capitalization of Reserves during the year	—	1624.69
Available for appropriation	17,068.20	12,969.09
Appropriations:		
Provision for Dividends and Tax thereon	723.92	568.36
Transfer to General Reserves	384.94	314.34
Surplus carried to Balance Sheet	15,959.34	12,086.39

OPERATIONS

The financial year 2011-12 witnessed challenging macro-economic conditions both in India and the world over. After having grown at the rate of 8.4 per cent in each of the two preceding years, India's GDP is estimated to have grown by 6.9 per cent in the financial year 2011-12. With agriculture and services having performed well, India's slowdown can be attributed almost entirely to weak industrial growth. The tightening of monetary policy in order to control inflation slowed investment and growth, particularly in the industrial sector. The global economy also witnessed lower to sluggish economic growth, accelerated by crisis in the Eurozone area and near-recessionary conditions prevailing in Europe; sluggish growth in many other industrialized countries, like the USA; stagnation in Japan; and hardening international prices of crude oil.

In the backdrop of negative macroeconomic environment including slowdown of the economy, liquidity contraction, rising interest rates and the resulting slowdown in investment, the company's has performed well during the year 2011-12 drawing upon its strengths in technology, product suitable for diverse applications and a world class manufacturing facility capable of delivering a quality product meeting international standards.

The highlights of the Company's performance for the year are as under:

- Revenue from operations increased by 28.15% to Rs.62,521.20 lakhs (Rs.48,788.02 lakhs)
- Exports increased by 217% to Rs.14,953.66 lakhs (Rs.4,717.23 lakhs)
- Order inflow increased by 12.27% at Rs. 52,203.12 lakhs (Rs.46,499.76 lakhs)
- 308 (338) Generators of various ranges up to 52 MW were manufactured

DIRECTORS' REPORT (contd.)

- Profit before depreciation and tax increased by 17.37% to Rs.8,282.45 lakhs (Rs.7,056.82 lakhs)
- Profit after tax increased by 19.64% to Rs.4,981.81 lakhs (Rs.4,164.63 lakhs)
- Produced the largest vertical generator for a project in Turkey, 24 megawatt, 500 rpm (equal a 100 megawatt machine if compared say a steam turbine generator).
- supplied the first prototype machine for the Gas Engine business
- Successful Initial public offering of equity shares to raise Capital aggregating to Rs.22,700.00 lakhs under unfavorable capital market conditions.
- License agreement with Siemens AG signed in March 2012 for know-how to manufacture in India, industrial, air-cooled, 2-pole AC generators in the range of 54MW to 200 MW.

DIVIDEND

Your Directors have recommended a dividend of Rs.2.00 per equity share for the financial year ended March 31, 2012 amounting to Rs.772.59 lakhs (inclusive of dividend tax of Rs.107.84 lakhs) subject to approval of the shareholders at the Annual General meeting. This dividend payout is based on company's policy to pay sustainable dividends and meet long term growth objectives out of internal cash accruals.

MANAGEMENT DISCUSSION & ANALYSIS

Pursuant to clause 49 of the listing agreement with the stock exchanges, the Management Discussion & Analysis report covering operations, performance and future outlook of the company is annexed as **Annexure-A** and forms part of the Annual Report.

UTILISATION OF IPO PROCEEDS

In terms of clause 43(a) of the listing agreement, a statement indicating the variations between projected utilization of funds and the actual utilization of funds as of March 31 2012(Fiscal2012) is as follows:

(Rs. in lakhs)

Objects	IPO proceeds Rs.	Projected utilization fiscal 2012 Rs.	Actual Utilization Fiscal 2012 Rs.	Variation Rs.
	(a)	(b)	(c)	(d)(b-c)
Finance the expansion of our manufacturing plant in Dabaspeth	1,0273.60	5,995.40	6,169.40	(174.00)
Construction of a project office in Bangalore city	2,890.90	1,560.00	NIL	1,560.00
Repayment of debt	3,280.70	3,280.70	2,741.57	539.13
Funding working capital requirements of our Company	4,000.00	4,000.00	NIL	4,000.00
General corporate purposes	2,254.80	2,254.80	1,390.82	863.98
Total	22,700.00	17,090.90	10,301.79	6,789.11

The reasons for the variations are as detailed below:

- Finance the expansion of our manufacturing plant in Dabaspeth-The variation is less than 3% of projected utilization and hence not significant.
- Construction of a project office in Bangalore city -Out of the IPO funds of Rs.2,890.90 lakhs earmarked for this purpose, no utilization has been possible due to non- availability of a parcel of land appropriate for the proposed building in the identified location.
- Repayment of Debt: The debt repayment initially was estimated at Rs.3,280.70 lakhs against which a sum of Rs.2,741.57 lakhs was repaid out of the Net proceeds of issue. The difference of Rs.539.13 lakhs represents amount repaid by the company from internal accruals until the net proceeds were available to the company.
- Funding working capital requirements of our Company – the object is to fund core working capital needs of the expansion project undertaken as per object above. The implementation schedule of the expansion project has been revised leading to a hold on utilization of funds for working capital requirements.

DIRECTORS' REPORT (contd.)

- General corporate purposes – out of the net proceeds of issue, a sum of Rs.2,254.80 lakhs is earmarked to fund general corporate purposes including Issue related expenses estimated at Rs.1,393.40 lakhs. After accounting for the issue related expenses of Rs.1,390.82 lakhs as on March 31, 2012, the unutilized balance under the identified object of general corporate services, may be utilized by the company for any appropriate corporate purposes including strategic initiatives.

MANUFACTURE OF NEW GENERATION GENERATORS

It is proposed to establish, in the vicinity of the existing manufacturing facility at Bangalore, a new facility for manufacture of new generation generators of 54 to 200 MW. This project is the outcome of a long-term license agreement with Siemens AG signed by the company in March 2012 under which, the company will receive from Siemens, the know-how for manufacture of industrial, air-cooled, 2-pole AC generators in the range of 54 to 200 MW (74 MVA to 250 MVA) in India and is entitled to receive technology updates for 20 years for this range of generators. This will equip the company to address a wider range of industrial demand for generators – between 1 MW to 200 MW by extending its strong position in focus markets and also help meet the requirement of its EPC business, which is currently reliant on imports.

Initially, in terms of the purchase frame agreement signed with Siemens, the company also has the option to purchase components from Siemens, Germany. This will enable the Company to commence commercial production of these larger capacity generators in 24 months.

The estimated cost of the project is Rs.19,897.00 lakhs towards land & building, machinery and equipments, Licence and training fees and other assets. The pattern of financing will include a utilization from IPO proceeds of about Rs.8,200.00 lakhs, from internal accruals of the fiscal 2011 to 2014 estimated at Rs.6,700.00 lakhs and borrowings of about Rs.5,000.00 lakhs as and when required.

The Company has been reviewing the deployment of the Net Issue Proceeds (NIP) in the objects of city office in Bangalore and working capital requirements and the possibilities of deploying the same along with the unutilised NIP available under debt repayment and general corporate purposes in productive assets/objects, which may contribute to enhancing company's earnings and translate into returns for the shareholders in the next 24–36 months and the Directors recommend that the said proceeds be utilized to partially fund the above project subject to approval of the shareholders. Attention of the shareholders is drawn to Item 7 of the Notice of the Annual general meeting in this regard.

SUBSIDIARY COMPANY

The Company's wholly owned subsidiary DF Power Systems Private Limited has recorded an impressive performance for the year ended March 31 2012 with a total income of Rs.42,683.70 lakhs and a net profit of Rs.1,732.31 lakhs. The directors of the subsidiary company have recommended a dividend of Rs.5.00 per share for the financial year ended March 31, 2012 amounting to Rs.348.68 lakhs (inclusive of dividend tax of Rs.48.67 lakhs) subject to approval of the shareholders at its Annual General meeting.

The statement in terms of Section 212 (1) (e) of the Companies Act 1956 is attached to this report as **Annexure-E**.

The Ministry of Corporate Affairs, Government of India has vide circular no 2/2011 dated February 8, 2011 granted a general exemption to Companies under section 212(8) of the Companies Act 1956 from attaching the documents referred to in section 212 (1) of the Companies Act 1956 pertaining to its subsidiaries subject to approval of the Board of Directors of the company and furnishing certain information in the Annual report.

The Board of Directors have accorded approval to the company dispensing with the requirement of attaching to its Annual Report, the annual audited accounts of the Company's subsidiary. Accordingly, the Annual report of the Company does not contain the individual financial statements of the subsidiary but contains the audited consolidated financial statements of the Company and the said subsidiary. The annual accounts of the subsidiary Company, along with the related information are available for inspection at the Company's registered office and copies will be provided on request. The statement pursuant to exemption granted under section 212(8) of the Companies Act 1956, is annexed as **Annexure-F** to this report.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated Financial Statements of the Company is prepared as per Accounting standard AS21 and Accounting standard AS23 consolidating the company's accounts with its wholly owned subsidiary DF Power Systems Private Limited forms part of this Annual Report.

DIRECTORS' REPORT (contd.)

DIRECTORS

Mr. Salil Taneja and Dr. Arjun Kalyanpur, Directors retire by rotation at the ensuing Meeting and being eligible, offer themselves for reappointment.

The Board of Directors of the Company commends their respective re-appointments.

A brief resume of Directors proposed to be re-appointed, nature of their expertise in specific functional areas, names of companies in which they hold directorships and memberships / chairmanships of Board Committees, shareholding and relationships between directors *inter-se* as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges in India, are provided in the Report on Corporate Governance forming part of the Annual Report.

PARTICULARS OF EMPLOYEES

During the period under review, the statement of employees who were in receipt of remuneration requiring disclosure in terms of Section 217(2A) of the Companies Act, 1956 is enclosed as **Annexure B**.

CONSERVATION OF ENERGY AND TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS & OUTGO

Information as required under section 217(1)(e) of the Companies Act 1956 read with Companies (Disclosure of particulars in the report of the Board of Directors) rules, 1988 has been given as **Annexure-C** forming part of this report.

CORPORATE GOVERNANCE

A separate Section on Corporate Governance is included in the Annual Report and the certificate from Mr. Sudhir V Hulyalkar, practicing Company Secretary, Bangalore, confirming the compliance of conditions on Corporate Governance as stipulated in Clause 49 of the Listing Agreement with Stock Exchanges is annexed thereto as **Annexure-D**.

AUDITORS

The statutory Auditors M/s. B.K. Ramadhyani & Co., Chartered Accountants, Bangalore, hold office until the conclusion of the ensuing Annual General Meeting to be held on July 12, 2012 and being eligible, offer themselves for reappointment. A certificate has been received from them to the effect that their reappointment, if made, would be within the prescribed limit under Section 224(1B) of the Companies Act, 1956.

COST AUDITORS

The Company is covered by Cost Audit requirements wef. April 1, 2012 (FY 2013) under the heading "Engineering Machinery (incl. electrical & electronic products)" in terms of order of the Ministry of Corporate Affairs (MCA) dated January 24, 2012. Accordingly, necessary action has been initiated to appoint a cost auditor for the audit of the cost accounts relating to the operations of the company's manufacturing operations for the financial year 2012-13.

DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the companies Act 1956 with respect to Directors' responsibility statement, it is hereby confirmed:

- that in the preparation of the accounts for the financial year ended 31st March 2012, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any.
- that the Directors have selected such accounting policies and applied them consistently and made judgments and the estimates that are reasonable and prudent so as to give true and fair view of the state of affairs of the Company at the end of the financial year and are the profit or loss of the Company for the year under review.
- that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the companies Act 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- that the Directors have prepared the accounts for the financial year ended March 31, 2012 on a 'going concern' basis.

ACKNOWLEDGEMENT

Your Directors place on record their appreciation for the cooperation and continued support extended by the shareholders, suppliers, customers, technology partners, Banks and all employees of the company during the year under report.

For and on behalf of the Board of Directors

Bangalore
May 23, 2012

Mohib N Khericha
Chairman

ANNEXURES TO THE DIRECTORS' REPORT

Annexure- A MANAGEMENT DISCUSSION AND ANALYSIS

POWER SECTOR

India continues to be one of the world's fastest growing energy markets and is expected to be the second-largest contributor to the increase in global energy demand by 2035, accounting for 18% of the rise in global energy consumption. Power continues to be one of the critical resources in order to sustain and further economic growth in India. Therefore, the Government of India announced capacity additions of around 40,000 MW (40GW) and 66,000MW (66 GW) under the Tenth and Eleventh Plans, respectively. However, the Tenth Plan witnessed capacity additions of only 21,095MW and it is reported that under the eleventh plan the capacity addition is 53,922 MW as on 29.03.12. The growth in capacities has been insufficient to meet the increase in demand and as a result Demand supply gap between electricity generation and demand touched 8.2% in April 2012 according to the Central Electricity Authority (CEA). The total demand for electricity in India is expected to cross 950,000 MW (950.00GW) by 2030.

The Indian power sector comprises of three major segments namely Generation, Transmission, and Distribution. The Generation segment comprises of Central, State and Private Sectors. The total installed capacity of power generation across the three sectors is 2,01,637.03 MW [201.64 Giga watts (GW)] as on April 30, 2012. Thermal power plants constitute 66.14% of the installed capacity, hydroelectric about 19.33% and rest being a combination of wind, small hydro, biomass, waste-to-electricity (12.15%) and nuclear (2.38%).

The Government of India, as initiated policy initiatives to harness India's potential in renewable energy by promoting clean and green power which will also help reduce dependence on thermal power from the current levels. In efforts towards augmenting power generation, a transformational policy initiative has been the Electricity Act 2003 which liberalized the frame work for generation, enabling the setting up of captive power plants (CPP) to supply power generated by them to the national grid. Manufacturing and process industries in India account for close to half of India's total power consumption. Due to the lack of reliable power supply from the grid it has become imperative for industries to set up power plants for captive consumption. The other factor prompting industries to set up own generation units are the lower cost of generation as compared to cost of power from the grid. The CPP's supply surplus power to the grid and to merchant power traders which affords an opportunity to augment their revenues. Industries such as steel, aluminum, copper, cement, engineering, sugar, chemicals, which are power intensive, contribute significantly to the total CPP installed capacity.

Company's Business

The company is one of the leading manufacturers of AC Generators with the capability to manufacture generators with output capacities ranging from 1MW – 52MW for prime movers such as steam turbines, gas turbines, hydro turbines, wind turbines, diesel and gas engines. The Company has a diverse product range which includes, steam turbine generators, horizontal hydro generators, vertical hydro generators, diesel engine generators, wind turbine generators, gas engine generators, gas turbine generators, high voltage motors and generators for Geo Thermal and Solar thermal applications. We focus on manufacturing engineered-to-order generators for our customers who are based across the world. From the inception of our Company and as of March 31, 2012, we have manufactured a total of 1,759 generators with an aggregate output capacity of 14,750 MW, of which 274 generators have been supplied to customers across 38 countries.

The company's customer base primarily comprises companies operating in the industrial sector and includes cement, steel, paper, chemical, metals, sugar co-generation, bio-mass power plants, hydro-electric power plants and Independent Power Plant companies. This diversified product offering has enabled the company to develop a broad customer base across a range of industries and reduced dependence on any particular industry or market segment while giving a competitive advantage in catering to all the major verticals of the power generation industry. We cater to both conventional and renewable fuel based power plants. Conventional power plants consist of steam/gas turbine power plants and diesel/gas engine power plants and renewable fuel based power plants include wind, hydro, bio-mass, solar thermal and geo-thermal power plants. A majority of future power plants will be based on conventional fuels and our Company has the entire range of generators to cater to this sector. With our technological relationships with the leading power equipment manufacturers we also have the ability to design and manufacture a complete range of generators required to cater to the renewable fuel based segment of the power generation market.

MANAGEMENT DISCUSSION AND ANALYSIS (contd.)

The company has a world class manufacturing facility consisting of two manufacturing units located in Dabaspur, Industrial Area on the outskirts of Bangalore. The manufacturing facilities are equipped with advanced machinery and equipment and are ISO 9001:2008 compliant. Our Company is ISO 9001-2008 certified and ISO 14001/OHSAS 18001:2007 certified by TUV SUD Management Services GmbH, Munich.

The company has developed a reliable and quality based subcontracting and vendor network supplement its operations. The company's strong project management abilities enable it to control costs and achieve efficient operations. The company is committed to provide high quality products that meet the expectations of both Indian and international customers.

The company's in-house design and development team focuses on absorption of technology available from our technology partners and evolving optimal solutions to meet the varied needs of the customers. Over the years, the company honed the capability to design products to meet exacting performance standards.

In addition to manufacturing AC Generators our Company also executes Turbine Generator island projects for steam turbine power plants with output capacity up to 52 MW using a Japanese turbine combined with our generator. The scope of work of the TG island projects consists of design services, procurement and supply of equipment, assembly, installation & commissioning.

Our Subsidiary, DF Power Systems Private Limited, is in the business of Engineering, Procurement and Construction, executing Boiler-Turbine Generator island projects and the balance of plant portion for steam turbine power plants with output capacity from 52 MW up to 150 MW. The scope of work for the EPC Business comprises of design services, procurement and supply of equipments, assembly and installation & commissioning (excluding civil works).

OPPORTUNITIES AND THREATS

Opportunities

India continues to strive in its quest to augment its power generation capacity plans to reduce the demand supply gap. Though the Government has initiated policy action to reduce the demand supply gap, shortages continue to exist, due to delayed execution of projects. The energy footprint of our country is fast growing and according to the CEA's 7th Electric Power Survey energy demand is forecast to increase by 64% by 2017 and 126% by 2022 from the current demand levels.

The demand supply shortfall is expected to continue to spur demand for captive power options. The total installed capacity in CPP is estimated at 58.6 GW which is expected to grow by about 20% in the following 2-3 years. Industries such as steel, aluminum, copper, cement, engineering, sugar, chemicals, which are power intensive, contribute significantly to the total CPP installed capacity. Captive generation is bound to grow as demand for reliable power by Industries is expected to grow and activities like trading through exchange will provide a platform to captive generators to sell surplus power augmenting revenues and profits.

Exports business is driven largely by the global Power Generation demand. Also the negativity surrounding nuclear power opens up a new front for smaller power plants. The company's relationships with technology leaders enable the company to incorporate technology prevalent in the global markets and thus afford an opportunity to supply in the overseas markets.

Threats

The Industrial sector is the company's customer and generators manufactured by the company, falls under Capital goods catering to captive and cogeneration power users. The growth and performance of the industrial sector is to large extent driven by government policy, economic buoyancy, investment climate and interest rate regime and global economic and market conditions. A difficult business environment for Industry directly affects investment climate and thus the market conditions for the company's products.

The company operates in a competitive environment. The Indian power market is the one of the largest and most open markets in the world and sees a variety of competitors ranging from small niche players with specific experience to large, well established entities. Our competitors in the generator business including those from outside India tend to be large multinational companies, while our Indian competitors are large public sector companies or Indian operations