Marsons

Analyst: Marsons Ltd. has a history of having delivered more than 3 lakh plus transformers globally. The company has a large manufacturing facility in Kolkata, which is future-ready because it produces some of the best quality transformers. The current manufacturing capacity is 10,000 MVA. They have a diversified transformer portfolio including distribution, power, and furnace transformers.

They have three primary sales channels. First, EPC contracts, where they supply to private companies fulfilling government orders; this contributes 50-60% of the revenue. Second, direct bidding for government contracts, which contributes 30-40% of revenue. Third, direct end-users, largely industrial clients, representing less than 10% of the revenue.

The transformer industry and Marsons are at a structural inflection point. There is a global shift toward solar and renewable energy, creating a supply gap on the grid side. Transformers are essential to building that infrastructure. With the AI boom, data centers are the next driver as they are power-hungry. India is expected to more than double its data center capacity in the next 2-3 years. This trend provides a tailwind for Marsons. The company has the capacity, the full range, a strong balance sheet, and is ready for this opportunity. Mr. Harshvardhan, if you can turn on your video, we can start our discussion.

Management: Hi, good afternoon.

Analyst: Thank you, Mr. Harshvardhan, for taking the time. I want to start by understanding the manufacturing facilities. We mentioned 10,000 MVA. Where is this capacity located and what range of transformers do we produce?

Management: Our facility is based in Kolkata, located in Budge Budge. Our capacity currently stands at 10,000 MVA annually. This can vary depending on the range we operate; for example, if we are making 10 MVA units, the capacity configuration might stand differently. Our facility is fairly large, around 400,000 square feet.

We have a very wide range, starting from distribution transformers of 10 KVA up to 200 MVA, 220 KV class. We are the only company in Eastern India and the surrounding states producing transformers in this range. Most others in this region do not exceed the 132 KV class. Our technical infrastructure is strong. Incorporated in 1956, the company has deep expertise. Some team members have been with the company for over 55 years.

In terms of credentials, the company has supplied more than 150 units of EHV transformers across the country. Large power transformers allow us to cater to the entire country and global markets. We are currently producing for state utilities in Maharashtra, Uttar Pradesh, Gujarat, West Bengal, and the Northeast. We have an in-house NABL-accredited lab and an impulse testing facility, which are distinctive in the Eastern region. We are also CE certified for the European markets.

Analyst: Regarding the 10,000 MVA capacity, is it spread across multiple plants or concentrated in one?

Management: It is just the one plant.

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Analyst: When you discuss different types of transformers, is MVA the common capacity marker for all of them?

Management: Yes. MVA is the power rating and KV is the voltage class. MVA is how we measure capacity.

Analyst: Is it fungible? Can we make any kind of transformer based on demand?

Management: Our output would differ. We cannot make 60 different ranges and still maintain 10,000 MVA. The 10,000 MVA is a theoretical capacity determined by our winding machines and heating facilities, which are the primary bottlenecks.

Analyst: What is the current capacity utilization?

Management: The 10,000 MVA expansion happened just a few months ago. Prior to this, the installed capacity was 3,500–3,600 MVA. For the outgoing financial year, we have done approximately 35% of our capacity.

However, you should take that number with a grain of salt. We could theoretically be at 10,000 MVA this year or the next, depending on the product mix. In the outgoing year, we entered the renewable segment and produced our first 220 KV class transformer for Inox, which was 160 MVA. Some units take longer to manufacture than others. We are currently making several investments to optimize internal movement and increase heating capacity in different parts of the factory to utilize more of our winding facility, which can actually deliver upwards of 10,000 MVA.

Analyst: Since 35% is relatively low, can we reach 60% or 70%?

Management: With our order pipeline, we should be at upwards of 60% this year.

Analyst: So for FY25, you expect 60% plus capacity utilization?

Management: Yes. Over the last two financial years, we focused on reclaiming our credibility in the market. That position is now firmly cemented. We have started booking much larger orders and our focus has shifted toward extra high voltage (EHV) transformers. The optimization of our facilities and our strong pipeline will allow for that increased output.

Analyst: If we hit 60% this year, do we have land to expand further at the current location?

Management: We do not require additional land for the 10,000 MVA capacity. If we go beyond that, we have more than sufficient additional land available at the current location.

Analyst: Can you explain the manufacturing process in layman's terms?

Management: Producing transformers is largely an assembly and design job. Our value add is the design. The process involves Cold Rolled Grain Oriented (CRGO) steel for the core assembly and winding using copper or aluminum. Aluminum is used for inverted distribution transformers and wind turbine generators in the renewable sector.

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Once the windings and core are ready, we perform core coil assembly. This is processed in a heater several times to extract moisture, which is critical because moisture destroys transformers. After preheating, we reassemble the top of the core, complete the connections, and do a final round of heating for 3-4 days. Then we perform the "tank up" using the MS tank you see on the outside, which only represents 5-7% of the cost. After that, we perform testing and dispatch.

Analyst: What would the gross margins be once raw material costs are excluded?

Management: Our gross margins in most orders are within 20-25%. This varies by segment. In the renewable space, it is competitive, so we hover around 20-25%. In the EHV range, there is less competition and margins are upwards of 25%. If we look at industrial end-users, margins are slightly higher, and for exports, particularly to the US market, margins are significantly higher.

Analyst: Copper and aluminum are volatile. Is the CRGO steel purchased domestically or imported?

Management: It is mostly imported. NLMK makes it in India, but we usually buy core cut-to-size based on our design. This insulates us from commodity price fluctuations for CRGO. For copper, we buy the strip form, converted and insulated by vendors.

Analyst: How do you protect your margins?

Management: We cannot protect them completely, but we have a practice where the minute we book an order, we book the copper the same day. This ensures we are covered at the price considered in our costing.

Analyst: What about steel?

Management: MS steel is a small component. For CRGO, it is relatively stable and not index-driven. If we use certain grades across several designs, we place bulk orders at prices we are comfortable with. We focus on ensuring the price works within the costing at which we booked the order.

Analyst: Should investors expect stable gross margins around 25%, perhaps higher if the mix moves toward EHV?

Management: That is the goal, especially with EHV and US exports.

Analyst: If capacity utilization jumps from 35% to 60%, can we expect the top line to reach the 400-500 crore range?

Management: Those are broad numbers, but hopefully, yes.

Analyst: How much is the current order book and how long will it take to execute?

Management: We have not formally disclosed the order book yet, but I can say we have the order book to support the capacity utilization targets I mentioned.

Analyst: Can you take us through the product mix changes?

Management: We cover six market segments. The primary driver is renewables.

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The second is the distribution sector, driven by grid expansion and state spending for new substations and transmission lines. These are typically in the 33/11 KV class range.

The third is the EHV segment, which involves 220 KV and 132 KV transformers for government substations and renewable evacuation.

The fourth is the industrial and commercial sector. As the capex cycle plays out in Indian industry, we see a lot of opportunity here with better margins and payment terms.

The fifth is the railway sector. Last year we entered with traction transformers for locomotives, benefiting from the electrification and fleet expansion of Indian Railways.

The final segment is exports. While we have done some work in Europe and Bangladesh, we are now laser-focused on the US market. We received our first US order earlier this year.

Analyst: How large was that order?

Management: It was approximately 6 crores. That was our entry point. The individual opportunities we are pursuing in the US are now in the 4-5 million dollar range. The margins are 3 times what we get in India. We are currently working on UL certification to fit better in the US market.

Analyst: What is the visibility for US orders in FY27?

Management: I am cautious about giving a specific number today, but we are extremely optimistic. A large part of my focus is now on the US market due to the margins and the sheer volume.

Analyst: What is the split between government and private sector orders?

Management: Currently, 15-20% of our order book is direct government orders. We do not intend to exceed 20-25% in that sector. While we cater to state transmission requirements, our clients are often private EPC contractors.

Analyst: Regarding data centers and industrial capex, how does that help with payments?

Management: The industrial segment represents a small portion currently, but we are expanding our team to target it actively. Ten to twenty years ago, Marsons was the preferred vendor for industrial projects in the Eastern region, and we are quickly reclaiming that position.

Analyst: What kind of competition do you face during bidding?

Management: In the private sector, it is often a negotiation rather than a formal tender. For government tenders in the medium power range, we might compete with 20 participants in a state like Uttar Pradesh. However, in the EHV range, the number of participants reduces to 10-12 across the country. In a recent West Bengal state transmission tender, we were one of only two companies that participated.

Analyst: What proportion of sales are currently EHV and where is that headed?

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Management: In the outgoing financial year, EHV sales were less than 10%. In the upcoming year, it will likely be 25-30%.

Analyst: Do you perform EPC work or just supply to those contractors?

Management: We are not doing complete turnkey EPC projects. We supply to them and provide value-added services like installation and commissioning.

Analyst: Given that the technology for transformers is mature, how do you stay at the cutting edge?

Management: There are no tectonic technology shifts in this space. Developments are focused on design efficiency to reduce losses. We use both manual and software-based designs in conjunction. Losses are a major concern for the government's RDSS scheme. We recently successfully type-tested extremely low-loss 10 MVA transformers at CPRI. We also type-tested a 17.6 MVA IDT transformer and are moving to type-test a 160 MVA 220 KV class transformer, which would place us among only five to seven players in the country with that capability.

Analyst: Who are your top five customers and is there concentration risk?

Management: Our top customers include West Bengal State, Inox, Datta Infra, Galaxy, Jackson, and Laser. Most of our order sizes are in the 10-20 crore range, though some from West Bengal or Uttar Pradesh exceeded 25-30 crores. It is not concentrated, and we prefer it that way. We are currently executing a 22-23 crore order for Mahajenco projects involving evacuation substations and IDTs.

Analyst: What about the bidding pipeline and win ratio?

Management: We bid for very few tenders now because we focus on private sector requirements. We are probably bidding for approximately 200 crores worth of tenders in the ongoing financial year.

Analyst: How is pricing set with private players?

Management: It is based on negotiations and relationship networks. Some have moved to reverse auctions, but IPP developers are less price-driven and more focused on credentials and capability.

Analyst: What are the working capital requirements?

Management: Apart from state utilities, we provide almost no credit. Our projects are either LC-backed or involve payments against invoices. We usually receive an advance of 10-20% for renewable projects, with the balance paid prior to dispatch. We pay for copper in full but have credit lines for other raw materials. However, since our cash position is strong, we often pay promptly to get better rates.

Analyst: So scaling to 60% utilization will not require significant additional working capital?

Management: It is not an immediate concern. We have very limited debt and plan to keep it that way. We use non-fund based limits for LCs and bank guarantees, which are required for performance and EMDs.

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Analyst: Receivable days were 148 last year. Was that due to government orders?

Management: Yes, there were several government orders or projects where payments were delayed but those were unique cases. That number will come down this year. As we focus more on exports and large-scale private players, we are getting market-standard payment terms.

Analyst: How long are performance guarantees valid?

Management: In government projects, they are usually 5 years, though sometimes 10. They are typically 5-10% of the value. In 70% of private orders, we do not provide bank performance guarantees; we provide a warranty certificate and a corporate guarantee.

Analyst: Are you planning any capex in FY27?

Management: We likely will. We have plans to continue expanding our range in the EHV space.

Analyst: To summarize, you have the capacity and demand, and are growing production from 35% to 60%. EHV sales are expected to increase to 25-30% in FY27. You are focusing on high-margin US orders and intend to remain largely debt-free. Working capital requirements are expected to be lower than in FY25. Is that accurate?

Management: That is a correct summary. We don't expect to increase our debt significantly. Our existing non-fund based and small fund-based limits will likely remain.

Analyst: Any final remarks?

Management: None, unless there are more questions.

Analyst: Thank you, Harshvardhan. This was very insightful. We are excited about the recovery in the business and the favorable market demand. Thank you for your time and thank you everyone for joining us.

Management: Thank you. I hope you learned something new about our company today.

Analyst: Thank you. This concludes the session. If you have further questions, please reach out to the GoIndia team. Saloni and Selena are available to assist you. See you at the next session.

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