

# Power Mech Projects

11 August 2021

Reuters: POMP.BO; Bloomberg: POWM IN

## Steady quarter; good visibility on growth

Power Mech Projects' (PMP) 1QFY22 consolidated revenue increased by 127% YoY to Rs6.2bn, but was 13% below our estimate. As the second covid wave didn't lead to a shutdown of construction activities, execution remained largely unaffected. The management highlighted that execution remained steady across large projects in 1QFY22. While the ETC segment's sales jumped by 129% YoY to Rs1.3bn, O&M/Civil segment's sales grew by 44%/284% YoY to Rs1.7bn/Rs2.8bn. EBITDA stood at Rs660mn (vs. EBITDA loss of Rs139mn in 1QFY21), while EBITDA margin stood at 10.6% (vs. negative EBITDA margin of 5%), which was above our estimate of 9%. PAT stood at Rs315mn vs. a net loss of Rs326mn in 1QFY21. The PAT was in line with our estimate. 1QFY22 order inflow stood at Rs96.3bn, much above FY21/FY20 levels of Rs46.3bn/Rs19.5bn. Order book (excluding the MDO contract worth Rs92.94bn) remains strong at Rs70.5bn (3.1x TTM sales). The management highlighted that order inflow remained muted in 1QFY22 as tender finalization could not happen. We have increased our earnings estimates for FY22E/FY23E by 10%/14% due to improved execution. We have maintained Buy rating on the stock with a revised target price (TP) of Rs940 (Rs830 earlier) based on 6x FY23E EPS. We believe that the company's successful diversification into the Civil segment would result in continued growth with healthy margins.

**1QFY22 update:** PMP did not see any shutdown on its sites and it continued to ramp-up its capacity. Manpower strength has almost doubled by now from the peak COVID level. The management mentioned that Singareni Collieries O&M contract has been signed. Out of the present order backlog, the domestic business is ~87% of total and Non-power business is ~30% of total. The company is looking at new opportunities worth Rs100bn in Energy/Infra/Metals/Minerals/Railway sectors (has submitted applications). It is looking forward to two major opportunities with NMDC for crushing/mineral processing for EPC technology tender with technology partners like FLSmidth and Thyssenkrupp. It is also working on one more mineral processing plant for Hindustan Zinc (partner FLSmidth). The size of these mineral processing opportunities is ~Rs5-10bn.

**Order book position:** PMP won a Mine Development & Operation (MDO) project worth Rs92.94bn from Central Coalfields Ltd (CCL), a subsidiary of Coal India Ltd, with a contract period of 25 years. The project is expected to add more than Rs4bn annually to the topline. It entails capex of Rs2.8bn (development period). PMP will infuse equity worth Rs800-850mn (74% share) in the initial years. Order book (including the MDO contract worth Rs92.94bn) remains strong at Rs163bn (Erection: Rs22.2bn, O&M services: Rs13.4bn and Civil: Rs33bn). The management stated that it is targeting new orders worth Rs40-45bn in FY22.

**Working capital position:** At the end of 1QFY22, inventories stood at Rs1.1bn (similar to the level seen at the end of FY21) while receivables stood at Rs5.0bn (down from Rs5.3bn at the end of FY21). Retention money stood at Rs2.80bn vs. Rs2.85bn at the end of FY21. The management highlighted that the receivable cycle stood at 65 days, excluding the BHEL project. Net debt stood at Rs3.3bn vs Rs3.4bn at the end of FY21.

**Outlook:** We expect revenue/earnings CAGR of 14.5%/20.5% over FY20-FY23E. Current valuation is inexpensive considering the company's healthy order book, low D/E and decent RoCE (18% in FY20).

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## BUY

Sector: Capital Goods

CMP: Rs807

Target Price: Rs940

Upside: 16.4%

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### Key Data

Current Shares O/S (mn)	14.7
Mkt Cap (Rsbn/US\$m)	11.9/159.2
52 Wk H / L (Rs)	923/354
Daily Volume (3M NSE Avg.)	157,085

### Price Performance (%)

	1 M	6 M	1 Yr
Power Mech Projects	(1.5)	44.0	93.2
Nifty Index	3.8	7.3	43.8

Source: Bloomberg

Y/E March (Rsmn)	1QFY21	4QFY21	1QFY22	YoY %	QoQ %	FY20	FY21	YoY %
<b>Net revenues</b>	<b>2,750</b>	<b>7,552</b>	<b>6,228</b>	<b>126.5</b>	<b>(17.5)</b>	<b>21,647</b>	<b>18,841</b>	<b>(13.0)</b>
Raw material costs	2,125	5,768	4,555	114.4	(21.0)	15,421	14,940	(3.1)
Staff costs	692	951	949	37.1	(0.2)	3,248	3,222	(0.8)
Other expenses	72	87	65	(9.9)	(25.8)	270	260	(3.7)
Total expenditure	2,889	6,807	5,568	92.8	(18.2)	18,939	18,422	(2.7)
EBITDA	(139)	745	660	NA	(11.4)	2,708	419	(84.5)
<b>EBITDA margin (%)</b>	<b>(5.0)</b>	<b>9.9</b>	<b>10.6</b>	<b>-</b>	<b>-</b>	<b>12.5</b>	<b>2.2</b>	<b>-</b>
Interest costs	92	90	90	(2.0)	0.3	394	358	(9.3)
Depreciation	198	214	192	(3.1)	(10.3)	741	793	7.0
Other income	18	47	53	184.2	11.0	93	163	74.9
Share of profit from JV	(27)	11	-13	-	-	16	(31)	-
PBT	(437)	500	418	NA	(16.4)	1,682	(599)	NA
Tax	(110)	140	103	NA	(26.6)	375	(113)	NA
Minority interest	(1)	4	0.2	NA	(95.8)	(6)	(30)	NA
<b>PAT</b>	<b>(326)</b>	<b>356</b>	<b>315</b>	<b>NA</b>	<b>(11.5)</b>	<b>1,313</b>	<b>(456)</b>	<b>NA</b>
<b>PAT margin (%)</b>	<b>(11.9)</b>	<b>4.7</b>	<b>5.1</b>	<b>-</b>	<b>-</b>	<b>6.1</b>	<b>(2.4)</b>	<b>-</b>
<b>EPS (Rs)</b>	<b>(22.2)</b>	<b>24.2</b>	<b>21.4</b>	<b>NA</b>	<b>(11.5)</b>	<b>89.3</b>	<b>(31.0)</b>	<b>NA</b>

Source: Company, Nirmal Bang Institutional Equities Research

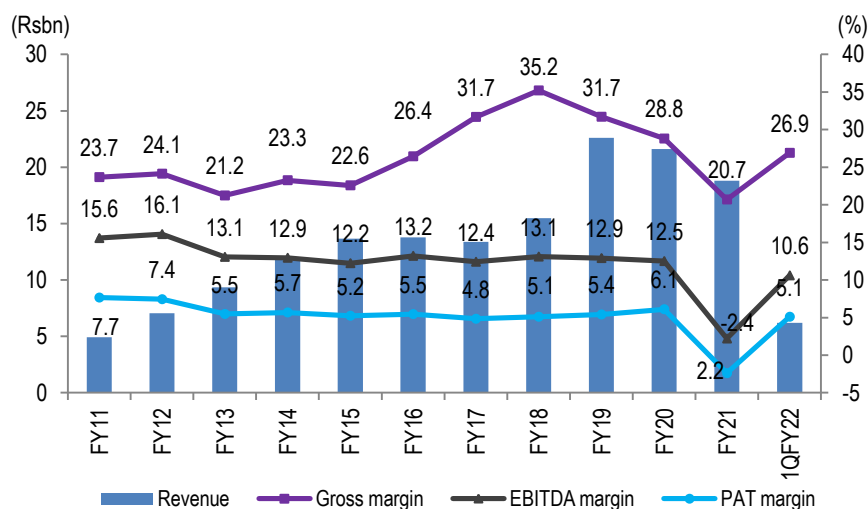
**Exhibit 1: Financial summary (consolidated)**

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Net revenues	22,613	21,647	18,841	27,119	32,460
EBITDA	2,908	2,707	419	2,928	3,875
Net profit	1,216	1,313	-456	1,531	2,298
EPS (Rs)	82.7	89.2	(31.0)	104.1	156.2
EPS growth (%)	53.0	8.0	(134.7)	(435.7)	50.2
EBITDA margin (%)	12.9	12.5	2.2	10.8	11.9
P/E (x)	9.8	9.0	(26.1)	7.8	5.2
P/BV (x)	1.4	1.2	1.3	1.1	0.9
EV/EBITDA (x)	4.9	5.8	38.0	5.4	3.7
Dividend yield (%)	0.1	0.1	0.0	0.2	0.5
RoCE (%)	22.9	18.0	0.4	18.1	22.9
RoE (%)	16.0	14.8	(4.9)	15.6	19.7

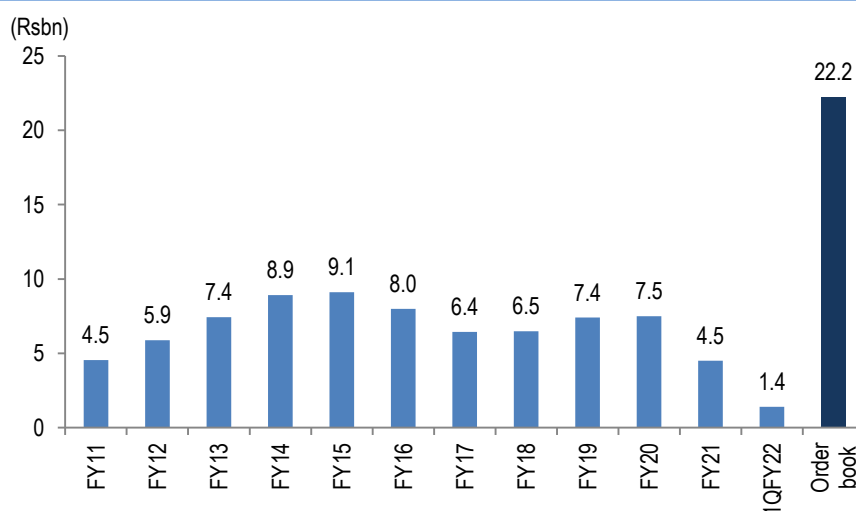
Source: Company, Nirmal Bang Institutional Equities Research

**Key takeaways from 1QFY22 concall (hosted by Nirmal Bang):**

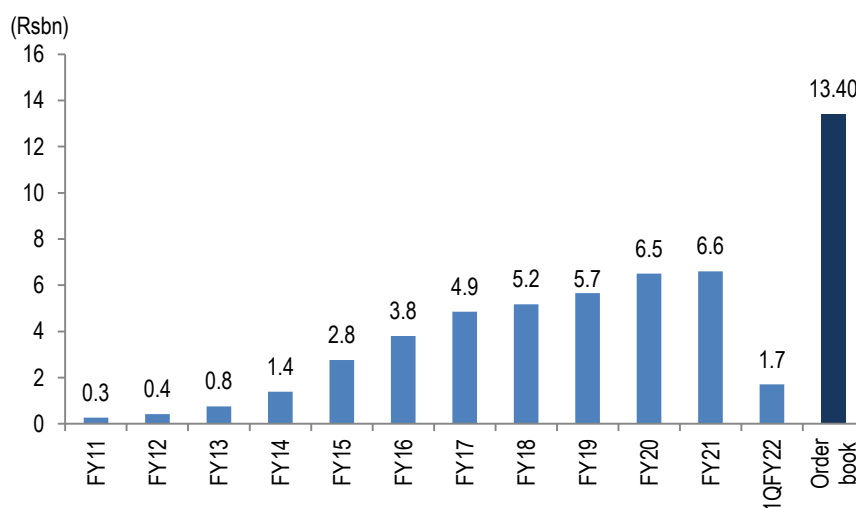
- The company is L1 in one tender with Thyssenkrupp, which has got delayed (it can come in the first week of Sept'21). Couple of O&M orders from the JSW group should come in 2QFY22. Railway orders worth Rs10bn should come soon (50% of orders should mature). Railway electrification jobs worth Rs20bn are also being looked at. Road projects are also expected to be finalized.
- Operating cash flow was +ve (Rs2.8bn) in 1QFY22. The management stated that improved collection is helping the company to support new projects.
- Current unbilled revenue is Rs3.9bn, which is expected to fall to Rs3.5bn in the next couple of years. The BHEL pie is coming down, so this amount will fall.
- The management expects 3Q-4Q to see a strong ramp-up in terms of execution. Execution in 2Q will be affected due to the rainy season.
- COVID-related expenses will be incurred till 2QFY22. However, it will fall gradually.
- The management expects margins to normalize to 12.5-13% going forward with change in the business mix. It can gradually increase to 14% also.
- Staff cost of Rs959mn in 1QFY22 will largely be maintained in 2QFY22. It can slightly increase as the business ramps up.
- The management stated that Rs8.5bn of quarterly run-rate is not difficult to achieve and bandwidth is set for ~Rs33bn of annual revenue.
- For its O&M segment, the company has increased its focus on the Non-power sectors besides diversifying into new areas such as Material Handling Equipment (MHE), Iron Ore Handling and Coal Handling projects.

**Exhibit 2: Revenue and margin trend**


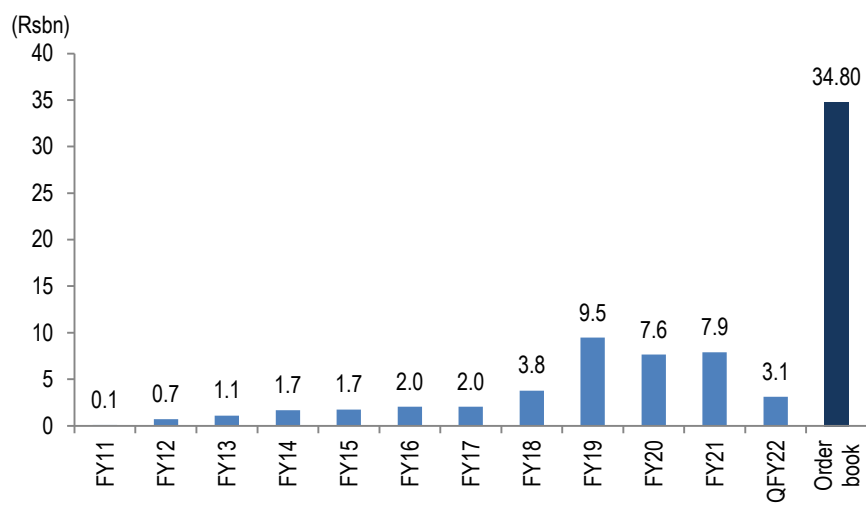
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Trend in ETC segment's revenue and current order book**


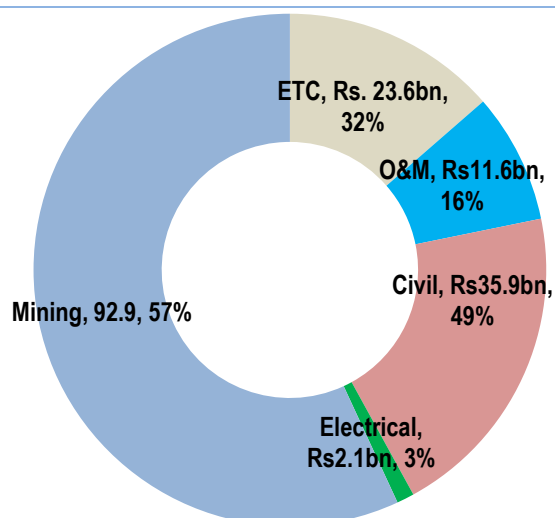
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Trend in O&M service segment's revenue and current order book**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Trend in Civil & Electrical Works segment's revenue and current order book**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: Segment-wise order book break-up**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: Actual performance versus our estimates**

1QFY22 (Rsmn)	Actual	Our estimate	Deviation (%)
Revenues	6,228	7,158	(13.0)
EBITDA	660	646	2.2
PAT	315	319	(1.2)

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Change in our estimates**

(Rsmn)	Old		New		Deviation (%)	
Y/E March	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenues	25,220	30,508	27,119	32,460	7.5	6.4
EBITDA	2,776	3,538	2,928	3,875	5.5	9.5
PAT	1,392	2,020	1,531	2,298	10.0	13.8

Source: Company, Nirmal Bang Institutional Equities Research

## Financial statement (consolidated)

### Exhibit 9: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	22,613	21,647	18,841	27,119	32,460
% growth	46.1	(4.3)	(13.0)	43.9	19.7
Raw material costs	15,446	15,421	14,940	19,661	23,598
Staff costs	3,932	3,248	3,222	4,122	4,772
Other overheads	327	270	260	408	215
Total expenditure	19,705	18,939	18,422	24,191	28,585
EBITDA	2,908	2,707	419	2,928	3,875
% growth	43.8	(6.9)	(84.5)	599.2	32.4
EBITDA margin (%)	12.9	12.5	2.2	10.8	11.9
Other income	141	94	163	132	147
Interest costs	551	741	793	682	619
Depreciation	458	394	358	394	408
Profit before tax	2,040	1,666	-568	1,984	2,995
Tax	624	375	-113	476	719
Minority interest	(200)	21	(1)	23	22
PAT	1,216	1,313	-456	1,531	2,298
% growth	53.1	7.9	(134.7)	(435.7)	50.2
PAT margin (%)	5.4	6.1	(2.4)	5.6	7.1
EPS (Rs)	82.7	89.2	(31.0)	104.1	156.2
% growth	53.0	8.0	(134.7)	(435.7)	50.2

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 11: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Share capital	147	147	147	147	147
Reserves	8,046	9,364	8,902	10,404	12,643
Net worth	8,194	9,512	9,049	10,551	12,790
Minority interest	82	81	35	35	35
Short-term loans	2,822	4,256	4,535	3,835	3,135
Long-term loans	540	296	159	159	159
Total loans	3,362	4,552	4,694	3,994	3,294
Deferred tax liability	(56)	(82)	(216)	(216)	(216)
<b>Total liabilities</b>	<b>11,581</b>	<b>14,063</b>	<b>13,563</b>	<b>14,364</b>	<b>15,904</b>
Net block	1,899	1,878	1,747	1,556	1,348
Capital work-in-progress	33	26	53	50	50
Investments	313	329	298	298	298
Inventories	927	1,263	1,147	1,560	1,779
Debtors	3,892	5,417	5,335	6,835	8,093
Cash	881	751	644	116	736
Other current assets	11,267	13,648	13,169	15,512	16,944
Total current assets	16,966	21,079	20,296	24,023	27,552
Creditors	4,431	5,778	5,126	6,356	7,112
Other current liabilities & provisions	3,201	3,470	3,705	5,207	6,232
Total current liabilities	7,632	9,248	8,831	11,563	13,344
Net current assets	9,335	11,830	11,465	12,460	14,208
<b>Total assets</b>	<b>11,581</b>	<b>14,063</b>	<b>13,563</b>	<b>14,364</b>	<b>15,904</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 10: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
EBIT	2,449	2,313	61	2,534	3,468
(Inc.)/dec. in working capital	(1,652)	(2,626)	259	(1,524)	(1,127)
<b>Cash flow from operations</b>	<b>798</b>	<b>(313)</b>	<b>320</b>	<b>1,010</b>	<b>2,341</b>
Other income	141	94	163	132	147
Depreciation	458	394	358	394	408
Tax paid (-)	(655)	(400)	(21)	(476)	(719)
Minority interest	(200)	21	(1)	23	22
<b>Net cash from operations</b>	<b>542</b>	<b>(204)</b>	<b>819</b>	<b>1,083</b>	<b>2,199</b>
Capital expenditure (-)	(306)	(366)	(253)	(200)	(200)
<b>Net cash after capex</b>	<b>237</b>	<b>(569)</b>	<b>566</b>	<b>883</b>	<b>1,999</b>
Interest paid (-)	(551)	(741)	(793)	(682)	(619)
Dividends paid (-)	(18)	(15)	-	(29)	(59)
Inc./(dec.) in short-term borrowing	360	1,434	279	(700)	(700)
Inc./(dec.) in long-term borrowing	263	(243)	(138)	-	-
Inc./(dec.) in total borrowings	623	1,190	142	(700)	(700)
Inc./(dec.) in investments	(312)	(16)	31	-	-
Minority interest	(57)	(0)	(46)	-	-
<b>Cash from financial activities</b>	<b>(314)</b>	<b>419</b>	<b>(666)</b>	<b>(1,411)</b>	<b>(1,378)</b>
Others	11	20	(6)	0	0
Opening cash balance	948	881	751	644	116
Closing cash balance	881	751	644	116	736
Change in cash balance	(67)	(130)	(106)	(529)	621

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 12: Key ratios

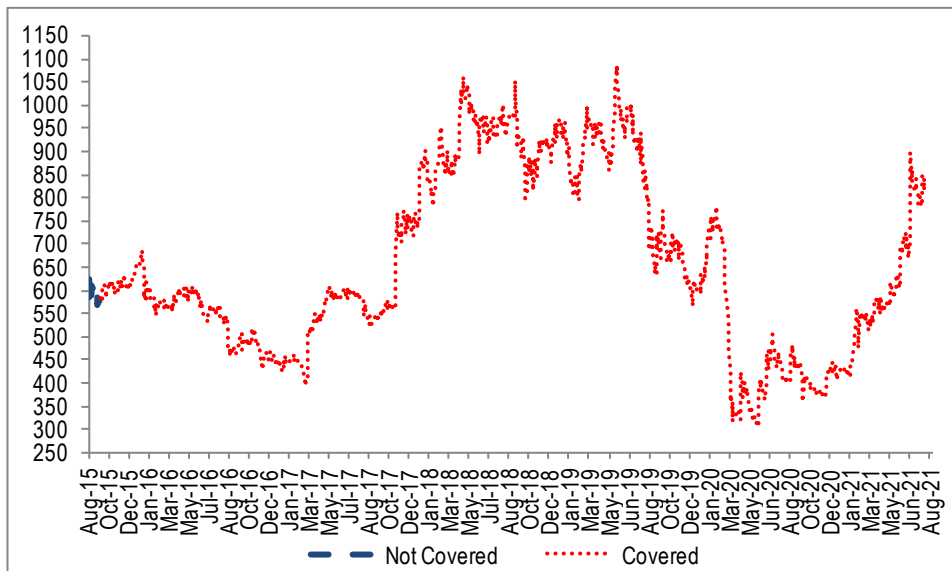
Y/E March	FY19	FY20	FY21E	FY22E	FY23E
<b>Per share (Rs)</b>					
EPS	82.7	89.2	(31.0)	104.1	156.2
Book value	557.0	646.6	615.2	717.2	869.5
<b>Valuation (x)</b>					
P/E	9.8	9.0	(26.1)	7.8	5.2
P/BV	1.4	1.2	1.3	1.1	0.9
EV/EBITDA	4.9	5.8	38.0	5.4	3.7
EV/sales	0.6	0.7	0.8	0.6	0.4
<b>Return ratios (%)</b>					
RoCE	22.9	18.0	0.4	18.1	22.9
RoE	16.0	14.8	(4.9)	15.6	19.7
RoIC	25.4	19.8	0.5	19.1	24.1
<b>Profitability ratios (%)</b>					
EBITDA margin	12.9	12.5	2.2	10.8	11.9
EBIT margin	10.8	10.7	0.3	9.3	10.7
PAT margin	5.4	6.1	(2.4)	5.6	7.1
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	2.0	1.5	1.4	1.9	2.0
Debtor days	63	91	103	92	91
Inventory days	15	21	22	21	20
Creditor days	105	137	125	118	110
<b>Solvency ratios (x)</b>					
Debt-equity	0.4	0.5	0.5	0.4	0.3

Source: Company, Nirmal Bang Institutional Equities Research

**Rating track**

Date	Rating	Market price (Rs)	Target price (Rs)
23September 2015	Buy	575	809
26 November 2015	Buy	622	809
16 February 2016	Buy	561	846
12 April 2016	Buy	590	846
6 June 2016	Buy	593	790
12 July 2016	Buy	557	790
15 September 2016	Buy	475	790
13 October 2016	Buy	475	790
9 December 2016	Buy	456	780
19 January 2017	Buy	430	780
14 February 2017	Buy	453	780
20 February 2017	Buy	448	760
7 April 2017	Buy	533	760
6 July 2017	Buy	595	760
23 August 2017	Buy	527	700
9 October 2017	Buy	559	700
23 November 2017	Buy	770	950
9 January 2018	Buy	866	950
21February 2018	Buy	900	1,100
6 April 2018	Buy	876	1,100
31 May 2018	Buy	964	1,250
10 July 2018	Buy	976	1,250
14 August 2018	Buy	935	1,250
9 October 2018	Buy	846	1,250
21 November 2018	Buy	930	1,295
9 January 2019	Buy	930	1,295
15 February 2019	Buy	832	1,320
9 April 2019	Buy	939	1,335
29 May 2019	Buy	1,056	1,360
9July 2019	Buy	984	1,360
6August 2019	Buy	883	1,300
23September 2019	Buy	743	1,195
7October 2019	Buy	660	1,195
19November 2019	Buy	656	1,020
9January 2020	Buy	626	1,020
19February 2020	Buy	744	955
26 March 2020	Buy	328	635
9 April 2020	Buy	338	635
17 July 2020	Buy	439	600
21 September 2020	Buy	434	585
9 October 2020	Buy	399	585
21 November 2020	Buy	370	485
7 January 2021	Buy	428	570
18 February 2021	Buy	493	620
23 June 2021	Buy	692	830
11 August 2021	Buy	807	940

**Rating track graph**



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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