

# Power Mech Projects

15 February 2019

Reuters: POMP.BO; Bloomberg: POWM IN

## Strong Order Book Drives Robust Execution

Power Mech Projects (PMPL) posted 3QFY19 consolidated revenues of Rs6bn, up 72% YoY and 20% above our estimate of Rs5bn. The growth was driven by the surge in civil segment's revenues to Rs2.5bn (41% of total sales versus 16% YoY) owing to the execution of a strong opening order book. ETC segment's revenues grew 35% YoY to Rs1.9bn (31% of total sales), on a low base. O&M segment's revenues were flat YoY at Rs1.4bn (24% of total sales). International projects contributed 21% to total sales (versus 28% YoY), while the non-power sectors accounted for 34% of total sales (versus 9% YoY) in 3QFY19. EBITDA rose 65% YoY to Rs780mn, translating to an EBITDA margin of 12.8%, marginally below our estimate of 13%. PAT grew 87% YoY to Rs339mn, much above our estimate of Rs245mn owing to strong revenues. Order inflow in 3QFY19 stood at Rs6.8bn driven by Rs3.5bn railway overhead electrification order. 9MFY19 order inflow surged 89% YoY to Rs36.7bn. The order book remains strong at Rs63.3bn as of 3QFY19-end, up 38% YoY (4x FY18 sales) providing robust revenue visibility for the next two years. We have increased our earnings estimates and retained Buy rating on PMPL with a revised target price of Rs1,320 (from Rs1,295 earlier) based on 12x September 2020E earnings. We remain optimistic on PMPL's business scalability and sustenance of the current margin profile.

**ETC segment update:** ETC revenues grew 35% YoY to Rs1.9bn in 3QFY19 and 28% YoY to Rs5.5bn in 9MFY19. The growth was aided by strong execution in international markets. Order inflow in 9MFY19 fell 14% YoY to Rs8bn owing to slowdown in domestic thermal capacity addition (only 4GW-5GW likely per annum). Order book stood at Rs22.5bn, flat YoY and 3.5x FY18 sales. PMPL is exploring international markets opportunities worth Rs40bn and domestic market opportunities worth Rs20bn in the power sector. In non-power sectors, PMPL is exploring opportunities in the petrochemicals and refinery sectors in domestic market which are likely to see investments worth Rs600bn to Rs800bn.

**Civil works segment update:** Driven by a strong order book, revenues surged 325% YoY to Rs2.5bn in 3QFY19 and 168% YoY to Rs6bn in 9MFY19. The execution of large projects such as Vizag AMTZ, railway and IOCL pipeline is progressing well. Order inflow in 9MFY19 was strong at Rs20.7bn, up 165% YoY, driven by the Rs13.8bn order for improving school infrastructure in five districts of Andhra Pradesh under the Sarva Shiksha Abhiyan. The order book jumped 70% YoY to Rs26.8bn (7.8x FY18 sales) providing it strong future revenue visibility. The management believes that the rising share of civil works in total sales would lead to improvement in working capital cycle and cash flow of PMPL. Order inflow in FY20 is also likely to remain strong owing to robust opportunities in railways, industrial construction, civil & structural work in power plants and irrigation.

**O&M segment update:** O&M revenues were flat YoY at Rs1.4bn in 3QFY19 and up 7% YoY at Rs4.1bn in 9MFY19. However, order inflow was healthy in 9MFY19 at Rs4.4bn, up 109% YoY, and was higher than the FY17/FY18 levels of Rs4.2bn/Rs3.8bn, respectively. This would lead to a much improved share of O&M in FY20 revenues versus 26% in 9MFY19 (in 9MFY18 it was 37%). Order book grew 9% YoY to Rs9bn (1.7x FY18 sales). Order inflow is likely to further scale up owing to the 3GW pipeline of NTPC & state utilities and enhancement of presence in international markets, captive power plants, hydro plants and non-power sectors.

**Working capital position:** PMPL intends to reduce its working capital cycle by diversifying into non-power sectors (32% of 9MFY19 sales versus 7% YoY) and international markets. Ex-cash net working capital cycle reduced to 132 days in 9MFY19 compared to 160 days in FY18. Operating cash flow improved to Rs360mn in 9MFY19 versus a negative Rs590mn in FY18. Reducing the dependency on BHEL (17%-18% of sales now versus 35%-45% two years ago) helps in improvement of working capital as the payment cycle is much faster (30-40 days in railways, some civil jobs) versus 90-100 days in power sector.

**Outlook:** With a strong order book and robust order inflow outlook, we expect 26%/31% consolidated revenue/earnings CAGR, respectively, over FY18-FY21E. Healthy RoCE (24% in FY20E) and operating margin profile (above 13%) will aid the valuation. Improvement in net working capital cycle is key to re-rating of PMP.

## BUY

**Sector:** Capital Goods

**CMP:** Rs832

**Target Price:** Rs1,320

**Upside:** 59%

**Chirag Muchhala**

Research Analyst

chirag.muchhala@nirmalbang.com

+91-22-6273 8092

### Key Data

Current Shares O/S (mn)	14.7
Mkt Cap (Rsbn/US\$m)	12.3/172.8
52 Wk H / L (Rs)	1,084/775
Daily Volume (3M NSE Avg.)	5,744

### Price Performance (%)

	1 M	6 M	1 Yr
Power Mech Projects	(12.6)	(10.5)	(2.8)
Nifty Index	0.1	(6.0)	2.3

Source: Bloomberg

Y/E March (Rsmn)	3QFY18	2QFY19	3QFY19	YoY (%)	QoQ (%)	9MFY18	9MFY19	YoY (%)
<b>Net revenues</b>	<b>3,547</b>	<b>5,345</b>	<b>6,099</b>	<b>72.0</b>	<b>14.1</b>	<b>10,582</b>	<b>16,063</b>	<b>51.8</b>
Raw material costs	2,152	3,527	4,198	95.1	19.0	6,803	10,655	56.6
Staff costs	828	1,054	1,051	26.9	(0.3)	2,124	3,119	46.8
Other expenses	95	79	70	(26.4)	(12.3)	273	216	(20.8)
Total expenditure	3,075	4,660	5,319	73.0	14.1	9,200	13,991	52.1
EBITDA	472	685	780	65.3	13.9	1,382	2,072	50.0
<b>EBITDA margin (%)</b>	<b>13.3</b>	<b>12.8</b>	<b>12.8</b>	-	-	<b>13.1</b>	<b>12.9</b>	-
Interest costs	96	133	116	21.2	(12.2)	259	365	40.9
Depreciation	108	124	120	11.1	(2.8)	320	349	9.2
Other income	19	38	30	57.1	(21.3)	66	95	43.8
Share of profit from JV	(0.6)	0.2	0.3	-	-	(1.1)	(0.2)	-
PBT	286	466	573	100.6	23.0	869	1,454	67.4
Tax	83	131	185	121.6	41.2	260	425	63.6
Minority interest	21	51	50	-	-	76	163	-
<b>PAT</b>	<b>181</b>	<b>284</b>	<b>339</b>	<b>86.7</b>	<b>19.2</b>	<b>534</b>	<b>867</b>	<b>62.4</b>
<b>PAT margin (%)</b>	<b>5.1</b>	<b>5.3</b>	<b>5.6</b>	-	-	<b>5.0</b>	<b>5.4</b>	-
<b>EPS (Rs)</b>	<b>12.3</b>	<b>19.3</b>	<b>23.0</b>	<b>86.7</b>	<b>19.2</b>	<b>36.3</b>	<b>58.9</b>	<b>62.4</b>

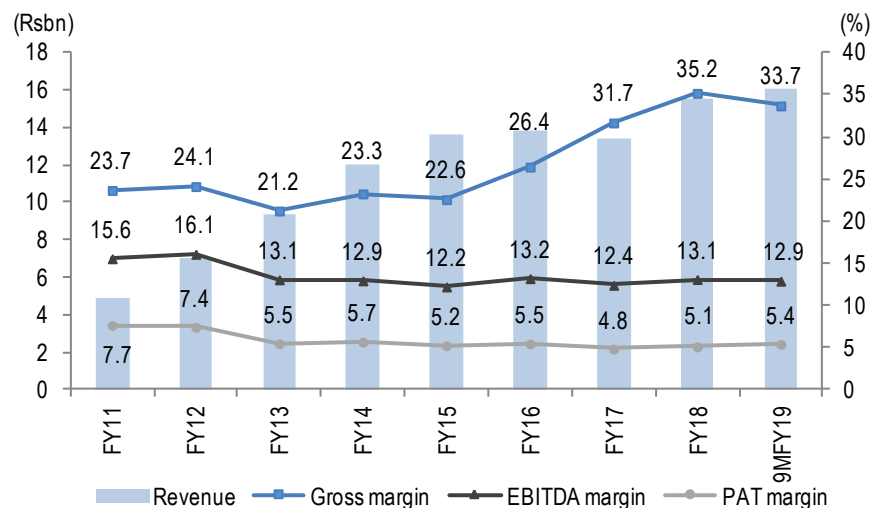
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Financial summary (consolidated)

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net revenues	13,382	15,478	21,966	26,273	30,923
EBITDA	1,659	2,023	2,857	3,474	4,149
Net profit	647	794	1,178	1,456	1,785
EPS (Rs)	44.0	54.0	80.1	99.0	121.3
EPS growth (%)	(13.8)	22.8	48.3	23.6	22.6
EBITDA margin (%)	12.4	13.1	13.0	13.2	13.4
P/E (x)	18.9	15.4	10.4	8.4	6.9
P/BV (x)	2.0	1.8	1.5	1.3	1.1
EV/EBITDA (x)	8.3	6.9	5.0	4.2	3.5
Dividend yield (%)	0.1	0.1	0.6	0.8	1.1
RoCE (%)	15.8	17.8	22.6	24.7	26.2
RoE (%)	11.0	12.0	15.6	16.7	17.5

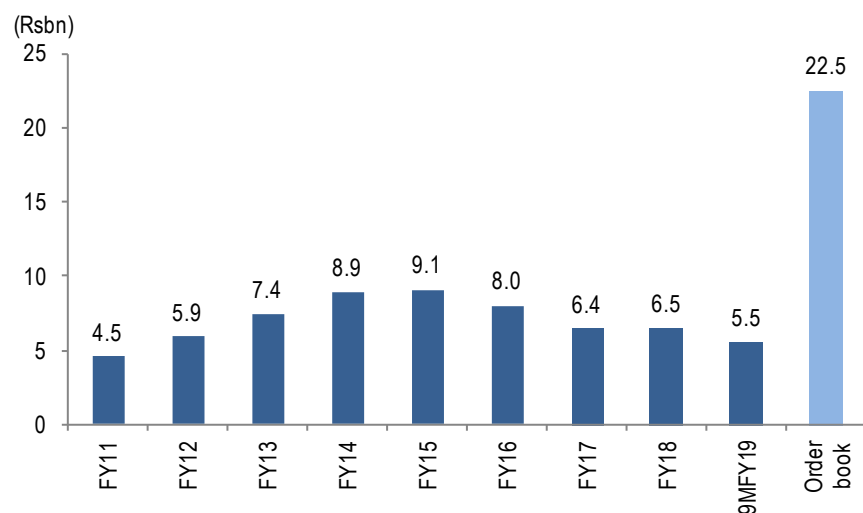
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Revenue and margin trend



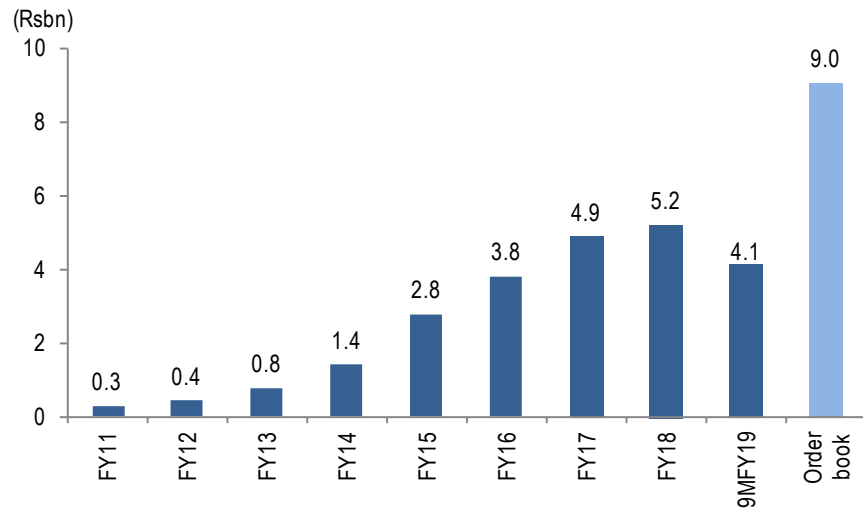
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Trend in ETC segment's revenues and current order book



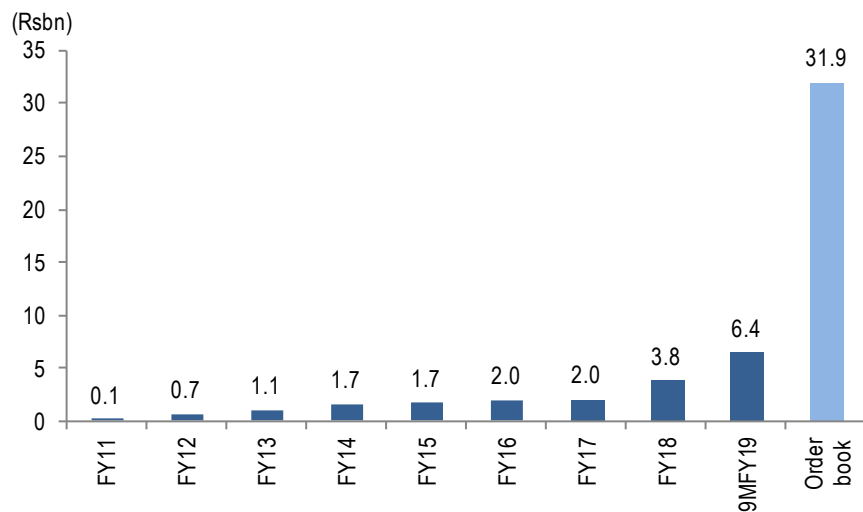
Source: Company, Nirmal Bang Institutional Equities Research

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



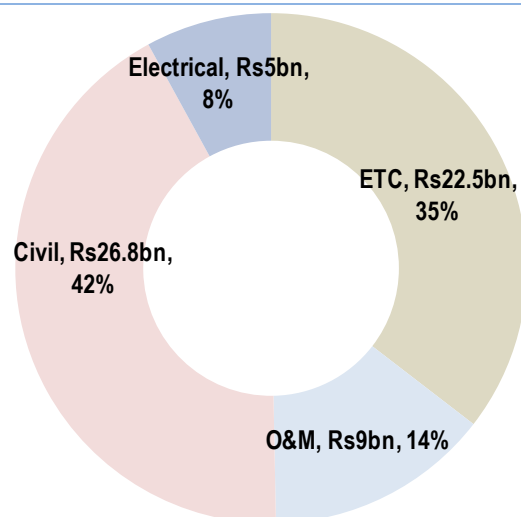
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Trend in civil & electrical works segment's revenues 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

3QFY19 (Rsmn)	Actual	Our estimate	Deviation (%)
Revenues	6,099	5,061	20.5
EBITDA	780	657	18.7
PAT	339	245	38.3

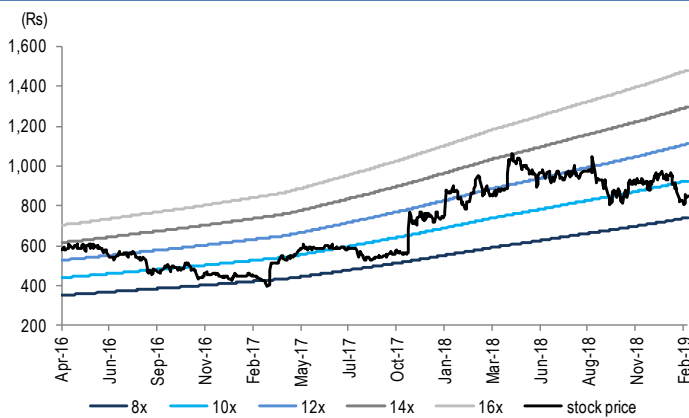
Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 8: Change in our estimates

(Rsmn)	Old			New			Deviation (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenues	20,409	25,171	30,239	21,966	26,273	30,923	7.6	4.4	2.3
EBITDA	2,699	3,367	4,077	2,857	3,474	4,149	5.8	3.2	1.8
PAT	1,085	1,394	1,783	1,178	1,456	1,785	8.6	4.5	0.1

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 9: P/E charts



Source: BSE, Nirmal Bang Institutional Equities Research



Source: BSE, Nirmal Bang Institutional Equities Research

## Financial statement (consolidated)

### Exhibit 10: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	13,382	15,478	21,966	26,273	30,923
% growth	(2.9)	15.7	41.9	19.6	17.7
Raw material costs	9,143	10,024	14,498	17,262	20,254
Staff costs	2,265	3,122	4,239	5,097	5,937
Other overheads	314	310	372	441	582
Total expenditure	11,723	13,456	19,110	22,800	26,774
EBITDA	1,659	2,023	2,857	3,474	4,149
% growth	(8.8)	21.9	41.2	21.6	19.4
EBITDA margin (%)	12.4	13.1	13.0	13.2	13.4
Other income	77	67	117	96	102
Interest costs	329	359	489	538	589
Depreciation	409	428	477	509	535
Profit before tax	998	1,303	2,008	2,522	3,126
Tax	357	392	602	782	1,000
Minority interest	6	(116)	(227)	(284)	(341)
PAT	647	794	1,178	1,456	1,785
% growth	(13.8)	22.8	48.3	23.6	22.6
PAT margin (%)	4.8	5.1	5.4	5.5	5.8
EPS (Rs)	44.0	54.0	80.1	99.0	121.3
% growth	(13.8)	22.8	48.3	23.6	22.6

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 12: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Share capital	147	147	147	147	147
Reserves	6,065	6,838	7,927	9,260	10,886
Net worth	6,213	6,985	8,075	9,407	11,033
Minority interest	21	138	138	138	138
Short-term loans	1,643	2,462	2,587	2,887	3,187
Long-term loans	155	277	427	427	427
Total loans	1,797	2,739	3,014	3,314	3,614
Deferred tax liability	21	(25)	(25)	(25)	(25)
<b>Total liabilities</b>	<b>8,053</b>	<b>9,837</b>	<b>11,202</b>	<b>12,834</b>	<b>14,760</b>
Net block	2,036	1,998	1,909	1,700	1,414
Capital work-in-progress	148	87	50	50	50
Investments	9	1	1	1	1
Inventories	437	472	752	936	1,101
Debtors	2,949	3,086	4,213	4,895	5,676
Cash	347	948	882	1,060	1,472
Other current assets	7,701	9,228	11,972	14,188	16,698
Total current assets	11,434	13,733	17,819	21,078	24,947
Creditors	2,654	3,075	4,250	4,871	5,716
Other current liabilities & provisions	2,921	2,909	4,327	5,123	5,937
Total current liabilities	5,575	5,983	8,577	9,994	11,653
Net current assets	5,860	7,750	9,242	11,083	13,295
<b>Total assets</b>	<b>8,053</b>	<b>9,837</b>	<b>11,202</b>	<b>12,834</b>	<b>14,760</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 11: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
EBIT	1,250	1,594	2,380	2,965	3,614
(Inc./dec.) in working capital	(416)	(1,290)	(1,557)	(1,665)	(1,799)
<b>Cash flow from operations</b>	<b>834</b>	<b>304</b>	<b>823</b>	<b>1,300</b>	<b>1,814</b>
Other income	77	67	117	96	102
Depreciation	409	428	477	509	535
Tax paid (-)	(377)	(439)	(602)	(782)	(1,000)
Minority interest	6	(116)	(227)	(284)	(341)
<b>Net cash from operations</b>	<b>949</b>	<b>245</b>	<b>587</b>	<b>839</b>	<b>1,110</b>
Capital expenditure (-)	(395)	(330)	(350)	(300)	(250)
<b>Net cash after capex</b>	<b>554</b>	<b>(85)</b>	<b>237</b>	<b>539</b>	<b>860</b>
Interest paid (-)	(329)	(359)	(489)	(538)	(589)
Dividends paid (-)	(18)	(18)	(88)	(124)	(159)
Inc./(dec.) in short-term borrowing	(276)	820	125	300	300
Inc./(dec.) in long-term borrowing	(59)	122	150	-	-
Inc./(dec.) in total borrowings	(335)	942	275	300	300
Inc./(dec.) in investments	(6)	8	-	-	-
Minority interest	17	117	-	-	-
<b>Cash from financial activities</b>	<b>(671)</b>	<b>690</b>	<b>(302)</b>	<b>(362)</b>	<b>(448)</b>
Others	32	(5)	-	-	-
Opening cash balance	432	347	948	882	1,060
Closing cash balance	347	948	882	1,060	1,472
Change in cash balance	(84)	600	(65)	177	412

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 13: Key ratios

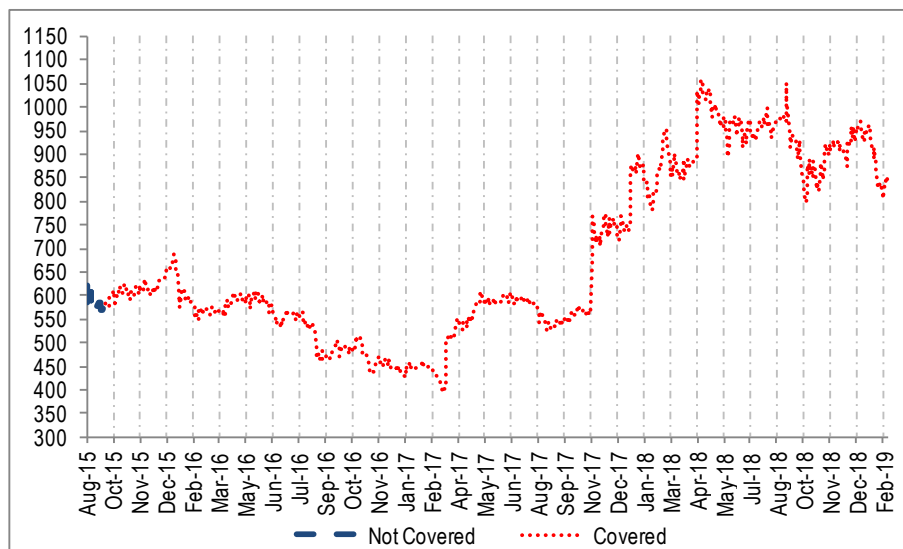
Y/E March	FY17	FY18	FY19E	FY20E	FY21E
<b>Per share (Rs)</b>					
EPS	44.0	54.0	80.1	99.0	121.3
Book value	422.3	474.8	548.9	639.5	750.0
<b>Valuation (x)</b>					
P/E	18.9	15.4	10.4	8.4	6.9
P/BV	2.0	1.8	1.5	1.3	1.1
EV/EBITDA	8.3	6.9	5.0	4.2	3.5
EV/sales	1.0	0.9	0.7	0.6	0.5
<b>Return ratios (%)</b>					
RoCE	15.8	17.8	22.6	24.7	26.2
RoE	11.0	12.0	15.6	16.7	17.5
RoIC	16.7	19.2	24.8	26.8	28.8
<b>Profitability ratios (%)</b>					
EBITDA margin	12.4	13.1	13.0	13.2	13.4
EBIT margin	9.3	10.3	10.8	11.3	11.7
PAT margin	4.8	5.1	5.4	5.5	5.8
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	1.7	1.6	2.0	2.0	2.1
Fixed asset turnover ratio (x)	3.0	3.2	4.2	4.8	5.4
Debtor days	80	73	70	68	67
Inventory days	12	11	13	13	13
Creditor days	106	112	107	103	103
<b>Solvency ratios (x)</b>					
Debt-equity	0.3	0.4	0.4	0.4	0.3

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
23 September 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
21 February 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

## Rating track graph



## DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,  
 Nr. Peninsula Corporate Park,  
 Lower Parel (W), Mumbai-400013.  
 Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010