

Power Mech Projects Limited

April 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	400.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Long Term / Short Term Bank Facilities	1,400.00	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Revised from CARE A; Stable / CARE A1 (Single A; Outlook: Stable / A One)
Total Bank Facilities	1,800.00 (Rs. One Thousand Eight Hundred Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Power Mech Projects Limited (PMPL) considers the subdued financial performance resulting in operational loss and cash loss during 9MFY21 (refers to the period April 20 to Dec 20) due to covid 19 pandemic.

However, the rating continues to derive strength from the extensive experience and established track record of the promoters in Erection, Testing and Commissioning (ETC) business segments for around two decades, long standing relationship with clients, healthy order book position and revenue diversification with increased focus on high margin Operations and Maintenance (O&M) segment, comfortable capital structure and adequate liquidity position

The ratings are, however, constrained by the deterioration in the operating income and profitability during FY20 (refers to the period April 01 to Mar 31), working capital intensive nature of business with elongated collection period, high exposure towards contingent liabilities, continued reliance on subcontracting, margins being susceptible to raw material prices and competition, impact of covid 19 pandemic and Inherent challenges associated with the construction sector

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in total operating income with sustainable profit margins.
- Timely execution of outstanding order book and collection of receivables including retention money within 120 days

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Consistent decline in scale of operations and contraction in the profitability margins from the current levels
- Any further deterioration in the capital structure or liquidity in the company

Detailed description of the key rating drivers

Key Rating Strengths:

Experienced promoters with established track record in Erection, Testing and Commissioning (ETC) segments: Power Mech Projects Limited (PMPL) was incorporated in 1999 by Mr. Sajja Kishore Babu (Chairman and Managing Director) who has an overall experience of around three decades in the field of engineering and construction services. Besides the promoters, the company is headed by a board of directors having varied experience in the infrastructure field.

PMPL has a proven track record of close to two decades in erection, testing and commissioning of boiler, turbine and generator (ETC-BTG) and balance of plant (BoP), civil work and operations and maintenance of power plants. The company has demonstrated strong execution capabilities across its areas of operations. PMPL is a comprehensive service provider in the power sector.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Revenue diversification with increased focus on high margin O&M segment: Although, ETC continues to remain the major area of operations and revenue driver for the company, PMPL has been gradually diversifying and reducing the dependence from the same and has been increasing its focus on O&M segment and international operations wherein the margins are higher and also on other segments like civil and other works and non-power sectors like steel, oil & gas, manufacturing etc. The revenue for FY20 from power is close to 69% (PY: 68%) that includes both O&M as well as other power activities and the non-power is close to 31% (PY: 32%).

During FY20, Contract revenue for Erection, Testing and Commissioning (ETC) was 35% (PY: 33%) of the total income followed by O&M 30% (PY: 25%), Civil & Railways revenues 29% (PY: 37%), and Electricals 6% (PY: 5%). During 9MFY21,

Contract revenue for O&M was 39% of the total operating income followed by ETC 25%, Civils works 32% and electrical works 4%.

Healthy order book providing long term revenue visibility: PMPL's order book position as of February 17, 2021 stood at Rs.7353 crore, out of which Rs.4750 crore (i.e. 65.4%) from power sector and Rs.2603 crore (34.6%) from non-power sector. Further the domestic order book constitutes Rs.6267 crore (85%) and international business stands at Rs.1086 crore (15%) of the order book. The dip in the international order booking in the current year is primarily due to Covid conditions prevailing in many places. The business mix of the order book as on December 30, 2020 was diversified with civil and other works constituting 46% followed by ETC works constituting 37%, O&M works constituting 13% and electrical works 4%.

Comfortable capital structure and debt protection metrics: Capital structure of the company as on last three account closing dates remained comfortable and stands below unity. The overall gearing is comfortable at 0.61x as on March 31, 2020 as against 0.53x as on March 31, 2019. Other debt coverage indicators; total debt to gross cash accruals (TDGCA) has deteriorated from 2.34x during FY19 to 3.49x during FY20 on account of decline in the revenue during FY20 leading to lower profitability margins coupled with increase in debt

Key Rating Weaknesses

Deterioration of 9MFY21 financial performance albeit stable financial performance in FY20: The total operating of the company has marginally decreased by 4% from Rs.2274.68 crore in FY19 to Rs.2,174.93 crore in FY20 on account of lockdown restrictions due to COVID 19 pandemic in the month of February 2020 and March 2020. Being manpower intensive operations with restriction of movement of machine and manpower during Q4FY20 has impacted the financials. The PBILDT margin of the company has declined marginally by 46 bps from 13.38% in FY19 to 12.92% in FY20 due to increase in the contract execution expenses in line with decrease in the revenue and change in the business mix. However, the PAT margin of the company has marginally declined by 28 bps from 6.29% in FY19 to 6.01% in FY20 due to increase in the interest cost and lower PBILDT level.

During 9MFY21, the company has reported operating income of Rs.1142 crore. The deterioration of the financial profile during 9MFY21 is primarily due to slower execution of projects resulting in lower turnover coupled with idling employee costs and one-time expenditures towards Covid-19 measures during H1FY21.

Slowdown of operations in current fiscal: In the wake of the global pandemic COVID-19, the Central Government announced country wide lockdown w.e.f March 21, 2020 till May 31, 2020 resulting in closure of non-essential business activities and slowdown of business operations of various business enterprises during the lockdown period.

The company's operation were at halt from March 24, 2020 to May 31, 2020 and it resumed operation from June 2020. However, the closure with consequent supply chain disruptions and labour migration has resulted in significant moderation in financial performance with reduced revenue and profit level.

Moderate Working capital cycle with high collection period: PMPL's operations have high working capital intensity primarily due to funding requirement for security deposits, retention amount and margin money towards various contracts & non-fund-based facilities along with stretched collection period. The collection period of the company continues to remain on a higher side and further deteriorated from 154 days in FY19 to 194 days in FY20 due to blockage of funds in the form of increased debtor levels, unbilled revenue and retention money. The company executed majority of work orders for government entities where in the collection period is generally elongated. However, the same is partially offset by shorter receivable cycle for the projects being executed for private parties in and outside India. Though the collection efficiency 9MFY21 is more than 100%, the average working capital utilization for the last 12 months ending February 2021 stands high at 88%, due to impact of covid19 pandemic during Q4FY20 and H1FY21.

Sub-contracting activities for labour related works: Sub-contracting expenses constituted one of the major cost elements for the company in the last three years accounting about for 50% of the total costs of sales. During FY20, the sub-contract expenses accounted for around 54.21% of total cost of sales against 50.26% of the total cost of sales in FY19.

Margins susceptible to volatility in raw material prices as well as competition: The operating margins of the company are susceptible to the volatility in raw material costs as well as the competition present in the industry which results in pricing pressure. However, the presence of escalation clause in most of its orders mitigates this risk to a certain extent.

High contingent liabilities: PMPL has high contingent liabilities comprising of performance guarantees towards fulfilment of contracts. As on March 31, 2020, the company has outstanding commitments of Rs.667.03 crore (as against Rs.794.32 crore as on March 31, 2019). The company currently has sanctioned non fund based (bank guarantee) of Rs.1400 crore. Going forward, the company's ability to execute the ongoing / future orders in a timely manner and within budgeted costs remains crucial.

Liquidity: Adequate

Adequate liquidity is marked by collection efficiency of more than 100% during 9MFY21 and presence of free cash balance of Rs 60 crore to meet repayment obligation of Rs 9 crore for Q4FY21. With a gearing of 0.44x times as on March 31, 2020, the issuer has sufficient gearing headroom, to raise additional debt for its working capital requirements. Further, the

company did not opt for moratorium relief under Covid-19 impact. However, the company has availed COVID relief loan of Rs.2.5 crore

Analytical approach: CARE has analysed Power Mech Projects Limited's credit profile by considering the consolidated financial statements (comprising PMPL and its subsidiaries/JVs/Associates) owing to financial and operational linkages between the parent and subsidiaries. Considering not much significant contribution from 2 foreign subsidiaries, 2 foreign JVs and 1 Associate Company, the same is not excluded from our analysis. The consolidated list of companies is mentioned below:

1. Hydro Magnus Private Limited (India) - 88.10%
2. Power Mech Industri Private Limited (India) - 100%
3. Power Mech Projects Limited LLC (Oman) - 70%
4. Power Mech BSCPL Consortium Private Limited (India) - 51%
5. Power Mech SSA Structures Private Ltd (India) -100%
6. Ashm Avenues Private Ltd (India)-100%
7. Power Mech Environmental Protection Private Ltd -100%
8. Power Mech Projects (BR) FZE(Nigeria) -100%
9. GTA Power Mech Nigeria Limited (Nigeria) - 50% (Joint Venture)
10. GTA Power Mech DMCC (Dubai)- 50% (Joint Venture)
11. M/s. PMPL –M/s. ACPL JV (India) – 80% (Joint Venture)
12. PMPL-STC JV (India) – 74% (Joint Venture)
13. PMPL-KHILARI Consortium JV (India) – 75% (Joint Venture)
14. MAS Power Mech Arabia (MASPA) -49% (Associate)

Applicable Criteria

[Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating methodology – Construction sector](#)

[Criteria for Short Term Instruments](#)

[Financial Ratios - Non-Financial Sector](#)

[Rating methodology- Consolidation](#)

[Rating Methodology- Factoring linkages Parent Sub JV Group](#)

[Liquidity analysis of non- financial sector entities](#)

[Financial Ratios- Non-financial sector](#)

About the Company

Power Mech Projects Limited (PMPL) incorporated in 1999 is a Hyderabad based company promoted by Mr. Sajja Kishore Babu (Chairman and Managing Director) and is listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The company is primarily engaged in business of providing engineering and construction services with focus on power and infrastructure industries. PMPL provides various services which primarily include Erection, Testing & Commissioning of coal based power projects complete with boilers, turbines and generators (ETC-BTG) and balance of plant (BOP) for Sub-Critical, Super-Critical and Ultra-Mega Power Plants (UMPPs), civil work and operations & maintenance of power plants. However, FY17 onwards, PMPL has expanded its service offerings to non-power segments such as Railways, Transmission & Distribution, development of Industrial Buildings, etc. PMPL has executed major projects across India for various clients such as Bharat Heavy Electricals Limited (BHEL), NTPC Limited, independent power producers (IPPs) and state generation utilities. The company also has presence in Middle East, South Asia and Africa via subsidiaries and Joint Ventures.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2274.68	2174.93
PBILDT	304.43	281.06
PAT	143.18	130.69
Overall gearing (times)	0.53	0.61
Interest coverage (times)	5.59	3.92

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	147.70	CARE A-; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	252.30	CARE A-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	1400.00	CARE A-; Stable / CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	147.70	CARE A-; Stable	-	1)CARE A; Stable (31-Mar-20)	1)CARE A; Stable (28-Feb-19)	-
2.	Fund-based - LT-Working Capital Demand loan	LT	252.30	CARE A-; Stable	-	1)CARE A; Stable (31-Mar-20)	1)CARE A; Stable (28-Feb-19)	-
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1400.00	CARE A-; Stable / CARE A2+	-	1)CARE A; Stable / CARE A1 (31-Mar-20)	1)CARE A; Stable / CARE A1 (28-Feb-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Working Capital Demand loan	Simple
3.	Non-fund-based - LT/ ST-BG/LC	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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