Power Mech Projects Limited
December 14, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	78.80	CARE A; Stable (Single A; Outlook: Stable)	Assigned
Long Term Bank Facilities	450.00 (Enhanced from 400.00)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	1,550.10 (Enhanced from 1,374.00)	CARE A; Stable / CARE A1 (Single A; Outlook: Stable/ A One)	Reaffirmed
Short Term Bank Facilities	80.00 (Enhanced from 26.00)	CARE A1 (A One)	Revised from CARE A; Stable / CARE A1 (Single A; Outlook: Stable / A One)
Total Bank Facilities	**2,158.90 (₹ Two Thousand One Hundred Fifty-Eight Crore and Ninety Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the enhanced bank facilities of Power Mech Projects Limited (PMPL) continue 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, geographical & sectoral diversity in order book, adequate capital structure & debt coverage metrics and promoters' support through funds infusion in case of need. The ratings take into account significant growth in scale of operations and improvement in the profitability during FY22 (refers to the period April 1 to March 31) and H1FY23 post loss making operations during FY21 owing to Covid-19 related issues. Collection period has also improved during FY22 leading to lower reliance on working capital bank borrowings. Going forward, collection efficiency is expected to improve further with change in order mix to central government authority projects and favourable payment terms.

The ratings also factor in healthy growth in revenue from O&M segment with stable and satisfactory margins. Nevertheless, increase in royalty payments for the Civil construction projects secured by the company in various segments has pulled down overall PBILDT margins of FY22 to 11% as compared to 12.58% reported for FY20. Going forward, PMPL's ability to improve PBILDT margins to FY20 levels vide reducing royalty payments shall be crucial.

Ratings take cognizance of significant growth in order book with the addition of Flue Gas Desulphurization projects aggregating Rs.6,164 crore from Adani Group in H1FY23. CARE Ratings believes that PMPL is exposed to inherent risk related to timely execution of large sized projects in the diverse segment of power, roads, water supply and mining while scaling up of resources and maintaining profitability. Going forward, PMPL's ability to achieve envisaged revenue while improving profitability shall be key rating sensitivity.

The rating strengths, however, continue to be tempered by working capital intensive operations elevated by relatively higher proportion of advances to sub-contractors and presence in a highly fragmented and competitive construction industry and execution risk associated with the Mine Developer and Operator (MOD) project.

Rating sensitivities

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

- Timely execution of large sized order book with scaling up of operations as envisaged and improvement in the profitability
- Significant improvement in the gross current asset days on sustained basis

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

- Increase in GCA days above 350 days on sustained basis
- Delayed execution of large sized work orders impacting the financial performance
- Higher than envisaged support to Mining Development and Operations (MDO) project

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key rating strengths

Established track record of operations:

PMPL has track record of close to two decades as erection, testing and commissioning of boiler, turbine and generator (ETC-BTG) and balance of plant (BoP), civil work and operations & maintenance of power plants. The company was involved in ETC-BTG projects for the first two ultra-mega power projects (UMPPs) (Mundra & Sasan) as well as for 19 other supercritical power projects in the country. Recently, the company was awarded EPC works for FGD projects in the power plants of Adani Group. PMPL also provides services in non-power segments such as Railways, Transmission & Distribution, Petro Chemical, Piping & Electrical, Desalination plants, Roads, Water Supply, Development of Industrial Buildings, etc.

Robust growth in order book with geographical and segment-wise diversification:

The order book position as on August 31, 2022 stood at ~Rs.15,046 crore (as against Rs.8,001 crore as on September 30, 2021) with order book to gross billing ratio of 5.5x, at FY22 level, providing medium to long term revenue visibility to the company. The order book has almost doubled over the past 1 year with the addition of large sized orders in FGD and water segment.

PMPL was awarded 5 orders from Adani Group in August 2022 amounting to Rs.6,163 crore for implementation of wet limestone based Flue Gas Desulphurization system on Engineering Procurement and Construction (EPC) basis. The projects are expected to be completed in 18-30 months from the effective date with performance guarantee period of additional 3 months post commissioning of project. With the company's prior experience in the power segment works, it is well positioned to effectively execute the large sized work orders in a timely manner. Any unexpected delay in the execution of the project and significant increase in the prices of raw materials over and above expected value can impact the profitability. However, comfortable per MW cost of those projects offer some cushion to surge in commodity prices. The company expects to generate revenue from the project from Q4FY23 onwards. Successful execution of FGD orders without cost or time overrun is key for the growth in the revenue of the company going forward and the same remains crucial from credit perspective.

The company has, over the years, decided to move towards EPC works in nonpower segment in order to provide stability/growth to business given the stagnation in the power segment. This has thus enabled it to maintain business growth. The FGD directive from Government has brought back focus on power EPC works; however, going forward, equal share of power and civil work is expected. Out of total orders as on August 31, 2022, the FGD orders contribute 41% followed by civil works (38%) mechanical (12%), O&M (8%) and Electrical (1%).

With the influx of domestic work orders, as on August 31, 2022, less than 2.5% of order book is from international orders. Within the domestic market, work orders are spread across UP, Rajasthan, Gujarat, Madhya Pradesh, Karnataka, Telangana etc. providing geographical diversification.

The company has received a relatively moderate sized MDO project which once commissioned is likely to provide a stable revenue source.

Satisfactory revenue contribution from relatively higher margin O&M segment:

PMPL is one of the largest O&M service providers in India with 112 ongoing projects including 44 AMCs and 11 overseas projects. The company has been focusing on the O&M segment for power/water pipeline projects which provides a stable revenue stream and has higher margins. The O&M revenue has been increasing over the years and during past 5 years, the revenue from O&M segment has growth at CAGR of 12% having improved from Rs.518 crore during FY18 to Rs.805 crore during FY22. The O&M segment on an average contributes about 30% of TOI and offers relatively better profitability.

Growth in scale of operations during FY22 and H1FY23

With the improvement in pace of order execution post Covid-19, the performance of the company improved significantly marked by growth in total operating income to Rs.2,720 crore during FY22 from Rs.1,893 crore during FY21 (y-o-y growth of ~44%). Due to better absorption of royalty charges and fixed expenses, the PBILDT margin of the company improved by 830bps to 10.99% (2.69% during FY21). The company reported robust performance in H1FY23 with growth in revenue and PBILDT by almost 30% each (on a y-o-y basis) backed by timely execution of work orders in hand. The PBILDT margin continued to remain satisfactory at 11.5%

PMPL has been trying to enter the civil space and hence has been undertaking contracts with other players in the space to sail through qualification criteria. Hence, a royalty is being shared with such players resulting in pulling down of overall PBILDT margins. Increase in royalty payments for the Civil construction projects secured by the company in various segments has pulled down overall PBILDT margins of FY22 to 11% as compared to 12.58% reported for FY20. Going forward, PMPL's ability to improve PBILDT margins to FY20 levels vide reducing royalty payments shall be crucial.

Satisfactory capital structure and improvement in the debt coverage indicators:
The capital structure of the company continued to remain satisfactory marked by total outside liabilities to tangible net worth of 1.71 times as on March 31, 2022. The promoters of the company brought in unsecured loans of Rs.50 crore as on March 31, 2022 and 50% of the same (Rs.25 crore) was converted into equity as on August 2022.
The total debt to GCA improved to 3.73x during FY22 while the other debt coverage indicator, PBILDT interest coverage ratio improved from 0.65x during FY21 to 3.80x during FY22 on account of improvement in PBILDT levels.

Liquidity: Adequate
Liquidity is marked by adequate accruals during FY22 and Q1FY23 against moderate repayment obligations and cash balance of Rs.74 crore as on March 31, 2022. The cash balance as on June 30, 2022 stood at ~Rs.14 crore. With a gearing of 0.66x as of March 31, 2022, the issuer has sufficient gearing headroom, to raise additional debt for its capex. Average utilization of the fund based working capital limits was 83% for trailing twelve months ended October 2022.
The collection period of the company has also been witnessing improvement with change in business mix wherein the company has been concentrating on bidding central government projects in non-power segment where payments are relatively faster. The average collection days improved from 238 days during FY21 to 174 days during FY22 and remained at similar level in H1FY23 despite the significant revenue growth. Going forward, ability to maintain/improve the collection efficiency would be important from liquidity perspective given the scaling up of business operation.

Key Rating Weaknesses
Project execution risk related to MDO project
PMPL has won MDO project in June 2021 for exploiting a Central Coalfields Limited (CCL, a Coal India Limited subsidiary) coal mine located in Ramgarh and West Bokaro districts, Jharkhand. The MDO project is undertaken in a SPV with PMPL holding 74% stake and balance with AMR India Limited (CARE BB-; Stable/CARE A4), JV partner.
PMPL is a new entrant in coal mining business and is exposed to project execution risk attached to coal mining projects. The project has long gestation period of about 2.5-3 years wherein the company is expected to construct residential quarters and offices and undertake overburden removal operations before excavating coal from the mines. The project is currently in approval and planning stage and the management expects to get Stage-I forest clearances by December 2022. The company expects to commence full-fledged operations from FY25 onwards.

Working capital intensive nature of operations:
The business operation of the company is undergoing radical transformation with huge work orders which needs to be adequate complemented by the capital base. The promoter fund infusion of Rs.50 crore, interest free mobilization advance for FGD orders and improved collection period is expected to support the working capital requirements going forward. However, any unexpected slowdown in work and/or increased cost may result in enhanced working capital intensity and same shall be important from credit perspective.
The company has also been extending advances to sub-contractors (14.67% of total current assets as on March 31, 2022) which has in turn resulted in high gross asset days of around 335 days during FY22, although the same improved from 422 days during FY21. Significant improvement in the GCA days shall be key rating monitorable.

Presence in a highly fragmented and competitive construction industry:
PMPL operates in the intensely competitive construction industry wherein projects are awarded on the basis of relevant experience of the bidder, financial capability and most attractive bid price. The high competition in the construction industry is due to the presence of large number of small and medium players resulting in aggressive bidding which exerts pressure on the margins. However, PMPL has rich experience, long standing track record in the construction industry and cordial relations with its clients which fares well against the peers in the industry.

Analytical approach: Consolidated. CARE has analysed Power Mech Projects Limited's credit profile by considering the consolidated financial statements (comprising PMPL and its SPVs/JVs/Associates) owing to financial and operational linkages between the parent and subsidiaries. The list of entities consolidated is presented in Annexure-6.

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-Non-Financial Sector Entities

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 sector.

PMPL has diversified its operations across a range of sectors like Railways, Transmission & Distribution (Electrical), Flue Gas Desulphurization, Mining, Steel and Process Industry Refinery, Hydro projects, Manufacturing, Cross Country Pipe Laying civil works and operations & maintenance of power plants 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 (₹ crore) - Consolidated	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (U/A)
Total operating income	1893	2720	1,523
PBILDT	51	299	175
PAT	(49)	138	82
Overall gearing (times)	0.65	0.66	0.66
Interest coverage (times)	0.65	3.80	4.19

A: Audited; U/A: Un-audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	July 2025	78.80	CARE A; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	-	42.50	CARE A; Stable
Fund-based - LT-Working Capital Limits	-	-	-	-	407.50	CARE A; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing	-	-	-	-	80.00	CARE A1
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	129.00	CARE A; Stable / CARE A1
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1421.10	CARE A; Stable / CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Working Capital Limits	LT	407.50	CARE A; Stable	1)CARE A; Stable (15-Nov-22)	1)CARE A-; Stable (17-Mar-22) 2)CARE A-; Stable (05-Apr-21)	-	1)CARE A; Stable (31-Mar-20)
2	Fund-based - LT-Working Capital Demand loan	LT	42.50	CARE A; Stable	1)CARE A; Stable (15-Nov-22)	1)CARE A-; Stable (17-Mar-22) 2)CARE A-; Stable (05-Apr-21)	-	1)CARE A; Stable (31-Mar-20)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1421.10	CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A1 (15-Nov-22)	1)CARE A-; Stable / CARE A2+ (17-Mar-22) 2)CARE A-; Stable / CARE A2+ (05-Apr-21)	-	1)CARE A; Stable / CARE A1 (31-Mar-20)
4	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	80.00	CARE A1	1)CARE A; Stable / CARE A1 (15-Nov-22)	-	-	-
5	Non-fund-based - LT/ ST-BG/LC	LT/ST*	129.00	CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A1 (15-Nov-22)	-	-	-
6	Fund-based - LT-Term Loan	LT	78.80	CARE A; Stable				

*LT/ST: Long term/Short term.

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

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Demand loan	Simple
3	Fund-based - LT-Working Capital Limits	Simple
4	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
5	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities consolidated:

Name of the company	Shareholding of PMPL as on March 31, 2022 (%)
Special Purpose Vehicles	
Hydro Magnus Private Limited (India)	88
Power Mech Industri Private Limited (India)	100
Power Mech Projects Limited LLC (Oman)	70
Power Mech BSCPL Consortium Private Limited (India)	51
Power Mech SSA Structures Private Ltd (India)	100
Aashm Avenues Private Ltd (India)	100
Power Mech Environmental Protection Private Ltd	100
KBP Mining Private Limited	74
Energy Advisory and Consulting Services Private Limited	100
Power Mech Projects (BR) FZE (Nigeria)	100
Joint Ventures	
GTA Power Mech Nigeria Limited (Nigeria)	50
GTA Power Mech DMCC (Dubai)	50
M/s. PMPL –M/s. ACPL JV (India)	80
PMPL-STS JV (India)	74
Power Mech-KHILARI Consortium JV (India)	75
PMPL-SRC Infra JV – Mizoram	74
PMPL-SRC Infra JV – Hassan	60
PMPL-BRCC Infra JV	70
PMPL -KVRECPL Consortium JV (India)	82
PMPL – PIA JV (India)	79
Associate Companies	
MAS Power Mech Arabia (MASPA)	49

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

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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