Power Mech Projects Limited

March 17, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	400.00	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Long Term / Short Term Bank Facilities	1,400.00	**CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus/)**	**Reaffirmed**
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 ratings assigned to the bank facilities of Power Mech Projects Limited (PMPL) 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, healthy order book position with geographical & sectoral diversity and satisfactory capital structure & debt coverage metrics. The ratings also factor in recovery of business operations during current fiscal FY22 post significant slowdown witnessed in FY21 due to impact of COVID-19 pandemic which had resulted in subdued financial performance. During current fiscal, with better preparedness the impact of subsequent covid waves have not affected the business operation with execution at par with pre-covid level reported by the company. During 9MFY22 (FY refers to period April 01 to March 31), the company reported revenue and PBILDT of Rs.1822.33 crore and Rs.205.77 crore respectively.

The ratings also take cognizance of movement towards non power vertical with increasing share of same in the overall order book (power to non-power orders at 46:54). Furthermore, revenue growth potential is supported by Mine Developer and Operator (MDO) project received in current fiscal.

The rating strengths are, however, tempered by the reduced profitability with PBILDT margin of the company witnessing reduction during last three years (while it improved in 9MFY22, remained lower than pre-covid levels on account of impact of commodity price rise), project execution risk with long gestation period of MDO project and entry into new segment i.e., coal mining wherein the company has relatively lower experience, high working capital intensity with funds blocked in receivables and advances resulting in high gross current asset days and consequently high dependence on existing working capital limits and presence in a highly fragmented and competitive construction industry.

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 the outstanding order book and collection of bills within 120 days

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

- Extension of receivable days to above 200 days on a consistent basis
- Significant debt addition weakening the capital structure.
- Delayed execution of large sized work orders impacting the cashflow position

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. PMPL also provides services in non-power segments such as Railways, Transmission & Distribution, Petro Chemical, Piping & Electrical, Desalination plants, Development of Industrial Buildings, etc.

PMPL has been focusing on its international operations and has increased its presence in the Middle East, South Asia and Africa. Under the international operations, PMPL has been expanding into Refineries, Petro Chemicals, and Desalination Plants.

Healthy and growing order book with sectoral diversity:

The order book position as on September 30, 2021 stood at ~Rs.8001 crore (as against Rs.6,284.60 crore as on Dec.31, 2020) with order book to gross billing ratio of 3.89x, at FY21 level, providing medium term revenue visibility to the company.

The company work orders were predominantly in the thermal power segment. However, with lower thermal power capacity addition plans, the company has gradually diversified into other civil segments viz roads, railways, water works etc, while continuing to remain present in the power/mechanical segment which has been the forte of the company. The order book

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

composition has hence shifted to power: non power at 48:52. Out of total orders, the civil works contribute 33% followed by mechanical (23%), O&M (22%), water works (13%), railways (3%).
Geographically the work order is spread across India, Bangladesh, UAE, Nigeria etc. In India, the projects are spread across Telangana, Tamil Nadu, Uttar Pradesh, Karnataka, Madhya Pradesh etc.
The company has received a large sized MDO project which once commissioned is likely to provide a stable revenue source. However, there is no medium term revenue visibility from same with revenue expected to accrue from FY25 onwards.

Improved financial performance during 9MFY22:
The H1FY21 performance of the company was significantly impacted due to covid restrictions impacting the work execution and high fixed cost (of labour, admin etc) overheads. Further, the company paid minimum guaranteed royalty payment to Govt of Madhya Pradesh for sand mining project against lower revenue derived. The same also impacted the profit. However, the performance of the company improved during H2FY21 due to gradual unlocking of economic activities. The performance of the company further improved during 9MFY22 and reached pre-covid levels marked by increase in the total operating income to Rs.1822.33 crore from Rs.1142.32 crore during 9MFY21 (y-o-y growth of ~60%) with the ability to execute orders, as the management was better equipped and planned well to meet second wave of Covid. PBILDT also improved to Rs.205.77 crore from Rs.(21.04) crore during 9MFY21. PMPL has 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 on an average is about 30%. The impact of same has been offset by increased commodity prices resulting in PBILDT margin below the pre-covid levels in current fiscal.

Satisfactory capital structure:
The company has a long track record of operation with satisfactory performance over the years resulting in strong net worth base. As a result the capital structure continued to remain comfortable, despite net losses reported during FY21. The debt level has witnessed continuous increase over the last 3 years with rising working capital intensity. Nevertheless, the strong net worth base has resulted in satisfactory leverage with overall gearing ratio below unity at 0.65x as on March 31, 2021 (0.55x as on March 31, 2020). The coverage metrics while weakened in FY21, the same have improved in 9MFY22.
With the MDO project cost proposed to be financed in debt-equity ratio of approx. 2.48:1, the debt level is projected is elevate (on a consolidated level) going forward. Any higher than envisaged debt would be a key rating monitorable

Liquidity: Adequate
Liquidity is marked by adequate accruals during 9MFY22 as against moderate repayment obligations, in absence of any large term debt in the books. On an overall basis, liquidity remains satisfactory despite elongation in working capital position. The company has been managing its working capital through existing limits (90% utilized), mobilization advances and cash accruals. Any long-term fund infusion/enhancement in working capital would thereby enable the company to provide additional cushion to liquidity. The company had liquid funds of Rs.26.00 crore as on September 30, 2021.

Key Rating Weaknesses
Large sized MDO with long gestation period and related project execution risk
PMPL has won Mine Developer and Operator (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, 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 strip ratio assumed is 4.78x; however, any increase in the same can increase the cost of the project. The project is currently in approval and planning stage and the management expects to get clearances by August 2022. The company expects to commence full-fledged operations from FY25 onwards.

Continued reliance on sub-contracting:
Sub-contracting expenses constituted one of the major cost elements for the company in the last few years accounting about 50% of the cost of sales. Sub-contracting expenses primarily include expenses towards labour and machinery hiring. The same increased to ~75% during FY21 (54.21%) primarily on account of one-time expenses during Covid lockdowns and non-availability of labour. The company generally subcontracts the non-critical works like earth works. All critical works are undertaken by the company. Apart from sub-contracting expenses, there are large advances extended to sub-contractors which has resulted in funds getting blocked in current assets.

Increasing working capital intensity:
The collection period of the company continues to remain on a higher side on account of high level of retention and unbilled revenue. Retention money is ~5%-7% of bills and is withheld for a period ~48 months (for power projects) and 24 months for non-power project. This apart, funds are also blocked in unbilled recoveries as it takes about 45-60 days for work certification and approvals post which bills are raised. The collection days elongated to 240 days in FY21 (from 194 days in FY20) led by lower revenue base as well as higher execution in Q4FY21 (40% revenue in Q4 against usual contribution of ~28%). While the same normalized to 180 days in 9MFY22, it continues to remain on the higher side.
Apart from debtors, the company has been extending high advances to sub-contractors (~41% of sub-contracting expenses) which has in turn resulted in high gross current asset days of around 380-400 days during FY20-21.

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 of 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), 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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Published)
Total operating income	2174.93	1896.70	1822.33
PBILDT	281.06	54.83	205.77
PAT	130.69	(48.60)	91.26
Overall gearing (times)	0.60	0.65	NA
Interest coverage (times)	3.92	0.70	3.69

A: Audited; NA: Not Available

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	357.50	CARE A-; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	-	42.50	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	357.50	CARE A-; Stable	1)CARE A-; Stable (05-Apr-21)	-	1)CARE A; Stable (31-Mar-20)	1)CARE A; Stable (28-Feb-19)
2	Fund-based - LT-Working Capital Demand loan	LT	42.50	CARE A-; Stable	1)CARE A-; Stable (05-Apr-21)	-	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 A2+ (05-Apr-21)	-	1)CARE A; Stable / CARE A1 (31-Mar-20)	1)CARE A; Stable / CARE A1 (28-Feb-19)

* Long Term / Short Term

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 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

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:
Special Purpose Vehicles
Hydro Magnus Private Limited (India)
Power Mech Industri Private Limited (India)
Power Mech Projects Limited LLC (Oman)
Power Mech BSCPL Consortium Private Limited (India)
Power Mech SSA Structures Private Ltd (India)
Aashm Avenues Private Ltd (India)
Power Mech Environmental Protection Private Ltd
Power Mech Projects (BR) FZE (Nigeria)
Joint Ventures
GTA Power Mech Nigeria Limited (Nigeria)
GTA Power Mech DMCC (Dubai)
M/s. PMPL –M/s. ACPL JV (India)
PMPL-STS JV (India)
Power Mech-KHILARI Consortium JV (India)
PMPL-SRC Infra JV – Mizoram
PMPL-SRC Infra JV – Hassan
PMPL-BRCC Infra JV
Associate Companies
MAS Power Mech Arabia (MASPA)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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