Power Mech Projects Limited
September 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	513.79 (Reduced from 528.80)	CARE A; Positive	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	1,550.10	CARE A; Positive / CARE A1	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	80.00	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Power Mech Projects Limited (PMPL) continue to derive strength from the extensive experience and established track record of the promoters for more than two decades, healthy order book position with geographical & sectoral diversity in order book, adequate capital structure and comfortable debt coverage metrics. The ratings also take into account significant growth in scale of operations along with improvement in the profitability during FY23 (refers to the period April 1 to March 31) and Q1FY24. In line with CARE Ratings Ltd (CARE Ratings) expectation, the collection efficiency has also improved with change in order mix to central government authority projects and favourable payment terms. GCA days have reduced to ~274 days in FY23 from ~300 days in FY22.

The order book has more than doubled over the last two years primarily led by large sized order addition (~Rs.6,700 crore) for Flue Gas Desulphurization projects from Adani Group in H1FY23. The work commencement from such projects would enable the company to scale up its operations. However, there has been not much traction in these projects over the past one year (since award) and hence the progress of such projects would be a key monitorable.

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

The company has been awarded large sized Mine Development and Operation (MDO) project from Steel Authority of India (SAIL; CARE AA; Stable/CARE A1+) during July 2023 along with existing MDO project from Central Coalfields Limited (CCL). Both the projects are at a nascent stage resulting in heightened project and investment risk. However, the company has planned raising equity which is likely to address the investment requirement and reduce the funding risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in revenue with PBILDT margin at 12% while maintaining low leverage.
- Improvement in GCA days to below 200 days on sustained basis.

Negative factors

- 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.

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.

Outlook: Positive

The outlook has been revised from 'Stable' to 'Positive' on account of CARE's expectation of continued growth in PMPL's scale of operation in light of robust order book position and favourable industry outlook with Government's boost for the infrastructure sector. Planned equity infusion is also expected to mitigate funding risk for MDO project. Work commencement for the large sized FGD projects and MDO work order post equity infusion is likely to augment the profitability. Inability of the company to continue scaling up operation with no meaningful traction in FGD project may result in revision in outlook to 'Stable'.

[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 strengths

Established track record of operations:

PMPL has 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 & 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. The company has forayed into EPC works for FGD projects in the power plants of Adani Group and MDO projects with SAIL and CCL. 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.

Comfortable order book position with geographical and segment-wise diversification:

The order book position of the company as on June 30, 2023 stood at comfortable at ~Rs.13,500 crore (as against Rs.15,000 crore as on Aug. 31, 2022) with order book to gross billing ratio of 3.8x, at FY23 level, providing medium to long term revenue visibility to the company. 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. Thus, it has spread out the order book across, water distribution projects, roads, railways, etc. 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. Slower progress in FGD projects is a concern from credit perspective and going forward, uptick in revenue from FGD projects is key rating monitorable.
Out of total orders as on June 30, 2023, the FGD orders contribute ~50% followed by civil works (50%), O&M (3%), Electrical (2%) and Mechanical (1%). With the influx of domestic work orders, as on June 30, 2023, less than 2.5% of order book is from international orders. Within the domestic market, work orders are spread across UP, Maharashtra, Rajasthan, Gujarat, Madhya Pradesh, Karnataka, Telangana etc. providing geographical diversification.
The company has received two relatively large sized MDO projects which once commissioned is likely to provide a stable revenue source.

Growth in scale of operations during FY23 and Q1FY24

With the improvement in pace of order execution, the performance of the company improved significantly marked by growth in total operating income (TOI) to Rs.3,607 crore during FY23 from Rs.2,720 crore during FY22 (y-o-y growth of ~33%). The company has successfully maintained its PBILDT margin of 11.28% during FY23 (10.99% during FY22) while maintaining growth in the total operating income.
The company reported robust performance in Q1FY24 with growth in revenue and PBILDT by almost 16% and 22% respectively (on a y-o-y basis) backed by timely execution of work orders in hand. The PBILDT margin improved to 12.03% with easing of commodity prices and lower royalty for projects under JV which was undertaken to gain pre-qualification criteria in the civil segment.

Presence in 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 the company reported y-o-y growth of 16% in the O&M segment during FY23, improved from Rs.805 crore during FY22 to Rs.930 crore during FY23.
However, the contribution of O&M segment to total order book has reduced significantly from 14% as on March 31, 2023 to 4% and 3% as on March 31, 2023 and June 30, 2023 respectively on account of spillover in renewal of few projects to Q2FY24. As per the management articulation, while the O&M segment is expected to register satisfactory growth, the contribution of the segment to overall revenue is expected to decline due to increased focus on civil segment.

Satisfactory capital structure and improvement in working capital position:

The capital structure of the company continued to remain satisfactory marked by total outside liabilities to tangible net worth of 1.64 times as on March 31, 2023 (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/PBILDT improved to 1.71x during FY23 from 2.31x during FY22. The debt is expected to increase over the next 3 years with addition of equipment for the MDO project. However, the company has planned raising equity through rights issue which is likely to maintain the capital structure. In light of same, CARE Ratings expect the debt/PBILDT to remain below 3x for the projected period.

The collection period of the company has also been witnessing an improvement with a change in the business mix, wherein the company has been concentrating on bidding Central Government projects in the non-power segment, where payments are relatively faster with lower retention component. The average collection days improved from 174 days during FY22 to 159 days during FY23, despite the significant revenue growth, thereby providing liquidity cushion.

Government thrust on infrastructure segment

The construction industry propels overall economic development of the country and there have been consistent policy announcements by Government of India to support the sectoral growth. Massive outlay of USD 1.97 trillion under The National Infrastructure Pipeline (NIP) and large budgetary allocation corroborate the same.
Roads, railways, ports, power, and urban infrastructure, etc are some of the key infrastructure sectors likely to steer the growth and necessitating private investment along with government spending.
Diversified EPC companies with presence across segments are likely to get benefitted from the government plans of large sized capex in such sectors.

Key weaknesses

Slow movement in large sized FGD orders

PMPL was awarded orders from Adani Group during FY23 and Q1FY24 amounting to ~Rs.6,700 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. Such projects have not witnessed much traction over the past one year. 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. Excluding such work order, the order book provides revenue visibility for the next 2 years. While the company expected revenue from such projects from Q4FY23, the same has not materialised and revenue from such projects are now likely to commence from H2FY24.
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.

Project execution risk related to MDO projects

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, KBP Mining Private Limited with PMPL holding 74% stake and balance with AMR India Limited (CARE BB; Stable/CARE A4+), JV partner.
During July 2023, the company was awarded another MDO project for development and operation of Tasra Opencast Project located in Jharia Coal Fields in Dhanbad district, Jharkhand. The said project is undertaken in a SPV, Kalyaneswari Tasra Mining Pvt. Ltd. with PMPL holding 74% stake and balance held by JV partner, PC Patel Infra Private Limited.
PMPL is a new entrant in coal mining business and is exposed to project execution risk attached to coal mining projects. The equity commitment towards the SPVs is required to be funded over a period of 3 years. Achieving financial closure as envisaged and successful execution thereby mitigating the cashflow risk is thus important from growth perspective.

Working capital intensive nature of operations:

The business operation of the company is undergoing radical transformation with huge work orders which needs to be adequately 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.
Also while overall debtors have reduced with change in business mix, debtors from Bharat Heavy Electricals Ltd. continue at similar levels (~30% of debtors). The company has also been extending advances to sub-contractors (17% of total current assets as on March 31, 2023) which has in turn resulted in high gross asset days of around 274 days during FY23, although the same improved from 301 days during FY22.

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.

Liquidity: Adequate

The liquidity is marked by adequate accruals during FY23 against moderate repayment obligations and a cash balance of Rs.44 crore as on Mar. 31, 2023. The cash balance as on June 30, 2023, stood at around Rs.22 crore. With a gearing of 0.55x as on March 31, 2023, the issuer has sufficient gearing headroom to raise additional debt for its capex. The average utilisation of the fund-based working capital limits was 82% for the trailing 12 months ended July 31, 2023.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: The company primarily operates in power, civil and mining segments, which disrupts the economic resources while its operations are under progress resulting in environmental risk. Therefore, the environmental issues were given a priority and company has aligned itself with the global expectations.
The company has ensured that saplings are planted in the vicinity of all its work sites. As a matter of policy, the company follows near to total avoidance of plastic materials at sites. Further, the company is pursuing a policy of limiting wastages and clearing off wastages to safe disposal. Scraps from various sites are collected and sent for recycling and plastic wastages are disposed-off with protection.
On the social side, the company is engaging in building a cordial social engineering amongst the locals and involves local people in the programs. Also, the company is committed towards the safety of its workers.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Construction
Infrastructure Sector Ratings
Policy on Withdrawal of Ratings
Short Term Instruments

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

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, 2022 (A)	March 31, 2023 (A)	Q1FY24 (U/A)
Total operating income	2,720	3607	871
PBILDT	299	407	105
PAT	138	207	51
Overall gearing (times)	0.66	0.55	0.54
Interest coverage (times)	3.80	4.57	5.14

A: Audited U/A: Unaudited; Note: 'the above results are latest financial results 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	July 2025	63.79	CARE A; Positive
Fund-based - LT-Working Capital Demand loan	-	-	-	-	42.50	CARE A; Positive
Fund-based - LT-Working Capital Limits	-	-	-	-	407.50	CARE A; Positive
Fund-based - ST-Bill Discounting/ Bills Purchasing	-	-	-	-	80.00	CARE A1
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	129.00	CARE A; Positive / CARE A1
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1421.10	CARE A; Positive / 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 2023-2024	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
1	Fund-based - LT-Working Capital Limits	LT	407.50	CARE A; Positive	-	1)CARE A; Stable (14-Dec-22) 2)CARE A; Stable (15-Nov-22)	1)CARE A-; Stable (17-Mar-22) 2)CARE A-; Stable (05-Apr-21)	-
2	Fund-based - LT-Working Capital Demand loan	LT	42.50	CARE A; Positive	-	1)CARE A; Stable (14-Dec-22) 2)CARE A; Stable (15-Nov-22)	1)CARE A-; Stable (17-Mar-22) 2)CARE A-; Stable (05-Apr-21)	-
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1421.10	CARE A; Positive / CARE A1	-	1)CARE A; Stable / CARE A1 (14-Dec-22)	1)CARE A-; Stable / CARE A2+ (17-Mar-22)	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
						2)CARE A; Stable / CARE A1 (15-Nov-22)	2)CARE A-; Stable / CARE A2+ (05-Apr-21)	
4	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	80.00	CARE A1	-	1)CARE A1 (14-Dec-22) 2)CARE A; Stable / CARE A1 (15-Nov-22)	-	-
5	Non-fund-based - LT/ ST-BG/LC	LT/ST*	129.00	CARE A; Positive / CARE A1	-	1)CARE A; Stable / CARE A1 (14-Dec-22) 2)CARE A; Stable / CARE A1 (15-Nov-22)	-	-
6	Fund-based - LT-Term Loan	LT	63.79	CARE A; Positive	-	1)CARE A; Stable (14-Dec-22)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

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, 2023 (%)
Special Purpose Vehicles	
Hydro Magus Private Limited (India)	88
Power Mech Industri Private Limited (India)	100
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
Energy Advisory and Consulting Services Private Limited	100
KBP Mining Private Limited	74
Power Mech Projects Limited LLC (Oman)	70
Power Mech Projects (BR) FZE (Nigeria)	100
Joint Ventures	
M/s. PMPL –M/s. ACPL JV (India)	80
Power Mech-Khilari Consortium JV (India)	75
PMPL-STS JV (India)	74
PMPL-SRC Infra JV – Mizoram	74
PMPL-SRC Infra JV – Hassan	60
PMPL-BRCC Infra JV	70
PMPL -KVRECPL Consortium JV (India)	82
Rites-PMPL JV	51
SCPL-PMPL JV	20
M/s. Power Mech- M/s. Taikisha JV	66
PMPL – PIA JV (India)	79
GTA Power Mech Nigeria Limited (Nigeria)	50
GTA Power Mech DMCC (Dubai)	50
Associate Companies	
MAS Power Mech Arabia (MASPA)	49

Note on the 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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