CareEdge RATINGS

Power Mech Projects Limited

April 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	544.75 (Enhanced from 513.79)	CARE A+; Stable	Revised from CARE A; Positive
Long-term / Short-term bank facilities	2,200.00 (Enhanced from 1,550.10)	CARE A+; Stable / CARE A1	Revised from CARE A; Positive / CARE A1
Short-term bank facilities	30.00 (Reduced from 80.00)	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the long-term ratings assigned to bank facilities of Power Mech Projects Limited (PMPL) factors in the consistent growth in its business operations backed by robust order book position of ₹16,126 crore as on December 31, 2023 and execution leading to revenue growth at a cumulative annual growth rate (CAGR) of around 19% in FY20-23 and a y-o-y growth of 33% in FY23 and 20% in 9MFY24. Along with growth in revenue, the company has been able to maintain the profitability with PBILDT margin at 11.28% in FY23. The company has also raised funds to the tune of ₹350 crore in October 2023 through qualified institutional placement (QIP) which has strengthened the capital structure while providing funds for financing equity commitment in the Mine Development and Operation (MDO) projects undertaken for Steel Authority of India Limited (SAIL; rated 'CARE AA; Stable/CARE A1+') in Tasra. With respect to the other MDO project from Central Coalfields Limited (CCL), the company received Stage-I forest clearances in November 2023 and is awaiting for Stage-II forest clearances. While the MDO projects continue to have project execution risk, the funding risk was significantly reduced post receipt of QIP proceeds.

The MDO has commenced operations partially which is likely to expand the PBILDT going forward. While debt is expected to increase with additional borrowing for MDO project, with commencement of MDO operation partially at Tasra, Debt/PBILDT is expected to remain below 2.5x in the medium term.

Ratings also factor in reduced working capital intensity with continuous reduction in gross cash accruals (GCA) days from 380 days in FY21 to around 250 days in 9MFY24 led by reduced current asset built-up with lower gestation projects against predominantly power EPC works earlier.

Ratings continue to derive strength from the promoters' extensive experience and established track record for more than two and half decades, geographical and sectoral diversity in order book, adequate capital structure, and comfortable debt coverage metrics. Besides, order book is supported by MDO works (aggregating around ₹40,000 crore over the next 28 years).

However, rating strengths are tempered due to 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 MOD projects. Going forward, large deviations in expected volumes and consequent PBILDT from MDO would be key rating monitorable. Ratings also take cognisance of slow movement of orders in large-sized flue gas desulfurisation (FGD) projects which is partly offset by large and diversified order book.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly growing revenue with PBILDT margin at 15% while maintaining low leverage.
- Improving GCA days to below 200 days on a sustained basis.

Negative factors

- Deteriorating debt/PBILDT to more than 2x.
- Increasing Gross Current Asset (GCA) days to more than 250 days on a sustained basis.
- Significantly lower than estimated revenue from MDO projects.

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

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

Outlook: Stable

PMPL is expected to maintain stable risk profile backed by favourable sector outlook aiding healthy growth prospects and steady improvement in the working capital intensity.

Detailed description of the key rating drivers:

Key strengths

Growth in scale of operations in FY23 and 9MFY24

With the improvement in pace of order execution, the company's performance improved significantly marked by growth in total operating income (TOI) to ₹3,607 crore in FY23 from ₹2,720 crore in FY22 (y-o-y growth of around 33%). The company has successfully maintained its PBILDT margin of 11.28% in FY23 (10.99% in FY22) while maintaining growth in the TOI. PMPL is one of the largest O&M service providers in India with 112 ongoing projects including 44 AMCs and 11 overseas projects. The margins are also supported by the O&M work.

The company reported robust performance in 9MFY24 with growth in revenue and PBILDT by almost 20% and 30% respectively (on a y-o-y basis) backed by timely execution of work orders in hand. The PBILDT margin improved to 12.45% with easing of commodity prices and lower royalty for projects under JV which was undertaken to gain pre-qualification criteria in the civil segment.

Established track record of operations

PMPL has track record of more than two and half 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) and 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, and Development of Industrial Buildings among others.

Comfortable order book position with geographical and segment-wise diversification

The order book position of the company as on December 31, 2023 stood comfortable at around ₹16,100 crore (as against around ₹13,500 crore as on June 30, 2023) with order book to gross billing ratio of 4.47x, at FY23 level, providing medium to long term revenue visibility to the company. This apart, the company was awarded orders to the tune of around ₹1,400 crore during Feb./Mar. 2024 in Railways, Irrigation and Mechanical segments.

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, and railways among others. 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 Dec. 31, 2023, the FGD orders contribute around 42% followed by civil works (24%), O&M (12%), Mechanical (9%) and Mining (mineral and sand; 13%). With the influx of domestic work orders, as on December 31, 2023, less than 1.5% 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 commenced mining in Tasra MDO project and excavated 80,000 tons since January 2024 and received Stage-I forest clearance in another MDO project from CCL. The two large-sized MDO projects are expected to provide stable revenue source for the company going forward.

Strengthening of capital structure and comfortable debt coverage

The company has also raised funds to the tune of ₹350 crore in October 2023 through QIP which has strengthened the capital structure while providing funds for financing equity commitment in the MDO projects undertaken for SAIL in Tasra. The overall gearing, post receipt of funds from QIP has improved to 0.34x as on December 31, 2023 while total debt/PBILDT in 9MFY24 improved to 1.21x. Going forward, debt/EBITDA is expected to remain within 2.5x.

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 ₹109 trillion under The National Infrastructure Pipeline (NIP) and large budgetary allocation corroborate the same.

Roads, railways, ports, power, and urban infrastructure among others 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 in FY23 and Q1FY24 amounting to around ₹6,700 crore for implementation of wet limestone-based FGD 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 and half year except in Udupi Thermal Power Project wherein company had executed works amounting to ₹118 crore as on December 31, 2023. Any unexpected delay in the execution of the project may impact the profitability. Excluding such work order, the order book provides revenue visibility for the next around 3.5 years.

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 (rated 'CARE BBB+; Stable') with PMPL holding 74% stake and balance with AMR India Limited, JV partner. The project received Stage-I forest clearances in November 2023 and awaiting for Stage-II forest clearances.

In 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. The company started mining in January 2024 and excavated around 80,000 tons till mid-February 2024. The scope of the project includes installation of coal washery, which is awaiting environmental clearances from Ministry of Environment, Forest and Climate Change, Government of India.

PMPL is a new entrant in coal mining business and is exposed to project execution risk attached to coal mining projects. While the equity commitment of Tasra project would be funded through remaining QIP proceeds, the commitment towards the KBP Mining Private Limited would be funded over a period of next 2 years (FY25-FY26). Successful ramp-up in coal volumes from both the MDO projects thereby mitigating the cashflow risk is thus important from growth perspective.

Working capital intensive operations

The company's business operation is undergoing radical transformation with huge work orders which needs to be adequately complemented by the capital base. The promoter fund infusion of ₹50 crore and interest free mobilisation 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 (around 30% of debtors). Nevertheless, with change in business mix, the GCA days have improved to around 250 days in 9MFY24 from 274 days in FY23 and 301 days in FY22.

Presence in a highly fragmented and competitive construction industry

PMPL operates in the intensely competitive construction industry wherein projects are awarded based on 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 numerous 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 in FY23 against moderate repayment obligations and a cash balance of ₹44 crore as on March 31, 2023. The free cash and bank balance as on December 31, 2023, stood at around ₹50 crore. The average utilisation of the fund-based working capital limits was 82% for the trailing 12 months ended February 29, 2024.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: The company primarily operates in power, civil and mining segments, disrupting 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. 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 programmes. Also, the company is committed towards the safety of its workers.

Applicable criteria

Definition of Default
Consolidation
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Construction
Infrastructure Sector Ratings
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil construction

Incorporated in 1999, PMPL is a Hyderabad-based company promoted by 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 such as Railways, Transmission & Distribution (Electrical), FGD, Mining, Steel and Process Industry Refinery, Hydro projects, Manufacturing, Cross Country Pipe Laying civil works, and operations & maintenance of power plants, among others. 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)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (U/A)
Total operating income	2,720	3,607	2,923
PBILDT	299	407	364
PAT	138	207	164
Overall gearing (times)	0.66	0.55	0.34
Interest coverage (times)	3.80	4.57	5.33

A: Audited; U/A: Unaudited; Note: 'these 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 to 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	44.75	CARE A+; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	-	36.50	CARE A+; Stable
Fund-based - LT-Working Capital Limits	-	-	-	-	463.50	CARE A+; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing	-	-	-	-	30.00	CARE A1
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	267.50	CARE A+; Stable / CARE A1
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1932.50	CARE A+; Stable / CARE A1

Annexure-2: Rating history for 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	463.50	CARE A+; Stable	1)CARE A; Positive (20-Sep-23)	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	36.50	CARE A+; Stable	1)CARE A; Positive (20-Sep-23)	1)CARE A; Stable (14-Dec-22)	1)CARE A-; Stable (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 (15-Nov-22)	2)CARE A-; Stable (05-Apr-21)	
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1932.50	CARE A+; Stable / CARE A1	1)CARE A; Positive / CARE A1 (20-Sep-23)	1)CARE A; Stable / CARE A1 (14-Dec-22) 2)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)	-
4	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	30.00	CARE A1	1)CARE A1 (20-Sep-23)	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	267.50	CARE A+; Stable / CARE A1	1)CARE A; Positive / CARE A1 (20-Sep-23)	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	44.75	CARE A+; Stable	1)CARE A; Positive (20-Sep-23)	1)CARE A; Stable (14-Dec-22)	-	-

*LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Hydro Magus Private Limited (India)	88	Special Purpose Vehicle
2	Power Mech Industri Private Limited (India)	100	Special Purpose Vehicle
3	Power Mech BSCPL Consortium Private Limited (India)	51	Special Purpose Vehicle
4	Power Mech SSA Structures Private Ltd (India)	100	Special Purpose Vehicle
5	Aashm Avenues Private Ltd (India)	100	Special Purpose Vehicle
6	Power Mech Environmental Protection Private Ltd	100	Special Purpose Vehicle
7	Energy Advisory and Consulting Services Private Limited	100	Special Purpose Vehicle
8	KBP Mining Private Limited	74	Special Purpose Vehicle
9	Power Mech Projects Limited LLC (Oman)	70	Special Purpose Vehicle
10	Power Mech Projects (BR) FZE (Nigeria)	100	Special Purpose Vehicle
11	M/s. PMPL –M/s. ACPL JV (India)	80	Joint Venture
12	Power Mech-Khilari Consortium JV (India)	75	Joint Venture
13	PMPL-STS JV (India)	74	Joint Venture
14	PMPL-SRC Infra JV – Mizoram	74	Joint Venture
15	PMPL-SRC Infra JV – Hassan	60	Joint Venture
16	PMPL-BRCC Infra JV	70	Joint Venture
17	PMPL -KVRECPL Consortium JV (India)	82	Joint Venture
18	Rites-PMPL JV	51	Joint Venture
19	SCPL-PMPL JV	20	Joint Venture
20	M/s. Power Mech- M/s. Taikisha JV	66	Joint Venture
21	PMPL – PIA JV (India)	79	Joint Venture
22	GTA Power Mech Nigeria Limited (Nigeria)	50	Joint Venture
23	GTA Power Mech DMCC (Dubai)	50	Joint Venture
24	MAS Power Mech Arabia (MASPA)	49	Associate

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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Maulesh Desai Director **CARE Ratings Limited** Phone: +91-79-40265605 E-mail: maulesh.desai@careedge.in Puja Jalan Associate Director **CARE Ratings Limited** Phone: 914040020131 E-mail: puja.jalan@careedge.in Kamal Khan Assistant Director **CARE Ratings Limited** E-mail: kamal.khan@careedge.in

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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