Power Mech Projects Limited

January 08, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	738.48 (Enhanced from 544.75)	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	2,600.00 (Enhanced from 2,200.00)	CARE A+; Stable / CARE A1	Reaffirmed
Short-term bank facilities	80.00 (Enhanced from 30.00)	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Power Mech Projects Limited (PMPL) continues to derive strength from promoters' extensive experience and established track record for over 25 years, strong diversified order book position, supporting consistent growth in scale of operations and comfortable leverage and debt coverage metrics.

The company has robust order book position of ₹13,754 crore as on September 30, 2024, which is spread across civil (57% of order book), operations & maintenance (O&M; 24%), Electrical (7%), Flue Gas Desulphurisation (FGD; 7% excluding inactive orders) and Mechanical (6%) segments. Orders aggregating ₹4,634 crore for Flue Gas Desulphurisation (FGD) projects from Adani Group have remained inactive and in absence of clarity of timelines, such projects have been excluded from order book. The company has been able to add projects in civil, O&M and railway segment (addition of ~₹7,800 crore in FY24 and ~₹3,000 crore in H1FY25) which has supported the growth in order book. The present order book provides revenue visibility for the next three years. On a consolidated basis, PMPL's revenue is expected to be augmented by mine developer and operator (MDO) works under its two special purpose vehicles (SPVs; KBP Mining Private Limited and Kalyaneswari Tasra Mining Private Limited).

Ratings also factor in satisfactory financial performance in FY24 with revenue growth of ~17% and profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin improving to 11.86%. Growth trajectory continued in H1FY25 with revenue growth of 14% and PBILDT margin continuing at 11.62%

PMPL continues to have a comfortable capital structure which has been strengthened with funds raised to the tune of ₹350 crore in October 2023 through qualified institutional placement (QIP). Total outside liabilities to tangible net worth (TOL/TNW) stood at 0.93x as on March 31, 2024, with total debt to earnings before interest, taxation, depreciation, and amortisation (TD/EBIDTA) at 1.23x in FY24. While debt is expected to increase with additional borrowing for MDO projects, TD/PBILDT is expected to remain below 2x in the medium term.

Rating strengths are tempered due to working capital intensive operations with elevated gross current asset days (GCA days) at 252 days in FY24 (despite improving from 274 in FY24), presence in a highly fragmented and competitive construction industry and execution risk associated with MOD projects. MDO activity is a relatively new business segment for PMPL and thus commencement of mining works and progress per the approved mining plan shall be important going forward.

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 TD/PBILDT to over 2x.
- Increasing GCA days to over 250 days on a sustained basis.
- Significantly lower-than-estimated revenue from MDO projects.

Analytical approach: Consolidated.

CARE Ratings Limited (CARE Ratings) has analysed PMPL's credit profile, considering consolidated financial statements (comprising PMPL and its SPVs/joint ventures [JVs]/associates) owing to financial and operational linkages between the parent and subsidiaries. Entities consolidated is listed under Annexure-6.

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

Outlook: Stable

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

Detailed description of key rating drivers:

Key strengths

Established track record of operations

PMPL has a track record of over 25 years 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 and Sasan) and for 19 other supercritical power projects in the country. The company has forayed into MDO projects with SAIL and Central Coalfields Limited’s (CCL, a subsidiary of Coal India Limited (CARE AAA; Stable/CARE A1+)). 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 company’s order book position as on September 30, 2024 stood comfortable at ~₹13,754 crore (against ~₹10,500 crore as on December 31, 2023) with order book to gross billing ratio of 3.27x, at FY24 level, providing medium-to-long term revenue visibility. Slow moving FGD orders from Adani (₹4,634 crore) have been removed from order book for analysis.

The company continues to focus on engineering, procurement, and construction (EPC) works in nonpower segment to provide stability/growth to business with faster realisation of payments.

Of the total active orders as on September 30, 2024, civil works contribute ~57% followed by O&M (24%), Electrical (7%), FGD (7%) and Mechanical (6%). PMPL majorly operates in domestic market and has a geographically diversified work order.

The company has also won tenders for MDO projects, which are operationalised under two SPVs. It has commenced mining in Tasra MDO project and excavated ~3,80,000 tons since January 2024. At KBP mining level, excavation is expected to commence by January-February 2025. The two large-sized MDO projects are expected to provide stable revenue source going forward.

Satisfactory growth in scale of operations in FY24 and H1FY25

The company’s performance continued to register improvement in FY24 marked by growth in TOI to ₹4,210 crore in FY24 from ₹3,607 crore in FY23 (y-o-y growth of ~17%). The company’s PBILDT margin stood at 11.86% in FY24 (11.34% in FY23) considering lower royalty payments. Lower royalty payments and higher contribution of revenue from O&M and mining segment is expected to support the company’s profitability margins going forward.

The company reported satisfactory performance in H1FY25 with growth in revenue and PBILDT by almost 14% and 12% respectively (on a y-o-y basis) backed by timely execution of work orders in hand. In H1FY25, PBILDT and profit after taxes (PAT) margins stood comfortable at 11.62% and 6.42% respectively.

Comfortable capital structure and debt coverage

The company’s capital structure continued to remain satisfactory marked by TOL/TNW of 0.93x as on March 31, 2024 (1.38x as on March 31, 2023). The company has also raised funds to the tune of ₹350 crore in October 2023 through QIP, which has strengthened capital structure, while providing funds for working capital requirements and financing equity commitment in MDO projects undertaken for SAIL in Tasra.

Debt coverage indicators, TD/PBILDT and interest coverage ratios improved to 1.23x and 6.22x respectively in FY24 (1.70x and 4.60x respectively in FY23). Going forward, TD/EBITDA is expected to peak in FY26 considering additional debt to be availed for the MDO project and installation of coal washery to be used for Tasra MDO activities, which is expected to remain within 2x.

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 sectoral growth. Massive outlay of ₹109 trillion under The National Infrastructure Pipeline (NIP) and large budgetary allocation corroborate this.

Roads, railways, ports, power, and urban infrastructure among others some key infrastructure sectors likely to steer growth and necessitating private investment and government spending.

Diversified EPC companies with presence across segments are likely to get benefitted from government plans of large-sized capex in such sectors.

Key weaknesses

Project execution risk related to MDO projects
PMPL is executing two MDO works; one for CCL and second one for SAIL Limited. PMPL is a new entrant in coal mining business and is exposed to project execution risk attached to coal mining projects. These projects are expected to entail continuous capex in its concession period. Successful ramp-up in coal volumes from both MDO projects, in line with the mining plan, mitigating cashflow risk is thus important from a growth perspective.
However, comfort is derived from the agreements with strong counterparty with firm revenue based on the predetermined prices. Clauses for damages for lower off-take also address volume risk to an extent.

Working capital intensive operations
The company's collection period continued to remain elongated at 163 days in FY24 (159 days in FY23) primarily considering pending certification of water works. While GCA days have improved, they remain relatively higher at 252 days in FY24 (274 days in FY23). Debtors from Bharat Heavy Electricals Limited (BHEL) continue to remain high; although with change in business mix, it has reduced in overall debtors proportion (~22% of debtors). Fund raised from promoters and via QIP is expected to support working capital requirements going forward. However, unexpected slowdown in work and/or increased cost may result in enhanced working capital intensity shall be important from a credit perspective.

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

Liquidity: Adequate
The liquidity is marked by adequate accruals in FY24, against moderate repayment obligations and a cash balance of ₹52 crore as on March 31, 2024. Free cash and bank balance as on September 30, 2024, stood at ~₹36 crore. Average utilisation of fund-based working capital limits was 74% for 12-months ended November 30, 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, environmental issues were given a priority, and the company has aligned itself with 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 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 among locals and involves local people in the programmes. The company is committed towards safety of its workers.

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

About the company and industry

Industry classification

Macroeconomic 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 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 clients such as BHEL, NTPC Limited, independent power producers (IPPs), and state generation utilities. The company also has presence in the Middle East, South Asia and Africa via subsidiaries, and joint ventures.

Brief Financials (₹ crore)-Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (Provisional)
Total operating income	3,607	4,210	2,043
PBILDT	409	499	237
PAT	207	248	131
Overall gearing (times)	0.55	0.33	NA
Interest coverage (times)	4.60	6.22	5.84

A: Audited; NA – Not available Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	September 2029	68.48	CARE A+; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	-	36.50	CARE A+; Stable
Fund-based - LT-Working Capital Limits	-	-	-	-	633.50	CARE A+; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing	-	-	-	-	80.00	CARE A1

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 and Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	267.50	CARE A+; Stable / CARE A1
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	2332.50	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 2024-2025	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
1	Fund-based - LT-Working Capital Limits	LT	633.50	CARE A+; Stable	1)CARE A+; Stable (05-Apr-24)	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+; Stable (05-Apr-24)	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)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	2332.50	CARE A+; Stable / CARE A1	1)CARE A+; Stable / CARE A1 (05-Apr-24)	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	80.00	CARE A1	1)CARE A1 (05-Apr-24)	1)CARE A1 (20-Sep-23)	1)CARE A1 (14-Dec-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 2024-2025	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
							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+; Stable / CARE A1 (05-Apr-24)	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	68.48	CARE A+; Stable	1)CARE A+; Stable (05-Apr-24)	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 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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Hydro Magus Private Limited (India)	Full	Subsidiary
2	Power Mech Industri Private Limited (India)	Full	Subsidiary
3	Power Mech BSCPL Consortium Private Limited (India)	Full	Subsidiary
4	Power Mech SSA Structures Private Ltd (India)	Full	Subsidiary
5	Aashm Avenues Private Ltd (India)	Full	Subsidiary
6	Power Mech Environmental Protection Private Ltd (India)	Full	Subsidiary
7	Energy Advisory and Consulting Services Private Limited (India)	Full	Subsidiary

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
8	KBP Mining Private Limited (India)	Full	Subsidiary
9	Kalyaneswari Tasra Mining Private Limited (India)	Full	Subsidiary
10	PMTS Private Limited (India)	Full	Subsidiary
11	Vanshika Mining Works LLP (India)	Full	Subsidiary
12	Velocity Mining Works LLP (India)	Full	Subsidiary
13	Vindyavasini Mining Works LLP (India)	Full	Subsidiary
14	Kailash River bed Minerals LLP (India)	Full	Subsidiary
15	Power Mech Projects Limited LLC (Oman)	Full	Subsidiary
16	Power Mech Projects (BR) FZE (Nigeria)	Full	Subsidiary
17	M/s. PMPL –M/s. ACPL JV (India)	Full	Joint Venture
18	Power Mech-Khilari Consortium JV (India)	Full	Joint Venture
19	PMPL-STS JV (India)	Full	Joint Venture
20	PMPL-SRC Infra JV – Mizoram (India)	Full	Joint Venture
21	PMPL-SRC Infra JV – Hassan (India)	Full	Joint Venture
22	PMPL-BRCC Infra JV (India)	Full	Joint Venture
23	PMPL -KVRECPL Consortium JV (India)	Full	Joint Venture
24	Rites-PMPL JV (India)	Full	Joint Venture
25	SCPL-PMPL JV (India)	Proportionate	Joint Venture
26	M/s. Power Mech- M/s. Taikisha JV (India)	Full	Joint Venture
27	PMPL – PIA JV (India)	Full	Joint Venture
28	PMPL-RSVCPL JV (India)	Full	Joint Venture
29	PMPL-Upper Burhner JV (India)	Full	Joint Venture
30	GTA Power Mech Nigeria Limited (Nigeria)	Proportionate	Joint Venture
31	GTA Power Mech DMCC (Dubai)	Proportionate	Joint Venture
32	MAS Power Mech Arabia (Saudi Arabia)	Proportionate	Associate
33	Power Mech LLC Qatar (Qatar)	Proportionate	Associate

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

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About us:
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