Power Mech Projects Limited

February 28, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	400.00	**CARE A; Stable (Single A; Outlook: Stable)**	Assigned
Long-term/Short-term Bank Facilities	1400.00	**CARE A; Stable/CARE A1 (Single A; Outlook: Stable/A One)**	Assigned
Total facilities	**1800.00 (Rs. Eighteen 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) derives strength from the extensive experience and established track record of the promoters in Erection, Testing and Commissioning (ETC) business segments for around two decades, long standing relationship with clients, healthy order book position and revenue diversification with increased focus on high margin Operations & Maintenance (O&M) segment and international operations. The ratings also take into account satisfactory scale of operations and profitability margins during FY16-FY18 (FY refers to the period April 01 to March 31), improved financial performance in 9MFY19 (9M refers to the period April 01 to December 31), comfortable capital structure & liquidity position. The ratings are, however, constrained by the working capital intensive nature of business with elongated collection period, high exposure towards contingent liabilities, and margins being susceptible to raw material prices and competition. The ability of the company to further increase its revenue and profitability, efficiently manage its working capital requirements and maintain liquidity position would remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established track record in Erection, Testing and Commissioning (ETC) segments: Power Mech Projects Limited (PMPL) was incorporated in 1999 by Mr. Sajja Kishore Babu (Chairman and Managing Director) who has an overall experience of around three decades in the field of engineering and construction services. Besides the promoters, the company is headed by a board of directors having varied experience in the infrastructure field. Mr. S Kishore Babu is being assisted by a team of experienced and qualified professionals. PMPL has a proven 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 and maintenance of power plants. The company has demonstrated strong execution capabilities across its areas of operations. PMPL is a comprehensive service provider in the power sector.

Revenue diversification with increased focus on high margin O&M segment and international operations: Although, ETC continues to remain the major area of operations and revenue driver for the company, PMPL has been gradually diversifying and reducing the dependence from the same and has been increasing its focus on O&M segment and international operations wherein the margins are higher and also on other segments like civil and other works and non-power sectors like steel, oil & gas, manufacturing etc. Around 32% of the outstanding order book as on December 31, 2018 pertains to the O&M segment and international operations.

Satisfactory scale of operations and profitability margins during FY16-FY18 coupled with improved performance during 9MFY19: The scale of operations of the company has remained at satisfactory level with turnover of over Rs.1000 crore during FY16-18 and a networth base of around Rs.710 crore as on March 31, 2018. Total operating income (TOI) of PMPL witnessed growth of around 15.5% during FY18 over FY17 as against a marginal decline of 2.8% during FY17 over FY16. PMPL registered TOI of Rs.1554.09 crore for FY18 (Rs.1345.50 crore for FY17). The decrease in revenue during FY17 was attributable to relatively lower demand from the thermal power segment which is the major revenue contributor for the company. Consequently, the company diversified and increased its focus on other segments like operation & maintenance (O&M) and civil contracts etc. which has led to increased revenues during FY18. Revenue contribution from ETC segment as a proportion of sales has declined from 67% for FY15 to 58% for FY16 and further to 48% for FY17 and 42% for FY18. The profitability margins of the company also remained stable over last three years i.e. from FY16-FY18. Despite the demand contraction in the domestic ETC segment, with increase in execution of orders in O&M and civil contract segments where in margins are relatively higher compared to ETC-BTG segment, PBILDT margin improved in FY18 by 51 bps (from 12.91% in FY17 to 13.42% in FY18).

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Further, during 9MFY19, the company achieved total operating income of Rs.1615.85 crore which increased by around 52% compared to 9MFY18. PBILDT margin of the company also remained in line with FY18 at 13.42%.

Healthy order book providing long term revenue visibility: PMPL's order book position as of December 31, 2018 stood at ~Rs.6,376 crore which translates into order book to sales ratio of 4.33x based on FY18 sales and provides medium term to long term revenue visibility. Despite subdued activity in the domestic thermal power segment, the company has been able to expand its foray into international markets within the ETC space with an order book of ~Rs.1156 crore. Further, order book from infrastructure construction division (civil) constitutes around of 42% of orders.

Comfortable capital structure and liquidity position: Capital structure of the company as on last three account closing dates remained comfortable with lower debt levels vis-à-vis networth. Overall gearing as on March 31, 2018 stood at 0.49x as against 0.46x as on March 31, 2017. Despite reduction in reliance on mobilization advances, total debt as on March 31, 2018 increased to Rs.348.25 crore incl. mobilization advances of Rs.49.81 crore (as against Rs.285.77 crore incl. mobilization advances of Rs.74.56 crore as on March 31, 2017) due to increase in utilization of working capital limits. Other debt coverage indicators; total debt to gross cash accruals (TDGCA) remained comfortable at 2.70x as on March 31, 2018 and interest coverage ratio stood at 5.88x in FY18. PMPL has an outstanding cash and bank balances of Rs.94.76 crore (free cash of Rs.52.11 crore) as against Rs.34.74 crore (free cash of Rs.8.56 crore) as on March 31, 2017.

Key Rating Weaknesses

Margins susceptible to volatility in raw material prices as well as competition: The operating margins of the company are susceptible to the volatility in raw material costs as well as the competition present in the industry which results in pricing pressure. However, the presence of escalation clause in most of its orders mitigates this risk to a certain extent.

Working capital intensive nature of operations with high collection period: Being engaged primarily in the ETC segment, PMPL has working capital intensive nature of operations with stretched collection period which stood at 132 days in FY18. The collection period of the company continues to remain on a higher side though improved marginally from 143 days in FY17. High collection period had resulted in working capital cycle of around 2-3 months. The company executed majority of work orders for government entities where in the collection period is generally elongated. However, the same is partially offset by shorter receivable cycle for the projects being executed for private parties in and outside India. Furthermore, the average working capital utilisation remains on the higher side at 83.27% for the last 12 month ended September 2018.

High contingent liabilities: PMPL has high contingent liabilities comprising of performance guarantees towards fulfilment of contracts. As on march 31, 2018, the company has outstanding commitments of Rs.668.21 crore (as against Rs.676.63 crore as on March 31, 2017). The company currently has sanctioned non fund based (bank guarantee) of Rs.1000 crore. Going forward, the company's ability to execute the ongoing / future orders in a timely manner and within budgeted costs remains crucial.

Analytical approach:

CARE has analyzed Power Mech Projects Limited's credit profile by considering the consolidated financial statements (comprising PMPL and its subsidiaries) owing to financial and operational linkages between the parent and subsidiaries.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Manufacturing Companies
Rating Methodology - Infrastructure Sector Ratings
Rating Methodology - Factoring Linkages in Ratings
Financial Ratios - Non-Financial Sector

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 industries. PMPL provides various services which primarily include Erection, Testing & Commissioning of coal based power projects complete with boilers, turbines and generators (ETC-BTG) and balance of plant (BOP) for Sub-Critical, Super-Critical and Ultra-Mega Power Plants (UMPPs), civil work and operations & maintenance of power plants. However, FY17 onwards, PMPL has expanded its service offerings to non-power segments such as Railways, Transmission & Distribution, development of Industrial Buildings, 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.
The outstanding order book of the company as on December 31, 2018 stood at Rs.6,376.06 crore with majority of the orders from infrastructure construction segment constituting 42% of total order book.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1345.50	1554.09
PBILDT	173.72	208.58
PAT	64.65	90.82
Overall gearing (times)	0.46	0.49
Interest coverage (times)	5.38	5.88

A: Audited

Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	347.00	CARE A; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	53.00	CARE A; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	1400.00	CARE A; Stable / CARE A1

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	347.00	CARE A; Stable	-	-	-	-
2.	Fund-based - LT-Working Capital Demand loan	LT	53.00	CARE A; Stable	-	-	-	-
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1400.00	CARE A; Stable / CARE A1	-	-	-	-

Annexure-3: List of subsidiaries used for consolidation

S No.	Subsidiaries
1	Hydro Magnus Private Limited (India)
2	Power Mech Industri Private Limited (India)
3	MAS Power Mech Arabia (MA SPA; Saudi Arabia)
4	Power Mech Projects Limited LLC (Oman)
5	Power Mech BSCPL Consortium Private Limited (India)
6	GTA Power Mech Nigeria Limited (Nigeria)

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