**Power Mech Projects Limited**
**March 31, 2020**

**Ratings**

| **Facilities** | **Amount (Rs. crore)** | **Rating[1]** | **Rating Action** |
|---|---|---|---|
| Long-term Bank Facilities | 400.00 | **CARE A; Stable (Single A; Outlook: Stable)** | Reaffirmed |
| Long-term/Short-term Bank Facilities | 1400.00 | **CARE A; Stable/CARE A1 (Single A; Outlook: Stable/A One)** | Reaffirmed |
| **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) 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, long standing relationship with clients, healthy order book position and revenue diversification with increased focus on high margin Operations and Maintenance (O&M) segment.

The ratings also take into account improved operating income during FY19 (FY refers to the period April 01 to March 31) and 9MFY20 (refers to the period April 01 to December 31), comfortable capital structure and strong liquidity position

The ratings are, however, constrained by the working capital intensive nature of business with elongated collection period, high exposure towards contingent liabilities, continued reliance on subcontracting, margins being susceptible to raw material prices and competition and Inherent challenges associated with the construction sector

**Rating sensitivities:**

**Positive factors:**

- Timely execution of the outstanding order book and collection of bills within 60-90 days

**Negative factors:**

- Increase in overall gearing beyond 1.5x
- Decline in the total operating income by more than 20%

**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. 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:** 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. The revenue for FY19 from power is close to 68% that includes both O&M as well as other power activities and the non-power is close to 32%.

**Stable total operating income and profitability margins during FY19 and 9MFY20:** The total operating income of the company has increased by 46% from Rs.1,553.85 crore in FY18 to Rs.2,274.68 in FY19 on account of execution of existing order book and change in business mix. Revenue from erection has gone up by 15.68%, Civil has gone up by 145.35%, O&M has gone up by 9.47% and Electrical business has gone up by 202.05%. Revenue from Power business has gone up by 7.70% and revenue from Non Power business has gone up by 444.16%.

The PBILDT margin of the company has remained stable in the range bound of 13.38% in FY19 as against 13.41x in FY18 due to increase in the contract execution expenses in line with increase in the revenue and change in the business mix. The PAT

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

margin of the company has improved by 45 bps from 5.84% in FY18 to 6.29% in FY19 due to increase in the profitability during FY19. During 9MFY20, the company has reported operating income ofRs.1,575.98 crore

**Healthy order book providing long term revenue visibility:** PMPL's order book position as of December 31, 2019 stood at Rs.5,777 crore which translates into order book to sales ratio of 2.55x based on gross revenue of FY19 sales and provides medium to long term revenue visibility. Around Rs. 1139.23 crore belongs to International orders and balance Rs. 4637.75 crore belongs to domestic orders. Further, the orders pertaining to power sector is Rs.3557.17 crore and non-power is Rs.2219.81 crore.

**Comfortable capital structure and liquidity position:** Capital structure of the company for the last three account closing dates remained comfortably below unity. The overall gearing is comfortable at 0.53x as on March 31, 2019 as against 0.49x as on March 31, 2018 due to increase in utilisation of working capital limits which in turn are in line with increase in the order book and operations of the company. Other debt coverage indicators; total debt to gross cash accruals (TDGCA) remained comfortable

**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.

**Moderate Working capital cycle with high collection period:** PMPL's operations have high working capital intensity primarily due to funding requirement for security deposits, retention amount and margin money towards various contracts & non-fund-based facilities along with stretched collection period. The collection period of the company continues to remain on a higher side though improved from 195 days in FY18 to 154 days in FY19. 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 stands at 74% for the last 12 months ended February 2020.

**High contingent liabilities:** PMPL has high contingent liabilities comprising of performance guarantees towards fulfilment of contracts. As on march 31, 2019, the company has outstanding commitments of Rs.794.32 crore (as against Rs.668.21 crore as on March 31, 2018). Going forward, the company's ability to execute the ongoing / future orders in a timely manner and within budgeted costs remains crucial.

**Liquidity: Strong**

Liquidity is marked by strong accruals of Rs. 185.89 crore vis-à-vis scheduled repayment obligations of Rs 43.73 crore and liquid investments to the tune of Rs.15.55 crore. With a gearing of 0.53x times as of March 31, 2019, the issuer has sufficient gearing headroom, to raise additional debt for its working capital requirements. The average utilization of the working capital was at 74% for the past 12 months ended December 2019.

**Analytical approach:** CARE has analysed Power Mech Projects Limited's credit profile by considering the consolidated financial statements (comprising PMPL and its subsidiaries/JVs/Assoicates) owing to financial and operational linkages between the parent and subsidiaries. Considering not much significant contribution from 2 foreign subsidiaries, 2 foreign JVs and 1 Associate, the same is not excluded from our analysis. The consolidated list of companies is mentioned below:

1. Hydro Magnus Private Limited (India) - 88.10%
2. Power Mech Industri Private Limited (India) - 100%
3. Power Mech Projects Limited LLC (Oman) - 70%
4. Power Mech BSCPL Consortium Private Limited (India) - 51%
5. Power Mech SSA Structures Private Ltd (India) -100%
6. Aashm Avenues Private Ltd (India)-100%
7. Power Mech Projects (BR) FZE( Nigeria) -100%
8. GTA Power Mech Nigeria Limited (Nigeria) - 50% (Joint Venture)
9. GTA Power Mech DMCC (Dubai)- 50% (Joint Venture)
10. M/s. PMPL –M/s. ACPL JV (India) – 80% (Joint Venture)
11. PMPL-STS JV (India) – 74% (Joint Venture)
12. PMPL-KHILARI Consortium JV (India) – 75% (Joint Venture)
13. MAS Power Mech Arabia (MASPA) -49% (Associate)

**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

**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.

**Covenants of rated instrument / facility:** *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

| Brief Financials (Rs. crore) | FY19 (A) | FY18 (A) |
|---|---|---|
| Total operating income | 2274.68 | 1554.09 |
| PBILDT | 304.43 | 208.58 |
| PAT | 143.18 | 90.82 |
| Overall gearing (times) | 0.53 | 0.49 |
| Interest coverage (times) | 5.59 | 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

**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 | - | - | - | 235.20 | CARE A; Stable |
| Fund-based - LT-Working Capital Demand loan | - | - | - | 164.80 | 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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Fund-based - LT-Cash Credit | LT | 235.20 | CARE A; Stable | - | 1)CARE A; Stable (28-Feb-19) | - | - |
| 2. | Fund-based - LT-Working | LT | 164.80 | CARE A; | - | 1)CARE A; | - | - |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Capital Demand loan | | | Stable | | Stable (28-Feb-19) | | |
| 3. | Non-fund-based - LT/ ST-BG/LC | LT/ST | 1400.00 | CARE A; Stable / CARE A1 | - | 1)CARE A; Stable / CARE A1 (28-Feb-19) | - | - |

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

***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.*

**Contact us**

**Media Contact**
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

**Analyst Contact**
Group Head Name – Mr. Prasanna Krishnan
Group Head Contact no. - 040-67937421
Group Head Email ID- prasanna.krishnana@careratings.com

**Relationship Contact**
Name: Mr. Ramesh Bob
Contact no. : +91 9052000521
Email ID: ramesh.bob@careratings.com

**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.