Volume No. IX Issue No. 22 **August 18, 2018**

Power Mech Projects

Rs 957

Powering ahead

BSE Sensex: 37,948 Nifty-50: 11,471

FINANCIALS: STANDALONE

	NET SALES	OPM (%)	OP	OTHER INC	PBDIT	INTEREST	PBDT	DEP.	PBT	TAX#	PAT	SHARE OF PROFIT FROM JV	MI	PAT	EPS*
1603(12)	1378.21	13.20	181.98	5.54	187.52	32.9	154.62	39.03	115.59	40.17	75.43	0.28	0.19	75.51	51.3
1703(12)	1338.2	12.40	165.93	7.7	173.63	32.93	140.7	40.93	99.77	35.68	64.1	0.56	-0.03	64.68	44
1803(12)	1547.83	13.10	202.28	6.72	208.99	35.88	173.12	42.84	130.28	39.23	91.05	-0.23	11.37	79.45	54
1903(12P)	1768.98	13.20	233.51	9.49	242.99	35.9	207.1	43.53	163.56	51.52	112.04	-0.1	12	99.94	67.9

*Annualised on current equity of Rs 14.71 crore: Face value of Rs10 each. Figures in crore. #Tax is including deferred tax
Source: Capitaline Databases

Hyderabad-based Power Mech Projects (PMP) was incorporated in 1999 and is an integrated power infrastructure services provider of comprehensive erection, testing and commissioning of boilers, turbines and generators (ETC-BTG), balance of plant (BOP) works, civil works and operation and maintenance (O&M) services.

Established track record

The company has an established track record of a wide range of erection maintenance services projects for large power plants including 800-MW super-critical power plants. Large owned equipment base and strong project management systems and capabilities have enabled the company to execute large, complex projects in India and internationally in markets like Middle East, South Asia, South America, Africa, Gulf and Mena region.

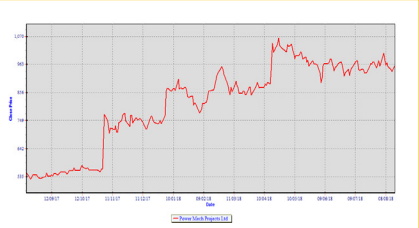
The company was engaged on ETC – BTG projects for the first two ultra – mega power projects (UMPPs) (Mundra & Sasan) as well as for 17 super – critical power projects in India. The company undertakes the erection work of power projects ranging from 150 MW to 800 MW of power. Apart from thermal power projects, the company extends the erection works services to gas and combined cycle power projects, HRSG, WHRB, CFBC boilers, steam turbine generators, steam generators including auxiliaries, ESPs, hydro turbines.

The company also undertakes BOP packages including structural steel works, ash handling, coal handling, fuel oil systems and high pressure piping works. Further, the company has also focused on railways and rural electrification besides its traditional domain of civil works at a thermal power plant which will help in any slowdown from domestic ordering. In civil work contracts, the company undertakes various civil and structural works contracts that are ancillary to ETC-BTG projects. The company extends the service to entire power industry including coal, gas and renewable. The company also extends the civil works contract to petroleum projects, nuclear power projects and gas refineries.

Opportunity in power sector remains strong

For 13th 5 year plan, total investment is pegged at around Rs 260000 crore. While renewable are given focus in this investment plan, coal based large power projects as a package on Engineering Procurement and Construction (EPC) basis as against BTG basis will be given preference. This will result in pie of company's business (focused on EPC and BOP) getting bigger only.

Other big business opportunity is the re-fabrication and re-establishment of old power



STOCK DATA

BSE Code	:	539302
BSE Group	:	B
NSE Code	:	POWERMECH
Bloomberg	:	POWM IN
Reuters	:	NA
Par Value	:	Rs 10
52-week High/Low	:	Rs 1084 / 514
Sector	:	Capital goods

SHAREHOLDING PATTERN*

Category		% of equity
Foreign	:	3.8
Institutions	:	13.85
Govt Holding	:	-
Corporate Holding	:	-
Promoters	:	63.17
Public & Others	:	19.18
Total:	:	100

* as on 31/06/2018
Source: Capitaline Databases

projects in the 13th 5 year plan. NTPC alone has an installed base of 48000 megawatts and then around 11000 MW of power projects have been commissioned prior to 2003, which needs to be upgraded in this 13th 5 year plan. All these projects now will be tendered out as a complete package including O&M.

Thus, large package power projects including O&M in the 13th 5 year plan with additional opportunities in refurbishment of old power projects will auger well for the company.

All round growth in June 2018 Quarter

The company reported a 29% rise in consolidated net sales to Rs 461.93 crore in June 18 quarter.

Domestic revenue during the quarter stood at Rs 340 crore up by 14% YoY while exports grew by 97% to Rs 121 crore.

In June 18 quarter, Civil segment reported net sales of Rs 141 crore up by 60% due to higher construction work for Vishakhapatnam project which is a Rs 360 crore project., Erection segment reported net sales growth of 26% to Rs 181 crore largely due to strong international erection work, O&M saw a growth of 6% to Rs 133 crore.

Power accounted for around 70% of revenue in June 2018 quarter and remaining was from non power segment.

OPM was higher by 40 bps to 13.2% and thus resulting in OP growth of 32% to Rs 60.75 crore. Higher exports and better execution lead to higher margins.

Other income was higher by 1% to Rs 2.82 crore and interest costs was higher by 52% at Rs 11.57 crore. Depreciation was higher by 3% to Rs 10.53 crore which resulted in a 34% increase in PBT to Rs 41.47 crore. After providing total tax of Rs 10.90 crore, up by 15% on YoY, PAT stood at Rs 30.57 crore up by 43% YoY. After providing MI of Rs 6.12 crore up by 89% YoY, consolidated PAT for June 18 quarter stood at Rs 24.51 crore up by 35% YoY.

For 12 months ended Mar 18, consolidated net sales were up by 16% to Rs 1547.83 crore. OPM was up by 70bps and stood at 13.1% resulting in a 22% increase in OP to Rs 202.28 crore. Other income was down by 13% to Rs 6.72 crore. Interest cost was up by 9% at Rs 35.88 crore and depreciation was up by 5% to Rs 42.84 crore. Thus, PBT was up by 31% to Rs 130.28 crore.

After providing total tax of Rs 39.23 crore, PAT for 12 months ended Mar 18 stood at Rs 91.05 crore. After providing share of loss from JV of Rs 23 lakh and MI of Rs 11.37 crore, consolidated PAT for 12 months ended Mar 18 stood at Rs 79.45 crore, up by 23% YoY.

Highest ever Order book in the history of the company

As on Aug 18, the company has an order book of Rs 6400 crore, highest ever order book in the history of the company. Since past several years, the order book of the company always used to hover around Rs 3800-4000 crore. This is a significant jump which provides strong visibility in earnings for next 2 years.

Of the total order backlog Power would constitute around 65-68% of the order book and rest is form non power segment. Within Power, around Rs 2400 crore is mechanical and erection segment, Rs 1000 crore from O&M segment and around Rs 200 crore from electrical work.

Exports orders account for around Rs 1150 crore in the total order book.

Order inflow in FY 19 uptil Aug 19 so far stood at around Rs 3600 crore. The company

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The large package power projects including O&M in the 13th 5 year plan with additional opportunities in refurbishment of old power projects will auger well for the company

expects to receive around Rs 1700 crore of further orders in FY 19 given the bidding and L1 positions. Thus the order inflow in FY 19 will exceed Rs 4500 crore against anticipated order inflow of Rs 3500 crore at the beginning of the FY 19.

Both at power and non power levels, total bidding opportunity of around Rs 10000 crore exists in FY 19. This includes power orders including EPC business of around 6400 MW from BHEL, in AP, Odisha, Jharkhand, around Rs 1200 crore of opportunity from steel and refinery segment, and sanitation orders of around Rs 3000 crore both from power and non power plants including co gen plants.

Power accounted for around 70% of revenue in June 2018 quarter and remaining was from non power segment

Revenue mix is shifting towards high margin business

In FY15, ETC segment contributed 67% of total revenue and 13% came from civil works, while O&M services accounted for 20%. Gradually, there has been a shift more towards the high margin O&M service contract. Broadly, OPM of O&M is around 18-19%, of civil is around 9-10% and ETC is around 11-12%.

In FY 18, ETC segment contributed 48% of total revenue and 16% came from civil works, while O&M services accounted for 34%.

In O&M business it does annual maintenance contracts, Repairs & Maintenance, Residual Life Assessment, renovation and modernization, overhauling, among others. It also provides renovation, modernization, up gradation and installation services for hydro power projects. The company was engaged on more than 500 O&M contracts since 1999. It has a set up of a large heavy engineering facility at Noida and has a cooperation agreement with Shanghai Electric Power Generation Service Company for repair and overhaul services in the power sector in India. For O&M solutions, the company has entered into an agreement with Chengdu Pengrun New Energy Development Company to set up a joint venture entity in Hong Kong.

The company got a big break-through with O&M orders coming from public sector undertakings. The large power projects that are floated currently, come with a package including O&M services, where the company has a major advantage.

Further, the company has also participated in Non Power O&M contracst and currently around Rs 300 crore of tenders are getting floated. This will be first of its kind opportunity in non power segment and company is the only company engaged in this kind of the business.

As of June 18, the company is engaged in 38 AMC services for power plants across India with an aggregate unit capacity of around 49828 MW. PMP has more than 50% market share in private sector IPPs and manages 44GW power plants

Better economies of scale and higher O&M margins will lead to overall increase in margins for the company.

Non Power now accounts for 30% of total revenues

In view of the slowdown in Thermal power sector, the company was exploring new opportunities in non –power infra sector on selective basis including Railway, T&D, Roads & Other Industrial Services business.

PMP has strong presence in Oil and Gas sector executing projects at Jamnagar Refinery J3 expansion from RIL, Paradeep Refinery & MRPL from BHEL, OPAL promoted by ONGC and also RIL's Petrochemical complex at Dahej.

PMP also has already made an entry into T&D sector & will be very selective and conservative in bidding for the future projects in this sector in terms of location, margins etc.

PMP has also executed contract grabbed from Railway Nigam for doubling of railway

As on Aug 18, the company has an order book of Rs 6400 crore. Since past several years, the order book of the company always used to hover around Rs 3800-4000 crore

lines from Gudivada to Machlipatnam & this will boost company's prospects to grab new opportunities in this sector.

In Steel sector, PMP has already forayed into this segment with carrying out works for 3 MT expansion works at Nagarnar, Blast Furnace area of site structural and equipment installation for JSPL.

The company has gained experience in the Rehab and upgradation and modernization business being partner with Doosan for the 200 MW Bandel plant up gradation. Thus, Non Power sector today accounts for around 30% of total revenue and around 32-35% of total order book as on Aug 18. Further, the diversification into new projects have resulted in better economies of scale, lesser working capital requirements and aided overall higher margins.

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Debt and Working capital requirements to come down

Company's net debt stands at Rs 160 crore as on Mar 18 and debt equity ratio as on Mar 18 stands at 0.23. Most of the manufacturing and service facilities are already in place and no major capex is being expected going forward.

There is only maintenance capex of around Rs 15 crore required every year for the company. Thus despite the incremental revenue growth, debt levels are expected to remain at same levels of Mar 18 going forward as well.

Further, international orders and Non Power orders have faster execution and lower working capital requirements and higher advances which reduces the overall working capital cycle for the company.

Ample opportunities in international markets

International revenue now account for around 20% of total sales in FY 18 as compared to 15% in FY 17.

The company has executed various international power projects in the Middle East, North Africa, South Asia and South America. The company has established subsidiaries in Oman and Saudi Arabia where it holds 51% stake which is aiding growth in Middle East orders. The company continues to focus on identifying opportunities to bid and win international projects including through strategic partnerships both in erection & O&M business.

The Company's strong presence in all divisions of a power project, gives an edge in undertaking overseas projects successfully. The Company has proved its capability by merit with successful execution and completion of some prestigious projects in Middle East, Asian and African countries, including Saudi Arabia, Bahrain, Dubai, Abu Dhabi, Oman, Bangladesh, Nepal, Libya, Nigeria, CIS countries etc.

ETC order inflow continues to remain healthy particularly from Middle East and African markets.

The company has participated in around Rs 3000 crore worth of international tenders. The margin profile in international orders is also better than domestic. In international projects, the investment per megawatt is more by 15-20% as compared to domestic market. Therefore company is able to serve the entire package of power infrastructure projects better internationally and grab better margins.

Diversification into new projects have resulted in better economies of scale, lesser working capital requirements and aided overall higher margins

Valuation

In FY 2019, we expect the company to register consolidated net sales and net profit of Rs 1768.98 crore and Rs 99.94 crore respectively. This gives an EPS of Rs 67.9.

The scrip trades at Rs 957. P/E on FY 19 projected EPS works out to around 14.

POWER MECH PROJECTS: CONSOLIDATED RESULTS

	1806(03)	1706(03)	VAR. (%)	1803(12)	1703(12)	VAR. (%)
Net Sales	461.93	358.38	29%	1547.83	1338.20	16%
OPM %	13.2%	12.8%		13.1%	12.4%	
OP	60.75	45.92	32%	202.28	165.93	22%
Other Income	2.82	2.80	1%	6.72	7.70	-13%
PBIDT	63.57	48.72	30%	208.99	173.63	20%
Interest	11.57	7.61	52%	35.88	32.93	9%
PBDT	52.00	41.11	26%	173.12	140.70	23%
Depreciation	10.53	10.24	3%	42.84	40.93	5%
PBT	41.47	30.87	34%	130.28	99.77	31%
Tax	10.90	9.45	15%	39.23	35.68	10%
PAT	30.57	21.42	43%	91.05	64.10	42%
Share of profit from JV	0.06	0.00	0%	-0.23	0.56	PL
MI	6.12	3.23	89%	11.37	-0.03	PL
PAT	24.51	18.19	35%	79.45	64.68	23%
EPS*	#	#		54.0	44.0	

*Annualised on current equity of Rs 14.71 crore: Face value of Rs 10 each.
EPS not annuliased due to seasonality of business. Figures in crore. *Source: Capitaline Databases*