

Power Mech Projects

19 November 2019

Reuters: POMP.BO; Bloomberg: POWM IN

Order book stays healthy; working capital stretched

Power Mech Projects (PMP) posted 2QFY20 consolidated revenue of Rs5.3bn, flat YoY and in-line with our estimate. O&M segment posted healthy growth (up 22% YoY to Rs1.7bn), ETC segment was flattish (up 4% YoY to Rs1.8bn) while civil segment sales fell 30% YoY to Rs1.5bn. International projects formed 16% of total sales (vs. 24% YoY), while non-power sector accounted for 30% of total sales (vs. 28% YoY). EBITDA was flat YoY to Rs689mn, leading to a margin of 12.9%, up 10bps YoY and in-line with our estimate. Aided by lower tax rate at 17.8% (due to shift to new tax regime), PAT was up 24% YoY to Rs351mn, 9% above our estimate. Order inflow in 2QFY20/1HFY20 was Rs5.9bn/Rs13.4bn, while PMP targets FY20 inflow in excess of Rs40bn implying orders in excess of Rs25bn in 2HFY20 (bidding done for projects worth Rs110bn). Order book stood at Rs72bn, up 15% YoY, but it includes two projects worth Rs21bn from Andhra Pradesh government which are likely to get cancelled. Excluding the two AP projects, executable order book stands at Rs51bn as on 1HFY20, which is likely to rise to Rs65bn at end-FY20. PMP aims for a revenue growth in excess of 10% in FY20 along with sustaining the current level of EBITDA margin. We have tweaked our earnings estimates and maintained Buy rating on PMP with a revised target price of Rs1,020 (from Rs1,195 earlier) based on 7x September 2021E earnings.

ETC segment update: ETC revenues grew 4% YoY to Rs1.8bn (34% of total sales). Order inflow in 1HFY20 fell by 25% YoY to Rs5.5bn (on a high base) while the order book grew marginally by 2% YoY to Rs24.2bn (3.3x FY19 sales). PMP is exploring FGD opportunities where its scope of work is 25% of contract value with execution cycle of 15-18 months. It will prefer clients such as GE and L&T where orders are on negotiated basis. Besides, PMP continues to expand its international presence (large order book in Bangladesh & Nigeria) as well as non-power sector. It aims for Rs8bn-Rs9bn sales in FY20.

Civil and Electricals segment update: Revenue for the Civil segment declined by 30% YoY to Rs1.5bn (28% of total sales). Order inflow stood at Rs3.6bn in 1HFY20 while order book was up 21% YoY to Rs33.2bn. However, Rs12.3bn irrigation project and Rs8.7bn school project in Andhra Pradesh are likely to get cancelled post change in state government. PMP is yet to commence work on these two projects and has net receivables of only Rs50mn. In Electricals segment, revenue stood at Rs338mn while order book is healthy at Rs3.7bn (3.6x FY19 sales). PMP targets revenue of Rs7.5bn in Civil and Rs2.5bn in Electrical segment for FY20. It expects healthy inflows from railway sector.

O&M segment update: O&M revenue grew by 22% YoY to Rs1.7bn (32% of total sales). Order inflow rose by 19% YoY to Rs4.3bn in 1HFY20 while the order backlog was up 15% YoY to Rs11bn (1.9x FY19 sales). PMP is L1 in GMDC Gujarat order worth Rs7.5bn. In addition, it expects to win projects worth Rs2.5bn-Rs3bn in 2HFY20. It aims for Rs6bn sales in FY20.

Working capital position: Net working capital deteriorated in 1HFY20 owing to delay in payments from two projects namely Kaleshwaram irrigation project of Telangana and AMTZ project of Andhra Pradesh. Debtor days elongated to 85 in 1HFY20 (annualised) versus 64 YoY. This has led to an increase in ex-cash net working capital cycle to 179 days in 1HFY20 (annualised) versus 128 YoY. However, PMP expects it to normalise to 128-130 days in FY20 due to likely collection of receivables. Retention money stood at Rs3.3bn (vs. Rs3.2bn YoY) while gross debt rose to Rs4.1bn (vs. Rs3.3bn in FY19).

Outlook: Driven by strong order book, we expect 15% revenue CAGR over FY19-FY22E while earnings CAGR is likely to be 25% aided by lower tax rate. Healthy RoCE and operating margin profile will aid the valuation. Significant improvement in net working capital cycle is key to re-rating of PMP.

BUY

Sector: Capital Goods

CMP: Rs656

Target Price: Rs1,020

Upside: 55%

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Key Data

Current Shares O/S (mn)	14.7
Mkt Cap (Rsbn/US\$m)	9.8/136
52 Wk H / L (Rs)	1,175/625
Daily Volume (3M NSE Avg.)	16,702

Price Performance (%)

	1 M	6 M	1 Yr
Power Mech Projects	(5.2)	(26.2)	(27.8)
Nifty Index	1.9	4.2	11.3

Source: Bloomberg

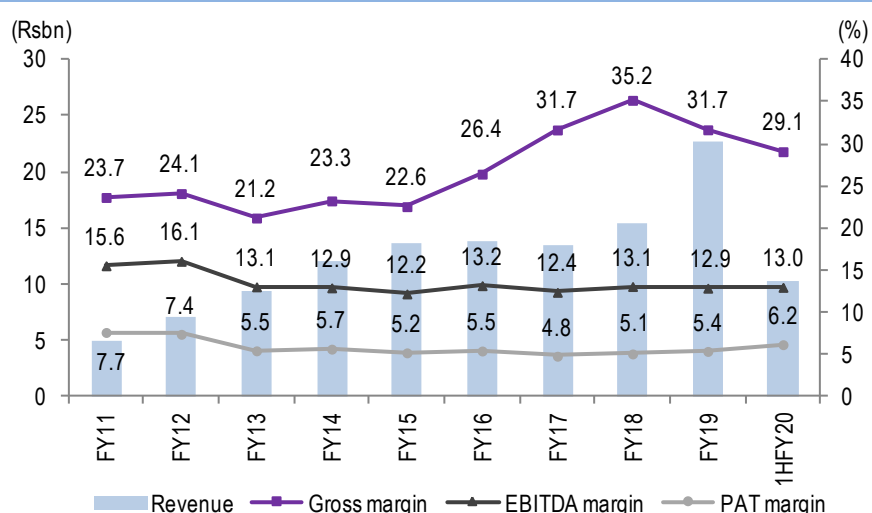
Y/E March (Rsmn)	2QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net revenues	5,345	4,912	5,331	(0.3)	8.5	9,964	10,244	2.8
Raw material costs	3,527	3,488	3,776	7.0	8.3	6,457	7,263	12.5
Staff costs	1,054	725	788	(25.2)	8.7	2,068	1,513	(26.8)
Other expenses	79	57	79	(0.7)	39.4	147	135	(7.7)
Total expenditure	4,660	4,269	4,643	(0.4)	8.8	8,672	8,912	2.8
EBITDA	685	643	689	0.6	7.1	1,292	1,332	3.0
EBITDA margin (%)	12.8	13.1	12.9	-	-	13.0	13.0	-
Interest costs	133	141	192	44.5	35.7	248	333	34.0
Depreciation	124	103	99	(19.8)	(3.9)	229	202	(11.7)
Other income	38	19	23	(39.1)	22.2	66	42	(36.8)
Share of profit from JV	-	12	2	-	-	(1)	14	-
PBT	466	429	423	(9.3)	(1.4)	880	852	(3.2)
Tax	131	149	75	(42.4)	(49.4)	240	224	(6.6)
Minority interest	51	(4)	(3)	NA	NA	113	(7)	
PAT	284	284	351	23.6	23.6	528	635	20.3
PAT margin (%)	5.3	5.8	6.6	-	-	5.3	6.2	-
EPS (Rs)	19.3	19.3	23.9	23.6	23.6	35.9	43.2	20.3

Source: Company, Nirmal Bang Institutional Equities Research

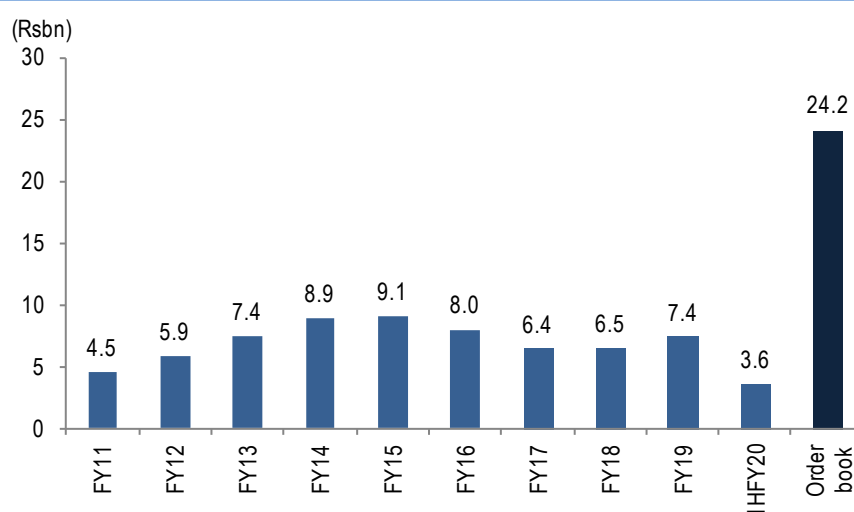
Exhibit 1: Financial summary (consolidated)

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net revenues	15,478	22,613	25,066	29,131	34,445
EBITDA	2,023	2,908	3,267	3,817	4,543
Net profit	794	1,216	1,557	1,903	2,375
EPS (Rs)	54.0	82.7	105.8	129.4	161.5
EPS growth (%)	22.8	53.1	28.0	22.3	24.8
EBITDA margin (%)	13.1	12.9	13.0	13.1	13.2
P/E (x)	12.1	7.9	6.2	5.1	4.1
P/BV (x)	1.4	1.2	1.0	0.8	0.7
EV/EBITDA (x)	5.7	4.2	3.7	3.0	2.4
Dividend yield (%)	0.2	0.2	0.5	0.8	0.8
RoCE (%)	17.8	22.9	22.7	23.4	24.6
RoE (%)	12.0	16.0	17.4	17.9	18.8

Source: Company, Nirmal Bang Institutional Equities Research

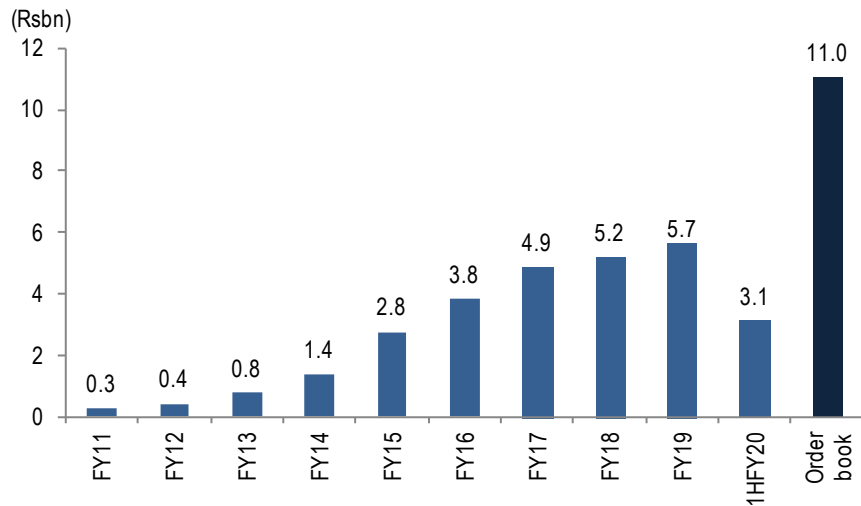
Exhibit 2: Revenue and margin trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Trend in ETC segment's revenues and current order book


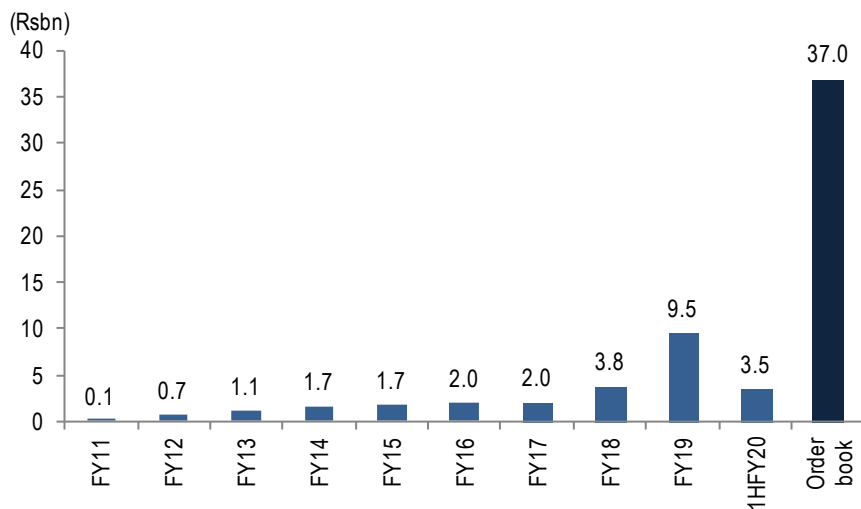
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Trend in O&M service segment's revenues and current order book



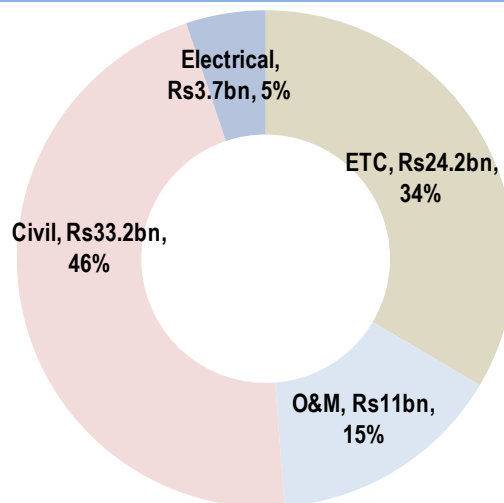
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Trend in civil & electrical works segment's revenues and current order book



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Segment-wise order book break-up



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Actual performance versus our estimates

2QFY20 (Rsmn)	Actual	Our estimate	Deviation (%)
Revenues	5,331	5,402	(1.3)
EBITDA	689	692	(0.5)
PAT	351	322	9.0

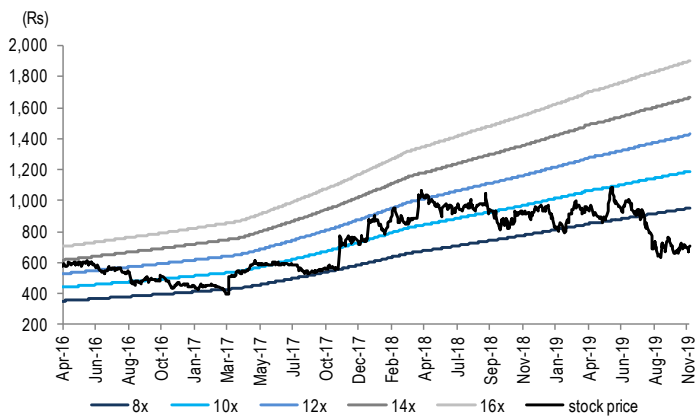
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Change in our estimates

(Rsmn)	Old			New			Deviation (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenues	26,352	30,916	33,811	25,066	29,131	34,445	(4.9)	(5.8)	1.9
EBITDA	3,455	4,085	4,472	3,267	3,817	4,543	(5.5)	(6.6)	1.6
PAT	1,508	1,855	2,346	1,557	1,903	2,375	3.2	2.6	1.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: P/E charts



Source: BSE, Nirmal Bang Institutional Equities Research



Source: BSE, Nirmal Bang Institutional Equities Research

Financial statement (consolidated)

Exhibit 10: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net sales	15,478	22,613	25,066	29,131	34,445
% growth	15.7	46.1	10.8	16.2	18.2
Raw material costs	10,024	15,446	17,271	20,013	23,595
Staff costs	3,122	3,932	4,111	4,777	5,649
Other overheads	310	327	418	523	658
Total expenditure	13,456	19,705	21,799	25,314	29,902
EBITDA	2,023	2,908	3,267	3,817	4,543
% growth	21.9	43.7	12.4	16.8	19.0
EBITDA margin (%)	13.1	12.9	13.0	13.1	13.2
Other income	67	141	89	94	99
Interest costs	359	551	685	706	725
Depreciation	428	458	429	461	493
Profit before tax	1,303	2,040	2,242	2,744	3,424
Tax	392	624	605	741	924
Minority interest	(116)	(200)	(80)	(100)	(124)
PAT	794	1,216	1,557	1,903	2,375
% growth	22.8	53.1	28.0	22.3	24.8
PAT margin (%)	5.1	5.4	6.2	6.5	6.9
EPS (Rs)	54.0	82.7	105.8	129.4	161.5
% growth	22.8	53.1	28.0	22.3	24.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Share capital	147	147	147	147	147
Reserves	6,838	8,047	9,550	11,365	13,653
Net worth	6,985	8,194	9,697	11,512	13,800
Minority interest	138	81	81	81	81
Short-term loans	2,462	2,824	3,124	3,224	3,324
Long-term loans	277	540	540	540	540
Total loans	2,739	3,364	3,664	3,764	3,864
Deferred tax liability	(25)	(56)	(56)	(56)	(56)
Total liabilities	9,837	11,582	13,386	15,301	17,688
Net block	1,998	1,873	1,854	1,793	1,699
Capital work-in-progress	87	60	50	50	50
Investments	1	320	320	320	320
Inventories	472	927	1,236	1,357	1,510
Debtors	3,086	3,891	4,670	5,268	6,134
Cash	948	881	1,231	1,972	2,628
Other current assets	9,228	11,268	12,458	14,129	16,534
Total current assets	13,733	16,967	19,595	22,725	26,806
Creditors	3,075	4,430	4,874	5,538	6,400
Other current liabilities & provisions	2,909	3,208	3,559	4,049	4,788
Total current liabilities	5,983	7,638	8,433	9,587	11,188
Net current assets	7,750	9,329	11,162	13,138	15,618
Total assets	9,837	11,582	13,386	15,301	17,688

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
EBIT	1,594	2,450	2,838	3,356	4,050
(Inc.)/dec. in working capital	(1,290)	(1,646)	(1,483)	(1,235)	(1,824)
Cash flow from operations	304	804	1,356	2,121	2,225
Other income	67	141	89	94	99
Depreciation	428	458	429	461	493
Tax paid (-)	(439)	(655)	(605)	(741)	(924)
Minority interest	(116)	(200)	(80)	(100)	(124)
Net cash from operations	244	548	1,188	1,835	1,769
Capital expenditure (-)	(330)	(305)	(400)	(400)	(400)
Net cash after capex	(85)	243	788	1,435	1,369
Interest paid (-)	(359)	(551)	(685)	(706)	(725)
Dividends paid (-)	(18)	(18)	(53)	(88)	(88)
Inc./(dec.) in short-term borrowing	820	361	300	100	100
Inc./(dec.) in long-term borrowing	122	263	-	-	-
Inc./(dec.) in total borrowings	942	624	300	100	100
Inc./(dec.) in investments	8	(319)	-	-	-
Minority interest	117	(57)	-	-	-
Cash from financial activities	690	(320)	(438)	(694)	(713)
Others	(5)	10	-	-	-
Opening cash balance	347	948	881	1,231	1,972
Closing cash balance	948	881	1,231	1,972	2,628
Change in cash balance	600	(67)	350	742	656

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Key ratios

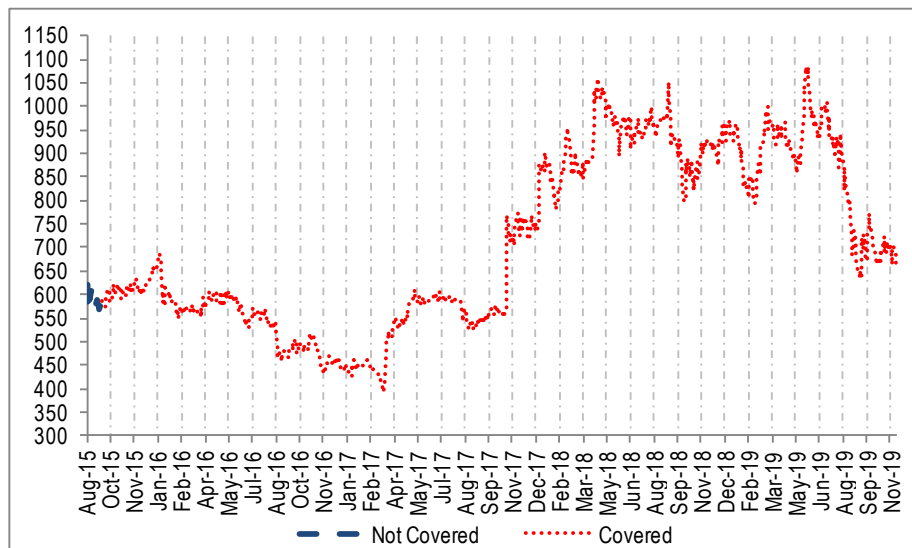
Y/E March	FY18	FY19	FY20E	FY21E	FY22E
Per share (Rs)					
EPS	54.0	82.7	105.8	129.4	161.5
Book value	474.8	557.0	659.2	782.6	938.1
Valuation (x)					
P/E	12.1	7.9	6.2	5.1	4.1
P/BV	1.4	1.2	1.0	0.8	0.7
EV/EBITDA	5.7	4.2	3.7	3.0	2.4
EV/sales	0.7	0.5	0.5	0.4	0.3
Return ratios (%)					
RoCE	17.8	22.9	22.7	23.4	24.6
RoE	12.0	16.0	17.4	17.9	18.8
RoIC	19.2	25.4	25.5	27.0	29.2
Profitability ratios (%)					
EBITDA margin	13.1	12.9	13.0	13.1	13.2
EBIT margin	10.3	10.8	11.3	11.5	11.8
PAT margin	5.1	5.4	6.2	6.5	6.9
Turnover ratios					
Total asset turnover ratio (x)	1.6	2.0	1.9	1.9	1.9
Debtor days	73	63	68	66	65
Inventory days	11	15	18	17	16
Creditor days	112	105	103	101	99
Solvency ratios (x)					
Debt-equity	0.4	0.4	0.4	0.3	0.3

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
23 September 2015	Buy	575	809
26 November 2015	Buy	622	809
16 February 2016	Buy	561	846
12 April 2016	Buy	590	846
6 June 2016	Buy	593	790
12 July 2016	Buy	557	790
15 September 2016	Buy	475	790
13 October 2016	Buy	475	790
9 December 2016	Buy	456	780
19 January 2017	Buy	430	780
14 February 2017	Buy	453	780
20 February 2017	Buy	448	760
7 April 2017	Buy	533	760
6 July 2017	Buy	595	760
23 August 2017	Buy	527	700
9 October 2017	Buy	559	700
23 November 2017	Buy	770	950
9 January 2018	Buy	866	950
21 February 2018	Buy	900	1,100
6 April 2018	Buy	876	1,100
31 May 2018	Buy	964	1,250
10 July 2018	Buy	976	1,250
14 August 2018	Buy	935	1,250
9 October 2018	Buy	846	1,250
21 November 2018	Buy	930	1,295
9 January 2019	Buy	930	1,295
15 February 2019	Buy	832	1,320
9 April 2019	Buy	939	1,335
29 May 2019	Buy	1,056	1,360
9 July 2019	Buy	984	1,360
6 August 2019	Buy	883	1,300
23 September 2019	Buy	743	1,195
7 October 2019	Buy	660	1,195
19 November 2019	Buy	656	1,020

Rating track graph



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SELL < -5%

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