Power Mech Projects

23 September 2015

Reuters: POMP.BO; Bloomberg: POWM IN

Initiating Coverage

A 'Power' Play In The 'Mech'ing

Power Mech Projects (PMP) is an integrated power infrastructure services company providing comprehensive erection, testing and commissioning (ETC) of BTG and BoP equipment, civil works and operations & maintenance (O&M) services to power plants. It is the largest and most credible ETC company with a 38% market share while in the highly profitable O&M business (19% margin) it holds a 60% market share in private IPPs. With a strong order book of Rs40bn (3xFY15 revenue), likely order inflow of Rs47bn over FY15-FY17E and multiple growth levers across all its businesses, PMP offers healthy revenue visibility. Further, PMP is a sound financial franchise with a RoCE of 24%, fixed asset turnover of 4x, receivable cycle of 52 days and leverage of 0.7x as of FY15-end, which is expected to improve further with better operating leverage as well as healthy free cash flow generation. We expect PMP to post a 17% revenue CAGR and a 29% PAT CAGR over FY15-FY17E (driven by 110bps EBITDA margin expansion to 13.3% in FY17E with the O&M segment accounting for 34% of FY17E EBITDA). Considering the growth metrics and sound financial position, PMP trades at an inexpensive valuation of 7xFY17E earnings. We have assigned Buy rating to PMP with a target price of Rs809 based on 10xFY17E EPS.

Largest and credible ETC player: PMP is the largest ETC player in India having executed more than 100 projects, with a market share of 38% over the past five years. It has a credible track record, having worked on 16 out of 21 super-critical plants in India as well as both operational UMPPs. While its current ETC order book of Rs24bn (2.6xFY15 revenue) provides healthy revenue visibility, a large pipeline of tenders and huge opportunity on the anvil is likely to lead to a healthy order inflow of Rs23bn over FY15-FY17E. With key entry barriers in place along with a large opportunity to cater to 60GW of Chinese power plants, we expect the ETC business to register profitable growth in the foreseeable future.

Strong scalability in O&M services to aid margins: With a focus on AMC contracts and comprehensive O&M services to power plants, PMP is managing 33GW of private IPPs out of 55GW operational, thereby having a market share of 60%. Having posted a strong 79% revenue CAGR over the past five years, future growth traction remains robust with additional growth drivers like revival of stuck IPPs worth 57GW, servicing of Chinese plants through a joint venture with a Chinese firm, opening up of state utilities to private O&M contractors and entry in international markets. With an O&M order book worth Rs11bn (4xFY15 revenue) and likely order inflow of Rs16bn over next two years, we expect a strong 28% revenue CAGR over FY15-FY17E along with a robust O&M EBITDA margin of 19%, thereby aiding overall profitability.

Civil, hydro and international operations are future growth avenues: PMP commenced civil works in FY11 to undertake various civil, structural and construction works ancillary to its ETC scope. It has a healthy order book worth Rs5.6bn (3.2xFY15 revenue) and a large opportunity which is likely to lead to a revenue CAGR of 39% and order inflow of Rs8.4bn over FY15-FY17E. Diversification into hydro power segment (for ETC and O&M) as well as expansion in international geographies (6% of FY15 revenue and 14% of order book) are additional growth avenues.

Healthy financial franchise at inexpensive valuation: PMP is a healthy financial franchise with FY15 RoCE of 24% (28% in FY17E), fixed asset turnover of 4x (4.5x in FY17E), better working capital cycle versus peers at 93 days (debtor days at 52) and likely free cash flow generation of Rs1.5bn over FY15-FY17E. With a strong order book of Rs40bn (3xFY15 revenue) and likely order inflow of Rs47bn over FY15-FY17E, we expect a 17% revenue CAGR and a 29% PAT CAGR (driven by a 110bps rise in EBITDA margin) over FY15-FY17E. Considering healthy financials and growth metrics, we find PMP attractive at its current valuation of 7xFY17E earnings.

Y/E March (Rsmn)	FY13	FY14	FY15	FY16E	FY17E
Net sales	9,358	12,003	13,662	15,978	18,733
EBITDA	1,222	1,554	1,670	2,055	2,497
PAT	512	681	714	907	1,190
PAT growth (%)	*(2.4)*	*33.1*	*4.9*	*27.0*	*31.2*
EPS (Rs)	47.6	62.2	56.7	61.6	80.9
EBITDA margin (%)	*13.1*	*12.9*	*12.2*	*12.9*	*13.3*
PER (x)	12.1	9.2	10.1	9.3	7.1
P/BV (x)	3.0	2.3	2.0	1.9	1.5
EV/EBITDA (x)	7.6	6.2	6.2	4.8	3.8
Dividend yield (%)	*0.2*	*0.3*	*0.2*	*0.4*	*0.6*
RoCE (%)	*28.8*	*30.3*	*24.1*	*25.3*	*28.4*
RoE (%)	*28.5*	*28.5*	*22.7*	*22.7*	*23.8*

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Capital Goods

CMP: Rs575

Target Price: Rs809

Upside: 41%

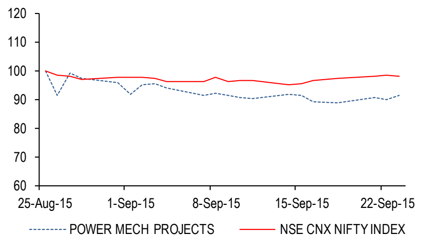
Chirag Muchhala
chirag.muchhala@nirmalbang.com
+91-22-3926 8092

Key Data

Current Shares O/S (mn)	14.7
Mkt Cap (Rsbn/US$mn)	8.5/129.8
52 Wk H / L (Rs)	663/560

Share holding (%)	Aug 2015
Promoter	64.8
FII	2.7
DII	13.1
Others	19.5

One-Year Indexed Stock Performance



Business overview

PMP is an integrated power infrastructure services company providing comprehensive erection, testing and commissioning of BTG and BoP equipment, civil works and O&M services to power plants. Consolidated revenue of PMP witnessed a 29% CAGR over the past five years, with revenue rising from Rs4.9bn in FY11 to Rs13.6bn in FY15. Consolidated EBITDA/PAT posted CAGR of 21.5%/17.4%, respectively, over the same period. The business activities of PMP are spread across three segments: (a) ETC (b) O&M services and (c) civil works.

In the ETC domain, PMP is the largest player in India with a 38% market share and it has worked on more than 100 projects across India and four international geographies with unit capacity ranging from 150MW to 800MW. PMP has a strong and credible track record in the ETC space, having worked on both operational UMPPs and 16 super-critical power plants out of 21 set up in India. ETC work is provided to thermal, gas and combined cycle power projects covering BTG packages including various types of boilers (HRSG, WHRB, CFBC), turbine generators, electrostatic precipitators (ESPs), hydro turbines, structures, pressure parts, air systems, fuel oil systems, coal systems and BoP packages including structural steel works, ash handling, coal handling, fuel oil systems, water treatment plants, fire protection systems and high-pressure piping works. Over the past five years, the ETC segment registered a 19% revenue CAGR with FY15 top-line of Rs9.1bn. PMP had orders worth Rs24bn as of 1QFY16-end in the ETC segment, which provides it future visibility of 2.6xFY15 revenue while the average execution cycle is 30 months.

In O&M services, PMP undertakes AMC, repairs, renovation and modernisation, residual life assessment, scheduled shutdowns, retro-fits, overhauling, maintenance and upgradation services for thermal power plants, hydro power plants and gas turbines. PMP has been engaged in more than 400 O&M contracts till date including international projects in the Middle East, North Africa, South Asia and South America. With a significant increase in the installed base of private IPPs in India, O&M services of PMP witnessed significant growth traction with revenue jumping from Rs269mn in FY11 to Rs2.7bn in FY15, registering a robust CAGR of 79%. PMP is engaged in providing 23 AMC services currently for IPPs with an aggregate capacity of 33GW out of total installed IPP capacity of 55GW, translating to a market share of 60%. The O&M services segment has a strong order book worth Rs11bn, translating to a book-to-bill ratio of 4xFY15 revenue, thereby providing healthy revenue visibility as the duration of contracts is generally three to five years.

In the civil works domain, PMP undertakes various civil, structural and construction works which are ancillary to its ETC business. The nature of work includes grading, leveling, excavation, piling, mass concreting foundations for buildings, turbine/generator decks and super-structures, fabrication and erection of structures, main plant bay etc. Over the past five years, the civil works segment registered a 103% revenue CAGR on a low base, with FY15 top-line of Rs1.7bn. The civil works segment has a healthy order book worth Rs5.6bn, translating to book-to-bill ratio of 3.2xFY15 revenue, thereby providing healthy revenue visibility as the average execution cycle is two years.

Exhibit 1: Segment-wise financial snapshot at a glance

Segments	ETC	O&M services	Civil works
Market share (past five years)	*38%*	*60% in private IPPs*	*NA*
FY15 revenue	Rs9.1bn	Rs2.7bn	Rs1.7bn
Share in FY15 revenue	*67%*	*20%*	*13%*
Five year revenue CAGR (FY11-FY15)	*19%*	*79%*	*103%*
FY15-FY17E likely revenue CAGR	*9%*	*28%*	*39%*
Average execution cycle	2 years 6 months	3 to 5 years	2 years
No. of projects executed	More than 100	More than 400	NA
EBITDA margin profile	*10%-14%*	*18%-24%*	*10%-12%*
Order book (as at 1QFY16)	Rs24bn	Rs11bn	Rs5.6bn
Book-to-bill ratio	2.6x	4.0x	3.2x
Share in FY17E revenue	*58%*	*24%*	*18%*
Share in FY17E EBITDA	*52%*	*34%*	*14%*

Source: Company, Nirmal Bang Institutional Equities Research

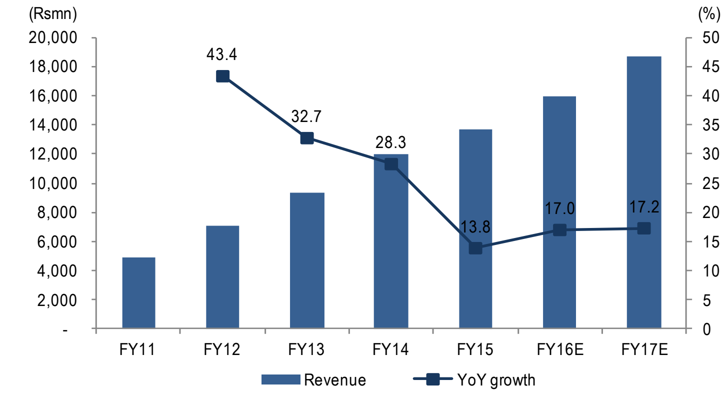
Financial overview

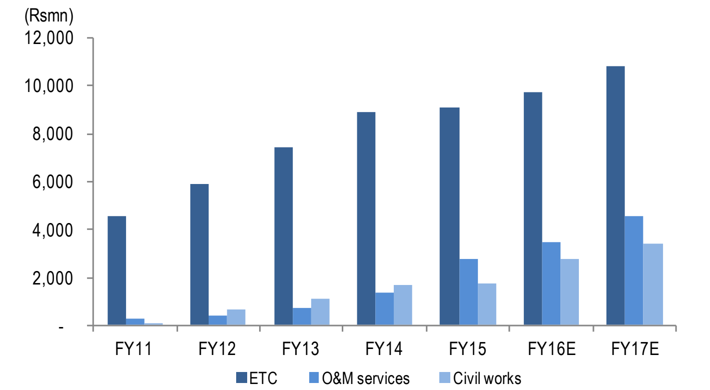
Healthy revenue and profitability momentum likely to sustain

We expect PMP to post consolidated revenue CAGR of 17.1% over FY15-FY17E driven by a 28.1% revenue CAGR in the O&M services segment. O&M services, the highest margin segment of PMP with an operating margin profile of 18%-24%, witnessed strong scale-up in revenue - from Rs269mn in FY11 to Rs2.7bn in FY15 - registering a 79% CAGR. Its share in consolidated revenue mix improved from 5.5% in FY11 to 20.2% in FY15, which we expect to rise further to 24.2% in FY17E, aiding the overall profitability of the company. The ETC segment's revenue growth traction is expected to slightly moderate to a 8.9% CAGR over FY15-FY17E compared to a 10.7% CAGR reported over FY13-FY15 because of high-base effect as well as execution schedule of the project under construction. The ETC segment posted 19% revenue CAGR over the past five years, with revenue rising from Rs4.5bn in FY11 to Rs9.1bn in FY15, which we believe will further increase to Rs10.8bn in FY17E. However, with the scale-up in O&M and civil work segments, the ETC segment's share in consolidated revenue mix steadily declined from 92.4% in FY11 to 66.6% in FY15, which is likely to fall further to 57.6% in FY17E. The civil works segment is likely to register a 39.5% revenue CAGR over FY15-FY17E on a low base. It posted a 26.1% CAGR in past two years, with revenue rising from Rs1.1bn in FY13 to Rs1.7bn in FY15, which we expect to further rise to Rs3.4bn in FY17E. Consequently, its share in consolidated revenue is expected to increase from 12.8% in FY15 to 18.2% in FY17E. Healthy order book across all its three segments with an average execution period of 30 months provides further comfort with respect to revenue visibility.

EBITDA is likely to post a 22.3% CAGR over FY15-FY17E compared to a 16.9% CAGR reported over FY13-FY15 following a rising share of high-margin O&M services business (operating margin profile of 18%-24%), which is expected to account for 34.5% of consolidated EBITDA in FY17E. The ETC segment (10%-14% operating margin profile) is likely to form 51.9% of consolidated EBITDA in FY17E, while the civil works segment (10%-12% operating margin profile) is expected to account for the remaining 13.6% share of consolidated EBITDA in FY17E. Overall EBITDA margin is likely to rise 110bps from 12.2% in FY15 to 13.3% in FY17E. We have been conservative in our EBITDA margin estimate and have factored in margins at the lower band across all three segments (12% in ETC, 19% in O&M and 10% in civil works for FY17E). With moderation in interest costs following likely repayment of debt, net profit is likely to post a 29.1% CAGR over FY15-FY17E (from Rs714mn in FY15 to Rs1.2bn in FY17E) versus a 18.1% CAGR registered over FY13-FY15.

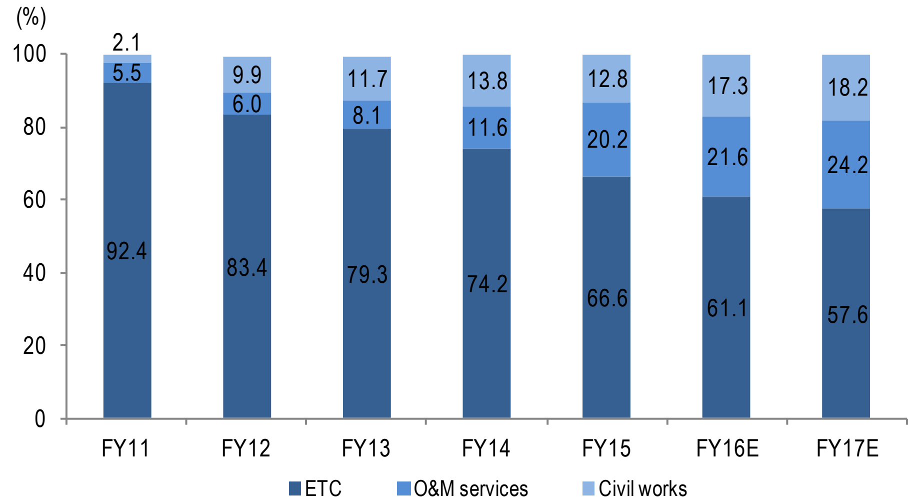
Exhibit 2: Trend in consolidated and segment-wise revenue





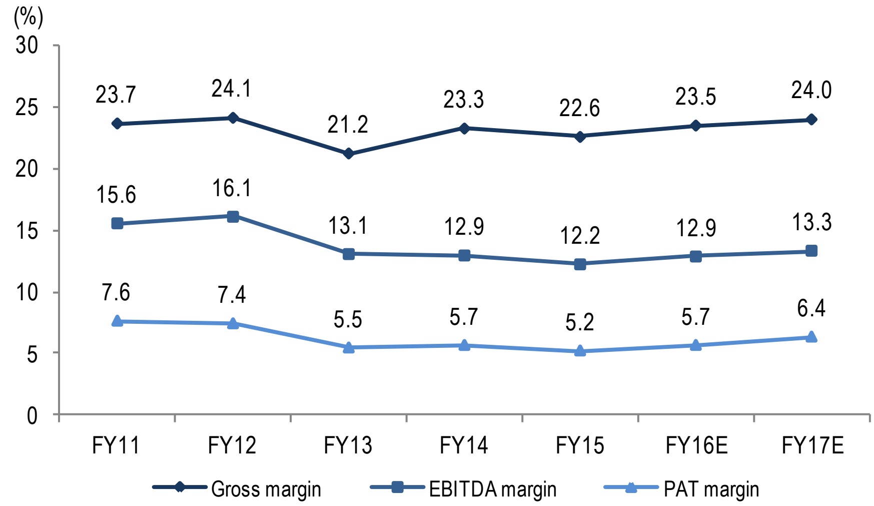
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Revenue mix shifts towards high-margin O&M services segment



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Trend in consolidated profitability

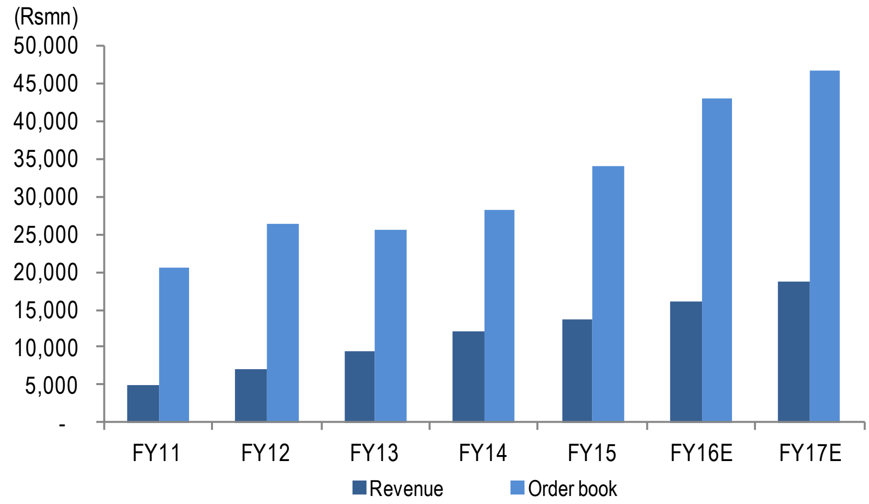


Source: Company, Nirmal Bang Institutional Equities Research

Strong order book ensures healthy revenue visibility

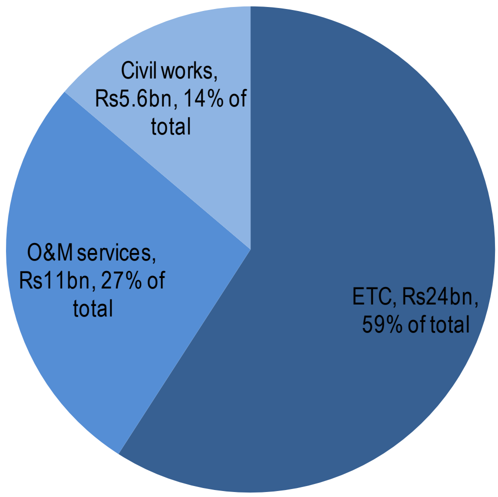
PMP had a strong order book worth Rs40bn as of 1QFY16-end, translating to a robust book-to-bill ratio of 3xFY15 consolidated revenue, which provides healthy revenue visibility over the next two-three years. The ETC segment accounts for 59% of the order book at Rs24bn, translating to a book-to-bill ratio of 2.6xFY15 revenue. The execution period is generally 30 months. We expect the ETC segment to register order inflow of Rs23bn over FY15-FY17E, considering the healthy pipeline of orders and huge opportunity on the anvil. The O&M services segment accounts for 27% of the order book at Rs11bn, translating to a book-to-bill ratio of 4xFY15 revenue, while the execution cycle is generally three to five years. We expect order inflow worth Rs16bn over FY15-FY17E while PMP has already registered order wins worth Rs6.5bn in 1QFY16, including a Rs4.2bn order from Vedanta's Jharsuguda power plant. The civil works segment has an order book worth Rs5.6bn, constituting 14% of total order book, and provides a book-to-bill ratio of 3.2xFY15 revenue while the execution cycle for the same is two years. We expect the segment to register order inflow of another Rs8.4bn over FY15-FY17E, considering its healthy scalability potential owing to a large addressable market opportunity. Further, across the three segments, export order book stands at Rs5.6bn (14% of total order book) which has healthy scalability potential. On a consolidated basis, we expect PMP to register order inflow worth Rs25.0bn/Rs22.5bn in FY16E/FY17E, respectively, (YoY decline in FY17E because of a large Vedanta order received in FY16 worth Rs4.2bn). Consequently, we expect the order book of PMP to increase further from Rs40bn as of 1QFY16-end to Rs43bn/Rs47bn at the end FY16E/FY17E, respectively, thereby continuing the healthy revenue growth momentum.

Exhibit 5: Trend in consolidated revenue and order book position



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Segment-wise order book break-up of Rs40bn as of 1QFY16-end

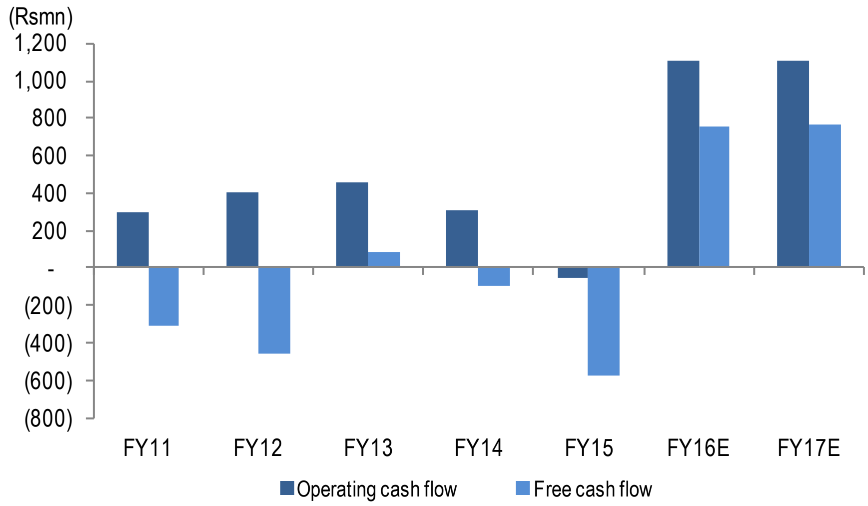


Source: Company, Nirmal Bang Institutional Equities Research

Robust free cash flow generation of Rs1.5bn likely over FY15-FY17E

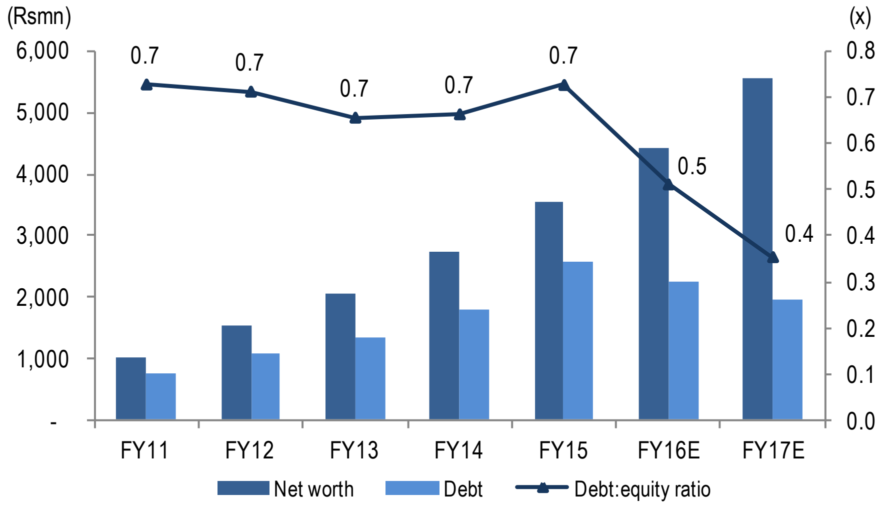
While we continue to factor in the increase in the working capital cycle, the shift in revenue mix with a rising share of revenue from the O&M services segment (which requires much lower working capital) will lead to moderation in the extent of increase in working capital position of the company. Further, improving profitability with likely expansion in operating margin by 110bps over the next two years will further aid the cash flow position. PMP has a healthy track record of operating cash flow, which we believe will improve further with an operating cash flow generation of Rs2.2bn over FY15-FY17E. With moderation in capex requirement (at Rs350mn each for FY16E and FY17E), PMP is likely to generate healthy free cash flow of Rs1.5bn over FY15-FY17E. Through healthy cash flow generation, we expect PMP to repay Rs300mn debt each in FY16E and FY17E, thereby reducing its debt-equity ratio to a comfortable level of 0.35x in FY17E from 0.73x as of FY15-end.

Exhibit 7: Operating and free cash flow trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Debt-equity profile

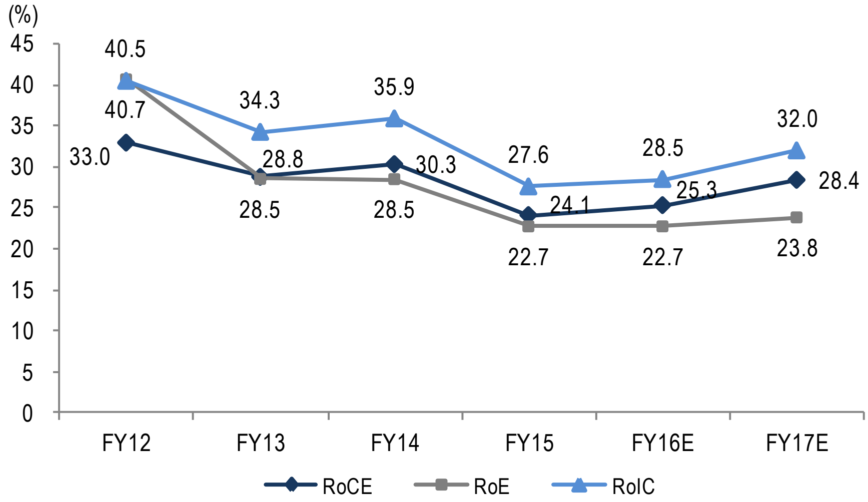


Source: Company, Nirmal Bang Institutional Equities Research

Return ratios expected to inch up

A decline in the operating margin profile over the past five years led to a fall in return ratios over FY12-FY15. However, we expect the return ratios to rise from here on aided by recovery in profitability, moderation in capex and improving asset turnover. Considering the stress in the power sector, the current return ratios of PMP with RoCE/RoE at 24.1%/22.7%, respectively, in FY15 are commendable. We expect them to rise from here on with RoCE/RoE at 28.4%/23.8%, respectively, in FY17E, which are comfortable considering the stress in the underlying power sector as well as currently prevailing attractive valuation at a P/E of 7xFY17E earnings.

Exhibit 9: Trend in return ratios

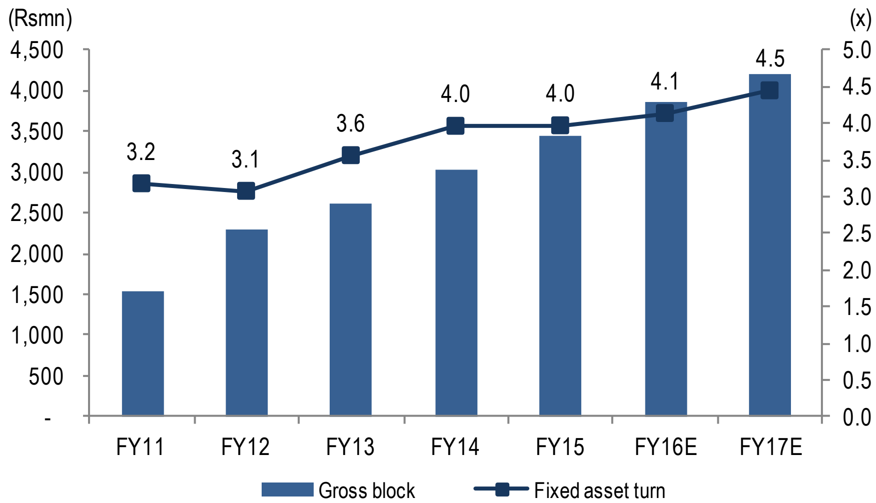


Source: Company, Nirmal Bang Institutional Equities Research

Healthy fixed asset turnover, set to rise further

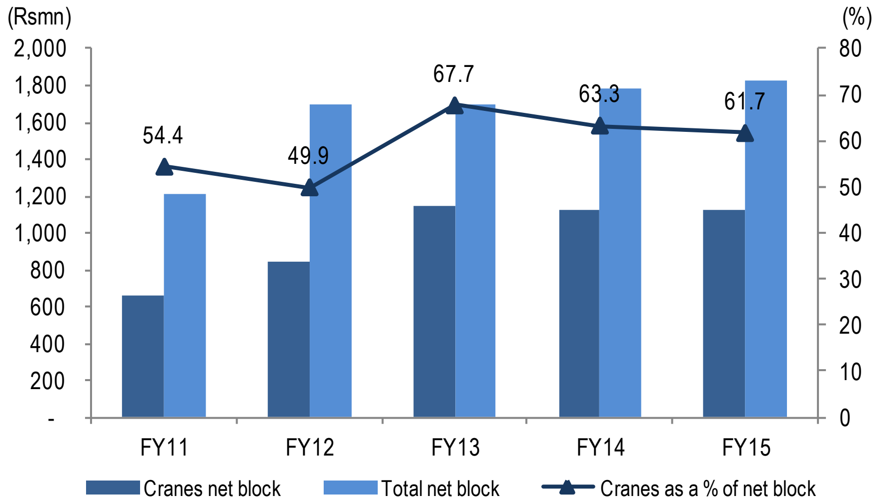
While PMP witnessed a revenue CAGR of 29.1% over FY11-FY15, it also registered a commensurate rise in gross block which posted a CAGR of 22.1% over the same period - from Rs1.5bn in FY11 to Rs3.4bn in FY15. Fixed asset turnover increased over the past five years - from 3.2x in FY11 to 4.0x in FY15 - which is a healthy level considering the capital-intensive nature of ETC projects. Even more commendable is the fact that PMP opted for outright purchase of cranes, the most capital-intensive equipment used for erection and civil works, rather than taking them on lease as it gives the company a competitive edge over peers as well as faster and better execution capability. Despite cranes accounting for 49% of gross block and 62% of net block as of FY15-end, fixed asset turnover was healthy at 4x. With the shift in revenue mix, improved capital efficiency and moderation in capex, we expect fixed asset turnover to increase further to 4.5x in FY17E.

Exhibit 10: Rising trend in fixed asset turnover



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Higher share of cranes as a percentage of net block

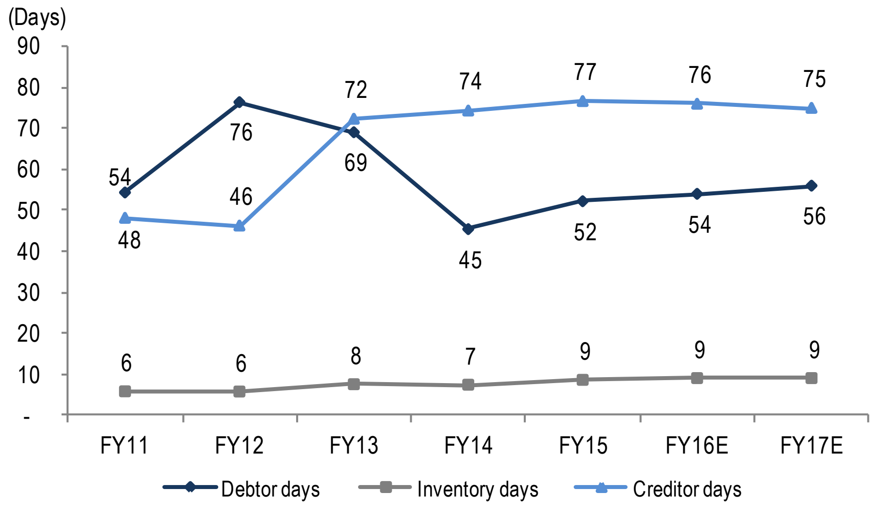


Source: Company, Nirmal Bang Institutional Equities Research

Working capital cycle is on the rise, but at a manageable level

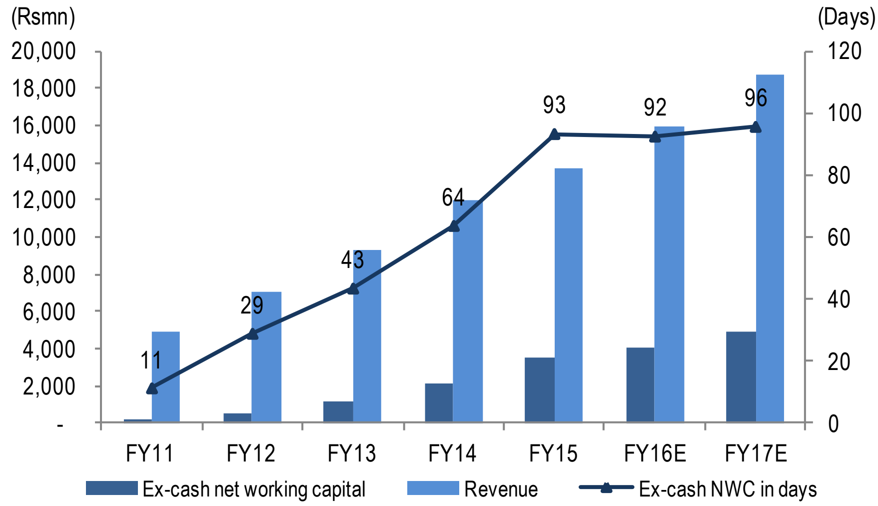
PMP witnessed deterioration in debtor days from 45 in FY14 to 52 in FY15, but they are much below FY12/FY13 levels of 76/69 days, respectively. Considering the stress currently being witnessed in the power sector, receivable cycle of below two months is a commendable achievement of PMP. With the labour-intensive nature of work, PMP insists on timely milestone-based payments to carry on erection and civil work, resulting in control over the receivable cycle. Also, debtors outstanding for more than six months account for only 17% of total debtors, a much lower and comfortable level compared to peers in the industry. Similarly, suspended projects at Rs1.9bn account for only 4.7% of the order book, a much lower level compared to peers in the industry. Inventory days are low at 9 days in FY15 with PMP being a services company and not a product manufacturing company. Creditor days witnessed a continuous rise over the years and currently stand at 77 days. However, rising loans and advances (primarily because of advances to sub-contractors) and other current assets, at 20%/18% of net sales, respectively, led to deterioration in ex-cash net working capital from Rs2.1bn in FY14 to Rs3.5bn in FY15. In terms of number of days, the ex-cash net working capital cycle increased steadily over the years and stood at 93 days in FY15. With rising contribution of O&M services in total revenue, the working capital cycle should taper down. However, on a conservative basis, we have factored in a further increase in the working capital cycle to 96 days in FY17E.

Exhibit 12: Working capital cycle trend



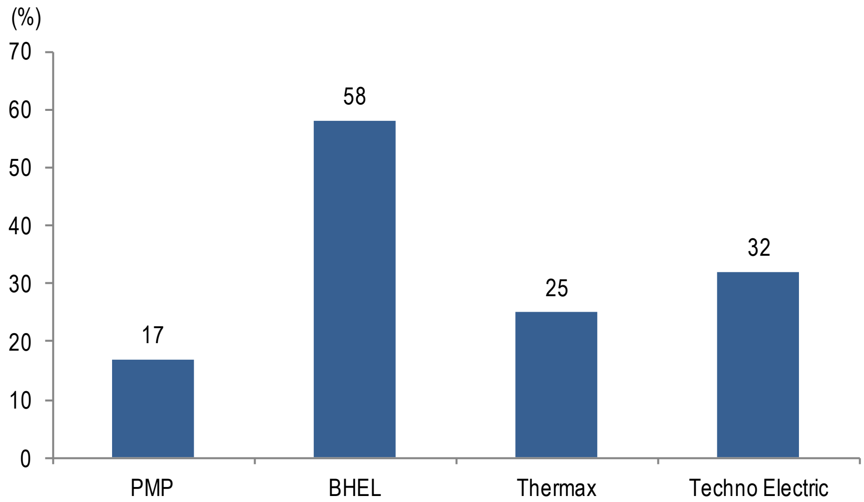
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Ex-cash net working capital position



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Percentage of debtors outstanding for more than six months as of FY15-end



Source: Respective companies, Nirmal Bang Institutional Equities Research

Investment rationale

Strong track record and dominant position in ETC business

PMP is the largest player in erection, testing and commissioning of BTG and BoP works for the power sector in India with a 38% market share. As of 1QFY16-end, PMP worked on more than 100 ETC projects across India and in four international geographies with unit capacities ranging from 150MW to 800MW. ETC work is provided to thermal, gas and combined cycle power projects covering BTG packages including various types of boilers (HRSG, WHRB, CFBC), turbine generators, electrostatic precipitators (ESPs), hydro turbines, structures, pressure parts, air systems, fuel oil systems, coal systems and BoP packages including structural steel works, ash handling, coal handling, fuel oil systems, water treatment plants, fire protection systems and high-pressure piping works. PMP has a strong and credible track record in ETC business, having worked on both operational ultra-mega power projects (UMPPs) and 16 super-critical power plants out of 21 set up in India. ETC work for one out of three power projects of NTPC was carried out by PMP. It has worked on projects of most power generation companies and equipment manufacturers including NTPC, Bharat Heavy Electricals or BHEL, Larsen & Toubro or L&T, Doosan, Thermax, GE, Siemens, Adani Power, CLP India etc. Over the past five years, PMP was engaged in ETC works for 34GW capacity out of 88GW capacity added in India, translating to largest market share of 38%.

Exhibit 15: Key ETC projects completed/ongoing of PMP

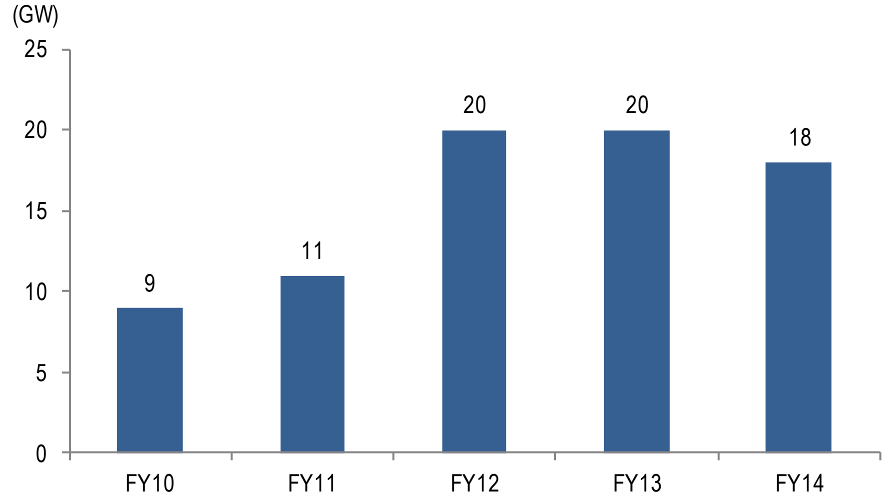
	Project name	Scope of work	MW	Customer	Owner
Thermal BTG projects	Mundra UMPP	3 boiler, 3 turbines auxiliaries	5x800	Doosan	Tata Power
	Sasan UMPP	Mechanical ETC, PG for boiler, ESP, critical piping & TG auxiliaries for 4 units of 660MW	6x660	Reliance Infrastructure	Reliance Power
	Jhajjar TPP	1 boiler	2x660	Shandong Tiejun Electric	CLP India
	Solapur TPP	2 boilers	2x660	BGR	NTPC
	Suratgarh TPP	2 boilers	2x660	BHEL	RRVUNL
	Krishnapatnam TPP	2 boilers	2x660	BGR	Thermal Powertech
	Raichur TPP	1 boiler, ESP	2x800	BHEL	KPCL
	Kudgi TPP	1 boiler, BOP	3x800	Doosan	NTPC
	Nabinagar TPP	2 boilers, bunker structures	3x660	BHEL	NTPC
	Shuqaiq TPP, Saudi Arabia	Boilers & auxiliary equipment	4x720	MM Al Quraishi	Saudi Electric Co
Gas/CCPP projects	IOCL - Panipat	Gas TG		BHEL	IOC
	Western Mountain, Libya	Gas TG, auxiliaries		BHEL	General Electric Co of Libya
	Paltana CCPP	Gas TG, steam TG, HRSG, piping & auxiliaries		BHEL	ONGC Tripura power co
	Monarchak	Steam TG, gas TG, HRSG		NTPC-BHEL power projects	NEEPCO
	Dahej	Steam TG, gas TG, HRSG		BHEL	ONGC Petro
	Paradip	Civil, structural & architectural works, gas TG, steam TG		Simplex Infrastructure, BHEL	IOC
	Marib - Phase II	Gas TG - civil, structural & architectural, gas TG - mechanical		Public Electricity Corp. - Yemen	Public Electricity Corp. - Yemen
	Mangalore	HRSG & utility boilers		BHEL	MRPL
BoP projects	Jharsuguda	CHP	1x600	SEPCO III	Sterlite Energy
	Mejia	CHP	1x500	Elecon Engineering	DVC
	Mundra UMPP	ESP, fuel oil system at 3 units	1x800	Doosan India	Tata Power
	Sasan UMPP	ETC of structures in CHP for 3 units	6x660	Reliance Infrastructure	Reliance Power
	Talwandi	AHP & CHP	1x660	SEPCO I	Talwandi Sabo power
	Raichur	CHP	2x800	BHEL	Raichur Power Corp.

Source: Company, Nirmal Bang Institutional Equities Research

Healthy order book and huge opportunity size provides avenues for growth

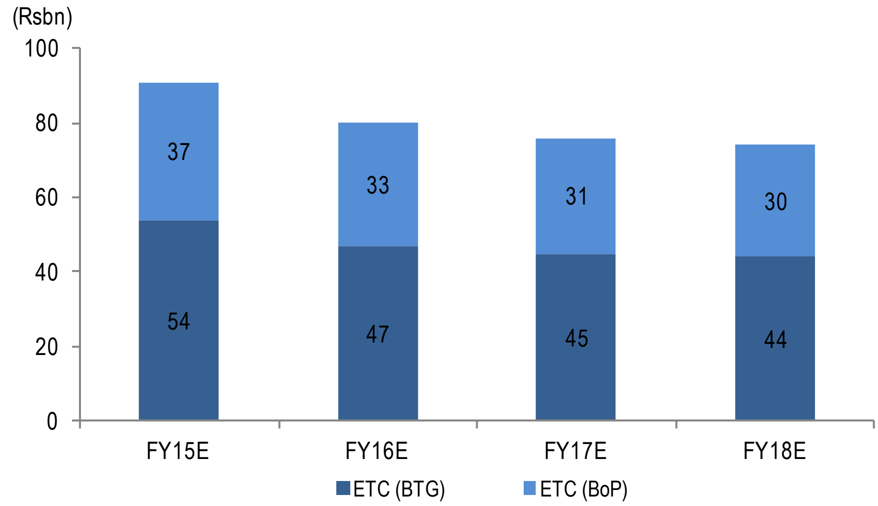
PMP's order book stood at Rs24bn as of 1QFY16-end in the ETC segment, which provides it a future visibility of 2.6xFY15 revenue while the average execution cycle is 30 months. The opportunity size over the next four years is large as an investment outlay worth Rs3.3trn in power generation is expected by CRISIL till FY18. Assuming a rule of thumb capex of Rs50mn per MW to set up a power plant, 66GW power generation capacity is likely to be added over the four years. Assuming 80% of these to be thermal, 53GW thermal plants (or 12GW per annum) is likely to be added over the next four years, which is a reasonable assumption, in our view. BTG equipment accounts for 48%-53% of total cost of thermal power plants, of which the ETC portion is 14%-16%. As per CRISIL, an opportunity size of Rs189bn is likely for ETC works of BTG equipment till FY18. Similarly, across all BoP packages, the cost of ETC is 12%-14%, translating to an opportunity size of Rs131bn till FY18. Cumulatively, PMP can look to tap a large opportunity of Rs320bn in the ETC domain where it is a dominant player with the largest market share of 38% currently, providing healthy future growth potential.

Exhibit 16: Trend in thermal capacity addition in India



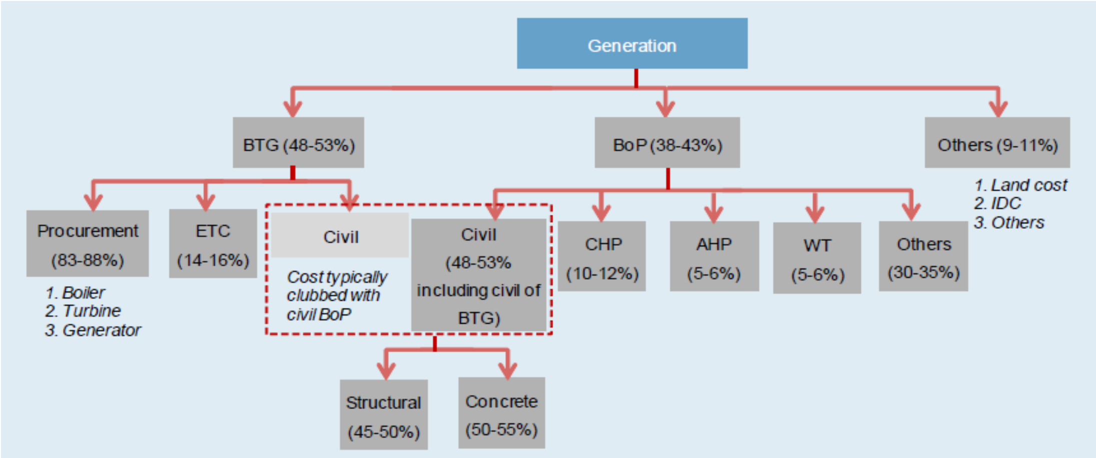
Source: CRISIL, Nirmal Bang Institutional Equities Research

Exhibit 17: ETC opportunity till FY18



Source: CRISIL, Nirmal Bang Institutional Equities Research

Exhibit 18: Cost structure of a thermal power plant

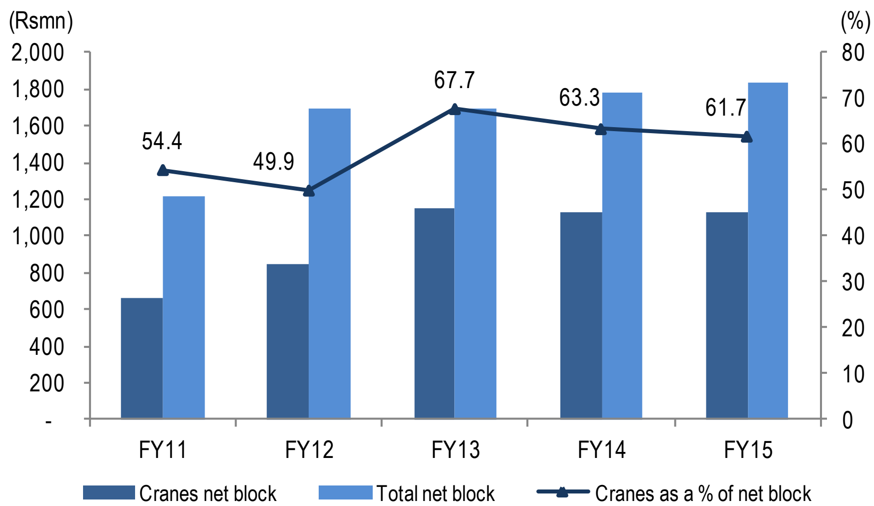


Source: CRISIL, Nirmal Bang Institutional Equities Research

Capital-intensive and labour-intensive work - key entry barrier

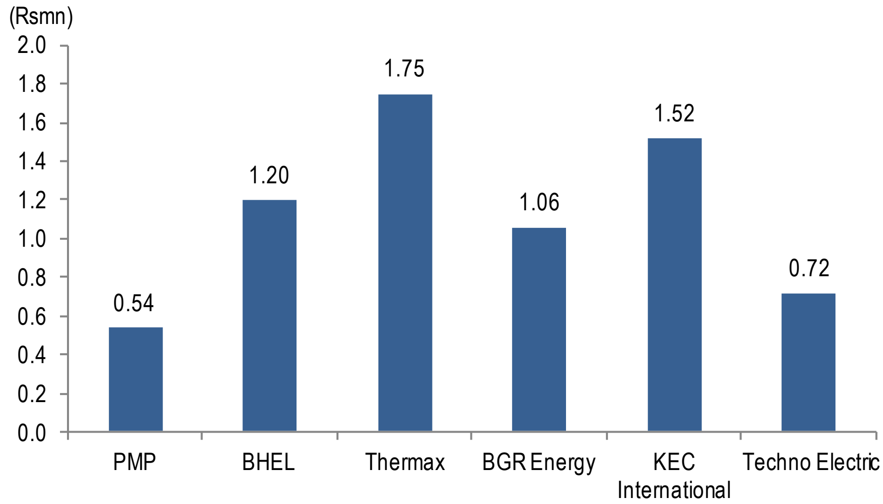
While ETC is a large opportunity along with a healthy operating margin profile of 10%-14%, we do not think that BTG or BoP equipment makers will enter this space. The two primary reasons for the same being ETC is a highly capital-intensive as well as labour-intensive work. While PMP posted a 29.1% revenue CAGR over FY11-FY15, it also registered a commensurate rise in gross block, which witnessed a CAGR of 22.1% over the same period from Rs1.5bn in FY11 to Rs3.4bn in FY15. The key component of gross block is cranes and PMP has opted for outright purchase of cranes, the most capital-intensive equipment used for erection and civil works, rather than leasing them as it gives PMP a competitive edge over peers in terms of faster and better execution capability. PMP owns 261 cranes ranging from 10tn to 300tn in capacity terms and accounting for 49% of gross block and 62% of net block as of FY15-end. Also, managing a large labour force is key to timely execution of ETC and civil works. PMP has a direct employee base of 2,271 full-time employees (mostly engineers) and a contract labour force comprising 35,000 people. While full-time employees are on monthly payrolls, if there is delay at a site, PMP shifts them to another site and ensures that it doesn't waste manpower. The contract labourers work on a project-to-project basis and are sub-contracted by PMP. If a project gets delayed by factors external to PMP (like BTG contractor delay, delay in receiving clearances etc) then PMP gets compensated via a pre-determined formula which is part of the contract terms and conditions. Our interactions with equipment manufacturers (both BTG and BoP) indicates that they will not consider entering the ETC domain as: (a) It requires a lot of technical skill- sets, and (b) They are not willing to undertake so much labour-intensive work. PMP competes with dedicated ETC players like Indwell Construction, Bridge & Roof Company, IOT Infrastructure and Sunil Hitech Engineers.

Exhibit 19: Higher share of cranes as a percentage of net block



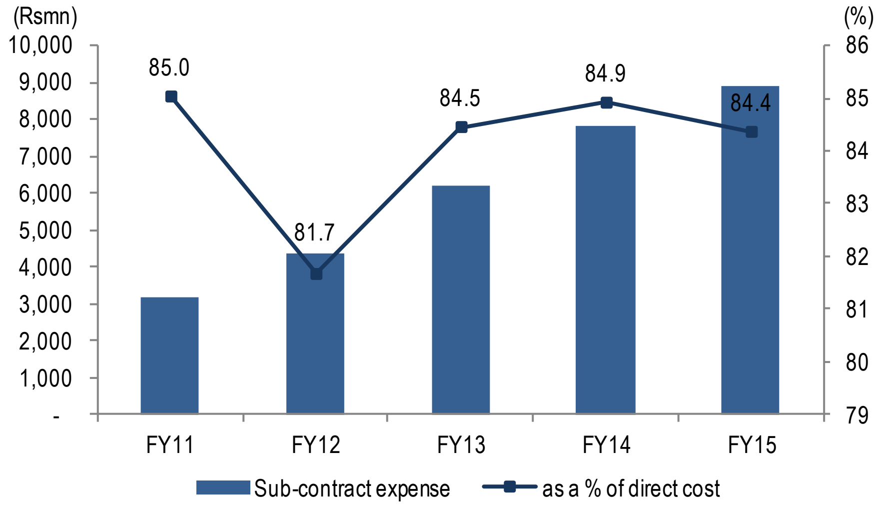
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Peer comparison of costs per employee



Source: Respective companies, Nirmal Bang Institutional Equities Research

Exhibit 21: Trend of sub-contract costs as a percentage of direct costs

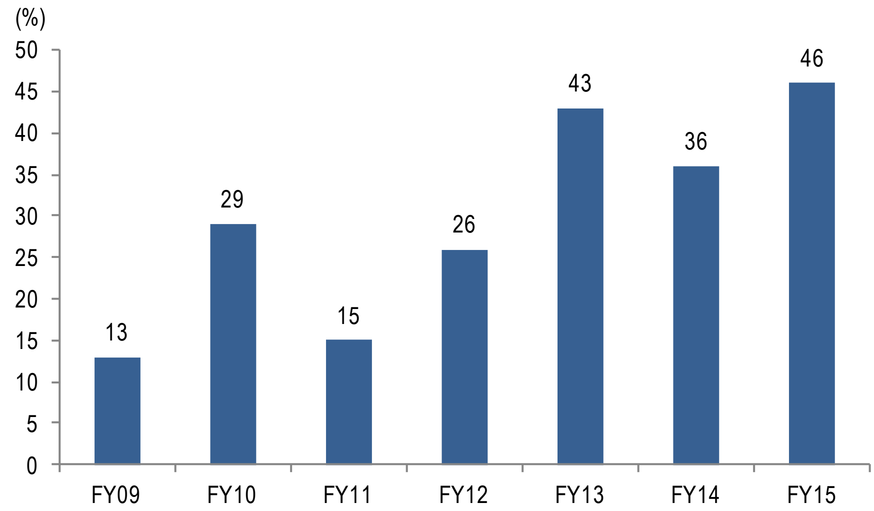


Source: Company, Nirmal Bang Institutional Equities Research

Presence of Chinese players is an opportunity and not a threat

Chinese players have disrupted pricing in the power equipment industry in India in BTG and T&D domains. Chinese power generation capacity in India stands at 60GW (operational and under construction) while in T&D equipment (transformers, reactors and sub-stations) Chinese and Koreans have together captured a market share of 46% in FY15 in the contracts of Power Grid Corporation of India (PGCIL). However, Chinese and Korean companies can only compete aggressively in the field of product manufacturing and supply (be it exports from their home country or manufacturing in India). They will not be able to compete or even willing to enter the domain of localised civil and construction work like transmission line EPC jobs or ETC work of BTG-BoP equipment. This ensures that the presence of Chinese players actually translates to a business opportunity for PMP and not a threat. In fact, PMP is in the process of setting up a large heavy engineering facility in Noida for making non-critical equipment and spare parts to service 60GW Chinese facilities and other equipment like hydro turbines. PMP expects the Noida workshop to account for revenue of Rs150mn in FY16E and Rs500mn in FY17E.

Exhibit 22: Chinese and Korean market share in T&D equipment space

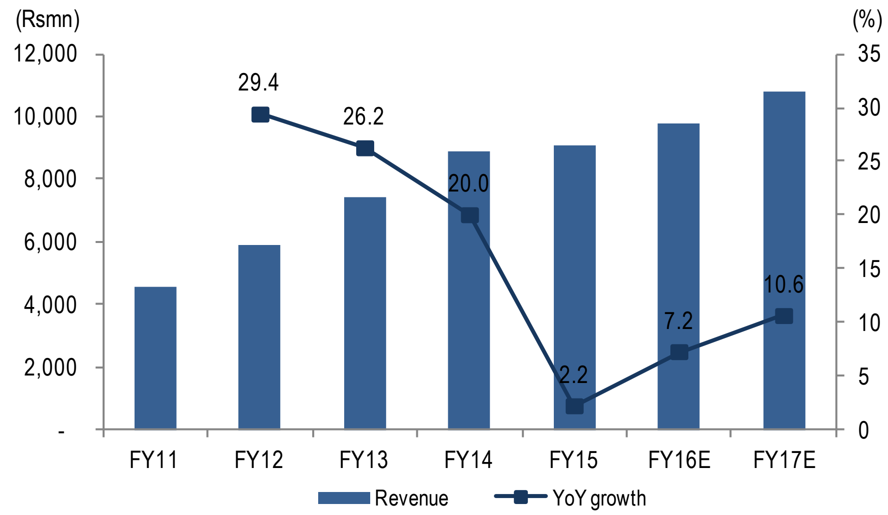


Source: PGCIL, Nirmal Bang Institutional Equities Research

Key assumptions in ETC segment

We expect the ETC segment to register revenue growth of 7.2%/10.6% in FY16E/FY17E, respectively, at Rs9.7bn/Rs10.8bn. ETC segment's revenue growth traction is expected to slightly moderate to a 8.9% CAGR over FY15-FY17E compared to a 10.7% CAGR reported over FY13-FY15 because of a higher base effect as well as execution schedule of the projects under construction. Considering the stress in the power sector, we conservatively forecast EBITDA margin of 11.5%/12.0% for FY16E/FY17E, respectively, while as per the management the operating margin range is 10%-14%. The ETC segment is expected to account for 57.6% of consolidated revenue and 51.9% of consolidated EBITDA in FY17E. We expect the ETC segment to register order inflow of Rs23bn over FY15-FY17E considering the healthy pipeline of orders and huge opportunity on the anvil.

Exhibit 23: Revenue profile of ETC segment



Source: Company, Nirmal Bang Institutional Equities Research

O&M services - strong scale-up to drive margins higher

Under O&M services, PMP undertakes annual maintenance contracts (AMC), repairs, renovation and modernisation (R&M), residual life assessment (RLA), scheduled shutdowns, retro-fits, overhauling, and maintenance and upgradation services for thermal power plants, hydro power plants and gas turbines. PMP was engaged in more than 400 O&M contracts as of 1QFY16-end including international projects in the Middle East, North Africa, South Asia and South America. With a significant increase in the installed base of private sector independent power plants (IPPs) in India, the O&M services of PMP witnessed significant growth traction with revenue jumping from Rs269mn in FY11 to Rs2.7bn in FY15, registering a robust CAGR of 79%.

Generally, all IPPs have a private party looking after their AMC services (maintain the power plant and keep it in running condition). PMP is engaged in 23 AMC services currently for IPPs with an aggregate capacity of 33GW out of total installed IPP capacity of 55GW, translating to a market share of 60%. The general tenure of an O&M or AMC contract is three to five years. However, certain contracts are also awarded for a 10-year period. PMP has provided AMC service for the 655MW Paguthan power plant of CLP India since 2004. It has also provided AMC services for Mundra and Sasan UMPP as well as also undertaken the overhauling of super-critical 660MW turbine. With a strong scale-up in O&M services revenue, its share in consolidated revenue rose from 5.5% in FY11 to 20.2% in FY15. It is also a high-margin business with an EBITDA margin profile of 18%-24%, providing the boost to overall profitability of PMP.

Exhibit 24: PMP's key O&M/AMC contracts completed/ongoing

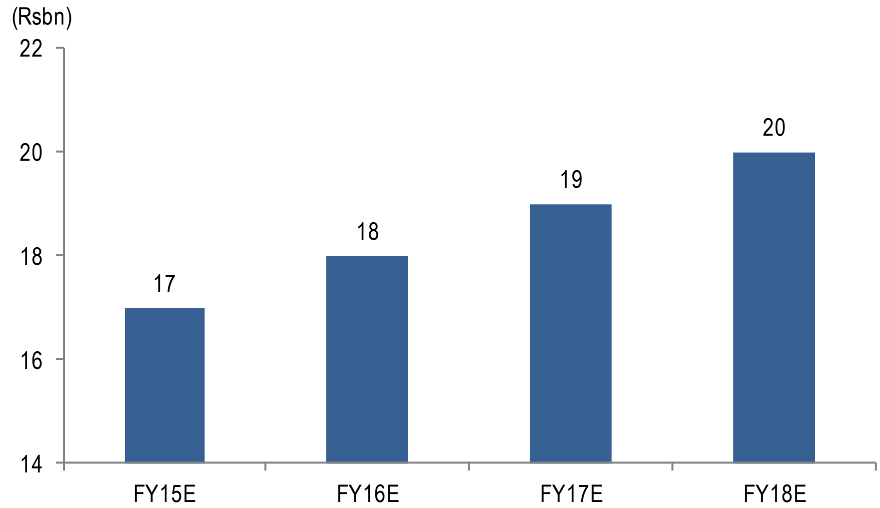
	Project name	Scope of work	MW	Customer	Owner
AMC contracts	Mundra UMPP	BTG - mechanical, control & instrumentation	5x800	Tata Power	
	Mundra TPP	BTG, BoP, AHP - mechanical, electrical, control & instrumentation	4x330 & 5x660	Adani Power	
	Tiroada	TG, BoP - mechanical	5x660	Adani Power	
	Sasan UMPP	BTG - mechanical	6x660	Reliance Power	
	Rajpura	BTG, BoP - mechanical, electrical, control & instrumentation	2x700	L&T Power	
	Kawai	BTG, BoP, AHP - mechanical	2x660	Adani Power	
	Nigrie	BTG, BoP - maintenance for mechanical, electrical, instrumentation work	2x660	Jaiprakash Power Ventures	
O&M service contracts	Satpura	Overhauling & services of boilers & auxiliaries of unit no. 7	1x210	BHEL	Lanco Infratech
	Lanco Anpara	Overhauling of boiler & air-pre heater	1x600	Lanco Infratech	Lanco Infratech
	Tata Trombay	Major overhauling of power plant	1x500	Siemens	Tata Power
	Bandel	Renovation & maintenance of boiler & ESP	1x210	Doosan power systems India	Bandel TPS
	Barauni	Renovation & maintenance of turbine & auxiliaries		BHEL	Barauni TPS

Source: Company, Nirmal Bang Institutional Equities Research

Strong order book and healthy opportunity size

The O&M services segment has a strong order book worth Rs11bn, translating to a book-to-bill ratio of 4xFY15 revenue, providing healthy revenue visibility as the duration of contracts is generally three to five years. PMP has already registered order wins worth Rs6.5bn in 1QFY16 including a large Rs4.2bn order from Vedanta's Jharsuguda power plant for a five-year period. As per CRISIL, over the next four-year period the opportunity size of AMC services in thermal power sector in India is estimated at Rs75bn. The total opportunity size includes power plants of central utilities like NTPC as well as state power generation companies, which currently do not give out AMC contracts to private parties but prefer to do it themselves. Consequently, the current revenue of O&M services of PMP comes largely from private IPPs. The current installed power generation capacity of the private sector in India is 55GW of which 90% has been given out for O&M services, with PMP handling 33GW of it. Generally, whenever PMP does ETC work for a private IPP it also gets the O&M service contract for it as having done the erection, PMP knows the plinth really well.

Exhibit 25: O&M opportunity till FY18



Source: CRISIL, Nirmal Bang Institutional Equities Research

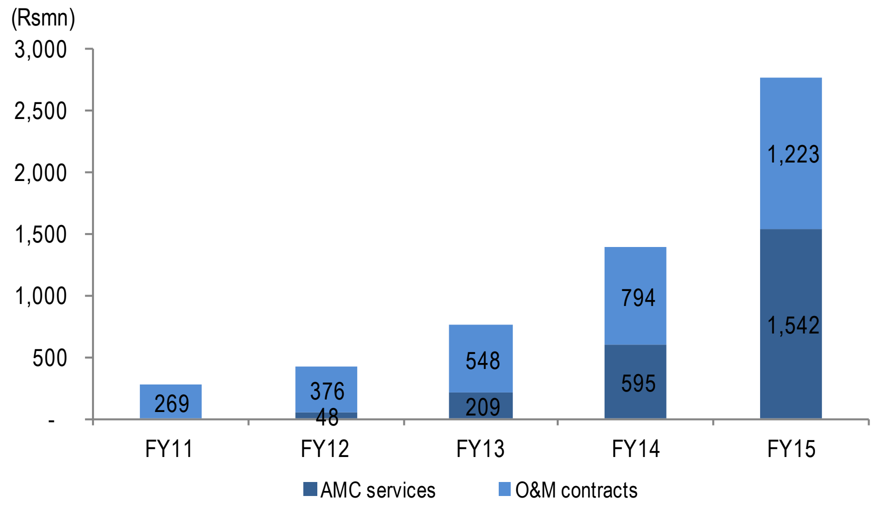
Future growth drivers – IPPs, Chinese plants, state utilities and international markets

Private IPPs will continue to be key growth drivers in future for O&M services. Currently, around 57GW of private IPPs are held up because of lack of coal linkage, regulatory clearance or financial problems. As these plants start reviving, they will become significant opportunities for O&M services for PMP. The second-largest market for O&M services could turn out to be Chinese players' 60GW capacity in India. As Chinese players do not have a comprehensive set-up in India, PMP entered into a 50:50 joint venture with a Chinese firm Chengdu Pengrun New Energy Development Company (Chengdu) in December 2014 to offer O&M solutions for maintenance and repair of Chinese equipment in India. The third opportunity on the verge of opening up is Central and State utilities, which are currently not offering AMC services to private parties. However, recently two tenders have been floated by Rajasthan State Electricity Board and Singareni Collieries for O&M services and PMP is qualified for both. In future, if other state electricity boards or SEBs follow suit, it can provide a large opportunity for PMP. Also, PMP has made a beginning in international markets over the past two years to offer O&M services and is currently present in the Middle East, registering revenue of US$3mn-US$5mn, with an expectation of 20% growth.

Penalties and responsibilities in O&M services are manageable

O&M contracts are of two types - a comprehensive O&M contract or a non-comprehensive AMC contract. Under O&M contract, PMP is responsible for ensuring the plant availability factor (PAF) while in AMC contract it does not have any responsibility for providing guaranteed availability of plant. PAF is generally 92%-93% of actual plant capacity excluding any forced outages. In AMC contracts, the key scope of work is only supply of technical manpower to maintain the power plant and to keep it in running condition and therefore there is no risk of any penalties under AMC contracts. In O&M contracts, margins are higher, but the risk of penalties is also present if PAF is less than agreed. Similarly, incentives are also provided if PAF is improved upon. The maximum penalty is limited to 10% of contract value whereas blended margins are in 18% to 24% range and thus even if full 10% penalty is levied, PMP is protected. Forced outages are likely to include unavailability of coal/grid, customer not having spares etc. The average realisation in a non-comprehensive AMC contract is Rs0.2mn/MW/year while the same in case of a comprehensive O&M services contract is Rs0.35mn/MW/year. The revenue from AMC services has provided a 218% CAGR over the past four years from Rs48mn in FY12 to Rs1.5bn in FY15 and accounts for 56% of total revenue of the O&M services segment.

Exhibit 26: Revenue trend of O&M and AMC contracts



Source: Company, Nirmal Bang Institutional Equities Research

Key assumptions in O&M services segment

We expect O&M services segment to register a strong revenue growth of 24.9%/31.3% YoY in FY16E/FY17E, respectively, at Rs3.4bn/Rs4.5bn, translating to a 28.1% CAGR over FY15-FY17E. While the range of operating margin is 18%-24%, we are factoring in EBITDA margin estimate at the lower-end at 19% each for FY16E and FY17E. The contribution of O&M services segment in consolidated financials is expected to rise further from 20.2% of FY15 revenue to 24.2% of FY17E revenue while its share in consolidated EBITDA is likely to go up to 34.5% in FY17E, leading to margin accretion for the company. We expect order inflow worth Rs16bn over FY15-FY17E while PMP has already registered order wins worth Rs6.5bn in 1QFY16 including a Rs4.2bn order from Vedanta's Jharsuguda power plant.

Civil works segment scaling up rapidly

PMP commenced civil works business in FY11 and undertakes various civil, structural and construction works which are ancillary to its ETC scope. The nature of work includes grading, leveling, excavation, piling, mass concreting foundations for buildings, turbine/generator decks and super-structures, fabrication and erection of structures, main plant bay etc. PMP services coal and gas-based power projects, renewable energy projects, petrochemical projects, nuclear power projects of up to 800MW and oil and gas refineries in India and overseas. Beginning in FY11 with a small revenue base of Rs103mn, the civil works segment posted a CAGR of 103% over the past five years and a 26.1% CAGR over FY13-FY15 with a FY15 top-line of Rs1.7bn, accounting for 12.8% of consolidated revenue. Civil works segment has a healthy order book worth Rs5.6bn, translating to book-to-bill ratio of 3.2xFY15 revenue, thereby providing healthy revenue visibility as the average execution cycle is two years.

Exhibit 27: Civil works projects completed by PMP

Project name	Customer	Owner
Marib Yemen	BHEL	Public Electricity Corp., Yemen
Suratgarh P3 TPS	BHEL	RRVUNL
Unchahar	NTPC-BHEL power projects	NTPC
Kothagudem TPS stage 7	BHEL	Telangana power genco
Banharpalli IB	BHEL	Odisha power genco

Source: Company, Nirmal Bang Institutional Equities Research

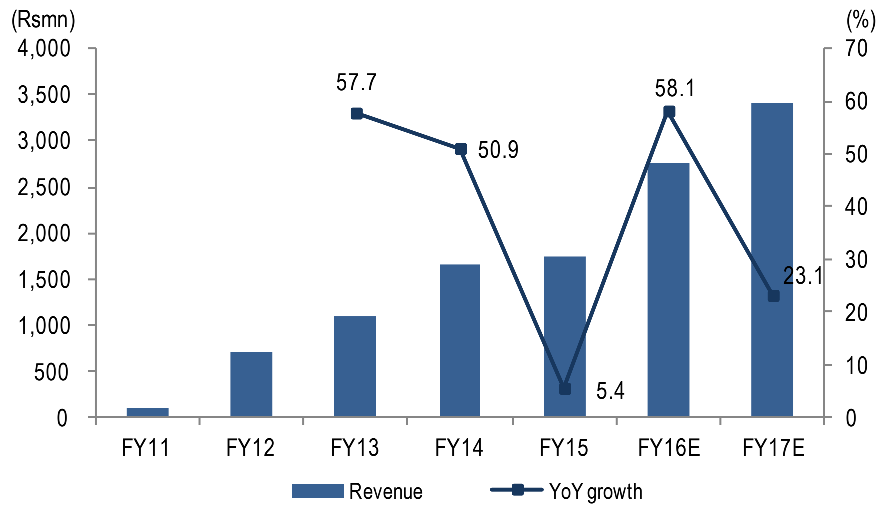
Opportunity size is large, but PMP prefers to be selective

Generally, civil construction costs in a thermal power plant for BTG and BoP equipment is clubbed together and accounts for around 48%-53% of the cost of BoP package, which translates to around 18%-23% of overall project costs. The civil construction costs typically vary across the region, with higher costs incurred in the area with moist soil (and hence higher foundation works). As per CRISIL estimate, the opportunities in civil work is estimated at Rs505bn, of which Rs227bn (around 45%-50% is attributed to structural/fabrication works. While the opportunity size is large, it is the lowest margin segment for PMP with EBITDA margin range of 10%-12% and the competition is with several large construction and infrastructure companies such as IVRCL and Gammon India. PMP bids for projects in civil works domain selectively where it makes strategic sense (like projects where it is also executing ETC work).

Key assumptions in civil works segment

We expect civil works segment to post a strong revenue CAGR of 39.5% over FY15-FY17E compared to a 26.1% CAGR reported over FY13-FY15. While the range of operating margin is 10%-12%, we are factoring in EBITDA margin estimate at the lower-end at 10% each for FY16E and FY17E. The contribution of civil works segment in consolidated revenue is likely to be 18.2% whereas it is likely to account for 13.6% of consolidated EBITDA in FY17E. We expect order inflow worth Rs8.4bn over FY15-FY17E, translating into 11.5% CAGR over the same period.

Exhibit 28: Revenue trend of civil works segment



Source: Company, Nirmal Bang Institutional Equities Research

Diversification into hydro-power segment and international geographies

PMP diversified into hydro-power segment in September 2012 via a 75% subsidiary Hydro Magus Pvt. Ltd. in order to increase its strategic focus on providing renovation, modernisation, upgradation and installation services for hydro power projects. The scope of work includes re-engineering of high-efficiency turbine runners and hydro-generators as well as the design, supply, erection, testing and commissioning of hydro-turbines and hydro-generators. Further, PMP aims to explore strategic partnerships with international equipment suppliers for hydro-power projects to jointly bid for new hydro-power projects as well as renovation and maintenance works for hydro-power projects. Similarly, PMP is increasingly focusing on expansion in international markets across all three business verticals with initial focus on the Middle East, North Africa and South Asia. International projects accounted for Rs763mn/Rs845mn revenue in FY14/FY15, respectively, translating to 6.4%/6.2% of annual consolidated revenue for both years. Similarly, export order book stood at Rs5.6bn, translating to 14% of total order book as of 1QFY16-end. PMP aims to rapidly expand its international presence and take the share of its international revenue to 20% of total revenue in three years.

Outlook and valuation

We expect PMP to post consolidated revenue CAGR of 17.1% over FY15-FY17E driven by a 28.1% revenue CAGR in the O&M services segment. O&M services - the highest margin segment of PMP with a operating margin profile of 18%-24% - witnessed strong revenue scale-up from Rs269mn in FY11 to Rs2.7bn in FY15, registering a 79% CAGR. Its share in consolidated revenue mix improved from 5.5% in FY11 to 20.2% in FY15, which we expect to further rise to 24.2% in FY17E, aiding overall profitability of the company. Consequently, EBITDA is likely to post a 22.3% CAGR over FY15-FY17E compared to a 16.9% CAGR reported over FY13-FY15, leading to a 110bps expansion in operating margin to 13.3% in FY17E with O&M services forming 34.5% of consolidated EBITDA in FY17E. With moderation in interest expenses following likely repayment of debt (partly from the proceeds of the IPO), net profit is likely to post a 29.1% CAGR over FY15-FY17E compared to 18.1% CAGR registered over FY13-FY15.

PMP is a healthy financial franchise with FY15 RoCE of 24% (28% in FY17E), fixed asset turnover of 4x (4.5x in FY17E), better working capital cycle than its peers at 93 days (debtor days at 52), likely free cash flow generation of Rs1.5bn over FY15-FY17E, strong order book of Rs40bn (3xFY15 revenue) and expected order inflow of Rs47bn over FY15-FY17E. Considering the growth metrics and its sound financial position, PMP trades inexpensively at 7xFY17E earnings. We have assigned Buy rating to the stock with a target price of Rs809 based on 10xFY17E EPS, up 40% from the current market price.

Key risks

- Significant time and cost over-runs in lump-sum price contracts and item rate contracts on account of delay by PMP or its sub-contractors can affect the profitability and working capital cycle.
- PMP's operations are dependent on a large pool of contract labour and any inability to access adequate contract labour at reasonable costs at project sites across India may adversely affect its business prospects.
- Inability to effectively manage project execution and milestone schedules may lead to project delays, which may adversely affect PMP's business.
- Any economic downturn or other factors adversely affecting investments in the power sector will adversely impact the demand for PMP's services.
- Any significant and unforeseen increase in competition can affect the profitability and market share of PMP adversely.

Company background

Incorporated in 1999, PMP is an integrated power infrastructure services company providing comprehensive erection, testing and commissioning of boilers, turbines and generators (ETC-BTG) and balance of plant (BoP) works, civil works and operation and maintenance (O&M) services. Mr. S. Kishore Babu, 52, is the founder chairman and managing director of the company. He is a first generation entrepreneur having several years of experience in the power sector including construction and O&M. The business activities of PMP are spread across three segments: (a) ETC, (b) O&M services, and (c) civil works. In the ETC domain, PMP is the largest player in India with a 38% market share and has worked on more than 100 projects across India and four international geographies with unit capacity ranging from 150MW to 800MW. PMP has a strong and credible track record in the ETC segment having worked on both operational UMPPs and 16 super-critical power plants out of 21 set up in India. In O&M services, PMP undertakes AMC, repairs, renovation and modernisation, residual life assessment, scheduled shutdowns, retro-fits, overhauling, and maintenance and upgradation services for power plants. PMP has been engaged in more than 400 O&M contracts till date and has a market share of 60% in private IPPs. In the civil works domain, PMP undertakes various civil, structural and construction works which are ancillary to its ETC scope in a power plant. The revenue of PMP has grown at a healthy pace of 29% CAGR over the past five years while its earnings registered a17% CAGR over the same period. PMP tapped the capital market through an IPO in August 2015. Currently, the promoters hold a 64.75% equity stake in the company.

Exhibit 29: Time-line of key events

Year	Key Events, Milestones and Achievements
1999	• Incorporation of our Company • Undertook works in overhauling and maintenance of gas turbines
2002	• First boiler erection work of capacity 1 X 63 tph and 2 X 165 tph AFBC boilers and ETC of 20.85 MW and 55 MW steam turbine generators.
2004	• Fist AMC of 655 MW combined cycle dual fuel based power plant
2007	• First ETC of 1 X 500 MW boiler and auxiliaries including ESP
2008	• Major ETC work of 2 units of thermal power plant of capacity 2 X 600 MW • Erection of structural steel, steam generator and auxiliaries works for 3 boilers for 4000 MW (5X800 MW coal based power plant).
2009	• Raising of capital in the form of equity and compulsorily convertible preference shares. • First international work in Libya – erection of 2 gas turbines.
2011	• Commenced civil and gas turbine erection work at Yemen, Marib worth USD 61 million
2012	• Hydro Magus, our subsidiary, was incorporated to undertake EPC works of hydro projects.
2014	• Entered into a joint venture agreement with Chengdu Pengrun New Energy Development Co. Limited, Hong Kong
2015	• Received a work order to carry out O&M of 4X600 MW power plant at Jharsuguda for ₹ 4,220.37 million. This is the single largest order, in terms of value, for our Company.

Source: Company

Exhibit 30: List of anchor investors in IPO

List of anchor investor	No. of shares	Rsmn	Share in anchor book (%)
IDFC Premier Equity Fund	406,115	260	32%
SBI Small & Mid-cap Fund	183,356	117	14%
SBI Magnum Multi-cap Fund	35,259	23	3%
DSP Blackrock India Tiger Fund	218,615	140	17%
Morgan Stanley Mauritius	140,495	90	11%
HDFC Capital Builder Fund	54,680	35	4%
HDFC Small & Mid-cap Fund	54,680	35	4%
Tata AIA Life Insurance – Mid-cap Equity	109,360	70	9%
L&T MF Business Cycles Fund	62,540	40	5%
L&T MF India Value Fund	15,600	10	1%
Total	**1,280,700**	**820**	**100%**

Note: IPO size was Rs2.7bn of which anchor book was 30% at Rs820mn, shares allotted at upper end of price band at Rs640

Source: Company

Financials (consolidated)

Exhibit 31: Income statement

Y/E March (Rsmn)	FY13	FY14	FY15	FY16E	FY17E
Net sales	9,358	12,003	13,662	15,978	18,733
% growth	*32.7*	*28.3*	*13.8*	*17.0*	*17.2*
Raw material costs	7,371	9,211	10,578	12,224	14,237
Staff costs	668	1,092	1,202	1,438	1,686
Other overheads	97	146	213	262	313
Total expenditure	8,136	10,449	11,992	13,923	16,236
EBITDA	1,222	1,554	1,670	2,055	2,497
% growth	*7.7*	*27.2*	*7.5*	*23.1*	*21.5*
EBITDA margin (%)	*13.1*	*12.9*	*12.2*	*12.9*	*13.3*
Other income	46	108	58	57	60
Interest costs	168	266	294	339	317
Depreciation	336	328	368	420	464
Profit before tax	764	1,067	1,066	1,354	1,776
Tax	253	385	350	447	586
Minority interest	-	1	2	-	-
Net profit	512	681	714	907	1,190
% growth	*(2.4)*	*33.1*	*4.9*	*27.0*	*31.2*
Net profit margin (%)	5.5	5.7	5.2	5.7	6.4
EPS (Rs)	47.6	62.2	56.7	61.6	80.9
% growth	*(2.4)*	*30.8*	*(8.8)*	*8.6*	*31.2*
No. of shares outstanding (mn)	*10.8*	*10.9*	*12.6*	*14.7*	*14.7*

Note: Per share data as per the no. of shares outstanding as at end of respective year
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 32: Cash flow

Y/E March (Rsmn)	FY13	FY14	FY15	FY16E	FY17E
EBIT	886	1,225	1,302	1,635	2,033
(Inc.)/dec. in working capital	(556)	(980)	(1,400)	(556)	(859)
Cash flow from operations	**330**	**246**	**(98)**	**1,079**	**1,175**
Other income	46	108	58	57	60
Depreciation	336	328	368	420	464
Tax paid (-)	(250)	(375)	(381)	(447)	(586)
Minority interest (-)	-	(1)	(2)	-	-
Net cash from operations	**462**	**306**	**(55)**	**1,109**	**1,112**
Capital expenditure (-)	(375)	(406)	(522)	(350)	(350)
Net cash after capex	**87**	**(99)**	**(577)**	**759**	**762**
Interest paid (-)	(168)	(266)	(294)	(339)	(317)
Dividends paid (-)	(13)	(18)	(15)	(44)	(62)
Inc./(dec.) in short-term borrowing	535	480	671	(313)	(300)
Inc./(dec.) in long-term borrowing	(295)	(6)	92	-	-
Inc./(dec.) in total borrowings	240	474	763	(313)	(300)
(Inc.)/dec. in investments	-	-	-	-	-
Minority interest	-	1	1	-	-
Equity issue/(Buyback)	-	38	113	1,362	-
Cash from financial activities	**60**	**228**	**567**	**666**	**(679)**
Others	-	(8)	-	-	-
Opening cash	420	567	688	678	763
Closing cash	567	688	678	763	846

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 33: Balance sheet

Y/E March (Rsmn)	FY13	FY14	FY15	FY16E	FY17E
Share capital	108	109	126	147	147
Reserves	1,936	2,627	3,421	4,284	5,412
Net worth	2,043	2,736	3,547	4,431	5,559
Minority interest	-	2	2	2	2
Short-term loans	872	1,394	1,997	1,897	1,597
Long-term loans	280	274	366	366	366
Current maturities of long term loan	187	145	213	-	-
Total loans	1,339	1,813	2,576	2,263	1,963
Deferred tax liability (net)	68	78	47	47	47
Liabilities	**3,451**	**4,629**	**6,173**	**6,744**	**7,572**
Gross block	2,624	3,025	3,438	3,858	4,208
Depreciation	925	1,245	1,606	2,025	2,489
Net block	1,699	1,781	1,832	1,833	1,719
Capital work-in-progress	72	68	170	100	100
Investments	0	0	0	0	0
Inventories	192	243	321	394	462
Debtors	1,770	1,492	1,954	2,364	2,874
Cash	567	688	678	763	846
Loans and advances	1,335	1,984	2,690	3,036	3,559
Other current assets	2,017	3,303	4,033	4,634	5,433
Total current assets	5,882	7,711	9,676	11,191	13,174
Creditors	1,461	1,876	2,221	2,545	2,925
Other current liabilities & provisions	2,742	3,055	3,284	3,835	4,496
Total current liabilities	4,203	4,931	5,506	6,380	7,421
Net current assets	1,679	2,780	4,170	4,811	5,753
Total assets	**3,451**	**4,629**	**6,173**	**6,744**	**7,572**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 34: Key ratios

Y/E March	FY13	FY14	FY15	FY16E	FY17E
Per share (Rs)					
EPS	47.6	62.2	56.7	61.6	80.9
Book value	190.0	250.1	281.9	301.2	377.9
Valuation (x)					
P/E	12.1	9.2	10.1	9.3	7.1
P/BV	3.0	2.3	2.0	1.9	1.5
EV/EBITDA	7.6	6.2	6.2	4.8	3.8
EV/sales	1.0	0.8	0.8	0.6	0.5
Return ratios (%)					
RoCE	28.8	30.3	24.1	25.3	28.4
RoE	28.5	28.5	22.7	22.7	23.8
RoIC	34.3	35.9	27.6	28.5	32.0
Profitability ratios (%)					
EBITDA margin	13.1	12.9	12.2	12.9	13.3
EBIT margin	9.5	10.2	9.5	10.2	10.9
PAT margin	5.5	5.7	5.2	5.7	6.4
Turnover ratios					
Total asset turnover ratio (x)	2.7	2.6	2.2	2.4	2.5
Fixed asset turnover ratio (x)	3.6	4.0	4.0	4.1	4.5
Debtor days	69	45	52	54	56
Inventory days	8	7	9	9	9
Creditors days	72	74	77	76	75
Solvency ratios (x)					
Debt-equity	0.7	0.7	0.7	0.5	0.4
Interest coverage	5.3	4.6	4.4	4.8	6.4

Note: Per share data as per the no. of shares outstanding as at end of respective year
Source: Company, Nirmal Bang Institutional Equities Research

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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Team Details:

Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 3926 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 3926 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8830
Umesh Bharadia	Dealing Desk	umesh.bharadia@nirmalbang.com	+91-22-39268226

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address
B-2, 301/302, Marathon Innova,
Nr. Peninsula Corporate Park,
Lower Parel (W), Mumbai-400013.
Board No. : 91 22 3926 8000/1; Fax. : 022 3926 8010