

Power Mech Projects

23 November 2017

Reuters: POMP.BO; Bloomberg: POWM IN

Strong Business Scalability Likely; Retain Buy

Power Mech Projects (PMPL) posted 2QFY18 consolidated revenues of Rs3.5bn, up 6% YoY and broadly in line with our estimate of Rs3.6bn. Civil work segment's revenues surged 86% YoY to Rs766mn (driven by execution of strong opening order book) while O&M segment's revenues grew 10% YoY to Rs1.2bn. ETC segment's revenues fell 16% YoY to Rs1.5bn owing to tepid domestic market and GST-led execution hiccups. Gross margin rose 330bps YoY to 36.3%. EBITDA rose 10% YoY to Rs451mn, translating to an operating margin of 13.1%, up 50bps YoY and above our estimate of 12.9%. Higher interest costs (up 14% YoY at Rs87mn) and minority interest (Rs22mn versus Rs2mn) restricted growth in PAT to 7% YoY at Rs170mn, below our estimate of Rs216mn. Order inflow in FY18-YTD was strong at Rs11.6bn, driven by the rise in civil work orders and international ETC projects. PMPL expects order inflow of Rs28bn in FY18 versus Rs18bn in FY17. The order book remains strong at Rs41.6bn (3x FY17 sales), up 19% YoY, while the management aims to end FY18 with an order backlog of Rs50bn, thus providing healthy revenue visibility for the next two years. The management expects 15% top-line growth in FY18 and 18%-20% in FY19 along with sustaining the EBITDA margin above 13%. While the working capital cycle elongated in 1HFY18 because of GST-led delay in execution and receivables, it is likely to normalise over the next few months. PMPL intends to scale up its presence in non-power sectors (railways, T&D, oil & gas pipeline, roads) from 15% of sales currently to 25% over the next two to three years. Driven by strong order book and healthy order pipeline, we expect PMPL to register 26% consolidated earnings CAGR over FY17-FY20E. We have retained Buy rating on PMPL with a revised target price of Rs950 (Rs700 earlier), rolling forward our valuation to 1HFY20E financials and assigning a P/E of 12x.

O&M segment update: O&M is the most profitable segment for PMPL with operating margin of ~18%. Its revenues grew 10% YoY to Rs1.2bn in 2QFY18, accounting for 35% of total sales. The order book remains healthy at Rs8.8bn (1.8x FY17 revenues), accounting for 21% of total order book. PMPL secured O&M orders worth Rs600mn in 2QFY18 and Rs1.2bn in 1HFY18. While the domestic market is likely to account for annual order inflow of Rs3.5bn-Rs4bn (driven by private IPPs), PMPL is looking to enhance its O&M presence in international markets as well as in non-power sectors.

ETC segment update: ETC (erection, testing and commissioning) segment is impacted by slowdown in domestic thermal power capacity addition and hence PMPL is scaling up its international operations. It posted 16% YoY decline in 2QFY18 revenues to Rs1.5bn (42% of total sales versus 53% YoY), partly because of GST-led execution hiccups. ETC order inflow was decent in 2QFY18 at Rs950mn while the order book remains healthy at Rs21.4bn (3.3x FY17 sales). In the domestic market, tenders worth 8GW for new projects and 5GW for reconstruction projects are likely. In addition, PMPL is exploring ETC work in refineries and FGD projects. PMPL aims to expand its presence in international markets and expects strong execution in 2HFY18 in Nigeria and Bahrain projects. The ETC margin profile is 10%-10.5% in domestic projects and 14%-15% in international projects.

Civil work segment update: PMPL is scaling up its civil work segment with focus on railways, T&D and roads besides its traditional domain of civil work at a thermal power plant. 2QFY18 revenues surged 86% YoY to Rs766mn (22% of total sales versus 13% YoY). Order inflow was robust at Rs2.9bn while the order book is strong at Rs11.4bn (5.5x FY17 sales). PMPL has bid for three projects each in railway and road segments, of which it expects to win at least one project each, valued at Rs6bn. Further, it aims to scale up its T&D order book from Rs2bn currently to Rs5bn. The margin profile of non-power civil sector is ~10% with much better payment terms of 35 days which will improve the working capital cycle.

Outlook: With a strong order book and robust order inflow outlook, we expect 26% consolidated earnings CAGR over FY17-FY20E. The current valuation is attractive considering FY20E RoCE at 23%, fixed-asset turnover at 4x and operating margin profile at ~13%.

Y/E March (Rsmn) – consolidated	2QFY17	1QFY18	2QFY18	YoY (%)	QoQ (%)	1HFY17	1HFY18	YoY (%)
Net revenues	3,247	3,584	3,452	6.3	(3.7)	6,504	7,036	8.2
Raw material costs	2,176	2,450	2,198	1.0	(10.3)	4,421	4,648	5.1
Staff costs	594	587	708	19.3	20.8	1,124	1,295	15.2
Other expenses	68	88	94	39.0	7.0	130	182	40.0
Total expenditure	2,838	3,125	3,001	5.7	(4.0)	5,675	6,126	7.9
EBITDA	409	459	451	10.2	(1.8)	829	910	9.8
EBITDAM (%)	12.6	12.8	13.1	-	-	12.7	12.9	-
Interest costs	76	76	87	14.3	14.0	163	163	0.2
Depreciation	102	102	109	6.5	6.4	208	211	1.6
Other income	15	28	19	29.4	(30.7)	43	47	11.4
PBT	246	309	274	11.3	(11.2)	504	583	15.5
Tax	89	95	82	(7.9)	(13.6)	178	176	(1.0)
Minority interest	(2)	32	22			(2)	55	
Net profit	159	182	170	6.7	(6.5)	329	352	7.1
NPM (%)	4.9	5.1	4.9	-	-	5.1	5.0	-
EPS (Rs)	10.8	12.4	11.6	6.7	(6.5)	22.3	23.9	7.1

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Capital Goods

CMP: Rs770

Target Price: Rs950

Upside: 23%

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Key Data

Current Shares O/S (mn)	14.7
Mkt Cap (Rsbn/US\$m)	11.4/175
52 Wk H / L (Rs)	814/389
Daily Volume (3M NSE Avg.)	24,339

Price Performance (%)

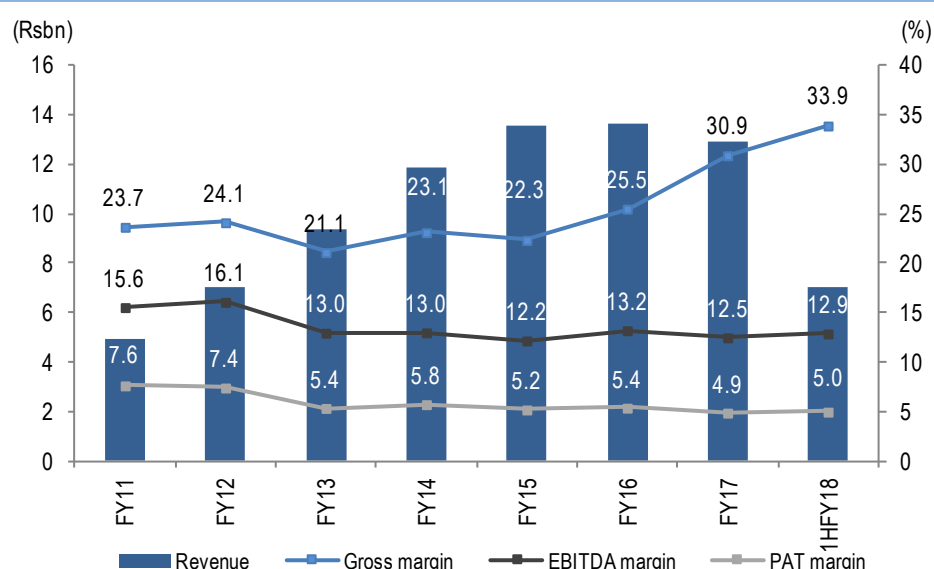
	1 M	6 M	1 Yr
Power Mech	37.6	29.6	76.4
Nifty Index	1.9	9.6	29.2

Source: Bloomberg

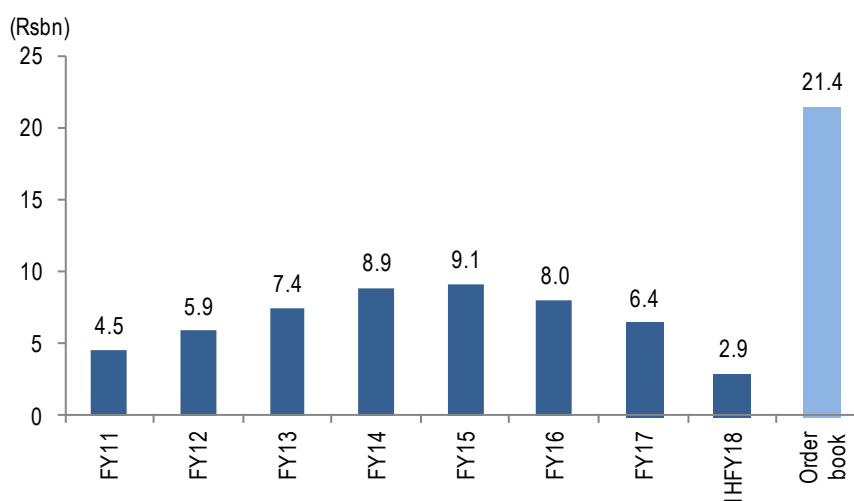
Exhibit 1: Financial summary (consolidated)

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Net revenues	13,782	13,382	15,321	18,195	21,109
EBITDA	1,820	1,660	1,986	2,390	2,814
Net profit	751	647	780	1,029	1,301
EPS (Rs)	51.1	44.0	53.0	70.0	88.5
EPS growth (%)	(10.0)	(13.9)	20.6	32.0	26.4
EBITDA margin (%)	13.2	12.4	13.0	13.1	13.3
P/E (x)	15.1	17.5	14.5	11.0	8.7
P/BV (x)	2.0	1.8	1.6	1.5	1.3
EV/EBITDA (x)	7.2	7.7	6.4	5.4	4.5
Dividend yield (%)	0.1	0.3	0.5	0.9	1.2
RoCE (%)	20.6	15.8	18.3	20.8	22.8
RoE (%)	16.5	11.0	11.9	14.1	15.6

Source: Company, Nirmal Bang Institutional Equities Research

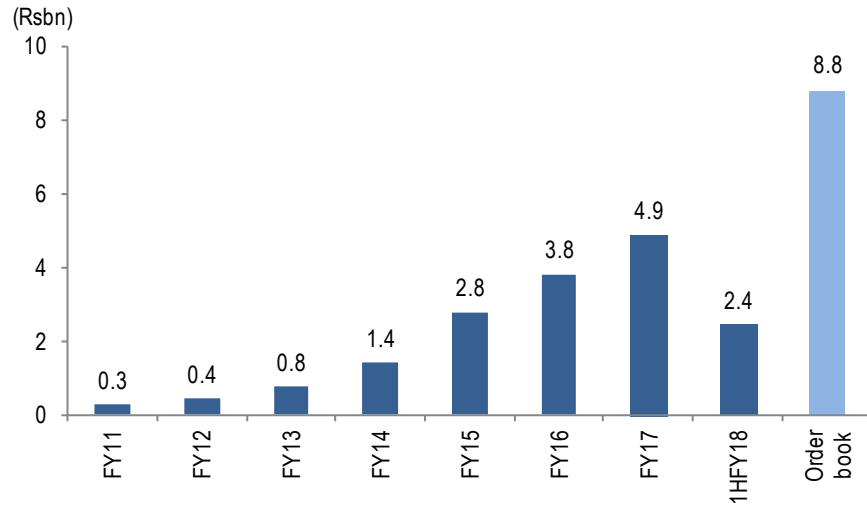
Exhibit 2: Revenue and margin trend


Source: Company, Nirmal Bang Institutional Equities Research

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


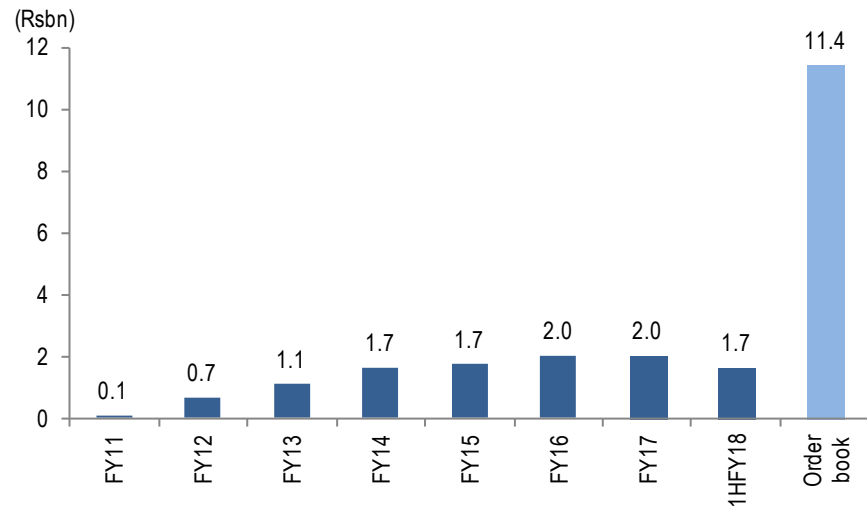
Source: Company, Nirmal Bang Institutional Equities Research

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



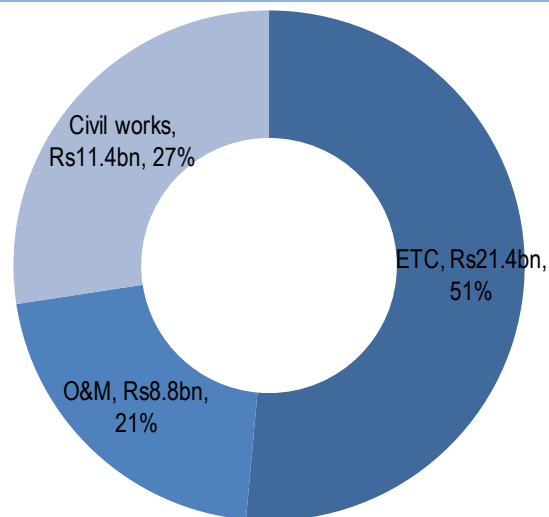
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Trend in civil work 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

2QFY18 (Rsmn)	Actual	Our estimate	Deviation (%)
Revenues	3,452	3,673	(6.0)
EBITDA	451	474	(4.9)
PAT	170	216	(21.2)

Source: Company, Nirmal Bang Institutional Equities Research

Financial statement (consolidated)

Exhibit 8: Income statement

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Net sales	13,782	13,382	15,321	18,195	21,109
% growth YoY	0.9	(2.9)	14.5	18.8	16.0
Raw material costs	10,138	9,143	10,158	12,027	13,911
Staff costs	1,549	2,265	2,773	3,257	3,736
Other overheads	275	313	404	521	648
Total expenditure	11,963	11,722	13,335	15,805	18,296
EBITDA	1,820	1,660	1,986	2,390	2,814
% growth YoY	9.0	(8.8)	19.6	20.4	17.7
EBITDA margin (%)	13.2	12.4	13.0	13.1	13.3
Other income	55	77	90	101	113
Interest costs	329	329	318	308	281
Depreciation	390	410	436	459	478
Profit before tax	1,156	998	1,321	1,724	2,168
Tax	406	357	436	569	715
Minority interest	1	6	(105)	(126)	(151)
PAT	751	647	780	1,029	1,301
% growth YoY	5.2	(13.9)	20.6	32.0	26.4
PAT margin (%)	5.5	4.8	5.1	5.7	6.2
EPS (Rs)	51.1	44.0	53.0	70.0	88.5
% growth YoY	(10.0)	(13.9)	20.6	32.0	26.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Balance sheet

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Share capital	147	147	147	147	147
Reserves	5,404	6,060	6,725	7,630	8,773
Net worth	5,551	6,207	6,872	7,777	8,920
Minority interest	4	21	21	21	21
Short-term loans	1,919	1,643	1,793	1,743	1,693
Long-term loans	214	155	155	155	155
Total loans	2,132	1,797	1,947	1,897	1,847
Deferred tax liability	42	21	21	21	21
Total liabilities	7,729	8,047	8,862	9,718	10,810
Gross block	3,965	4,460	4,729	4,929	5,129
Depreciation	1,987	2,398	2,834	3,293	3,771
Net block	1,978	2,062	1,895	1,636	1,358
Capital work-in-progress	220	119	50	50	50
Investments	3	9	9	9	9
Inventories	313	490	546	623	694
Debtors	2,722	2,948	3,022	3,539	4,048
Cash	432	347	479	404	439
Other current assets	7,387	7,651	8,886	10,189	11,610
Total current assets	10,853	11,437	12,933	14,755	16,791
Creditors	2,705	2,654	2,839	3,130	3,430
Other current liabilities & provisions	2,620	2,926	3,187	3,603	3,969
Total current liabilities	5,325	5,580	6,025	6,733	7,399
Net current assets	5,528	5,857	6,908	8,023	9,393
Total assets	7,729	8,047	8,862	9,718	10,810

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Cash flow

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
EBIT	1,430	1,250	1,549	1,931	2,336
(Inc./dec.) in working capital	(1,605)	(413)	(919)	(1,190)	(1,335)
Cash flow from operations	(175)	837	630	741	1,001
Other income	55	77	90	101	113
Depreciation	390	410	436	459	478
Tax paid (-)	(411)	(378)	(436)	(569)	(715)
Minority interest	1	6	(105)	(126)	(151)
Net cash from operations	(140)	952	616	606	725
Capital expenditure (-)	(585)	(394)	(200)	(200)	(200)
Net cash after capex	(725)	559	416	406	525
Interest paid (-)	(329)	(329)	(318)	(308)	(281)
Dividends paid (-)	(18)	(35)	(71)	(124)	(159)
Inc./(dec.) in short-term borrowing	(291)	(276)	150	(50)	(50)
Inc./(dec.) in long-term borrowing	(152)	(59)	-	-	-
Inc./(dec.) in total borrowings	(444)	(335)	150	(50)	(50)
Inc./(dec.) in investments	(3)	(6)	-	-	-
Minority interest	2	17	-	-	-
Equity issue/(buyback)	1,266	-	-	-	-
Cash from financial activities	475	(688)	(239)	(481)	(490)
Others	4	45	(45)	-	-
Opening cash balance	678	432	347	479	404
Closing cash balance	432	347	479	404	439
Change in cash balance	(246)	(84)	132	(75)	35

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

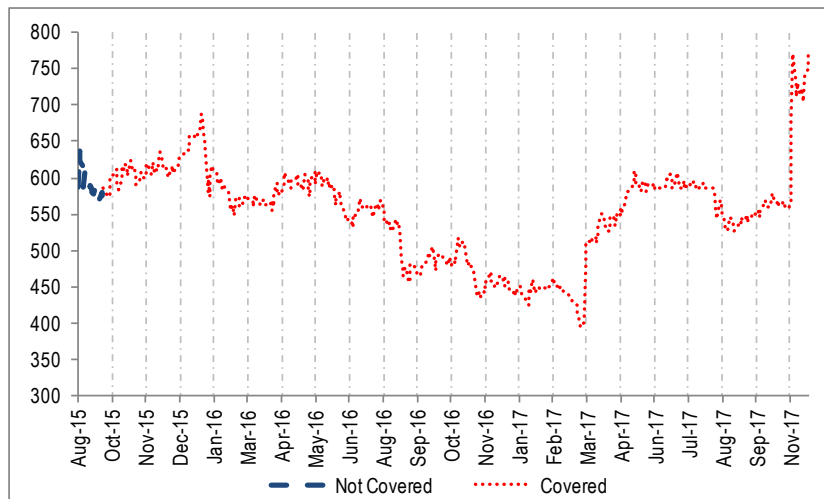
Y/E March	FY16	FY17	FY18E	FY19E	FY20E
Per share (Rs)					
EPS	51.1	44.0	53.0	70.0	88.5
Book value	377.3	422.0	467.1	528.7	606.3
Valuation (x)					
P/E	15.1	17.5	14.5	11.0	8.7
P/BV	2.0	1.8	1.6	1.5	1.3
EV/EBITDA	7.2	7.7	6.4	5.4	4.5
EV/sales	0.9	1.0	0.8	0.7	0.6
Return ratios (%)					
RoCE	20.6	15.8	18.3	20.8	22.8
RoE	16.5	11.0	11.9	14.1	15.6
RoIC	22.4	16.7	19.3	21.8	23.8
Profitability ratios (%)					
EBITDA margin	13.2	12.4	13.0	13.1	13.3
EBIT margin	10.4	9.3	10.1	10.6	11.1
PAT margin	5.5	4.8	5.1	5.7	6.2
Turnover ratios					
Total asset turnover ratio (x)	1.8	1.7	1.7	1.9	2.0
Fixed asset turnover ratio (x)	3.5	3.0	3.2	3.7	4.1
Debtor days	72	80	72	71	70
Inventory days	8	13	13	13	12
Creditor days	97	106	102	95	90
Solvency ratios (x)					
Debt-equity	0.4	0.3	0.3	0.2	0.2

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

Rating track graph



Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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