

Power Mech Projects

21 November 2020

Reuters: POMP.BO; Bloomberg: POWM IN

Execution challenge a key near-term headwind

Power Mech Projects' (PMP) 2QFY21 consolidated revenue fell 35% YoY to Rs3.5bn, 20% below our estimate due to execution challenges, especially in projects such as Maitree, (Bangladesh), Kaleshwaram, Bhusaval and cross-country pipeline work in Maharashtra and Gujarat. ETC/Civil segment sales fell by 52%/31% YoY to Rs877mn/Rs1bn while O&M revenue fell by 14% YoY to Rs1.5bn. Costs related to idle manpower, transportation (due to re-mobilization at sites) and safety led to EBITDA loss of Rs426mn and net loss of Rs518mn. Overall execution level at sites improved to 65% in 2QFY21 (vs. 56% in 1QFY21) and is likely to rise to 90%/100% of YoY levels in 3Q/4QFY21. Mobilization at sites increased as PMP achieved manpower strength of 15,000 (only ~2,000 short of pre-COVID level) and would further add more labour strength. PMP had a strong YTD-FY21 order inflow of Rs28.4bn (vs. Rs19.5bn/Rs27.7bn in FY20/FY19) and it further expects orders worth Rs15bn-Rs16bn in 2HFY21. Order book is healthy at Rs67.9bn (3.9x TTM sales). While execution challenge is a key headwind for FY21E, performance should normalize from FY22E onwards considering its robust order book, pick-up in execution and future order inflow prospects. We have cut our earnings estimates and maintain Buy rating on the stock with a revised target price of Rs485 (Rs585 earlier) based on 5x 1HFY23E earnings.

Segment wise performance: ETC revenue declined sharply by 52% YoY to Rs877mn in 2QFY21. YTD-FY21 order inflow was at Rs5.6bn (flat YoY) while order book grew by 2% YoY at Rs24.6bn. O&M revenue fell 14% YoY to Rs1.5bn with YTD-FY21 order inflow at Rs2.6bn (vs. Rs4.3bn YoY) while its order book fell 10% YoY at Rs9.9bn. Civil revenue declined 31% YoY to Rs1bn. However, YTD-FY21 order inflow jumped to Rs20.2bn (vs. Rs3.6bn YoY), leading to the order book rising by 4x to Rs30.7bn.

Order book position: YTD-FY21 order inflow was strong at Rs28.4bn (vs. Rs19.5bn/Rs27.7bn in FY20/FY19) while order book grew 48% YoY to Rs67.9bn (3.9x TTM sales). Non-power sector accounts for 40% of the order book while international business' share is at 18%. PMP targets new order inflow of Rs15bn-Rs16bn in 2HFY21 and aims to end FY21E with an order book target of Rs75bn-Rs80bn.

Other business updates: (1) Key large sized projects are Maitree (Rs8.6bn, 25% complete), Yadadri (Rs8bn, 12% complete), Bhusaval (Rs2.8bn, 40% complete), Dangote (US\$760mn, 65% done) and JSW Bellari (Rs4bn, 40% done). (2) PMP incurred costs worth Rs200mn-Rs250mn for re-mobilization, travel and safety, which are non-recurring. Of this, Rs80mn-Rs90mn was towards the Maitree project. (3) Retention money as on 2QFY21 was at Rs3bn (flat vs. FY20) and is likely to reduce to Rs2.7bn by FY21E. (4) Average collection rose to Rs1.6bn/month in 2QFY21 (vs. Rs1.2bn/month in 1QFY21) and is expected to rise to Rs1.7bn/month in 3QFY21. (5) Out of the likely order book of Rs75bn-Rs80bn as on end-FY21, the revenue conversion in FY22E is likely at 30%-40% with EBITDA margin of 11% plus.

Working capital position: As on 1HFY21, inventories was at Rs1.3bn (flat vs. FY20), trade receivables at Rs4.3bn (down from Rs5.4bn in FY20) and trade payables at Rs5.2bn (vs. Rs5.8bn in FY20). The cash conversion cycle is expected at 75-80 days in FY21E. Operating cash flow was positive Rs165mn in 1HFY21 (vs. negative Rs673mn YoY) and is likely to remain positive in FY21E. Gross debt reduced to Rs5.5bn in 2QFY21 vs. Rs5.9bn QoQ. Non-fund based limit was increased to Rs14bn (vs. Rs10bn earlier) while actual utilization was at Rs7.5bn. The BG commission, LC and renewal charges are included in interest costs. PMP didn't avail any loan moratorium from banks during the period.

Outlook: We expect revenue/earnings CAGR of 10%/9% over FY20-FY23E. Current valuation is inexpensive considering its healthy order book, low D/E and decent RoCE (18% in FY20).

BUY

Sector: Capital Goods

CMP: Rs370

Target Price: Rs485

Upside: 31%

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Key Data

Current Shares O/S (mn)	14.7
Mkt Cap (Rsbn/US\$m)	5.4/73.4
52 Wk H / L (Rs)	800/306
Daily Volume (3M NSE Avg.)	78,712

Price Performance (%)

	1 M	6 M	1 Yr
Power Mech Projects	(3.9)	13.2	(41.9)
Nifty Index	7.8	42.3	7.9

Source: Bloomberg

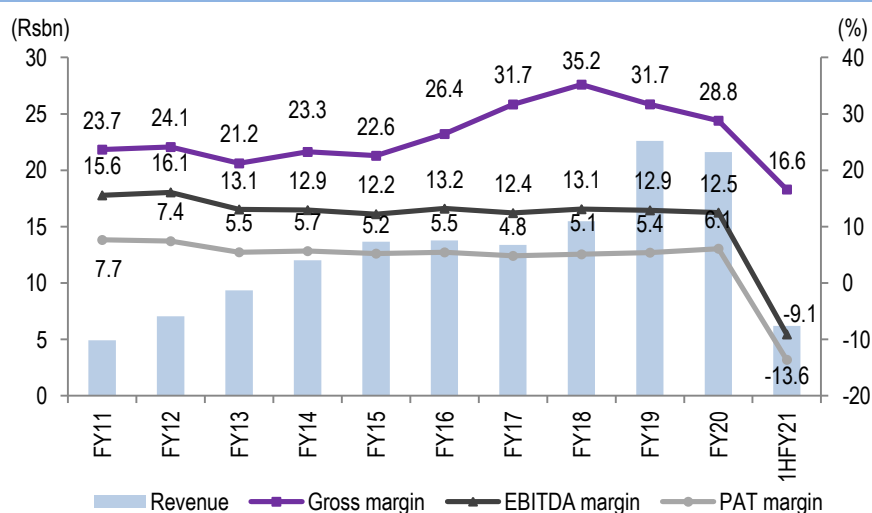
Y/E March (Rsmn)	2QFY20	1QFY21	2QFY21	YoY (%)	QoQ (%)	1HFY20	1HFY21	YoY (%)
Net revenues	5,331	2,750	3,454	(35.2)	25.6	10,244	6,204	(39.4)
Raw material costs	3,776	2,125	3,052	(19.2)	43.6	7,263	5,177	(28.7)
Staff costs	788	692	769	(2.4)	11.1	1,513	1,462	(3.4)
Other expenses	79	72	59	(24.8)	(17.2)	135	131	(3.3)
Total expenditure	4,643	2,889	3,880	(16.4)	34.3	8,912	6,769	(24.0)
EBITDA	689	(139)	(426)	NA	NA	1,332	(565)	NA
EBITDA margin (%)	12.9	(5.0)	(12.3)	-	-	13.0	(9.1)	-
Interest costs	192	198	191	(0.5)	(3.7)	333	389	16.8
Depreciation	99	92	87	(12.0)	(5.2)	202	179	(11.4)
Other income	23	18	22	(5.5)	16.9	42	40	(3.6)
Share of profit from JV	2	(27)	(22)	-	-	14	(49)	-
PBT	423	(437)	(705)	NA	NA	852	(1,142)	NA
Tax	75	(110)	(154)	NA	NA	224	(264)	NA
Minority interest	(3)	(1)	(33)	NA	NA	(7)	(34)	NA
PAT	351	(326)	(518)	NA	NA	635	(844)	NA
PAT margin (%)	6.6	(11.9)	(15.0)	-	-	6.2	(13.6)	-
EPS (Rs)	23.9	(22.2)	(35.2)	NA	NA	43.2	(57.4)	NA

Source: Company, Nirmal Bang Institutional Equities Research

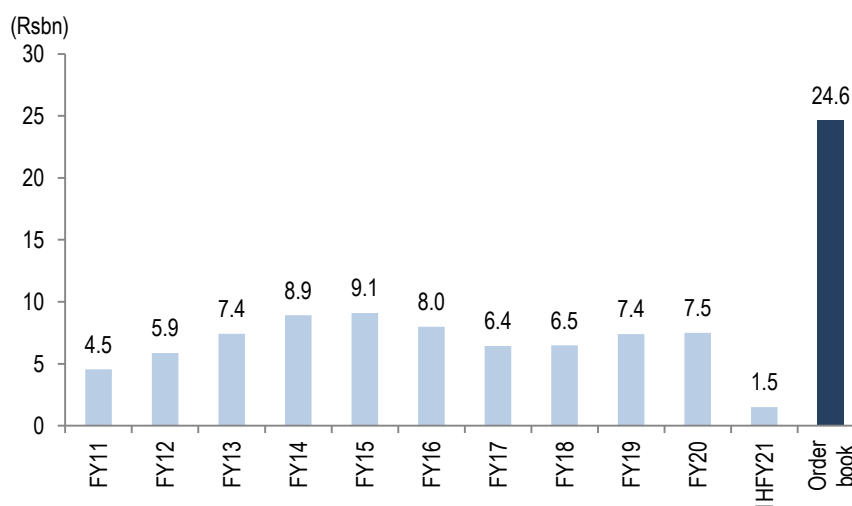
Exhibit 1: Financial summary (consolidated)

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net revenues	22,613	21,647	16,939	23,417	28,512
EBITDA	2,908	2,708	330	2,579	3,225
Net profit	1,216	1,313	(566)	1,174	1,681
EPS (Rs)	82.7	89.3	(38.5)	79.8	114.2
EPS growth (%)	53.1	8.0	NA	NA	43.1
EBITDA margin (%)	12.9	12.5	1.9	11.0	11.3
P/E (x)	4.5	4.1	NA	4.6	3.2
P/BV (x)	0.7	0.6	0.6	0.5	0.5
EV/EBITDA (x)	2.7	3.4	29.2	3.5	2.6
Dividend yield (%)	0.3	0.3	0.0	0.5	1.1
RoCE (%)	22.9	18.0	(0.3)	15.1	18.4
RoE (%)	16.0	14.8	(6.1)	12.3	15.4

Source: Company, Nirmal Bang Institutional Equities Research

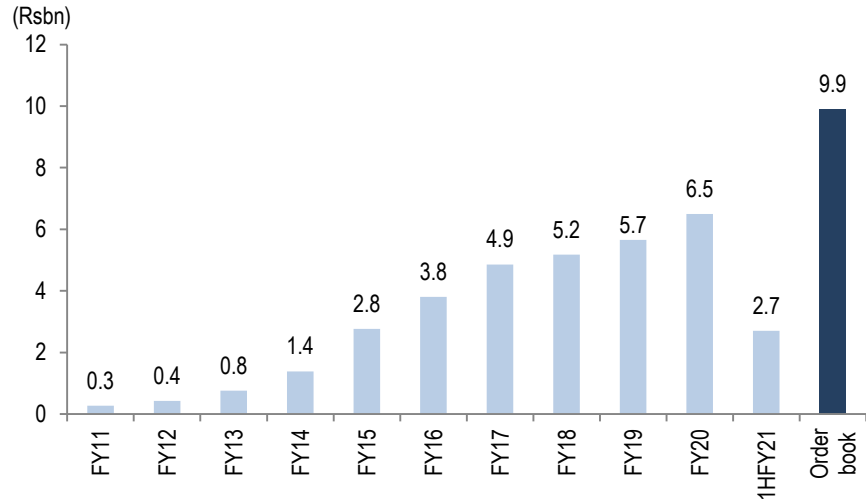
Exhibit 2: Revenue and margin trend


Source: Company, Nirmal Bang Institutional Equities Research

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


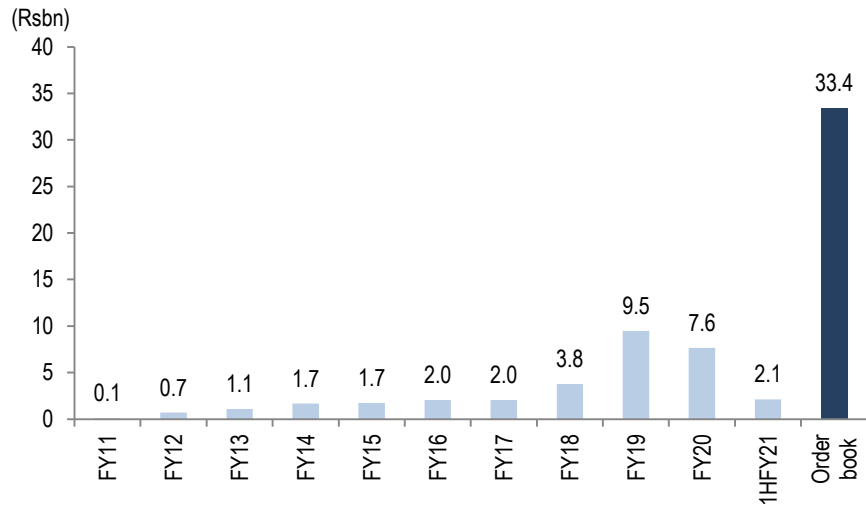
Source: Company, Nirmal Bang Institutional Equities Research

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



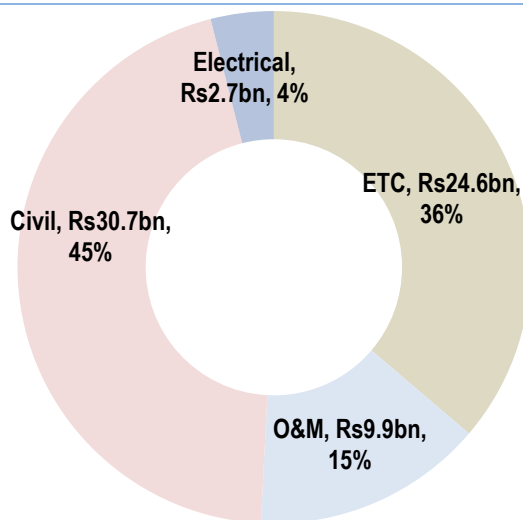
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Trend in civil & electrical works segment's revenue 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

2QFY21 (Rsmn)	Actual	Our estimate	Deviation (%)
Revenues	3,454	4,318	(20)
EBITDA	(426)	349	NA
PAT	(518)	82	NA

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Change in our estimates

(Rsmn) Y/E March	Old			New			Deviation (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenues	18,116	23,305	28,219	16,939	23,417	28,512	(6.5)	0.5	1.0
EBITDA	1,703	2,626	3,242	330	2,579	3,225	(80.6)	(1.8)	(0.5)
PAT	493	1,199	1,677	(566)	1,174	1,681	NA	(2.1)	0.2

Source: Company, Nirmal Bang Institutional Equities Research

Financial statement (consolidated)

Exhibit 9: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	22,613	21,647	16,939	23,417	28,512
% growth	46.1	(4.3)	(21.7)	38.2	21.8
Raw material costs	15,446	15,421	12,993	16,743	20,443
Staff costs	3,932	3,248	3,354	3,793	4,476
Other overheads	327	270	263	301	368
Total expenditure	19,705	18,939	16,609	20,838	25,287
EBITDA	2,908	2,708	330	2,579	3,225
% growth	43.8	(6.9)	(87.8)	680.8	25.0
EBITDA margin (%)	12.9	12.5	1.9	11.0	11.3
Other income	141	93	79	108	117
Interest costs	551	741	769	738	681
Depreciation	458	394	376	434	479
Profit before tax	2,040	1,666	(736)	1,515	2,182
Tax	624	375	(184)	364	524
Minority interest	(200)	21	(14)	23	22
PAT	1,216	1,313	(566)	1,174	1,681
% growth	53.1	8.0	NA	NA	43.1
PAT margin (%)	5.4	6.1	(3.3)	5.0	5.9
EPS (Rs)	82.7	89.3	(38.5)	79.8	114.2
% growth	53.1	8.0	NA	NA	43.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Share capital	147	147	147	147	147
Reserves	8,047	9,365	8,799	9,944	11,565
Net worth	8,194	9,512	8,946	10,091	11,713
Minority interest	81	81	81	81	81
Short-term loans	2,822	4,256	4,756	4,056	3,356
Long-term loans	540	298	298	298	298
Total loans	3,362	4,554	5,054	4,354	3,654
Deferred tax liability	(56)	(82)	(82)	(82)	(82)
Total liabilities	11,581	14,064	13,998	14,443	15,365
Net block	1,899	1,878	1,628	1,394	1,116
Capital work-in-progress	33	26	50	50	50
Investments	313	329	329	329	329
Inventories	927	1,263	1,067	1,347	1,562
Debtors	3,891	5,417	4,362	5,966	7,108
Cash	881	751	856	797	811
Other current assets	11,268	13,648	12,908	13,394	14,883
Total current assets	16,967	21,079	19,194	21,505	24,365
Creditors	4,430	5,779	4,627	5,275	6,161
Other current liabilities & provisions	3,202	3,469	2,575	3,559	4,334
Total current liabilities	7,633	9,248	7,202	8,834	10,495
Net current assets	9,335	11,831	11,992	12,670	13,871
Total assets	11,581	14,064	13,998	14,443	15,365

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
EBIT	2,450	2,313	(46)	2,145	2,746
(Inc./dec.) in working capital	(1,652)	(2,626)	(55)	(738)	(1,186)
Cash flow from operations	798	(313)	(101)	1,407	1,560
Other income	141	93	79	108	117
Depreciation	458	394	376	434	479
Tax paid (-)	(655)	(400)	184	(364)	(524)
Minority interest	(200)	21	(14)	23	22
Net cash from operations	542	(204)	524	1,608	1,654
Capital expenditure (-)	(305)	(366)	(150)	(200)	(200)
Net cash after capex	237	(569)	374	1,408	1,454
Interest paid (-)	(551)	(741)	(769)	(738)	(681)
Dividends paid (-)	(18)	(15)	-	(29)	(59)
Inc./(dec.) in short-term borrowing	360	1,434	500	(700)	(700)
Inc./(dec.) in long-term borrowing	263	(242)	-	-	-
Inc./(dec.) in total borrowings	623	1,192	500	(700)	(700)
Inc./(dec.) in investments	(312)	(16)	-	-	-
Minority interest	(57)	-	-	-	-
Cash from financial activities	(314)	420	(269)	(1,468)	(1,439)
Others	10	19	-	-	-
Opening cash balance	948	881	751	856	797
Closing cash balance	881	751	856	797	811
Change in cash balance	(67)	(130)	105	(60)	15

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Key ratios

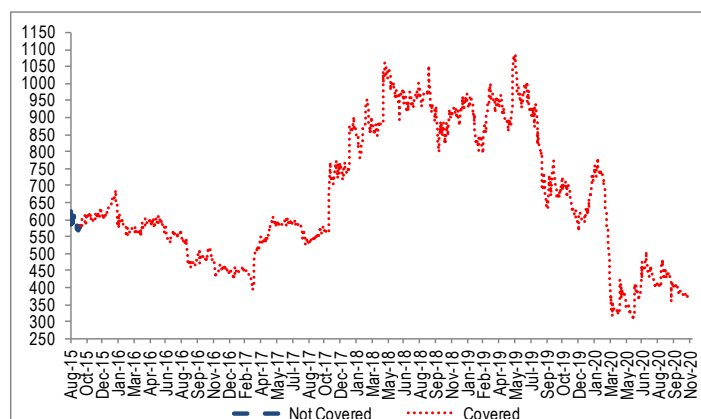
Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Per share (Rs)					
EPS	82.7	89.3	(38.5)	79.8	114.2
Book value	557.0	646.6	608.1	685.9	796.2
Valuation (x)					
P/E	4.5	4.1	NA	4.6	3.2
P/BV	0.7	0.6	0.6	0.5	0.5
EV/EBITDA	2.7	3.4	29.2	3.5	2.6
EV/sales	0.4	0.4	0.6	0.4	0.3
Return ratios (%)					
RoCE	22.9	18.0	(0.3)	15.1	18.4
RoE	16.0	14.8	(6.1)	12.3	15.4
RoIC	25.4	19.8	(0.4)	16.4	19.9
Profitability ratios (%)					
EBITDA margin	12.9	12.5	1.9	11.0	11.3
EBIT margin	10.8	10.7	(0.3)	9.2	9.6
PAT margin	5.4	6.1	(3.3)	5.0	5.9
Turnover ratios					
Total asset turnover ratio (x)	2.0	1.5	1.2	1.6	1.9
Debtor days	63	91	94	93	91
Inventory days	15	21	23	21	20
Creditor days	105	137	130	115	110
Solvency ratios (x)					
Debt-equity	0.4	0.5	0.6	0.4	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
9 January 2020	Buy	626	1,020
19 February 2020	Buy	744	955
26 March 2020	Buy	328	635
9 April 2020	Buy	338	635
17 July 2020	Buy	439	600
21 September 2020	Buy	434	585
9 October 2020	Buy	399	585
21 November 2020	Buy	370	485

Rating track graph



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SELL < -5%

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