

Retail Equity Research (South India Focus)
Power Mech Projects Ltd
Capital Goods

BSE CODE : 539302
BLOOMBERG CODE: POWM:IN

NSE CODE: POWERMECH
SENSEX : 52,925

12 Months Investment period
Rating as per Small Cap

CMP Rs. 668 TARGET Rs. 894 RETURN 34% ↑
(Closing: 25-06-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Order book offers revenue visibility

Power Mech Projects Ltd is a leading infrastructure-construction company based in Hyderabad with global presence.

- Q4FY21 revenue grew by 27% YoY backed by strong execution in O&M (29% YoY) and Civil business (75% YoY).
- Order book remains healthy at Rs7,333cr (3.9x FY21 revenue) led by strong inflow of Rs4,638cr in FY21, which provides revenue visibility for the next two to three years.
- EBITDA margin declined by 108bps YoY to 9.9% on account of higher cost of sales.
- PAT grew by 14% YoY led by higher other income & lower interest cost, partially offset by higher tax rate of 28.5% vs 13% in Q4FY20.
- Management expects execution to pick up in coming quarters as most of the projects are in the execution stage and also expecting Rs~5,000cr of order inflow in FY22.
- We reiterate Buy rating as the impressive order book and superior execution capabilities will drive earnings growth and we value the stock at a P/E of 7x FY23E earnings with a target price of Rs.894.

Civil & O&M business to drive growth

Q4FY21 revenue grew by 27% YoY to Rs755cr backed by strong execution in Civil business by 75% YoY and O&M (Operation & Maintenance) division by 29% YoY. The other verticals like Erection and Electrical division witnessed a de-growth of 12% & 15% respectively. The company is in the process of diversifying its product mix to non-power segments like civil, electrical, railway etc. Civil & Electrical constitute 41% of revenue in FY21 compared to 35% in the previous financial year. The management expects execution to pick up as there are no slow-moving projects in their order book and guiding for a top-line of Rs2,500 to Rs3,000cr in FY22.

Order book remains strong

In FY21 the company received an order inflow of Rs4,638cr, registered a growth of 138% YoY backed by strong inflows in Civil business at Rs3,047cr (329% YoY). While order backlog increased by 60% YoY to Rs7,333cr which is 3.9x FY21 revenue, providing revenue visibility for the next two to three years. The management expects Rs4,000 to Rs5,000cr of new orders in FY22 which will further aid growth visibility. O&M segment constitutes 49% of the order book with a margin profile of 17.5% to 18.5% in the domestic category and 22% to 24% in the International business. The company aims to expand its O&M business further which will help in generating a consistent long term revenue along with higher margins.

Margins to normalise

During the quarter EBITDA margin declined by 108bps to 9.9% due to higher cost of sales, but partially offset by lower staff cost and other expenses (as a % of sales). PAT for the quarter grew by 14.2% YoY to Rs36cr aided by higher other income (36% YoY) and lower interest costs (6% YoY). We expect margins to normalize in coming quarters due to ease in lockdown and shift in revenue mix to high margin O&M business and growth in non-power business. We expect margins to be in the range of 10.5% to 11.7% in FY22E/ FY23E.

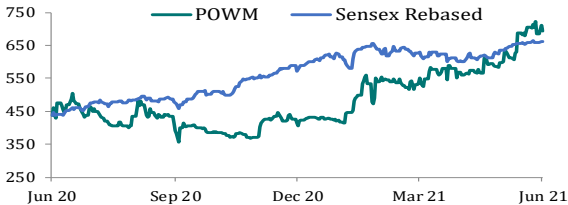
Valuation and Outlook

With strong order inflow, diversification to non power segment and increased focus in O&M segment, we expect the company to be in its growth trajectory in FY22. Impressive order book and superior execution capabilities will drive earnings growth. Therefore, we reiterate Buy rating and value the stock at a P/E of 7x FY23E earnings with a target price of Rs.894.

Company Data			
Market Cap (cr)	₹ 846		
Enterprise Value (cr)	₹ 1,315		
Outstanding Shares (cr)	1.5		
Free Float (%)	37.4		
Dividend Yield (%)	0.2		
52 week high	₹ 767		
52 week low	₹ 354		
6m average volume (cr)	0.01		
Beta	1.05		
Face value	₹ 10		
Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	62.6	63.1	63.1
FII's	2.7	2.7	2.9
MFs/Insti	10.0	9.8	9.2
Public	24.8	24.4	24.8
Total	100.0	100.0	100.0
Promoter Pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	30%	63%	58%
Absolute Sensex	7%	12%	51%
Relative Return*	23%	51%	7%

over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	1,884	2,520	2,929
Growth (%)	-13.0	33.7	16.2
EBITDA	42	265	342
EBITDA Margins %	2.2	10.5	11.7
PAT Adj.	-49	125	188
Growth (%)	-	-	50.8
Adj.EPS	-33	85	128
Growth (%)	-	-	50.8
P/E	-	8.0	5.3
P/B	1.1	1.0	0.8
EV/EBITDA	31.5	4.8	3.4
ROE (%)	-5.2	12.9	16.8
D/E	0.6	0.4	0.3

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
Sales	755	595	27.0	508	32.6	1,884	2,165	-13.0
EBITDA	75	65	14.5	22	18.7	40	271	-85.2
EBITDA margins %	9.9	11.0	-108bps	4.3	554bps	2.1	12.5	-1038bps
Depreciation	9	9	-4.7	9	0.1	36	39	-9.3
EBIT	66	56	17.7	13	21.4	4	231	-98.1
Interest	21	23	-6.3	19	-4.0	79	74	7.0
Other Income	5	3	36.1	9	215.3	18	9	94.4
Exceptional Items	-	-		-	0.0	-	-	
PBT	49	36	34.5	4	33.6	(57)	167	-134.1
Tax	14	5	194.1	1	32.9	(11)	37	-130.3
Reported PAT	36	32	14.2	3	33.9	(49)	131	-137.1
Adjustments	-	-	0.0	-	0.0	-	-	
Adj PAT	36	32	14.2	3	33.9	(49)	131	-137.1
No. of Shares	1.5	1.5				1.5	1.5	
EPS (Rs)	25	21	14.2	2.1	33.9	(33.0)	88.9	-137.1

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	2,524	2,913	2,520	2,929	-0.2	0.5
EBITDA	260	340	265	342	1.7	0.5
Margins (%)	10.3	11.70	10.5	11.67	20bps	-3bps
Adj. PAT	115	178	125	188	8.3	5.5
EPS	78	121	85	128	8.3	5.5

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	2,261	2,165	1,884	2,520	2,929
% change	46.1	-4.3	-13.0	33.7	16.2
EBITDA	297	271	42	265	342
% change	46.8	-8.9	-84.5	531.7	29.2
Depreciation	46	39	36	39	43
EBIT	251	231	6	225	298
Interest	55	74	79	73	63
Other Income	14	9	16	13	15
PBT	210	167	-57	165	250
% change	61	-21	-134	-391	51
Tax	62	37	-11	42	64
Tax Rate (%)	29.7	22.5	19.9	25.5	25.5
Reported PAT	149	131	-49	125	188
Adj*	0	0	0	0	0
Adj PAT	149	131	-49	125	188
% change	64.5	-12.5	-	-	50.8
No. of shares (cr)	1	1	1	1	1
Adj EPS (Rs.)	102	89	-33	85	128
% change	0.6	-0.1	-	-	0.5
DPS (Rs.)	1	1	0	1	1

BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	88	75	64	58	81
Accounts Receivable	389	542	534	573	642
Inventories	93	126	115	145	149
Other Cur. Assets	1,128	1,352	1,315	1,386	1,490
Investments	31	33	32	34	35
Gross Fixed Assets	340	355	365	385	405
Net Fixed Assets	187	176	165	130	113
CWIP	3	3	5	4	4
Intangible Assets	3	3	3	3	3
Def. Tax (Net)	6	8	22	15	10
Other Assets	-	-	-	-	-
Total Assets	1,928	2,327	2,261	2,355	2,534
Current Liabilities	739	901	872	898	976
Provisions	3	5	6	6	6
Debt Funds	336	455	469	414	329
Other Liabilities	30	14	9	9	9
Equity Capital	15	15	15	15	15
Reserves & Surplus	805	936	890	1,013	1,200
Shareholder's Fund	819	951	905	1,028	1,214
Total Liabilities	1,928	2,327	2,261	2,355	2,534
BVPS (Rs.)	557	647	615	699	826

CASH FLOW

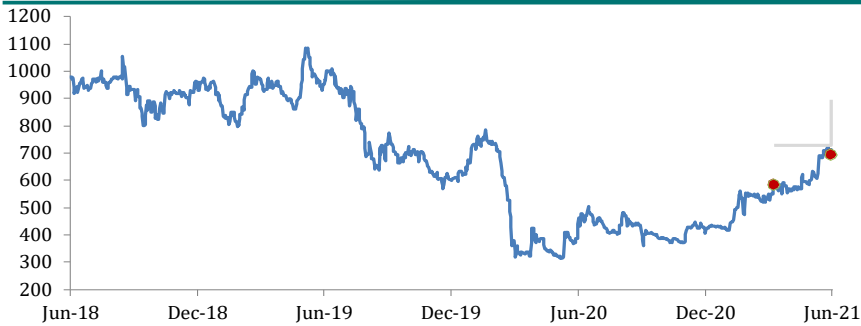
Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	195	170	-13	164	231
Non-cash adj.	7	34	79	73	63
Changes in W.C	-195	-252	29	-115	-100
C.F. Operation	8	-48	96	122	195
Capital exp.	-27	-27	-13	-19	-20
Change in inv.	-19	0	1	-2	-2
Other invest.CF	-18	30	0	0	0
C.F – Investment	-63	3	-25	-14	-17
Issue of equity	0	0	0	0	0
Issue/repay debt	27	63	-65	-128	-149
Dividends paid	-18	-18	0	15	15
Other finance.CF	0	-2	-5	0	0
C.F – Finance	25	59	-81	-114	-156
Chg. in cash	-30	14	-11	-6	22
Closing cash	22	30	64	58	81

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	13.1	12.5	2.2	10.5	11.7
EBIT margin (%)	11.1	10.7	0.3	8.9	10.2
Net profit mgn.(%)	6.6	6.0	-2.6	4.9	6.4
ROE (%)	19.7	14.8	-5.2	12.9	16.8
ROCE (%)	17.6	14.6	2.4	12.7	15.7
W.C & Liquidity					
Receivables (days)	56.3	78.5	104.2	80.1	75.7
Inventory (days)	11.3	18.5	23.3	18.8	18.3
Payables (days)	89.0	120.8	133.2	110.7	110.2
Current ratio (x)	2.3	2.3	2.3	2.4	2.4
Quick ratio (x)	0.5	0.6	0.6	0.7	0.7
Turnover & Leverage					
Gross asset T.O (x)	6.9	6.2	5.2	6.7	7.4
Total asset T.O (x)	1.3	1.0	0.8	1.1	1.2
Int. coverage ratio (x)	4.6	3.1	0.1	3.1	4.7
Adj. debt/equity (x)	0.5	0.6	0.6	0.4	0.3
Valuation					
EV/Sales (x)	0.5	0.6	0.7	0.5	0.4
EV/EBITDA (x)	4.0	4.8	31.3	4.7	3.4
P/E (x)	6.6	7.5	-20.2	7.9	5.2
P/BV (x)	1.2	1.0	1.1	1.0	0.8



Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
31-Mar-21	Buy	727
28-Jun-21	Buy	894

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated		-	

Definition:
Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.
Accumulate: Partial buying or to accumulate as CMP dips in the future.
Hold: Hold the stock with the expected target mentioned in the note.
Reduce: Reduce your exposure to the stock due to limited upside.
Sell: Exit from the stock.
Not rated : The analyst has no investment opinion on the stock.

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