

Retail Equity Research (South India Focus)

Power Mech Projects Ltd

Capital Goods

BSE CODE : 539302 NSE CODE: POWERMECH
BLOOMBERG CODE: POWM:IN SENSEX : 58,341

BUY

12 Months Investment period Rating as per Small Cap
CMP Rs.936 TARGET Rs. 1,163 RETURN 24% ↑
(Closing: 24-11-21)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Execution to pick-up in H2FY22...

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

- Q1FY22 revenue grew by 56% YoY, however, it was below our estimate as the execution was impacted due to the rainy season. While the Civil & Erection segments sales grew by 121% YoY/ 117% YoY.
- Though the company didn't bag any orders in Q2FY22, the order book remains robust at Rs15,809cr, which is 6.5x TTM revenue (incl. 9,294cr of mining order).
- EBITDA margin stood at 10.7% (vs -12.3% in the previous quarter last year) due to 1742bps improvement in gross margin.
- Higher other income (130% YoY) and the lower tax rate of 20.8% supported PAT to rise to Rs27cr YoY (vs. Rs55cr loss in Q2FY21).
- Management expects execution to pick-up in H2FY22 and has targeted to achieve Rs2,600cr of revenue in FY22 with 12.5 to 13% margins.
- With the robust order book and an expectation of strong execution in the coming quarters, we revise our rating to Buy and value the stock at a P/E of 7.5x FY23E earnings with a target price of Rs.1,163.

Q2FY22 execution impacted due to rainy season

Q2FY22 revenue grew by 56.2% YoY to Rs539cr, however, it was below our estimate as the execution was largely impacted due to the rainy season. While Civil and Erection segments witnessed strong execution with a growth of 121% YoY/117% YoY. The other verticals like O&M and Electrical division registered a growth of 29% & 21% respectively. Non-power segment continues to remain the growth driver for the company. The management expects the execution to pick-up in H2FY22 and has guided to achieve a top-line of Rs2,600cr in FY22. Since most of the projects are in the execution stage, we expect revenue to grow at a CAGR of 28% over FY21-FY23E.

Order book provides visibility

Despite the company not bagging any orders in Q2FY22, the order book remains robust at Rs15,809cr (includes MDO orders of Rs9,294cr). The total order book is 6.5x trailing twelve months revenue which provides strong revenue visibilities in the coming years. The management is expected to add Rs 3,500cr to Rs4,000cr of orders in FY22. The order in the key verticals like erection, electrical and civil remains muted due to delay in finalisation of orders. The company is looking for opportunities worth Rs10,000cr in energy, infra, metals, railway, mineral sectors. The management hopes to finalise two major projects on mineral processing EPC orders from NMDC in the coming quarters.

Margins to improve

During the quarter EBITDA margin improved to 10.7% YoY (Vs. -12.3% in Q2FY22) on account of 1742bps YoY improvement in gross margin to 29.1%. Given an expectation of higher execution in H2FY22, the management highlighted that EBITDA margin to normalize to 12.5 to 13% in FY22. Additionally, shift in revenue mix to high margin O&M business and growth in non-power business also support the margin estimate. We, therefore, improved the margin estimate to 12.1%/12.5% for FY22/FY23 respectively. The PAT stood at Rs 27cr (Vs. Rs55cr loss in Q2FY21)

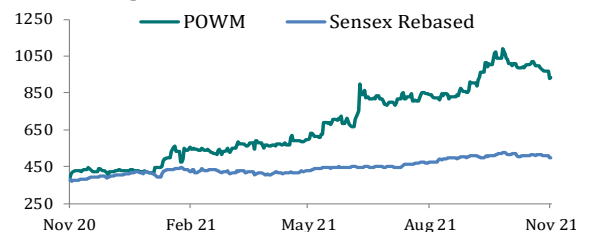
Valuation and Outlook

With a strong order book, diversification to non power segment and increased focus in the O&M segment, we expect the company to be in its growth trajectory in FY22. We, therefore, revise our rating to Buy and value the stock at a P/E of 7.5x FY23E EPS.

Company Data			
Market Cap (cr)	₹ 1,176		
Enterprise Value (cr)	₹ 1,645		
Outstanding Shares (cr)	1.5		
Free Float (%)	37.4		
Dividend Yield (%)	0.1		
52 week high	₹ 1,095		
52 week low	₹ 389		
6m average volume (cr)	0.01		
Beta	1.05		
Face value	₹ 10		
Shareholding (%)	Q4FY21	Q1FY22	Q2FY22
Promoters	63.1	63.7	63.7
FII's	2.9	2.9	3.8
MFs/Insti	9.2	10.2	8.1
Public	24.8	23.21	24.4
Total	100	100	100
Promoter Pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	13%	49%	149%
Absolute Sensex	5%	15%	33%
Relative Return*	8%	34%	116%

over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	1884	2709	3095
Growth (%)	-13.0	43.8	14.2
EBITDA	42	327	386
EBITDA Margins %	2.2	12.1	12.5
PAT Adj.	-49	182	228
Growth (%)	-	-	25.0
Adj.EPS	-33	124	155
Growth (%)	-	-	25.0
P/E	-28.3	7.5	6.0
P/B	1.5	1.3	1.0
EV/EBITDA	39.3	4.9	3.9
ROE (%)	-5.2	18.3	19.0
D/E	0.6	0.4	0.3

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q2FY22	Q2FY21	YoY Growth %	Q1FY22	QoQ Growth %	H1FY22	H1FY21	YoY Growth %
Sales	539	345	56.2	623	-13.4	1,162	620	87.3
EBITDA	58	-43	na	66	-12	124	-57	-319.1
EBITDA margins %	10.7	-12	na	10.6	11bps	10.7	-9	na
Depreciation	9	9	0	9	3.0	18	18	2.2
EBIT	48	-51	na	57	-14.9	106	-74	na
Interest	17	19	-0.1	19	-12.1	36	39	-7.2
Other Income	5	2	129.8	5	-4.7	10	4	153.9
Exceptional Items	-	-		-		-	-	
PBT	37	-68	na	43	-15.0	80	-109	na
Tax	8	-15	na	10	-26.0	18	-26	na
Reported PAT	27	-55	na	31	-14.0	59	-88	na
Adjustments	-	-	na	-	0.0	-	-	
Adj PAT	27	-55	na	31	-14.0	59	-88	na
No. of Shares	1.5	1.5				1.5	1.5	
EPS (Rs)	18	-37	na	21.4	-14.0	39.8	-60	na

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	2,703	3,039	2,709	3,095	0.2	1.8
EBITDA	279	355	327	386	17.5	8.8
Margins (%)	10.3	11.66	12.1	12.5	178bps	80bps
Adj. PAT	135	197	182	228	35.1	15.6
EPS	92	134	124	155	35.1	15.6

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	2,261	2,165	1,884	2,709	3,095
% change	46.1	-4.3	-13.0	43.8	14.2
EBITDA	297	271	42	327	386
% change	46.8	-8.9	-84.5	681.8	17.8
Depreciation	46	39	36	36	40
EBIT	251	231	6	291	346
Interest	55	74	79	73	65
Other Income	14	9	16	20	23
PBT	210	167	-57	238	304
% change	61	-21	-134	-519	28
Tax	62	37	-11	57	78
Tax Rate (%)	29.7	22.5	19.9	24.0	25.5
Reported PAT	149	131	-49	182	228
Adj*	0	0	0	0	0
Adj PAT	149	131	-49	182	228
% change	64.5	-12.5	-	-	25.0
No. of shares (cr)	1	1	1	1	1
Adj EPS (Rs.)	102	89	-33	124	155
% change	0.6	-0.1	-	-	0.3
DPS (Rs.)	1	1	0	1	1

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Deprn.	195	170	-13	219	268
Non-cash adj.	7	34	79	73	65
Changes in W.C	-195	-252	29	-152	-140
C.F. Operation	8	-48	96	139	193
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	-151
Dividends paid	-18	-18	0	15	15
Other finance.CF	0	-2	-5	0	0
C.F - Finance	25	59	-81	-111	-154
Chg. in cash	-30	14	-11	15	23
Closing cash	22	30	64	79	102

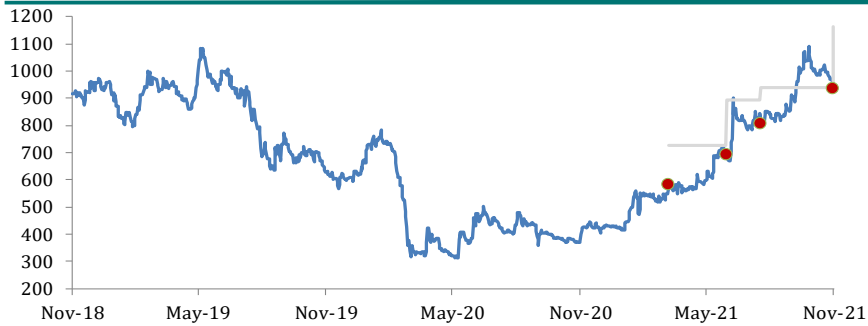
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	88	75	64	79	102
Accounts Receivable	389	542	534	616	678
Inventories	93	126	115	154	156
Other Cur. Assets	1,128	1,352	1,315	1,416	1,557
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	2,457	2,665
Current Liabilities	739	901	872	942	1,009
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	1,071	1,298
Shareholder's Fund	819	951	905	1,086	1,312
Total Liabilities	1,928	2,327	2,261	2,457	2,665
BVPS (Rs.)	557	647	615	738	892

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	13.1	12.5	2.2	12.1	12.5
EBIT margin (%)	11.1	10.7	0.3	10.7	11.2
Net profit mgn.(%)	6.6	6.0	-2.6	6.7	7.4
ROE (%)	19.7	14.8	-5.2	18.3	19.0
ROCE (%)	17.6	14.6	2.4	16.5	17.6
W.C & Liquidity					
Receivables (days)	56.3	78.5	104.2	77.4	76.3
Inventory (days)	11.3	18.5	23.3	18.1	18.3
Payables (days)	89.0	120.8	133.2	104.4	105.3
Current ratio (x)	2.3	2.3	2.3	2.4	2.5
Quick ratio (x)	0.5	0.6	0.6	0.7	0.8
Turnover & Leverage					
Gross asset T.O (x)	6.9	6.2	5.2	7.2	7.8
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	4.0	5.3
Adj. debt/equity (x)	0.5	0.6	0.6	0.4	0.3
Valuation					
EV/Sales (x)	0.7	0.8	0.9	0.6	0.5
EV/EBITDA (x)	5.1	6.0	39.3	4.9	3.9
P/E (x)	9.2	10.5	-28.4	7.5	6.0
P/BV (x)	1.7	1.4	1.5	1.3	1.0

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
31-Mar-21	Buy	727
28-Jun-21	Buy	894
12-Aug-21	Accumulate	939
25-Nov-21	Buy	1,163

Source: Bloomberg, Geojit Research.

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.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review.

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Geojit Financial Services Ltd., Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

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