

Institutional Equity Research

# Power Mech Projects

Capital Goods | India

1QFY18 Result Update | August 24, 2017

CMP* (Rs)	543
Upside/ (Downside) (%)	6.4
Bloomberg Ticker	POWM IN
Market Cap. (Rs bn)	7.9
Free Float (%)	34.9
Shares O/S (mn)	14.7

**HOLD** 

Target Price: Rs578

## Fundamentals Priced-in; Limited Upside

Power Mech Projects (PMPL) has delivered a healthy performance in 1QFY18 with its consolidated revenue growing by 10.0% YoY to Rs3.58bn owing to continued strong growth in Civil & Other Works segment. However, revenues from Erection Testing & Commissioning (ETC) segment declined by 17.97% YoY to Rs1.44bn due to slowdown in domestic thermal power capacity addition. We believe that dominant position in power EPC business, impressive order book and superior execution capability will drive PMPL's profitability, going forward. Notably, the stock has witnessed a sharp rally since our initiation report with BUY recommendation in Feb'17. **Hence, we change our recommendation to HOLD with an upwardly revised Target Price of Rs578 (from Rs565 earlier) based on multiple of 9x P/E of FY19E.**

### Civil & Other Works Biz Aids 10% YoY Growth in Revenue

PMPL's consolidated revenue grew by 10.0% YoY to Rs3.58bn owing to 160% YoY growth in Civil & Other Works business (which contributes 25.5% to its total income) to Rs912mn led by execution of robust opening order book. Revenue from ETC segment fell by 17.97% YoY to Rs1.44bn owing to slowdown in domestic thermal power capacity addition. Further, revenue from O&M segment grew by 6.5% YoY to Rs1.21bn on stable revenue from existing projects.

### Operating Margin Remains Stable; PAT Records Marginal Growth

PMPL's EBITDA grew by 9.4% YoY to Rs459mn. However, EBITDA margin remained flat at 12.8% on YoY comparison. PBT surged by 21% YoY to Rs309mn on lower interest cost. However, PAT marginally grew by 7.4% YoY to Rs182mn owing to higher minority interest (Rs32.3mn). The Management aims to sustain a margin of 8%-8.5% in FY18.

### Order Book Continues to Remain Robust

PMPL bagged orders worth Rs7.13bn in 1QFY18 in ETC (Rs6.57bn) and O&M (Rs560mn) segments. ETC orders include projects worth Rs6.24bn from international market: (1) order worth Rs4.91bn from Dangote Oil; and (2) order worth Rs1.33bn for 1,800MW power plant in Bahrain. As of Jun'17, its order book grew by 18% YoY to Rs40.6bn (3x FY17 sales), which provides a healthy revenue visibility for next 2-3 years. Its total ETC order book stands at Rs22bn (3.4x FY17 revenues), while O&M segment's order book also remains strong at Rs9.2bn (1.9x FY17 revenues). In Civil & Other Works segment, PMPL's order book stood at Rs9.4bn (4.6x FY17 sales). The Management expects to secure orders worth Rs25bn in FY18 compared to Rs18bn in FY17.

### Outlook & Valuation

Looking ahead, we expect PMPL to deliver higher profitability on the back of dominant position in power EPC business, robust order book and superior execution capability. Notably, the stock has witnessed a sharp rally since our initiation report with BUY recommendation in Feb'17. **Hence, we change our recommendation to HOLD with an upwardly revised Target Price of Rs578 (from Rs565 earlier) based on multiple of 9x P/E of FY19E.**

Key Financials (Rs mn)	FY16	FY17E	FY18E	FY19E
Net sales	13,782	13,382	14,958	17,016
PAT	753	646	778	944
Shares in issue	14.7	14.7	14.7	14.7
EPS (Rs)	51.2	43.9	52.9	64.2
PE (x)	10.6	12.4	10.3	8.5
EV/EBITDA (x)	5.8	6.2	5.4	4.7
Book value (Rs/share)	377.3	422.0	473.8	537.0
P/BV (x)	1.4	1.3	1.1	1.0
ROCE	17.2	14.8	15.4	16.5
RONW	13.6	10.4	11.2	12.0

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(8.5)	(7.3)	14.0
Relative to Nifty	(7.6)	(10.9)	(0.7)

Shareholding Pattern (%)	Mar'17	Jun'17
Promoter	65.1	65.1
Others	34.9	34.9

### 1 Year Stock Price Performance



Note: \* CMP as on Aug 24, 2017

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## Risks to the View

- ▶ **Downside Risks:** Lower-than-expected growth in order book and insufficient cash flows.
- ▶ **Upside Risks:** Meaningful recovery in ETC business owing to higher thermal power capacity addition and higher-than-expected growth in order book.

## Exhibit 1: Quarterly Performance

(Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
<b>Net Sales</b>	<b>3,584</b>	<b>3,257</b>	<b>10.04</b>	<b>3,691</b>	<b>(2.9)</b>
Operating Costs	3,125	2,837	10.1	3,249	(3.8)
<b>EBITDA</b>	<b>459</b>	<b>420</b>	<b>9.4</b>	<b>442</b>	<b>3.9</b>
EBITDA Margin (%)	12.8	12.9	-	12.0	0.8
Other Income	28	28	1.6	37	(23.6)
Interest	76	87	(12.2)	84	(9.2)
Depreciation	102	106	(3.1)	98	4.2
Profit Before Tax	309	255	21.1	297	4.0
Tax	95	89		97	(2.6)
Tax Rate (%)	30.6	35.0		32.7	
Share of profit/loss in associates	(0.03)	3		2	
Minority Interest	32.3	(1)		18.7	
Rep PAT	181.8	169	7.4	183.0	(0.6)

Source: Company, RSec Research

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**Profit & Loss**

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
<b>Net sales</b>	<b>13,782</b>	<b>13,382</b>	<b>14,958</b>	<b>17,016</b>
% yoy change	0.9	(2.9)	11.8	13.8
RM cost	1,149	1,216	1,366	1,562
Employee expenses	1,549	2,265	2,423	2,740
Other expenses	275	313	340	389.7
Contract execution expenses	8,989	7,928	8,945	10,158
Total operating expenditure	11,963	11,722	13,074	14,850
<b>EBITDA</b>	<b>1,820</b>	<b>1,660</b>	<b>1,885</b>	<b>2,166</b>
EBITDA margin (%)	13.2	12.4	12.6	12.7
Depreciation	390	410	473	526
<b>EBIT</b>	<b>1,430</b>	<b>1,250</b>	<b>1,412</b>	<b>1,640</b>
Other income	55	77	80	83
Interest costs	329	329	305	282
<b>PBT</b>	<b>1,156</b>	<b>998</b>	<b>1,186</b>	<b>1,441</b>
Taxes	406	357	415	504
Minority interest	3	6	7	8
PAT	753	646	778	944
% yoy change	5.4	(14.1)	20.3	21.4

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**Balance Sheet**

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
Share capital	147	147	147	147
Reserves & Surplus	5,404	6,060	6,823	7,753
<b>Total shareholder's funds</b>	<b>5,551</b>	<b>6,207</b>	<b>6,970</b>	<b>7,900</b>
Secured loans	214	155	155	155
Unsecured loans	1,919	1,643	1,388	1,103
<b>Total borrowings</b>	<b>2,132</b>	<b>1,797</b>	<b>1,542</b>	<b>1,257</b>
Other long term liabilities	907	946	1,116	1,250
Deferred tax liability	42	21	21	21
Minority interest	4	21	21	21
<b>Capital employed</b>	<b>8,637</b>	<b>8,993</b>	<b>9,671</b>	<b>10,450</b>
Gross Block	3,960	4,431	4,981	5,541
Accumulated Depreciation	1,987	2,398	2,871	3,397
Net Block	1,973	2,032.8	2,110	2,143
Capital Work in Progress	220	119	140	110
<b>Investments (non current)</b>	<b>3.1</b>	<b>9.1</b>	<b>9.1</b>	<b>9.1</b>
Inventories	313	490	496	554
Sundry Debtors	2,727	2,948	2,992	3,336
Cash and Bank	432	348	409	326
Loans and Advances	5,583	5,624	6,133	6,636
Other Current Assets	1,761	2,008	2,053	2,108
<b>Total Current Assets</b>	<b>10,816</b>	<b>11,418</b>	<b>12,083</b>	<b>12,960</b>
Current liabilities	4,413	4,615	4,705	4,815
Provision	5	5	6	6
Total current liabilities	4,418	4,620	4,711	4,821
Other non-current assets	43	19	19	19
Other assets	-	15	21	29
<b>Capital Deployed</b>	<b>8,637</b>	<b>8,993</b>	<b>9,671</b>	<b>10,450</b>

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## Cash Flow Statement

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
PBT	1,156	998	1,186	1,441
Depreciation	390	410	473	526
Interest provided	329	329	305	282
Other adjustments	-	16	-	-
<b>Operating cash flow before WC</b>	<b>1,875</b>	<b>1,753</b>	<b>1,965</b>	<b>2,249</b>
Change in working capital	(566)	(443)	(342)	(717)
Tax Paid	(406)	(357)	(415)	(504)
<b>Operating cash flow</b>	<b>903</b>	<b>953</b>	<b>1,208</b>	<b>1,028</b>
<b>FCF</b>	<b>324</b>	<b>583</b>	<b>637</b>	<b>498</b>
Capex	579	370	571	530
Investments	3	6	-	-
<b>Investing cash flow</b>	<b>(582)</b>	<b>(376)</b>	<b>(571)</b>	<b>(530)</b>
Issue/buyback of equity	21	17	-	-
Issue/repayment of debt	(231)	(335)	(255)	(285)
Dividends paid	28	15	15	15
Interest paid	(329)	(329)	(305)	(282)
<b>Financing cash flow</b>	<b>(567)</b>	<b>(662)</b>	<b>(575)</b>	<b>(582)</b>
<b>Opening cash balance</b>	<b>678</b>	<b>432</b>	<b>348</b>	<b>409</b>
<b>Net change in cash</b>	<b>(246)</b>	<b>(84)</b>	<b>62</b>	<b>(84)</b>
<b>Closing cash balance</b>	<b>432</b>	<b>348</b>	<b>409</b>	<b>326</b>

## Key Ratios

Y/E March	FY16	FY17E	FY18E	FY19E
<b>Profitability/Return Ratio (x)</b>				
EBITDA margins (%)	13.2	12.4	12.6	12.7
PBT margins (%)	8.4	7.5	7.9	8.5
PAT margins (%)	5.5	4.8	5.2	5.6
Interest Cost (%)	8.0	8.7	8.5	8.5
Tax Rate (%)	33.6	33.5	33.5	33.5
ROCE (%)	17.2	14.8	15.4	16.5
RONW (%)	13.6	10.4	11.2	12.0
Debt/Equity Ratio (X)	0.5	0.4	0.4	0.3
<b>Per Share Data (Rs)</b>				
EPS (Rs)	51.2	43.9	52.9	64.2
Book Value	377.3	422.0	473.8	537.0
DPS	1.9	1.0	1.0	1.0
<b>Valuation Ratio (x)</b>				
PBV	1.4	1.3	1.1	1.0
EV/EBITDA	5.8	6.2	5.4	4.7
Ev/Sales	0.8	0.8	0.7	0.6
MCap/Sales	0.6	0.6	0.5	0.5
Mcap/EBITDA	4.4	4.8	4.2	3.7
Dividend Yield (%)	0.4	0.2	0.2	0.2

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### Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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