

Q1FY19 Result Update

Power Mech Projects Ltd

Good order inflows, growth traction in place

Accumulate

Power Mech Projects Ltd (PMPL) for Q1FY19 on a consolidated basis reported good numbers. Revenue grew ~29% YoY to ₹462 crore, on the back of better order execution. Revenue from erection segment (39% of Q1FY19 revenue) grew 26%, operation & maintenance (O&M -28%) grew 6%, civil (31%) grew 60% and electrical works (2%) grew 220%. EBITDA grew 32% to ₹61 crore, with margins expanding 34bps to 13.2%, due to better project mix. Net profit grew 34% to ₹24 crore. As of 30 Jun'18 debt stood at ₹310 crore (vs ₹274 crore as of 31 Mar'18).

Management Guidance: For FY19, the management expects revenue growth by 30-40%, EBITDA Margins of 13%+, order inflow of ₹4,000 crore (vs ₹3,800 crore earlier), revenue from non-power at 30% and order book of ₹6,000 crore.

View: Over the last year, PMPL has restructured its business into 7 units, which has started yielding results. Due to the slowdown in the domestic power sector, PMPL is now focusing on non-power segments (railway, civil, O&M and industrial services), international markets and new segments in the erection along with O&M space (oil & gas and other industrials). PMPL is witnessing good traction in ordering activity with current order book of ₹6,431 crore (4.1x FY18 revenue). With better execution and recent order wins like the *Sarva Shiksha Abhiyan*, Pipeline project from Indian Oil Corp (IOCL), irrigation project in Telangana and Dangote refinery in Nigeria, we anticipate better financial performance (revenue and PAT CAGR of 19% and 35%, respectively and average EBITDA margins of 13.2%, over FY18-20E). PMPL currently trades at a P/E of 9.7x on FY20E basis. We maintain our Accumulate rating with a target price of ₹1,088 (11x FY20E EPS).

Key monitorables for financial performance: Pick up in the Erection, Testing & Commissioning (ETC) segment, build up in the non-power business order book, higher cash flow generation and better collection of receivables.

Q1FY19 Consolidated Result Summary

Y/E Mar (₹ Cr.)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Revenue	462	358	28.9	490	(5.7)
EBITDA	61	46	32.3	64	(5.2)
Margin (%)	13.2	12.8	34bps	13.1	6bps
PAT	24	18	34.0	26	(6.6)
EPS (₹)	16.58	12.37		17.74	

Source: Company, Centrum Wealth Research

Good order book and healthy order pipeline: As of 13 Aug'18, order inflow stood at ₹2,625 crore, with the order book at ₹6,431 crore. Share of non-power business in revenue has increased to 23% (vs 13% last year). The same is expected to rise to 30% in FY19E and 40% in FY20E. Better traction in the domestic business with projects like *Sarva Shiksha Abhiyan*, Andhra Pradesh Med Tech Zone (AMTZ - Visakhapatnam) and from international markets with projects like Dangote Project in Nigeria suggests good business momentum in the future.

Improvement in working capital – key monitorable: As of 30 Jun'18, debt stood at ₹310 crore (vs ₹274 crore as of 31 Mar'18), mainly on account of working capital given the higher order inflows. We anticipate, the working capital cycle to improve with higher contribution from businesses like O&M, civil and international, good order execution and better collection from customers (e.g. BHEL). We expect debt to equity to be ~0.3x in FY19E/20E.

Risk factors: 1) Slow order execution, 2) Elongated working capital cycle, 3) Delay in execution of orders.

Financial Summary - Consolidated

Y/E Mar (₹ Cr.)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj.PAT	YoY (%)	EPS (₹)	P/E (x)	EV/EBITDA (x)	RoE (%)
FY16A	1,378	0.9	182	13.2	75	5.1	50.85	18.9	8.7	16.5
FY17A	1,338	(2.9)	166	12.4	65	(13.9)	43.59	22.0	9.4	11.0
FY18P	1,548	15.7	202	13.1	79	22.8	54.01	17.8	7.8	12.0
FY19E	1,780	15.0	235	13.2	106	33.6	72.15	13.3	6.4	14.2
FY20E	2,194	23.2	294	13.4	145	37.1	98.89	9.7	5.1	16.8

Source: Company, Centrum Wealth Research, P= Provisional

Key Data

Current Market Price (₹)	960
Target Price (₹)	1,088
Potential upside	13.3%
Sector Relative to Market	In-line
Stock Relative to Sector	In-line

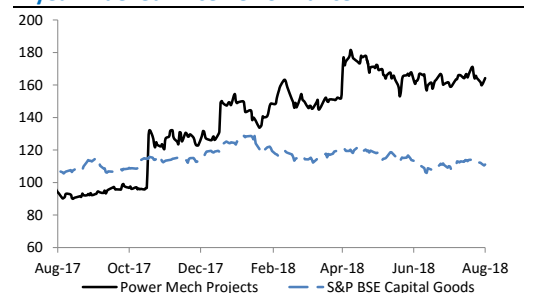
Stock Information

BSE Code	539302
NSE Code	POWERMECH
Face Value (₹/Share)	10.0
No. of shares (Cr.)	1.5
Market Cap (₹ Cr.)	1,412
Free float (₹ Cr.)	520
52 Week H / L (₹)	1,084/514
Avg. Daily turnover (12M, ₹ Cr.)	2.7

Shareholding Pattern (%)

	Jun-18	Jun-17
Promoters	63.2	65.1
Mutual Funds	12.9	11.6
FPIs	3.8	7.0
Others including Public	20.1	16.3

1 year Indexed Price Performance

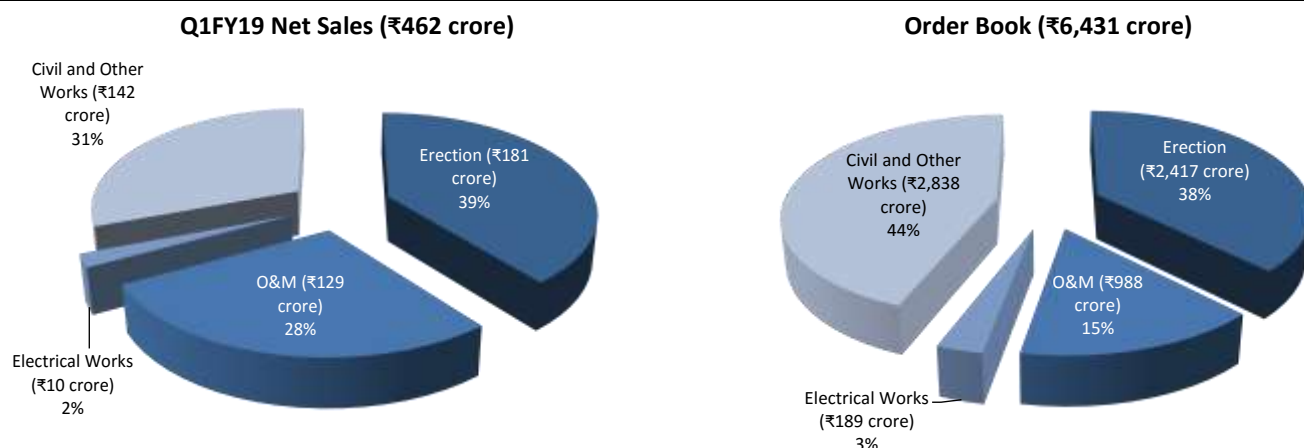


Price Performance (%)

	1M	3M	6M	1YR
PMPL	3.3	(2.9)	10.6	75.9
S&P BSE Cap. Goods	2.1	(3.2)	(5.2)	3.7

Source: Bloomberg, Centrum Wealth Research

Mrinalini Chetty, Research Analyst

Exhibit 1: Segment-wise break-up

Source: Company, Centrum Wealth Research, Order Book as on 13 Aug'18 (includes orders worth ₹464 crore in L1 Stage)

Exhibit 2: Key projects received during FY18/FY19

Segment	Key Projects	Project Location	Value (In ₹ Cr)
Erection	Erection, testing, commissioning of boiler and its auxiliaries, BHEL	Rampal, Bangladesh	108
	Installation works of HRSG, Center Line (STG & GTG), Gama	Bahrain	133
	Piping Civil Electrical & I & C, Dangote	Nigeria	491
	Onsite assembly of the piping & equipment for the combined cycle, Abener	Saudi Arabia	72
Civil & Other Works	Civil & Architectural works for Coal Handling Plant & BOP, BHEL	Kothagudem, Telangana	125
	Infrastructure Development Work, AMTZ	Vizag, AP	357
	Construction of Ramayampet Canal with distributory network for irrigating, I&CAD Dep	Siddipet, TS	374
	Laying 18" OD, 511 Km cross country product pipeline from Dumad Station (Gujrat) to Akolner Station (Maharashtra), IOCL (L1)	Vadodra, Gujrat	314
	Laying 18"od, 143kmCross country pipeline from Ramanathapuram to Tuticorin, IOCL (L1)	Tamil Nadu	150
	Strengthening of Infrastructure facilities of schools under Sarva Shiksha Abhiyan.	Andhra Pradesh	1386
	Civil work for Maitree STPP, BHEL	Bangladesh	133

Q1FY19 Concall Takeaways➤ **Revenue Mix:**

- **Segment Revenue Q1FY19 (vs Q1FY18):**
 - Erection ₹181 crore (vs ₹144 crore) up 26% mainly due to the international market,
 - O&M ₹129 crore (vs ₹122 crore),
 - Electrical Works ₹10 crore (vs ₹3 cr),
 - Civil and Other ₹142 crore (vs ₹88 crore), up 60% due to the execution of the AMTZ project Vishakhapatnam.
- **Geography based revenue Q1FY19 (vs Q1FY18)** - Domestic revenue ₹340 crore (vs ₹296 crore) and international revenue ₹122 crore (vs ₹62 crore).
- Share of Non-Power segment stood at 23% vs 13% last year. This is expected to go up to 30%/40% in FY19/FY20.

➤ **Order opportunities:**

- Sarva Shiksha Abhiyan – PMPL received orders worth ₹1,385 crore from the Andhra Pradesh government under Sarva Shiksha Abhiyan. The 2 orders are pertaining to civil work under the Hybrid Annuity Model (HAM). The orders have to be completed within 24 months where 10% advance payment will be received at an interest cost of ~6% (company's borrowing cost is 9.6%), 30% will be received in 24 months and the remaining will come in 10 instalments over 5 years. For one order worth ₹513 crore, PMPL has identified a sub-contractor. The second project, of ₹873 crore, the company will execute in-house.
- Current order book of ₹6,431 crore is to be executed over 24-30 months. Of this, orders worth ₹1,150 crore is from international market. Non-power orders contribute 45% (₹2,886 crore). PMPL has secured orders worth ₹464 crore in the non-power sector for cross country pipeline. In the export market, PMPL is looking at opportunities in Oman, Nigeria, Bangladesh, Saudi Arabia, Kuwait, UAE, Africa and Morocco.

- PMPL is looking to focus on non-power sector (steel and refinery) and will also look at O&M domestic non-power segment (identified orders worth ₹254 crore). PMPL is also looking at annual maintenance contracts (NTPC and BHEL).
- At present, PMPL is tracking orders worth ₹10,000 crore.
- FY19 tax rate on a blended basis to be in range of 25-28%, given the higher share of international orders.

Exhibit 3: Consolidated Quarterly Performance

Y/E Mar (₹ Cr.)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Revenue	358	345	355	490	462
<i>YoY Growth %</i>	<i>10.0</i>	<i>6.3</i>	<i>12.9</i>	<i>32.7</i>	<i>28.9</i>
Raw Materials	32	38	49	68	55
<i>% of sales</i>	<i>8.9</i>	<i>11.1</i>	<i>13.8</i>	<i>14.0</i>	<i>11.8</i>
Contract Execution Expenses	214	181	166	254	238
<i>% of sales</i>	<i>59.7</i>	<i>52.3</i>	<i>46.8</i>	<i>51.8</i>	<i>51.6</i>
Personnel Expenses	59	71	83	100	101
<i>% of sales</i>	<i>16.4</i>	<i>20.5</i>	<i>23.3</i>	<i>20.4</i>	<i>22.0</i>
Other Expenses	8	10	9	4	7
<i>% of sales</i>	<i>2.1</i>	<i>2.9</i>	<i>2.7</i>	<i>0.7</i>	<i>1.5</i>
EBIDTA	46	45	47	64	61
EBIDTA margin %	12.8	13.1	13.3	13.1	13.2
Depreciation	10	11	11	11	11
Interest	8	9	10	10	12
Other Income	3	2	2	0	3
Share of Profit/Loss from JV	(0.003)	(0.05)	(0.06)	(0.12)	(0.07)
PBT	31	27	29	43	41
Provision for tax	9	8	8	13	11
<i>Effective tax rate %</i>	<i>30.6</i>	<i>29.8</i>	<i>29.2</i>	<i>30.7</i>	<i>26.3</i>
Net Profit	21	19	20	30	31
Minority Interest (MI)	3	2	2	4	6
PAT after MI	18	17	18	26	24
<i>YoY Growth %</i>	<i>7.4</i>	<i>6.7</i>	<i>24.3</i>	<i>42.5</i>	<i>34.1</i>
PAT margin %	5.1	4.9	5.1	5.3	5.3

Source: Company, Centrum Wealth Research

From the Technical & Derivative Desk

- After a decent rally from ₹445 to ₹1,078, the stock has started moving in a corrective phase.
- Due to some price correction, the stock is giving breakdown from the 'Rising Channel' of last nine months.
- The stock is moving in a range of ₹880 – ₹1,015 from last two months and taking support around the '50 EMA' and '100 EMA' on daily time scale.
- Considering overall chart structure, a sustainable move beyond ₹880 – ₹1,015 will decide the further trend for the stock.
- Thus, traders are advised to keep an eye on the mentioned level as a breakout on either side from this zone may lead to 8 – 10% move in that direction.

Exhibit 4: Technical Chart



Source: Centrum Wealth Research

Financials - Consolidated

Income Statement

Y/E Mar (₹ Cr)	FY16	FY17	FY18P	FY19E	FY20E
Revenue	1,378	1,338	1,548	1,780	2,194
Growth %	0.9	(2.9)	15.7	15.0	23.2
Raw Materials	115	122	188	196	241
% of sales	8.3	9.1	12.1	11.0	11.0
Contract Execution Exp	899	793	815	976	1,198
% of sales	65.2	59.2	52.6	54.8	54.6
Personnel Expenses	155	227	312	338	417
% of sales	11.2	16.9	20.2	19.0	19.0
Other Expenses	28	31	31	36	44
% of sales	2.0	2.3	2.0	2.0	2.0
EBIDTA	182	166	202	235	294
EBIDTA margin %	13.2	12.4	13.1	13.2	13.4
Depreciation	39	41	43	46	49
Interest	33	33	36	44	44
Other Income	6	8	7	7	7
Sh. Of profit/(loss) in JV	0.3	0.6	(0.2)	-	-
PBT	116	100	130	152	208
Provision for tax	41	36	39	45	62
Effective tax rate %	35.0	35.6	30.2	30.0	30.0
Net Profit	75	65	91	106	145
Net Profit after MI	75	65	79	106	145
Growth %	5.1	(13.9)	22.8	33.6	37.1
PAT margin %	5.5	4.8	5.9	6.0	6.6

Source: Company, Centrum Wealth Research, P=Provisional

Balance Sheet

Y/E Mar (₹ Cr)	FY16	FY17	FY18P	FY19E	FY20E
Share capital	15	15	15	15	15
Reserves & surplus	540	607	684	783	921
Shareholder's fund	555	621	698	797	936
Loan fund	213	180	274	274	274
Minority Interest	0.4	2.1	13.8	13.8	13.8
Deferred Tax Liab.	4	2	-	-	-
Total cap. employed	773	805	986	1,085	1,223
Net fixed assets	220	218	209	182	153
Investments	0.31	0.91	0.13	0.02	0.02
Deferred Tax Assets			3		
Cash and bank	45	37	100	184	196
Inventories	31	49	47	73	90
Debtors	272	295	309	341	409
Loans & adv and OCA	736	763	919	979	1,207
Total current assets	1,085	1,143	1,374	1,578	1,902
Current lia. and prov.	532	557	599	675	831
Net current assets	553	586	775	903	1,070
Total assets	773	805	986	1,085	1,223

Source: Company, Centrum Wealth Research. OCA – Other Current Assets

Cash Flow

Y/E Mar (₹ Cr)	FY16	FY17	FY18P	FY19E	FY20E
Net Profit Before Tax	116	100	130	152	208
Depreciation	39	41	43	46	49
Others	28	28	29	37	37
Change in working capital	(163)	(10)	(126)	(43)	(156)
Tax expenses	(36)	(40)	(39)	(45)	(62)
Cash flow from Ops	(17)	119	37	146	76
Capex	(58)	(39)	(33)	(20)	(20)
Other investing activities	(4)	(0.2)	7	7	7
Cash flow from Invest	(63)	(40)	(25)	(13)	(13)
Proceeds from equity & Deb	(21)	(40)	(0)	-	-
Borrowings/(Repayments)	127	-	94	-	-
Dividend paid	(3)	(1)	(2)	(7)	(7)
Interest paid	(32)	(33)	(36)	(44)	(44)
Cash flow from financing	71	(73)	56	(51)	(51)
Net Cash Flow	(9)	6	67	82	12

Source: Company, Centrum Wealth Research

Key Ratios

Y/E Mar	FY16	FY17	FY18P	FY19E	FY20E
Return ratios (%)					
RoE	16.5	11.0	12.0	14.2	16.8
RoCE	21.7	16.8	18.5	18.9	21.8
Turnover Ratios (days)					
Inventory	8	13	11	15	15
Debtors	72	80	73	70	68
Creditors	72	72	73	73	73
Fixed asset turnover (x)	4.7	5.1	5.1	5.4	6.3
Solvency Ratio (x)					
Debt-Equity	0.4	0.3	0.4	0.3	0.3
Interest coverage	4.5	4.0	4.6	4.5	5.7
Per share (₹)					
EPS	50.8	43.6	54.0	72.1	98.9
BVPS	377.3	422.3	474.8	542.1	636.1
CEPS	77.4	71.4	83.1	103.6	132.2
Dividend Ratios					
DPS (₹)	1.0	1.0	1.0	4.0	4.0
Dividend Yield (%)	0.1	0.1	0.1	0.4	0.4
Dividend Payout (%)	2.4	2.8	2.3	6.8	4.9
Valuation (x)					
P/E	18.9	22.0	17.8	13.3	9.7
P/BV	2.5	2.3	2.0	1.8	1.5
EV/EBIDTA	8.7	9.4	7.8	6.4	5.1
EV/Sales	1.1	1.2	1.0	0.8	0.7

Source: Company, Centrum Wealth Research

Appendix

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2	Details of Disciplinary History of CBL	CBL has not been debarred/ suspended by SEBI or any other regulatory authority from accessing /dealing in securities market.
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