Power Mech Projects Limited

April 30, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – Cash Credit	230.00	250.00	[ICRA]A-(Stable); reaffirmed
Non-Fund Based Limits – Long Term/Short Term	816.00	1000.00	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Fund based-Term Loan	1.00	0.00	
Long-term/Short -Term Proposed Limits	63.00	0.00	
Total	**1110.00**	**1250.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 250-crore fund-based facilities of Power Mech Projects Limited(PMPL). The outlook on the long-term rating is 'Stable'. ICRA has also reaffirmed the long-term rating of [ICRA]A-(Stable) and the short-term rating of [ICRA]A2+(pronounced ICRA A two plus) to the Rs.1000-crore non-fund-based facilities of PMPL.

Rationale

The reaffirmation of ratings factors in the healthy order book position of PMPL with an order backlog of Rs. 4590 crores as of February 2018(3.43 times operating income (OI) of FY2017) owing to robust order-booking from the international Erection-Testing-Commissioning (ETC) segment as well as order diversification into non-power business segments. ICRA notes that diversification of PMPL into non-power client segments (such as railways, industrial buildings etc.,) as well as into transmission & distribution (T&D) segment going forward is expected to reduce its dependence on the domestic thermal power generation sector which is facing significant investment slowdown. The ratings further continue to positively factor in the established position of PMPL as an engineering and construction services provider and its long-standing relationship with major Engineering-Procurement-Construction (EPC) contractors and project developers operating in India, which resulted in a healthy order-inflow over the years. ICRA further notes that increased order execution in the international ETC segment coupled with increasing contribution from the high-margin-yielding O&M segments is expected to result in sustained healthy profitability levels for the company going forward. Revenue contribution from the O&M business segment, which yields better operating profitability, remained at ~36% during 9M FY2018, and its share is likely to increase further to about 40% in next 2-3-year period. The ratings further factor in the relatively comfortable debt coverage indicators of the company with interest coverage of 5.34 times and NCA/Total Debt of 46% for 9M FY2018.

The ratings, however, continue to remain constrained by the significantly high working capital intensity of PMPL owing to large cumulative receivable position comprising of receivables, retention monies and unbilled revenue, along with advances to sub-contractors. Thus, the utilisation of sanctioned working capital limits continued to remain on the higher side (at an average of 93%) during the last twelve-month period. ICRA, however, notes that the dependence of the company on external fund-based debt continues to remain on the lower side as reflected by a healthy capital structure with gearing of <0.5 times during the last three years, also supported by cash accruals and equity proceeds post IPO during August 2015. However, the company has high contingent liabilities in the form of performance guarantees given towards fulfilment of contracts. Furthermore, while PMPL expects contraction in its working capital cycle going forward owing to increasing exposure to non-power client segments which have shorter cash conversion cycles, the same remains to be demonstrated.

The ratings further continue to remain constrained by the relatively high customer concentration risk with top-10 customers contributing to ~70% of PMPL's revenue in the last two years with Bharat Heavy Electricals Limited (BHEL) contributing to 30-35% of the company's revenues as well as outstanding receivable position during the said period. The ratings further remain constrained by the vulnerability of the company's profitability to competitive pressures, fluctuations in the prices of raw materials in case of 'fixed price' based contracts and incidence of liquidated damages.

Outlook: Stable

The 'Stable' outlook reflects ICRA's expectations that PMPL's performance will continue to remain steady backed by a healthy order book from the O&M, international ETC and non-power segments. The outlook may be revised to 'Positive' in case of an improvement in the cumulative receivable position of the company driven by diversification to non-power segments, which would reduce its working capital intensity. The outlook may be revised to 'Negative' in case of further increase in the cash conversion cycle of the company due to deterioration in working capital position which, in turn, would impact its overall liquidity profile.

Key rating drivers

Credit strengths

Established presence as an engineering and construction services provider – PMPL has a proven track record of close to two decades as an engineering and construction services provider, with power sector as the major client segment. The company is a well-established player in the ETC segment and has worked on Ultra Mega Power Projects (UMPPs) and several super-critical power projects. PMPL's reputed customer base constitutes of players like NTPC Limited, independent power producers and state generation utilities. The company has longstanding relationships with all major EPC contractors and project developers operating in India.

Healthy order book position of ~Rs.4600 crore as of February 2018 owing to robust order booking during FY2018– PMPL's unexecuted order book position as of February 2018 stood at Rs. 4590 crore owing to robust order booking of Rs. 2050 crore in 11M FY2018 as compared to Rs.1750 crore in FY2017. The pending order-book is 3.43 times the operating income of PMPL in FY2017 and is expected to result in healthy revenue growth for the company going forward. Despite subdued activity in the domestic thermal power segment, the company has been able to expand its foray into international markets within the ETC space with an order book of Rs. 1100 crore apart from having Rs. 787 crore of orders from the non-power segment.

Increasing revenue contribution from O&M segment to remain a key growth driver – The revenue contribution from the relatively high-margin-yielding O&M segment has increased over the years from 8% in FY2013 to 36% in FY2017 and has contributed to the revenue and profitability growth of the company during the period, despite the demand contraction in the domestic ETC segment. Going forward, PMPL plans to explore O&M opportunities in the international segment as well as Government entities at the domestic level. Hence, this segment is expected to remain a key growth driver for PMPL going forward.

Diversification into non-power segment to reduce sectoral concentration risks and increase revenue growth opportunities – In the last 1.5 years, PMPL has restructured its operations into seven strategic SBUs and has increased focus on tapping opportunities in the non-power segment. The company has been able to receive orders in several segments such as Railways, Transmission and Distribution and Development of Industrial buildings. PMPL plans to leverage on its existing operational capabilities and has entered into areas which are relatively synergistic with its current profile. Diversification into non-power segments is expected to alleviate risks pertaining to exposure to single sector i.e. Power. Furthermore, the company also expects reduction in its working capital requirements going forward given the smaller cash conversion cycles in the contracts pertaining to non-power sector. However, performance of the same remains to be demonstrated.

Credit challenges

Significantly high working capital intensity- PMPL's working capital intensity continues to remain on the higher side due to cumulative contribution of receivables, retention money & security deposits, unbilled revenues and advances to sub-contractors. Furthermore, the average utilisation of the fund-based facilities remains on the higher side at 93% for the past 12-month period.

Relatively high customer concentration risk – The customer concentration risk for PMPL remains on the higher side with revenue from the top ten consumers contributing to ~70% of the company's revenues in FY2016 and FY2017. In addition, BHEL continues to be the key client with a substantial share (30-35%) in the total order mix and receivables position.

High contingent liabilities comprising of performance guarantees towards fulfilment of contracts – PMPL has high contingent liabilities comprising of performance guarantees towards fulfilment of contracts. Also, margin requirements restrict the free cash available for operations. Furthermore, the company's ability to execute the ongoing / future orders in a timely manner and within budgeted costs remains crucial as incidence of LD claims, if any, could adversely impact margins.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Construction Entities

About the company:

Incorporated in 1999, PMPL is an engineering and construction services company focussed on power and infrastructure industries. Until FY2016, the company largely provided services to power sector entities under three major divisions namely [a] erection, testing and commissioning (ETC) of boiler, turbine and generator (BTG) and balance of plant (BoP), [b] civil work and [c] operations and maintenance of power plants. However, from FY2017 onwards, the company has expanded its service offerings to non-power segments such as Railways, Transmission & Distribution, Development of Industrial Buildings, etc., Promoted by Mr. S. Kishore Babu, the company is based out of Hyderabad and has executed major projects across India for various clients such as BHEL, NTPC Limited, independent power producers and state generation utilities. The company also has presence in Middle East and Africa via subsidiaries.

In FY2017, at a consolidated level, the company reported a net profit of Rs. 64.6 crore on an operating income(OI) of Rs. 1338.2 crore as compared to net profit of 75.3 crore on OI of Rs. 1378.2 crore for FY2016.

Key financial indicators (audited)

	FY2016	FY2017	9M FY2018
Operating Income (Rs. crore)	1,378.2	1,338.2	1,058.2
PAT (Rs. crore)	75.3	64.6	61.0
OPBDIT/ OI (%)	13.2%	12.4%	13.1%
RoCE (%)	21.3%	16.5%	
Total Debt/ TNW (times)	0.5	0.3	
Total Debt/ OPBDIT (times)	1.4	1.3	
Interest coverage (times)	5.5	5.0	3.2
NWC/ OI (%)	44%	46%	

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating April 2018	Date & Rating in FY2017 Dec 2017	Date & Rating in FY2016 April 2016	Date & Rating in FY2015 February 2015
1	Fund-based Limits	Long Term	250.00		[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Non-fund Based Limits	Long Term/Short Term	1000.00		[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+
3	Term Loan	Long Term				[ICRA]A- (Stable)		
4	Unallocated Limits	Long Term/Short Term				ICRA]A- (Stable)/ [ICRA]A2+		

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Limits	NA	NA	NA	250.00	[ICRA]A-(Stable)
NA	Non-Fund Based Limits Long Term/Short Term	NA	NA	NA	1000.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: Power Mech Projects Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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