

Retail Equity Research

Power Mech Projects Ltd.

Capital Goods

BSE CODE : 539302 NSE CODE: POWERMECH
BLOOMBERG CODE: POWM:IN SENSEX :65,970

Accumulate

12 Months Investment Period Rating as per Small Cap
CMP: Rs.3,988 TARGET: Rs.4,750 RETURN: 19% ↑
(Closing: 24.11.2023)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

O&M and Mining to drive future earnings.

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

- In Q2FY24, the company posted a 21% YoY revenue growth to Rs.932cr., driven by strong performance in Operations and Maintenance (O&M) and Civil segments.
- The current orderbook backlog is 14X TTM revenue, with mining orders constituting 74.3% of the total order backlog. The clearance and ground activities have progressed positively in these projects and are expected to start contributing to the revenues from Q4FY24 itself.
- Order inflows are expected to remain strong as O&M and Civil segments will benefit from ongoing revival of projects in Power and Infrastructure sectors.
- Improved execution bandwidth and a better margin profile due to Mining and O&M focus will drive the company's earnings growth. Hence, we value Power Mech at a P/E of 13.5x on FY25E and provide an "ACCUMULATE" rating with a revised target price of Rs.4,750.

Growing O&M and Civil business

In Q2FY24, the company reported a net revenue of Rs.932Cr., registering 21% YoY growth supported by the Operations and Maintenance (O&M) (20% YoY) and Civil Businesses (35% YoY) segments. The electrical segment remained flat due to a deliberate reduction in order booking plans over concerns about high working capital requirements. The management is confident of achieving a quarterly execution bandwidth of Rs.1,200cr. to Rs.1,800cr.

Significant change in Business Mix

We believe that, in order to achieve its envisioned recurring long-term service model capable of generating stable income to the tune of Rs.3,000cr. to Rs.3,500cr., the focus on O&M and Mining orders is a step in the right direction. The order book backlog, which is at Rs.53,112cr. is currently skewed towards mining (74.3% of the total order backlog) after receiving the Kotre Basantpur (KBP) order and the SAIL order. The KBP order, which has received its requisite clearances, could bring in 100cr. revenue by Q4FY24, and the SAIL order holds the potential for Rs.350-Rs.400cr. revenue next year. With this influx, the mining business will become a key contributor to the company's revenue.

Power Sector to drive O&M, Mechanical and civil inflows

The management is confident of the O&M segment which is expected to see large order book additions in the current financial year, on the backs of projects in pipelines which are in advanced stages. Power sector revamp will play a key role in order inflows for O&M, mechanical and civil constructions as the company is tracking over Rs.17,000cr. of new & revival project opportunities.

Valuation and Outlook

At 14xTTM revenue, the orderbook backlog provides revenue visibility. The prospect of unlocking potential revenues from the KBP and SAIL mining orders in the near term bodes well for the company. The power sector revamp provides opportunities for large O&M, Civil and Mechanical order inflows. With improving execution bandwidths, better margin profiles and working capital days due to O&M and Mining orders, we believe that the company is set for strong earnings. Hence, we value Power Mech at a P/E of 13.5x on FY25E, and provide an ACCUMULATE rating with a target price of Rs.4,750.

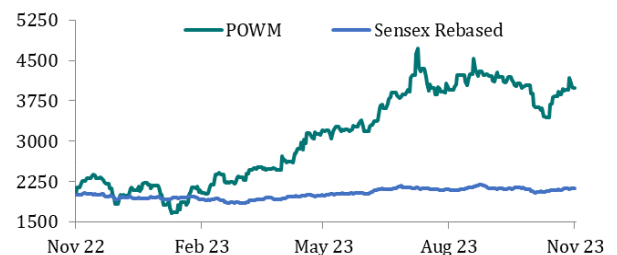
Company Data

| | |
|----------------------------|-------|
| Market Cap (Rs cr) | 6,310 |
| Enterprise Value (Rs cr) | 6,602 |
| Outstanding Shares (Rs cr) | 1.5 |
| Free Float | 0.40 |
| Dividend Yield | 0.1% |
| 52 week high (Rs) | 5,062 |
| 52 week low (Rs) | 1,571 |
| 6m average volume (cr) | 0.00 |
| Beta | 1.0 |
| Face value (Rs) | 10.0 |

| Shareholding (%) | Q4FY23 | Q1FY24 | Q2FY24 |
|------------------|--------|--------|--------|
| Promoters | 64.2 | 64.1 | 60.4 |
| FII's | 4.9 | 3.6 | 4.6 |
| MFs/Institution | 10.8 | 13.5 | 18.1 |
| Public | 20.1 | 18.8 | 16.8 |
| Total | 100.0 | 100.0 | 100.0 |
| Promoter Pledge | Nil | Nil | Nil |

| Price Performance | 3 Month | 6 Month | 1 Year |
|-------------------|---------|---------|--------|
| Absolute Return | 1.1% | 24.6% | 98.9% |
| Absolute Sensex | 1.7% | 5.5% | 5.9% |
| Relative Return* | -0.5% | 19.1% | 93.0% |

*over or under performance to benchmark index



| Consolidated (cr) | FY23A | FY24E | FY25E |
|-------------------|-------|-------|-------|
| Sales | 3,601 | 4,996 | 6,873 |
| Growth (%) | 33 | 39 | 38 |
| EBITDA | 404 | 605 | 917 |
| EBITDA Margin(%) | 11 | 12 | 13 |
| PAT Adj. | 207 | 340 | 518 |
| Growth (%) | 50 | 64 | 52 |
| Adj. EPS | 141 | 231 | 352 |
| Growth (%) | 50 | 64 | 52 |
| P/E | 28 | 17 | 11 |
| P/B | 5 | 3 | 2 |
| EV/EBITDA | 14 | 9 | 6 |
| ROE (%) | 18 | 21 | 23 |
| D/E | 1 | 0 | 0 |

Quarterly Financials (Consolidated)

Profit & Loss

| (Rs cr) | Q2FY24 | Q2FY23 | YoY Growth (%) | Q1FY24 | QoQ Growth (%) | H1FY24 | H1FY23 | YoY Growth (%) |
|---------------------|------------|------------|----------------|------------|----------------|--------------|--------------|----------------|
| Sales | 932 | 771 | 21 | 865 | 8 | 1,798 | 1,518 | 18 |
| EBITDA | 113 | 87 | 31 | 99 | 14 | 213 | 170 | 25 |
| EBITDA margins (%) | 12 | 11 | 93bps | 11 | 68bps | 12 | 11 | 62bps |
| Depreciation | 10 | 10 | 0 | 10 | (1) | 20 | 20 | 1 |
| EBIT | 103 | 92 | 12 | 89 | 16 | 192 | 150 | 28 |
| Interest | 25 | 21 | 17 | 20 | 23 | 45 | 42 | 9 |
| Other Income | 3 | 4 | (27) | 3 | 1 | 8 | 14 | (45) |
| Exceptional Items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| PBT | 78 | 55 | 42 | 69 | 14 | 147 | 108 | 36 |
| Tax | 29 | 15 | 93 | 24 | 23 | 53 | 29 | 84 |
| Reported PAT | 51 | 43 | 20 | 51 | 1 | 102 | 82 | 24 |
| Adjustments | 0 | 0 | 0 | 0 | 0 | - | - | 0 |
| Adj PAT | 51 | 43 | 20 | 51 | 1 | 102 | 82 | 24 |
| No. of Shares(Cr.) | 1.5 | 1.5 | | 1.5 | | 1.5 | 1.5 | |
| EPS (Rs) | 35 | 29 | 20 | 35 | 1 | 102 | 82 | 24 |

Change in Estimates

| Year / Rs cr | Old estimates | | New estimates | | Change (%) | |
|--------------|---------------|-------|---------------|-------|------------|--------|
| | FY24E | FY25E | FY24E | FY25E | FY24E | FY25E |
| Revenue | 3,766 | 5,378 | 4,996 | 6,873 | 32.7 | 27.8 |
| EBITDA | 428 | 628 | 605 | 917 | 41.2 | 46.0 |
| Margins (%) | 11.4 | 11.69 | 12.1 | 13.3 | 73bps | 166bps |
| Adj. PAT | 234 | 384 | 340 | 518 | 45.0 | 34.9 |
| EPS | 159 | 261 | 231 | 352 | 45.0 | 34.9 |

Consolidated Financials

PROFIT & LOSS

| Y.E March (Rs. cr) | FY21A | FY22A | FY23A | FY24E | FY25E |
|----------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 1,884 | 2,710 | 3,601 | 4,996 | 6,873 |
| % change | (13) | 44 | 33 | 39 | 38 |
| EBITDA | 42 | 286 | 404 | 605 | 917 |
| % change | (85) | 584 | 41 | 50 | 52 |
| Depreciation | 36 | 37 | 43 | 60 | 107 |
| EBIT | 6 | 249 | 361 | 545 | 810 |
| Interest | 79 | 79 | 90 | 98 | 126 |
| Other Income | 16 | 17 | 17 | 17 | 17 |
| PBT | (57) | 187 | 288 | 464 | 701 |
| % change | (134) | (429) | 54 | 61 | 51 |
| Tax | (11) | 46 | 73 | 116 | 175 |
| Tax Rate (%) | 20 | 25 | 25 | 25 | 25 |
| Reported PAT | (49) | 138 | 207 | 340 | 518 |
| Adj* | 0 | 0 | 0 | 0 | 0 |
| Adj PAT | (49) | 138 | 207 | 340 | 518 |
| % change | - | - | 50 | 64 | 52 |
| No. of shares (cr) | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Adj EPS (Rs.) | (33) | 94 | 141 | 231 | 352 |
| % change | - | - | 0 | 1 | 1 |
| DPS (Rs.) | 1 | 0 | 2 | 1 | 1 |

CASH FLOW

| Y.E March (Rs. cr) | FY21A | FY22A | FY23A | FY24E | FY25E |
|-------------------------|-------------|-------------|--------------|--------------|--------------|
| Net inc. + Depn. | 36 | 222 | 323 | 516 | 800 |
| Non-cash adj. | 50 | 16 | 15 | (21) | (52) |
| Changes in W.C | 96 | (63) | (155) | (447) | (627) |
| C.F. Operation | 122 | 175 | 182 | 48 | 121 |
| Capital exp. | (25) | (40) | (50) | (261) | (550) |
| Change in inv. | 0 | 0 | 0 | (2) | (2) |
| Other invest.CF | (20) | (12) | (43) | 0 | 0 |
| C.F - Investment | (47) | (52) | (91) | (263) | (552) |
| Issue of equity | 0 | 0 | 0 | 350 | 0 |
| Issue/repay debt | (86) | (61) | (116) | (58) | 249 |
| Dividends paid | (787) | 0 | (22) | (15) | (15) |
| Other finance.CF | (3) | (3) | (2) | 0 | 0 |
| C.F - Finance | (91) | (63) | (120) | 291 | 247 |
| Chg. in cash | (16) | 60 | (29) | 76 | (184) |
| Closing cash | 64 | 150 | 172 | 248 | 64 |

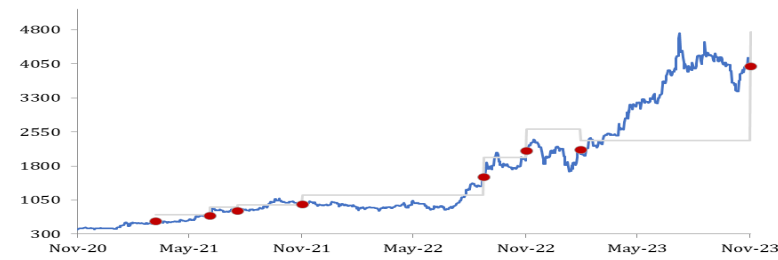
BALANCE SHEET

| Y.E March (Rs. cr) | FY21A | FY22A | FY23A | FY24E | FY25E |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash and Cash Equivalents | 64 | 150 | 172 | 248 | 64 |
| Accounts Receivable | 534 | 667 | 894 | 1,218 | 1,657 |
| Inventories | 115 | 138 | 147 | 226 | 299 |
| Other Cur. Assets | 1,314 | 1,409 | 1,602 | 1,924 | 2,267 |
| Investments | 41 | 39 | 36 | 38 | 40 |
| Gross Fixed Assets | 367 | 405 | 447 | 697 | 1,247 |
| Net Fixed Assets | 165 | 172 | 182 | 372 | 815 |
| CWIP | 5 | 2 | 3 | 13 | 13 |
| Intangible Assets | 3 | 3 | 2 | 3 | 3 |
| Def. Tax (Net) | 22 | 12 | 12 | 15 | 18 |
| Other Assets | 0 | 0 | 0 | 0 | 0 |
| Total Assets | 2,270 | 2,597 | 3,054 | 4,061 | 5,180 |
| Current Liabilities | 814 | 937 | 1,207 | 1,474 | 1,698 |
| Provisions | 6 | 9 | 5 | 11 | 15 |
| Debt Funds | 509 | 527 | 475 | 515 | 890 |
| Other Liabilities | 35 | 80 | 91 | 97 | 97 |
| Equity Capital | 15 | 15 | 15 | 15 | 15 |
| Reserves & Surplus | 890 | 1,029 | 1,260 | 1,949 | 2,465 |
| Shareholder's Fund | 905 | 1,043 | 1,275 | 1,964 | 2,480 |
| Total Liabilities | 2,270 | 2,597 | 3,054 | 4,061 | 5,180 |
| BVPS (Rs.) | 615 | 709 | 855 | 1,309 | 1,653 |

RATIOS

| Y.E March | FY21A | FY22A | FY23A | FY24E | FY25E |
|--------------------------------|-------|-------|-------|-------|-------|
| Profitab. & Return | | | | | |
| EBITDA margin (%) | 2 | 11 | 11 | 12 | 13 |
| EBIT margin (%) | 0 | 9 | 10 | 11 | 12 |
| Net profit mgn.(%) | (3) | 5 | 6 | 7 | 8 |
| ROE (%) | (5) | 14 | 18 | 21 | 23 |
| ROCE (%) | 2 | 14 | 17 | 20 | 21 |
| W.C & Liquidity | | | | | |
| Receivables (days) | 104 | 81 | 79 | 77 | 76 |
| Inventory (days) | 23 | 17 | 14 | 14 | 14 |
| Payables (days) | 133 | 98 | 90 | 87 | 84 |
| Current ratio (x) | 2 | 2 | 2 | 2 | 3 |
| Quick ratio (x) | 1 | 1 | 1 | 1 | 1 |
| Turnover & Leverage | | | | | |
| Gross asset T.O (x) | 5 | 7 | 8 | 9 | 7 |
| Total asset T.O (x) | 1 | 1 | 1 | 1 | 1 |
| Int. coverage ratio (x) | 0 | 3 | 4 | 6 | 6 |
| Adj. debt/equity (x) | 1 | 1 | 1 | 0 | 0 |
| Valuation | | | | | |
| EV/Sales (x) | 3 | 2 | 2 | 1 | 1 |
| EV/EBITDA (x) | 132 | 19 | 14 | 9 | 6 |
| P/E (x) | (120) | 42 | 28 | 17 | 11 |
| P/BV (x) | 6 | 6 | 5 | 3 | 2 |

Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Investment 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/Neutral

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/Neutral:** 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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