

Power Mech Projects

Performance Highlights

Quarterly highlights - Standalone

Y/E March (₹ cr)	2QFY16	1QFY15	2QFY15	% chg (yoy)	% chg (qoq)
Net sales	317	301	316	0.3	5.2
EBITDA	43	40	38	13.0	7.4
Reported PAT	18	16	15	23.3	12.7

Source: Company, Angel Research

Power Mech Projects (Power Mech) reported flat yoy sales for 2QFY2016. The company reported a top-line of ₹317cr, which is up 0.3% yoy from the year ago levels. The EBITDA, at ₹43cr in 2QFY2016, grew 13.0% yoy. Despite flat sales, the EBITDA margin of the company expanded on a yoy basis to 13.5% for 2QFY2016. In-line with EBITDA growth, Power Mech reported a PAT of ₹18cr for the quarter, reflecting 23.3% yoy growth. A 3.2% yoy decline in depreciation expenses (to ₹9cr) and decline in effective tax rate (from 35.4% a year ago to 33.9% in the quarter) helped the company report a 107bp yoy PAT margin expansion.

Power Mech's order book as of 2QFY2016-end stood at ₹3,700cr, reflecting order book to LTM ratio of 2.2x.

Valuation: On considering Power Mech's 2QFY2016 order book of ₹3,700cr (which gives strong earnings growth visibility), negligible debt on the books, and higher return ratios (RoE of Power Mech is higher than that of its peers), we assign a 9.0x 1-year forward P/E multiple to our FY2017E, EPS estimate of ₹72/share to arrive at a price target of ₹649/share. **Given the limited upside, we maintain our Neutral rating on the stock.**

Key financials (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	933	1,187	1,356	1,539	1,801
% chg	42.4	27.3	14.2	13.6	17.0
Net Profit	50	68	71	87	106
% chg	(0.4)	36.3	3.5	22.7	22.1
EBITDA (%)	13.0	13.0	12.2	12.8	12.7
EPS (₹)	46.6	62.4	56.2	59.0	72.1
P/E (x)	13.0	9.7	10.8	10.3	8.4
P/BV (x)	3.2	2.4	2.2	1.5	1.3
RoE (%)	28.0	28.7	22.5	18.6	16.8
RoCE (%)	32.8	35.1	26.5	24.7	24.0
EV/Sales (x)	0.8	0.6	0.7	0.6	0.5
EV/EBITDA (x)	5.9	4.9	5.6	4.5	3.9

Source: Company, Angel Research; CMP as of November 13, 2015

NEUTRAL

CMP	₹606
Target Price	-

Investment Period	-
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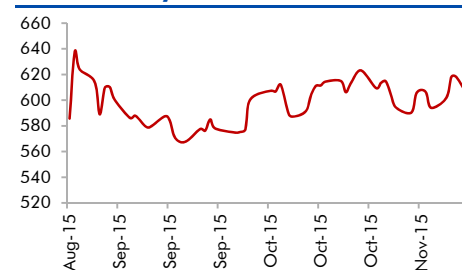
Stock Info	
Sector	Capital Goods
Market Cap (₹ cr)	891
Net debt (₹ cr)	160
Beta	
52 Week High / Low	663/565
Avg. Daily Volume	43,448
Face Value (₹)	10
BSE Sensex	25,611
Nifty	7,762
Reuters Code	POMP.NS
Bloomberg Code	POWM@IN

Shareholding Pattern (%)	
Promoters	64.8
MF / Banks / Indian Fls	17.6
FII / NRIs / OCBs	1.0
Indian Public / Others	16.6

Abs. (%)	3m	1yr	3yr
Sensex	(8.8)	(8.7)	38.6
PowerMech	3.4	NA	NA

*NA- Not Applicable as PowerMech got listed on Aug 26, 2015

3-Year Daily Price Chart



Source: Company, Angel Research

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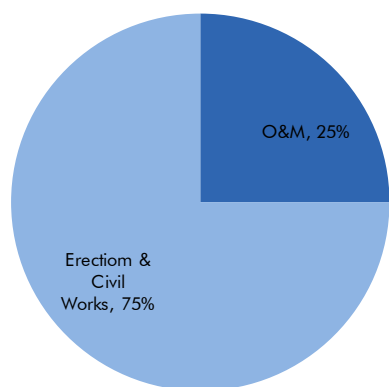
Exhibit 1: Quarterly Performance (Standalone)

Particulars (₹ cr)	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)	1HFY16	1HFY15	% chg (yoy)
Net Sales	317	301	5.2	316	0.3	618	663	(6.7)
Total Expenditure	274	262	4.9	278	(1.5)	536	579	(7.5)
Cost of materials consumed	21	21	(3.4)	16	28.6	42.1	33.7	24.9
Contract Execution Exp.	221	206	7.3	229	(3.4)	426.8	478.4	(10.8)
Employee benefits Expense	26	28	(6.3)	29	(9.2)	54.6	59.2	(7.7)
Other Expenses	6	6	3.8	4	43.6	12.3	7.8	57.0
EBITDA	43	40	7.4	38	13.0	82.6	83.5	(1.0)
EBITDA %	13.5	13.2		12.0		13.4	12.6	
Depreciation	9	9	(2.0)	9	(3.2)	18.1	18.0	1.0
EBIT	34	31	10.2	29	18.2	64.5	65.5	(1.6)
Interest and Financial Charges	8	8	1.6	7	6.1	15.6	13.5	15.5
Other Income	1	2	(6.5)	2	(5.6)	3.0	4.1	(26.3)
PBT before Exceptional Items	27	24	11.8	23	20.6	51.9	56.1	(7.5)
Exceptional Items	0	0		0		0.0	0.0	
PBT after Exceptional Items	27	24	11.8	23	20.6	51.9	56.1	
Tax	9.3	8	10.1	8	15.5	17.7	18.5	
% of PBT	33.9	34.5		35.4		34.2	33.1	
PAT	18	16	12.7	15	23.3	34.1	37.5	(9.1)
Adj. PAT %	5.7	5.3		4.6		5.5	5.7	
Dil. EPS	13.02	12.75	2.1	12.04	8.1	24.57	30.62	(19.8)

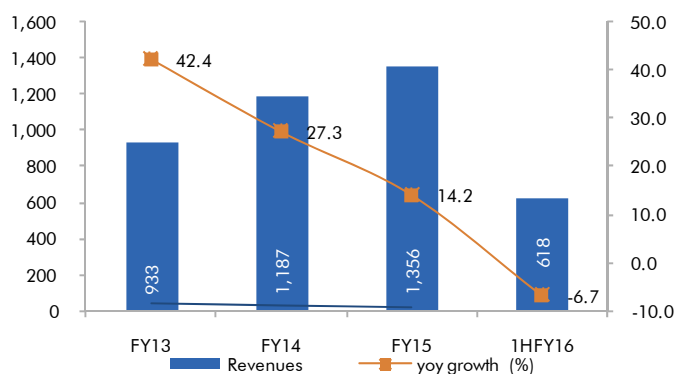
Source: Company, Angel Research

Revenues grow 0.3% yoy

Power Mech reported flat yoy sales for the quarter. The company reported a top-line of ₹317cr, which is up 0.3% yoy from the year ago levels. Lower revenue booking from recently won projects, led to flattish yoy top-line growth.

Exhibit 2: Segment-wise 2QFY2016 Revenue split


Source: Company, Angel Research

Exhibit 3: Revenue trend


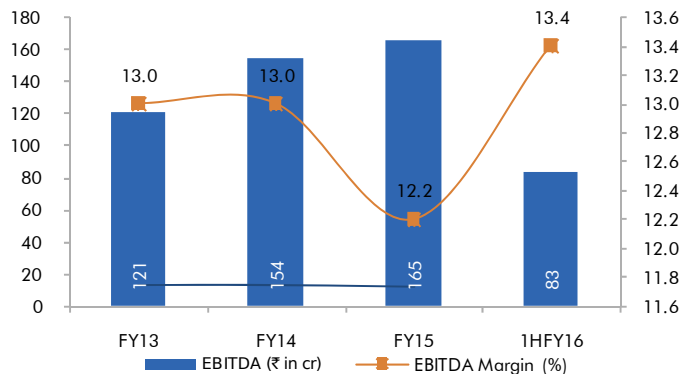
Source: Company, Angel Research

Reports yoy EBITDA margin expansion

Power Mech reported an EBITDA of ₹43cr in 2QFY2016, reflecting 13.0% yoy growth. Despite flat sales, the EBITDA margin expanded on a yoy basis to 13.5% for 2QFY2016. Margin expansion is owing to higher revenue contribution from the

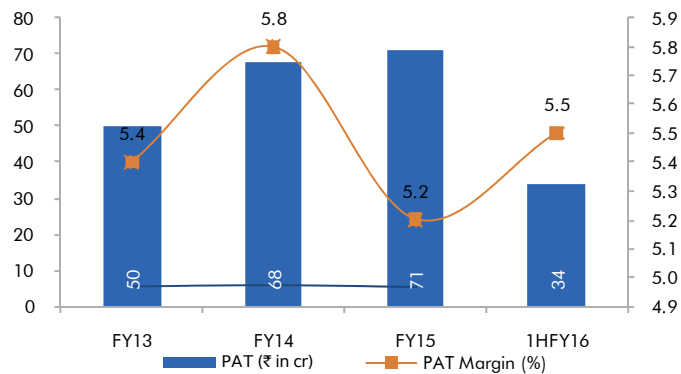
O&M segment. Our view strengthened from the point that Contract execution expenses as % of sales declined from 72.4% a year ago to 69.7% in 2QFY2016.

Exhibit 4: EBITDA margins expand



Source: Company, Angel Research

Exhibit 5: PAT Margins at 5.5%



Source: Company, Angel Research

PAT margins improve yoy

In-line with EBITDA growth, Power Mech reported a PAT of ₹18cr for the quarter, reflecting 23.3% yoy growth. A 3.2% yoy decline in depreciation expenses (to ₹9cr) and decline in effective tax rate (from 35.4% year ago to 33.9% in 2QFY2016) helped the company report a 107bp yoy PAT margin expansion.

Reports ₹1,150cr of Order Inflows for 2QFY2016

Power Mech in 1HFY2016 reported ₹1,150cr of order inflows, led by both, Erection and O&M segments. Some of the key projects won during 1HFY2016 include- Vedanta's Jharsuguda project worth ₹422cr, Kottagudem project worth ₹165cr; JP Group's ₹166cr O&M order for Bara project, and ₹90cr order from Neyveli.

Post these order wins, the company's order book at 2QFY2016 adds up to ₹3,700cr, reflecting order book to LTM ratio of 2.2x. Again a major 45% of the order book is from the Erection segment, 35% from the O&M space and the remaining 20% from the Civil segment.

The Management highlighted that they are participating in bid pipeline of over ₹2,200cr (O&M projects- ₹800cr, Erection projects- ₹1,400cr), where outcome is pending in the next few months. The Management has maintained optimism that it would report ~₹2,000cr of order wins in FY2016E.

Investment arguments

Order book/LTM sales at 2.3x... depicting good revenue visibility

Power Mech, as of 2QFY2016-end, is sitting on an order book (exc. suspended projects) of ₹3,700cr, which is 2.2x its last twelve month (LTM) revenues, thereby giving good near-to-medium term revenue visibility.

Order inflow to benefit from uptick in award activity

Power Mech reported a 19.0% top-line and 17.1% bottom-line CAGR (during FY2011-15) in a challenging macro environment. This was in an environment, when the entire power generation sector had been facing structural problems such as fuel unavailability, deteriorating financial health of SEBs, and difficulty in getting requisite clearances, amongst other issues. The new government's steps such as, targeting to double Coal India (CIL)'s production by 2020 (some signs of ramp-up in operations are already being seen), fastening the clearances process for large ticket projects, and opening the mining sector to private players, reflect the government's focus towards reviving the ailing power generation sector.

We expect over 20GW of power projects (with different packages of BoP/BTG/EPC works) to come-up for awarding in FY2016-17E and companies like Power Mech should emerge as key beneficiaries on account of the same.

Power Mech claims it has limited competition when it comes to comprehensive packages coming up for awarding; whereas, it faces competition from over half a dozen players for smaller ticket projects. Based on their past track record and market positioning, we expect Power Mech to report order wins of ₹2,000cr/₹2,500cr in FY2016E/FY2017E.

Strong profitability growth to be seen during FY2015-17E

At the backdrop of order inflow growth and average execution cycle of 25-36 months (for O&M contracts, the execution cycle stretches to 36 months), we expect Power Mech to report strong 15.3% top-line and 22.4% bottom-line CAGR during FY2015-17E.

Power Mech reported ~20% of its FY2015 revenues from the high margin O&M business. Increased exposure to the O&M segment, which happens to be a high EBITDA margin business, should act as a cushion to the company's overall EBITDA margins. Accordingly, we model 12.8%/12.7% EBITDA margins for FY2016/2017E, respectively.

With the IPO proceeds likely to be deployed for retiring working capital debt, we expect savings on interest expenses, which should result in 22.4% PAT CAGR during FY2015-17E to ₹106cr.

Restricted WC cycle leads to unlevered Balance Sheet...

Power Mech is one of the few companies that has been able to hold on to its WC cycle despite deteriorating health of its clients. This could be owing to the following reasons: (1) tendering by equipment manufacturers is made only after land acquisition is done and all clearances are in place (2) scope of works for ETC companies is usually 13-20% of the BTG/BOP packages, (3) company has a policy of billing clients once in a month instead of milestone based payments cycle

followed by EPC players. These reasons have led to a superior WC cycle for Power Mech in comparison to its peers.

Power Mech enjoys a better WC/sales ratio in comparison to its peers. In FY2015, Power Mech reported a WC/sales ratio of 21.1% vs a comparable 34.7% average of two of its closest industry peers - Sunil Hitech and TechnoElectric Engineering.

Owing to shorter WC cycle, Power Mech has been able to maintain its debt/equity ratio at comfortable levels of 0.6x (as of FY2015-end). With ₹105cr of IPO proceeds to be used towards retirement of debt, we expect the D/E ratio to further decline, going forward.

Better RoEs ...

Diversification of Power Mech across sub-verticals within the power sector helped the company build its order book in an atmosphere where peers were experiencing decline in order inflows. Driven by continuously increasing order book, Power Mech reported a strong 19.0% top-line and 17.1% bottom-line CAGR during FY2011-15. On the back of strong earnings growth, Power Mech reported an above-industry RoE of 22.5-28% during FY2013-15, respectively. Considering our earnings growth estimates and diluted equity, we expect RoEs in FY2016/FY2017E to decline to 18.6%/16.8%, respectively, which is still impressive.

Outlook & Valuation

During FY2011-15, Power Mech (standalone entity) reported a 19.0% and 17.1% top-line and bottom-line CAGR, respectively. The company's diversification strategy has helped it grow its order book in a awarding down cycle. Recent initiatives by the government strengthen our view that over 20GW of awarding by state run entities (SEBs/NTPC) would be made to power generation equipment manufacturers in FY2016-17E, which in-turn enhances the bid pipeline for ETC companies like Power Mech.

With order inflow revival in the power generation space, we are optimistic that Power Mech would emerge as one of the key beneficiaries, going forward. We expect the order book of Power Mech to report a healthy 16.6% CAGR during FY2015-2017E to ₹4,377cr by FY2017E. This, when coupled with Power Mech's focus to add more of high margin O&M works to its order book, should act as a cushion against any further fall in the EBITDA margin. Accordingly, we model 12.8%/ 12.7% EBITDA margin for FY2016E/FY2017E. We expect EBITDA to report a 17.5% CAGR during FY2015-17E.

In addition to EBITDA growth, we expect benefits flowing-in from a lower interest expense (considering that ₹105cr of IPO proceeds would be used for debt repayment). On the whole, we expect the standalone entity to report a 22.4% bottom-line CAGR during FY2015-17E to ₹109cr.

On considering Power Mech's 2QFY2016 order book of ₹3,700cr (which gives strong earnings growth visibility), negligible debt on the books, and higher return ratios (RoE of Power Mech is higher than its peers), we assign a 9.0x 1-year forward P/E multiple to our FY2017E EPS of ₹72/share to arrive at a price target of ₹649/share. **Given the limited upside, we maintain our Neutral rating on the stock.**

Risks & Concerns

- Prolonged delay in the award activity could act as risk to our estimates.
- Higher than expected loss of market share in the ETC-BTG/BOP awarding cycle could again act as a threat to our estimates and view.
- 56.4% of FY2015 order book came from top 5 clients (declined from 64.7% in FY2014). Any change in outlook of these companies could act as a big risk to our view and estimates.

Company background

Power Mech, incorporated in 1999, was founded by Mr Kishore Babu. Over the years, Power Mech has emerged as a leading integrated power infrastructure services player at a pan-India level. The company is in the business of providing Erection, Testing and Commissioning (ETC) of Boilers, Turbines and Generators (BTG) and Balance of Plant (BOP) works. Also, in recent years Power Mech has built capabilities in Civil Works and power plants' Operation and Maintenance (O&M) services.

Erection Works: Since commencing its operations in 2003, Power Mech has worked on more than 100 erection works projects. To-date, it has been involved in 100+ Erection works contracts. Power Mech provides ETC works for both-BTG and BOP space of the power plants, including Ultra-Mega Power Plants (UMPPs) and Super-critical power plants with unit capacities in 150-800MW. It also provides erection work services to gas plants, HRSG, WHRB, CFBC boilers, steam turbine generators, steam generators including auxiliaries, ESPs, hydro turbines and BOP packages, including structural steel works, ash handling, coal handling, fuel oil systems and high-pressure piping works.

Operation and Maintenance (O&M) services: The O&M segment includes annual maintenance contracts (AMCs), repairs, renovation and modernization, residual life assessment, scheduled shutdowns, retro-fits, as well as overhauling, maintenance and upgradation services for power plants. Power Mech has provided O&M services for various projects in the Middle East, North Africa, South Asia and South American markets. To-date PowerMech has been engaged in more than 400 O&M contracts.

Power Mech is a leading AMC services provider for power plants in India and this business is expected to grow as a lot of new capacity additions have come from IPPs in recent years. Currently, Power Mech is engaged in 23 O&M contracts with unit capacity of 32,835MW.

Civil Works: As a diversification move, Power Mech entered the Civil Works business in 2011. Scope of Civil Works segment includes civil and structural works contracts ancillary to the ETC-BTG projects. In this segment, Power Mech undertakes a range of civil and structural works (such as area grading, leveling, excavation, piling, mass concreting foundations for buildings, turbine/generator decks and super-structures, fabrication and erection of structures, main plant bay etc).

Profit and Loss Statement (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	933	1,187	1,356	1,539	1,801
% Chg	42.4	27.3	14.2	13.6	17.0
Total Expenditure	812	1,033	1,190	1,342	1,573
Cost of Raw Materials Consumed	64	74	76	85	100
Contract Execution Expenses	672	838	977	1,094	1,286
Employee benefits Expense	67	107	118	137	159
Other Expenses	9	13	20	25	29
EBITDA	121	154	165	197	228
% Chg	6.7	27.6	7.0	19.5	15.4
EBIDTA %	13.0	13.0	12.2	12.8	12.7
Depreciation	33	33	37	39	44
EBIT	88	122	129	158	184
% Chg	16.8	39.0	5.7	23.0	16.4
Interest and Financial Charges	17	26	29	32	26
Other Income	5	12	6	6	6
PBT	75	107	105	132	164
Exceptional Items	0	0	0	0	0
Tax	25	39	35	46	58
% of PBT	33.5	36.1	32.8	34.5	35.5
PAT	50	68	71	87	106
% Chg	(0.4)	36.3	3.5	22.7	22.1
PAT %	5.4	5.8	5.2	5.6	5.9
Basic EPS	46.6	62.4	56.2	59.0	72.1
Diluted EPS	46.6	62.4	56.2	59.0	72.1
% Chg	(0.4)	34.0	(10.0)	5.0	22.2

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E
Sources of Funds					
Equity Capital	11	11	13	15	15
Reserves Total	192	263	341	563	667
Networth	203	273	354	577	682
Total Debt	122	175	227	178	155
Other Long-term Liabilities	83	94	64	74	78
Long-term Provision	0	0	0	0	0
Total Liabilities	408	542	645	829	914
Application of Funds					
Gross Block	262	298	339	370	411
Accumulated Depreciation	92	124	160	200	243
Net Block	169	173	178	171	168
Capital WIP	7	7	9	8	8
Investments	0	5	7	10	13
Other Current Assets	109	161	241	278	340
Inventories	19	24	31	43	60
Sundry Debtors	174	148	194	231	280
Cash and Bank Balance	57	69	67	173	155
Loans & Advances	130	193	260	299	360
Current Liabilities	356	412	506	556	650
Net Current Assets	133	183	286	468	545
Other Assets	98	173	165	173	180
Total Assets	408	542	645	829	914

Cash Flow Statement

Y/E March (₹ cr)	FY13	FY14	FY15P	FY16E	FY17E
Profit before tax	75	107	105	132	164
Depreciation	33	33	37	39	44
Other Adjustments	(5)	(7)	(6)	(11)	(11)
Change in Working Capital	(74)	(99)	(118)	(75)	(98)
Interest & Financial Charges	17	26	29	32	26
Direct taxes paid	(26)	(33)	(37)	(42)	(54)
Cash Flow from Operations	22	26	10	76	72
(Inc)/ Dec in Fixed Assets	(36)	(36)	(44)	(30)	(42)
(Inc)/ Dec in Invest. & Int. received	(3)	(9)	6	59	2
Cash Flow from Investing	(39)	(45)	(38)	29	(40)
Inc./ (Dec.) in Borrowings	41	44	59	(50)	(23)
Issue/ (Buy Back) of Equity	0	0	0	138	(0)
Dividend Paid (Incl. Tax)	(1)	(1)	(2)	(2)	(2)
Finance Cost	(15)	(23)	(29)	(31)	(25)
Cash Flow from Financing	25	20	28	56	(50)
Inc./ (Dec.) in Cash	8	1	0	161	(18)
Opening Cash balances	2	9	11	11	173
Closing Cash balances	9	11	11	173	155

Ratio Analysis (x)

Y/E March	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratio (x)					
P/E (on FDEPS)	13.0	9.7	10.8	10.3	8.4
P/CEPS	7.8	6.6	7.1	7.1	5.9
Dividend yield (%)	6.1	4.0	6.0	6.1	6.1
EV/Sales	0.8	0.6	0.7	0.6	0.5
EV/EBITDA	5.9	4.9	5.6	4.5	3.9
EV / Total Assets	1.7	1.4	1.4	1.1	1.0
Per Share Data (₹)					
EPS (Basic)	46.6	62.4	56.2	59.0	72.1
EPS (fully diluted)	46.6	62.4	56.2	59.0	72.1
Cash EPS	77.7	92.4	85.3	85.8	101.9
DPS	1.0	1.5	1.0	1.0	1.0
Book Value	189.0	250.0	281.3	392.4	463.6
Returns (%)					
RoCE (Pre-tax)	32.8	35.1	26.5	24.7	24.0
Angel RoIC (Pre-tax)	35.4	36.0	26.5	28.5	28.1
RoE	28.0	28.7	22.5	18.6	16.8
Turnover ratios (x)					
Asset Turnover (Gross Block) (x)	3.5	4.2	4.3	4.3	4.6
Inventory / Sales (days)	6	7	7	9	10
Receivables (days)	63	50	46	50	52
Payables (days)	48	59	63	59	53
NWC days	21	(2)	(9)	0	10
Leverage Ratios (x)					
D/E ratio (x)	0.6	0.6	0.6	0.3	0.2
Interest Coverage Ratio (x)	5.5	5.1	4.6	5.2	7.4

Note: nmf- Not Meaningful

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Disclosure of Interest Statement	Power Mech Projects
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15%)