June 16, 2017

Power Mech Projects Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Long-term Fund-based limits	210.00	[ICRA]A-(Stable); Reaffirmed
Long-term/Short-term Non-Fund based limits	738.00	[ICRA]A-(Stable)/[ICRA]A2+; Reaffirmed
Proposed Long-term/Short-term Non-Fund based limits	162.00	[ICRA]A-(Stable)/[ICRA]A2+; Reaffirmed
Total	**1110.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating assigned to the Rs. 210-crore[1] (revised from Rs. 199.70-crore) fund-based limits of Power Mech Projects Limited (PMPL) at [ICRA]A- (pronounced ICRA A minus)[2]. ICRA has also reaffirmed the ratings of [ICRA]A-(Stable)/[ICRA]A2+(pronounced ICRA A two plus) to the Rs. 738-crore (revised from Rs. 696-crore) non-fund based facilities and the Rs. 162-crore proposed non-fund based facilities of PMPL. The outlook on the long-term rating remains stable.

Rationale

The rating reaffirmation continues to factor in the established position of PMPL as a power sector infrastructure service provider with a reputed client profile; and the healthy consolidated order book position of Rs. 3435.47 crore as of March 2017 (2.67 times Order Book/Operating Income of FY2017[3]) which provides revenue visibility in the medium term. Furthermore, the ratings factor in the long relationship of the company with its clients, which resulted in recurring orders; and the experienced management team of the company. ICRA also notes that the share of the relatively higher margin yielding operations and maintenance (O&M) segment in the overall revenue has increased over the years, from 8% in FY2013 to 36% in FY2017. This is expected to drive improvement in the company’s profitability going forward. The ratings further factor in the relatively comfortable debt coverage indicators of the company with Total Debt/OPBDITA of 1.19 times and interest coverage of 5.15 times for FY2017.

The ratings, however, remain constrained by the elongated receivable cycle (including retention monies), and high amount of unbilled revenues as on March 31, 2017. In addition, the increase in advances to sub-contractors and reduction in mobilisation advances has resulted in increase in working capital intensity during FY2017. This has, in-turn, resulted in relatively high utilization of working capital limits (average utilization of over 90% in the last 12 months). ICRA, however, notes that the fund flow from operations remained positive during FY2017. The rating also remains constrained by the risk of demand contraction in the domestic thermal power segment due to the continuing investment slowdown. While the company plans to explore opportunities in areas such as Flue-gas desulfurization (FGD) and selective catalytic reduction (SCR) equipment which are required for compliance of new emission control norms by independent power producers (IPPS)/generating companies, fresh order inflow/demand for the same

[1] 100 lakh = 1 crore = 10 million
[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications
[3] Financials stated for FY2017 are at a standalone level

remains to be seen. Moreover, the ratings remain constrained by the relatively high customer concentration risk with the top-10 orders accounting for nearly 50% of the order book and 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 towards the incidence of liquidated damages.

Going forward, PMPL's ability to improve the operating margins and effectively manage its working capital requirements are the key rating sensitivities. Any further delay in realising receivables and release of retention money could stretch the liquidity position of the company, given the limited cushion available in the working capital limits.

Key rating drivers

Credit strengths

- Established track record as a comprehensive service provider for power sector infrastructure and maintenance
- Long relationships with several major Engineering-Procurement-Construction(EPC)contractors and project developers
- Successful diversification into civil work and relatively higher-margin yielding power plant operation and maintenance (O&M) orders over the years
- Healthy order book position of Rs. 3435.47 crore as of March 2017 (2.67 times Order Book/Operating Income of FY2017) provides revenue visibility in the medium term

Credit weaknesses

- Increased working capital intensity of the business owing to relatively high receivables, retention money, unbilled revenues and advances to sub-contractors
- Relatively weak demand outlook for the thermal segment may constrain order inflow in the domestic segment
- High customer concentration with the top ten orders contributing to more than 50% of the pending order book; Bharat Heavy Electricals Limited (BHEL) continues to be the key client with a substantial share in the total order mix and receivables position
- Exposure 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

Description of key rating drivers

PMPL is an integrated service provider in the power sector infrastructure space. The company has three main business divisions, namely Mechanical (Erection, Testing and Commissioning), Civil Work and O&M. Over the years, PMPL has successfully diversified into the civil and O&M segments. As a result of healthy order booking in these segments, the contribution to the total revenue has grown sharply in the past four years. During FY2017, the mechanical division contributed to 48% of PMPL's revenues, while the O&M division and civil works division contributed to 36% and 16%, respectively.

Within the mechanical division, the company is a well-established player and has worked on Ultra Mega Power Projects (UMPPs) and several super-critical power projects. The civil work division covers services like topographical surveying, machine foundations, enabling work etc., and acts as an ancillary service to the mechanical division. The O&M division is the higher-margin yielding division of the company, wherein it signs annual maintenance contracts (AMCs) with clients. Going forward, the contribution from the O&M division is expected to increase owing to a healthy order book from the segment. As of March 31, 2017, the company's order book at a consolidated level was Rs. 3435.47 crore ,resulting in healthy revenue visibility for the company in the near to medium term. While the demand within the domestic thermal power segment has contracted over the years, the company's international business has witnessed a healthy growth. Further, PMPL plans to explore opportunities in areas such as FGD and SCR, going forward. In addition, PMPL's spare part workshop in Noida commenced operations during March 2016 and its contribution to the company's revenue and profitability is expected to increase in the future.

The company's working capital intensity increased during FY2016 due to increase in debtor cycle of BHEL (one of the key clients) as well as pending receipts, retention money and unbilled revenues from projects closed during the year. The working capital intensity increased further during FY2017 owing to continued pending receipts, retention money, higher advances given to subcontractors and reduction in mobilization advances availed. While the company's long-term debt has been relatively low (constituting debt availed for capex towards purchase of cranes etc.), the utilisation of the working capital debt in the past 12 months remained over 90%.

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 integrated power infrastructure services company that provides services in 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. 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.

In FY2017, at a stand-alone level, the company reported a net profit of Rs. 64.10 crore on an operating income of Rs. 1,291.16 crore. PMPL made a net profit of Rs. 74.28 crore on an operating income of Rs. 1,362.12 crore in the previous year.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years

Table

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	**Amount Rated (Rs. crore)**	**Date & Rating**	**Date & Rating in FY2017**	**Date & Rating in FY2016**	**Date & Rating in FY2014**
				June 2017	**April 2016**	**Feb 2015**	**Jan 2014**
1	Fund-based facilities	Long Term	210.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Non-fund based facilities	Long Term/ Short Term	738.00	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+
3	Proposed Non-fund based facilities	Long Term/ Short Term	162.00	[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

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Cash Credit	-	-	-	210.00	[ICRA]A-(Stable)
Bank Guarantee	-	-	-	738.00	[ICRA]A-(Stable)/[ICRA]A2+
Proposed Non-fund based limits	-	-	-	162.00	[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.

For more information, visit **www.icra.in**

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