December 04, 2017

Power Mech Projects Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Long-term Fund-based limits	230.0(revised from 210.0)	[ICRA]A-(Stable); Outstanding
Long-term/Short-term Non-Fund based limits	816.0(revised from 738.0)	[ICRA]A-(Stable)/[ICRA]A2+; Outstanding
Term Loan	1.0(revised from 0.0)	[ICRA]A-(Stable); Outstanding
Long-term/Short-term Proposed Limits	63.0(revised from 162.0)	[ICRA]A-(Stable)/[ICRA]A2+; Outstanding
Total	**1110.0**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has an outstanding long-term rating of [ICRA]A- (pronounced ICRA A minus) and a short term rating of [ICRA]A2+(pronounced ICRA A two plus) on the Rs. 1110-crore bank facilities of Power Mech Projects Limited(PMPL).The outlook on the long-term rating is stable. Of the Rs. 162-crore proposed long-term/short-term limits rated earlier, limits of Rs. 78-crore have been moved to long-term/short-term non-fund based limits category while Rs. 1-crore limit has been moved to term-loan category.

Rationale

The rating outstanding 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[1]) 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 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

[1] *Financials stated for FY2017 are at a standalone level*

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 with a reputed client base–** PMPL has a proven track record of over fifteen years as a power sector infrastructure service provider. The company is a well-established player in the ETC (Erection-Testing-Commissioning) 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.
- **Successful diversification into civil work and relatively higher-margin yielding power plant operation and maintenance (O&M) orders–** Over the years, PMPL has successfully diversified into the civil and O&M segments. As a result of healthy order booking in these segments, their contribution to the total revenue has grown sharply in the past four years. The company has also secured orders in the transmission & distribution segment in FY2017. Furthermore, PMPL has also been able to diversify its geographical presence to a certain extent by securing several orders in offshore locations such as Oman, Saudi Arabia, Bahrain and Nigeria.
- **Healthy order book position of Rs. 3435.47 crore as of March 2017 provides revenue visibility in the medium term–** PMPL witnessed a healthy order in-flow in FY2017 which resulted in a healthy order book position of Rs. 3425.47 crore for the company as of March 2017. Presence of a healthy order book provides revenue visibility for the company in the near to medium term.

Credit weaknesses

- **High working capital intensity of the business owing to high unbilled revenues, relatively high receivables, retention money, and advances to sub-contractors–** The company's working capital intensity increased during FY2017 due to pending receipts and retention money from projects closed during the year ,high unbilled revenue and increase in advances to sub-contracts. This has led to a high utilization of working capital limits availed during the year.
- **Relatively weak demand outlook for the thermal segment may constrain order inflow in the domestic segment–** The domestic thermal power segment continues to have a weak demand outlook and has impacted the revenue in-flow from the domestic ETC division of the company in the past few years. However, PMPL's international business has witnessed a healthy growth. Further, the company plans to explore opportunities in areas such as FGD and SCR, going forward.
- **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.

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.

Key financial indicators

	FY2016	FY2017	H1 FY2018
Operating Income (Rs. crore)	1378.21	1338.20	703.56
PAT (Rs. crore)	75.27	64.65	40.66
OPBDIT/ OI (%)	13.20%	12.40%	12.94%
RoCE (%)	21.32%	16.58%	17.06%
Total Debt/TNW (times)	0.45	0.34	0.40
Total Debt/OPBDIT (times)	1.38	1.27	1.47
Interest Coverage (times)	5.52	5.04	5.59
NWC/OI (%)	38%	40%	45%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital; Financials are at a consolidated level

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for 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 FY2017**	**Date & Rating in FY2016**
				December 2017	**June 2017**	**April 2016**	**Feb 2015**
1	Fund-based facilities	Long Term	230.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Term Loan	Long Term	1.00	[ICRA]A- (Stable)			
3	Non-fund based facilities	Long Term/ Short Term	816.00	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+
4	Proposed Non-fund based facilities	Long Term/ Short Term	63.00	[ICRA]A- (Stable)/ [ICRA]A2+	[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	-	-	-	230.00	[ICRA]A-(Stable)
Term Loan			2018	1.00	[ICRA]A-(Stable)
Bank Guarantee	-	-	-	816.00	[ICRA]A-(Stable)/[ICRA]A2+
Proposed limits	-	-	-	63.00	[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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