

Power Mech Projects Ltd.

BUY

Sector: Capital Goods

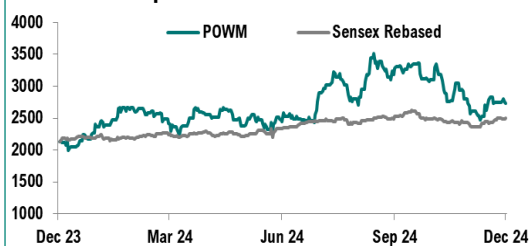
12th December 2024

Key Changes	Target ▲	Rating ▲	Earnings ▼	Target	Rs.3,330
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame
Small Cap	POWN:IN	81,526	POWERMECH	539302	12 Months
				CMP	Rs.2,753
				Return	+21%

Data as of: 11-12-2024

Company Data			
Market cap. (Rs. cr)	8,628		
52 Week High — Low (Rs.)	3,725 - 1,964		
Enterprise Value (Rs. cr)	8,802		
Outstanding Shares (cr)	3.2		
Free Float (%)	42		
Dividend Yield (%)	0.07		
6m average volume (cr)	0.02		
Beta	1.6		
Face value (Rs)	10		
Shareholding (%)	Q4FY24	Q1FY25	Q2FY25
Promoters	58.3	58.3	58.3
FII's	5.2	5.0	4.9
MFs/Institutions	21.7	23.2	23.1
Public	14.8	13.5	13.7
Total	100.0	100.0	100.0
Promoter Pledge	Nil	Nil	Nil
Price Performance	3 Month	6 Month	1 Year
Absolute Return	-17.5%	8.1%	28.4%
Absolute Sensex	-1.5%	6.0%	17.3%
Relative Return	-16.0%	2.0%	11.1%

*over or under performance to benchmark index



Y.E March (cr)	FY25E	FY26E	FY27E
Sales	5,119	6,773	7,854
Growth (%)	21.7	32.3	16.0
EBITDA	608	892	1,125
EBITDA Margin (%)	11.9	13.2	14.3
PAT Adjusted	378	551	701
Growth (%)	52.1	45.7	27.2
Adjusted EPS	120	174	222
Growth (%)	52.1	45.7	27.2
P/E	23.0	15.8	12.4
P/B	23.0	15.8	12.4
EV/EBITDA	12.9	8.8	7.0
ROE (%)	17.1	20.0	20.3
D/E	0.2	0.2	0.1

Author: Arun Kailasan, Research Analyst

Strong bottom-line show, MDO to drive revenues

Power Mech Projects Ltd. (POWM) is a leading infrastructure construction company based in Hyderabad with a global presence. The company's orderbook is largely backed by orders from Power segment which accounts for 76.8% of total mix.

- Q2FY25 consolidated revenues grew at 11% YoY to stand at Rs. 1,035cr., aided by strong execution in the erection segment. EBITDA grew at 9% YoY to stand at Rs. 124 cr.; however, margins saw a 21bps decline to stand at 11.9%.
- PAT stood at Rs.70cr. in Q2FY25 and Rs.131cr. in H1FY25, registering 36%/28% YoY growth, respectively. The current order book stands at Rs.58,067cr.
- POWM's mining business made considerable progress in this quarter, with the H1FY25 revenues from the segment at Rs.26cr. With contributions from the Kotre-Basantpur mine expected to accrue in Q4FY25, the management expects MDO business to drive revenues.
- The peak revenues at peak rated capacity from both the mines are expected to be at Rs.2,100cr. Kotre Basantpur mine is expected to reach peak revenues in 2028, while Kalyaneswari Tasra mine is expected to achieve peak rated capacity in mid FY2027-28.

Outlook & Valuation

As of Q2FY25, the order book backlog is at 13X TTM revenues, providing significant revenue visibility. We forecast execution to scale up in the second half of FY25 as we move past election-induced slack. Additionally, contributions from MDO business can help POWM unlock 23% CAGR revenue growth in the FY24-27E period. We build in EBITDA margin expansion of 252bps in this period enabled by contributions from profitable segments like O&M and Mining (after it reaches peak rated capacity—EBITDA/PAT margins are expected to be in the range of 22%/13%). **The earnings are expected to grow at 41.3% and for ROE to improve significantly to 20.3% in FY27E. We value the stock at 15X PE on FY27E EPS, to arrive at a target of Rs.3,330, thereby upgrading our recommendation to BUY.**

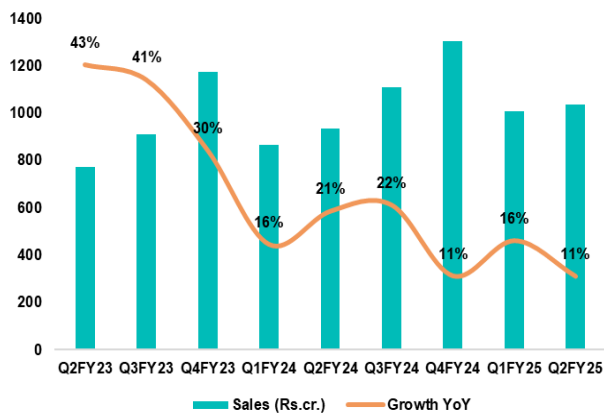
Quarterly Financials Consol.

Rs.cr	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Sales	1,035	932	11	1,007	3	2,043	1,798	14
EBITDA	124	113	9	114	9	237	213	12
Margin (%)	11.9	12.2	-21bps	11	66bps	11.6	11.8	-21bps
EBIT	110	103	7	101	9	212	192	10
PBT	102	83	23	89	14	190	157	21
Rep. PAT	70	51	36	62	13	131	102	28
Adj PAT	70	51	36	62	13	131	102	28
EPS (Rs)	21	17	23	19	12	40	34	17

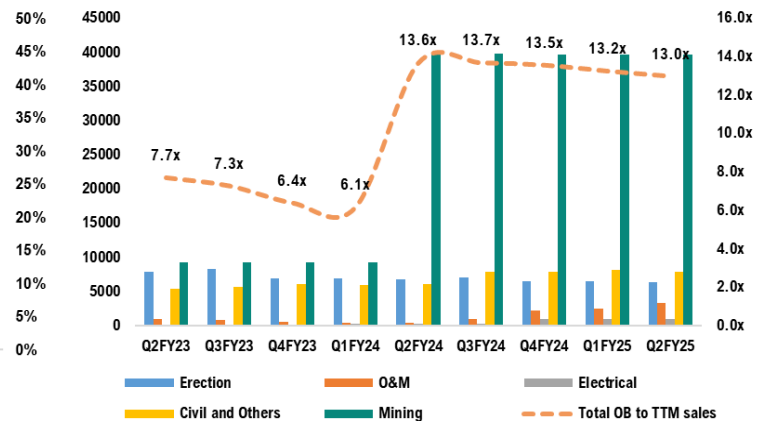
Key Concall Highlights

- The targeted order intake for FY25 is at Rs.12,000cr. The optimism stems from the management having bid for over Rs.8,900cr. worth of projects. The potential opportunity size has been pegged at Rs.86,000cr.
- All permissions for the Kotre-Basantpur Mine have been awarded, and POWM anticipates breaking ground in Q3FY25. Coal production could start from this mine in the month of January/February this year. At Kalyaneswari Tasra mine, equipment mobilisations have been completed, and overburden removal and coal production have commenced. Coal production from this mine stood at 382 tonnes.
- The management has guided capex of normal assets to meet regular revenue growth targets to be around Rs.100cr. Additionally, Rs.690 cr. of capex is to be incurred for setting up a washery at the Tasra Project over a period of 2 years.
- The blended margins for both the mines at peak rated capacity are expected to be at 20%-22%. Additionally, PAT margins are expected to be at 6% - 7% until the peak rated capacity is achieved, upon which the margins will improve to the range of 12-13%.

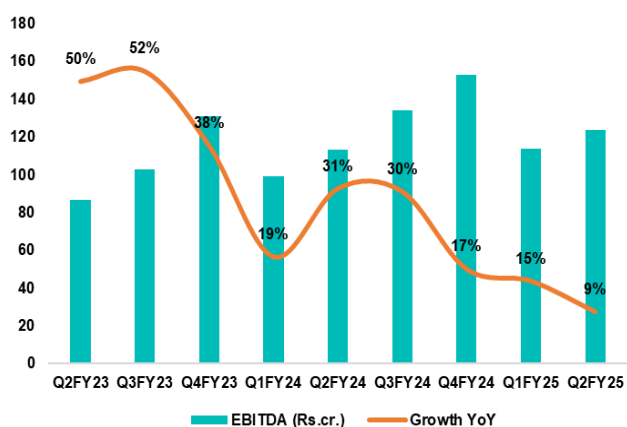
Revenue



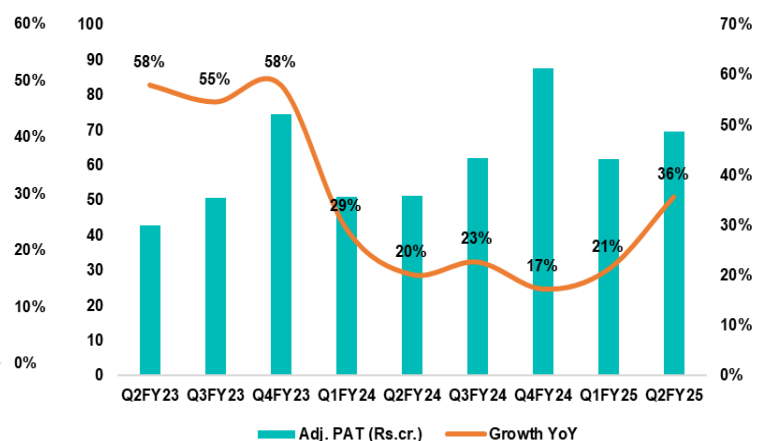
Orderbook (in Rs.cr.)



EBITDA



PAT



Change in Estimates

Year / Rs cr	Old estimates		New estimates			Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY27E	FY25E	FY26E
Revenue	6,325	8,448	5,119	6,773	7,854	-19	-20
EBITDA	870	1,243	608	892	1,125	-30	-28
Margins (%)	13.8	14.7	11.9	13.2	14.3	-193bps	-153bps
Adj. PAT	512	762	378	551	701	-26	-28
EPS	324	482	120	174	222	-63	-64



Consolidated Financials

Profit & Loss

Y.E March (Rs cr)	FY23A	FY24A	FY25E	FY26E	FY27E
Sales	3,601	4,207	5,119	6,773	7,854
% change	32.9	16.8	21.7	32.3	16.0
EBITDA	404	496	608	892	1,125
% change	41.1	22.9	22.5	46.8	26.1
Depreciation	43	44	62	103	129
EBIT	361	452	546	788	996
Interest	90	94	81	90	98
Other Income	17	28	40	40	40
PBT	280	382	502	735	935
% change	51.6	36.6	31.3	46.5	27.2
Tax	73	134	124	185	235
Tax Rate (%)	26	35	25	25	25
Reported PAT	207	248	378	551	701
Adj.	0	0	0	0	0
Adj. PAT	207	248	378	551	701
% change	49.7	19.8	52.1	45.7	27.2
No. of shares (cr)*	3.16	3.16	3.16	3.16	3.16
Adj EPS (Rs)	66	79	120	174	222
% change	49.7	19.8	52.1	45.7	27.2
DPS (Rs)	2	3	5	7	8

* Adjusted for corporate action—Bonus issue(1:1)

Cash Flow

Y.E March (Rs cr)	FY23A	FY24A	FY25E	FY26E	FY27E
Net inc. + Depn.	296	391	458	640	798
Non-cash adj.	41.8	11.53	62	103	129
Changes in W.C	-155	-198	-150	-677	-57
C.F – Operation	182	205	370	67	870
Capital exp.	-54	-92	-200	-300	-300
Change in inv.	2	0	0	0	0
Other invest.CF	-39	-281	0	0	0
C.F – Investment	-91	-373	-200	-300	-300
Issue of equity	0	344	0	0	0
Issue/repay debt	0	0	0	0	0
Dividends paid	-2	-3	-5	-7	-8
Other finance.CF	-2	-2	0	0	0
C.F – Finance	-5	339	-5	-7	-8
Chg. in cash	-29	7	45	-206	415
Closing cash	172	480	525	318	734

Balance Sheet

Y.E March (Rs cr)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash	172	480	525	318	734
Accounts Receivable	894	1,040	1,290	1,763	1,721
Inventories	147	122	186	195	210
Other Cur. Assets	1,269	1,252	1,524	2,016	2,337
Investments	367	411	500	661	766
Gross Fixed Assets	466	547	747	1047	1347
Net Fixed Assets	186	229	366	562	732
CWIP	3	11	32	64	96
Intangible Assets	2	3	3	4	5
Def. Tax (Net)	12	11	13	17	20
Other Assets	1	10	12	16	18
Total Assets	3,054	3,568	4,452	5,617	6,641
Current Liabilities	1,120	1,063	1,555	1,945	2,256
Provisions	5	5	6	7	9
Debt Funds	475	392	351	475	426
Other Liabilities	177	269	327	433	502
Equity Capital	15	16	16	16	16
Reserves & Surplus	1,260	1,822	2,196	2,740	3,432
Non-Controlling Interest	1	2	2	2	2
Shareholder's Fund	1,277	1,840	2,213	2,757	3,449
Total Liabilities	3,054	3,568	4,452	5,617	6,641
BVPS (Rs.)	404	582	700	872	1091

Ratios

Y.E March	FY23A	FY24A	FY25E	FY26E	FY27E
Profitab. & Return					
EBITDA margin (%)	11.2	11.8	11.9	13.2	14.3
EBIT margin (%)	10.0	10.7	10.7	11.6	12.7
Net profit margin (%)	5.8	5.9	7.4	8.1	8.9
ROE (%)	16.3	13.5	17.1	20.0	20.3
ROCE (%)	16.1	14.7	17.1	20.4	21.0
W.C & Liquidity					
Receivables (days)	79	84	83	82	81
Inventory (days)	20	16	15	14	13
Payables (days)	90	87	90	91	93
Current ratio (x)	1.6	2.0	1.9	1.9	2.0
Quick ratio (x)	0.7	1.1	1.0	0.9	1.0
Turnover & Leverage					
Gross asset T.O (x)	0.1	0.1	0.1	0.2	0.2
Total asset T.O (x)	0.8	0.8	0.9	0.8	0.8
Int. coverage ratio (x)	4.0	4.8	6.8	8.8	10.2
Adj. debt/equity (x)	0.4	0.2	0.2	0.2	0.1
Valuation					
EV/Sales (x)	1.1	1.9	1.5	1.2	1.0
EV/EBITDA (x)	9.9	15.8	12.9	8.8	7.0
P/E (x)	8.8	15.4	23.0	15.8	12.4
P/BV (x)	3.1	4.3	3.9	3.2	2.5



Recommendation Summary (last 3 years)



Dates	Rating	Target*
31.Mar.21	BUY	364
28.Jun.21	BUY	447
12.Aug.21	ACCUMULATE	470
25.Nov.21	BUY	582
16.Sep.22	BUY	995
25.Nov.22	BUY	1,305
21.Feb.23	ACCUMULATE	1,177
28.Nov.23	ACCUMULATE	2,375
26.Feb.24	ACCUMULATE	2,941
12.Dec.24	BUY	3,330

* Adjusted for corporate action—Bonus issue(1:1)

Investment Rating 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.

Symbols definition:



Upgrade



No Change



Downgrade

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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