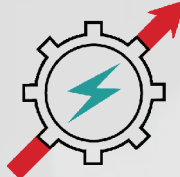


POWER MECH



Growth Unlimited

POWER MECH PROJECTS LIMITED

Powering a better tomorrow



Accumulate

Key Data

DATE	12/12/2023
Reco Price (Rs.)	4,200-4,250
Target (Rs.)	5,512
Sector	Civil Construction
BSE Code	539302
NSE Code	POWERMECH
EPS (FY23)	140.28
Face Value (Rs.)	10
Market Cap (Mn)	63,352
52-week High/Low (Rs)	5,069/1,570

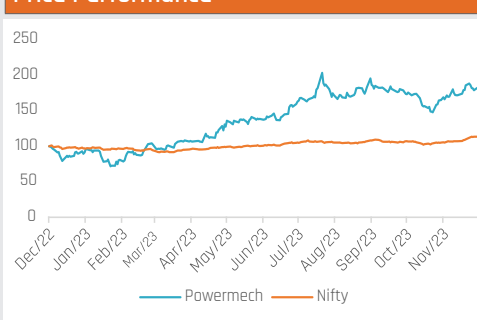
Source : NSE, BSE

Shareholding pattern (September-2023)

	%
Promoters	60.4
DII's	18.10
FII's	4.63
Public	16.86
Total	100.00

Source : NSE, BSE

Price Performance



Retail Research

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Power Mech Projects Limited

Company Background

Power Mech Projects Limited (POWERMECH) was established in 1999, based in Hyderabad, India, is a leading infrastructure construction company with a global presence. Renowned for its services in the power and infrastructure sectors, the company has grown significantly. With 15,000 direct and 25,000 indirect employees and an extensive fleet of cranes and machines, it can handle over 4,00,000 MT annually across 55 simultaneous sites.

Over the past two decades, the company has successfully executed diverse projects in India and abroad, ranging from Ultra Mega Power Projects to Super Critical Thermal Power Projects, Heat Recovery Steam Generators, Hydro Electric Projects, and more. They have also been involved in the operation and maintenance of existing plants and complete civil works for power plants, showcasing their versatility and expertise in challenging environments.

Outlook and Valuation

Power Mech Projects Limited is a company that offers a wide range of services in both the power and non-power sectors. They are the biggest service provider in operations and maintenance (O&M) and have integrated their services both forward and backward. The company has expanded its operations to different locations, reducing risks, securing profits, and increasing the revenue visibility. They also have a global presence, supported by their capacity to meet pre-qualification standards. The company has a strong order backlog and significant growth opportunities in various infrastructure projects such as power, railways, roads, and water sectors. This demonstrates its flexibility and potential for expansion.

The company's future outlook is positive, supported by a strong order book and expected export growth. With an estimated 30% CAGR in revenue from FY23 to FY26E due to increased order execution, we recommend an "Accumulate" rating. The target price is Rs 5,512, indicating a potential upside of 29.7%, based on a PE multiple of 13X to FY26E EPS of 424.01.

Financial Snapshot

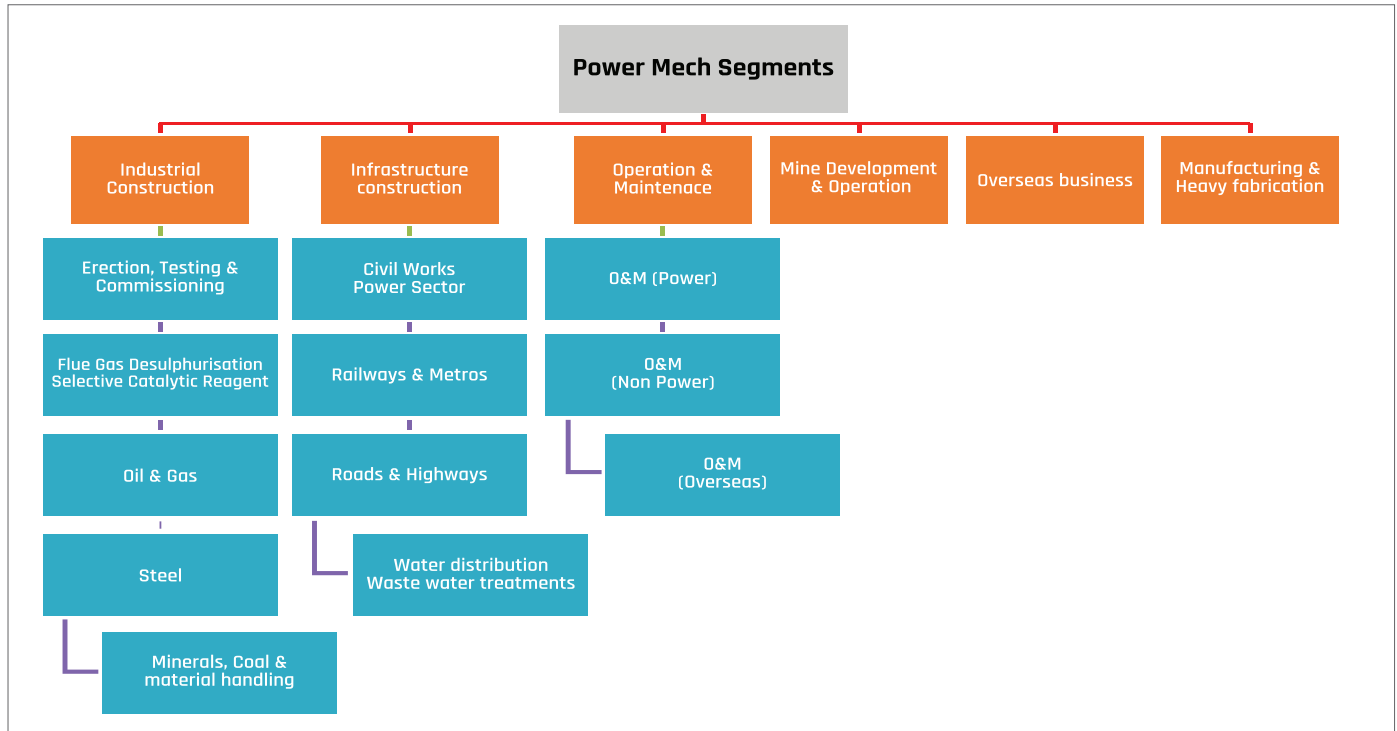
Particulars (Rs. in Mn.)	FY23	FY24E	FY25E	FY26E	CAGR % (FY23-FY26E)
Revenue	36,011.90	50,812.10	70,876.80	78,300.03	30%
EBITDA	4,014.00	5,843.39	8,505.22	9,787.50	35%
EBITDA %	11.15%	11.50%	12.00%	12.50%	
PAT	2,091.10	3,575.74	5,413.99	6,320.40	45%
EPS (Rs.)	140.28	239.88	363.20	424.01	45%

Source: Company, ACMIL Retail Research

Company at a Glance

- It is a major service provider in power and non-power sectors.
- Strong order book is poised to drive revenue growth through strategic initiatives.
- Operation and Maintenance (O&M) business is the premier and core strength of the Company.
- The company has diversified infrastructure ventures: Power, Railways, Roads, and Water Projects.

Segmental & Clientele Outlook



Source: Company, ACMIIL Retail Research

Segments	Details
Industrial Construction	The company specializes in the Erection, Testing, and Commissioning (ETC) of projects across various industries, including Power, Nuclear, Refinery, Petrochemicals, Oil & Gas, Steel, and Minerals. Their expertise extends to Coal-based Power Plants, covering both BTG (Boiler, Turbine, and Generator) and BOP (Balance of Plant) works, with unit capacities ranging from 150 MW to 800 MW, inclusive of FGD (Flue Gas Desulfurization) and SCR (Selective Catalytic Reduction). Additionally, they are involved in projects related to Cross Country Pipelines, as well as the Erection of Piping Packages and Tankages.
Infrastructure Construction	The company specializes in civil works encompassing Foundations, Decks, Chimneys, Cooling Towers, Green Buildings, and Coal Handling Plants for Power and other Industrial Plants. Additionally, they cater to the EPC works for Railways, Metro, Roads, and Water Projects.
Operation & Maintenance	The company offers comprehensive and integrated Operations and Maintenance (O&M) services, covering mechanical and electrical aspects, including control room/desk operations for Power Plants. Their services extend to overhauling and maintenance of Boiler, Turbine, and Auxiliaries, as well as the Repair and Maintenance (R&M) of BTG (Boiler, Turbine, and Generator), GTG (Gas Turbine Generator), CHP (Coal Handling Plant), and BOP (Balance of Plant). With a global presence in Saudi Arabia, Oman, Kuwait, Bangladesh, Nepal, Bhutan, and Nigeria, they have expanded their O&M services to include Refinery, Petrochemical, Steel, Drinking Water, Mineral, and Material Handling Services.
Mine Development & Operations	The company is engaged in the development of mine infrastructure, overburden removal, and extraction of coking coal, along with all other activities incidental to coking coal contract mining.
Manufacturing & Heavy Fabrication	The company has achieved backward integration into the Operations and Maintenance (O&M) business, boasting an advanced manufacturing facility in Noida to address the service needs of both the Power and Non-Power sectors. They specialize in the fabrication of heavy structures, large and high-pressure tanks, hydro turbines, and other related components.

Source: Company, ACMIIL Retail Research

Leading domestic & International clients

Domestic Clients	International Clients
Source: Company, ACMIIL Retail Research	

Investment Rationale

Navigating Growth: Diverse Opportunities and Strategic Expansion

The company is grabbing opportunities in different areas. They're benefitting from the government investing in providing water to villages. They're actively working on projects in various sectors like DISCOMs, transmission, railways, roads, and metros. The company is interested in projects like Flue Gas Desulfurization (FGD) and drinking water in states like UP, Maharashtra, Madhya Pradesh, Odisha, and Karnataka. Their focus on Jal Jeevan mission projects in Madhya Pradesh, UP, and Karnataka shows commitment to national goals. Meanwhile, opportunities are growing in the power projects sector, with both new and old plants being revived. There's significant growth expected in the O&M sector, both locally and internationally. The power sector is gearing up for substantial capacity addition, creating more opportunities. In the water sector, the company aims to secure orders worth INR 9000 Mn to INR 10500 Mn in FY2023-24. They are also exploring opportunities in the export market, especially in West Africa and the Middle East. Overall, the company is strategically diversifying to tap into different opportunities across various sectors and regions.

Expanding Globally and Driving Growth through Diversification

Power Mech is expanding globally by engaging with new clients and taking on innovative projects. They are particularly focusing on the untapped Nigerian market, foreseeing significant opportunities for growth. Alongside international ventures, they are maintaining a strong focus on Operation and Maintenance (O&M), with the Dangote project in Nigeria opening up promising possibilities. They are actively seeking opportunities in the installation and operation of Desalination plants through strategic partnerships. Their goal is to gain experience and qualifications, aiming to play a vital role in this sector. The company is optimistic about a substantial increase in overseas business within the next three years.

Strategic Overview of Company's Order Book and Revenue Growth Visibility

The company's order book, valued at approximately Rs. 534670 mn (including mining) & 230290 mn (excluding mining) as of September 30, 2023, is poised to drive revenue growth through strategic initiatives. These include diversification across sectors such as water distribution, roads, railways, and mining. Geographical spread across states ensures market diversification and risk mitigation. The company's shift towards Engineering, Procurement, and Construction (EPC) works in the non-power segment aims to provide stability and foster growth. An anticipated equal emphasis on power and civil work, along with the securing of Mining Development and Operations (MDO) projects, contributes to revenue stability. The government's Flue Gas Desulfurization (FGD) directive brings renewed focus on power EPC works, presenting growth opportunities. The company's order book signifies a well-rounded strategy for sustained and balanced revenue growth in the medium to long term. Management is expecting order inflow of Rs 100000 Mn focusing on power projects, O&M, water projects, railways, and metros for FY24. Geographically, within the domestic market, the company has diversified work orders across states such as UP, Maharashtra, Rajasthan, Gujarat, Madhya Pradesh, Karnataka, Telangana, ensuring geographical diversification. Furthermore, the company has secured two substantial Mining Development and Operations (MDO) projects, and once commissioned, these projects are expected to establish a reliable and stable source of revenue for the company (Included in current order book).

It is a major service provider in power and non-power sectors

Power Mech Projects Limited aims for a balanced mix of power and non-power business, making it a versatile service provider. Currently, 50% of the revenue comes from Power and Operation & Maintenance (O&M) business, with the rest from other segments. The company, originally focused on the power sector, has diversified cautiously into areas like Industrial Plants, Railways & Metros, Roads, Water Projects, and Mining Development. With the power sector reaching its peak, the company is strategically shifting focus towards non-power sectors. The goal is to capitalize on investments and contribute to the National Infrastructure Pipeline (NIP). The company has implemented backward integration into the Operation and Maintenance (O&M) business by establishing an advanced manufacturing facility in Noida. This facility is designed to cater to the service requirements of both the Power and Non-Power sectors.

Diversified Infrastructure Ventures: Power, Railways, Roads, and Water Projects

The company is heavily involved in civil works for the power sector, showcasing expertise in projects totaling 6,580 MW. They've successfully completed various civil works for power plants, covering areas like boilers, turbines, chimneys, coal, and ash handling. With significant experience and a focus on both civil and mechanical aspects, they're working on major projects in Bangladesh and Telangana. Future opportunities in the power sector are expected due to planned capacity additions in coal-based plants. Additionally, the company has diversified into Railways and Metro projects, taking on initiatives like the Maitree project in Bangladesh and the Yadadri mega power project in Telangana. They've entered the road sector with projects in Karnataka and Mizoram, contributing to the overall growth of the company. In water distribution and wastewater treatment, the company has seized opportunities under the Jal Jeevan Mission, contributing to rural household water supply projects in Uttar Pradesh. They are also involved in urban projects like the Atal Mission for Rejuvenation and Urban Transformation (AMRUT), focusing on sewage treatment plants and networks.




Operation and Maintenance (O&M) business is the premier and core strength of the Company

The core strength of Power Mech Projects Limited lies in its Operation and Maintenance (O&M) business, which consistently contributes significantly to both its revenue and profit. Specializing in servicing power stations ranging from 50 MW to 800 MW and beyond, the company has decided to diversify into other industrial sectors in India and has expanded its O&M presence in the Middle East and North Africa. A major achievement is securing the largest overseas O&M order from Dangote Oil Refining Company Ltd in Nigeria. The company, known for pioneering the outsourcing model in India, boasts a strong organizational base and expertise to effectively compete and penetrate the market in this lucrative business segment.

Mining, Development, and Operations (MDO) as Catalysts for Long-Term Growth and Resilience

The Mining, Development, and Operations (MDO) segment stand as a cornerstone for the company's strategic growth. Offering a trifecta of advantages, these projects secure long-term and sustainable revenues, ensuring a steady income flow over an extended period. Notably characterized by high margins, the MDO segment significantly bolsters the company's overall profitability, fortifying its financial foundation. The strategic move to diversify into non-power segments through MDO projects serves as a risk-mitigation strategy, reducing dependency on a singular industry and promoting resilience. Furthermore, by contributing to the already robust order book, MDO projects play a pivotal role in solidifying the company's growth trajectory and operational stability. In essence, the Mining, Development, and Operations segment align seamlessly with the company's strategic objectives, presenting lucrative, diversified, and enduring opportunities for sustained success.

The company has secured two significant Mining Development and Operation Projects. Both projects, focused on extracting Coking Coal, underscore the company's strong commitment to long-term endeavors and significantly contribute to its overall business portfolio.

Order 1		Order 2	
 Central Coalfields Limited Rs. 9,294Cr	POWER MECH  Growth Unlimited ~74% + AMR ~26% Kotre Basantpur Pachmo Open cast project Executable over 25 years*	Steel Authority of India Limited Rs. 30,438Cr	POWER MECH  Growth Unlimited ~74% + PCP Patel ~26% Tasra Open cast project Executable over 28 years*
* including development period of 2 years		* including development period of 2 years	

Source: Company, ACMIIL Retail Research

Industry growth drivers

Increasing Demand for Operations and Maintenance (O&M) Services

The growing need for Operations and Maintenance (O&M) services is a crucial factor driving the power industry's growth. As power systems become more advanced and diverse, specialized maintenance services play a vital role in ensuring efficiency and longevity. With modern technologies and a focus on optimizing assets, the demand for O&M services has increased. These services help manage risks, meet regulations, and control costs for power companies. As the energy landscape evolves, the importance of O&M services in maintaining and enhancing power infrastructure becomes even more pronounced, making them a key driver for the industry's ongoing development.

Strategic Capacity Expansion: Fueling the Future of Power Generation

Capacity expansion in power generation is a vital growth driver driven by the increasing demand for electricity due to population growth and industrialization. This initiative involves building new power plants or expanding existing ones to ensure a reliable and ample power supply. It supports economic development, promotes cleaner energy solutions, and prepares the industry for future demands. Overall, strategic capacity expansion plays a crucial role in sustaining and developing the power industry.

Renewable Energy Integration: Paving the Way for Sustainable Growth in the Power Industry

The embrace of Renewable Energy Solutions represents a significant growth driver for the power industry. As the global focus shifts towards sustainable and eco-friendly energy alternatives, the integration of renewable sources such as solar, wind, and hydropower becomes imperative. This paradigm shift is driven by environmental concerns, government policies promoting clean energy, and advancements in renewable technologies. Power companies investing in and adopting renewable energy solutions not only contribute to a greener future but also position themselves strategically in a rapidly evolving energy landscape. The diversification into renewables offers long-term sustainability, reduces dependency on finite resources, and aligns with the broader goal of achieving a low-carbon economy. The growth potential in this sector is further propelled by innovations, decreasing costs of renewable technologies, and an increasing awareness of the benefits of clean energy sources.

Fostering Sustainable Growth: The Role of Environmental Compliance and Upgrades in the Power Industry

Environmental compliance and upgrades serve as critical growth drivers for the power industry. With a heightened global focus on sustainability and environmental responsibility, power companies are compelled to adhere to stringent environmental regulations. Upgrading existing infrastructure to meet these compliance standards not only ensures ecological responsibility but also opens avenues for growth. Investments in cleaner technologies, emission reduction measures, and adopting sustainable practices become imperative, driving innovation and advancements in the industry. Governments worldwide are increasingly emphasizing environmental norms, creating a conducive environment for companies that proactively embrace eco-friendly practices. This focus on compliance not only aligns with broader environmental goals but also positions power companies favorably for sustainable, long-term growth in an environmentally conscious market.

Driving Growth through Robust Infrastructure Development: An In-Depth Look at Power Industry Advancements

A catalyst for power industry growth, infrastructure development initiatives focus on expanding and modernizing power generation, transmission, and distribution networks. These efforts aim to meet rising energy demands, integrate renewable sources, and enhance overall efficiency. Investment in smart grids and digital technologies contributes to improved grid management, reducing losses. Beyond advancing the power sector, these initiatives create ancillary opportunities, stimulate economic growth, and generate employment. In summary, infrastructure development serves as a cornerstone for building a resilient, efficient, and sustainable power ecosystem.

Government Thrust on Infrastructure

The Government of India has consistently placed significant emphasis on infrastructure development, recognizing its vital role in driving economic growth. Government initiatives like the National Smart Grid Mission and the Revamped Distribution Sector Scheme are driving investments in expanding and upgrading power grids across the country. The government's ambitious target of achieving 500 GW of renewable energy capacity by 2030 is creating a surge in demand for specialized equipment for solar, wind, and other renewable energy projects. The National Infrastructure Pipeline (NIP) and large budgetary allocation corroborate the same. Roads, railways, ports, power, and urban infrastructure, etc are some of the key infrastructure sectors likely to steer the growth and necessitating private investment along with government spending.

Additional Key Growth Drivers

The construction industry in India is intricately connected across 250 sub-sectors, forming a vast network of linkages. With urbanization on the rise, it is projected that over 40% of the population will inhabit urban areas by 2030, spurring a demand for 25 million additional mid-end and affordable residential units. Under the National Infrastructure Plan (NIP), India has allocated a substantial investment budget of \$1.4 trillion, with a strategic focus on renewable energy, roads and highways, urban infrastructure, and railways. The development of 35 Multimodal Logistics Parks (MMLPs) at a capital cost of \$6.1 billion is set to significantly impact freight movement. Furthermore, there is a growing demand for commercial spaces, including office spaces, hotels, retail, and entertainment units. The Indian real estate sector is poised to reach a market size of USD 1 trillion by 2030, contributing approximately 13% to the country's GDP by 2025. These trends underscore the dynamic and expanding landscape of India's construction and real estate industry.

Story in Charts (Values in Mn.)

Exhibit 1 : Revenue

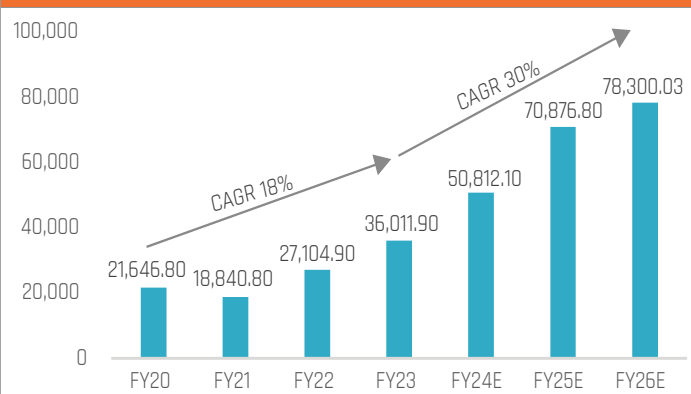


Exhibit 2 : EBITDA & EBITDA %

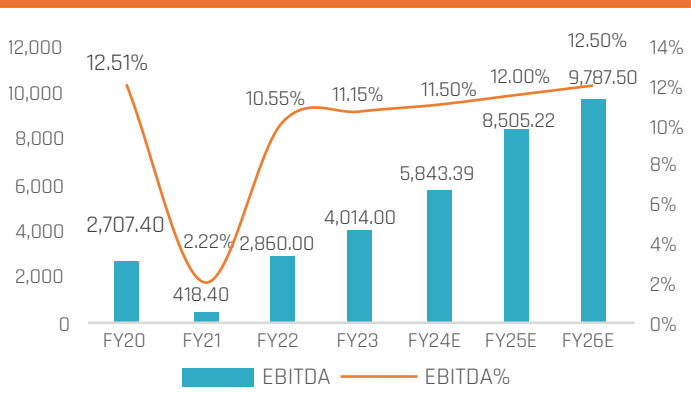


Exhibit 3 : PAT & PAT Margin %

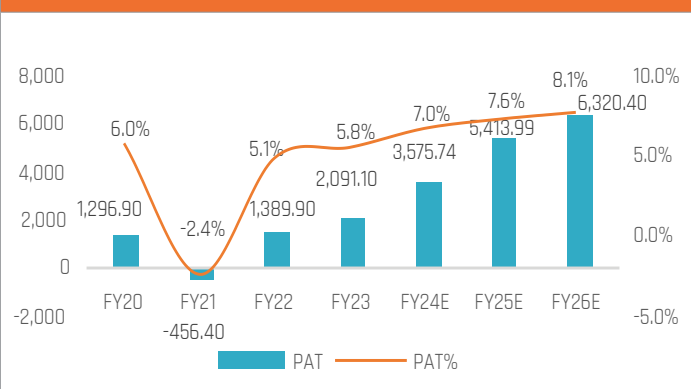


Exhibit 4 : Geography wise revenue (FY23)

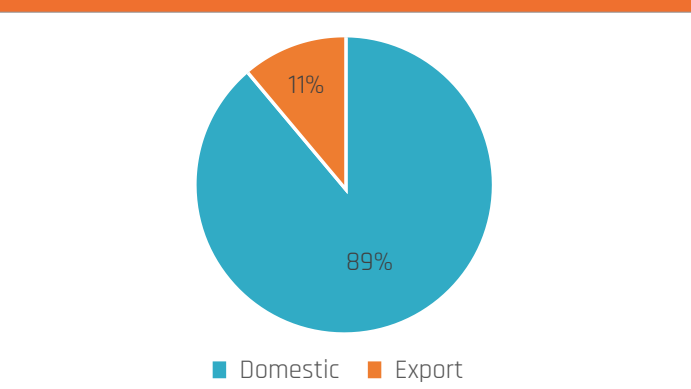


Exhibit 5 : Revenue Mix (FY23)

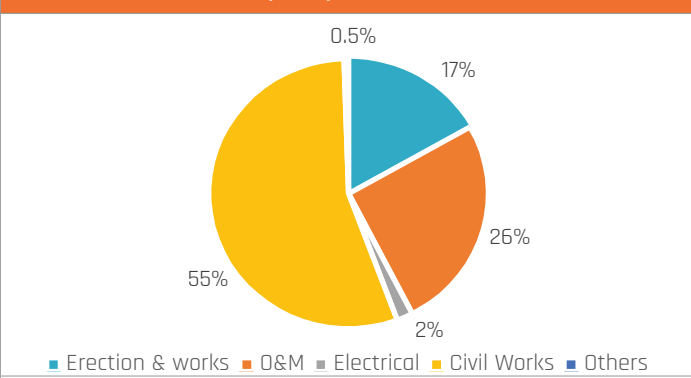
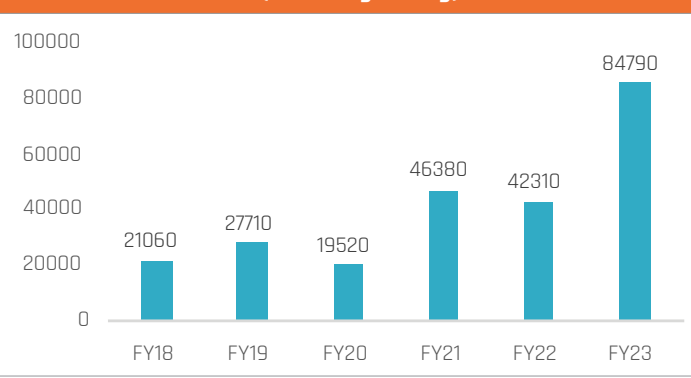


Exhibit 6 : Order Inflow (Excluding Mining)



Source: Company, ACMIIL Retail Research

Financial Statements

Consolidated Profit & Loss Statement

Particulars (Rs. in Mn.)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	21,646.80	18,840.80	27,104.90	36,011.90	50,812.10	70,876.80	78,300.03
Expenses	18,939.40	18,422.40	24,244.90	31,997.90	44,968.71	62,371.59	68,512.52
EBITDA	2,707.40	418.40	2,860.00	4,014.00	5,843.39	8,505.22	9,787.50
EBITDA%	12.51%	2.22%	10.55%	11.15%	11.50%	12.00%	12.50%
Other Income	93.50	163.30	173.10	191.50	124.60	124.60	124.60
Interest	740.60	792.70	794.70	895.40	816.52	795.02	788.02
Depreciation	394.30	357.60	369.00	429.10	397.15	629.48	710.21
PBT	1,681.70	-599.50	1,846.70	2,799.70	4,754.32	7,205.32	8,413.87
Tax	374.80	-113.40	461.80	726.60	1188.58	1801.33	2103.47
PAT*	1,296.90	-456.40	1,389.90	2,091.10	3,575.74	5,413.99	6,320.40
PAT%	6%	-2%	5%	6%	7%	8%	8%
EPS	88.16	-31.02	94.48	140.28	239.88	363.20	424.01

Note: *PAT is adjusted after JV/Associates & Minority interest

Source: Company, ACMIL Retail Research

Risks and concerns

- Highly fragmented and competitive Industry with many players.
- Ineffective management of project execution and milestone schedules may lead to delays, posing a risk to business & Financials.
- Slowdown in economy affects the company's business, New Order Inflows & financials.

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