

IPO Note: Power Mech Projects Ltd.

Industry: Power Infrastructure Services

Recommendation: Subscribe

Date: August 05, 2015

Issue Snapshot

Company Name	Power Mech Projects Ltd.
Issue Opens	August 07, 2015 to August 11, 2015
Price Band	Rs. 615 to Rs. 640
Bid Lot	20 Equity Shares and in multiples of 20 Equity Shares thereafter.
The Offer	Public issue of 42,69,000 Equity shares of Face value Rs.10 each, (Comprising of fresh issue of 21,28,000 Equity Shares and Offer for Sale of 21,41,000 Equity Shares by Selling Shareholder).
Issue Size	Rs. 262.5 – 273.2 Crore
IPO Process	100% Book Building
Face Value	Rs. 10.00
IPO Grading	NA
Exchanges	NSE & BSE
BRLM	Kotak Mahindra Capital Company Limited, IIFL Holdings Limited, Motilal Oswal Investment Advisors Private Limited
Registrar	Karvy Computershare Private Limited

Equity Shares offered through this Offer	Nos. of Share	As a % of total
Equity Shares offered through this Offer	4269000	100.0%
A. Fresh Issue	2128000	
B. Offer for Sale	2141000	
I. QIB Portion (Not more than)	2134500	50.0%
- Anchor Investor Portion	1280700	30.0%
- Mutual Funds only (5% of the QIB Portion)	42690	1.0%
- QIBs including Mutual Funds	811110	19.0%
II. Non-Institutional Portion (Not less than)	640350	15.0%
III. Retail Portion (Not less than)	1494150	35.0%

Pre and post Issue Equity Shares	Nos. of Share
Equity Shares outstanding prior to the Issue	12,582,764
Equity Shares outstanding after the Issue	14,710,764

Objects of the Offer

The Issue comprises of the Fresh Issue by the Company and an Offer for Sale by the Selling Shareholder.

Offer for Sale

The Company will not receive any proceeds from the Offer for Sale by the Selling Shareholder and the proceeds received from the Offer for Sale will not form part of the Net Proceeds.

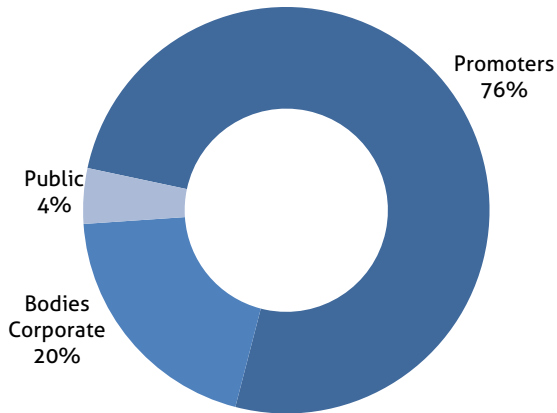
The Fresh Issue

The activities for which funds are being raised by the Company through the Fresh Issue after deducting the Issue related expenses for the Company are:

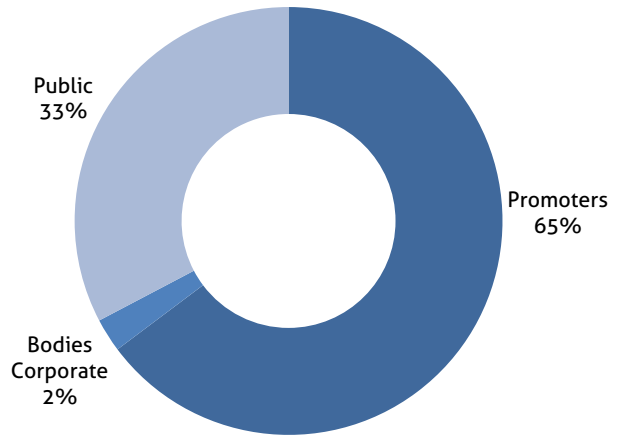
- Funding working capital requirements of our Company; and
- General Corporate Purposes.

In addition, the Company expects to receive the benefits of listing of the Equity Shares on the Stock Exchanges.

Pre-Issue



Post-Issue



About the company

Power Mech Projects Limited (the Company), is an integrated power infrastructure services company in India engaged in providing comprehensive erection, testing and commissioning of boilers, turbines and generators (ETC-BTG) and balance of plant (BOP) works, civil works and operation and maintenance (O&M) services. Large equipment base, technically qualified and experienced employee pool and strong project management systems and capabilities has enabled the Company to execute large, complex projects in India and internationally. Operations include three principal business lines: (i) Erection Works; (ii) Operation & Maintenance Services; and (iii) Civil Works.

Erection Works

Erection Works business includes erection, testing and commissioning of boilers, turbines and generators and BOP works for the power sector as well as other allied industries including petrochemicals, steel and cement. Revenues from this business increased from Rs. 588cr in FY12 to Rs. 910cr in FY15, representing 83.38% and 66.62%, respectively, of total revenue during the same period. Power Mech commenced its Erection Works business in 2003, and have been engaged on more than 100 Erection Works projects to date. As of June 30, 2015, it was involved in over 100 Erection Works contracts across India and in four international jurisdictions. The aggregate Order Book for Erection Services business as of March 31, 2015 was Rs. 2302.87 Crore. The Company provides ETC-BTG and BOP works for power plants including ultra-mega power plants (UMPPs) and super-critical power plants with unit capacities ranging from 150 MW to 800 MW. It also provide erection works services to gas and combined cycle power projects, 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 Services

The Operation and Maintenance Services business includes annual maintenance contracts (AMCs), other repairs, renovation and modernisation (R&M), residual life assessment (RLA), scheduled shutdowns, retro-fits, as well as overhauling, maintenance and upgradation services for power plants. Since commencement of O&M business in 1999, the company has been engaged on more than 400 O&M contracts as of June 30, 2015. Power Mech provide comprehensive O&M services, principally for power projects, in India and internationally. It has provided O&M services for various projects in the Middle East, North Africa, South Asia and South America. Revenues under O&M division has increased from Rs. 42.4cr in FY12 to Rs. 276.5cr in FY15, thereby increasing its share of overall revenues from 6.02% to 20.24% over the same period. Power Mech is one of the leading AMC services providers for power plants in India and expect this business to grow significantly as a result of the significant increase in the installed base of IPPs in India in recent years. Further the company carried out its first AMC project in 2004 and revenue from AMC services has increased from Rs. 4.8cr in FY12 to Rs. 154cr in FY15. As of June 30, 2015, it is engaged on 23 AMC services for power plants across India with an aggregate unit capacity of 32,835 MW. It also intend to leverage its experience in providing overhauling and maintenance services to power plants in order to provide similar services to petrochemicals and oil and gas sector projects in India and other jurisdictions, including in the Middle East.

In order to expand its AMC business, the Company continues to strengthen its relationships with BTG vendors, particularly BTG manufacturers in China, to provide maintenance services for projects where such vendors have provided critical equipment. In order to provide comprehensive O&M solutions, it has also recently entered into joint venture agreement with Chengdu to set up a joint venture entity in Hong Kong for the distribution of equipment and spare parts, including boilers, turbines and generators, for O&M projects in India. It has also recently entered into a Cooperation Agreement with Shanghai Electric Power Generation Service Co. with respect to repair and overhauling contracts in the power sector in India.

Civil Works

The Civil Works business commenced in FY11 and provides various civil and construction jobs for the main plant and BOP requirements including excavation, piling, concreting, architectural and building works. Revenues from this business increased from Rs. 69.7cr in FY12 to Rs. 175cr in FY15, representing 9.9% and 12.8%, respectively, of total revenue during the same period.

Hydro Magus

The Company through its subsidiary Hydro Magus, increased its strategic focus on providing renovation, modernization, upgradation and installation services for hydropower projects, including re-engineering of high-efficiency turbine runners and hydro-generators as well as the design, supply, erection, testing and commissioning of hydro-turbines and hydro-generators. It continues to explore strategic partnerships with international equipment suppliers for hydropower projects to jointly bid for new hydropower projects as well as renovation and maintenance works for hydropower projects.

Key Points

Integrated power infrastructure services providers with comprehensive service offering

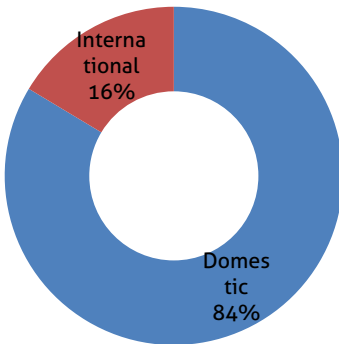
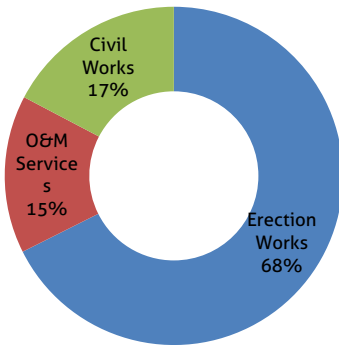
The Company is an integrated power infrastructure services provider in India with a comprehensive service offering. It provides comprehensive ETC-BTG and BOP works, civil works and O&M services for power plants as well as other allied industries including petrochemicals, steel and cement. It also provides erection works services to gas and combined cycle power projects, 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. In the Civil Works business, it provides civil and construction jobs for the main plant and BOP requirements including excavation, piling, concreting, architectural and building works. It also provides a comprehensive range of services in O&M Services business, including annual maintenance contracts, other repairs, renovation and modernisation, residual life assessment, scheduled shutdowns, retro-fits, as well as overhauling, maintenance and upgradation services for power plants. In order to provide comprehensive O&M solutions, the company has entered into a joint venture agreement dated December 1, 2014, with Chengdu to incorporate a joint venture entity in Hong Kong for the manufacturing and marketing of equipment and spare parts, including boilers, turbines and generators, for O&M projects in India.

In addition to the already existing ETC-BTG and BOP works, civil works and O&M services for power plants as well as other allied industries including petrochemicals, steel and cement, its subsidiary Hydro Magus, provides renovation, modernization, upgradation and installation services for hydropower projects, including re-engineering of high-efficiency turbine runners and hydro-generators as well as the design, supply, erection, testing and commissioning of hydro-turbines and hydro-generators. The company continues to explore strategic partnerships with international equipment suppliers for hydropower projects to jointly bid for new hydropower projects as well as renovation and maintenance works for hydropower projects. With the comprehensive service offerings and established track record as an integrated power infrastructure services provider provides the company with a significant competitive advantage.

Established track record

The Company has a track record of successfully executing ETC-BTG and BOP contracts for large power projects including for 800 MW unit capacity supercritical projects. PIMP has been engaged on ETC-BTG projects for the first two ultra-mega power projects in India as well as for 16 super-critical power projects in India as of June 30, 2015. The Company has also carried out the overhauling of a super-critical 660MW turbine and provided AMC services for an ultra-mega power project. According to the Central Electricity Authority, in fiscal 2011 through fiscal 2015, the aggregate thermal power plant capacity addition in India was approximately 88,048 MW. In the same period, the company is engaged on ETCBTG and BOP Works aggregating 33,801 MW. In fiscal 2015, the company executed Erection Works contracts of aggregate tonnage of approximately 355,000 metric tonnes.

Order Book



Large Order Book

Company's aggregate Order Book as of March 31, 2015 was Rs. 3,406cr, comprising order book in the Erection Works, O&M Services and Civil Works businesses of Rs. 2,302cr, Rs. 590cr and Rs. 513cr, respectively. Of the total order book, domestic market accounts for 83.6% and international markets account for the rest of 16.4%. The aggregate value of the Erection Order Book also includes certain suspended projects (i.e. contracts on which no operations have been conducted for a period exceeding six months because of various factors beyond its control) aggregating Rs. 189.67 crore. A total of Rs. 189.67 crore of erection works projects were suspended as on March 31, 2015. All of these suspended projects belong to the Erection Works business.

Strong project execution capabilities

The Company has a large equipment base, technically qualified and experienced employee pool and strong project management systems and capabilities enable us to execute large, complex projects in India and internationally. As of June 30, 2015, the Company has been engaged in more than 100 Erection Works projects (completed and ongoing projects) across India and in four international jurisdictions, comprising among others two Ultra Mega Power Projects (UMPPs) and 16 super-critical power projects with capacities ranging from 150MW up to 800MW. The company has a significant equipment base which enables it to quickly and effectively mobilise project works. As of June 30, 2015, its equipment base included 261 cranes, ranging from 10 tons to 300 tons in capacity. In addition, the Company is in the process of setting up a heavy engineering facility at Noida for non-critical equipment and spare parts for power projects, such as structures, ducting, tanks, vessels, LP piping systems, chimneys and pressure parts. As of June 30, 2015, it had 2,271 full time employees, of which a large number were qualified engineers. Its strong project execution capabilities have enabled the company to complete various large and complex projects well within the stipulated delivery timelines.

Long term relationships with clients

The Company has developed long term relationships with various Indian and international power utilities, governmental organizations and other power sector intermediaries. These clients include public sector undertakings and private sector clients. It has also established strong relationships with large EPC companies that operate in the power sector as well as other infrastructure and allied sectors. Its significant clients include BHEL, NTPC, Doosan Power Systems, Adani, L&T, Thermal Powertech, GE Power, CLP India, BGR, Thermax, SEW Infrastructure, KSK – Arasmeta, KSK - VS Lignite, KSK –Mahanadi, Siemens and Reliance Infra.

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Excellent Quality standards

The Company has received quality certifications including, ISO 9001:2008 for quality management systems from International Certification Registrar Limited; OHSAS 18001:2007 from Absolute Quality Certification Private Limited and ISO 14001:2004 for environment management system from Absolute Quality Certification Private Limited. In addition, the Company has implemented the SAP ERP system at its corporate office and at all project sites enabling strong system control and real time monitoring of projects.

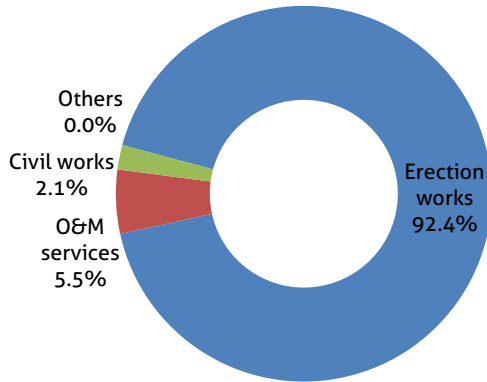
Robust financial performance

The Company has maintained robust financial position with emphasis on strong balance sheet and increased profitability. Between FY11-15, total income increased at a CAGR of 29.07% from Rs. 494cr in FY11 to Rs. 1,372cr in FY15, while profit after taxation, as restated, increased at a CAGR of 17.38% from Rs. 37.6cr to Rs. 71cr over the same period.

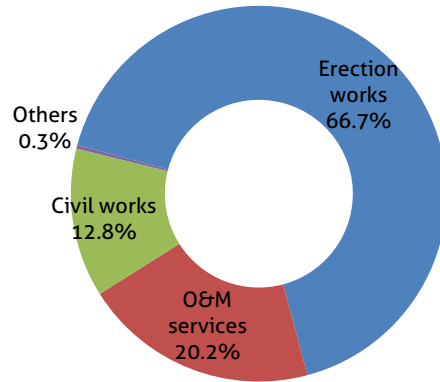
RONW for in FY12, FY13, FY14 and FY15 was 30.94%, 23.36%, 23.93% and 20.13%, respectively, while ROCE was 33.56%, 25.25%, 27.63% and 21.73%, respectively. The company has also registered strong cash flows from operations and in FY12, FY13, FY14 and FY15, net cash from operating activities was Rs. 42cr, Rs. 18cr, Rs. 26.7cr and Rs. 3.8cr, respectively. As of March 31, 2014 long term debt equity ratio was 0.20 while it was 0.20 as of March 31, 2015.

Particulars (Rs. Cr.)	FY11	FY12	FY13	FY14	FY15
Contract Receipts					
Erection Works	454.3	587.8	742.1	890.6	910.2
O&M Services	26.9	42.4	75.6	138.9	276.5
Civil Works	10.3	69.7	109.9	165.9	174.9
Supplies of Goods	-	-	-	-	3.4
Other Operating Revenue					
Crane hire charges	0.2	5.0	8.1	4.8	1.2
Total Revenue from Operations	491.8	705.1	935.8	1,200.3	1,366.2

Segment wise revenue share FY11



Segment wise revenue share FY15



Company's Strategy going forward

- Consolidate leadership position in power infrastructure services sector in India
- Expand international business
- Leverage Power Mech's experience and track record to strategically diversify into allied infrastructure sectors
- Further grow O&M services offerings and focus on higher margin AMC services
- Provide integrated O&M solutions by entering into equipment and spare parts distribution arrangements and developing heavy engineering capabilities
- Enhance construction capabilities and develop advanced project execution methodologies

Key Concern

- **Time and cost overrun risks on lump-sum price and item rate contracts:** A significant proportion of the contracts are lump-sum or item rate contracts where Power Mech bear the risk of time and cost overruns unless contractually excluded under certain circumstances such as changes in scope of work.
- **Risks inherent to power sector projects:** Most of Power Mech's projects are in the power sector in India and internationally. Power sector projects have long gestation periods before they become operational and carry project-specific as well as general risks.
- **Significant business transactions with government or government funded entities or agencies:** Power Mech's business is primarily dependent on projects in the power sector undertaken by power utilities, many of which are public sector undertakings. Contracts with government agencies are subject to various uncertainties, restrictions, and regulations including oversight audits by various government authorities and profit and cost controls.
- **Inability to compete effectively may lead to a lower market share or reduced operating margins:** The Company operates in a competitive environment. If Power Mech do not succeed in being awarded the new contracts for projects, it could fail to increase, or maintain, its volume of order intake and operating revenues.

Valuation

Power Mech Projects Ltd is an integrated power infrastructure services company providing comprehensive erection, testing and commissioning of boilers, turbines and generators ("ETC-BTG") and balance of plant ("BOP") works, civil works and operation and maintenance (O&M) services. Company has 2271 full time employees, of which large numbers are qualified engineers and these enabled the company to execute large, complex projects in India and abroad. Power Mech has an established track record of executing ETC-BTG and BOP works and a wide range of maintenance services projects for large power plants. As per Central Electricity Authority of India, during FY11-15, the aggregate thermal capacity addition in India was ~ 88,048 MW of which the company was engaged on ETC-BTG and BOP works aggregating 33,801 MW. As of March 2015, company has healthy order book of Rs 3406 crore, of which 84% are from domestic power producers and rest from international markets. It provides services to its clients including BHEL, NTPC, Doosan Power Systems, Adani, L&T, Thermal Powertech, GE Power, CLP India, BGR, Thermax, SEW Infrastructure, KSK – Arasmeta, KSK - VS Lignite, KSK –Mahanadi, Siemens and Reliance Infra. To improve its margins, company has been emphasizing on O&M business as this segment gives comparatively higher margins than other segments.

Power Mech strives hard to maintain robust financial position with emphasis on having a strong balance sheet and rising profitability. Over the past five years, company's sales grew at a CAGR of 29%, while EBITDA grew at 21% CAGR. Net profitability during the past five years grew at a CAGR of 17.4%. As the company is engaged in servicing and maintenance of power plants, there are no such capex required for sustainable growth. Thus the lower requirement of capex entails low debt in balance sheet. As of 31st March 2015, the company's debt/equity ratio stood at 0.67x. Consistent earnings growth supported the company to report strong RoE of 20%. Government strong impetus to revive the country's ailing infrastructure would definitely bode well for Power Mech as its business growth is directly linked with infrastructure development.

*The issue is comprised of both fresh issue and offer for sale. Power Mech is offering 0.21 lacs of fresh equity shares, thus diluting ~14% of equity. At the upper price band, the company is valued at EV/EBITDA of 6.4x on FY15 EBITDA and P/E multiple of 13.2x on FY15 post diluted EPS of Rs. 48.5. Given its strong execution skill, integrated operations, healthy order book and robust financial growth in past years, we believe the IPO is fairly valued at upper price band. Hence we recommend our investors to **SUBSCRIBE** the issue from long term investment perspective.*

Financial Statement

Income Statement

(In Rs. Cr)	FY11	FY12	FY13	FY14	FY15
Revenue from operations	491.8	705.1	935.8	1,200.3	1,366.2
Other Income	2.6	4.1	4.6	10.8	5.8
Total Income	494.4	709.1	940.4	1,211.1	1,372.0
Total expenses	415.3	591.6	813.6	1,044.9	1,199.2
Operating Profit	79.1	117.5	126.8	166.2	172.8
OPM (%)	16.1%	16.7%	13.6%	13.8%	12.6%
Depreciation	24.3	38.6	33.6	32.8	36.8
Finance cost	8.1	13.0	16.8	26.6	29.4
Adjustments	9.8	12.4	-	-	-
PBT	56.5	78.2	76.4	106.7	106.6
Adj. Net Profit	37.6	52.4	51.2	68.1	71.4
NPM (%)	7.6%	7.4%	5.4%	5.6%	5.2%

Source: RHP

Asset Liability Statement

(In Rs. Cr)	FY11	FY12	FY13	FY14	FY15
Equity & Liabilities					
Shareholder's Fund	103.2	154.4	204.3	273.6	354.7
Minority Interest	0.0	0.0	0.1	0.2	0.3
Long Term Borrowings	46.1	57.5	28.0	27.4	36.6
Deferred Tax Liabilities	4.9	6.5	6.8	7.8	4.7
Other Non Current Liabilities	53.9	86.7	82.9	93.6	64.3
Current Liabilities & Pro.	169.0	266.9	443.2	553.4	707.3
Total	377.1	572.0	765.4	956.0	1,167.8
Assets					
Fixed Assets	121.5	169.7	169.9	178.1	183.2
Capital WIP	4.1	3.6	7.2	6.8	17.0
Non-current investments	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	66.7	78.9	98.1	173.1	164.3
Total Current Assets	142.2	277.9	433.3	529.2	735.4
Cash & bank	42.6	42.0	56.7	68.8	67.8
Total	377.1	572.0	765.3	956.0	1,167.8

Cash Flow Statement

(In Rs. Cr)	FY11	FY12	FY13	FY14	FY15
Cash flow from Operations Activities	51.6	42.1	18.1	26.8	3.9
Cash flow from Investing Activities	(70.0)	(71.9)	(39.8)	(41.6)	(45.2)
Cash flow from Financing Activities	15.8	27.3	29.5	16.3	41.9
Net increase/(decrease) in cash and cash equivalents	(2.6)	(2.6)	7.8	1.5	0.6
Cash and cash equivalents at the beginning of the year	7.0	4.4	1.8	9.6	11.0
Cash and cash equivalents at the end of the year	4.4	1.8	9.6	11.0	11.6

Source: RHP

Ratios

	FY13	FY14	FY15
Earning per share (EPS) (Rs.) (Non diluted)	40.71	54.7	57.48
Net Asset Value per share (Rs.)	190.67	247.64	281.91
Return on Net Worth (RONW) (%)	23.36	23.93	20.13

Source: RHP

Comparison with listed industry peers

Name of the company	Face value (Rs.)	EPS (Rs.)	Nav per Share (Rs.)	P/E (x)	RONW (%)
Power Mech Projects Limited	10	57.48	281.91	[●]	20.13%
BGR Energy Systems Limited	10	4.19	183.13	28.3x	2.29%
Sunil Hitech Engineers Limited	10	36.24	269.18	3.9x	12.96%
Techno Electric and Engineering Co. Limited	10	18.41	160.22	21.1x	11.49%
Larsen & Toubro Limited	2	51.33	441.35	33.5x	11.65%
Industry Composite		27.54		21.7x	

Source: RHP, Ashika Research

Disclosure

The Research Analysts and /or Ashika Stock Broking Limited do hereby certify that all the views expressed in this research report accurately reflect their views about the subject issuer(s) or securities. Moreover, they also certify the followings:-

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*Ashika Stock Broking Limited is acting as a Sub-Syndicate Member for the company IPO

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