

# Stock Update

Improved growth outlook on recent order wins; retain Buy

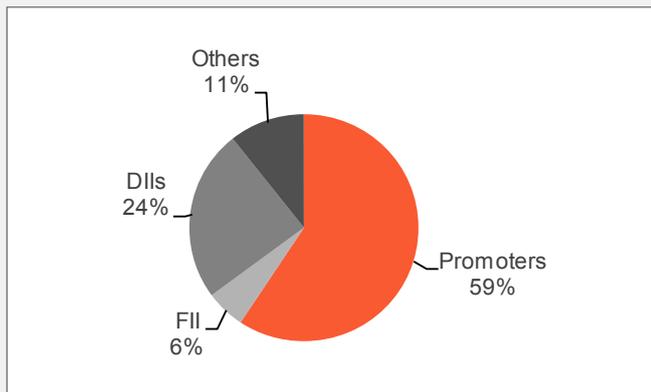
## Kalpataru Power Transmission

Reco: Buy | CMP: Rs449

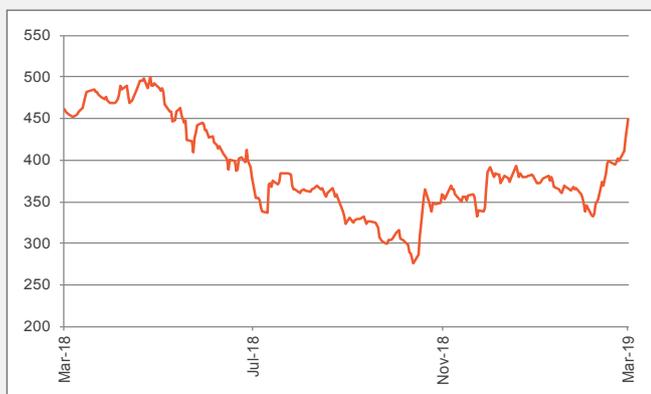
### Company details

Price target:	Rs552
Market cap:	Rs6,890 cr
52-week high/low:	Rs507/268
NSE volume: (No of shares)	95,189
BSE code:	522287
NSE code:	KALPATPOWR
Sharekhan code:	KALPATPOWR
Free float: (No of shares)	6.2 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	32.1	14.7	35.3	-2.1
Relative to Sensex	27.2	9.2	35.5	-12.6

### Key points

- Businesses on strong growth trajectory:** Broadly, all business segments of KPTL are on a strong growth trajectory and management expects robust order inflow traction as well. The order book remains strong at around Rs 14,200 crore (excluding current order inflow of Rs 1,288 crore) which provides strong revenue visibility (2.2x TTM) ahead. Execution remains strong across the verticals and with new orders entering execution stage will help KPTL report high double-digit revenue growth in Q4FY2019. During 9MFY19, railway & pipeline revenue doubled to Rs 1,300 crore while T&D grew 8% to Rs 3,300 crore. This trend is expected to continue during Q4FY19 supporting the overall revenue growth. Domestic T&D, on the other hand, is expected to witness lower double digit growth, mainly driven by prospective orders from green energy corridor. The management remains optimistic about prospects in the international markets. Key geographies include Bangladesh, Africa and SAARC countries. Overall, RoCE on international projects remains much higher than domestic projects due to low working capital requirement, cheaper financing, focus on delivery and absence of time delays for reasons such as land acquisition and litigation that are widespread in India along with moderately higher margins.
- Order backlog strengthens with recent order wins:** Orders won recently worth Rs 1,288 crores by KPTL across its T&D segment (Rs 771 crore) primarily in international markets and another order from Oil & Gas (Rs 517 crore) strengthens its order backlog which stands around Rs 14,200 crore at the end of Q3FY19 and expect to end the year with an order backlog of more than Rs 15,000 crore. Further, KPTL expects strong order inflow in railways and oil & gas segments over the next three years. In railways, the company expects opportunities from electrification, track doubling/renewal and station redevelopment and tenders of around Rs 10,000- Rs 20,000 crore to be floated. Metro projects also present a good opportunity where JMC will take the lead role as the civil construction component is higher for metro rail projects. Railways segment is expected to reach ~Rs3,500 crore of order book by end-FY2019. The company is also witnessing good order awards from both PSU and private companies in the oil & gas sector and expects tenders of around Rs 5,000 – 6,000 to be floated. The company stands as the lowest bidder in approximately Rs. 2,000 crore worth of projects which includes T&D & oil and gas orders.

- ◆ **Control over working capital and debt to strengthen balance sheet:** Net working capital (ex-cash) is under control and the company has reduced the standalone net debt guidance to Rs 800-900 crore versus the previous guidance of Rs 1000 crore. Value unlocking from the transmission BOT assets and turnaround of Shubham logistics where management is focussed on growing its revenues will further improve the growth prospects.
- ◆ **Maintain Buy with a revised PT of Rs 552:** Supported by execution in the non-T&D segment, the overall growth outlook is healthy. With improvement in order intake from overseas,

state T&D and recovery from Powergrid orders powered by the green energy corridor, the medium to long term growth drivers are in place. Focus on working capital and debt reduction will strengthen the balance sheet. Investments toward transmission BOOT and Shubham Logistics will yield positive results in the medium to long term. We have also rolled forward our estimates and have introduced FY2021E numbers. Given the healthy growth outlook and value-unlocking of subsidiaries, we expect revenue and earnings CAGR of 17% and 19% over FY2018-FY2021E. We maintain a BUY rating on the stock with a revised SoTP based target price of Rs 552.

#### Valuation (Standalone)

Particulars	Rs cr					
	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	4,302	4,894	5,741	6,739	7,823	9,108
Growth	-2.7%	13.8%	17.3%	17.4%	16.1%	16.4%
OPM	10.5%	10.8%	11.0%	11.1%	11.2%	11.4%
Adj Net Profit	192	269	322	398	456	540
Adj EPS(Rs)	12.5	17.5	21.0	26.0	29.7	35.2
EPS Growth (%)	16%	40%	20%	24%	14%	19%
PER (x)	35.8	25.6	21.4	17.3	15.1	12.8
P/BV (x)	3.1	2.8	2.5	2.2	2.0	1.8
EV/EBITDA (x)	15.1	12.3	10.6	9.1	7.6	6.3
ROCE (%)	14.8	17.5	18.9	19.7	19.8	20.7
ROE (%)	9.0	11.5	12.3	13.6	14.0	14.8

#### Sum Of Part Valuation

Valuation	Value/share	Basis of valuation and multiple
KPTL	486	Valued at 14x FY21E earnings
JMC	57	Valued at 30% holding discount to the current Mcap
SSL	7	Valued on 35% discount to potential valuation
Others	5	Valued at 25% discount to equity invested in SPV & other investments
<b>Total Value</b>	<b>552</b>	<b>Price Target</b>

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