

Stock Update

Making inroads in newer markets; Retain Buy

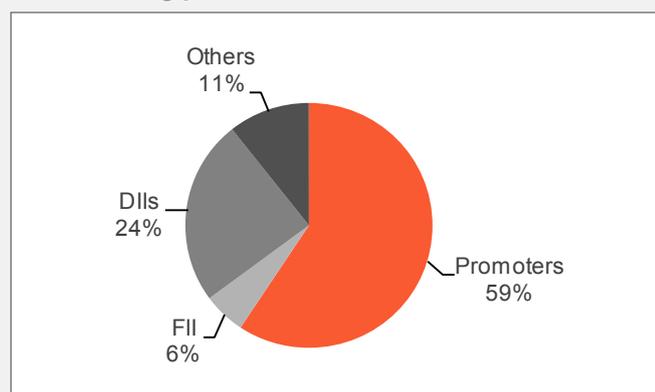
Kalpataru Power Transmission

Reco: Buy | CMP: Rs441

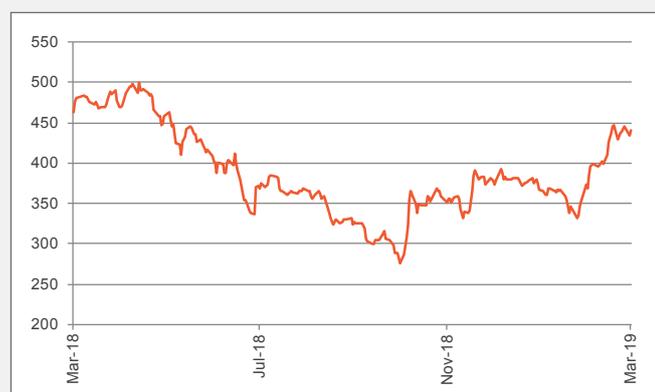
Company details

Price target:	Rs552
Market cap:	Rs6,768 cr
52-week high/low:	Rs507/268
NSE volume: (No of shares)	90,100
BSE code:	522287
NSE code:	KALPATPOWER
Sharekhan code:	KALPATPOWER
Free float: (No of shares)	6.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.4	13.8	33.8	-4.7
Relative to Sensex	11.3	6.5	29.1	-18.9

Key points

- KPTL ventures into Sweden and Norway through acquisition:** KPTL signed definitive agreement through its wholly owned subsidiary, Kalpataru Power Transmission Sweden AB, to acquire 85% stake in Linjemontage i Grastorp AB, a Swedish EPC company for an enterprise value of \$24 million. Initially, KPTL will own 85%, with balance 15% to be owned by the current promoters with KPTL having the right of first refusal. Founded in 1993, Linjemontage specialises in EPC and O&M in power supply solutions and services for electricity networks up to voltage range of 400 KV. The current order book stands at ~\$77 million (1x its CY2018 revenue) with 60-65% orders for substations and rest for T&D and O&M with execution timelines of 12-18 months. The acquisition would be funded majorly through internal accruals along with short-term debt. The overseas T&D space comprised 36% of its KPTL's order book as of Q3FY2019 with strong order inflows witnessed from the international market during 9MFY2019 (63% of total order intake). The acquisition will give KPTL access to Nordic countries and European markets improving upon its overseas exposure.
- Reasonable valuation with salient benefits:** KPTL's acquisition of Linjemontage is valued at 8.6x its EV/EBITDA on CY2018 earnings and estimated to be 6-7x its EV/EBITDA on CY2019E earnings. Linjemontage has lower EBITDA margins (average 3.9% over trailing two years) compared to KPTL's consolidated margins of 11.7% in FY2018. However, Linjemontage has grown its revenue at an average rate of 25% over the past three years with average ROCE of over 25% in the past two years. Further, the company is mostly debt free with a low working capital cycle of 30-35 days. KPTL's acquisition cost of Rs. 140 crore for 85% stake is marginally value accretive considering current 5% yield on cash and equivalents and 85% stake in Linjemontage's FY2019E net earnings. However, the acquisition yields strategic fit both to capture local market opportunity (\$800 million-900 million/year market with 50% orders comprising 400 KV) to help expand presence in Nordic countries (leveraging low-cost Indian manufacturing base) where KPTL has no former presence. The deal is also a shorter way to establish local presence compared to the long timeline to get pre-qualification, preference for local player and visa/labour issues.

- ◆ **Maintain Buy with unchanged PT of Rs. 552:**
We have not factored Linjemontage's valuation at this stage and await the transaction to get closed in Q1FY2020. We expect KPTL to benefit from Linjemontage's acquisition on account of reasonable valuation and access to newer markets with possibility of scaling up Linjemontage's business through its backing

(bidding capability increased to medium and large-size orders and low-cost procurement benefits). Further, Linjemontage, being a profitable company, can provide dividends to KPTL from its first year of acquisition itself. We continue to maintain our Buy rating on the stock with unchanged price target (PT) of Rs. 552.

Valuation (Standalone)

Particulars	Rs cr			
	FY18	FY19E	FY20E	FY21E
Net Sales	5,741	6,739	7,823	9,108
Growth	17.3%	17.4%	16.1%	16.4%
OPM	11.0%	11.1%	11.2%	11.4%
Adj. Net Profit	322	398	456	540
Adj. EPS (Rs.)	21.0	26.0	29.7	35.2
EPS Growth (%)	20%	24%	14%	19%
PER (x)	21.0	17.0	14.9	12.5
P/BV (x)	2.4	2.2	2.0	1.7
EV/EBITDA (x)	10.4	8.9	7.5	6.2
RoCE (%)	18.9	19.7	19.8	20.7
RoE (%)	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 and other investments
Total Value	552	Price Target

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