

## Sector: Capital Goods

## Result Update

	Change
Reco: <b>Buy</b>	↔
CMP: <b>Rs. 417</b>	
Price Target: <b>Rs. 545</b>	↓
↑ Upgrade	↔ No change
↓ Downgrade	

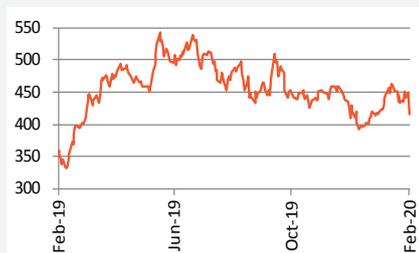
## Company details

Market cap:	Rs. 6,445 cr
52-week high/low:	Rs. 553/327
NSE volume: (No of shares)	1.5 lakh
BSE code:	522287
NSE code:	KALPATPOWR
Sharekhan code:	KALPATPOWR
Free float: (No of shares)	7.0 cr

## Shareholding (%)

Promoters	54.4
FII	9.2
DII	29.0
Others	7.5

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	7.3	0.2	-6.0	24.1
Relative to Sensex	8.9	-1.4	-14.0	9.5

Sharekhan Research, Bloomberg

Kalpataru Power Transmission Limited (KPTL) continued with its healthy project execution, reporting 14.7% y-o-y growth in its standalone revenue (in-line with estimates), largely driven by railways (2x y-o-y) followed by T&D (up 6% y-o-y). The operating margins remained almost flat y-o-y at 10.5% leading to 13% y-o-y growth in its operating profit to Rs208 crore which came in lower than our estimate. Further, higher depreciation (up 22% y-o-y) and higher interest expense (up 35% y-o-y) more than offset higher other income (up 39% y-o-y) and lead to lower PBT growth (up 9.1% y-o-y) to Rs. 1540 crore. Further, lower ETR (26.6 vs 34.8% in Q3FY19) and exceptional gain of Rs 24 crore (gain on sale of investment in Kalpataru Satpura Transco and impairment of investment in one of the subsidiary) led to reported net profit growth of 49% y-o-y to Rs. 137 crore. Adjusting for the same, the standalone net profit was up 23% y-o-y at Rs. 113 crore. KPTL received Rs. 6465 crore order inflows YTD with L1 position in Rs. 1,500 crore orders (largely from international) taking its total order backlog to Rs. 14,867 crore (including Linjemontage). The management trimmed its revenue growth guidance for FY2020 to 18-20%+ (earlier 20%+ y-o-y) and expects sustained execution growth momentum to continue for the year with stable OPM at 10.5-11% for FY2020. Management stated that order inflow expected to remain at the lower end of the guidance of Rs 9000 crore (earlier Rs 9000-10000 crore) for FY2020. Although the green energy corridor does provide a healthy order inflow visibility, the fructification of the same remains a key monitorable. In the railways segment, the order momentum remains strong and expected to grow at healthy pace for next couple of year without any challenge. We have fine tuned our estimates for FY2020-FY2021 factoring higher interest cost and have introduced FY2022E earnings. We maintain our Buy rating on the stock with revised SOTP-based price target (PT) at Rs. 545 rolling forward our valuation multiple to FY2022 for standalone earnings and revised valuation on JMC Projects (report dated 11February, 2020).

## Key positives

- ◆ KPTL is L1 bidder for projects worth Rs. 1,500 crore largely from international market.
- ◆ Railways continue its strong execution (2x y-o-y).

## Key negatives

- ◆ Rise in working capital owing to delay in receivables and lowering of creditors.
- ◆ Order booking remains slow in domestic T&D.

## Our Call

**Valuation - Valuation - Maintain Buy with revised PT of Rs. 545:** KPTL execution momentum remains healthy led by growth in T&D and doubling revenue from railways. Going ahead, its T&D is expected to grow at 10% y-o-y, while railways and oil and gas are expected to grow at 15-20%. Further, order visibility remains healthy in domestic non T&D, neighboring countries (Bangladesh and Sri Lanka), Nordic region and African countries. We have fine tuned our estimates for FY2020-FY2021 factoring higher interest cost and introduce FY2022 estimates. We maintain our Buy rating on the stock with revised SOTP-based price target (PT) at Rs. 545 rolling forward our valuation multiple to FY2022 standalone earnings and revised valuation on JMC Projects (report dated 11February, 2020).

## Key Risks

Slowdown in tendering, especially in the T&D, railways and oil and gas verticals.

## Valuation (Standalone)

Particulars	FY19	FY20E	FY21E	FY22E
Revenue	7,115	8,453	9,734	10,908
OPM (%)	10.9%	10.8%	10.9%	10.5%
Adjusted PAT	401	510	603	666
% YoY growth	24.6	27.2	18.2	10.5
Adjusted EPS (Rs.)	26.2	34.8	39.3	43.4
P/E (x)	15.9	12.0	10.6	9.6
P/B (x)	2.0	1.8	1.6	1.4
EV/EBITDA (x)	8.0	6.9	5.6	4.9
RoNW (%)	13.6	15.2	15.8	15.2
RoCE (%)	20.9	21.0	21.1	20.6

Source: Company Data; Sharekhan estimates

**Steady execution leads to healthy revenues:** KPTL continued with its healthy project execution, reporting 14.7% y-o-y growth in standalone revenue (in-line with estimates), largely driven by railways (2x y-o-y) followed by T&D (up 6% y-o-y). The operating margins remained almost flat y-o-y at 10.5% leading to 13% YoY growth in its operating profit to Rs208 crore which came in lower than our estimate. Further, Higher depreciation (up 22% y-o-y) and higher interest expense (up 35% y-o-y) more than offset higher other income (up 39% y-o-y) lead to lower PBT growth (up 9.1% y-o-y) to Rs. 1540 crore. Further, lower ETR (26.6 vs 34.8% in Q3FY19) and exceptional gain of Rs 24 crore (gain on sale of investment in Kalpataru Satpura Transco and impairment of investment in one of the subsidiary) led to reported net profit growth of 49% y-o-y to Rs. 137 crore. Adjusting for the same, the standalone net profit was up 23% y-o-y at Rs. 113 crore.

**Order book remains healthy:** KPTL's order book remains healthy at Rs. 14,867 crore (including Swedish company order book) and grew by 5% y-o-y, providing revenue visibility of 1.8x its TTM standalone revenue. The management stated that the order inflow will remain at the lower end of the guidance of Rs 9000 crore (earlier Rs 9,000-10,000 crore) are expected to come from T&D and the balance are expected from railways and oil and gas segments. KPTL is currently L1 bidder for Rs. 1,500 crore worth of projects, largely from International market. Going ahead, the company expects the similar order inflow for FY2021 looking at the order inflow visibility. In the green energy corridor, the company mentioned that the first round of tendering had happened and KPTL managed to get two orders (Rs. 700 crore orders from PGCIL and one private player). The green energy corridor does provide a healthy order inflow visibility, the fructification of the same remains a key monitorable although State electricity boards (SEBs) tendering continues to remain healthy. On the international T&D front, KPTL sees traction in Africa and Nordiac regions. In railways, order momentum is expected to continue, led by the domestic electrification drive; and the company is also looking at options from international markets in railways. Additionally, the oil and gas space is expected to see order inflows both domestically (opportunities arising from the recently announced budget for National Gas Grid) and internationally from African countries.

### Key result highlights from earnings call

- ◆ **Management lowered revenue guidance:** KPTL lowered its full-year revenue guidance to 18-20% from earlier 20%+ for FY2020E. OPM is expected to remain stable (between 10.5% -11%) The company would focus on better working capital management and debt reduction (through asset sales). For the year it guided for the debt levels to remain between Rs 800-1,000 crore
- ◆ **Order backlog remains healthy:** KPTL's order book remains healthy at Rs. 14,867 crore (including Swedish company order book) and grew by 5% y-o-y, providing revenue visibility of 1.8x its TTM standalone revenue.
- ◆ **Order inflow guidance:** YTD Order inflow for the quarter stood at Rs 6,465 crore. Management stated that the order inflow will remain at the lower end of the guidance of Rs 9000 crore (earlier Rs 9000-10,000 crore) and expected to come from T&D and the balance are expected from railways and oil and gas segments. In the green energy corridor, the company mentioned that the first round of tendering had happened and KPTL managed to get two orders. The green energy corridor does provide a healthy order inflow visibility, the fructification of the same remains a key monitorable. KPTL is currently L1 bidder for Rs. 1,500 crore worth of projects, largely from International market. Going ahead, the company expects the similar order inflow for FY2021 looking at the order inflow visibility.
- ◆ **Assets sales and investment:** The company has completed the sale of Kalpataru Satpura Transco as per timeline and achieved COD of 2 projects Alipurduar and Kohima Mariani. Preliminary offers to monetize Jhajjar Transmission asset sale deal and expect the deal to be finalized soon preferably in Q4FY20 itself.
- ◆ **Rise in working capital:** Rise in working capital owing to delay in receivables and lowering of creditors and expected to stabilise.
- ◆ **Debt:** Standalone net debt increased to Rs996 crore from Rs694 crore y-o-y. The company is looking for net debt of Rs800-1,000 crore in FY20. The company is looking to reduce the debt significantly and become debt free by FY21 by selling its stake in various assets.

- ◆ **Railways:** Though the outlay for Railway electrification has been reduced in the Budget, the company expects current orders are enough to grow railway business by 20% CAGR in next few years without any challenge. Railway order book stood at Rs3900 crore, the Company is looking forward to doubling its revenue from Railway segment in FY20E

Results (Standalone)					Rs cr
Particulars (Rs. cr)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)
<b>Net Sales</b>	<b>1,979</b>	<b>1,725</b>	<b>14.7</b>	<b>1,967</b>	<b>0.6</b>
Operating expenditure	1,771	1,541	14.9	1,760	0.6
<b>Operating profit</b>	<b>208</b>	<b>184</b>	<b>13.1</b>	<b>207</b>	<b>0.5</b>
Other income	16	11	39.5	25	(36.0)
Interest	42	31	35.1	44	(4.5)
Depreciation	28	23	21.6	27	3.7
<b>PBT</b>	<b>154</b>	<b>141</b>	<b>9.1</b>	<b>161</b>	<b>(4.3)</b>
Tax	41	49	(16.7)	34	20.6
<b>Ajusted PAT</b>	<b>113</b>	<b>92</b>	<b>22.8</b>	<b>127</b>	<b>(11.0)</b>
M2M losses	(24)	-	NA	-	NA
<b>Reported PAT</b>	<b>137</b>	<b>92</b>	<b>48.9</b>	<b>127</b>	<b>7.9</b>
<b>EPS (Rs)</b>	<b>7.4</b>	<b>6.0</b>	<b>22.8</b>	<b>8.3</b>	<b>(11.0)</b>
OPM (%)	10.5	10.7	(14.9)	10.5	(1.3)
NPM (%)	5.7	5.3	37.6	6.5	(74.7)
Tax Rate (%)	26.6	34.8	-	21.1	-

Source: Company; Sharekhan Research

## Outlook

**T&D, railways and oil and gas to see sustained order inflows:** The outlook for KPTL's business segments, viz. T&D, railways and oil and gas, remains favourable. In domestic T&D, tendering remains slow. The Green Energy Corridor and projects from SEBs provide a strong visibility of order inflows although fructification of the same remains a key monitorable. Though the outlay for Railway electrification has been reduced in the Budget, the company expects current orders are enough to grow railway business by 20% CAGR in next few years without any challenge and expect the order momentum to continue, led by the domestic electrification drive. Additionally, the oil and gas space is expected to see order inflows both domestically and internationally from African, Bangladesh, MENA and Nordiac regions.

## Valuation

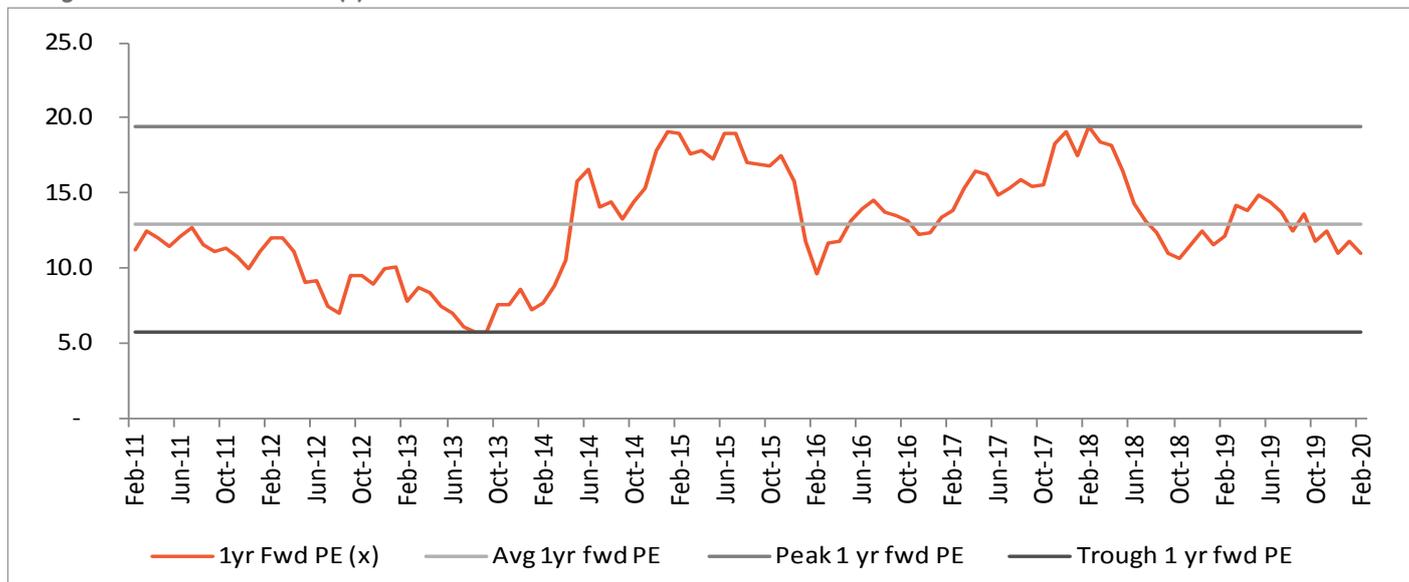
**Valuation - Maintain Buy with revised PT of Rs. 545:** KPTL execution momentum remains healthy led by growth in T&D and doubling revenue from railways. Going ahead, its T&D is expected to grow at 10% y-o-y, while railways and oil and gas are expected to grow at 15-20%. Further, order visibility remains healthy in domestic non T&D, neighboring countries (Bangladesh and Sri Lanka), Nordic region and African countries. We have fine tuned our estimates for FY2020-FY2021 factoring higher interest cost and introduce FY2022 estimates. We maintain our Buy rating on the stock with revised SOTP-based price target (PT) at Rs. 545 rolling forward our valuation multiple to FY2022 standalone earnings and revised valuation on JMC Projects (report dated 11February, 2020).

### SOTP Valuation

Valuation	Value/share	Basis of valuation and multiple
KPTL	465	Valued at 11x FY22E earnings
JMC	61	Valued at our target price
SSL	16	Valued at recent stake acquisition price by KPTL
Others	5	Valued at 25% discount to equity invested in SPV & other investments
<b>Total Value</b>	<b>545</b>	<b>Price Target</b>

Source: Company; Sharekhan Research

### One year forward EV/EBITDA (x) chart



Source: Sharekhan Research

### Peer valuation

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
KEC	14.5	12.3	8.5	7.5	3.1	2.6	23.3	23.0
L&T	17.4	15.1	13.7	11.9	2.7	2.4	15.8	16.6
KPTL	12.0	10.6	6.9	5.6	1.8	1.6	15.2	15.8

Source: Company, Sharekhan research

## About company

KPTL has three business divisions - transmission lines, biomass energy and infrastructure. The company has an in-house tower testing station with a capacity to test square/rectangular base towers of up to 800 kV D/C as well as multi-circuit towers. KPTL is also exposed to the construction segment with a 6% stake in JMC Projects (JMC); JMC primarily constructs industrial buildings and residential and commercial complexes. Of late, JMC ventured into the infrastructure segment, taking up road projects, bridges, flyovers and transportation structures.

## Investment theme

T&D spends in India are expected to be around Rs. 2,30,000 crore over FY2018-FY2023E, rising 28% over FY2012-FY2017. A large part of this spend is likely to come from SEBs. Additionally, ordering for the Green Energy Corridor is likely to provide ample opportunities in the domestic market. Moreover, expansion in regional transmission networks in Africa, SAARC and CIS countries is likely to supplement domestic demand and present a huge business opportunity. KPTL has significantly scaled up the non-T&D segments (railways and oil and gas) and margins in these segments have improved significantly. The opportunity size remains high in the non-T&D segment to provide enough opportunity to ramp up its total order outstanding for the business.

## Key Risks

- ◆ Slower-than-expected project execution in domestic and international markets due to various reasons would affect KPTL's performance.
- ◆ Slowdown in tendering activities, especially in T&D, railways and oil and gas verticals.

## Additional Data

### Key management personnel

Mr. Mofatraj P. Munot	Executive Director-Chairperson
Mr. Manish Mohnot	Managing Director and Chief Executive Officer
Mr. Ram Avtar Patodia	Chief Financial Officer
Basant Kumar Parasramka	Company Secretary and Compliance Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Kalpataru Constructions Pvt Ltd	15.09
2	KC Holdings Pvt Ltd	13.67
3	HDFC Asset Management Co Ltd	9.64
4	Kalpataru Properties Pvt Ltd/Kolkata	8.82
5	Munot Mofatraj Pukhraj	6.47
6	Munot Parag Mofatraj	5.15
7	ICICI Prudential Life Insurance Co	3.27
8	Reliance Capital Trustee Co Ltd	2.17
9	HSBC GLOBAL INV MAURITIUS	2.14
10	ICICI Prudential Asset Management	1.92

Source: Bloomberg

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by BNP PARIBAS

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