

KALPATARU POWER

Stellar show; visibility getting stronger

India Equity Research | Engineering and Capital Goods

Kalpataru Power (KPP) clocked yet another stellar performance—100% jump in order intake and 33% EBITDA spurt, 8% higher than estimate—in Q4FY18. Key highlights: 1) 27% revenue growth primarily driven by 40% surge in railways & 20% growth in the T&D business; 2) margin remained healthy at ~11%; 3) increase in net debt by INR2bn was due to higher working capital in core business & infusion in various BOOT projects, debt is expected to rise further by INR2-3bn; and 4) performance of JMC (EBITDA up 40%) and Shubham Logistics (SSL; 80% utilisation) remained encouraging. While KPP's revenue visibility is at all-time high anchored by robust margin and equity infusion in various BOOT projects, improvement of SSL operational performance continues to remain a key monitorable. Maintain 'BUY'.

EBITDA growth likely to be strong in FY19; interest cost to rise

KPP delivered on its 15% revenue growth guidance for FY18 and issued 15-20% growth guidance for FY19 (our estimate 17%) with margin of ~11%. The company reported 50% growth in order intake in FY18 (FY19 growth could be 5-10%) paving the way for spurt in FY19/20. As infra's contribution to FY19 revenue mix is anticipated to be higher, working capital is likely to jump. Hence, management estimates net debt to jump by INR2-3bn including fund infusion in transmission BOOT and SSL. As a result, we estimate interest cost to jump 20% in FY19/20.

JMC posts strong margin; SSL's utilisation improves

JMC reported 10.3% EBITDA margin—all-time high—led by operational leverage and focused drive to prune cost. With a strong INR76bn order book, management estimates 15-20% revenue growth with 20-50bps margin expansion in FY19. SSL seems to be making a come back with utilisation in excess of 80%, though it is still not out of the woods—PAT loss of INR0.4bn versus INR0.75bn loss in FY17. Management is looking to improve the operational efficiencies and eyeing strategic investor in SSL.

Outlook and valuations: Strong visibility; maintain 'BUY'

We remain constructive on the stock and believe KPP is strongly poised to ride the railways growth wave. Value unlocking from sale of real estate projects, road assets and SSL is a key monitorable. We maintain 'BUY/SO' with SOTP-based TP of INR560.

Financials

(INR mn)

Year to March	Q4FY18	Q4FY17	% Chg	Q3FY18	% Chg	FY18	FY19E	FY20E
Net revenues	19,314	14,963	29.1	14,174	36.3	57,412	67,288	78,622
EBITDA	2,092	1,573	33.0	1,520	37.6	6,312	7,521	8,950
Adjusted Profit	1,048	896	17.0	752	39.3	3,220	4,012	4,902
Diluted EPS (INR)	6.8	5.8	17.0	4.9	39.3	21.0	26.1	31.9
Diluted P/E (x)						21.9	17.6	14.4
EV/EBITDA (x)						12.0	9.8	8.1
ROAE (%)						12.3	13.6	14.6

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: KAPT.BO, B: KPP IN)

CMP	: INR 461
Target Price	: INR 560
52-week range (INR)	: 536 / 322
Share in issue (mn)	: 153.5
M cap (INR bn/USD mn)	: 71 / 1,039
Avg. Daily Vol.BSE/NSE('000)	: 155.3

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	59.3	59.3	59.3
MF's, FI's & BK's	19.6	19.6	19.8
FII's	5.3	5.3	5.4
Others	15.7	15.7	15.5
* Promoters pledged shares (% of share in issue)			6.0

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	(2.2)	0.3	(2.5)
3 months	(0.4)	1.1	(1.5)
12 months	33.2	11.5	5.5

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Q4FY18 conference call: Key highlights

FY19 guidance

Kalpataru Power

Revenue growth: 15-20%.

EBITDA margin: 11%.

Order inflow: INR 9-10bn.

Net debt to stay in the INR9-10bn range in FY19.

Interest cost as % of sales: 1.7-1.75%.

JMC Projects

Revenue growth: 15-20%.

EBITDA margin: 10.5-10.8%.

Order inflow: INR 45bn; infra closing book should be higher than opening book.

Interest cost as % of sales: 3%.

Shubham Logistics

Revenue: INR1bn.

EBITDA: INR0.25-0.3bn.

Segment-wise outlook and performance

Transmission & Distribution

- SEBs, private players and lately PGCIL are driving ordering in the domestic market. Bangladesh, Bhutan and Sri Lanka are driving international orders.
- Africa has been a core area for KPP. All projects have been funded by large funding agencies.
- Africa and SAARC to be major contributors to growth over the next two years.
- INR100-120bn worth of tenders from SEBs to be bid for in FY19.

Railways

- L1 in Bangladesh (included in L1 position). Working capital level required is higher in railways and infra (90-100 days) than in T&D (60-70 days).
- Most railways' projects include price variation clause.
- Order book: 50% core electrification and balance 50% relates to civil + electrification. Current orders from RVNL, CORE, PGCIL and Konkan Railways.

Road projects

- 13.1% traffic growth in FY18.
- Collection at INR4.9mn/day in FY18 versus INR4.6mn/day in FY17.
- Cash breakeven INR4.9mn in FY19 due to reduction in interest rate.
- Still not looking at HAM projects.
- Equity infusion in BOOT: Total infusion INR600mn in FY18. INR550-600mn FY19 target. INR7bn repayment for all four road BOOT projects in FY19.
- Balance equity commitment: INR2.5bn.

Shubham Logistic

- Utilisation at 80% during the year. PBT continues to remain negative.
- PBT breakeven - Target to achieve in FY18.
- Current debt levels - INR 4.2bn. Target debt at end of FY19 – INR 2.5bn.
- Balance equity commitment – INR0.75bn

Other comments

- **Achieved all targets for FY18:** Revenue growth of 15% in FY18 and growth in railways and pipeline business.
- **Total infusion** in Shubham and BOOT in FY19: INR2bn.
- **Legacy projects:** INR2.5-3bn order book.
- **Thane IT Park:** Final payment for Thane in June (INR 1.2bn).
- **Railway and infra:** Margin in the 10-11% range for FY18 and FY19.
- **Pipeline business:** Pipe is generally supplied by clients and hence no major impact of change in price.
- **Order inflow:** Railways - INR 16.8bn and pipeline - INR 21.37bn.
- INR2bn working capital stuck on back of GST implementation; expected to be released.

Table 1: SOTP-based target price

SOTP based target price	
Kalpataru standalone	
Valuation Methodology	P/E
PAT - FY20E (INR mn)	4,902
Multiple (x)	15
Implied value (INR mn)	73,623
No of shares	154
Value per share (INR)	480
JMC SA (67% stake)	
Valuation Methodology	P/E
PAT - FY20E (INR mn)	1,577
Multiple (x)	10.0
Implied value (INR mn)	10,597
No of shares - KPP	154
Value per share (INR) for KPP	69
Value per share after Hold Co. dis@20% (INR)	55
JMC Road BOT projects	
Valuation Methodology	1x P/BV
Equity Invested (INR mn)	5,000
Value per share (INR) for Kalpataru Power	22
Value per share after Hold Co. discount @30% (INR)	15
KPTL transmission BOT projects	
Valuation Methodology	DCF valuation
NPV	888
No of shares	154
Value per share (INR)	6
Shree Shubham Logistics - 80% stake	
Valuation Methodology	P/E
PAT - FY20E (INR mn)	90
Multiple (x)	8.0
Implied value (INR mn)	576
No of shares	154
Value per share (INR)	4
Total value	560

Source: Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	19,314	14,963	29.1	14,174	36.3	57,412	67,288	78,622
Raw material costs	13,788	10,675	29.2	10,264	34.3	41,215	47,925	56,070
Staff costs	1,000	708	41.2	855	16.9	3,487	4,037	4,560
Other operating expenses	2,435	2,007	21.3	1,535	58.6	6,397	7,805	9,042
Total expenditure	17,223	13,390	28.6	12,654	36.1	51,100	59,767	69,672
EBITDA	2,092	1,573	33.0	1,520	37.6	6,312	7,521	8,950
Depreciation	191	193	(0.9)	196	(2.7)	766	829	857
EBIT	1,900	1,380	37.7	1,323	43.6	5,546	6,692	8,093
Interest	310	198	56.8	283	9.8	1,033	1,226	1,333
Other income	109	102	6.8	111	(1.4)	480	568	611
Profit before tax	1,699	1,284	32.3	1,151	47.6	4,993	6,033	7,371
Tax	651	388	67.7	399	63.1	1,773	2,021	2,469
Core profit	1,048	896	17.0	752	39.3	3,220	4,012	4,902
Add: Exceptional items								
Adjusted Profit	1,048	896	17.0	752	39.3	3,220	4,012	4,902
Equity capital(FV INR 2)	307	307		307		307	307	307
No. of shares (mn)	154	154		154		153	153	153
Diluted EPS (INR)	6.8	5.8	17.0	4.9	39.3	21.0	26.1	31.9
As % of net revenues								
Raw material	71.4	71.3		72.4		71.8	71.2	71.3
Employee cost	5.2	4.7		6.0		6.1	6.0	5.8
Other expenses	12.6	13.4		10.8		11.1	11.6	11.5
EBITDA	10.8	10.5		10.7		11.0	11.2	11.4
Depreciation	1.0	1.3		1.4		1.3	1.2	1.1
Other income	0.6	0.7		0.8		0.8	0.8	0.8
Adjusted net profit	5.4	6.0		5.3		5.6	6.0	6.2
Tax rate	38.3	30.2		34.7		35.5	33.5	33.5

Company Description

KPP has three business divisions viz., transmission line, biomass energy and infrastructure. It 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. KPP is exposed to construction segment with a 67% stake in JMC Projects (JMC); JMC is primarily engaged in the construction of industrial buildings, and residential and commercial complexes. Off late, JMC has ventured into the infrastructure segment with projects in roads, bridges, flyovers, and transportation structures.

Investment Theme

T&D spending in India is expected to be around INR1,800bn and INR2,300bn over 12th and 13th Plans against INR1,400bn in the Eleventh Plan. It augurs well for KPP which has maintained market share of 12-13% over the past 5-6 years in PGCIL ordering. Also, expansion in regional transmission network in Africa and Middle East is likely to supplement domestic demand and present a large business opportunity. KPP is the front-runner in the power T&D EPC sector, and hence, is well-placed to leverage from the opportunity. Further, KPP's foray into Railways business further enhances ordering prospects.

Key Risks

Power T&D investments are executed by state utilities, which, in turn, are mandated by the government. Hence, any change in the political environment can potentially impact the pace of execution in the industry, thus impacting the timing of revenue growth.

Additionally, customer concentration risk is high in the business, which in turn, impacts the bargaining power of transmission tower companies.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	65.0	66.0
Company				
KPP SA Order intake (%)	(18.0)	50.8	5.7	9.5
JM order intake (%)	3.0	3.9	20.0	10.0
KPP SA sales growth (%)	12.1	17.3	17.2	16.8
JMC sales growth (%)	(2.8)	16.8	19.4	13.9
Tax rate (%)	33.2	35.5	33.5	33.5

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Income from operations	48,941	57,412	67,288	78,622
Materials costs	34,305	41,215	47,925	56,070
Employee costs	2,918	3,487	4,037	4,560
Other mfg expenses	6,427	6,397	7,805	9,042
Total operating expenses	43,649	51,100	59,767	69,672
EBITDA	5,291	6,312	7,521	8,950
Depreciation	777	766	829	857
EBIT	4,514	5,546	6,692	8,093
Less: Interest Expense	982	1,033	1,226	1,333
Add: Other income	493	480	568	611
Profit Before Tax	4,026	4,993	6,033	7,371
Less: Provision for Tax	1,335	1,773	2,021	2,469
Reported Profit	2,691	3,220	4,012	4,902
Adjusted Profit	2,691	3,220	4,012	4,902
Shares o /s (mn)	153	153	153	153
Adjusted Basic EPS	17.5	21.0	26.1	31.9
Diluted shares o/s (mn)	154	154	154	154
Adjusted Diluted EPS	17.5	21.0	26.1	31.9
Adjusted Cash EPS	22.6	26.4	31.5	37.5
Dividend per share (DPS)	3.5	2.5	3.5	3.5
Dividend Payout Ratio(%)	23.4	14.0	15.6	12.8

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Materials costs	70.1	71.8	71.2	71.3
Staff costs	6.0	6.1	6.0	5.8
Other mfg expenses	13.1	11.1	11.6	11.5
Operating expenses	89.2	89.0	88.8	88.6
Depreciation	1.6	1.3	1.2	1.1
EBITDA margins	10.8	11.0	11.2	11.4
Interest Expense	2.0	1.8	1.8	1.7
Net Profit margins	5.5	5.6	6.0	6.2

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	12.1	17.3	17.2	16.8
EBITDA	13.3	19.3	19.1	19.0
Adjusted Profit	34.9	19.7	24.6	22.2
EPS	34.9	19.7	24.6	22.2

Balance sheet (INR mn)				
As on 31st March	FY17	FY18	FY19E	FY20E
Share capital	307	307	307	307
Reserves & Surplus	24,480	27,394	31,007	35,494
Shareholders' funds	24,787	27,700	31,314	35,801
Long term borrowings	3,211	3,912	4,912	4,912
Short term borrowings	2,315	2,497	4,497	4,997
Total Borrowings	5,526	6,409	9,409	9,909
Long Term Liabilities	597	1,750	1,750	1,750
Def. Tax Liability (net)	(410)	(312)	(312)	(312)
Sources of funds	30,500	35,548	42,161	47,149
Gross Block	10,901	11,726	12,486	13,096
Net Block	5,210	5,268	5,198	4,951
Capital work in progress	26	167	177	187
Total Fixed Assets	5,236	5,434	5,375	5,138
Non current investments	7,160	7,849	7,849	7,849
Cash and Equivalents	2,110	816	6,341	7,418
Inventories	4,542	4,828	6,648	7,326
Sundry Debtors	28,480	33,805	39,636	46,312
Loans & Advances	4,854	5,390	5,351	5,458
Other Current Assets	8,261	14,351	8,595	9,025
Current Assets (ex cash)	46,137	58,374	60,230	68,121
Trade payable	19,327	26,845	26,917	30,723
Other Current Liab	10,816	10,082	10,717	10,655
Total Current Liab	30,143	36,926	37,634	41,379
Net Curr Assets-ex cash	15,994	21,448	22,596	26,743
Uses of funds	30,500	35,548	42,161	47,149
BVPS (INR)	161.5	180.5	204.0	233.3

Free cash flow (INR mn)				
Year to March	FY17	FY18	FY19E	FY20E
Reported Profit	2,691	3,220	4,012	4,902
Add: Depreciation	777	766	829	857
Interest (Net of Tax)	656	666	815	886
Others	(193)	(666)	(815)	(886)
Less: Changes in WC	714	5,454	1,148	4,147
Operating cash flow	3,217	(1,468)	3,693	1,612
Less: Capex	576	964	770	620
Free Cash Flow	2,641	(2,432)	2,923	992

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Kalpataru Power	1,039	17.6	14.4	2.3	2.0	13.6	14.6
KEC International	1,414	17.7	14.8	3.8	3.1	24.1	23.1
Median	-	17.6	14.6	3.0	2.5	18.9	18.8
AVERAGE	-	17.6	14.6	3.0	2.5	18.9	18.8

Source: Edelweiss research

Cash flow metrics				
Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	3,217	(1,468)	3,693	1,612
Financing cash flow	(31)	500	2,601	86
Investing cash flow	(2,114)	(1,654)	(770)	(620)
Net cash Flow	1,072	(2,622)	5,524	1,077
Capex	(576)	(964)	(770)	(620)
Dividend paid	-	(384)	(399)	(414)

Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROACE (%)	17.3	18.7	19.4	20.1
ROAE (%)	11.5	12.3	13.6	14.6
Inventory Days	47	41	44	45
Debtors Days	192	198	199	200
Payable Days	191	204	205	188
Cash Conversion Cycle	48	35	38	57
Current Ratio	1.6	1.6	1.8	1.8
Gross Debt/EBITDA	1.0	1.0	1.3	1.1
Gross Debt/Equity	0.2	0.2	0.3	0.3
Adjusted Debt/Equity	0.2	0.2	0.3	0.3
Net Debt/Equity	0.1	0.2	0.1	0.1
Interest Coverage Ratio	4.6	5.4	5.5	6.1

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	1.7	1.7	1.7	1.8
Fixed Asset Turnover	9.2	11.0	12.9	15.5
Equity Turnover	2.1	2.2	2.3	2.3

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	17.5	21.0	26.1	31.9
Y-o-Y growth (%)	34.9	19.7	24.6	22.2
Adjusted Cash EPS (INR)	22.6	26.4	31.5	37.5
Diluted P/E (x)	26.3	22.0	17.6	14.4
P/B (x)	2.9	2.6	2.3	2.0
EV / Sales (x)	1.5	1.3	1.1	0.9
EV / EBITDA (x)	14.0	12.1	9.8	8.2
Dividend Yield (%)	0.8	0.5	0.8	0.8

Additional Data

Directors Data

Mofatraj P Munot	Chairman	Manish Mohnot	Managing Director
S P Talwar	Non Executive Independent Director	Mahendra G Punatar	Non Executive Independent Director
Narayan Seshadri	Non Executive Independent Director	Sajjanraj Mehta	Non Executive Independent Director
Vimal Bhandari	Non Executive Independent Director	K V Mani	Non Executive Director
Parag Munot	Promoter - Director		

Auditors - B S R & Co. LLP, Chartered Accountants

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Kalpataru constructi	15.22	K c holdings pvt ltd	13.78
Kalpataru properties	8.89	Munot parag mofatraj	8.77
Hdfc asset managemen	7.93	Munot mofatraj pukha	7.43
Icici prudential lif	2.75	Reliance capital tru	2.51
Dsp blackrock invest	2.19	Hsbc global inv maur	2.15

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ABB India	BUY	SO	L	Bharat Forge	BUY	SO	M
Bharat Heavy Electricals	BUY	SP	M	CG Power and Industrial Solutions	HOLD	SP	M
Cummins India	BUY	SO	L	Engineers India Ltd	BUY	SO	L
Greaves Cotton	HOLD	SP	M	Kalpataru Power	BUY	SO	M
KEC International	BUY	SO	M	Larsen & Toubro	BUY	SO	M
Praj Industries	BUY	None	None	Ramkrishna Forgings	BUY	SP	M
Siemens	HOLD	SP	L	TD Power Systems	HOLD	None	None
Techno Electric & Engineering	BUY	SP	M	Thermax	REDUCE	SP	L
Triveni Turbine	BUY	None	None	VA Tech Wabag	BUY	None	None

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Engineering and Capital Goods

ABB India, Bharat Heavy Electricals, Bharat Forge, CG Power and Industrial Solutions, Engineers India Ltd, Greaves Cotton, KEC International, Cummins India, Kalpataru Power, Larsen & Toubro, Praj Industries, Ramkrishna Forgings, Siemens, TD Power Systems, Techno Electric & Engineering, Thermax, Triveni Turbine, VA Tech Wabag

Recent Research

Date	Company	Title	Price (INR)	Recos
25-May-18	Cummins India	Sub-optimal growth in FY18; underlying growth perking up; <i>Result Update</i>	718	Buy
23-May-18	Triveni Turbine	Robust quarter; healthy order pipeline imparts visibility; <i>Result Update</i>	104	Buy
22-May-18	Bharat Forge	Core in line; building future visibility; <i>Result Update</i>	681	Buy

Distribution of Ratings / Market Cap

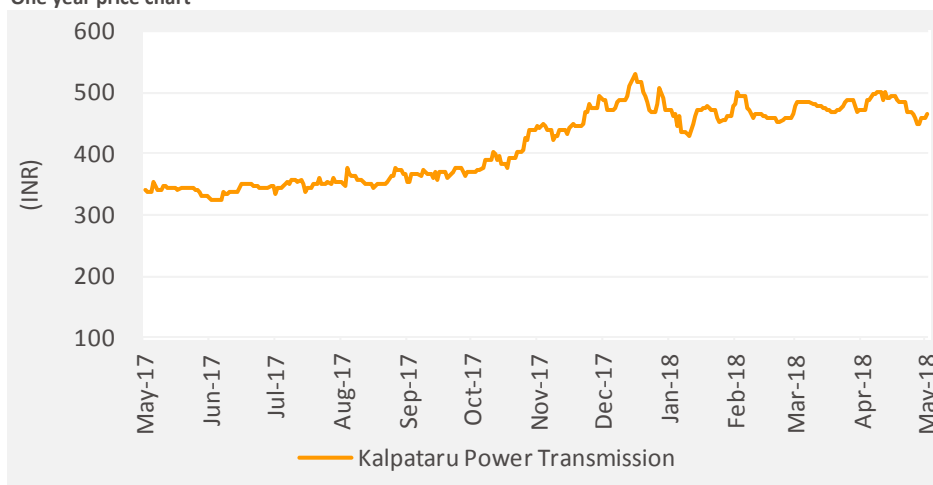
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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