

Kalpataru Power (KALPOW)

₹ 444

Acquisition to plug Nordic gap...

Kalpataru Power (KPTL) has acquired an 85% stake in Linjemontage I Grastorp AB (LG), a Swedish EPC company specialised in T&D EPC and power supply solutions at an enterprise value of \$24 million in an all-cash deal, translating to ~₹ 165 crore of enterprise value and ₹ 141 crore for acquisition of 85% stake in rupee terms. The transaction will be financed through internal accrual and some short-term debt, if required. KPTL will have right to acquire remaining 15% stake in future. The transaction is expected to be closed in Q1FY20. Linjemontage's CY18 revenue was at \$75.1 mn (₹ 518 crore) indicating EV to sales of 0.3x and EV to EBITDA of 8.6x for acquisition.

Linjemontage: Prominent EPC player in up to 400 KV Swedish market

Linjemontage (LG) is an owner driven company specialising in EPC and operating and maintenance (O&M) in power supply solutions and services for electricity networks up to voltage range of 400 KV. It has three business divisions viz. EPC for substations, transmission & distribution network and O&M for electricity network services. LG's average revenue growth in the last three years is over 25% per year. EBITDA margin for CY18 is at 3.7% with PAT margin at 2.5%. Average RoCE for the last two years is over 25% but with some medium term variations. LG is a debt free company with working capital at around 30-45 days. LG has about 25% market share in up to 200 KV market in Sweden.

Exhibit 1: Linjemontage I Grastorp AB – Financial Highlights

(\$ Million)	CY16	CY17	CY18
Revenue	44.2	55.6	75.1
EBITDA	0.9	2.3	2.8
Finance cost	0.0	0.0	0.1
PBT	0.5	2.0	2.4
PAT	0.3	1.5	1.9
EBITDA Margin ((%)	1.9	4.1	3.7
PAT Margin (%)	0.6	2.7	2.5
Capital Employed	7.9	4.9	10.4
RoCE (%)	6.3	40.4	24.2

Source: Company, ICICI Direct Research

Acquisition to help foray in Nordic markets

LG's acquisition is in line with KPTL's objective international geographical diversification in stable and growing markets with focus on power transmission segment. KPTL aims to scale up LG in 400 KV Swedish market with opportunity size of \$800-900 million, enabling margin improvement to KPTL's level through synergies created by low cost Indian manufacturing base and large T&D project capabilities of KPTL along with LG's EPC & technology expertise. However, valuations ascribed seem a tad expensive given LG's low margins of 3-4%. However, better procurement efficiencies and change in product mix (high focus on 400 KV projects) will aid KPTL to scale up the PAT margins of Linjemontage to 5% over the next two to three years.

Rating matrix		
Rating	:	Buy
Target	:	₹ 500
Target Period	:	12-15 months
Potential Upside	:	13%

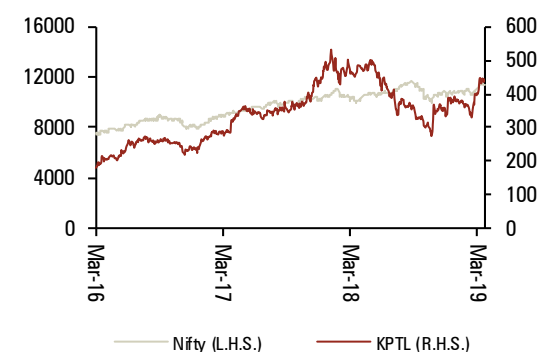
What's Changed?		
Target	Changed from ₹ 430 to ₹ 500	
EPS FY20E		Unchanged
EPS FY21E		Unchanged
Rating		Unchanged

Key Financials				
₹ Crore	FY18	FY19E	FY20E	FY21E
Net Sales	5,741.1	6,858.0	7,998.8	9,275.2
EBITDA	631.2	752.6	878.7	1,022.4
Net Profit	321.9	393.4	459.8	539.6
EPS (₹)	21.0	25.6	30.0	35.2

Valuation summary				
	FY18	FY19E	FY20E	FY21E
P/E	21.2	17.3	14.8	12.6
Target P/E	23.8	19.5	16.7	14.2
EV / EBITDA	11.9	10.1	8.7	7.5
P/BV	2.5	2.1	1.8	1.6
RoNW (%)	11.6	12.0	12.3	13.0
RoCE (%)	15.6	16.0	16.6	17.5

Stock data	
Particular	Amount
Market Capitalization	₹ 6813.6 Crore
Total Debt (FY18)	₹ 774.2 crore
Cash and Investments (FY18)	₹ 74.9 crore
EV	₹ 7512.9 crore
52 week H/L	507 / 269
Equity capital	₹ 30.7 Crore
Face value	₹ 2

Price Chart



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Strong execution momentum to continue; maintain BUY

KPTL's overall strong order book with strong traction in railways and infra (oil & gas, pipeline business), improved the subsidiary performance, operating leverage gains and good traction in road BOT projects to support consistent growth and will improve return ratios. With revenue and PAT CAGR of 17.3% and 18.8%, respectively, we value KPTL on a SoTP basis and maintain **BUY** with a revised fair value of ₹ 500/share (we roll our estimates to FY21E with base business at 12x FY21E). However, a gradual up-tick in execution could lead to much stronger revenue growth, going ahead.

Exhibit 2: SOTP valuation for Kalpataru Power

	Basis of Valuation	Multiple	crore)	value(₹)
Base Business	P/E	12x	5,517	422
JMC Projects	30% Holdco discount on market Cap	67.2% stake	890	58
Other JV's/Investment	Equity Invested	1x	349	23
Total			6,757	503

Source: Company, ICICI Direct Research

Key conference call Highlights

- LG's as on date order book is at \$77 million (₹ 531 crore), which is 1.0x book to sales ratio. KPTL will need to scale up the order inflows, going forward. LG's order book comprises 65% from substations and 35% from transmission line tower (TLT), O&M segment. The average order execution cycle is 12-18 months
- The acquisition gives access and qualifications to Nordic T&D market and Europe where KPTL currently has no presence. KPTL has explored five to seven companies in the Nordic market over two to three years to make a foray into the Nordic market
- LG's EPC, technical and people expertise along with KPTL's low cost India manufacturing base can be leveraged for efficient operations, scale up market penetration in Europe to pursue higher growth
- KPTL already has a strong geographical presence in India, Saarc, Africa, Middle East, and CIS while LG has a strong presence in growing markets like Sweden and Norway, which helps diversification and pursue core T&D growth
- Requisite pre-qualification (PQ) support for technologies up to 400 KV from LG will help KPTL foray into Nordic T&D market could help improve LG's margins to KPTL level of 5-6% over the next two to three years
- T&D and electricity network market in Sweden & Norway is about \$800-900 million per annum over the next five to seven years
- LG's revenue comprises 50% from T&D segment up to 200 KV and 50% from TLT and O&M segment. LG has 20-25% market share in up to 200 KV Swedish T&D market and overall market share of 10% in Swedish T&D network market. LG is intended to pay dividend to KPTL from first year of acquisition itself
- LG's typical gross margin is about 10-12% and employee cost is about 14-15% of sales

Financial summary

Profit and loss statement					₹ Crore
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Total operating Income	5,741.1	6,858.0	7,998.8	9,275.2	
Growth (%)	17.3	19.5	16.6	16.0	
Raw Material Expenses	2,621.0	2,772.4	3,517.2	4,064.9	
Employee Expenses	348.7	471.4	535.0	619.6	
Sub Contracting Charges	1,500.6	2,198.0	2,189.3	2,559.4	
Other Operating Expenses	639.7	663.6	878.5	1,008.9	
Other expenses	0.0	0.0	0.0	0.0	
Total Operating Expenditure	5,110.0	6,105.4	7,120.1	8,252.8	
EBITDA	631.2	752.6	878.7	1,022.4	
Growth (%)	19.3	19.2	16.8	16.3	
Depreciation	76.6	87.9	96.4	108.3	
Interest	103.3	121.1	140.0	159.5	
Other Income	48.0	57.7	52.0	62.0	
PBT	499.3	601.3	694.3	816.6	
Others	0.0	0.0	0.0	0.0	
Total Tax	177.3	207.9	234.6	277.0	
PAT	321.9	393.4	459.8	539.6	
Growth (%)	19.6	22.2	16.9	17.4	
EPS (₹)	21.0	25.6	30.0	35.2	

Source: Company, ICICI Direct Research

Cash flow statement					₹ Crore
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Profit after Tax	321.9	393.4	459.8	539.6	
Add: Depreciation	76.6	87.9	96.4	108.3	
(Inc)/dec in Current Assets	-1,198.5	-620.0	-741.0	-823.7	
Inc/(dec) in CL and Provisions	687.9	262.3	493.9	605.9	
Others	0.0	0.0	0.0	0.0	
CF from operating activities	-112.0	123.5	309.1	430.0	
(Inc)/dec in Investments	-69.0	-120.0	-125.0	-135.0	
(Inc)/dec in Fixed Assets	-96.4	-90.6	-112.2	-117.2	
Others	0.0	0.0	0.0	0.0	
CF from investing activities	-67.8	-325.9	-334.0	-386.3	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	78.8	100.0	100.0	100.0	
Dividend paid & dividend tax	-36.3	-39.8	-39.8	-43.5	
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	
Others	0.0	7.6	0.0	0.0	
CF from financing activities	48.2	217.3	85.2	-3.5	
Net Cash flow	-131.6	14.8	60.2	40.3	
Opening Cash	206.5	74.9	89.7	150.0	
Closing Cash	74.9	89.7	150.0	190.3	

Source: Company, ICICI Direct Research

Balance sheet					₹ Crore
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Liabilities					
Equity Capital	30.7	30.7	30.7	30.7	
Reserve and Surplus	2,739.4	3,250.1	3,695.0	4,131.1	
Total Shareholders funds	2,770.1	3,280.7	3,725.7	4,161.8	
Total Debt	774.2	874.2	974.2	1,074.2	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Minority Interest / Others	0.0	0.0	0.0	0.0	
Total Liabilities	3,719.3	4,330.0	4,874.9	5,411.0	
Assets					
Gross Block	728.4	828.1	935.1	1,050.1	
Less: Acc Depreciation	208.2	293.9	388.2	494.3	
Net Block	520.3	534.2	546.9	555.8	
Capital WIP	16.7	12.0	15.0	15.0	
Total Fixed Assets	536.9	546.2	561.9	570.8	
Investments	784.9	904.9	1,029.9	1,164.9	
Inventory	482.8	637.0	721.7	853.8	
Debtors	3,292.0	3,663.9	4,382.9	4,955.3	
Loans and Advances	0.0	0.0	0.0	0.0	
Other Current Assets	1,393.2	1,487.2	1,424.4	1,543.7	
Cash	74.9	89.7	150.0	190.3	
Total Current Assets	5,242.9	5,877.8	6,679.0	7,543.0	
Creditors	1,973.9	2,376.8	2,673.6	3,100.2	
Provisions	263.9	366.0	401.0	465.0	
Total Current Liabilities	3,559.4	3,821.6	4,315.5	4,921.4	
Net Current Assets	1,683.6	2,056.2	2,363.5	2,621.6	
Others Assets	0.0	0.0	0.0	0.0	
Application of Funds	3,719.4	4,330.0	4,874.9	5,411.0	

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
EPS	21.0	25.6	30.0	35.2
Cash EPS	26.0	31.4	36.2	42.2
BV	180.5	213.8	242.8	271.2
DPS	2.0	2.2	2.2	2.4
Cash Per Share	4.9	5.8	9.8	12.4
Operating Ratios (%)				
EBITDA Margin	11.0	11.0	11.0	11.0
PBT / Total Operating income	8.7	8.8	8.7	8.8
PAT Margin	5.6	5.7	5.7	5.8
Inventory days	29.8	29.8	31.0	31.0
Debtor days	209.3	195.0	200.0	195.0
Creditor days	125.5	126.5	122.0	122.0
Return Ratios (%)				
RoE	11.6	12.0	12.3	12.3
RoCE	15.6	16.0	16.6	17.5
RoIC	15.3	15.7	16.6	17.5
Valuation Ratios (x)				
P/E	21.2	17.3	14.8	12.6
EV / EBITDA	11.9	10.1	8.7	7.5
EV / Net Sales	1.3	1.1	1.0	0.8
Market Cap / Sales	1.2	1.0	0.9	0.7
Price to Book Value	2.5	2.1	1.8	1.6
Solvency Ratios				
Debt/EBITDA	1.2	1.2	1.1	1.1
Debt / Equity	0.3	0.3	0.3	0.3
Current Ratio	1.5	1.5	1.5	1.5
Quick Ratio	1.5	1.5	1.5	1.5

Source: Company, ICICI Direct Research

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