

Sector: Capital Goods
Company Update

	Change
Reco: Buy	↔
CMP: Rs. 516	
Price Target: Rs. 620	↑

↑ Upgrade ↔ No change ↓ Downgrade

Company details

Market cap:	Rs. 7,922 cr
52-week high/low:	Rs. 546/269
NSE volume: (No of shares)	82,333
BSE code:	522287
NSE code:	KALPATPOWR
Sharekhan code:	KALPATPOWR
Free float: (No of shares)	6.2 cr

Shareholding (%)

Promoters	59.3
FII	5.3
DII	25.3
Others	10.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.4	18.5	38.1	28.4
Relative to Sensex	0.9	15.1	24.5	15.7

Sharekhan Research, Bloomberg

We interacted with the management of Kalpataru Power Transmission Limited (KPTL) and came out positively on order inflow visibility, execution and overall industry outlook. Management has maintained its order inflow guidance at Rs. 10,000 crore for FY2020E as it expects domestic T&D tendering to pick up from Q2FY2020E and healthy traction in railways and oil and gas to continue. Consequently, management has retained its full-year revenue guidance at 15-20% y-o-y and operating margin (OPM) at ~11%. KPTL expects to strike a deal for its four transmission assets in this fiscal year, which will aid majorly in debt reduction, investment in its logistics arm and increased presence in other countries.

Healthy order-inflow visibility to help achieve FY2020E guidance

KPTL has retained its FY2020E order intake guidance of Rs. 10,000 crore (~Rs. 6,000 crore is expected from T&D and the balance is expected from railways and oil and gas). The company has already bagged Rs. 850 crore order in May 2019 and is currently the lowest bidder (L1) in Rs. 1,500 crore-2,000 crore worth of orders. The current bidding pipeline for T&D, railways and oil and gas stands at Rs. 20,000 crore-25,000 crore, Rs. 10,000 crore and Rs. 7,000 crore-8,000 crore, respectively. Management has retained its revenue guidance of 15-20% for FY2020E with stable OPM at ~11% due to clear order inflow visibility across segments.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 620: KPTL is positioned in apt business segments such as T&D, railways and oil and gas, which are expected to see healthy order inflow going ahead. We have increased our valuation multiple for its core business due to positive business outlook in KPTL's SOTP-based valuation, considering KPTL's positive business outlook and asset divestment expected in this fiscal year. Hence, we have arrived at a revised price target (PT) of Rs. 620. We maintain our Buy rating on the stock.

Key Risks

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

Valuation (Standalone)					Rs cr
Particulars	FY17	FY18	FY19	FY20E	FY21E
Revenue	5,741	7,115	8,378	9,662	5,741
OPM (%)	10.8%	11.0%	10.9%	11.0%	11.1%
Adjusted PAT	269	322	401	509	594
% YoY growth	39.8	19.7	24.6	26.8	16.7
Adjusted EPS (Rs.)	17.5	21.0	26.2	33.2	38.7
P/E (x)	29.5	24.7	19.8	15.6	13.4
P/B (x)	3.2	2.9	2.5	2.3	2.0
EV/EBITDA (x)	14.3	12.2	10.0	9.0	7.6
RoNW (%)	11.5	12.3	13.6	15.3	15.9
RoCE (%)	17.5	18.9	20.9	23.2	23.9

Source: Company Data; Sharekhan estimates

Order inflow guidance remains intact

KPTL has maintained its FY2020E order inflow guidance at Rs. 10,000 crore, of which ~Rs. 6,000 crore is expected to come from T&D and the balance Rs. 4,000 crore is expected from railways and oil and gas. KPTL had received Rs. 850 crore during May 2019 and is currently L1 in Rs. 1,500 crore-2,000 crore worth of projects. The company expects domestic T&D orders to pick up from Q2FY2020E. The domestic T&D order pipeline is expected to be Rs. 20,000 crore-25,000 crore, of which Rs. 12,000 crore-15,000 crore (Rs. 3000 crore-3500 crore is expected from PGCIL and the balance is expected from BOOT projects) is expected from the Green Energy Corridor. On the international T&D front, KPTL sees good traction in Africa, SAARC and CIS countries. In railways, KPTL will be eyeing Rs. 10,000 crore-12,000 crore domestic electrification tenders. While in oil and gas, the current pipeline stands at Rs. 7,000 crore-8,000 crore. Hence, overall KPTL is confident of achieving its Rs. 10,000 crore order inflow for FY2020E.

Expect T&D BOOT project sale to fructify by this fiscal year

KPTL expect to divest its four transmission projects by this fiscal year end. The company has invested Rs. 400 crore-450 crore in four projects, comprising both equity and sub-debt, of which one is under construction. The company will require to further infuse Rs. 100 crore-150 crore in the fourth project. Hence, overall ~Rs. 600 crore equity, including sub-debt, is estimated to be invested in transmission assets. Funds from divestment of these assets will be used in debt reduction, investment in the company's logistics arm and increasing presence in other countries. Fructification of the deal will free up its equity and remove a key hangover on the stock.

Retains guidance for FY2020E

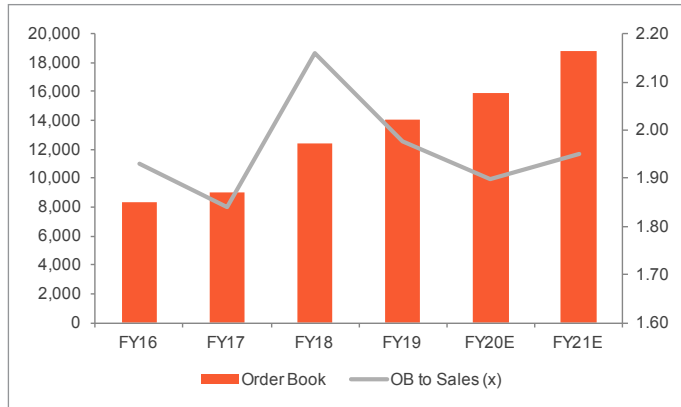
KPTL has retained its full-year guidance for FY2020E due to healthy order inflow visibility from Q2FY2020. Hence, the company expects FY2020E revenue to grow by 15-20% y-o-y, of which the T&D segment is expected to grow by 10-12% y-o-y, while other segments (railways and oil and gas) are likely to grow by 30-35% y-o-y. OPM is expected to remain stable at ~11%. The company would be focusing on better working capital management and debt reduction (through asset sale). We expect KPTL to register a 16.5%/21.7% CAGR in revenue/net profit during FY2019-FY2021E.

Q1FY2020E to remain healthy in terms of execution and OPM

KPTL expects smooth execution during Q1FY2020 with revenue growth guidance of 10-15% y-o-y. The company had received Rs. 850 crore inflow during May 2019 and is currently L1 in Rs. 1,500 crore-2,000 crore worth of orders, which should aid in healthy order intake for Q1FY2020E despite a weak environment. Further, OPM is expected to remain stable, leading to healthy net earnings growth for Q1FY2020E.

Financials in charts

Order book and order book to sales



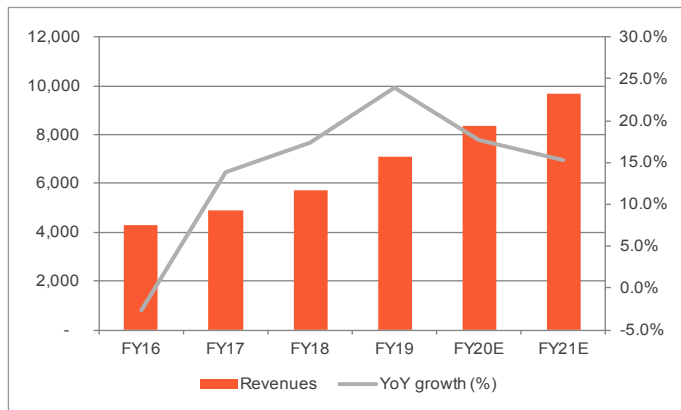
Source: Company, Sharekhan Research

Order inflow trend



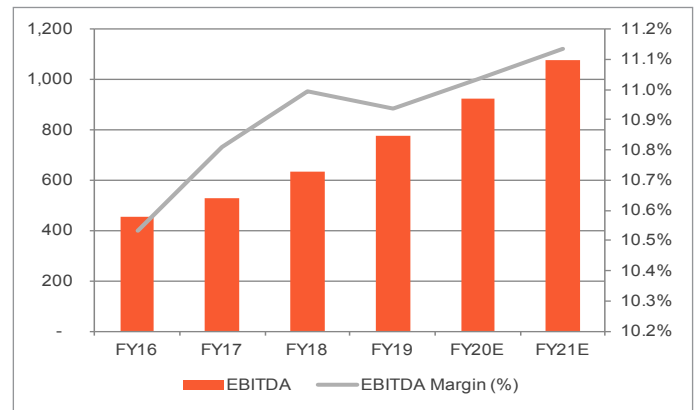
Source: Company, Sharekhan Research

Strong OB to drive 17% CAGR in rev. over FY19-FY21E



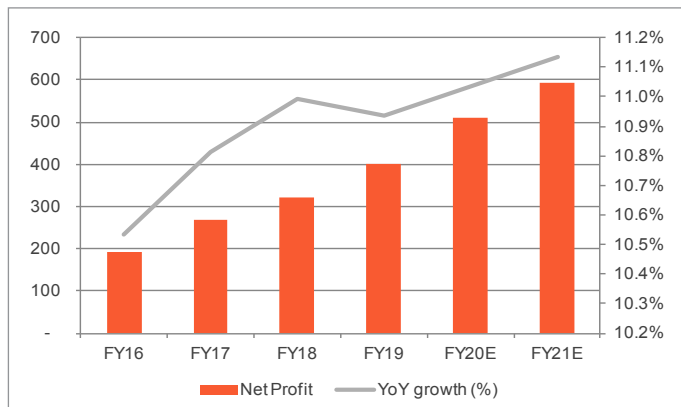
Source: Company, Sharekhan Research

EBITDA trend



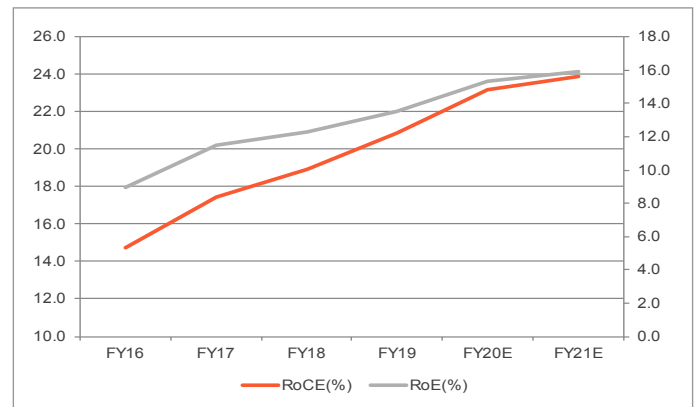
Source: Company, Sharekhan Research

Net profit trend



Source: Company, Sharekhan Research

Return ratios trend



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, the tendering activity is expected to pick up from Q2FY2020. The Green Energy Corridor and projects from State Electricity Boards provide strong visibility of order inflows for KPTL. In railways, order momentum is expected to continue, led by domestic electrification drive. Additionally, oil and gas is expected to see order inflows both domestically and internationally from African and Middle East countries.

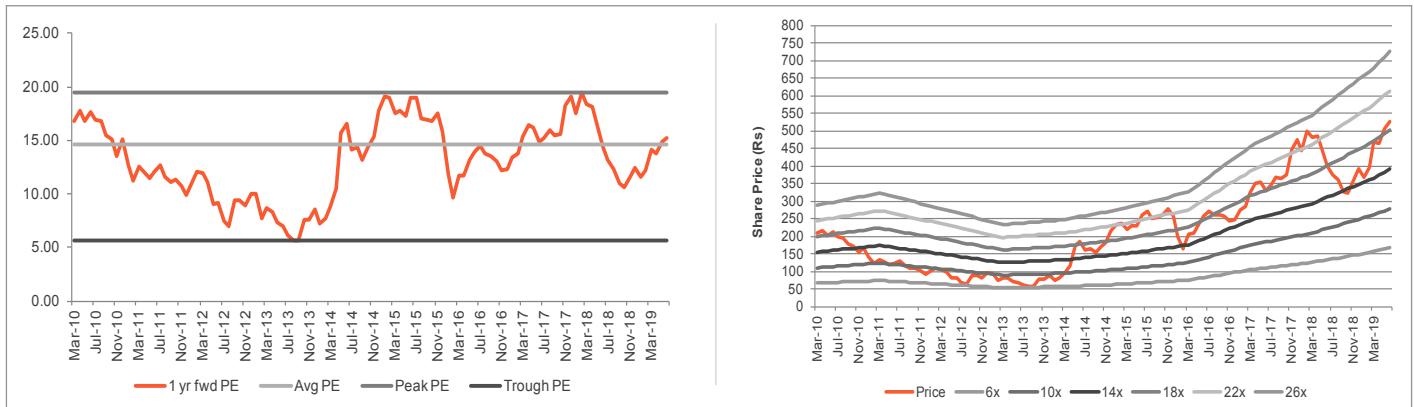
Valuation – Maintain Buy with a revised PT of Rs. 620

We believe KPTL is positioned in apt business segments such as T&D, railways and oil and gas, which are expected to see strong traction in order inflows going ahead. Further, the divestment of its four transmission assets and road assets in JMC Projects would remove the key hangover on the stock with expectation of re-rating of the valuation multiple. Considering KPTL's positive business outlook and asset divestment expected in this fiscal year, we have increased our valuation multiple of its core business on account of positive business outlook in KPTL's SOTP-based valuation. Hence, we have arrived at a revised PT of Rs. 620. We maintain our Buy rating on the stock.

SOTP Valuation

Valuation	Value/share	Basis of valuation and multiple
KPTL	523	Valued at 14x FY21E earnings
JMC	88	Valued at our target price
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	620	Price Target

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer Comparison

Particulars	EV/EBIDTA (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
KEC	13.3	11.3	7.5	6.6	2.8	2.4	22.9	22.8
L&T	21.0	18.3	14.9	13.4	3.1	2.7	15.6	15.9
KPTL	15.6	13.4	9.0	7.6	2.3	2.0	15.3	15.9

Source: Sharekhan Research, * Bloomberg Estimates

About company

KPTL 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. KPTL is exposed to the construction segment with a 6% stake in JMC Projects (JMC); JMC is primarily engaged in the construction of industrial buildings and residential and commercial complexes. Of 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 Rs. 2,300 billion over FY2018-FY2023E, up 28% over FY2012-FY2017. A large part of this spend is likely to come from States Electricity Boards. Additionally, ordering for Green Energy Corridor is likely to provide ample opportunities in the domestic market. Moreover, expansion in regional transmission network in Africa, SAARC and CIS countries is likely to supplement domestic demand and present a large 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. 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 execution of projects in domestic and international markets due to various reasons is expected to impact 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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Kalpataru Constructions Pvt. Ltd.	15.22
2	KC Holdings Pvt. Ltd.	13.78
3	HDFC Asset Management Co. Ltd.	9.28
4	KALPATARU PROPERTIES PVT. LTD.	8.89
5	Munot Parag Mofatraj	8.77
6	MUNOT MOFATRAJ PUKHRAJ	7.43
7	ICICI Prudential Life Insurance Co	3.28
8	Reliance Capital Trustee Co. Ltd.	2.29
9	HSBC GLOBAL INV MAURITIUS	2.15
10	DSP Investment Managers Pvt. Ltd.	1.79

Source: Bloomberg

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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