Sharekhan
by BNP PARIBAS

# Kalpataru Power Transmission

## Execution stays strong

Sector: Capital Goods
Company Update

| | Change |
|---|---|
| Reco: **Buy** | ↔ |
| CMP: **Rs. 483** | |
| Price Target: **Rs. 590** | ↓ |

↑ Upgrade ↔ No change ↓ Downgrade

### Company details

| | |
|---|---|
| Market cap: | Rs. 7,371 cr |
| 52-week high/low: | Rs. 553/269 |
| NSE volume: (No of shares) | 1.0 lakh |
| BSE code: | 522287 |
| NSE code: | KALPATPOWR |
| Sharekhan code: | KALPATPOWR |
| Free float: (No of shares) | 6.2 cr |

### Shareholding (%)

| | |
|---|---|
| Promoters | 59.3 |
| FII | 5.5 |
| DII | 25.7 |
| Others | 9.6 |

### Price chart


### Price performance

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | -8.8 | 2.7 | 32.8 | 29.3 |
| Relative to Sensex | -4.2 | 6.5 | 25.4 | 28.0 |

*Sharekhan Research, Bloomberg*

**Kalpataru Power continued with its strong project execution, clocking a 24.9% y-o-y growth in standalone revenue. However, OPM got affected by forex loss and political donations. Further, a lower other income and a rise in interest cost and depreciation lowered net profit growth to 13.5% y-o-y. The management maintained its guidance for order intake at Rs. 10,000 crore, revenue growth at 15-20% y-o-y and OPM at ~11% for FY2020E. KPTL will start receiving post-tax proceeds worth ~Rs. 1050-1100 crore from the sale of transmission assets which it will use to significantly de-leverage the balance sheet and to meet future capex requirements. We have reduced net earnings estimates for FY2020-FY2021 factoring higher leverage, increased depreciation and lower other income. Hence, our SOTP based price target (PT) stands revised to Rs. 590, even as we maintain a Buy rating.**

### Key positives

- Management retains guidance for order inflows, revenue growth and OPM for FY2020.
- KPTL is the L1 bidder for projects worth Rs. 2,550 crore in T&D, railways and oil & gas segments combined.

### Key negatives

- Standalone debt increased by Rs. 487 crore q-o-q, as company had to fund higher working capital requirement and acquisition of a stake in Swedish company and Shree Shubham Logistics.
- International T&D revenue declined for the quarter.

### Our Call

**Valuation - Maintain Buy with a revised PT of Rs. 590:** KPTL is positioned in apt business segments such as T&D, railways and oil & gas, which are expected to see healthy order inflows, going ahead. We have, however, lowered our net earnings estimates for FY20-FY2021 factoring in higher debt levels, a rise in depreciation and lower other income. Consequently, we have arrived at a revised SOTP-based price target (PT) of Rs. 590. We maintain our Buy rating on the stock considering KPTL's positive business outlook and near-term positive triggers like asset divestment.

### Key Risks

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

**Valuation (Standalone)** Rs cr

| Particulars | FY17 | FY18 | FY19 | FY20E | FY21E |
|---|---|---|---|---|---|
| Revenue | 4,894 | 5,741 | 7,115 | 8,378 | 9,662 |
| OPM (%) | 10.8 | 11.0 | 10.9 | 10.9 | 11.0 |
| Adjusted PAT | 269 | 322 | 401 | 455 | 529 |
| % YoY growth | 39.8 | 19.7 | 24.6 | 13.5 | 16.2 |
| Adjusted EPS (Rs.) | 17.5 | 21.0 | 26.2 | 29.7 | 34.5 |
| P/E (x) | 27.5 | 23.0 | 18.5 | 16.3 | 14.0 |
| P/B (x) | 3.0 | 2.7 | 2.4 | 2.2 | 1.9 |
| EV/EBITDA (x) | 13.3 | 11.4 | 9.3 | 8.3 | 7.0 |
| RoNW (%) | 11.5 | 12.3 | 13.6 | 13.8 | 14.5 |
| RoCE (%) | 17.5 | 18.9 | 20.9 | 21.1 | 21.9 |

*Source: Company Data; Sharekhan estimates*

**Accelerated execution leads to strong revenue:** Revenue grew by 25% y-o-y to Rs. 1,655 crore, driven by healthy order execution in domestic T&D, railways and oil & gas projects. International T&D execution remained slow in comparisonto its domestic counterpart. Meanwhile, margins came lower at 11.6%, as top-line growth was dragged down by a rise in certain operating expenses (sub-contracting cost rose 27.9% , forex loss came in at Rs 6 crore versus a gain of Rs. 10 crore in Q1FY19 and donations made to political parties amounted to Rs 15 crore). Operating profit grew by 22.2% y-o-y to Rs. 192 crore. Higher interest expense (up 22% y-o-y) due to an increase in debt, mainly due to increase in working capital requirements, preferential capital infusion of Rs. 100 crore in Shree Shubham Logistics) , higher depreciation (up 34% y-o-y) and lower other income (down 32% y-o-y) led to lower net profit growth of 13.5% y-o-y to Rs 92 crore.

**Order book remains strong and management maintains guidance:** KPTL's order book remains healthy at Rs. 14,676 crore (excluding Swedish company orders of Rs. 69 crore) and grew by 7% y-o-y, providing a revenue visibility of 2x its FY2019 standalone revenues. KPTL 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 is expected from railways and oil & gas segments. KPTL is currently the L1 bidder for Rs. 2,550 crore worth of projects, which includes Rs. 1,800 crore of T&D projects and Rs. 750 crore of railway and oil & gas projects. Domestic T&D order pipeline is expected to be worth Rs. 20,000-25,000 crore, of which Rs. 12,000-15,000 crore (Rs. 3000-3500 crore is expected from Power Grid and the balance is expected from BOOT projects) is expected from the Green Energy Corridor. On the international T&D front, KPTL sees traction in Africa, SAARC and Commonwealth of Independent States (CIS) countries. In railways, KPTL will be eyeing Rs. 10,000 crore-12,000 crore domestic electrification tenders. In the oil & gas space, the current pipeline stands at Rs. 7,000-8,000 crore. Hence, overall KPTL is confident of achieving its Rs. 10,000 crore worth of order inflows for FY2020E.

**T&D BOOT project sale to help deleverage balance sheet:** KPTL entered into a binding agreement with CLP India to sell its three transmission projects for an enterprise value of Rs 3,275 crore. The estimated level of debt at the time of commercial operations is likely to be ~Rs. 2,000 crore. The company will need to further infuse ~ Rs. 90 crore in the fourth project. Proceeds from the sale of the three transmission assets are expected to start flowing in from Q3FY2020. These funds will be used to reduce debt, working capital management and capex requirements. Further, KPTL plans to monetize its fourth asset (i.e Kalpataru Jhajjar Transmission Asset) in due course. The company earlier has also signed definitive agreement with Tano India to acquire a 19.94% stake in Shree Shubham Logistics in a share-swap deal worth ~Rs.65 crores, making Shree Shubham a wholly owned subsidiary for KPTL.

**Management retains guidance:** KPTL has retained its full-year guidance for FY2020E due to healthy order inflow visibility from Q2FY2020E. 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 focus on better working capital management and debt reduction (through asset sales).

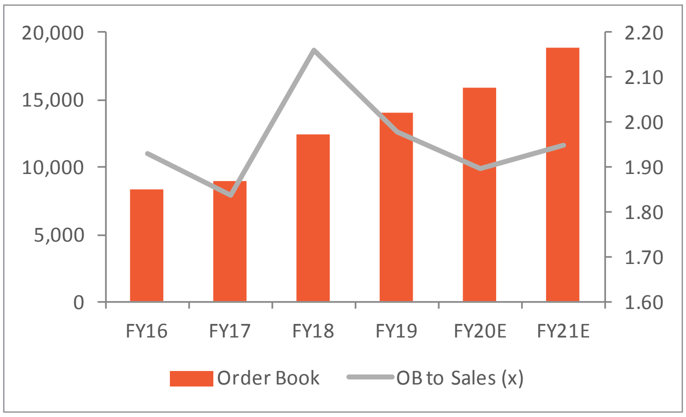
**Results (Standalone)** Rs cr

| Particulars | Q1FY20 | Q1FY19 | YoY% | Q4FY19 | QoQ% |
|---|---|---|---|---|---|
| **Net Sales** | **1,655** | **1,325** | **24.9** | **2,491** | **(33.6)** |
| Operating expenditure | 1,463 | 1,168 | 25.3 | 2,225 | (34.2) |
| **Operating profit** | **192** | **157** | **22.2** | **266** | **(27.9)** |
| Other income | 10 | 15 | (31.9) | 8 | 32.6 |
| Interest | 34 | 28 | 22.1 | 32 | 7.0 |
| Depreciation | 26 | 19 | 34.3 | 24 | 9.8 |
| **PBT** | **142** | **125** | **14.0** | **218** | **(35.0)** |
| Tax | 50 | 44 | 14.9 | 82 | (38.7) |
| **Reported PAT** | **92** | **81** | **13.5** | **137** | **(32.8)** |
| M2M losses | - | - | NA | - | NA |
| **Adj PAT** | **92** | **81** | **13.5** | **137** | **(32.8)** |
| **EPS (Rs)** | **6.0** | **5.3** | **13.5** | **8.9** | **(32.8)** |
| OPM (%) | 11.6 | 11.9 | (25.3) | 10.7 | 90.9 |
| NPM (%) | 5.6 | 6.1 | (55.8) | 5.5 | 6.5 |
| Tax Rate (%) | 35.2 | 34.9 | 28.3 | 37.3 | (213.5) |

*Source: Company; Sharekhan Research*

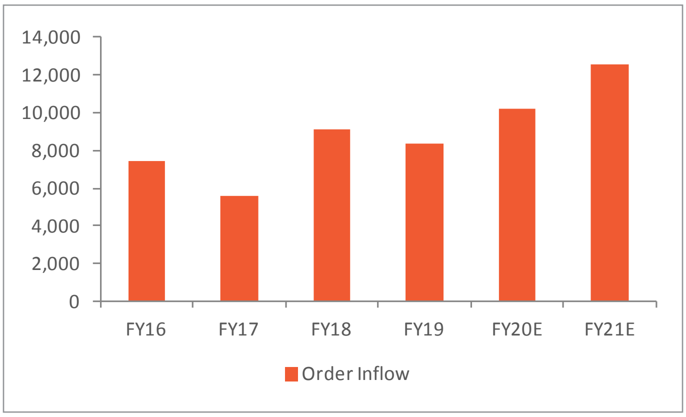
## Financials in charts

### Order book and order book to sales ratio



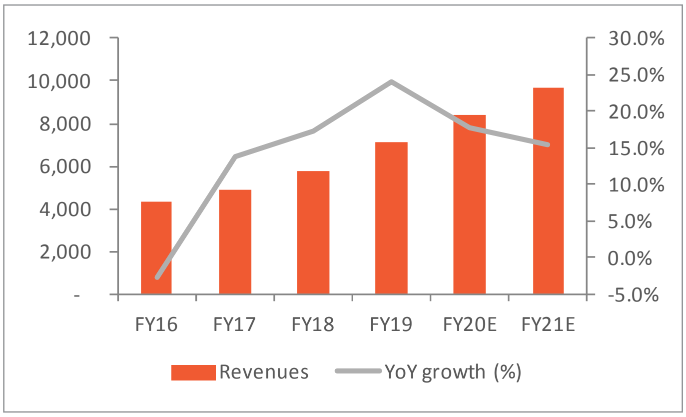

Source: Company, Sharekhan Research

### Order inflow trend



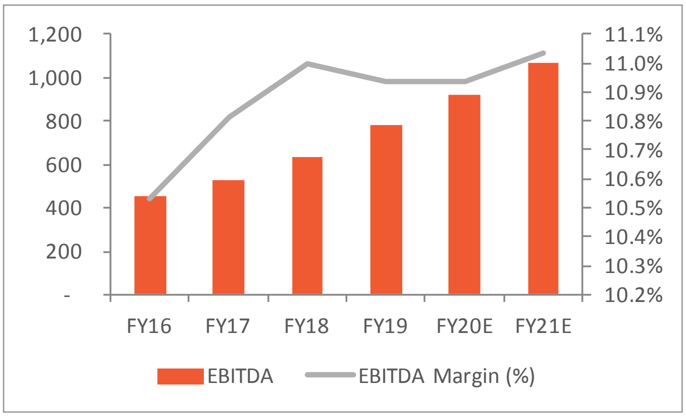

Source: Company, Sharekhan Research

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



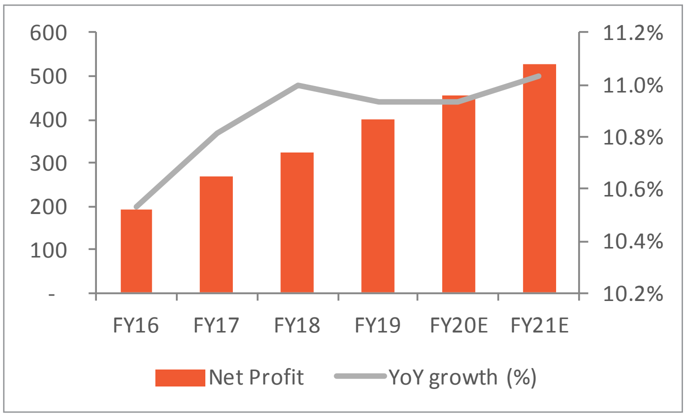

Source: Company, Sharekhan Research

### EBITDA trend



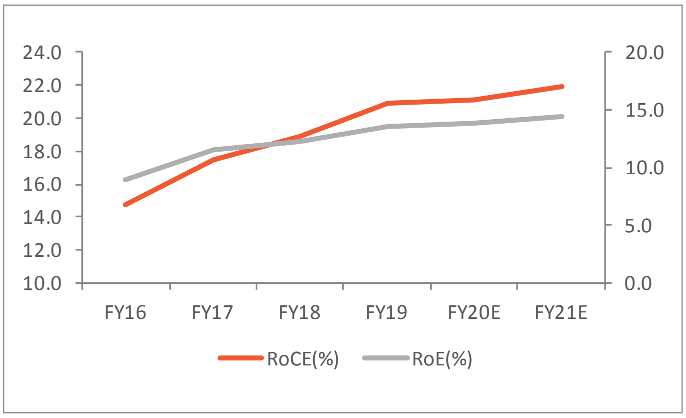

Source: Company, Sharekhan Research

### Net profit trend




Source: Company, Sharekhan Research

### Return ratios trend




Source: Company, Sharekhan Research

## Outlook

### T&D, railways and oil & 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 activity is expected to pick up from Q2FY2020. The Green Energy Corridor and projects from state electricity boards provide a strong visibility of order inflows. In railways, order momentum is expected to continue, led by the domestic electrification drive. Additionally, the oil & gas space 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. 590

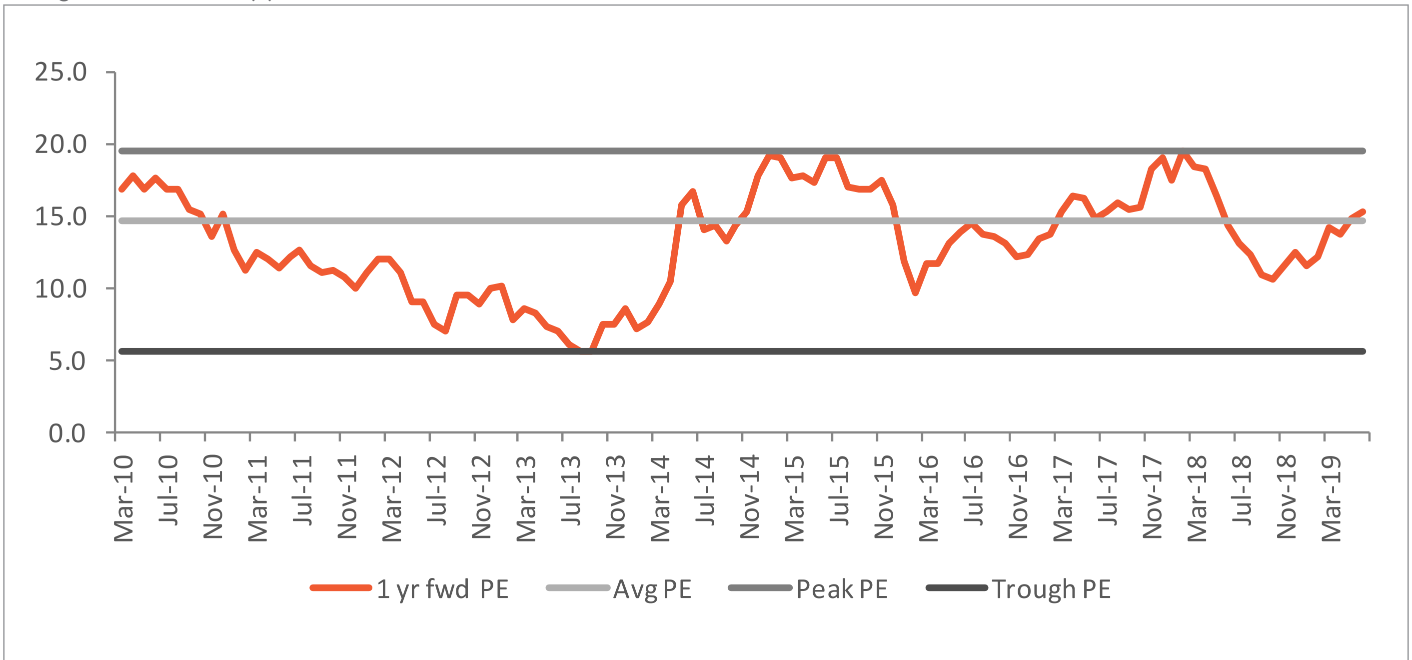
KPTL is positioned in apt business segments such as T&D, railways and oil & gas, which are expected to see healthy order inflows, going ahead. We have, however, lowered our net earnings estimates for FY20-FY2021 factoring in higher debt levels, a rise in depreciation and lower other income. Consequently, we have arrived at a revised SOTP-based price target (PT) of Rs. 590. We maintain our Buy rating on the stock considering KPTL's positive business outlook and near-term positive triggers like asset divestment.

**SOTP Valuation**

| Valuation | Value/share | Basis of valuation and multiple |
|---|---|---|
| KPTL | 483 | Valued at 14x FY21E earnings |
| JMC | 87 | Valued at our target price |
| SSL | 17 | Valued at recent stake acquisition price by KPTL |
| Others | 5 | Valued at 25% discount to equity invested in SPV & other investments |
| **Total Value** | **590** | **Price Target** |

*Source: Company; Sharekhan Research*

**One-year forward P/E (x) band**




*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 | 13.1 | 11.1 | 7.4 | 6.5 | 2.8 | 2.3 | 22.9 | 22.8 |
| L&T | 19.3 | 16.8 | 14.1 | 12.5 | 2.8 | 2.5 | 15.2 | 15.7 |
| KPTL | 16.3 | 14.0 | 8.3 | 7.0 | 2.2 | 1.9 | 13.8 | 14.5 |

*Source: Company, Sharekhan research*

## About company

KPTL has three business divisions - transmission lines, 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 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 has 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 state electricity boards. 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 & 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. | 15.22 |
| 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*

Sharekhan

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