

Sector: Capital Goods
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 439	
Price Target: Rs. 590	↔

↑ Upgrade ↔ No change ↓ Downgrade

Company details

Market cap:	Rs. 6,798 cr
52-week high/low:	Rs. 553/323
NSE volume: (No of shares)	1.6 lakh
BSE code:	522287
NSE code:	KALPATPOWR
Sharekhan code:	KALPATPOWR
Free float: (No of shares)	7.0 cr

Shareholding (%)

Promoters	54.4
FII	9.1
DII	29.0
Others	7.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.4	-6.7	-5.1	29.8
Relative to Sensex	-10.2	-14.9	-10.3	10.9

Sharekhan Research, Bloomberg

Kalpataru Power Transmission Limited (KPTL) continued with its strong project execution, reporting 24.9% y-o-y growth in standalone revenue, driven by T&D (up 16% y-o-y) and railways (2x y-o-y), while oil and gas remained flat y-o-y. However, lower OPM (down 33 BPS y-o-y) led to 21% y-o-y growth in operating profit. Further, higher interest expense (up 56% y-o-y, increased working capital) and higher depreciation (up 35% y-o-y) led to PBT growth of 15% y-o-y. Lower ETR (lower corporate tax rate and re-measured deferred tax assets) led to 39% y-o-y growth in standalone net profit to Rs. 127 crore. KPTL received Rs. 4,939 crore order inflows YTD with L1 position in Rs. 2,000 crore plus orders, taking its total order backlog to Rs. 15,130 crore (including Linjemontage). Management expects sustained execution growth momentum to continue during H2FY2020, revising its revenue growth guidance for FY2020 to 20%+ (earlier 15-20%) with stable OPM at 10.5-11%. We have revised our net earnings estimates for FY2020-FY2021, factoring strong execution during H1FY2020. We maintain our SOTP-based price target (PT) at Rs. 590 and Buy rating on the stock.

Key positives

- ◆ Upward revision in revenue growth guidance to 20%+ for FY2020 versus earlier 15-20%.
- ◆ KPTL is L1 bidder for projects worth Rs. 2,000 crore in T&D, railways and oil and gas segments combined.

Key negatives

- ◆ Rise in working capital owing to lower collections during July-August 2019, leading to increased interest expense.
- ◆ Order booking remains slow in domestic T&D.

Our Call

Valuation - Maintain Buy with unchanged PT of Rs. 590: KPTL has shown strong execution with 25% y-o-y standalone revenue growth for H1FY2020, led by better-than-expected growth in T&D and doubling revenue from railways. Going ahead, its T&D is expected to grow at 10-12% y-o-y, while railways and oil and gas are expected to grow at a higher pace. Further, order visibility remains healthy in domestic T&D, neighboring countries (Bangladesh and Sri Lanka), Nordic region and African countries. We have upwardly revised our estimates for FY2020-FY2021, factoring strong execution during H1FY2020. Hence, we maintain our Buy rating on the stock, considering KPTL's positive business outlook and PT of Rs. 590.

Key Risks

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

Valuation (Standalone)

Particulars	Rs cr				
	FY17	FY18	FY19	FY20E	FY21E
Revenue	4,894	5,741	7,115	8,528	9,825
OPM (%)	10.8	11.0	10.9	10.9	11.0
Adjusted PAT	269	322	401	530	620
% YoY growth	39.8	19.7	24.6	32.1	17.0
Adjusted EPS (Rs.)	17.5	21.0	26.2	34.5	40.4
P/E (x)	25.1	20.9	16.8	12.7	10.9
P/B (x)	2.7	2.4	2.1	1.9	1.7
EV/EBITDA (x)	12.0	10.3	8.4	6.9	5.8
RoNW (%)	11.5	12.3	13.6	15.9	16.5
RoCE (%)	17.5	18.9	20.9	21.5	22.0

Source: Company Data; Sharekhan estimates

Accelerated execution leads to strong revenue

Revenue grew by 25% y-o-y to Rs. 1,967 crore, driven by healthy order execution in domestic T&D, railways and oil and gas projects. Railways revenue doubled in comparison to Q2FY2020 and oil and gas revenue remained flat y-o-y. Meanwhile, margins came lower at 10.5%, as topline growth was dragged down by rise in certain operating expenses (higher material cost and employee cost). Operating profit grew by 21% y-o-y to Rs. 207 crore. Higher interest expense (up 56% y-o-y) due to increased debt, mainly due to the increase in working capital requirements and higher depreciation (up 35% y-o-y) was offset by higher other income (up 43% y-o-y) and lower effective tax rate (21.1% vs. 34.8% in Q2FY2019), which led to net profit growth of 39% y-o-y to Rs. 1,270 crore.

Order book remains strong and management revises revenue guidance upward

KPTL's order book remains healthy at Rs. 15,130 crore (including Swedish company order book) and grew by 7% y-o-y, providing revenue visibility of 1.9x its YTD standalone revenue. KPTL maintained its FY2020E order inflow guidance at Rs. 10,000 crore, of which major orders are likely to come from T&D and the balance are expected from railways and oil and gas segments. KPTL is currently L1 bidder for Rs. 2,000 crore worth of projects, which includes Rs. 1,900 crore of T&D projects and ~Rs. 100 crore of railways. The company mentioned that order booking remained slower in domestic T&D but maintained its order inflow guidance of 10-12% for FY2020. 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). Order pipeline in the green energy corridor remains strong and is expected to be tendered out in the next one or two quarters. State electricity boards (SEBs) tendering continues to remain healthy and traction remains from states such as Karnataka, Telangana and West Bengal. On the international T&D front, KPTL sees traction in Africa, SAARC, MENA, 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 and internationally from African and limited focus on Middle East countries. Hence, overall KPTL is confident of achieving its Rs. 10,000 crore worth of order inflows for FY2020E.

Key result highlights from earnings call

- ◆ **Management increases revenue guidance:** KPTL has increased its full-year revenue guidance to 20% from earlier 15-20% for FY2020E, of which the T&D segment is expected to grow by 10-12% y-o-y, oil and gas is expected to grow by 15-20%, while other segments (railways) 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).
- ◆ **Order backlog remains healthy:** KPTL's order book remains healthy at Rs. 15,130 crore (including Swedish company order book) and grew by 7% y-o-y, providing revenue visibility of 1.9x its YTD standalone revenue.
- ◆ **Order inflow guidance maintained:** Management has maintained its order inflow guidance of Rs. 10,000 crore, of which major orders are 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. Order pipeline in the green energy corridor remains strong and is expected to be tendered out in the next one or two quarters. KPTL is currently L1 bidder for Rs. 2,000 crore worth of projects, which includes Rs. 1,900 crore of T&D projects and ~Rs. 100 crore of railway.
- ◆ **Assets sales and investment:** As all approvals are in place, KPTL expects assets sale to finalise in the next few months. An increase of Rs. 220 crore in investment has deployed mainly into Linjemontage, small investment in BOOT assets and SSL to repay loans.
- ◆ **Interest cost and debt reduction:** Interest cost increased due to high debt level. While July and August have been difficult for collection, September was better. KPTL expects significant debt reduction by FY2021E. The company is looking to close FY2020 with Rs. 800 crore-1,000 crore net debt without considering sale of assets.

- ◆ **Railways segment to continue its growth momentum:** The company is looking forward to double its revenue from the railways segment in FY2020E. Railway order book stood at Rs. 4,000 crore. The company has guided for Rs. 1,600 crore revenue for FY2020E. Order book is enough to grow the railway business till FY2021E.
- ◆ **No intension to bid for HAM project:** The company has not bid for any HAM projects in the past and does not expect to bid in the near future and not under the radar at the current point of time.

Results (Standalone)					Rs cr
Particulars (Rs. cr)	Q2FY20	Q2FY19	YoY%	Q1FY20	QoQ%
Net Sales	1,967	1,574	25.0	1,655	18.9
Operating expenditure	1,760	1,403	25.4	1,464	20.2
Operating profit	207	171	21.1	191	8.4
Other income	25	18	42.9	10	150.0
Interest	44	28	55.6	34	29.4
Depreciation	27	20	35.4	26	3.8
PBT	161	140	14.9	141	14.2
Tax	34	49	(30.3)	50	(32.0)
Reported PAT	127	91	39.0	91	39.6
M2M losses	-	-	NA	-	NA
Adj. PAT	127	91	39.0	91	39.6
EPS (Rs.)	8.3	6.0	39.0	5.9	39.6
OPM (%)	10.5	10.9	(33.3)	11.5	(101.7)
NPM (%)	6.5	5.8	65.2	5.5	95.8
Tax Rate (%)	21.1	34.8	-	35.5	-

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 activity is expected to pick up from Q2FY2020. The Green Energy Corridor and projects from SEBs provide a strong visibility of order inflows. In railways, order momentum is expected 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

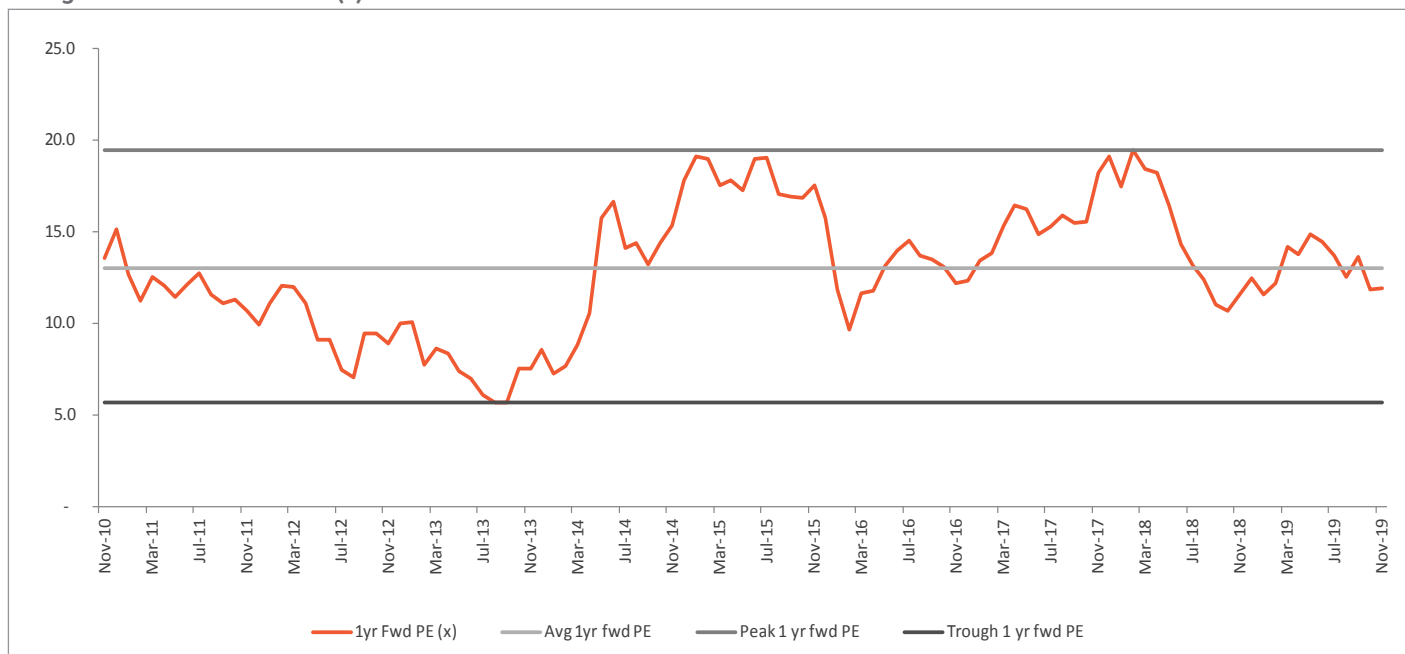
Valuation - Maintain Buy with unchanged PT of Rs. 590: KPTL has shown strong execution with 25% y-o-y standalone revenue growth for H1FY2020, led by better-than-expected growth in T&D and doubling revenue from railways. Going ahead, its T&D is expected to grow at 10-12% y-o-y, while railways and oil and gas are expected to grow at a higher pace. Further, order visibility remains healthy in the domestic T&D, neighboring countries (Bangladesh and Sri Lanka), Nordic region and African countries. We have upwardly revised our estimates for FY2020-FY2021, factoring strong execution during H1FY2020. Hence, we maintain our Buy rating on the stock, considering KPTL's positive business outlook and near-term positive triggers such as asset divestment with our SOTP-based PT of Rs. 590.

SOTP Valuation

Valuation	Value/share	Basis of valuation and multiple
KPTL	488	Valued at 12x FY21E earnings
JMC	82	Valued at our target price
SSL	17	Valued at 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 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	12.0	10.2	6.6	5.9	2.4	2.0	21.6	21.8
L&T	19.3	16.8	14.1	12.5	2.8	2.5	15.2	15.7
KPTL	12.7	10.9	6.9	5.8	1.9	1.7	15.9	16.5

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	9.66
4	Kalpataru Properties Pvt Ltd/Kolka	8.82
5	Munot Mofatraj Pukhraj	6.47
6	Munot Parag Mofatraj	5.15
7	ICICI Prudential Life Insurance Co	3.27
8	HSBC GLOBAL INV MAURITIUS	2.14
9	ICICI Prudential Asset Management	1.98
10	Reliance Capital Trustee Co Ltd	1.92

Source: Bloomberg

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