

Buy

Expect gradual ramp up Q2 onwards; valuations undemanding; Maintain Buy

- Despite a marginal topline miss, KPTL has managed its EBIDTA of 11% with a better project mix. PAT was lower than estimate on account of higher interest and taxes, as WC needs went up in Q4
- While Q1 is likely to be subdued, it is confident of pickup from Q2 onwards and has guided a 10% revenue growth and margins in 10.5-11% range for FY21. We are building in a 5%/15% topline growth in FY21E/22E and trim our FY21E and FY22E estimates as outlined in Exhibit 2
- Given its strong order book (~1.9x FY20 sales), we expect execution to pick up post lockdown, while order inflows should revive from T&D and rail capex. Current valuations at PE of 6x FY22 are undemanding and we continue to maintain our Buy rating with a TP of Rs 300

Q4FY20: PAT miss, WC goes up, Buyback announced

KPTL reported sales and EBIDTA at Rs23bn and Rs2.53bn respectively, which was 7% lower than expectations (Refer Exhibit 1), which is not bad under the circumstances. However, PAT at Rs1.07bn was 24% lower than expectations, mainly on higher interest cost, as well as slightly higher tax in the quarter. EBIDTA margins were up 30bps yoy based on its project mix in Q4, where proportion of execution in rail and oil and gas went up. Working capital has increased sharply, with cash generated from operations declining 53% in FY20 despite a flat operating profit before the WC impact. Cash conversion cycle has jumped by 26 days from 86days in FY19 to 112 days in FY20. Company has announced a buyback from the open market upto a maximum price of Rs 275 with a buyback size of Rs2bn.

Promising inflows in FY21 despite Q4 weakness; execution ramp up Q2 onwards

Order inflows were weak at Rs6bn in Q4, compared to Rs23bn quarterly average in the 9M. This takes year inflows to Rs65b. However, it has a targeted tender pipeline of Rs200bn in FY21. Yearend orderbook was Rs132bn, ~2x FY20 revenues. It has already got Rs 9bn of orders in Q1, along with being L1 in orders worth Rs20bn at it is targeting order inflows of ~Rs100-110bn. On execution, it expects ramp up to happen Q2 onwards in a bigger way. 90% of their sites are operational and they have managed to retain 85% of their labor at sites, which will help ramp up.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	23,030	24,910	(7.5)	19,790	16.4
Total Expense	20,500	22,250	(7.9)	17,710	15.8
EBITDA	2,530	2,660	(4.9)	2,080	21.6
Depreciation	290	240	20.8	280	3.6
EBIT	2,240	2,420	(7.4)	1,800	24.4
Other Income	70	80	(12.5)	160	(56.3)
Interest	460	320	43.8	420	9.5
EBT	1,850	2,180	(15.1)	1,780	3.9
Tax	780	810	(3.7)	410	90.2
RPAT	1,070	1,370	(21.9)	1,370	(21.9)
APAT	1,070	1,370	(21.9)	1,130	(5.3)
			(bps)		(bps)
Gross Margin (%)	24.2	24.0	18	25.0	(83)
EBITDA Margin (%)	11.0	10.7	31	10.5	48
NPM (%)	4.6	5.5	(85)	6.9	(228)
Tax Rate (%)	42.2	37.2	501	23.0	1913
EBIT Margin (%)	9.7	9.7	1	9.1	63

CMP	Rs 192
Target / Upside	Rs 300 / 56%
BSE Sensex	30,861
NSE Nifty	9,067

Scrip Details

Equity / FV	Rs 310mn / Rs 2
Market Cap	Rs 30bn
	USD 394mn
52-week High/Low	Rs 555/Rs 170
Avg. Volume (no)	321,960
NSE Symbol	KALPATPOWER
Bloomberg Code	KPP IN

Shareholding Pattern Mar'20(%)

Promoters	54.4
MF/Banks/FIs	29.6
FIIIs	7.4
Public / Others	8.7

Valuation (x)

	FY20A	FY21E	FY22E
P/E	6.4	7.1	5.5
EV/EBITDA	4.4	4.2	3.6
ROE (%)	13.8	11.3	13.2
RoACE (%)	14.3	13.0	14.7

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	79,040	83,028	95,453
EBITDA	8,600	8,600	10,722
PAT	4,630	4,172	5,421
EPS (Rs.)	29.9	26.9	35.0

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Balance sheet and liquidity in focus

Working capital has gone up due to inventory of Rs 1b which couldn't be billed to customers. The billing loss due to covid was Rs3bn and had this happened WC would have been better. The company is targeting becoming debt free in FY21(current net debt of Rs9.7bn), mainly from proceeds from selling transmission assets. It is also focusing on liquidity, raising R3bn of NCDs of which Rs2bn will replace old debt while Rs1b will be for liquidity.

Valuations are undemanding. Maintain Buy

It has guided a 10% revenue growth and margins in 10.5-11% range for FY21. We are building in a 5%/15% topline growth in FY21E/22E and trim our FY21E and FY22E as outlined in Exhibit 2. Given its strong order book (~1.9x FY20 sales), we expect execution to pick up post lockdown, while order inflows should revive from T&D and rail capex. Current valuations at PE of 6x FY22 are undemanding and we continue to maintain our Buy rating with a SOTP based TP of Rs 300, valuing the core business at 8x FY22 at Rs 281 and its holding in JMC at Rs 19, based on a holdco discount of 25% to its current market cap.

Exhibit 1: Variance from Our Estimates

(Rs Mn)	Actual	DART	Consensus	DART	Consensus	Comments
	Q4FY20	Q4FY20E	Q4FY20E	Var (%)	Var (%)	
Sales	23,030	24,642	23,862	(6.5)	(3.5)	Sales miss on account of pandemic impact on execution
EBITDA	2,530	2730	2,542	(7.3)	(0.5)	
EBITDA margins	11.0	10.3	10.7	66.9	33.3	Margin beat despite lower sales due to project mix in the quarter
PAT	1,130	1419	1412	(20.4)	(20.0)	PAT lower than expectation due to higher interest cost and taxes in the quarter.
Pat margins	4.9	5.4	5.9	(45.6)	(101.1)	
EPS	7.3	9.2	9.1	(20.4)	(20.0)	

Source: Company, DART

Exhibit 2: Change in Our Estimates

(Rs Mn)	FY21E			FY22E		
	Earlier	New	Var %	Earlier	New	Var %
Sales	93,798	83,028	(11.5)	104,172	95,453	(8.4)
EBITDA	11,414	8,718	(23.6)	12,226	10,500	(14.1)
EBITDA margin (%)	12.2	10.5	(167)	11.7	11.0	(73.6)
PAT	6,125	4,589	(25.1)	6,617	5,896	(10.9)
EPS	39.9	29.9	(25.0)	43	38	(10.8)

Source: DART, Company

Exhibit 3: Quarterly Performance

Rs mn	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ(%)	FY19	FY20	YoY(%)
Net Revenue	24,910	16,550	19,670	19,790	23,030	(7.5)	16.4	71,146	79,040	11.1
Total Raw Material Cost	18,930	12,000	14,730	14,840	17,460	(7.8)	17.7	47,583	59,030	24.1
Staff Expenditure	1,260	1,240	1,310	1,350	1,360	7.9	0.7	4,548	5,260	15.7
Other Expenses	2,060	1,390	1,560	1,520	1,680	(18.4)	10.5	11,239	6,150	(45.3)
EBITDA	2,660	1,920	2,070	2,080	2,530	(4.9)	21.6	7,775	8,600	10.6
Depreciation	240	260	270	280	290	20.8	3.6	864	1,100	27.3
EBIT	2,420	1,660	1,800	1,800	2,240	(7.4)	24.4	6,912	7,500	8.5
Other Income	80	100	250	160	70	(12.5)	(56.3)	522	580	11.2
Interest	320	340	440	420	460	43.8	9.5	1,189	1,660	39.6
PBT	2,180	1,420	1,610	1,780	1,850	(15.1)	3.9	6,244	6,660	6.7
Tax	810	500	340	410	780	(3.7)	90.2	2,227	2,030	(8.8)
Net Profit	1,370	920	1,270	1,370	1,070	(21.9)	(21.9)	4,017	4,630	15.3
Reported EPS	8.8	5.9	8.2	8.8	6.9	(21.9)	(21.9)	25.9	29.9	15.3

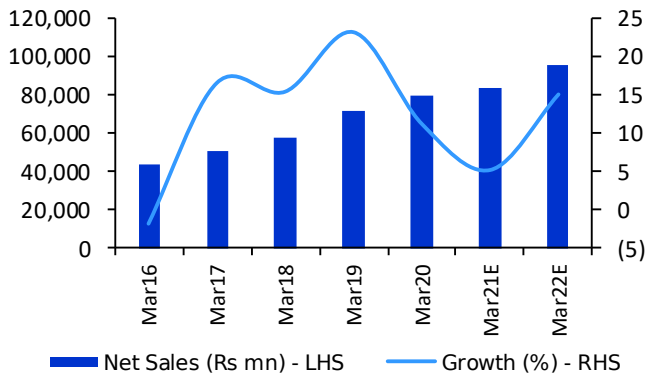
Source: Company, DART

Exhibit 4: Operating Cost and Margins

Operating Cost as a % of Sales	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ(%)	FY19	FY20	YoY(%)
Raw Material Cost	76.0	72.5	74.9	75.0	75.8	(17.9)	82.7	66.9	74.7	780.3
Staff Cost	5.1	7.5	6.7	6.8	5.9	84.7	(91.6)	6.4	6.7	26.2
Other Expenses	8.3	8.4	7.9	7.7	7.3	(97.5)	(38.6)	15.8	7.8	(801.7)
Margins (%)										
GM	24.0	27.5	25.1	25.0	24.2	17.9	(82.7)	33.1	25.3	(780.3)
EBITDA	10.7	11.6	10.5	10.5	11.0	30.7	47.5	10.9	10.9	(4.8)
EBIT	9.7	10.0	9.2	9.1	9.7	1.1	63.1	9.7	9.5	(22.6)
PBT	8.8	8.6	8.2	9.0	8.0	(71.9)	(96.1)	8.8	8.4	(35.0)
NPM	5.5	5.6	6.5	6.9	4.6	(85.4)	(227.7)	5.6	5.9	21.2

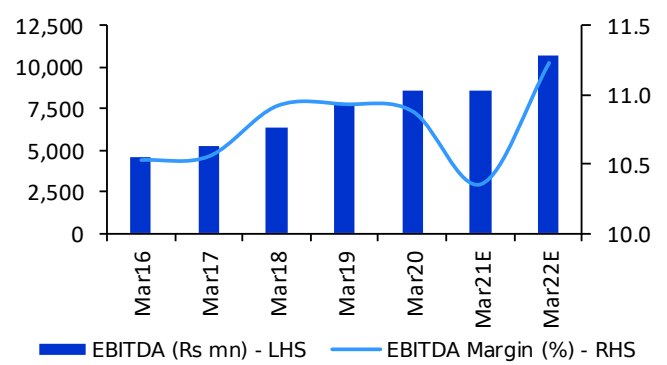
Source: DART, Company

Exhibit 5: Net Sales and Growth (%)



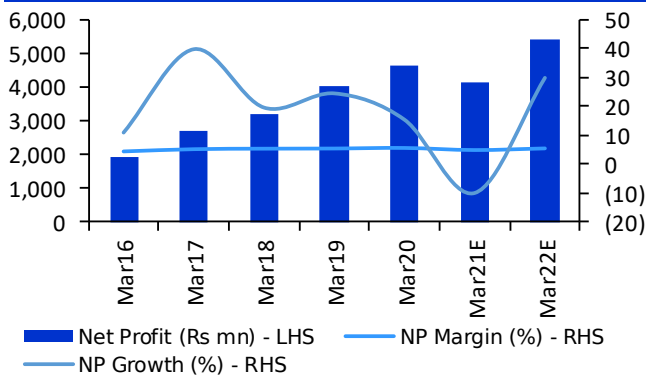
Source: DART, Company

Exhibit 6: EBITDA and Growth (%)



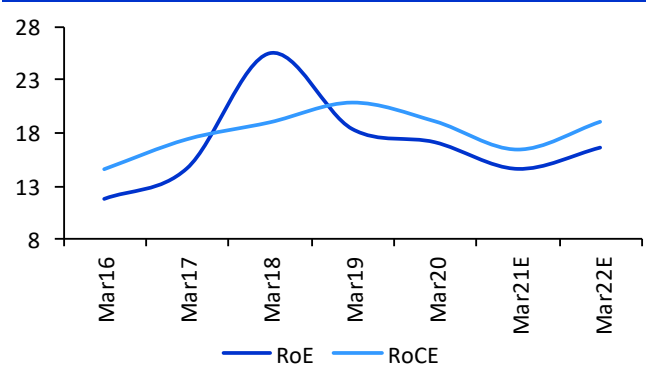
Source: DART, Company

Exhibit 7: Net Profit and Growth (%)



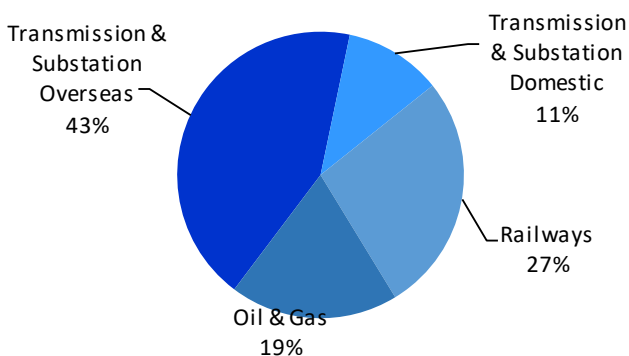
Source: DART, Company

Exhibit 8: RoE and RoCE (%)



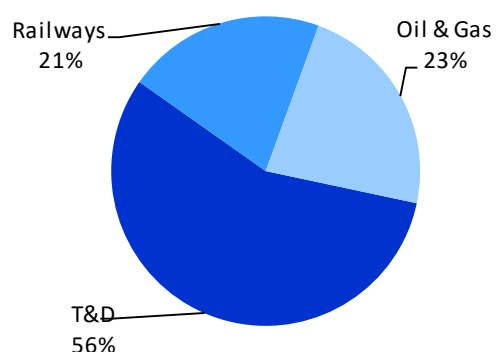
Source: DART, Company

Exhibit 9: Order Book as on Mar'20



Source: DART, Company

Exhibit 10: Order inflow YTD



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	71,150	79,040	83,028	95,453
Total Expense	63,370	70,440	74,428	84,731
COGS	52,500	59,030	63,101	70,635
Employees Cost	4,540	5,260	6,642	7,636
Other expenses	6,330	6,150	4,684	6,460
EBIDTA	7,780	8,600	8,600	10,722
Depreciation	860	1,100	1,250	1,416
EBIT	6,920	7,500	7,350	9,306
Interest	1,190	1,660	2,055	2,170
Other Income	510	580	500	500
Exc. / E.O. items	0	240	0	0
EBT	6,240	6,660	5,795	7,636
Tax	2,230	2,030	1,623	2,214
RPAT	4,010	4,630	4,172	5,421
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	4,010	4,630	4,172	5,421

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	310	310	310	310
Minority Interest	0	0	0	0
Reserves & Surplus	31,210	35,050	38,497	43,193
Net Worth	31,520	35,360	38,807	43,503
Total Debt	6,080	11,770	9,770	10,770
Net Deferred Tax Liability	(160)	50	50	50
Total Capital Employed	37,440	47,180	48,627	54,323

Applications of Funds

Net Block	5,790	6,340	7,400	7,084
CWIP	80	400	400	400
Investments	6,490	8,640	8,640	8,640
Current Assets, Loans & Advances	45,770	53,230	60,166	67,750
Inventories	6,220	7,390	7,052	8,368
Receivables	33,710	36,170	44,357	50,995
Cash and Bank Balances	1,460	3,370	3,525	2,110
Loans and Advances	4,380	6,300	5,232	6,276
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	44,920	49,370	50,727	58,318
Payables	41,620	45,890	46,632	53,611
Other Current Liabilities	3,300	3,480	4,095	4,707
Net Current Assets	850	3,860	9,440	9,432
Total Assets	37,440	47,180	48,627	54,323

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	26.2	25.3	24.0	26.0
EBIDTA Margin	10.9	10.9	10.4	11.2
EBIT Margin	9.7	9.5	8.9	9.7
Tax rate	35.7	30.5	28.0	29.0
Net Profit Margin	5.6	5.9	5.0	5.7
(B) As Percentage of Net Sales (%)				
COGS	73.8	74.7	76.0	74.0
Employee	6.4	6.7	8.0	8.0
Other	8.9	7.8	5.6	6.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.3	0.3	0.2
Interest Coverage	5.8	4.5	3.6	4.3
Inventory days	32	34	31	32
Debtors days	173	167	195	195
Average Cost of Debt	19.1	18.6	19.1	21.1
Payable days	214	212	205	205
Working Capital days	4	18	41	36
FA T/O	12.3	12.5	11.2	13.5
(D) Measures of Investment				
AEPS (Rs)	25.9	29.9	26.9	35.0
CEPS (Rs)	31.4	37.0	35.0	44.1
DPS (Rs)	3.0	3.5	4.0	4.0
Dividend Payout (%)	11.6	11.7	14.9	11.4
BVPS (Rs)	203.4	228.1	250.4	280.7
RoANW (%)	13.5	13.8	11.3	13.2
RoACE (%)	14.6	14.3	13.0	14.7
RoAIC (%)	20.1	18.8	16.5	19.1
(E) Valuation Ratios				
CMP (Rs)	192	192	192	192
P/E	7.4	6.4	7.1	5.5
Mcap (Rs Mn)	29,783	29,783	29,783	29,783
MCap/ Sales	0.4	0.4	0.4	0.3
EV	34,403	38,183	36,028	38,444
EV/Sales	0.5	0.5	0.4	0.4
EV/EBITDA	4.4	4.4	4.2	3.6
P/BV	0.9	0.8	0.8	0.7
Dividend Yield (%)	1.6	1.8	2.1	2.1
(F) Growth Rate (%)				
Revenue	23.1	11.1	5.0	15.0
EBITDA	23.3	10.5	0.0	24.7
EBIT	24.8	8.4	(2.0)	26.6
PBT	25.0	6.7	(13.0)	31.8
APAT	24.6	15.5	(9.9)	29.9
EPS	24.6	15.5	(9.9)	29.9
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	1,945	2,660	7,246	1,580
CFI	144	(4,200)	(2,270)	(1,100)
CFF	(2,050)	3,395	(4,779)	(1,896)
FCFF	729	610	4,976	480
Opening Cash	816	1,460	3,370	3,525
Closing Cash	1,460	3,370	3,525	2,110

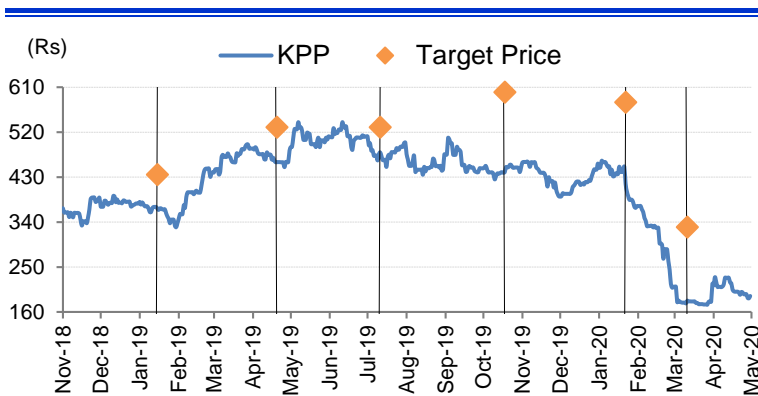
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-19	Accumulate	435	367
May-19	Accumulate	530	460
Jul-19	Accumulate	530	480
Nov-19	Buy	600	440
Feb-20	Buy	580	417
Mar-20	Buy	330	183

*Price as on recommendation date

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