Sharekhan
by BNP PARIBAS

Kalpataru Power Transmission

Descent performance in challenging times

Sector: Capital Goods

Result Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 193**	
Price Target: **Rs. 250**	↔

↑ Upgrade ↔ No change ↓ Downgrade

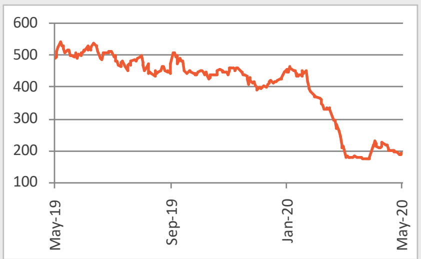
Company details

Market cap:	Rs. 2,978 cr
52-week high/low:	Rs. 553/170
NSE volume: (No of shares)	1.2 lakh
BSE code:	522287
NSE code:	KALPATPOWR
Sharekhan code:	KALPATPOWR
Free float: (No of shares)	7.1 cr

Shareholding (%)

Promoters	54.4
FII	7.3
DII	28.4
Others	10.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-16	-47	-58	-61
Relative to Sensex	-15	-24	-35	-40

Sharekhan Research, Bloomberg

Kalpataru Power Transmission Limited's (KPTL) standalone performance remained descent in the tough environment. Standalone revenue was impacted due to the lockdown, reporting a 7.6% y-o-y decline(in-line with estimates), wherein railways witnessed strong growth but the core T&D segment remained flat y-o-y. Operating profit margin (OPM)expanded by 29 bps y-o-y to 11% (marginally higher than our estimate). Further, higher interest (up 43.8% y-o-y) led to PBT decline of 15.2% y-o-y. Adjusted PAT declined by 21.7% due to higher tax rate of 42.2% in Q4FY2020 vs. 37.4% in Q4FY2019 to Rs. 107 crore(lower than our estimate). KPTL's order inflow remained weak during the quarter and order book remains at Rs. 13,288 crore(-5.5% y-o-y). KPTL has received orders worth Rs. 909 crore for YTD and has L1 position in orders worth Rs. 2,000 crore. Management has guided for 5-10% standalone revenue growth for FY2021 with stable OPM at 10.75-11%. Management would be targeting Rs. 10,000 crore-11,000 crore order intake for FY2021. Although the green energy corridor provides healthy order inflow visibility, fructification of the same remains a key monitorable as there is delay in awarding of orders due to the lockdown. In the railways segment, order momentum has remained slow but is expected to pick up as economic activity gains momentum, while opportunities in T&D remain as tenders being floated from Power Grid. The company also plans to raise NCDs worth Rs. 300 crore, wherein Rs. 200 crore would be utilised to replace old NCDs. Further, KPTL has approved buyback of Rs. 200 crore (comprising 72.7 lakh shares) at the maximum buyback price of Rs. 275. However, given Rs. 3,500 crore of consolidated debt on its books, the buyback move will have limited impact on sentiments (although it could restrict the fall in stock price). The sector and the stock have seen significant correction and rightly so as it will take time to recover. We have fine-tuned our estimates for FY2021-FY2022, factoring lower execution due to reduced operations at sites/factories and higher interest cost.We maintain our Buy rating on the stock with an unchanged SOTP-based price target (PT)of Rs. 250.

Key positives

- KPTL isL1 bidder for projects worth Rs.2,000crore, largely in T&D from the international market.
- Railways continue its strong execution (75% y-o-y).
- Partial work started at all factories and most project sites.

Key negatives

- Rise in working capital owing to higher inventory.
- Order booking remained lower in domestic T&D.

Our Call

Valuation - Maintain Buy with unchanged PT of Rs. 250: The sector and the stock have seen significant correction; and at the CMP, the valuation is attractive at 5.4x one-year forward P/E, which was the low during GFC crisis as well, which we believe provides an attractive investment proposition considering its execution capabilities and capability to bag orders in tough scenarios. We maintain our Buy rating on the stock with an unchanged SOTP-based PT of Rs. 250.

Key Risks

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

Valuation (Standalone) **Rs cr**

Particulars	FY19	FY20E	FY21E	FY22E
Revenue	7,115	7,904	8,302	9,369
OPM (%)	10.9%	10.9%	10.7%	10.8%
Adjusted PAT	401	463	420	523
% YoY growth	24.6%	15.4%	-9.3%	24.5%
Adjusted EPS (Rs.)	26.2	30.0	28.5	35.5
P/E (x)	7.4	6.4	6.8	5.4
P/B (x)	0.9	0.8	0.8	0.7
EV/EBITDA (x)	3.6	3.4	3.3	2.6
RoNW (%)	13.6	13.8	11.2	12.5
RoCE (%)	20.9	19.1	16.2	17.7

Source: Company; Sharekhan estimates

Revenue inline, OPM marginally better than estimates: KPTL's standalone performance remained descent in a tough environment. Revenue was impacted by the lockdown, in turn impacting execution, reporting a -7.6% y-o-y decline in its standalone revenue (inline with estimates), wherein railways saw descent growth but core T&D segment remained flat y-o-y. OPM expanded by 29 bps y-o-y to 11% (marginally higher than our estimate). Further, higher interest (up 43.8% y-o-y) led to PBT decline of 15.2% y-o-y. Adjusted PAT declined by 21.7% due to higher tax rate of 42.2% in Q4FY2020 vs. 37.4% in Q4FY2019 to Rs. 107 crore, which was lower than our estimate. KPTL's order inflow remained weak during the quarter and order book remains at Rs. 13,288 crore(-5.5% y-o-y). Management has guided for 5-10% for FY2021 and expects sustained execution growth momentum to continue for the year with stable OPM at 10.75-11% for FY2020.

Order book remains healthy despite weak ordering: KPTL's order inflow remained weak for Q4FY2020 although the current order book remains healthy at Rs. 13,288 crore, providing 1.7x FY2020 revenue. The company has received orders worth Rs. 909 crore in FY2021 till date and has L1 position in orders worth Rs. 2,000 crore majorly from international T&D. Management has stated that order inflow is expected to remain at the higher end of the guidance of Rs. 10,000 crore-11,000 crore for FY2021, where orders are expected to come from T&D and the balance is expected from railways and oil and gas segments. In the green energy corridor, management mentioned that the first round of tendering had happened and going ahead the green energy corridor provides healthy order inflow visibility, the fructification of the same remains a key monitorable as there are delays in awarding of orders due to the lockdown. In the railways segment, order momentum has remained slow due to lower government ordering but is expected to pick up as economic activity gains momentum, while opportunities in the domestic T&D remain as tenders have been floated from Power Grid. On the international T&D front, KPTL sees traction in Africa and Nordiac regions. In international markets, the company is exploring opportunities in the oil and gas and railways in Africa region where it has its strong presence in T&D.

Buyback of shares to provide some support but too small to make material difference: KPTL has approved buyback of Rs. 200 crore at the maximum buyback price of Rs. 275. At the upper end of the buyback price, it will constitute to 72.7 lakh shares. However, given the Rs. 3,500 crore of consolidated debt on its books, the buyback move will have limited impact on the sentiments. However, the company can buyback shares at a lower prevailing price from the open market. In the past, such buybacks have helped the companies to restrict the fall in share prices to an extent. The sector and the stock have seen significant correction and rightly so as it will take time to recover.

Key result highlights from earnings call

Revenue guidance: Management has guided for 5-10% for FY2021 and expects sustained execution growth momentum to continue for the year with stable OPM at 10.75-11% for FY2020. 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. 13,288 crore (including Swedish company order book) providing revenue visibility of 1.7x its FY2020 standalone revenue.

Order inflow guidance: Order inflow for the quarter remained weak at Rs. 605 crore (-40% y-o-y). Management stated that order inflow is expected to remain at the higher end of the guidance of Rs. 10,000 crore-11,000 crore for FY2021 where 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 going ahead the green energy corridor provides a healthy order inflow visibility, the fructification of the same remains a key monitorable as there are delays in awarding of orders due to the lockdown. In the railways segment, order momentum has remained slow due to lower government ordering but is expected to pick up as economic activity gains momentum while opportunities in domestic T&D remains as tenders have been floated from Power Grid. On the international T&D front, KPTL sees traction in Africa and Nordiac regions. In international markets, the company is exploring opportunities in the oil and gas and railways in Africa region, where it has its strong presence in T&D.

Assets sale update: The company has successfully transferred Kalpataru Satpura Transco to CLP India and achieved COD of Alipurduar (deal cancelled with CLP India due to delays). However, the company expects to sign the deal with other interested party soon and expected financial closure by the end of June 2020, which remains key monitorable in this challenging times. Further, Kohima Mariani asset is expected to get COD till July 2020/August 2020 and deal with CLP in place.

Rise in working capital: Rise in working capital owing to increased inventory and the company is focusing to bring it down.

Operation in factories and project sites: KPTL's management stated that work has partially started in all its factorieswith social distancing norms' and out of 103 sites, projects have started in 90 sites. Management also mentioned that the company has retained 80% of the labour in its various sites and the cost incurred will be largely offset by lower raw-material prices, which remains low and expects to remain so seeing the current environment expressed by management.

Debt: Standalone net debt increased to Rs. 969crore from Rs. 483 crore y-o-y and consolidated gross debt and net debt stood at Rs. 3,548 crore and Rs. 3,228 crore.Although the company is looking to reduce the debt significantly and become net debt free by FY2021 on the standalone balance sheet by selling its stake in various assets, which remains the key monitorable in this challenging environment.

Subham Logistics: In Q4FY2020 Shubham Logistics Limited (SSL) loss before tax reduced to Rs.6 crore in FY2020 compared to Rs.11 crore in FY2019. The company looks for complete or partial exit in SSL by FY2022.

Railways: In the railways segment, order momentum has remained slow due to lower government ordering but is expected to pick up as economic activity gains momentum.

Results (Standalone) Rs cr

Particulars	Q4FY20	Q4FY19	YoY%	Q3FY20	QoQ%
Net Sales	2,303	2,491	(7.6)	1,979	16.4
Operating expenditure	2,050	2,225	(7.9)	1,771	15.8
Operating profit	253	266	(5.0)	208	21.6
Other income	7	8	(7.2)	16	(56.3)
Interest	46	32	43.8	42	9.5
Depreciation	29	24	22.5	28	3.6
PBT	185	218	(15.2)	154	20.1
Tax	78	82	(4.4)	41	90.2
Reported PAT	107	137	(21.7)	113	(5.3)
Adj. PAT	107	137	(21.7)	137	(21.9)
EPS (Rs.)	6.9	8.8	(21.7)	8.8	(21.9)
OPM (%)	11.0	10.7	29.3	10.5	47.5
NPM (%)	4.6	5.5	(83.9)	5.7	(106.4)
Tax Rate (%)	42.2	37.4	-	26.6	-

Source: Company; Sharekhan Research

Outlook

FY2021 revenue growth to be in single digits due to COVID-19: In wake of COVID-19 led lockdown since mid-March 2020, KPTL's management expects FY2021 standalone revenue to grow between 5-10% y-o-y, while OPM is expected to remain healthy at 10.75-11%. KPTL has received Rs. 909crore order inflow during YTD and is L1 in Rs. 2,000 crore and management aims for Rs. 10,000 crore-11,000 crore order inflows for FY2021. Management continues its asset monetisation exercise to strengthen its balance sheet. Further, management expects to be net debt free on standalone by FY2021.

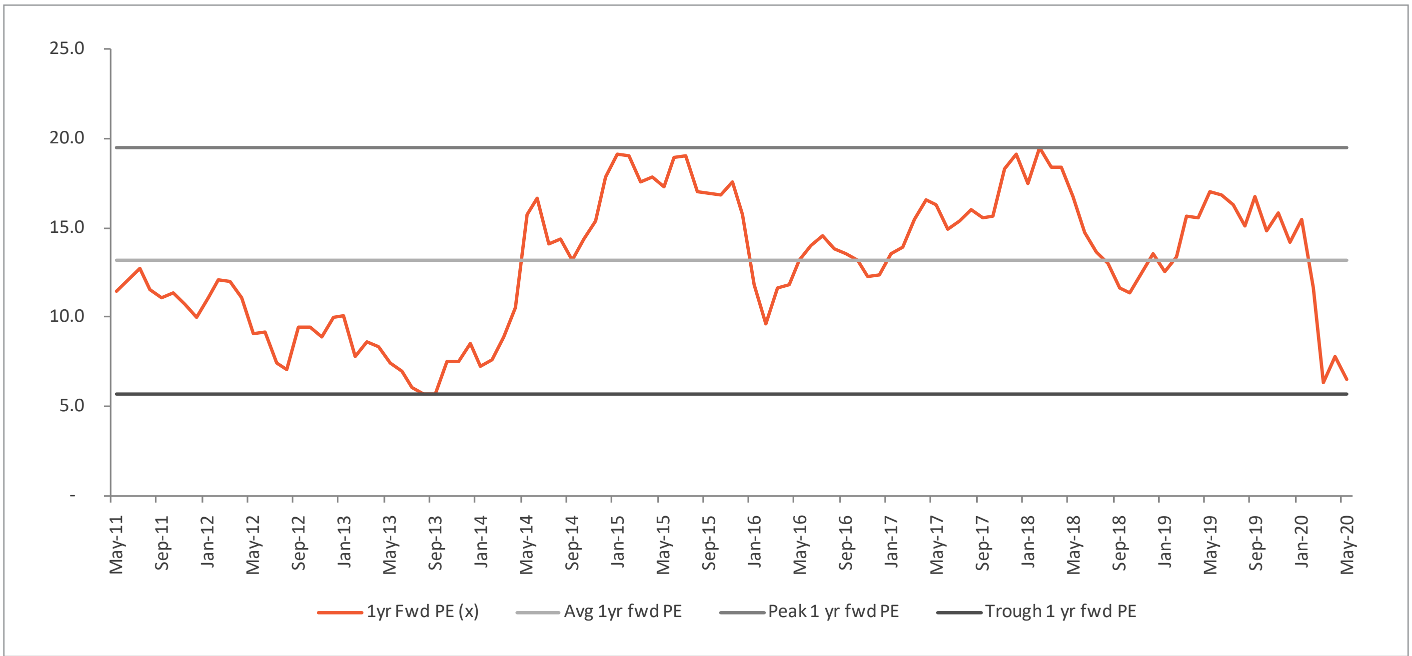
Valuation

Maintain Buy with unchanged PT of Rs. 250: The sector and the stock have seen significant correction; and at the CMP, the valuation is attractive at 5.4x one-year forward P/E, which was the low during GFC crisis as well, which we believe provides an attractive investment proposition considering its execution capabilities and capability to bag orders in tough scenarios. We maintain our Buy rating on the stock with an unchanged SOTP-based PT of Rs. 250.

SOTP Valuation

Valuation	Value/share	Basis of valuation and multiple
KPTL	219	Valued at 7x FY22E earnings
JMC	23	Valued at our target price
SSL	7	Valued on 35% discount to potential valuation
Others	4	Valued at 25% discount to equity invested in SPV & other investments
Total Value	250	Price Target

One-year forward P/E (x) band



Source: 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 constructsindustrial 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 spendsin India are expected to be around Rs.2,30,000crore 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 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 andChief 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	15.09
2	KC Holdings Pvt Ltd	13.67
3	HDFC Asset Management Co Ltd	9.64
4	Kalpataru Properties Pvt Ltd/Kolkata	8.82
5	Munot Mofatraj Pukhraj	6.47
6	Munot Parag Mofatraj	5.15
7	ICICI Prudential Life Insurance Co	3.27
8	Reliance Capital Trustee Co Ltd	2.17
9	HSBC GLOBAL INV MAURITIUS	2.14
10	ICICI Prudential Asset Management	1.92

Source: Bloomberg

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