

Kalpataru Power Transmission

Multiple triggers

We maintain BUY on Kalpataru Power Transmission Ltd. (KPTL) with increased SoTP of Rs 333/sh (core 10x FY22EPS). 4QFY20 performance was a miss owing to COVID-19 impact in last week of Mar-20 (Rs 3bn miss in revenue). Multiple triggers are in place for further re-rating with (1) Resumptions of near 75-80% execution in May-20 (2) Likely monetization of three BOOT transmission assets during FY21E & (3) Restructuring of JMC three Roads BOTs, which shall reduce cash burnout. We have increased FY21/22E EPS by 28.7/4.6% to factor in better than expected execution ramp up.

- Muted performance:** KPTL posted Rev/EBIDTA/APAT de-growth of 7.6/5/21.8% YoY (6.9/6.5/22% miss). KPTL lost about Rs 3bn revenue in last week of Mar-20 due to COVID-19 disruption. With the calibrated relaxation in lockdown, supply chain issues and man/material movement has recovered and sites are working at 80-85% utilization. KPTL expects to achieve 70% billing for 1QFY21 (Rs 14bn), Rs 18-20bn in 2QFY20 and Rs 20+ bn for 3Q/4QFY21E. The recovery is better than HSIE Research expectations of 50% billing for 1QFY21 and slow ramp up to 100% beginning 3QFY21.
- Strong visibility on ordering:** KPTL secured new orders worth Rs 65bn (FY20) contributed by T&D (57%), Railways (21%) and Oil & Gas (23%). Besides, L1 status stands at Rs 20bn. Green corridor ordering by REC/PFC worth Rs 150-200bn is expected in June-20. Metro bids worth Rs 100bn are also in pipeline. KPTL has guided for Rs 100-110bn of new order booking for FY21E of which it has already bagged Rs 9bn besides L1 status in Rs 20bn (all in T&D – 70/30% domestic and international).
- Asset monetization seems on track, Buyback sentimental:** KPTL expects to achieve zero standalone net debt status by Mar-21. It is in advanced stages of divesting stake in Alipurduar asset by Jun/Jul-20 and Kohima Asset sale transfer to CLP India by Dec-20 post COD in Jul/Aug-20. Total stake sale proceeds of Rs 10bn+ will be utilized to reduce standalone net debt of Rs 9.7bn. Buyback announcement of Rs 2bn is in anticipation of strong cash inflow from BOOT asset sale and more of market signaling.
- KPTL seems to have recovered from worst of COVID-19 headwinds as site utilization has improved significantly to 80%. BOOT asset monetization will lead to zero standalone net debt over next few quarters. Domestic T&D orders are seeing improved traction (after 2yrs lull) whilst in Africa new opportunities are emerging in Rail electrification and cross country O&G pipeline. We maintain BUY. Key risks (1) Delays in capex recovery, (2) Slowdown in government infrastructure spend, (3) Delay in Transmission/Road BOTs monetization and (3) NWC deterioration.**

Financial summary

(Rs mn)	4Q FY20	4Q FY19	YoY (%)	3Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
Net Revenues	23,030	24,914	(7.6)	19,790	16.4	71,151	79,040	75,694	80,857
EBITDA	2,530	2,664	(5.0)	2,080	21.6	7,782	8,600	7,404	8,371
APAT	1,070	1,369	(21.8)	1,370	(21.9)	4,013	4,390	3,761	4,406
Diluted EPS (Rs)	7.0	8.9	(21.8)	8.9	(21.9)	26.2	28.6	24.5	28.7
P/E (x)						7.4	6.7	7.9	6.7
EV/EBIDTA (x)						4.4	4.6	4.9	4.2
RoE (%)						13.6	13.1	10.2	10.8

Source: Company, HSIE Research

BUY

CMP(as on 21 May 2020)	Rs 192
Target Price	Rs 333
NIFTY	9,106

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 321	Rs 333
EPS %	FY21E 28.7	FY22E 4.6

KEY STOCK DATA

Bloomberg code	KPP IN
No. of Shares (mn)	155
MCap (Rs bn) / (\$ mn)	30/394
6m avg traded value (Rs mn)	62
52 Week high / low	Rs 555/170

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(48.3)	(58.1)	(60.7)
Relative (%)	(23.4)	(34.3)	(40.1)

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	54.37	54.37
FIs & Local MFs	28.68	29.18
FPIs	7.41	7.37
Public & Others	9.27	8.71
Pledged Shares	22.50	31.26

Source : BSE

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Quarterly Financials Snapshot – Standalone

Particulars (Rs mn)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)	FY20	FY19	YoY(%)
Net Sales	23,030	24,914	(7.6)	19,790	16.4	79,040	71,151	11.1
Material Expenses	17,460	18,929	(7.8)	14,840	17.7	59,020	52,497	12.4
Employee Expenses	1,360	1,257	8.2	1,350	0.7	5,260	4,541	15.8
Other Ope Expenses	1,680	2,064	(18.6)	1,520	10.5	6,160	6,331	(2.7)
EBITDA	2,530	2,664	(5.0)	2,080	21.6	8,600	7,782	10.5
Depreciation	290	237	22.5	280	3.6	1,100	860	27.9
EBIT	2,240	2,427	(7.7)	1,800	24.4	7,500	6,922	8.4
Other Income	70	75	(7.2)	160	(56.3)	580	512	13.3
Interest Cost	460	318	44.7	420	9.5	1,660	1,190	39.5
PBT	1,850	2,185	(15.3)	1,540	20.1	6,420	6,244	2.8
Tax	780	816	(4.4)	410	90.2	2,030	2,231	(9.0)
Exceptional	-	-		240		240		
RPAT	1,070	1,369	(21.8)	1,370	(21.9)	4,630	4,013	15.4
APAT	1,070	1,369	(21.8)	1,130	(5.3)	4,390	4,013	9.4

Source: Company, HSIE Research

Margin Analysis

MARGIN ANALYSIS	4Q FY20	4Q FY19	YoY (bps)	3Q FY20	QoQ (bps)	FY20	FY19	YoY (%)
Material Expenses % Net Sales	75.8	76.0	(16.4)	75.0	82.7	74.7	73.8	88.8
Employee Expenses % Net Sales	5.9	5.0	86.0	6.8	(91.6)	6.7	6.4	27.3
Other Operating Expenses % Net Sales	7.3	8.3	(98.9)	7.7	(38.6)	7.8	8.9	(110.4)
EBITDA Margin (%)	11.0	10.7	29.3	10.5	47.5	10.9	10.9	(5.7)
Tax Rate (%)	42.2	37.3	481.6	26.6	1,553.9	31.6	35.7	(410.9)
APAT Margin (%)	4.6	5.5	(84.8)	5.7	(106.4)	5.6	5.6	(8.6)

Source: Company, HSIE Research

Change in Estimates

Standalone Rs Mn	FY21E			FY22E		
	Old	Revised	% Chg	Old	Revised	% Chg
Net Sales (Rs bn)	68,082	75,694	11.18	75,559	80,857	7.01
EBITDA (Rs bn)	6,305	7,404	17.42	8,079	8,371	3.62
EBITDA Margin (%)	9.3	9.8	51.96	10.7	10.4	-33.87
Adj PAT (Rs bn)	2,921	3,761	28.72	4,213	4,406	4.59
AEPS (Rs)	19.0	24.5	28.72	27.5	28.7	4.59
TP (Rs/share)	321	333	3.93			

Source: Company, HSIE Research

Revenue: Rs 23bn was 6.9% miss as KPTL couldn't bill Rs 3bn in last week of Mar-20 due to COVID-19 led disruptions

EBITDA: Rs 2.53bn was 6.5% miss, inline with Rev miss

Depreciation at Rs 290mn was in line with our estimates and Interest cost at Rs 460mn came in slightly higher due to Rs 70mn forex hit on overseas borrowing

There was no exceptional item

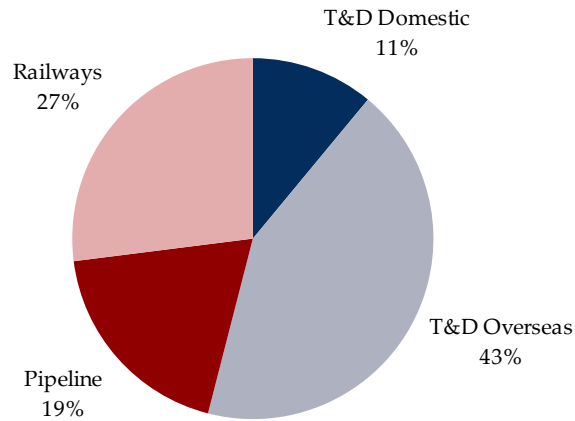
Consequently, RPAT/ APAT came in at Rs 1.07bn, 22% miss

We have revised our FY21 estimates upwards to account for earlier than expected resumption of work across plants and sites, and international execution not getting much impacted

4QFY20 Order Book Breakup (Rs 133bn)

Order book of Rs 133bn as on Mar-20 (Including Linjemontage Sweden)

T&D sector dominates the order book with T&D domestic – 11% and T&D overseas at 43%



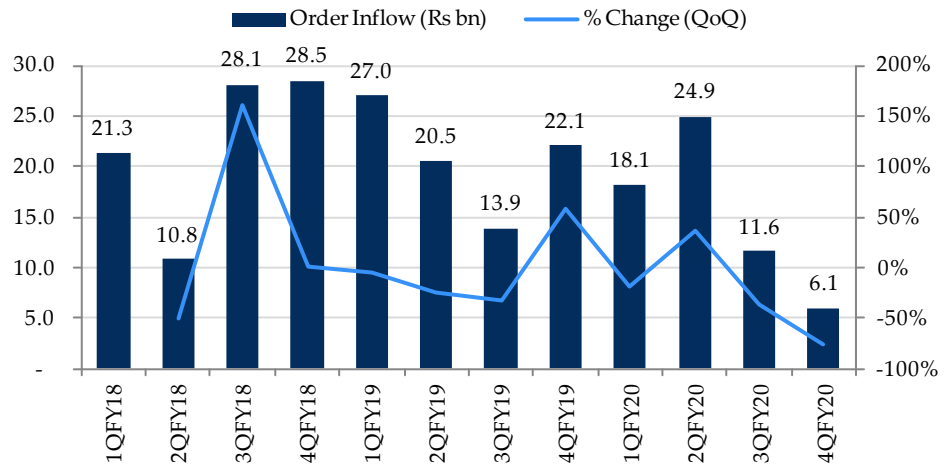
Source : Company, HSIE Research

Received total orders of Rs.6/65bn in 4QFY20/FY20

Order Inflow Trend (Rs bn)

KPTL received new orders of Rs 9bn in FY21 till date (Including Linjemontage Sweden); L1 of around Rs 20bn majorly in T&D business

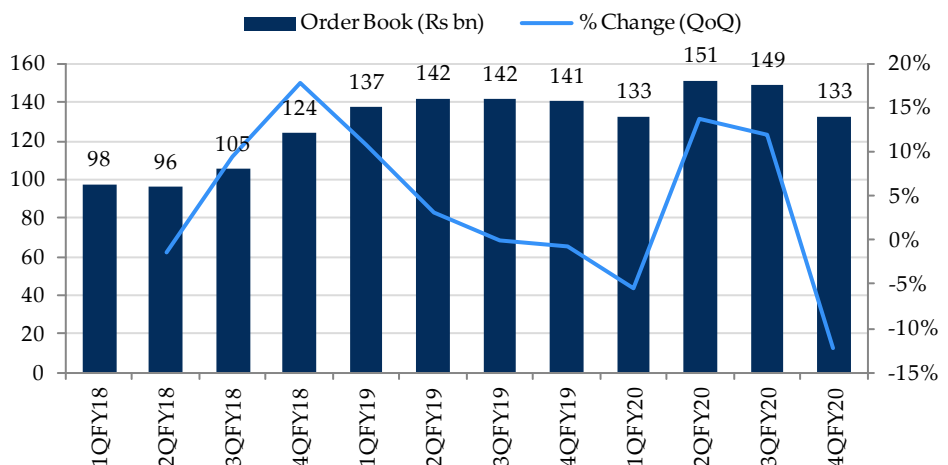
Strong Tender Pipeline: Rs 200bn to be bided in next 3 to 4 Months



Source : Company, HSIE Research

International orders focus on Africa projects funded by EXIM or other agencies

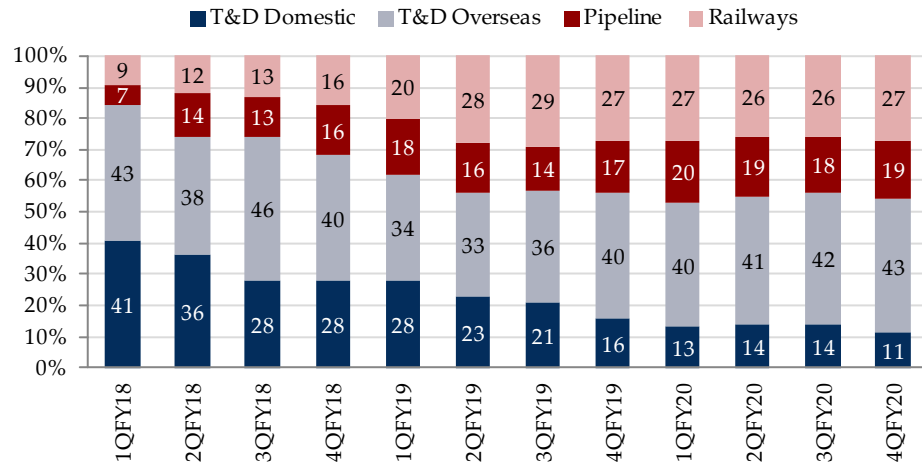
Order Book Trend (Rs bn)



Source : Company, HSIE Research

International orders within Pipeline/Oil & Gas & Railway segments to contribute 20-25% of their respective order books by next 2-3 years

Order Mix (Rs bn)



Source : Company, HSIE Research

Key Assumptions & Estimates

Key Assumptions	FY20	FY21E	FY22E	Comments
Closing order book	1,26,870	1,44,627	1,62,102	
Order book growth (%)	-10%	14%	12%	
New order booking	65,230	93,451	98,332	Order booking to be driven by T&D, Railways and Pipeline
Book to bill ratio	1.6	1.9	2.0	Book to bill to be at 1.8-2x
Total Revenue	79,040	75,694	80,857	1.1% revenue CAGR over FY20-22E
Growth (%)	11.1	(4.2)	6.8	
EBIDTA	8,600	7,404	8,371	
EBIDTA margin (%)	10.9	9.8	10.4	Margins to dip due to negative opelev
Depreciation	1,100	1,188	1,261	
Financial Charges	1,660	1,458	1,397	Expect finance cost to reduce as transmission BOOT assets proceed of ~Rs 10bn+ get realized. Large part may go towards debt reduction
Other Income	820	480	425	
PBT	6,660	5,237	6,137	-4% PBT CAGR over FY20-22E
PBT margin (%)	8.4	6.9	7.6	
Tax	2,030	1,477	1,731	
Tax rate (%)	30.5	28.2	28.2	Tax rate to reduce to 28% in FY21-22E owing to adoption of new tax regime
RPAT	4,630	3,761	4,406	-2.4% RPAT CAGR over FY19-21E
Net margin (%)	5.9	5.0	5.4	
Extraordinary	240.0	-	-	
Adjusted PAT	4,390	3,761	4,406	
Gross Block Turnover	9.2	8.2	8.2	
Debtor days	167	180	180	
CFO - a	2,431	3,968	3,383	
CFI - b	(4,306)	1,080	(870)	
FCFF	1,195	3,348	2,763	FY20 CF was impacted by buyout of Linjemontage, investment in BOOT transmission assets and billing miss. CF expected to recover in FY21/22E
CFF - c	3,790	(4,673)	(2,827)	Debt reduction using asset monetization proceeds
Total change in cash - a+b+c	1,915	374	(314)	

Source: HSIE Research

Outlook and valuation

Maintain BUY

We have valued KPTL EPC business at 10x Mar-22E EPS and KPTL Jhajjar Transmission asset at 2x P/BV

KPTL 67.2% stake in JMC Standalone as valued at 30% holdco discount to our JMC SOTP valuation (8x Mar-22 EPS)

JMC roads assets are valued based on NPV and 30% holdco discount

Shubham Logistics at 12x FY22E EPS

We maintain BUY on KPTL with SOTP based target price of Rs 333/sh (vs. Rs 321/sh earlier).

- **Valuation methodology:** We have valued KPTL EPC business at 10x Mar-22E EPS and KPTL Jhajjar Transmission asset at 2x P/BV. KPTL 67.2% stake in JMC Standalone as valued at 30% holdco discount to our JMC SOTP Valuation (8x Mar-21E EPS). JMC roads assets are valued based on NPV and 30% holdco discount. Shubham Logistics at 12x FY22E EPS. We arrive at SOTP based target of Rs 333.
- Our BUY stance is based on (1) Robust Standalone order book of Rs 133bn spread across T&D, Oil & Gas and Railways segment (2) Likely significant BS deleveraging through proceeds from BOOT assets stake sale and (3) Well diversified geographical presence.
- Further re-rating is contingent of KPTL achieving net cash position by FY21-22E. Likely pickup in domestic T&D and Railways orders and JMC roads BOT assets monetization.
- Investments in the T&D, Oil & Gas Pipelines and Railways sector would continue to drive the stock's performance. KPTL, with strong credentials, is likely to benefit from the pick-up in ordering activity.
- **We maintain BUY with higher SOTP based target price of Rs 333/sh (vs. Rs 321/sh earlier). SOTP increase is on account of upward revision of KPTL FY22E EPS by 4.6%.**

SOTP Valuation

Business	Valuation Methodology	Multiple	Stake	Value	Rs/Sh
KPTL Standalone	P/E multiple on FY22E Earnings	10	100.0%	44,065	287
KPTL BOT Assets (T&D)	P/BV multiple on equity invested	2	100.0%	860	6
JMC Standalone	P/E multiple on FY21E Earnings with 30% holdco discount	8	67.2%	4,777	31
JMC BOT Assets (Roads)	NPV		67.2%	885	6
Shubham Logistics	P/E multiple on FY21E Earnings	12	80.0%	1,345	9
Total					333

Source: HSIE Research

Financials

Standalone Income Statement

Year ending March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Revenues	43,646	48,941	57,412	71,151	79,040	75,694	80,857
<i>Growth (%)</i>			17.3	23.9	11.1	- 4.2	6.8
Material Expenses	30,656	34,305	41,215	52,497	59,030	55,001	58,659
Employee Expenses	2,932	2,918	3,487	4,541	5,260	5,310	5,741
Other Operating Expenses	5,390	6,427	6,397	6,331	6,150	7,979	8,086
EBIDTA	4,669	5,291	6,312	7,782	8,600	7,404	8,371
<i>EBIDTA (%)</i>	<i>11</i>	<i>10.8</i>	<i>11.0</i>	<i>10.9</i>	<i>10.9</i>	<i>9.8</i>	<i>10.4</i>
<i>EBIDTA Growth (%)</i>			19	23	11	-14	13
Depreciation	837	777	766	860	1,100	1,188	1,261
EBIT	3,832	4,514	5,546	6,922	7,500	6,216	7,110
Other Income	508	493	480	512	580	480	415
Interest	1,275	982	1,033	1,190	1,660	1,458	1,397
PBT	3,065	4,026	4,993	6,244	6,420	5,237	6,127
Tax	1,070	1,335	1,773	2,231	2,030	1,477	1,728
EO items (net of tax)	-	-	-	-	240	-	-
RPAT	1,995	2,691	3,220	4,013	4,630	3,761	4,399
EO items (net of tax)	-	-	-	-	240	-	-
APAT	1,995	2,691	3,220	4,013	4,390	3,761	4,399
<i>APAT Growth (%)</i>		34.9	19.7	24.6	9.4	- 14.3	17.0
EPS	13.0	17.5	21.0	26.2	28.6	24.5	28.7
<i>EPS Growth (%)</i>		34.9	19.7	24.6	9.4	- 14.3	17.0

Source: Company, HSIE Research

Standalone Balance Sheet

As at March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS							
Share Capital	307	307	307	307	310	310	310
Reserves	21,842	24,480	27,394	31,215	35,050	38,396	42,373
Total Shareholders Funds	22,149	24,787	27,700	31,522	35,360	38,706	42,683
Minority Interest							
Long Term Debt	2,716	3,211	3,903	4,542	2,990	4,542	4,542
Short Term Debt	2,870	2,315	3,830	1,924	10,108	5,755	4,755
Total Debt	5,586	5,526	7,732	6,466	13,098	10,297	9,297
Other Non Current Liabilities	594	597	1,750	2,571	2,460	2,460	2,460
Deferred Taxes	- 314	(410)	(312)	(157)	50	50	50
TOTAL SOURCES OF FUNDS	28,015	30,500	36,871	40,403	50,968	51,513	54,490
APPLICATION OF FUNDS							
Net Block	5,384	5,210	5,268	5,707	5,850	4,625	3,974
CWIP	41	26	167	77	400	410	420
Other Non Current Assets	5,182	7,160	7,849	6,486	8,640	6,940	7,190
Total Non-current Assets	10,607	12,396	13,284	12,270	14,890	11,975	11,584
Inventories	4,244	4,542	4,828	6,221	7,390	7,534	7,870
Debtors	23,046	28,480	33,805	33,716	36,170	37,328	39,875
Cash & bank balances	1,062	2,110	816	1,455	3,370	3,745	3,430
ST Loans & Advances	5,388	4,854	5,390	4,389	6,300	5,888	6,006
Other Assets	7,788	8,261	14,351	24,311	27,940	26,735	29,409
Total Current Assets	41,528	48,247	59,190	70,092	81,170	81,231	86,590
Creditors	16,610	19,327	23,377	26,863	25,550	25,796	27,600
Other Current Liabilities & Provnns	7,509	10,816	12,227	15,096	19,762	17,778	18,624
Total Current Liabilities	24,120	30,143	35,604	41,960	45,312	43,574	46,224
Net Current Assets	17,408	18,104	23,586	28,133	35,858	37,657	40,366
Misc Expenses & Others			1		220	1,881	2,540
TOTAL APPLICATION OF FUNDS	28,015	30,500	36,871	40,403	50,968	51,513	54,490

Source: Company, HSIE Research

Standalone Cash Flow

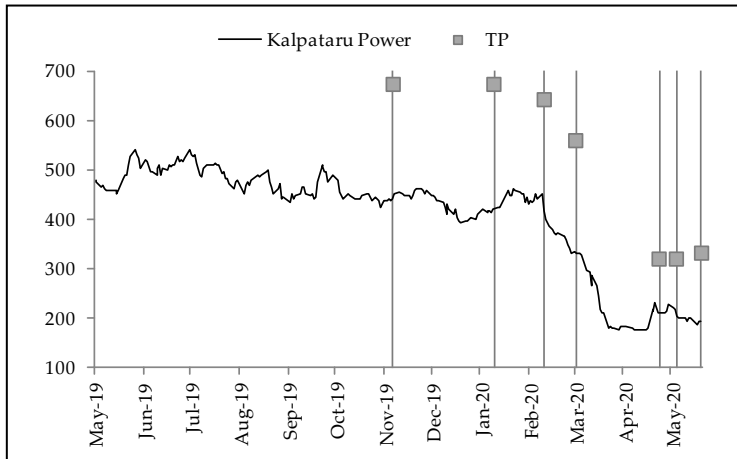
Year ending March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PBT	3,065	4,026	4,993	6,244	6,660	5,237	6,137
Non-operating & EO items	-1,603	(300)	(508)	(402)	(1,560)	(1,014)	(659)
Interest expenses		982	1,033	1,190	1,660	1,458	1,397
Depreciation	837	777	766	860	1,100	1,188	1,261
Working Capital Change	4,065	(714)	(3,836)	(289)	(3,329)	(1,425)	(3,023)
Tax paid		(1,553)	(1,413)	(2,349)	(2,100)	(1,477)	(1,731)
OPERATING CASH FLOW (a)	6,364	3,217	1,035	5,253	2,431	3,968	3,383
Capex	-949	(576)	(1,063)	(1,184)	(1,236)	(620)	(620)
Free cash flow (FCF)	5,414	2,641	(29)	4,070	1,195	3,348	2,763
Investments	-1,060	(1,961)	(701)	(545)	(4,860)	1,700	(250)
Non operating income	330	422	(111)	4	1,790	0	0
INVESTING CASH FLOW (b)	-1,679	(2,114)	(1,876)	(1,725)	(4,306)	1,080	(870)
Share capital Issuance	-	0	0	0	(220)	0	0
Debt Issuance	-3,759	970	784	(1,258)	6,730	(2,801)	(1,000)
Dividend Payment	-549	0	(363)	(449)	(1,190)	(414)	(430)
Others							
Interest expenses	-1,239	(1,001)	(909)	(1,209)	(1,530)	(1,458)	(1,397)
FINANCING CASH FLOW (c)	-5,547	(31)	(488)	(2,915)	3,790	(4,673)	(2,827)
NET CASH FLOW (a+b+c)	-863	1,072	(1,329)	613	1,915	374	- 314
Opening Cash & Equivalents	697	1,007	2,110	816	1,455	3,370	3,744
Closing Cash & Equivalents	1,062	2,110	816	1,455	3,370	3,745	3,430

Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PROFITABILITY (%)	29.8						
GPM	29.8	29.9	28.2	26.2	25.3	27.3	27.5
EBITDA Margin	10.7	10.8	11.0	10.9	10.9	9.8	10.4
EBIT Margin	8.8	9.2	9.7	9.7	9.5	8.2	8.8
APAT Margin	4.6	5.5	5.6	5.6	5.6	5.0	5.4
RoE	18.0	11.5	12.3	13.6	13.1	10.2	10.8
Core RoCE	22.9	14.0	14.5	14.7	14.4	11.2	12.1
RoCE	20.4	11.5	11.8	13.0	12.8	9.9	10.7
EFFICIENCY							
Tax Rate (%)	34.9	33.2	35.5	35.7	31.6	28.2	28.2
Asset Turnover (x)	4	8	9	10	9	8	8
Inventory (days)	35	34	31	32	34	36	36
Debtors (days)	193	212	215	173	167	180	180
Other Current Assets (days)	110	98	126	147	158	157	160
Payables (days)	139	144	149	138	118	124	125
Other Current Liab (days)	63	81	78	77	91	86	84
Net Working Capital Cycle (Days)	137	119	145	137	150	164	167
Debt/EBITDA (x)	1.2	1.0	1.2	0.8	1.5	1.4	1.1
Net D/E	0.2	0.1	0.2	0.2	0.3	0.2	0.1
Interest Coverage	3.0	4.6	5.4	5.8	4.5	4.3	5.1
PER SHARE DATA							
EPS (Rs/sh)	13.0	17.5	21.0	26.2	28.6	24.5	28.7
CEPS (Rs/sh)	18.5	22.6	26.0	31.8	35.8	32.2	36.9
DPS (Rs/sh)	1.5	2.0	2.5	3.5	3.5	3.5	3.5
BV (Rs/sh)	144.3	161.5	180.5	205.4	230.4	252.2	278.1
VALUATION							
P/E	14.8	11.0	9.2	7.4	6.7	7.9	6.7
P/BV	1.3	1.2	1.1	0.9	0.8	0.8	0.7
EV/EBITDA	7.3	6.2	5.8	4.4	4.6	4.9	4.2
OCF/EV (%)	18.7	9.8	2.8	15.2	6.2	11.0	9.6
FCF/EV (%)	15.9	8.0	- 0.1	11.8	3.0	9.3	7.8
FCFE/Market Cap (%)	5.6	12.2	2.6	9.5	26.8	1.9	6.0
Dividend Yield (%)	0.8	1.0	1.3	1.8	1.8	1.8	1.8

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
8-Nov-19	440	BUY	675
10-Jan-20	420	BUY	675
12-Feb-20	417	BUY	644
2-Mar-20	332	BUY	561
24-Apr-20	210	BUY	321
5-May-20	219	BUY	321
21-May-20	192	BUY	333

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

Disclosure:

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