

Good Q1; FY21 outlook remains positive; Maintain Buy

- Q1 results came in better than estimates (Exhibit 1) though it was a subdued quarter due to lockdown; EBITDA was lower by 19% YoY but EBITDA margins were fairly stable at 10.7% due to cost rationalization measures.
- The management is confident about recovery of lost productivity in H2FY21 and maintains guidance of 5-10% revenue growth and margins in 10.5-11% range for FY21. We assume a 5%/15% topline growth in FY21E/22E and maintain our FY21E and FY22E estimates as outlined in Exhibit 2
- Visible order inflow of Rs230bn and L1 orders of Rs50bn coupled with shift to favorable business mix will lead to steady revenue growth. We continue to maintain a Buy rating on the stock with a TP of Rs320

Q1FY21 Sales, EBITDA and PAT better than estimates

Q1FY21 sales came in at Rs14.6bn vs. Rs13.2bn as per our estimates, down by 12% YoY. The overseas T&D business grew by 12% YoY as compared to domestic business at 6% YoY in Q1FY21. EBITDA was Rs1.6bn vs. Rs1bn as per our estimates, lower by 19% YoY due to higher employee costs at 11% YoY. EBITDA margins although down by 90bps were at acceptable levels of 10.7% due to lower other expenses by 18% YoY. PAT was lower by 25% YoY at Rs690mn in Q1FY21. The company is currently operating at an operating efficiency of 90% for KPTL and expects to be back at pre-covid19 efficiency levels in Q3FY21 and recover lost days in H2FY21. The company is confident about a maintaining steady inflow from international T&D and achieving double digit growth in railways and oil & gas business in FY21.

Cash remains priority; aim to be debt-free by end of FY21

Cash conservation remains top priority of the management, it has already achieved cost savings of Rs.5bn through lower travel and office charges. It intends to payback current debt of Rs8bn to be debt-free by the end of FY21, with cash flows supplemented through sale its transmission assets.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	14,590	16,550	(11.8)	23,030	(36.6)
Total Expense	13,030	14,630	(10.9)	20,500	(36.4)
EBITDA	1,560	1,920	(18.8)	2,530	(38.3)
Depreciation	290	260	11.5	290	0.0
EBIT	1,270	1,660	(23.5)	2,240	(43.3)
Other Income	90	100	(10.0)	70	28.6
Interest	350	340	2.9	460	(23.9)
EBT	1,010	1,420	(28.9)	1,850	(45.4)
Tax	320	500	(36.0)	780	(59.0)
RPAT	690	920	(25.0)	1,070	(35.5)
APAT	690	920	(25.0)	1,070	(35.5)
			(bps)		(bps)
Gross Margin (%)	28.0	27.5	47	24.2	378
EBITDA Margin (%)	10.7	11.6	(91)	11.0	(29)
NPM (%)	4.7	5.6	(83)	4.6	8
Tax Rate (%)	31.7	35.2	(353)	42.2	(1048)
EBIT Margin (%)	8.7	10.0	(133)	9.7	(102)

CMP	Rs 250
Target / Upside	Rs 320 / 28%
BSE Sensex	38,354
NSE Nifty	11,308

Scrip Details

Equity / FV	Rs 310mn / Rs 2
Market Cap	Rs 39bn
	USD 518mn
52-week High/Low	Rs 516/Rs 170
Avg. Volume (no)	5,43,212
NSE Symbol	KALPATPOWER
Bloomberg Code	KPP IN

Shareholding Pattern Jun'20(%)

Promoters	54.4
MF/Banks/FIs	26.9
FIIs	7.1
Public / Others	11.6

Valuation (x)

	FY20A	FY21E	FY22E
P/E	8.4	9.7	7.8
EV/EBITDA	5.5	5.3	4.5
ROE (%)	13.8	10.8	12.3
RoACE (%)	14.3	12.8	14.4

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	79,040	83,028	95,453
EBITDA	8,600	8,600	10,722
PAT	4,630	3,978	4,995
EPS (Rs.)	29.9	25.7	32.2

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Healthy order mix with favorable business mix

The order book for Q1FY21 is Rs135bn with ~40% from non-T&D business. Water business has a strong pipeline all over India, B&F continues to gain traction in South India with bids worth Rs10bn expected in near-term; international order pipeline remains strong with a robust Africa order book. Water business to provide higher margins and form larger part of mix in coming quarters, FY21 order mix between B&F and Water to be 50:50 split due to frequent B&F opportunity and large water orders.

Valuations are favorable; Maintain Buy

The management has guided a growth of 5%-10% and margins of 10.5%-11% in FY21. We believe in a 5%/15% topline growth in FY21E/22E and maintain our FY21E and FY22E as outlined in Exhibit 2. A strong order visibility of Rs230bn and L1 status of Rs50bn with a favorable change in business mix, will lead to steady stream revenues. The business is currently valued at PE of 7x FY22 and we continue to maintain our Buy rating with upgraded SOTP based TP of Rs320, valuing the core business at 9x FY22 at Rs291 and its holding in JMC at Rs29, 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
	Q1FY21	Q1FY21E	Q1FY21E	Var (%)	Var (%)	
Sales	14,590	13,240	11,072	10.2	31.8	Sales better than estimates due to improved execution
EBITDA	1,560	1,023	806	52.5	93.5	
EBITDA margins	10.7	7.7	7.3	296.6	341.3	Margins remained stable due to cost rationalization measures
PAT	690	457	155	51.0	346.0	Better sales and margins led to PAT beat
Pat margins	4.7	3.5	1.4	127.8	333.2	
EPS	4.5	2.9	1.0	51.0	346.0	

Source: Company, DART

Exhibit 2: Change in Our Estimates

(Rs Mn)	FY21E			FY22E		
	Earlier	New	Var %	Earlier	New	Var %
Sales	83,028	83,028	0.0	95,453	95,453	0.0
EBITDA	8,600	8,600	0.0	10,722	10,722	0.0
EBITDA margin (%)	10.4	10.4	0	11.2	11.2	0
PAT	3,978	3,978	0.0	4,995	4,995	0.0
EPS	25.7	25.7	0.0	32.2	32.2	0.0

Source: DART, Company

Exhibit 3: Quarterly Performance

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Net Revenue	16,550	19,670	19,790	23,030	14,590	-11.8	-36.6	16,550	14,590	-11.8
Total Raw Material Cost	12,000	14,730	14,840	17,460	10,510	-12.4	-39.8	12,000	10,510	-12.4
Staff Expenditure	1,240	1,310	1,350	1,360	1,380	11.3	1.5	1,240	1,380	11.3
Other Expenses	1,390	1,560	1,520	1,680	1,140	-18.0	-32.1	1,390	1,140	-18.0
EBITDA	1,920	2,070	2,080	2,530	1,560	-18.8	-38.3	1,920	1,560	-18.8
Depreciation	260	270	280	290	290	11.5	0.0	260	290	11.5
EBIT	1,660	1,800	1,800	2,240	1,270	-23.5	-43.3	1,660	1,270	-23.5
Other Income	100	250	160	70	90	-10.0	28.6	100	90	-10.0
Interest	340	440	420	460	350	2.9	-23.9	340	350	2.9
PBT	1,420	1,610	1,780	1,850	1,010	-28.9	-45.4	1,420	1,010	-28.9
Tax	500	340	410	780	320	-36.0	-59.0	500	320	-36.0
Net Profit	920	1,270	1,370	1,070	690	-25.0	-35.5	920	690	-25.0
Reported EPS	5.9	8.2	8.8	6.9	4.5	-25.0	-35.5	5.9	4.5	-25.0

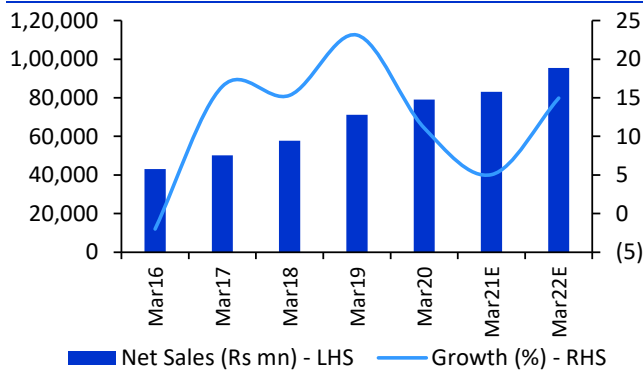
Source: Company, DART

Exhibit 4: Operating Cost and Margins

Operating Cost as a % of Sales	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Raw Material Cost	72.5	74.9	75.0	75.8	72.0	-47.2	-377.9	72.5	72.0	-47.2
Staff Cost	7.5	6.7	6.8	5.9	9.5	196.6	355.3	7.5	9.5	196.6
Other Expenses	8.4	7.9	7.7	7.3	7.8	-58.5	51.9	8.4	7.8	-58.5
Margins (%)										
GM	27.5	25.1	25.0	24.2	28.0	47.2	377.9	27.5	28.0	47.2
EBITDA	11.6	10.5	10.5	11.0	10.7	-90.9	-29.3	11.6	10.7	-90.9
EBIT	10.0	9.2	9.1	9.7	8.7	-132.6	-102.2	10.0	8.7	-132.6
PBT	8.6	8.2	9.0	8.0	6.9	-165.8	-111.0	8.6	6.9	-165.8
NPM	5.6	6.5	6.9	4.6	4.7	-83.0	8.3	5.6	4.7	-83.0

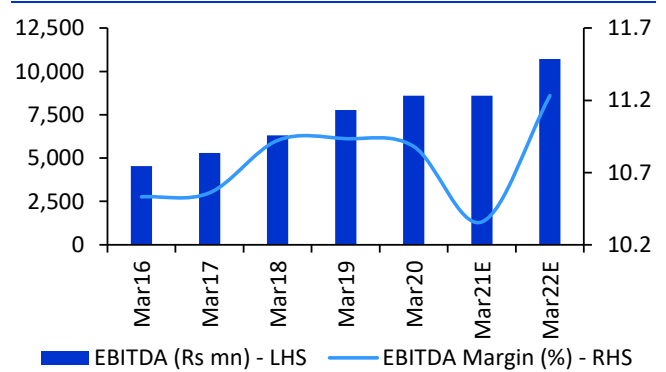
Source: DART, Company

Exhibit 5: Net Sales and Growth (%)



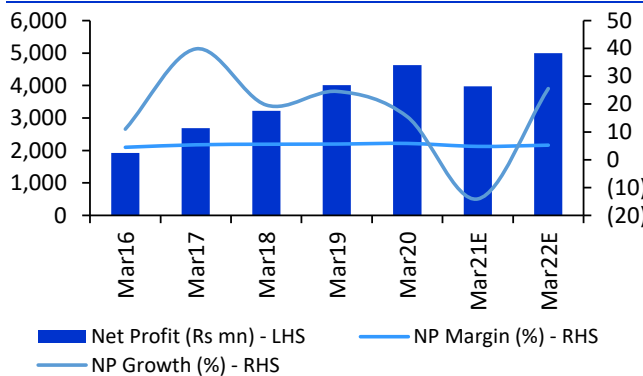
Source: DART, Company

Exhibit 6: EBITDA and Growth (%)



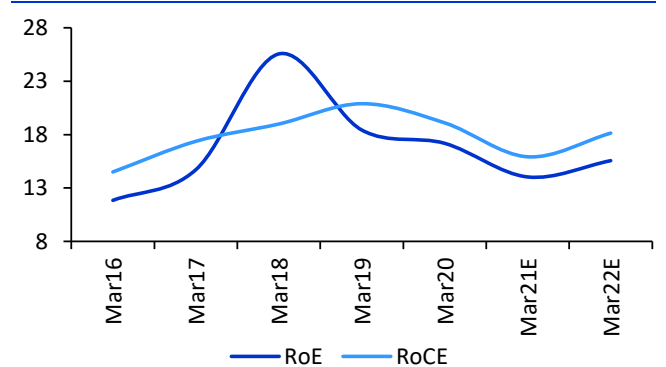
Source: DART, Company

Exhibit 7: Net Profit and Growth (%)



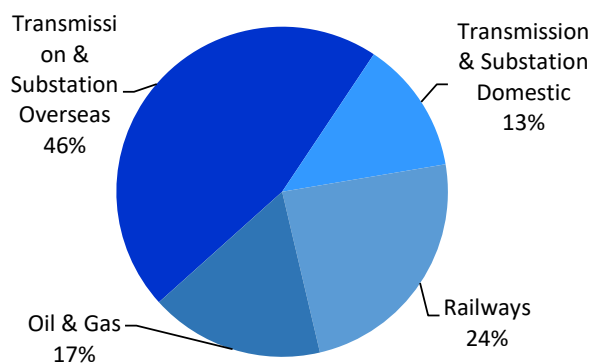
Source: DART, Company

Exhibit 8: RoE and RoCE (%)



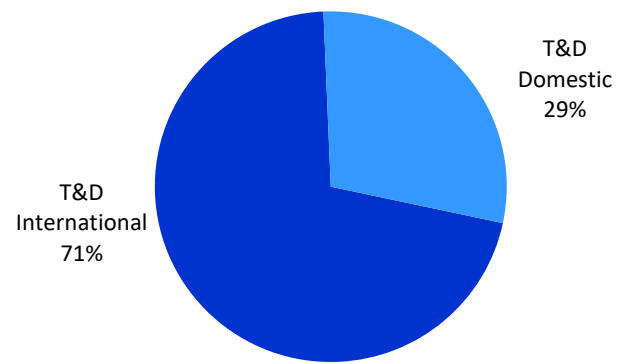
Source: DART, Company

Exhibit 9: Order Book as on June'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	2,325	2,770
Other Income	510	580	500	500
Exc. / E.O. items	0	240	0	0
EBT	6,240	6,660	5,525	7,036
Tax	2,230	2,030	1,547	2,040
RPAT	4,010	4,630	3,978	4,995
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	4,010	4,630	3,978	4,995

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	38,303	42,572
Net Worth	31,520	35,360	38,613	42,882
Total Debt	6,080	11,770	12,770	13,770
Net Deferred Tax Liability	(160)	50	50	50
Total Capital Employed	37,440	47,180	51,433	56,702

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	62,972	70,129
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	6,331	4,489
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
sub total				
Net Current Assets	850	3,860	12,245	11,812
Total Assets	37,440	47,180	51,433	56,702

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	4.8	5.2
(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	0.3
Interest Coverage	5.8	4.5	3.2	3.4
Inventory days	32	34	31	32
Debtors days	173	167	195	195
Average Cost of Debt	19.1	18.6	18.9	20.9
Payable days	214	212	205	205
Working Capital days	4	18	54	45
FA T/O	12.3	12.5	11.2	13.5
(D) Measures of Investment				
AEPS (Rs)	25.9	29.9	25.7	32.2
CEPS (Rs)	31.4	37.0	33.7	41.4
DPS (Rs)	3.0	3.5	4.0	4.0
Dividend Payout (%)	11.6	11.7	15.6	12.4
BVPS (Rs)	203.4	228.1	249.1	276.7
RoANW (%)	13.5	13.8	10.8	12.3
RoACE (%)	14.6	14.3	12.8	14.4
RoAIC (%)	20.1	18.8	16.5	19.1
(E) Valuation Ratios				
CMP (Rs)	250	250	250	250
P/E	9.7	8.4	9.7	7.8
Mcap (Rs Mn)	38,773	38,773	38,773	38,773
MCap/ Sales	0.5	0.5	0.5	0.4
EV	43,393	47,173	45,212	48,054
EV/Sales	0.6	0.6	0.5	0.5
EV/EBITDA	5.6	5.5	5.3	4.5
P/BV	1.2	1.1	1.0	0.9
Dividend Yield (%)	1.2	1.4	1.6	1.6
(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	(17.0)	27.3
APAT	24.6	15.5	(14.1)	25.6
EPS	24.6	15.5	(14.1)	25.6

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	1,945	2,660	7,321	1,754
CFI	144	(4,200)	(2,270)	(1,100)
CFF	(2,050)	3,395	(2,049)	(2,496)
FCFF	729	610	5,051	654
Opening Cash	816	1,460	3,370	6,331
Closing Cash	1,460	3,370	6,331	4,489

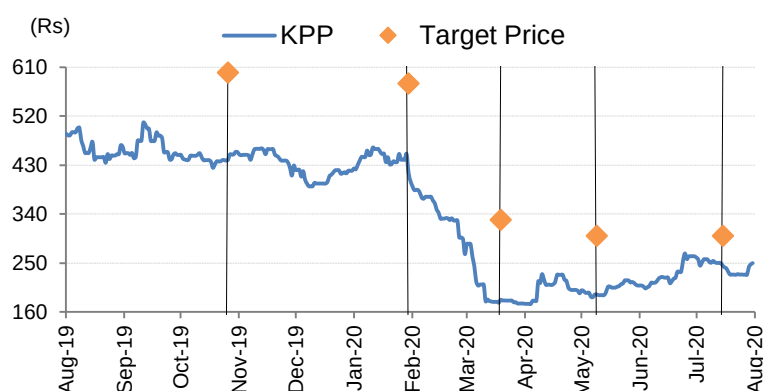
E – Estimates

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.)
Nov-19	Buy	600	440
Feb-20	Buy	580	417
Mar-20	Buy	330	183
May-20	Buy	300	193
Jul-20	Buy	300	246

*Price as on recommendation date

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