

Sector: Capital Goods

Result Update

	Change
Reco: Buy	↔
CMP: Rs. 247	
Price Target: Rs. 325	↑
↑ Upgrade ↔ No change ↓ Downgrade	

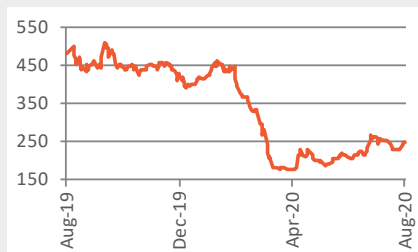
Company details

Market cap:	Rs. 3,822 cr
52-week high/low:	Rs. 515/170
NSE volume: (No of shares)	4.4 lakh
BSE code:	522287
NSE code:	KALPATPOWR
Sharekhan code:	KALPATPOWR
Free float: (No of shares)	7.1 cr

Shareholding (%)

Promoters	54.4
FII	7.1
DII	26.9
Others	11.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5	23	-37	-49
Relative to Sensex	-10	4	-30	-52

Sharekhan Research, Bloomberg

Kalpataru Power Transmission Limited's (KPTL) posted better-than-expected Q1FY2021 results despite challenges. Standalone revenue was impacted due to the lockdown, reporting a decline of 11.8 % y-o-y (in-line with estimates), wherein the core T&D segment were almost flat y-o-y while non T&D revenues were lower y-o-y. Operating margins surprised positively at 10.7% (lower 91 bps y-o-y) which was higher than our estimates. Lower execution and higher fixed cost expense led to 18.8% y-o-y decline in operating profit at Rs. 156 crore (higher than our estimate). Further, higher depreciation (up 11.5% y-o-y) and lower other income (-10% y-o-y) led to standalone net profit of Rs. 69 crore (-25% y-o-y) which was better than estimates. KPTL's order inflow at Rs 1866 crore remained marginally higher (+2.9% y-o-y) during the quarter and order book remains at Rs. 13,522 crore (1.8x TTM standalone revenues). KPTL has also bagged orders worth Rs. 604 crore in Q2FY21 till date and is L1 in Rs. 1,000 crore orders. The management has maintained its guidance for 5-10% standalone revenue growth for FY2021 with stable OPM at 10.5-11%. It also maintained its order inflow guidance and it is expected to remain at the higher end of the guidance of Rs. 9,000 crore-10,000 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 railways segment, order momentum that was slow has gradually picked up and bids are expected to be awarded soon. The slowness seen in domestic T&D project awards is well compensated through opportunities arising in the international T&D (Africa and Nordiac regions). The company stated that site and labor productivity touched at around 90% in KPTL and it expects situation to normalize by end of Q2FY21. Further KPTL remains focused on cash flows with dedicated efforts on cost optimization and prudent working capital management in KPTL. On the asset sale front, the agreement for sale of the third project Kohima Mariani Transmission stands intact and working to close all T&D assets sales transactions in FY2021 which would help further deleveraging the balance sheet. We have fine-tuned our estimates for FY2021-FY2022, factoring in improving execution due to improvement in operations at sites/factories and introduced FY2023 estimates in this note. We maintain our Buy rating on the stock with a revised SOTP-based price target (PT) of Rs. 325.

Key positives

- KPTL is L1 bidder for projects worth Rs. 1,000 crore, largely in T&D from the international market.
- Site and labor productivity touched at around 90% in KPTL
- Order book remains strong at Rs 13,522 crore (1.8x TTM standalone revenues).

Key negatives

- Revenues declined 30% in Q1FY21 in Non T&D (Railways, Oil & gas) division

Our Call

Valuation - Maintain Buy with revised PT of Rs. 325: Management remains confident of delivering good performance in FY2021 despite challenges with most projects operational now. Order inflow visibility remains healthy in railways, international T&D and Oil & gas. The sector and the stock have seen significant correction, which provides an attractive investment proposition. We expect FY2021 to be better for KPTL in terms of order intake, improving prospects for asset divestments which will further deleverage the balance sheet. We have fine-tuned our estimates for FY2021-FY2022, factoring improving execution due to improvement in operations at sites/factories and introduced FY2023 estimates in this note. Hence, we maintain our Buy rating on the stock with a revised SOTP-based PT of Rs. 325.

Key Risks

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

Valuation (Standalone)

	Rs cr			
Particulars	FY20	FY21E	FY22E	FY23E
Revenue	7,904	8,416	9,377	10,485
OPM (%)	10.9	10.7	10.8	10.9
Adjusted PAT	463	453	549	669
% YoY growth	15.4	(2.1)	21.2	21.8
Adjusted EPS (Rs.)	30.0	29.3	37.2	45.4
P/E (x)	8.2	8.0	6.6	5.4
P/B (x)	1.1	1.0	0.9	0.8
EV/EBITDA (x)	4.4	3.5	2.9	2.3
RoNW (%)	13.8	12.1	13.0	14.1
RoCE (%)	19.1	17.1	18.2	19.3

Source: Company; Sharekhan estimates

Better than expected execution and higher OPM leads to beat on net earnings: Standalone revenue was impacted due to the lockdown, reporting a 11.8 % y-o-y decline (in-line with estimates), wherein the core T&D segment were almost flat y-o-y while non T&D revenues were lower y-o-y (-30% y-o-y). Operating margins surprised positively at 10.7% (lower 91 bps y-o-y) which was higher than our estimates. Lower execution and higher fixed cost expense led to 18.8% y-o-y decline in operating profit at Rs. 156 crore (higher than our estimate). Further, higher depreciation (up 11.5% y-o-y) and lower other income (-10% y-o-y) led to standalone net profit of Rs. 69 crore (-25% y-o-y) which was better than estimates 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 maintained its guidance for 5-10% standalone revenue growth for FY2021 with stable OPM at 10.5-11%.

Order book remains healthy despite marginally higher ordering y-o-y: KPTL's order inflow at Rs 1866 crore remained marginally higher (+2.9% y-o-y) during the quarter and order book remains at Rs. 13,522 crore (1.8x TTM standalone revenues). KPTL has also bagged orders worth Rs. 604 crore in Q2FY21 till date and is L1 in Rs. 1,000 crore orders majorly from international T&D. Management has stated that order inflow is expected to remain at the higher end of the guidance of Rs. 9,000 crore-10,000 crore for FY2021, where orders are expected to come from international T&D and the balance is expected from railways and oil and gas segments. In the railways segment, order momentum that was slow has gradually picked up and bids are expected to be awarded soon. The slowdown in domestic T&D project is well compensated by opportunities in the international T&D (Africa and Nordiac regions). KPTL is also exploring opportunities in the oil and gas and railways in Africa region where it has its strong presence in T&D.

Key result highlights from earnings call

- ♦ **Revenue guidance:** Management maintained its guidance for 5-10% for FY2021 and expects sustained execution growth momentum to continue for the year with stable OPM at 10.5-11% for FY2021. 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. 13,522 crore providing revenue visibility of 1.8x its TTM standalone revenue.
- ♦ **Order inflow guidance:** KPTL's order inflow at Rs 1866 crore remained marginally higher (+2.9% y-o-y) during the quarter. KPTL has also bagged orders worth Rs. 604 crore in Q2FY21 till date and is L1 in Rs. 1,000 crore orders majorly from international T&D. Management has stated that order inflow is expected to remain at the higher end of the guidance of Rs. 9,000 crore-10,000 crore for FY2021, where orders are expected to come from international T&D and the balance is expected from railways and oil and gas segments.
- ♦ **Assets sale update:** KPTL entered into agreement with India Grid Trust to sell Jhajjar KT Transco Private Limited (JKTPL) for estimated enterprise value of Rs.310 crore; Further it signed definitive agreements to sell Alipurduar Transmission Limited to Adani Transmission Limited for a total Enterprise Value (EV) of about Rs.1286 crore. Closure in both the assets expected in H2FY21. It has also successfully commissioned Element 1 and 3 of Kohima-Mariani Transmission Ltd. (KMTL); Element 2 expected to be commissioned soon; Deal in place with CLP India to sell KMTL
- ♦ **Operation in factories and project sites:** KPTL's management stated that work has partially started in all its factories with social distancing norms'. The company stated that site and labor productivity touched close to 90% in KPTL and it expect situation to normalize by end of Q2FY21.
- ♦ **Net Debt:** Standalone net debt decreased Rs765 crores (Rs 992 crore in Q1FY20 and Rs 969 crores in Q4FY20) and consolidated gross debt and net debt stood at Rs. 3784 crore and Rs. 3374 crore. 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
- ♦ **Railways:** In the railways segment, order momentum that was slow has gradually picked up and bids are expected to be awarded soon. Opportunity size of \$50 mn \$ to 100 mn \$ in railways in international markets for KPTL.

Kalpataru Power Transmission (Standalone)

Particulars	Q1FY21	Q1FY20	YoY%	Q4FY20	Rs cr QoQ%
Net Sales	1,459.0	1,655	(11.8)	2,303	(36.6)
Operating expenditure	1,303	1,463	(10.9)	2,050	(36.4)
Operating profit	156.0	192	(18.8)	253	(38.3)
Other income	9	10	(10.0)	7	28.6
Interest	35	34	2.9	46	(23.9)
Depreciation	29	26	11.5	29	-
PBT	101	142	(28.9)	185	(45.4)
Tax	32	50	(36.0)	78	(59.0)
Reported PAT	69	92	(25.0)	107	(35.5)
Adj PAT	69	92	(25.0)	107	(35.5)
EPS (Rs)	4.5	5.9	(25.0)	6.9	(35.5)
OPM (%)	10.7	11.6	(90.9)	11.0	(29.3)
NPM (%)	4.7	5.6	(83.0)	4.6	8.3
Tax Rate (%)	31.7	35.2	-	42.2	-

Source: Company; Sharekhan Research

Outlook

Improving business prospects: In the 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. 5-11%. KPTL has received Rs. 2470 crore order inflow during YTD and is L1 in Rs. 1,000 crore and management aims for Rs. 9,000 crore-10,000 crore order inflows for FY2021. The management expects sales of its BOOT assets by FY2021 and is in talks with prospective buyers. Further, management expects to be net debt free on standalone by FY2021. Tendering pipeline remains healthy in railways, oil and gas in domestic markets and T&D tenders in international markets.

Valuation

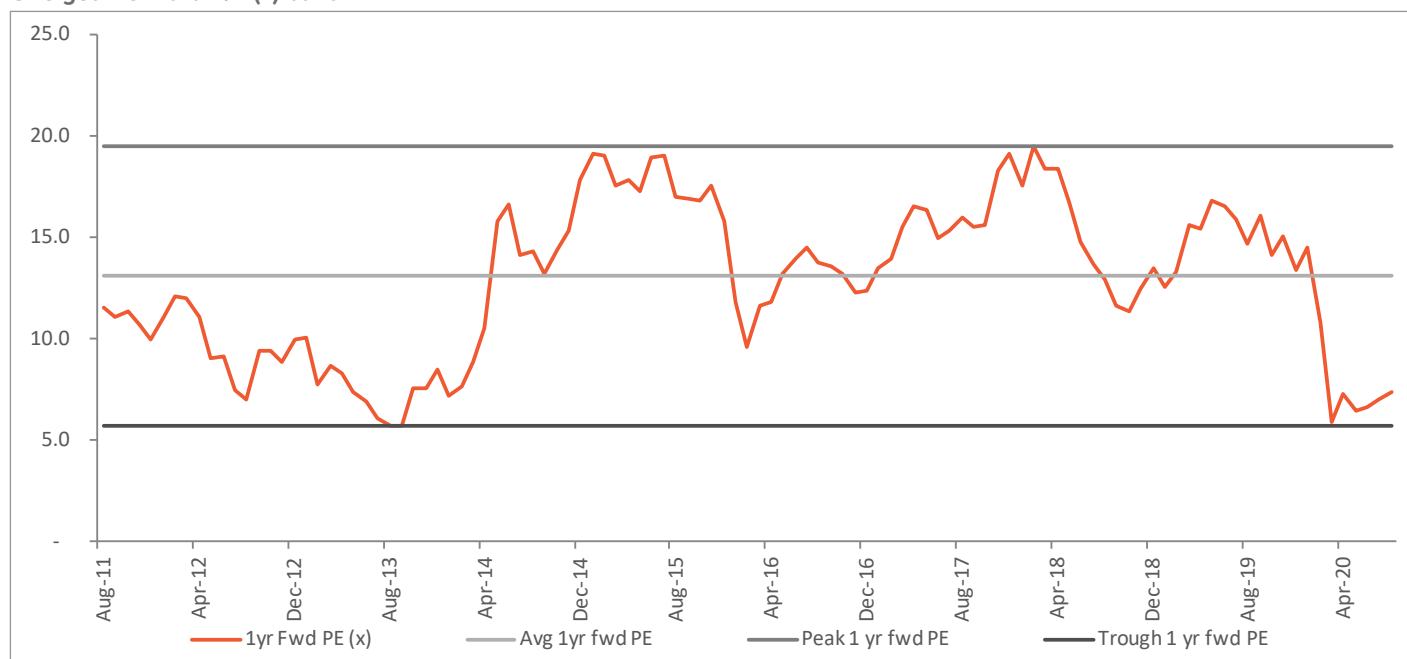
Maintain Buy with revised PT of Rs. 325: The company remains confident of delivering a good performance in FY2021 despite challenges with most projects operational now. Order inflow visibility remains healthy in railways, international T&D and Oil & gas. The sector and the stock have seen significant correction, which provides an attractive investment proposition. We expect FY2021 to be better for KPTL in terms of order intake, improving prospects for asset divestments which will further deleverage the balance sheet. We have fine-tuned our estimates for FY2021-FY2022, factoring improving execution due to improvement in operations at sites/factories and introduced FY2023 estimates in this note. Hence, we maintain our Buy rating on the stock with a revised SOTP-based PT of Rs. 325.

SOTP Valuation

Sum Of Part Valuation		
Valuation	Value/share	Basis of valuation and multiple
KPTL	281	Valued at 7x FY22E earnings
JMC	36	Valued at our target price
SSL	7	Valued at recent stake acquisition price by KPTL
Others	4	Valued at 25% discount to equity invested in SPV & other investments
Total Value	325	Price Target

Source: Bloomberg

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 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 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	15.13
2	KC Holdings Pvt Ltd	13.70
3	HDFC Asset Management Co Ltd	9.66
4	Kalpataru Properties Pvt Ltd/Kolkata	8.84
5	Munot Mofatraj Pukhraj	6.48
6	Munot Parag Mofatraj	5.16
7	ICICI Prudential Life Insurance Co	3.36
8	Kotak Mahindra AMC Co Ltd/India	2.98
9	Reliance Capital Trustee Co Ltd	2.33
10	HSBC Global Inv Mauritius	2.14

Source: Bloomberg

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