INSTITUTIONAL RESEARCH

Kalpataru Power Transmission

Recovery in sight

Key takeaways from KPTL's FY20 AR are as follows: (1) geographically a well-diversified order book and robust bid pipeline; (2) standalone profitability stable and moderate; consolidated profitability dragged by subsidiaries performance, mainly pertaining to BOT assets; (3) while borrowings increased by 25%, it is still quite comfortable (net D/E at 0.29); and (4) investment/loans worth Rs 1,650/Rs 320mn given to SSL. Multiple triggers are in place for further rerating with (1) resumptions of near 75-80% execution in Jun-20, (2) likely receipts of monetisation proceeds of three BOOT transmission assets during FY21E worth Rs 10bn+, and (3) restructuring of JMC three Roads BOTs, which shall reduce cash burnout. The overhang of the promoter group's real estate exposure will continue to restrict multiple rerating. We increase our FY22E EPS by 3% and roll forward our valuation to Jun-22E. We maintain BUY on KPTL with a revised target price of Rs 357/sh (vs. Rs 333/sh earlier).

- **Order pipeline robust:** KPTL secured new orders worth Rs 65bn (FY20) contributed by T&D (57%, almost equal share of domestic and international orders), 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 1HFY21. Metro bids worth Rs 100bn are also in the pipeline. KPTL has guided for Rs 100-110bn of new order booking (HSIE est Rs 93.5bn) for FY21E, of which it has already bagged Rs 18.6bn in FYTD21E. We expect L1 status to be about Rs 15-20bn.
- **Asset monetisation to help achieve net cash status at KPTL standalone:** KPTL expects to achieve zero standalone net debt status by Mar-21E. It has signed a definitive agreement for selling Alipurduar asset to Adani transmission, subject to statutory approvals by 3QFY21E and Kohima Asset sale transfer to CLP India by Dec-20 post COD in Jul/Aug-20. The company will utilise the total stake sale proceeds of Rs 10bn+ to reduce the 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 signalling. BS deleveraging will be key for further re-rating.
- **Key growth drivers:** KEC stands to benefit from impetus given to railways electrification, MRTS construction planned in 26+ cities, and gas & water distribution infra opportunities in the Smart Cities Mission (AMRUT) across the country. While private capex remains elusive, and domestic T&D activity muted in the near term, planned outlays in MENA/SAARC regions on power T&D infra provide ample opportunities to grow over the near & medium term. We remain constructive on order inflows.
- We maintain BUY on KPTL. Key risks: (1) adverse currency/commodity movement, (2) further delays in capex recovery, (3) slowdown in government T&D capex, (4) labour unavailability due to prolonged lockdown, and (5) promoters real estate overhang on group stocks.

Financial summary

(Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	48,941	57,412	71,151	79,040	76,027	81,251	90,005
EBITDA	5,291	6,312	7,782	8,600	7,391	8,515	9,466
APAT	2,691	3,220	4,013	4,390	3,752	4,540	5,331
Diluted EPS (Rs)	17.5	21.0	26.2	28.6	24.4	29.6	34.7
P/E (x)	13.9	11.6	9.3	8.5	9.9	8.2	7.0
EV/EBITDA (x)	7.7	7.0	5.4	5.5	6.1	4.9	4.3
RoE (%)	11.5	12.3	13.6	13.1	10.1	11.1	12.0

Source: Company, HSIE Research

BUY

CMP *(as on 27 Jul 2020)*	Rs 243
Target Price	Rs 357
NIFTY	11,132

KEY CHANGES	NEW	NEW
Rating	BUY	BUY
Price Target	Rs 333	Rs 357
EPS %	FY22E	FY22E
	(0.2)	*3.0*

KEY STOCK DATA	
Bloomberg code	KPP IN
No. of Shares (mn)	155
MCap (Rs bn) / ($ mn)	38/508
6m avg traded value (Rs mn)	102
52 Week high / low	Rs 516/170

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.2	(45.9)	(48.0)
Relative (%)	(2.4)	(38.1)	(48.1)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	54.37	54.38
FIs & Local MFs	29.18	26.94
FPIs	7.37	7.11
Public & Others	8.71	11.57
Pledged Shares	31.26	31.27

Source : BSE

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FY20 Operational highlights -
Power T&D
** 6,500 towers erected*
** 3,000+ Ckms of Stringing done*
** Ongoing Projects in 35 countries*
** Successfully completed 10 T&D projects*

Oil & Gas
** 1,150 kms pipeline commissioned*
** Won single largest EPC order for gas pipeline of Rs 6.2bn*
** Working on around 18 projects across India and completed more than 250 HDD Crossings and 70+ completed / ongoing station works in 2019-20*
** Completed 4 projects*

Railway Infrastructure
** Commissioned around 700 track kms of OHE works*
** Secured first EPC project from G-RIDE*
** 30 projects under execution in 2 Countries*
** Over 2,200 track kms Railway Electrification Works till FY20*

JMC Projects (India) Ltd.
** Over 100 projects under execution*
** Rs 95.5bn order book as of FY20*

Shree Shubham Logistics Ltd.
** 270 warehouses managed with capacity of 9.8 msf*

Most of KPTL's international projects are funded by multilateral development agencies, thereby reducing the counterparty credit risk

Operational highlights

Diversification on track: KPTL has been awarded a second railway project in Bangladesh and a road project in Uganda. KPTL's prequalification in several O&G markets keeps it optimistic about the potential of O&G, Railways and Civil construction business.

Acquisition of Linjemontage: The company specialises in power supply solutions & services for electricity networks in the 0.4-400 kV range and has 3 main business areas - Substations, Transmission & Local Networks and Network Maintenance and Services. LMG's performance post KPTL acquisition –

- Revenue reached Rs 5.8bn in FY20
- EBITDA margin improved by ~100 basis points to reach around 5%
- Order Book grew by over 2x to reach Rs 11.5bn with significant order wins in the 400kV Line segment and numerous Substation & power system orders

KPTL has a presence in 55 countries

	Americas	Africa	Europe	ME	Asia Pacific	Total
No. of Countries	7	21	4	7	16	55

Source: Company, HSIE Research

- Two tower facilities in India with an installed capacity of 1,80,000 MT PA in FY20
- During FY20, production (including outsourced) and dispatches of transmission line towers were 173,094 MT & 167,206 MT, vs. 1,68,634 MT & 1,70,696 MT in FY19.
- Ongoing projects in 35 countries; over 3,500 employees across the globe
- International orders within O&G and Railway to contribute 20-25% of their respective order books by the next 2-3 years

The value of local knowledge – African markets

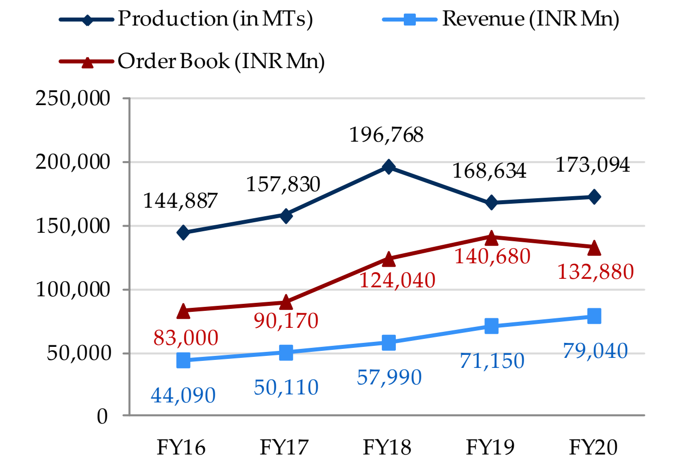
- KPTL, on an average, has added one new country every year in Africa, starting from the first project in 2005, expanding the footprint to 21 countries
- Executed 40+ projects
- ~USD 235 Mn order book in Africa
- Successfully completed two road and highway projects in Ethiopia and actively working to increase participation in Railways and Oil & Gas projects

Growing in complementary geographies - SAARC

- KPTL entered the SAARC market through a railway project in Bangladesh in 2011. Successfully scaled up EPC business in Bangladesh by winning new orders in T&D and Railways
- Within 10 years, KPTL has completed and executed 18 projects in five SAARC countries excluding India
- Rs 22bn order book as on end-FY20

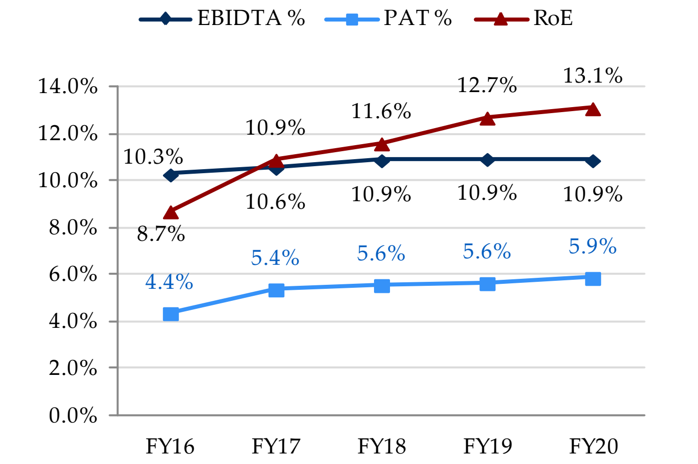
Trends in Charts

Standalone - Trend in production, revenue & order book



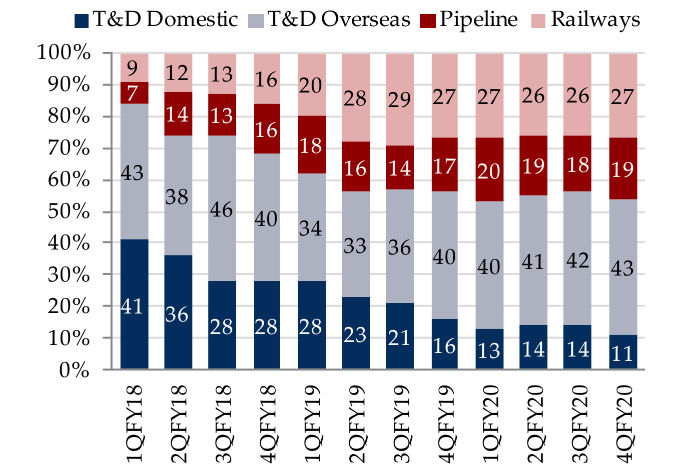
Source: Company

Standalone - Profitability Trend



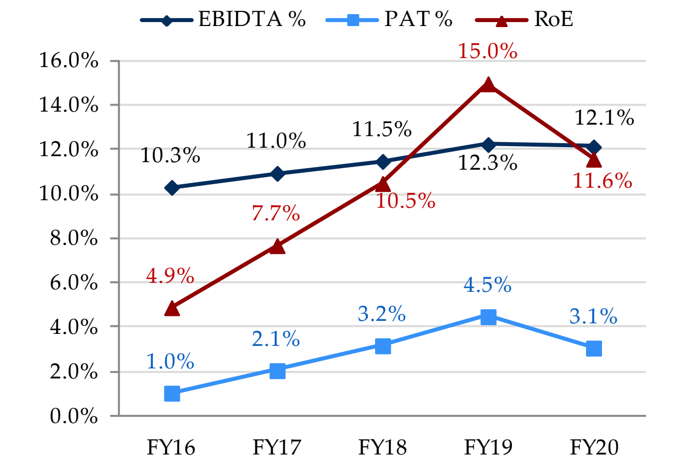
Source: Company

Standalone – Mar-20 Order Book breakup (Rs 133bn)



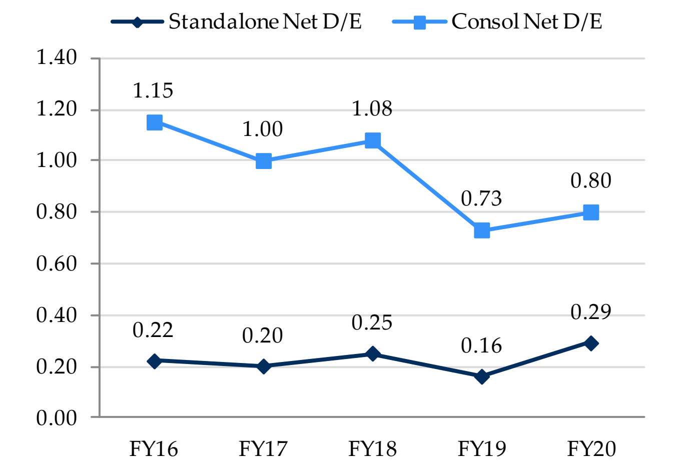
Source: Company

Consolidated - Profitability Trend



Source: Company

Debt/Equity Ratio



Source: Company

Global T&D Investment Outlook

USD Bn	2020-24	2025-29	Total
North America	90-100	90-100	180-200
Latin America	38	23	61
Asia Pacific	375	354	729
Europe	125	106	232
Middle East	18	18	37
Africa	46	33	79
Total	**692-702**	**625-635**	**1,317-1317**

Source: Company, Global Transmission Research

Rs ~22bn SAARC OB
Rs ~17bn Africa OB

In India, the KPTL secured orders from PGCIL, SEBs and private clients. PSUs Revenue is Rs 35bn

While T&D continues to face headwinds, new biz of O&G pipelines and Railways now ramping up, delivering 145% growth

In O&G, During FY20, KPTL secured orders of Rs 14.8bn from IOCL, GAIL & GSPL India Gasnet Limited (GICL)

Railway won orders of Rs 13.5bn for gauge conversion, electrification & associated works from RVNL, CORE and G-RIDE in FY20

Successfully scaled up EPC business in Bangladesh by winning new orders in T&D and Railways

Profitability has increased due to increase in business and sale of one of the transmission assets

Exceptional items include gain on sale of investment in KSTPL of Rs 307.9mn and impairment of investment in 2 of the subsidiaries of Rs 68.5mn

KPTL lost about Rs 3bn revenue in last week of Mar-20 due to COVID-19 disruption

Stable EBIDTA margins

Tax rate of 31.5% owing to adoption of new tax regime

Financial Analysis

Segment-wise revenue breakup - Standalone

	in INR Mn			Common-Size	
	FY19	FY20	% Growth	FY19	FY20
Products/Services					
Sale of Products	**4,156**	**3,855**	**-7%**	**6%**	**5%**
- Tower Parts & Components	*3,507*	*3,071*	*-12%*	*5%*	*4%*
- Others	*649*	*783*	*21%*	*1%*	*1%*
Income from EPC contracts/Services	65,884	74,250	13%	93%	94%
Total (A)	**70,040**	**78,104**	**12%**	**98%**	**99%**
- Sale of Scrap	*737*	*545*	*-26%*	*1%*	*1%*
- Certified Emission Reduction Receipts	*-*	*21*	*-*	*0%*	*0%*
- Export Benefits	*374*	*370*	*-1%*	*1%*	*0%*
Other Operating Income (B)	**1,111**	**936**	**-16%**	**2%**	**1%**
Total Revenue (A+B)	**71,151**	**79,040**	**11%**	**100%**	**100%**
Customer Segments					
- T&D (A)	50,111	48,540	-3%	70%	61%
- Pipeline (B)	21,040	17,500	145%	30%	22%
- Railways (C)		13,000			16%
Total Revenue (A+B+C)	**71,151**	**79,040**	**11%**	**100%**	**100%**
Geography					
- Domestic (A)	43,844	50,902	16%	62%	64%
- Exports (B)	27,307	28,138	3%	38%	36%
Total (A+B)	**71,151**	**79,040**	**11%**	**100%**	**100%**

Source: Company, HSIE Research

- International orders within O&G & Railway to contribute 20-25% of their respective order books by next 2-3 years

Summary P&L - Standalone

Year ending March (INR Mn)	FY18	FY19	% Growth	FY20	% Growth
Net Revenues	**57,412**	**71,151**	*23.9*	**79,040**	*11.1*
Growth (%)	***17.3***	***23.9***	***38.3***	***11.1***	***(53.7)***
Material Expenses	41,215	52,497	*27.4*	59,030	*12.4*
Employee Expenses	3,487	4,541	*30.2*	5,260	*15.8*
Other Operating Expenses	6,397	6,331	*(1.0)*	6,150	*(2.9)*
EBIDTA	**6,312**	**7,782**	***23.3***	**8,600**	***10.5***
Depreciation	766	860	*12.3*	1,100	*27.9*
EBIT	**5,546**	**6,922**	***24.8***	**7,500**	***8.3***
Other Income	480	512	*6.6*	580	*13.3*
Interest	1,033	1,190	*15.2*	1,660	*39.5*
PBT	**4,993**	**6,244**	***25.0***	**6,420**	***2.8***
Tax	1,773	2,231	*25.8*	2,030	*(9.0)*
EO items (net of tax)	-	-	-	240	-
RPAT	**3,220**	**4,013**	***24.6***	**4,630**	***15.4***
EO items (net of tax)	-	-	-	240	-
APAT	**3,220**	**4,013**	***24.6***	**4,390**	***9.4***

Source: Company, HSIE Research

Margin Analysis

	FY18	FY19	Growth (bps)	FY20	Growth (bps)
Material Expenses % Net Sales	71.8	73.8	199	74.7	90
Employee Expenses % Net Sales	6.1	6.4	31	6.7	27
Other Operating Expenses % Net Sales	11.1	8.9	(224)	7.8	(112)
EBITDA Margin (%)	**11.0**	**10.9**	**(6)**	**10.9**	**(6)**
Tax Rate (%)	35.5	35.7	21	31.6	(411)
APAT Margin (%)	5.6	5.6	3	5.6	(9)

Source: Company, HSIE Research

Material &Erection/Sub-contract exp's constitute bulk of the exp's

Interest expenses are higher due to higher debt for business expansion

Jump in legal/prof. fees

Generation of electricity from agri residues like mustard & other agri crop residue at Tonk Power Plant under the Clean Development Mechanism of Kyoto Protocol

KPTL's exposure to its subs and group entities at std level increased. Increase was mainly towards acquisition of Linjemontage & balance stake in Shubham; along with extending incremental loans to these two entities and ATL. KPTL bought Tano stake in SSL for Rs 650mn and subscribed additional Rs 1bn preference shares of SSL

At a consol level, JMC's 4 operational road projects also required a net infusion of Rs 760mn in fiscal 2020 (not captured in std)

Monetisation of stake in its 3 assets viz. Kohima Mariani (KMTL), Jhajjar KT Transco (JKTPL), & Alipurduar (ATL), during FY21 will lead to net cash proceeds of ~Rs 10-12bn. KPTL has already divested its entire stake in Satpura

KMTL Project expected to be commissioned on time in 1HFY21

Expenses breakup

	in INR Mn			Common Size	
	FY19	FY20	*% Growth*	FY19	FY20
Materials Consumed (A)	**29,532**	**32,676**	***10.65***	**45.1%**	**44.6%**
- Steel	*7,632*	*7,067*	*(7.40)*	**11.7%**	**9.7%**
- Zinc	*1,343*	*1,290*	*(3.98)*	**2.1%**	**1.8%**
- Components & Accessories, etc	*20,131*	*24,585*	*22.13*	**30.8%**	**33.6%**
- Agricultural Residues	*379*	*355*	*(6.38)*	**0.6%**	**0.5%**
- Changes in Inventories of FG/WIP	*46*	*(622)*	*-*	**0.1%**	**-0.8%**
Employee Expenses (B)	**4,541**	**5,257**	***15.76***	6.9%	7.2%
Finance Costs (C)	**1,190**	**1,662**	***39.68***	1.8%	2.3%
Erection & Sub-contracting expenses (D)	**22,966**	**26,348**	***14.73***	35.1%	36.0%
Other Expenses (E)	**6,331**	**6,160**	**(2.71)**	9.7%	8.4%
- Power, Fuel, Repairs, Insurance, Rent, Rates & Taxes	*1,538*	*1,428*	*(7.11)*	2.4%	2.0%
- Freight and Forwarding Expenses	*1,513*	*1,071*	*(29.23)*	2.3%	1.5%
- Job Charges, Stores, Spares &Tools Consumed	*688*	*706*	*2.73*	1.1%	1.0%
- Travelling Expenses	*548*	*568*	*3.63*	0.8%	0.8%
- Legal and Professional Expenses	*326*	*825*	*153.39*	0.5%	1.1%
- Bank Commission and Charges (including ECGC Premium)	683	585	*(14.38)*	1.0%	0.8%
- Performance Warranties Expenses	346	483	*39.63*	0.5%	0.7%
- Loss / (Gain) on Exchange Rate Variation	(193)	(184)	*(4.81)*	-0.3%	-0.3%
- Allowance for Expected Credit Losses	178	(222)	*(224.59)*	0.3%	-0.3%
- R&D	*83*	*140*	*68.64*	0.1%	0.2%
- Others	624	760	*21.96*	1.0%	1.0%
Depreciation (F)	**860**	**1,100**	***27.90***	**1.3%**	**1.5%**
Total (A+B+C+D+E+F)	**65,419**	**73,202**	***11.90***	**100.0%**	**100.0%**

Source: Company, HSIE Research

Summary Application of Funds

INR Mn	FY19	FY20	% Change
Net Block (A)	**5,707**	**5,939**	**4%**
- Land & Buildings	*2,060*	*2,135*	*4%*
- Plant & Equipment, Electric installation	*2,732*	*2,856*	*5%*
- Others	*914*	*948*	*4%*
CWIP (B)	**77**	**395**	**411%**
Investments (C)	**7,451**	**9,940**	**33%**
- JMC Projects	*3,209*	*3,243*	*1%*
- Shubham Logistics	*1,374*	*3,037*	*121%*
- Energylink (India) Limited	*1,540*	*1,540*	*0%*
- Kalpataru Metfab Private Limited	*261*	*261*	*0%*
- KPT Sweden AB	*0*	*525*	*-*
- Other Assets	*1,068*	*1,336*	*25%*
Total Non-current Assets (A+B+C)	**13,235**	**16,275**	**23%**
Inventories	*6,221*	*7,390*	*19%*
Debtors	*33,716*	*36,177*	*7%*
Loans to related parties	*3,913*	*5,510*	*41%*
Contract Assets	*14,456*	*15,465*	*7%*
Cash & bank balances	*1,455*	*3,370*	*132%*
Other Current Assets	*5,696*	*8,133*	*43%*
Total Current Assets (D)	**65,457**	**76,045**	**16%**
Creditors	*22,314*	*23,431*	*5%*
Advance from Customers	*12,058*	*13,153*	*9%*
Contract Liabilities	*3,677*	*3,409*	*-7%*
Other Current Liabilities	*2,588*	*4,177*	*61%*
Performance Warranties	*2,491*	*2,917*	*17%*
Other Provisions	*713*	*438*	*-39%*
Total Current Liabilities (E)	**43,841**	**47,525**	**8%**
Net Current Assets (D-E)	**21,616**	**28,520**	**32%**
Assets Held for Sale - Sub (KSPTL, ATL)	2,511	1,946	-23%
Assets Held for Sale - JV (JKTPL, KMTL)	1,158	2,280	97%
TOTAL APPLICATION OF FUNDS	**38,521**	**49,021**	**27%**

Source: Company, HSIE Research

There has been increase in D/E ratio by more than 25% because of increase in short term borrowing to finance higher WC on account of rise in business operations. About Rs 320mn loans given to SSL. Total outgo on SSL about Rs 1.98bn including investment and loans

Saicharan is entity for Indore real estate. KP Sweden is Linje Montage

Borrowing remain at a comfortable level with net debt/ equity ratio of 0.29:1

KPTL expects to become standalone net debt free by FY21 post divestment of 3 assets

The finance cost was around 2.10% of the revenue during FY20 (1.67% during FY19)

Projected CFO and cash more than sufficient to cover liabilities and capex. Liquidity is further supported by unutilised bank lines of about Rs 3.1bn as of FY20

High WC intensity of operations with NWC at ~150 days

Average execution cycle is 18-24 months

Details of loans given - Standalone

In INR Mn	FY19	FY20
Shree Shubham Logistics Limited	693	1,009
Amber Real Estate Limited	632	5
Kalpataru Power Transmission (Mauritius) Limited	56	61
Adeshwar Infrabuild Limited	2	2
Kalpataru Power Transmission Sweden AB	-	1,007
Saicharan Properties Limited	1,800	1,934
Alipurduar Transmission Limited	477	1,214
Kohima Mariani Transmission Limited	275	299
Jhajjar KT Transco Private Limited	37	43
	3,972	**5,574**

Source: Company, HSIE Research

Capital Structure - Standalone

In INR Mn	FY19	FY20
Debt	6,478	13,351
Cash and cash equivalent	(1,365)	(3,034)
Net debt	5,113	10,317
Total Equity	31,522	35,356
Net debt to equity ratio	0.16	0.29

Source: Company, HSIE Research

Contractual maturities

Financial Liabilities - in INR Mn	<1yr	>1yr	Total
(i) Trade Payable	21,362	2,069	23,431
(ii) Borrowings	10,350	2,993	13,343
(iii) Other financial liabilities	2,617	349	2,966
Total	**34,329**	**5,411**	**39,740**

Source: Company, HSIE Research

- Expected cash accruals of ~8bn over FY21-22 should be able to meet debt and moderate capex outgo. Although payables are large, back-to-back payment clauses in most contracts allow for passing on any delay in realisations in receivables

Net Working Capital Cycle

	FY18	FY19	FY20
Tax Rate (%)	35.5	35.7	31.6
Asset Turnover (x)	9	10	9
Inventory (days)	31	32	34
Debtors (days)	215	173	167
Other Current Assets (days)	126	147	158
Payables (days)	149	138	118
Other Current Liab (days)	78	77	91
Net Working Capital Cycle (Days)	**145**	**137**	**150**

Source: Company, HSIE Research

- Receivables are typically 160+ days due to sizeable retention money blocked in completed projects until the end of the performance guarantee period.
- Payables + customer advances too are large at 160+ days, with back-to-back payment clauses in most contracts allowing for passing on any delay in realisations in receivables.

Moderate routine capex outgo; no major capex planned

Inventory, Capex & Depreciation

INR Mn	FY19	FY20
Raw Materials and Components	2,624	2,567
Work-in-progress	315	463
Finished goods	910	1,374
Store, Spares, Construction Materials and Tools, Scrap	2,373	2,986
Total	6,222	7,390
Average Inventory Turnover	*11.26*	*10.57*
Capex	1,184	1,236
- as % Avg Sales	*1.84%*	*1.65%*
- as % Avg Net Fixed Assets	*21.11%*	*20.40%*
Depreciation	860	1,100
- as % Avg Sales	*1.34%*	*1.46%*
- as % Avg Net Fixed Assets	*15.33%*	*18.15%*

Source: Company, HSIE Research

Rise in contingent liabilities on account of higher CG/LC on behalf of subsidiaries for loans

Contingent liabilities

In INR Mn	FY19	FY20
(a) Bank guarantees given by the Company	26	24
(b) Claims against the company not acknowledged as debt	182	231
(c) Demands by Service Tax/Stamp Duty and other Tax/ Revenue Authorities, disputed by the company	197	453
(d) VAT/WCT/ Entry Tax demands disputed by Company	550	476
(e) Corporate Guarantee / Letter of Comfort given for loan to subsidiaries	2,300	3,650
(f) Bank Guarantee given on behalf of subsidiaries	603	423
(g) Deed of Indemnity given on behalf of a subsidiary	-	1,361
Total	**3,857**	**6,619**
Total as % Networth	**12.2%**	**18.7%**

Source: Company, HSIE Research

- Contingent liabilities may arise from litigation and other claims against the company. Guarantees are also given in the ordinary course of business.
- It is not expected that such contingencies will have a material effect on its financial position or profitability

Guarantee/ Letter of Comforts Outstanding/Deed of indemnity

INR Mn	Relation	FY19	FY20
Shree Shubham Logistics Limited	Subsidiary	2,150	2,400
Alipurduar Transmission Limited	Subsidiary	490	410
Kalpataru Power Transmission Sweden AB	Subsidiary	-	1,361
JMC Projects (India) Limited	Subsidiary	-	1,250

Source: Company, HSIE Research

FY20 CF was impacted by buyout of Linjemontage, investment in BOOT transmission assets and billing miss

CF expected to recover in FY21/22E

Key CF Items & Return Ratios (STANDALONE)

In INR Mn	FY18	FY19	FY20
CFO (a)	1,035	5,253	1,220
CFI (b)	(1,876)	(1,725)	(3,087)
CFF (c)	(488)	(2,915)	3,782
NET CASH FLOW (a+b+c)	**(1,329)**	**613**	**1,915**
Closing Cash & Equivalents	**816**	**1,455**	**3,370**
- % Networth	*2.9%*	*4.6%*	*9.5%*
*- % Mcap**	*1.1%*	*2.0%*	*12.0%*
Pre-tax CFO / EBIDTA	**0.39**	**0.98**	**0.38**
RoE %	**12.27**	**13.55**	**13.13**
Core RoCE	**14.47**	**14.67**	**14.36**
EBIT %	**9.66**	**9.73**	**9.49**

Source: Company, HSIE Research, * Mcap is at closing price of FY18/19/20

Forex risk

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and commodity prices. It holds derivative financial instruments such as foreign currency forward contracts and commodity futures contracts to mitigate the risk.

Forex Earnings Rs 18.1bn

Forex Outgo Rs 8.2bn

Foreign currency risk from financial instruments - FY20

INR Mn	USD	Euro	Others	Total
Loan	*61*	*977*	*31*	*1,069*
Cash & Cash Equivalents	*3*	*-*	*14*	*17*
Trade Receivable	*14,707*	*309*	*3,634*	*18,650*
Other Financials Assets	*6*	*-*	*34*	*40*
Total Asset	**14,778**	**1,286**	**3,712**	**19,776**
Borrowing	*2,620*	*87*	*0*	*2,707*
Trade Payable	*9,416*	*314*	*1,711*	*11,440*
Other Financials Liabilities	*227*	*18*	*1*	*246*
Total Liabilities	**12,263**	**418**	**1,712**	**14,392**
Net Assets / (Liabilities)	**2,515**	**868**	**2,001**	**5,384**

Source: Company, HSIE Research

The company is mainly exposed to USD and Euro. Other currencies comprise 30-35 currencies. For the year ended 31st March 2020 and 31st March 2019, increase/decrease of 5% in the exchange rate between the Indian rupee and USD/EURO would impact company's profit before tax by approximately 1.79% and 0.95% respectively.

Commodity Price Risk – FY20 (Rs Mn)

Exposure as on 31st March 2020	Fixed/variable Price Contracts	Open Exposure	Value at risk on price variation of 5 %	
			Increase	Decrease
Aluminium	Fixed Price	11	1	(1)
Zinc	Fixed Price	126	6	(6)
Steel	Fixed Price	2,419	121	(121)
Total		**2,555**	**128**	**(128)**

Source: Company, HSIE Research

- The company is affected by the price volatility of certain commodities like steel, zinc and aluminium. The company holds derivative financial instruments such as commodity future contract to mitigate the risk of changes in zinc and aluminium prices. The impact of the possible change on the company's PBT is 1.92% for FY 2019-20 and 2.56% for FY 2018-19.

Credit Risk

Most of customers are PSU and as per past experience, there has been no material bad debts in past and therefore, no provision is generally made on this account

Credit risk on derivative instruments is limited because the counterparties are banks with high credit rating assigned by rating agencies

Ageing of the O/S from various customers

In INR Mn	FY19	FY20
Not Due	30,331	33,936
Past due up to 1 years	620	787
From 1 year to 2 years	1,587	591
From 2 year to 3 years	363	309
Above 3 years	1,382	935
Total	**34,283**	**36,559**

Source: Company, HSIE Research

ECL assessment for customers

	FY19	FY20
From 181 days to 1 year	6.24%	6.24%
From 1 year to 2 years	12.04%	12.04%
From 2 year to 3 years	19.31%	19.31%
Above 3 years	25.97%	25.97%

Source: Company, HSIE Research

Company is also exposed to credit risk in relation to CG/letter of comfort (LOC) given to banks by the company

Movement in the allowance for impairment during FY20

INR Mn	Trade receivable	Contract Assets
Balance as at 31st March 2019	47.1	566.5
Impairment loss/(income) recognised (net)	-36.9	-185.1
Balance as at 31st March 2020	10.2	381.4

Source: Company, HSIE Research

Movement in Provisions – in INR Mn

	FY19	FY20
a PROVISION FOR PERFORMANCE WARRANTIES		
Carrying amount at the beginning of the year	2,311	2,491
Add: Provision/Expenses during the year	837	839
Less: Reversal of Provision on the finality of Warranty & Guarantee	457	326
Less: Utilisation during the year	166	58
Less: Discounting	33	31
Carrying amount at the end of the year	2,491	2,917
b PROVISION FOR EXPECTED LOSS ON LT CONTRACT		
Carrying amount at the beginning of the year	490	692
Add: Provision/Expenses during the year	732	174
Less: Reversal/ Utilisation during the year	491	444
Less: Discounting	39	16
Carrying amount at the end of the year	692	405
c PROVISION FOR LITIGATED MATTERS		
Carrying amount at the beginning of the year	258	268
Add: Provision/Expenses during the year	10	9
Carrying amount at the end of the year	268	277

Source: Company, HSIE Research

Transactions with Related Parties

Significant party transactions in FY20 & FY19

	Relationship	FY19	FY20
1. Investment in Equity and Preference Shares			
Alipurduar Transmission Limited	Subsidiary	496	-
Shree Shubham Logistics Limited	Subsidiary	-	1,000
Energy Link (India) Limited	Subsidiary	1,020	-
Kohima-Mariani Transmission Limited	Joint Venture	777	1,122
Kalpataru Power Transmission Sweden AB	Subsidiary	0	525
2. Net Loans and advances given/(returned)			
Shree Shubham Logistics Limited	Subsidiary	-	250
Amber Real Estate Limited	Subsidiary	(843)	(627)
Alipurduar Transmission Limited	Subsidiary	93	698
Kalpataru Power Transmission Sweden AB	Subsidiary	-	982
Saicharan Properties Limited	Indirect Subsidiary	(1,028)	16
3. Advance For Capex given/ (Refund)			
Shree Shubham Logistics Limited	Subsidiary	-	(253)
Kalpataru Properties Private Limited	Enterprises having a significant influence	-	320
4. Revenue from Operations			
JMC Projects (India) Limited	Subsidiary	104	25
Alipurduar Transmission Limited	Subsidiary	1,797	123
Kohima-Mariani Transmission Limited	Joint Venture	3,101	3,601

Source: Company, HSIE Research

We roll over KPTL EPC valuation to Jun-22E vs Mar-22E earlier. We continue to ascribe 10x P/E to KPTL EPC business

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 Jun-22E EPS

We maintain BUY on KPTL with SOTP based target price of Rs 357/sh (vs. Rs 333/sh earlier). Increase driven by 3% increase in FY22E estimate and valuation roll over to Jun-22E

Outlook and valuation

Maintain BUY

Valuation methodology: We have rolled over KPTL valuation to Jun-22E vs Mar-22 earlier. We continue to value the KPTL EPC business at 10x EPS. Its 67.2% stake in JMC standalone is valued at 30% holdco discount to our JMC SOTP valuation (8x Mar-22E 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 357.

- We have based our BUY stance 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 rerating is contingent on KPTL achieving net cash position by FY21-22E. Likely pick-up in domestic T&D and Railways orders and JMC roads BOT assets monetisation.
- 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 an increased SOTP-based target price of Rs 357/sh (vs. Rs 333/sh earlier). SOTP increase is on account of upward revision of KPTL FY22E EPS by 3% and valuation rollover to Jun-22E.

SOTP valuation

Business	Valuation Methodology	Multiple	Stake	Value	Rs/Sh
KPTL Standalone	P/E multiple on FY22E Earnings	10	100.0%	47,379	309
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	100.0%	1,682	11
Total					**357**

Source: HSIE Research

We have recalibrated our estimates marginally higher for FY22E

Change in Estimates

Standalone Rs Mn	FY21E			FY22E		
	Old	**Revised**	*% Chg*	**Old**	**Revised**	*% Chg*
Net Sales (Rs mn)	75,694	76,027	*0.4*	80,857	81,251	*0.5*
EBITDA (Rs mn)	7,404	7,391	*(0.2)*	8,371	8,515	*1.7*
EBIDTA Margin (%)	9.8	9.7	*(5.9)*	10.4	10.5	*12.6*
Adj PAT (Rs mn)	3,761	3,752	*(0.2)*	4,406	4,540	*3.0*

Source: Company, HSIE Research

Financials

Standalone Income Statement

Year ending March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	**48,941**	**57,412**	**71,151**	**79,040**	**76,027**	**81,251**	**90,005**
Growth (%)		***17.3***	***23.9***	***11.1***	***-3.8***	***6.9***	***10.8***
Material Expenses	34,305	41,215	52,497	59,030	55,586	58,842	65,148
Employee Expenses	2,918	3,487	4,541	5,260	5,310	5,769	6,390
Other Operating Expenses	6,427	6,397	6,331	6,150	7,740	8,125	9,000
EBIDTA	**5,291**	**6,312**	**7,782**	**8,600**	**7,391**	**8,515**	**9,466**
EBIDTA (%)	***10.8***	***11.0***	***10.9***	***10.9***	***9.7***	***10.5***	***10.5***
EBIDTA Growth (%)		***19***	***23***	***11***	***-14***	***15***	***11***
Depreciation	777	766	860	1,100	1,188	1,261	1,335
EBIT	**4,514**	**5,546**	**6,922**	**7,500**	**6,204**	**7,253**	**8,131**
Other Income	493	480	512	580	480	468	526
Interest	982	1,033	1,190	1,660	1,458	1,397	1,232
PBT	**4,026**	**4,993**	**6,244**	**6,420**	**5,225**	**6,323**	**7,425**
Tax	1,335	1,773	2,231	2,030	1,473	1,783	2,094
EO items (net of tax)	-	-	-	240	-	-	-
RPAT	**2,691**	**3,220**	**4,013**	**4,630**	**3,752**	**4,540**	**5,331**
EO items (net of tax)	-	-	-	240	-	-	-
APAT	**2,691**	**3,220**	**4,013**	**4,390**	**3,752**	**4,540**	**5,331**
APAT Growth (%)	***34.9***	***19.7***	***24.6***	***9.4***	***-14.5***	***21.0***	***17.4***
EPS	**17.5**	**21.0**	**26.2**	**28.6**	**24.4**	**29.6**	**34.7**
EPS Growth (%)	***34.9***	***19.7***	***24.6***	***9.4***	***-14.5***	***21.0***	***17.4***

Source: Company, HSIE Research

Standalone Balance Sheet

As at March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS							
Share Capital	307	307	307	310	310	310	310
Reserves	24,480	27,394	31,215	35,050	38,387	42,498	45,949
Total Shareholders Funds	**24,787**	**27,700**	**31,522**	**35,360**	**38,697**	**42,808**	**46,259**
Minority Interest							
Long Term Debt	3,211	3,903	4,542	2,990	4,542	4,542	4,542
Short Term Debt	2,315	3,830	1,924	10,108	5,755	4,755	3,755
Total Debt	**5,526**	**7,732**	**6,466**	**13,098**	**10,297**	**9,297**	**8,297**
Other Non Current Liabilities	597	1,750	2,571	2,460	2,460	2,460	2,460
Deferred Taxes	(410)	(312)	(157)	50	50	50	50
TOTAL SOURCES OF FUNDS	**30,500**	**36,871**	**40,403**	**50,968**	**51,504**	**54,615**	**57,066**
APPLICATION OF FUNDS							
Net Block	5,210	5,268	5,707	5,850	4,625	3,974	3,249
CWIP	26	167	77	400	410	420	430
Other Non Current Assets	7,160	7,849	6,486	8,640	6,940	7,190	7,440
Total Non-current Assets	**12,396**	**13,284**	**12,270**	**14,890**	**11,975**	**11,584**	**11,119**
Inventories	4,542	4,828	6,221	7,390	7,614	7,886	8,729
Debtors	28,480	33,805	33,716	36,170	37,493	40,069	44,386
Cash & bank balances	2,110	816	1,455	3,370	2,679	4,500	4,634
ST Loans & Advances	4,854	5,390	4,389	6,300	5,888	6,006	6,126
Other Assets	8,261	14,351	24,311	27,940	26,735	29,409	32,350
Total Current Assets	**48,247**	**59,190**	**70,092**	**81,170**	**80,410**	**87,870**	**96,225**
Creditors	19,327	23,377	26,863	25,550	26,084	27,690	30,800
Other Current Liabilities & Provns	10,816	12,227	15,096	19,762	16,678	19,689	22,446
Total Current Liabilities	**30,143**	**35,604**	**41,960**	**45,312**	**42,762**	**47,379**	**53,246**
Net Current Assets	**18,104**	**23,586**	**28,133**	**35,858**	**37,648**	**40,491**	**42,979**
Misc Expenses & Others		**1**		**220**	**1,881**	**2,540**	**2,969**
TOTAL APPLICATION OF FUNDS	**30,500**	**36,871**	**40,403**	**50,968**	**51,504**	**54,615**	**57,066**

Source: Company, HSIE Research

Standalone Cash Flow

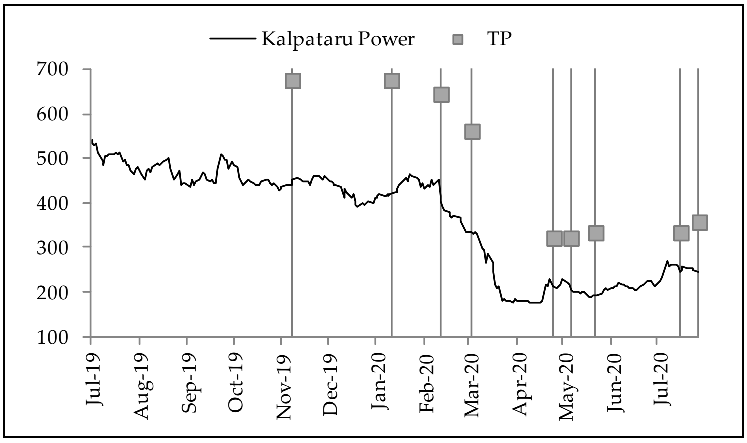
Year ending March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PBT	4,026	4,993	6,244	6,660	5,225	6,323	5,944
Non-operating & EO items	(300)	(508)	(402)	(1,560)	(1,014)	(659)	(428)
Interest expenses	982	1,033	1,190	1,660	1,458	1,397	1,232
Depreciation	777	766	860	1,100	1,188	1,261	1,335
Working Capital Change	(714)	(3,836)	(289)	(3,329)	(2,481)	(1,023)	(2,354)
Tax paid	(1,553)	(1,413)	(2,349)	(2,100)	(1,473)	(1,783)	(2,094)
OPERATING CASH FLOW (a)	**3,217**	**1,035**	**5,253**	**2,431**	**2,903**	**5,517**	**3,636**
Capex	(576)	(1,063)	(1,184)	(1,236)	(620)	(620)	(620)
Free cash flow (FCF)	2,641	(29)	4,070	1,195	2,283	4,897	3,016
Investments	(1,961)	(701)	(545)	(4,860)	1,700	(250)	(250)
Non operating income	422	(111)	4	1,790	0	0	0
INVESTING CASH FLOW (b)	**(2,114)**	**(1,876)**	**(1,725)**	**(4,306)**	**1,080**	**(870)**	**(870)**
Share capital Issuance	0	0	0	(220)	0	0	0
Debt Issuance	970	784	(1,258)	6,730	(2,801)	(1,000)	(1,000)
Dividend Payment	0	(363)	(449)	(1,190)	(414)	(430)	(399)
Others							
Interest expenses	(1,001)	(909)	(1,209)	(1,530)	(1,458)	(1,397)	(1,232)
FINANCING CASH FLOW (c)	**(31)**	**(488)**	**(2,915)**	**3,790**	**(4,673)**	**(2,827)**	**(2,631)**
NET CASH FLOW (a+b+c)	**1,072**	**(1,329)**	**613**	**1,915**	**-691**	**1,820**	**134**
Opening Cash & Equivalents	1,007	2,110	816	1,455	3,370	2,679	4,499
Closing Cash & Equivalents	2,110	816	1,455	3,370	2,679	4,499	4,634

Key Ratios

	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY (%)							
GPM	29.9	28.2	26.2	25.3	26.9	27.6	27.6
EBITDA Margin	10.8	11.0	10.9	10.9	9.7	10.5	10.5
EBIT Margin	9.2	9.7	9.7	9.5	8.2	8.9	9.0
APAT Margin	5.5	5.6	5.6	5.6	4.9	5.6	5.9
RoE	11.5	12.3	13.6	13.1	10.1	11.1	12.0
Core RoCE	14.0	14.5	14.7	14.4	11.0	12.3	13.3
RoCE	11.5	11.8	13.0	12.8	9.8	11.0	11.7
EFFICIENCY							
Tax Rate (%)	33.2	35.5	35.7	31.6	28.2	28.2	28.2
Asset Turnover (x)	8	9	10	9	8	8	9
Inventory (days)	34	31	32	34	37	35	35
Debtors (days)	212	215	173	167	180	180	180
Other Current Assets (days)	98	126	147	158	157	159	156
Payables (days)	144	149	138	118	125	124	125
Other Current Liab (days)	81	78	77	91	80	88	91
Net Working Capital Cycle (Days)	119	145	137	150	168	162	156
Debt/EBITDA (x)	1.0	1.2	0.8	1.5	1.4	1.1	0.9
Net D/E	0.1	0.2	0.2	0.3	0.2	0.1	0.1
Interest Coverage	4.6	5.4	5.8	4.5	4.3	5.2	6.6
PER SHARE DATA							
EPS (Rs/sh)	17.5	21.0	26.2	28.6	24.4	29.6	34.7
CEPS (Rs/sh)	22.6	26.0	31.8	35.8	32.2	37.8	43.4
DPS (Rs/sh)	2.0	2.5	3.5	3.5	3.5	3.5	3.5
BV (Rs/sh)	161.5	180.5	205.4	230.4	252.2	279.0	301.4
VALUATION							
P/E	13.9	11.6	9.3	8.5	9.9	8.2	7.0
P/BV	1.5	1.3	1.2	1.1	1.0	0.9	0.8
EV/EBITDA	7.7	7.0	5.4	5.5	6.1	4.9	4.3
OCF/EV (%)	7.9	2.3	12.4	5.2	6.5	13.1	8.9
FCF/EV (%)	6.5	-0.1	9.6	2.5	5.1	11.6	7.4
FCFE/Market Cap (%)	9.7	2.0	7.5	21.3	-1.4	10.5	5.4
Dividend Yield (%)	0.8	1.0	1.4	1.4	1.4	1.4	1.4

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
15-Jul-20	256	BUY	333
28-Jul-20	243	BUY	357

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:

We, **Parikshit Kandpal, CFA & Rohan Rustagi, MBA & Chintan Parikh, MBA,** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock –No

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