

Kalpataru Power Transmission (KPP IN)

Rating: BUY | CMP: Rs251 | TP: Rs296

November 5, 2020

Q2FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	296		276	
Sales (Rs. m)	94,181	1,10,510	94,181	1,10,510
% Chng.	-	-	-	-
EBITDA (Rs. m)	10,153	11,913	10,144	11,903
% Chng.	0.1	0.1	-	-
EPS (Rs.)	37.5	45.9	37.4	45.6
% Chng.	0.3	0.5	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	79,040	80,035	94,181	1,10,510
EBITDA (Rs. m)	8,601	8,468	10,153	11,913
Margin (%)	10.9	10.6	10.8	10.8
PAT (Rs. m)	4,631	4,588	5,798	7,096
EPS (Rs.)	29.9	29.7	37.5	45.9
Gr. (%)	14.5	(0.9)	26.4	22.4
DPS (Rs.)	3.1	3.3	4.1	5.0
Yield (%)	1.2	1.3	1.6	2.0
RoE (%)	13.8	12.3	13.8	14.9
RoCE (%)	17.7	14.8	16.3	17.4
EV/Sales (x)	0.6	0.6	0.5	0.4
EV/EBITDA (x)	5.5	5.7	4.7	4.0
PE (x)	8.4	8.5	6.7	5.5
P/BV (x)	1.1	1.0	0.9	0.8

Key Data

KAPT.BO | KPP IN

52-W High / Low	Rs.477 / Rs.170
Sensex / Nifty	41,340 / 12,120
Market Cap	Rs.39bn/ \$ 522m
Shares Outstanding	155m
3M Avg. Daily Value	Rs.216.39m

Shareholding Pattern (%)

Promoter's	55.29
Foreign	6.46
Domestic Institution	26.37
Public & Others	11.88
Promoter Pledge (Rs bn)	12.16

Stock Performance (%)

	1M	6M	12M
Absolute	4.0	15.3	(43.0)
Relative	(1.9)	(12.2)	(44.5)

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Recovery visible

Quick Pointers:

- Healthy order inflows from T&D spaced both in international and domestic market led to order inflows of Rs32.3bn YTD. (Further L1 in Rs24bn projects).
- OI guidance maintained at Rs90-100bn with revenue growth of 5-10% (earlier 8-10%) and EBITDA margins of 10.5-11% for FY21E.

Kalpataru Power Transmission Ltd (KPTL) reported decent quarterly performance despite pandemic and onset of monsoon led by better execution, higher other income and lower interest cost. Order inflows came in at ~Rs7bn during 2Q majorly contributed by T&D segment (98%) with the company being further L1 in orders worth ~Rs30bn. OB stands at ~Rs123bn spread across segments, providing revenue visibility for next few years. Given the healthy tendering pipeline KPTL has maintained its order inflow guidance of Rs90-100bn (PLe ~Rs100bn) while has slightly lowered its revenue growth guidance to 5-10% (vs earlier 8-10%) with EBITDA margins of 10.5-11% for FY21E.

Going ahead company's focus remains on operational efficiencies, cost optimization and prudent working capital management. We believe receipts of monetisation proceeds of three BOOT transmission assets during FY21E worth Rs10bn+ would strengthen the balance sheet further. We remain positive on the company owing to strong revenue visibility on back of healthy OB, steady margin profile, healthy bid pipeline and positive outlook on T&D and emerging segments like Railways/Oil & Gas. We expect KPTL to deliver ~15% earnings CAGR over FY20-22E. Owing to steady 1HFY21 we have increased our estimates by marginally FY21E/22E. We maintain BUY with a revised SOTP based TP of Rs296 (earlier TP Rs276). The TP has been revised upwards mainly due to inclusion of equity investment of transmission assets.

Healthy performance overall: Sales came in at ~Rs18.8bn (down 4% YoY) vs (PLe ~Rs18.4bn) led by improvement in execution. EBITDA fell by 2.4% YoY to Rs2bn (PLe ~Rs1.8bn) with EBITDA margins coming at 10.7% v/s 10.5% in 2QFY20. PBT (including exception item) increased by 25% YoY to Rs2bn on back of higher other income (up 48% YoY), lower interest cost (down, 48% YoY) and exception item of Rs140mn (Gain on sale of investment in Jhafi KT Transco). Adj.PAT came in at Rs1.6bn (PLe ~Rs932mn), up 25% YoY.

Order pipeline remains robust: YTD OI stands at Rs32.3bn majorly contributed by T&D- international (76%), T&D- domestic (22%) and Railways (2%). Further, L1 status stands at Rs24bn (~50% in T&D and 25% each Railways/Oil & Gas). KPTL has guided for Rs90-100bn OI for FY21E owing to strong bid pipeline where company has already submitted orders worth Rs100bn in TBCB to PGCIL. During 2Q, order inflows came in at Rs7bn, down 72% YoY impacted due to deferment of order. Order book stands at Rs123bn (down 19%yoy). Going ahead, management expects execution to pick up significantly in Railways and Oil & Gas segment and report a double digit revenue growth while T&D is expected to grow 5% for FY21E.

Exhibit 1: Q2FY21 Result Overview (Rs mn); Decent performance on all grounds

Y/e March	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY gr. (%)	QoQ gr. (%)	1HFY21	1HFY20	YoY gr. (%)
Revenue	19,670	19,790	23,030	14,590	18,820	(4.3)	29.0	33,410	36,220	(7.8)
Total Revenues	19,670	19,790	23,030	14,590	18,820	(4.3)	29.0	33,410	36,220	(7.8)
Expenditure	17,600	17,710	20,500	13,030	16,800	(4.5)	28.9	29,830	32,230	(7.4)
as % of sales	89.5	89.5	89.0	89.3	89.3			89.3	89.0	
Consumption of RM	9,250	8,490	9,220	6,070	7,000	(24.3)	15.3	13,070	14,960	(12.6)
as % of sales	47.0	42.9	40.0	41.6	37.2			39.1	41.3	
Employee Cost	1,310	1,350	1,360	1,380	1,400	6.9	1.4	2,780	2,550	9.0
as % of sales	6.7	6.8	5.9	9.5	7.4			8.3	7.0	
Other expenditure	7,040	7,870	9,920	5,580	8,400	19.3	50.5	13,980	14,720	(5.0)
as % of sales	35.8	39.8	43.1	38.2	44.6			41.8	40.6	
EBITDA	2,070	2,080	2,530	1,560	2,020	(2.4)	29.5	3,580	3,990	(10.3)
Depreciation	270	280	290	290	290	7.4	-	580	530	9.4
EBIT	1,800	1,800	2,240	1,270	1,730	(3.9)	36.2	3,000	3,460	(13.3)
Other Income	250	160	70	90	370	48.0	311.1	460	350	31.4
Interest	440	420	460	350	230	(47.7)	(34.3)	580	780	(25.6)
PBT	1,610	1,540	1,850	1,010	1,870	16.1	85.1	2,880	3,030	(5.0)
Total Tax	340	410	770	320	420	23.5	31.3	740	840	(11.9)
PAT	1,270	1,130	1,080	690	1,450	14.2	110.1	2,140	2,190	(2.3)
Extra ordinary items	-	240	-	-	140	-	-	-	-	-
Reported PAT	1,270	1,370	1,080	690	1,590	25.2	130.4	2,140	2,190	(2.3)
Adjusted EPS	8.3	8.9	7.0	4.5	10.4	25.2	130.4	14.9	14.3	4.1
Margins (%)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	bps	bps	1HFY21	1HFY20	bps
EBIDTA	10.5	10.5	11.0	10.7	10.7	21	4	10.7	11.0	(30)
EBIT	9.2	9.1	9.7	8.7	9.2	4	49	9.0	9.6	(57)
EBT	8.2	7.8	8.0	6.9	9.9	175	301	8.6	8.4	25
PAT	6.5	6.9	4.7	4.7	8.4	199	372	6.4	6.0	36
Effective Tax rate	21.1	26.6	41.6	31.7	22.5	134	(922)	25.7	27.7	(203)

Source: Company, PL

Exhibit 2: SOTP

Rs mn	Equity Investment/PAT	1yr fwd (x)	Basis of Investment	KPTL Share (%)	Value for KPTL	Value per share
Kalpataru Power (Standalone)	5,798	6	PER	1	34,786	227
Jhajjar KT Transco Pvt. Ltd. (50% stake)	1,341	1	PBV	0.74	992	6
Alipurduar Transmission	2,500	0.8	PBV	1	2,000	10
Kohima-Mariani Transmission	2,200	0.8	PBV	0.74	1,302	7
Linjemontage (85% stake)	1,400	1	PER	0.85	1,190	8
JMC Projects (67.19% subsidiary)	7,808	0.8	30% Holding Disc.	0.6719	3,934	26
Enegylink (Indore Commercial-residential project)	1,500	0.8	PBV	1	1,500	8
Shubham Logistics	814	0.8	PBV	1	814	4
Total					46,519	296

Source: PL

Conference Call Highlights:

- **Update on KPTL Real estate business** – In the last 3 months, the company witnessed good traction in its real estate business and recorded a sale of Rs7.5bn primarily from MMR regions. Currently ~80% of its debt is mainly related to working capital requirements and construction finance which is regularly getting serviced. Further, the company has started the process of monetisation of some of its assets such as commercial real estate in order to reduce its debt at parent level.
- Operations at business have improved sequentially with rise in labour availability, supply chain improvement, pickup in construction activity and have reached almost pre-covid levels. However, due to Covid restriction productivity stands at 90% plus across its project sites.
- KPTIL has successfully completed the sale of JKPTL at an EV of Rs3.1bn and received the proceeds in 1HFY21.
- Further, KPTIL has received all the necessary approvals for sale of Alipurduar Transmission Ltd (ATL) projects and expect the transaction (including cash proceeds to receive) to complete by Nov-20.
- The company has completed construction works for Kohima-Mariani Transmission Ltd (KMTL) in Oct-20 and expects the project to commission within coming few days.
- During 2Q, T&D segment declined by 5% YoY, Oil & Gas/Railways grew by 30% /25% YoY.
- **Revenue break-up** – T&D revenue came in at Rs12bn (~50:50 for domestic: exports), railways - Rs4bn and Oil and Gas- Rs3.2-3.5bn.
- Other expenses increased by 19% YoY due to increase in inward-outward freight in both domestic and international.
- OB stands at Rs123bn and is L1 in Rs24bn (~comprising of 50% T&D and 25% each Railways & Oil and Gas).
- **SSL:** - During 2Q revenue grew by 21% YoY, EBITDA stood at Rs190mn with margins of 46%, PAT came in at Rs80mn and is expected to continue to deliver similar performance going ahead.
- O/S borrowings against pledge shares reduced to Rs7.21bn in Oct from Rs8.34bn last year and is expected to reduce further by Rs1.5bn by Jan 2021 & Rs1.2bn by Dec 2021.
- **T&D domestic** –BOT tenders of more than Rs100bn are to be bid till Dec end. Order Inflow is expected to be around Rs20bn in T&D domestic for FY21E and achievable in 4-5 months. Tenders worth Rs100-150bn in TBCB have submitted from PGCIL and private developers.
- **T&D International**- Middle East, Norway, Sweden, Africa and CIS regions contributed to the revenue and has seen healthy tendering pipeline. Going ahead, management expects good visibility from international markets and expect more than Rs40bn OI in FY21E.

- Company has submitted tenders worth Rs40bn in Railways and Oil and Gas. KPTL is L1 in Rs12bn plus projects in Oil and Gas segment. Company has bided for 3-4 tenders in oil & gas in international market. For Railways more focus remains in African markets.
- **Outlook:** - Management expects revenue to grow by 5-10% and margins to remain stable in the range of 10-10.5%. Interest cost was 1.2% to sale during the quarter and going ahead expect to be around 1.5-1.7%. OI is expected to be around 90-100bn for FY21E.
- Going ahead revenue for T&D is expected to grow by 5% to Rs50bn, Oil & Gas to grow by 10-15% at Rs15bn and Railways to be around Rs17bn, growth of 10% in FY21E.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	79,040	80,035	94,181	1,10,510
YoY gr. (%)	11.1	1.3	17.7	17.3
Cost of Goods Sold	32,676	33,534	39,179	45,972
Gross Profit	46,365	46,500	55,002	64,538
Margin (%)	58.7	58.1	58.4	58.4
Employee Cost	5,257	5,762	6,781	7,957
Other Expenses	3,372	3,361	3,956	4,641
EBITDA	8,601	8,468	10,153	11,913
YoY gr. (%)	10.5	(1.5)	19.9	17.3
Margin (%)	10.9	10.6	10.8	10.8
Depreciation and Amortization	1,105	1,133	1,238	1,320
EBIT	7,496	7,334	8,915	10,593
Margin (%)	9.5	9.2	9.5	9.6
Net Interest	1,662	1,841	1,916	1,991
Other Income	584	640	753	884
Profit Before Tax	6,657	6,134	7,752	9,486
Margin (%)	8.4	7.7	8.2	8.6
Total Tax	2,026	1,546	1,954	2,390
Effective tax rate (%)	30.4	25.2	25.2	25.2
Profit after tax	4,631	4,588	5,798	7,096
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,631	4,588	5,798	7,096
YoY gr. (%)	15.4	(0.9)	26.4	22.4
Margin (%)	5.9	5.7	6.2	6.4
Extra Ord. Income / (Exp)	239	-	-	-
Reported PAT	4,870	4,588	5,798	7,096
YoY gr. (%)	21.4	(5.8)	26.4	22.4
Margin (%)	6.2	5.7	6.2	6.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,870	4,588	5,798	7,096
Equity Shares O/s (m)	155	155	155	155
EPS (Rs)	29.9	29.7	37.5	45.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	9,571	10,571	11,571	12,571
Tangibles	9,571	10,571	11,571	12,571
Intangibles	-	-	-	-
Acc: Dep / Amortization	3,723	4,856	6,094	7,414
Tangibles	3,723	4,856	6,094	7,414
Intangibles	-	-	-	-
Net fixed assets	5,849	5,715	5,477	5,157
Tangibles	5,849	5,715	5,477	5,157
Intangibles	-	-	-	-
Capital Work In Progress	884	914	914	914
Goodwill	-	-	-	-
Non-Current Investments	13,406	11,445	12,055	13,593
Net Deferred tax assets	(51)	(51)	(51)	(51)
Other Non-Current Assets	1,493	1,801	2,119	2,210
Current Assets				
Investments	-	-	-	-
Inventories	7,389	8,771	9,031	10,597
Trade receivables	35,174	42,758	46,445	49,956
Cash & Bank Balance	3,371	2,772	3,997	3,916
Other Current Assets	26,653	29,613	32,963	36,468
Total Assets	96,565	1,06,590	1,16,393	1,26,680
Equity				
Equity Share Capital	309	309	309	309
Other Equity	35,065	39,148	44,308	50,623
Total Network	35,374	39,457	44,617	50,932
Non-Current Liabilities				
Long Term borrowings	2,993	3,493	3,993	4,493
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	8,781	8,781	8,781	8,781
Trade payables	21,362	24,120	25,803	27,249
Other current liabilities	28,003	30,688	33,148	35,174
Total Equity & Liabilities	96,564	1,06,590	1,16,393	1,26,680

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	6,657	6,134	7,752	9,486
Add. Depreciation	1,105	1,133	1,238	1,320
Add. Interest	1,662	1,841	1,916	1,991
Less Financial Other Income	584	640	753	884
Add. Other	(1,566)	-	-	-
Op. profit before WC changes	7,858	9,108	10,906	12,797
Net Changes-WC	(3,334)	(6,724)	(4,342)	(5,909)
Direct tax	(2,095)	(1,546)	(1,954)	(2,390)
Net cash from Op. activities	2,429	839	4,610	4,497
Capital expenditures	(1,698)	409	(1,331)	(2,306)
Interest / Dividend Income	537	-	-	-
Others	(3,605)	-	-	-
Net Cash from Invst. activities	(4,766)	409	(1,331)	(2,306)
Issue of share cap. / premium	-	-	-	-
Debt changes	6,877	500	500	500
Dividend paid	(1,192)	(505)	(638)	(781)
Interest paid	(1,532)	(1,841)	(1,916)	(1,991)
Others	(143)	-	-	-
Net cash from Fin. activities	4,009	(1,846)	(2,054)	(2,272)
Net change in cash	1,673	(598)	1,225	(80)
Free Cash Flow	726	(191)	3,610	3,497

Source: Company Data, PL Research

Key Financial Metrics

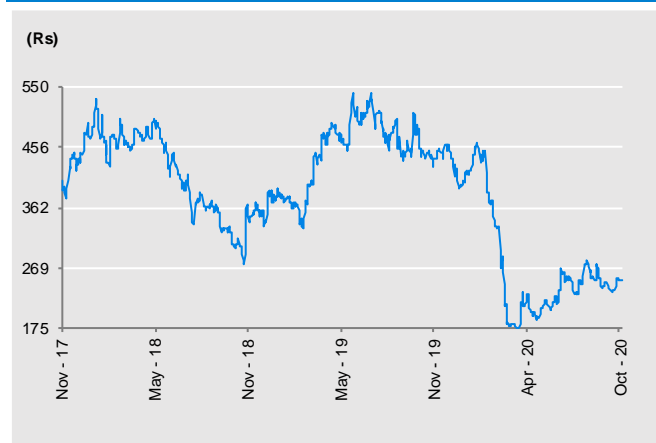
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	29.9	29.7	37.5	45.9
CEPS	37.1	37.0	45.5	54.4
BVPS	228.7	255.1	288.4	329.2
FCF	4.7	(1.2)	23.3	22.6
DPS	3.1	3.3	4.1	5.0
Return Ratio(%)				
RoCE	17.7	14.8	16.3	17.4
ROIC	13.4	11.8	13.2	13.9
RoE	13.8	12.3	13.8	14.9
Balance Sheet				
Net Debt : Equity (x)	0.2	0.2	0.2	0.2
Net Working Capital (Days)	98	125	115	110
Valuation(x)				
PER	8.4	8.5	6.7	5.5
P/B	1.1	1.0	0.9	0.8
P/CEPS	6.8	6.8	5.5	4.6
EV/EBITDA	5.5	5.7	4.7	4.0
EV/Sales	0.6	0.6	0.5	0.4
Dividend Yield (%)	1.2	1.3	1.6	2.0

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	19,790	23,030	14,590	18,820
YoY gr. (%)	14.7	(7.6)	(11.8)	(4.3)
Raw Material Expenses	8,490	9,220	6,070	7,000
Gross Profit	11,300	13,810	8,520	11,820
Margin (%)	57.1	60.0	58.4	62.8
EBITDA	2,080	2,530	1,560	2,020
YoY gr. (%)	13.1	(5.0)	(18.8)	(2.4)
Margin (%)	10.5	11.0	10.7	10.7
Depreciation / Depletion	280	290	290	290
EBIT	1,800	2,240	1,270	1,730
Margin (%)	9.1	9.7	8.7	9.2
Net Interest	420	460	350	230
Other Income	160	70	90	370
Profit before Tax	1,780	1,850	1,010	2,010
Margin (%)	9.0	8.0	6.9	10.7
Total Tax	410	780	320	420
Effective tax rate (%)	23.0	42.2	31.7	20.9
Profit after Tax	1,370	1,070	690	1,590
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,370	1,070	690	1,590
YoY gr. (%)	48.9	(21.8)	(25.0)	25.2
Margin (%)	6.9	4.6	4.7	8.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,370	1,070	690	1,590
YoY gr. (%)	48.9	(21.8)	(25.0)	25.2
Margin (%)	6.9	4.6	4.7	8.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,370	1,070	690	1,590
Avg. Shares O/s (m)	153	153	153	153
EPS (Rs)	8.9	7.0	4.5	10.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-20	BUY	276	238
2	13-Aug-20	BUY	276	250
3	08-Jul-20	BUY	261	258
4	21-May-20	BUY	261	193
5	16-Apr-20	BUY	275	175
6	11-Feb-20	BUY	601	451
7	03-Jan-20	BUY	662	421
8	07-Nov-19	BUY	662	437

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	877
2	Ahluwalia Contracts (India)	BUY	288	231
3	Ashoka Buildcon	BUY	147	64
4	Bharat Electronics	Hold	99	94
5	BHEL	Hold	34	28
6	Capacite's Infraprojects	BUY	162	120
7	Container Corporation of India	BUY	468	386
8	Cummins India	Accumulate	472	434
9	Engineers India	BUY	104	64
10	GE T&D India	Hold	86	89
11	H.G. Infra Engineering	BUY	259	185
12	IRB Infrastructure Developers	BUY	152	112
13	ITD Cementation India	BUY	67	50
14	J.Kumar Infraprojects	BUY	176	109
15	Kalpataru Power Transmission	BUY	276	238
16	KEC International	BUY	333	345
17	KNR Constructions	BUY	305	257
18	Larsen & Toubro	BUY	1,284	935
19	NCC	BUY	83	34
20	PNC Infratech	BUY	219	167
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	52
23	Siemens	BUY	1,402	1,275
24	Thermax	Accumulate	798	719
25	Triveni Turbine	BUY	85	69
26	Voltamp Transformers	BUY	1,244	988

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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