Sharekhan
by BNP PARIBAS

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Stock Update

Kalpataru Power Transmission Limited

Steady Q3, promising outlook ahead

Capital Goods	Sharekhan code: KALPATPOWR	Company Update

Summary

- We maintain our Buy rating on Kalpataru Power Transmission Limited (KPTL) with a revised PT of Rs. 485, rolling forward our standalone valuation multiple to FY2023E.
- Kalpataru Power Transmission Limited's (KPTL) steady performance in Q3FY2021 results despite challenges. Order inflow remained healthy during Q3FY21 and order backlog remains strong providing 1.7 x TTM standalone revenues.
- Management expects better revenues y-o-y with stable margins for FY21. It expects double digit growth with stable margins in FY2022. Order inflow to be in the range of 9,000-10,000 crore in FY22E.
- Expecting deal closure for the sale of its third project Kohima Mariani Transmission in Q4FY21 or else by Q1FY22 which would further deleverage its balance sheet.

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 369**	
Price Target: **Rs. 485**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

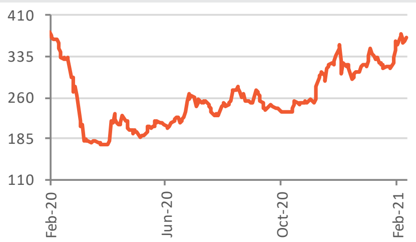
Company details

Market cap:	Rs. 5,497 cr
52-week high/low:	Rs. 400 / 170
NSE volume: (No of shares)	4.7 lakh
BSE code:	522287
NSE code:	KALPATPOWR
Free float: (No of shares)	6.5 cr

Shareholding (%)

Promoters	56.5
FII	4.4
DII	28.5
Others	10.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11	24	50	-3
Relative to Sensex	4	6	13	-30

Sharekhan Research, Bloomberg

Kalpataru Power Transmission Limited's (KPTL's) posted an overall steady performance in Q3FY2021 despite challenges. Standalone revenues remained flat y-o-y due to the lingering effect of the lockdown wherein some delays on delivery due to restriction largely for overseas and neighboring borders and container unavailability. Segment wise T&D segment grew +5% y-o-y while non-T&D businesses (railways, Oil and gas) remained muted y-o-y. Operating margins remained flat y-o-y at 10.7% due to higher other expenses and input cost. Accordingly, operating profit too remained flat y-o-y at Rs 207 crore. Higher other income, lower interest cost led to standalone net profit of Rs. 257 crore (+87.6% y-o-y). Adjusting to the exceptional item of Rs 154 crore (gain on sale of Alipurduar Transmission Limited worth Rs 147 crore and balance amount in Jhajjar KT Transco) led to PAT decline of -8.8% y-o-y to Rs 103 crore (lower than estimates). Order inflow stood at Rs. 2,869 crore (+30% y-o-y) during Q3FY21 and YTD order inflow remains at Rs. 6,260 crore while order book remains healthy at Rs. 13,329 crore (1.7x TTM standalone revenues). KPTL remains L1 bidder for Rs. 3100 crore worth of orders (largely from domestic T&D). Biding pipeline remains healthy in the domestic (tenders being floated from REC, PFC and boot orders) as well as the international markets. In railways, tendering pipeline remains healthy for electrification and track doubling while oil & gas tenders are being floated from PSU companies in the segment. The management expects better revenues y-o-y with stable margins for FY21 and expects double digit growth with stable margins in FY2022. Order inflows are likely to be in the range of 9,000-10,000 crore in FY22E. In the next 3-4 years, the company expects to grow at double digit in revenues. The company also acquired controlling stake in Brazialian power T&D EPC company and expects this new acquisition would help the company to tap local markets opportunities in Brazil and expanding its reach to other countries like LATAM. Productivity remained above 95% and labour availability at pre-COVID levels. Further, KPTL remains focused on cash flows with dedicated efforts on cost optimisation and prudent working capital management. On the asset sale front, it is expecting deal closure for the sale of its third project Kohima Mariani Transmission in Q4FY21 or else by Q1FY22 which would further deleverage its balance sheet. The management reiterated that it is confident of reducing and servicing debt over three years and expects to further reduce debt by Rs. 150 crore in Q4FY2021 and another Rs. 150 crore by Q3FY2022. We have fine-tuned our estimates for FY2021-FY2022. We maintain our Buy rating on the stock with a revised SoTP based PT of Rs. 485, rolling forward our standalone valuation multiple to FY2023E.

Key positives

- KPTL is the L1 bidder for projects worth Rs. 3,100 crores, largely in the T&D space.
- Order inflow remained healthy at Rs 2,869 crore (+30% y-o-y) during Q3FY21.
- Net debt reduced by Rs 206 crore q-o-q.

Key negatives

- Railways and oil and gas revenues remained muted y-o-y during Q3FY21.

Our Call

Valuation - Maintain Buy with revised PT of Rs. 485: The management remains confident of delivering a better performance in FY2021 despite challenges as most projects are operational now and high double digit growth with stable margins in FY2022. Order inflow visibility remains healthy as tendering pipeline remains healthy in railways, international T&D and oil & gas. The company's focus on asset monetisation and de-leveraging balance sheet remains. The company reiterated the promoter's plan of reducing pledge of securities by 50% over one to one and a half year, with improving velocity of sales in the real estate project, which should ease concerns related to promoter's pledge of securities. Hence, KTPL has been addressing key issues and is witnessing improving business outlook. Overall, we believe KTPL is witnessing pick up in execution, improving order visibility, and keeping its focus on de-leveraging its balance sheet. We have fine-tuned our estimates for FY2021-FY2022. We maintain our Buy rating on the stock with a revised SoTP based PT of Rs. 485, rolling forward our standalone valuation multiple to FY2023E.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY20	FY21E	FY22E	FY23E
Revenue	7,904	8,004	9,270	10,342
OPM (%)	10.9	10.7	10.8	10.9
Adjusted PAT	463	477	586	688
% YoY growth	*15.4*	*3.1*	*22.8*	*17.4*
Adjusted EPS (Rs.)	30.0	30.9	37.9	44.5
P/E (x)	12.3	12.0	9.7	8.3
P/B (x)	1.6	1.4	1.3	1.1
EV/EBITDA (x)	6.6	6.1	5.1	4.2
RoNW (%)	13.8	12.7	13.8	14.3
RoCE (%)	19.1	16.8	17.9	18.7

Source: Company; Sharekhan estimates

Steady performance in Q3: Kalpataru Power Transmission Limited's (KPTL's) posted overall steady performance in Q3FY2021 despite challenges. Standalone revenue remained flat y-o-y due to the lingering effect of the lockdown wherein some delays were there on delivery due to restriction largely for overseas and neighboring borders and container unavailability. Segment wise T&D segment grew +5% y-o-y while the non T&D businesses (railways, Oil and gas) remained muted y-o-y. Operating margins remained flat y-o-y at 10.7% due to higher other expenses and input cost. Accordingly, operating profit too remained flat y-o-y at Rs 207 crore. Higher other income, lower interest cost led to standalone net profit of Rs. 257 crore (+87.6% y-o-y). Adjusting to the exceptional item of Rs 154 crore (gain on sale of Alipurduar Transmission Limited worth Rs 147 crore and balance amount in Jhajjar KT Transco) led to a PAT decline of -8.8% y-o-y to Rs 103 crore (lower than estimates). Management expects better revenues y-o-y with stable margins for FY21 and expects double digit growth with stable margins in FY2022. Order inflow to be in the range of 9,000-10,000 crore in FY22E.

Order inflow and order book remains healthy: Order inflow stood at Rs. 2,869 crore (+30% y-o-y) during Q3FY21 and YTD order inflow remains at Rs. 6,260 crore while order book remains healthy at Rs. 13,329 crore (1.7x TTM standalone revenues). KPTL remains L1 bidder for Rs. 3,100 crore worth of orders (largely from domestic T&D). Biding pipeline remains healthy in the domestic (tenders being floated from REC, PFC and boot orders) as well as the international markets. In railways, the tendering pipeline remains healthy for electrification and track doubling (expect double digit growth in next two years) while oil & gas tenders are being floated from PSU companies in the segment. Order inflow guidance remains at 9,000-10,000 crore for FY22.

Key result highlights from earnings call

- **Business operation:** The business operation is running normally at construction sites and r availability of labour is no longer not an issues. Barring some delays on delivery due to restriction largely for overseas and neighboring borders and container unavailability. Overall running at efficiency level of 90-95%.
- **Guidance:** Expect better Q4FY21 in terms of revenues and execution for KPTL on standalone and double-digit growth on revenues with stable margins of 10.5% expected for FY2022. Next 3-4 years growing at double digit. Order inflow guidance remains at 9,000-10,000 crore for FY21.
- **Asset divestment:** Achieved full commissioning of Kohima-Mariani Transmission Ltd. (KMTL); Awaiting approvals for transfer/ sale from relevant authorities; Expecting deal closure in Q4FY21/ Q1FY22. The company received proceeds on sale of Alipurduar Transmission Ltd. (ATL) in Q3FY21.
- **Order inflow:** The order book stands at over Rs. 13,329 Crores (down 10.3% y-o-y, +8.4% q-o-q) and order inflow of Rs. 2,869 crore (up 30% y-o-y) and YTD FY21 order inflow stands at Rs. 6,260 crore. It is L1 in Rs. 3,100 crores worth of projects
- **New acquisition:** KPTL acquired 51% stake in EPC based company Fasttel some time back (reported earlier too) for around USD 8.8 mn (~Rs 65 crore) having a good order book and opportunity size in term or order inflow and provides opportunity to expand through other countries like LATAM. The transaction will be funded through KPTL's internal accruals and expected to close by end of Q1FY22. Companies would be pursuing organic opportunities like this in future if it's a right fit.
- **Segment wise growth in Q3FY21:** T&D business grew 5% y-o-y while railways and oil & gas revenues largely remained muted but expect better Q4FY21 in terms of execution.
- **Debt reduction:** The company remains focused on its debt reduction plans. Standalone net debt for the company stands at Rs. 612 crore vs Rs. 818 crore in Q2FY21, while consolidated net debt stands at Rs. 2343 crore vs Rs. 3,442 crore in Q2FY20. The proceeds from the sale of assets have been used in reducing debt for the company reflected in lower interest cost during the quarter.
- **Net working capital days:** The company's NWC days at the end of Q3 stood at 105 days slightly high, but expected to normalise at 90-100 days at the end of Q4FY21. Collection was a bit lower during Q3, but is expected to improve in Q4FY21.

- **Pledge:** The chairman remains committed to reducing and servicing debt over three years. As of October 2019, it had outstanding debt of Rs. 832 crore which was reduced to Rs. 721 crore by October 2020. It will further reduce Rs. 150 debt by Q4FY2021 and Rs. 150 crore by December 2021.

Kalpataru Power Transmission (Standalone) Rs cr

Particulars	Q3FY21	Q3FY20	Y-o-Y %	Q2FY21	Q-o-Q %
Net Sales	**1,993.0**	**1,979**	**0.7**	**1,882**	**5.9**
Operating expenditure	1,786	1,771	0.8	1,680	6.3
Operating profit	**207.0**	**208**	**(0.5)**	**202**	**2.5**
Other income	19	16	18.8	37	(48.6)
Interest	23	42	(45.2)	23	-
Depreciation	29	28	3.6	29	-
PBT	**174**	**154**	**13.0**	**187**	**(7.0)**
Tax	71	41	73.2	42	69.0
Reported PAT	**103**	**113**	**(8.8)**	**145**	**(29.0)**
Exceptional item	(154)	(24)	NA	(14)	NA
Adj PAT	**257.0**	**137**	**87.6**	**159**	**61.6**
EPS (Rs)	**16.6**	**8.8**	**87.6**	**9.4**	**77.2**
OPM (%)	10.4	10.5	(12.4)	10.7	(34.7)
NPM (%)	5.2	5.7	(54.2)	7.7	-
Tax Rate (%)	40.8	26.6	-	22.5	-

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view – Continued government focus on infrastructure spending to provide growth opportunities

To make India a $5 trillion economy by FY2025 and to continue growing at an escalated trajectory until 2030, it is estimated that India would need to spend $4.5 trillion on infrastructure by 2030. To achieve the desired goal, the government drew up National Infrastructure Pipeline (NIP) through a bottoms-up approach, wherein all projects costing more than Rs. 100 crore per project under construction, proposed greenfield projects, brownfield projects, and those at conceptualisation stage were captured. Consequently, total capital expenditure in infrastructure sectors in India during FY2020-FY2025 is projected at ~Rs. 111 lakh crore. During the same period, sectors such as energy (24%), roads (18%), urban (17%), and railways (12%) amount to ~71% of the projected infrastructure investments in India. The huge outlay towards the infrastructure sector is expected to provide healthy growth opportunities for infrastructure companies.

■ Company outlook – Improving business prospects with healthy order intake:

In wake of COVID-19 led lockdown, since mid-March 2020. Management expects better revenues y-o-y with stable margins for FY21 and expects double digit growth with stable margins in FY2022. Order inflow is expected to be in the range of 9,000-10,000 crore in FY22E. The company received ~Rs. 6,260 crore YTD with current L1 position in ~Rs. 3,100 crore orders (majority in T&D). The company is quite hopeful of Rs. 9,000 crore-10,000 crore order inflow for FY2021 and expected on similar lines for FY2022. It is expecting deal closure for the sale of its third project Kohima Mariani Transmission in Q4FY21 or else by Q1FY22 which would further deleveraging its balance sheet. New acquisition would help the company to tap local markets opportunities in Brazil and expanding its reach to other countries like LATAM. The tendering pipeline remains healthy in railways, oil and gas in domestic markets, and T&D tenders in international markets.

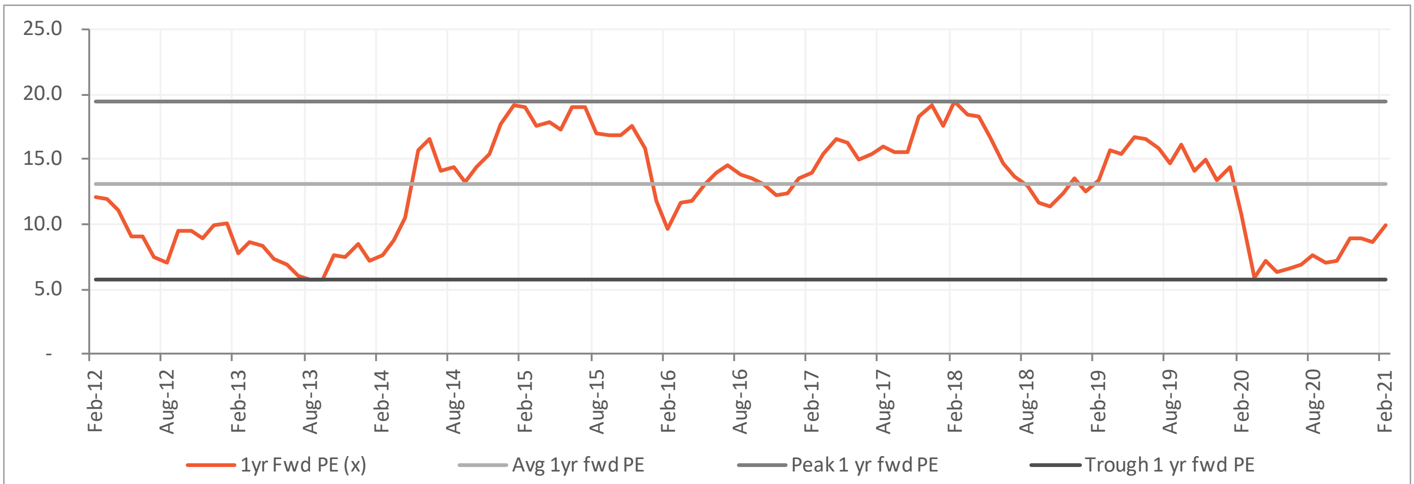
■ Valuation - Maintain Buy with revised PT of Rs. 485:

The management remains confident of delivering a better performance in FY2021 despite challenges as most projects are operational now and high double-digit growth with stable margins in FY2022. Order inflow visibility remains healthy as tendering pipeline remains healthy in railways, international T&D and oil & gas. The company's focus on asset monetisation and de-leveraging balance sheet remains. The company reiterated the promoter's plan of reducing pledge of securities by 50% over one to one and a half year, with improving velocity of sales in the real estate project, which should ease concerns related to promoter's pledge of securities. Hence, KTPL has been addressing key issues and is witnessing improving business outlook. Overall, we believe KTPL is witnessing a pickup in execution, improving order visibility, and keeping its focus on de-leveraging its balance sheet. We have fine-tuned our estimates for FY2021-FY2022. We maintain our Buy rating on the stock with a revised SoTP based PT of Rs. 485, rolling forward our standalone valuation multiple to FY2023E.

SOTP Valuation

Valuation	Value/share	Basis of valuation and multiple
KPTL	385	Valued at 9x FY23E earnings
JMC	55	Valued at our target price
SSL	2	Valued at stake acquisition price by KPTL
Others	45	Valued of equity invested in SPV & other investments
Total Value	**485**	**Price Target**

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 AvtarPatodia	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	MunotMofatrajPukhraj	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

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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