ANANDRATHI

India I Equities

Capital Goods

Company Update

Change in Estimates ☐ Target ☑ Reco ☐

16 May 2022

Kalpataru Power

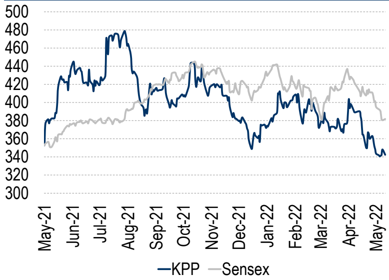
Mixed-bag performance, attractive valuations; maintaining a Buy

Rating: **Buy**
Target Price: Rs.427
Share Price: Rs.342

Key data	KPP IN / KAPT.BO
52-week high / low	Rs.496 / 332
Sensex / Nifty	52974 / 15842
3-m average volume	$1.5m
Market cap	Rs.51bn / $655m
Shares outstanding	149m

Shareholding pattern (%)	Mar-22	Dec-21	Sep-21
Promoters	51.6	51.6	54.6
- of which, Pledged	51.8	50.0	45.3
Free float	48.4	48.4	45.5
- Foreign institutions	5.3	5.7	8.9
- Domestic institutions	35.8	34.2	27.3
- Public	7.3	8.5	9.3

Relative price performance



Source: Bloomberg

Prevailing challenges related to input costs and supply-chain disruptions hurt Kalpataru's Q4 FY22 performance. Revenue fell 14% y/y and the EBITDA margin contracted 189bps y/y. On execution front, the company is well placed to deliver decent revenue growth (an 11% CAGR over FY22-24) led by its strong, Rs157.6bn, order book, 2.2x FY22 sales. Commodity pressures, however, will curb profitability, with FY23e/FY24e EBITDA margin expected to be benign at 8.7%/9.3%, compared to the past 10.5-11%. The recent fall in the stock price reflects the ongoing challenges and, hence, is attractive at 10.7x FY24e EPS. We maintain our Buy rating with a target price of Rs427 (assigning a 10x P/E to FY24e core earnings).

A mixed bag result; strong order backlog. Fewer T&D dispatches and slow progress in a few O&G pipeline projects pulled down revenue 14% y/y. The EBITDA margin contracted 189bps y/y to 8.5% (ARe: 8%), squeezed mainly by higher input prices and freight cost, and CTC provisioning (Rs1.18bn). Order inflows reached the targeted level and were Rs81.6bn in FY22, largely international (74%), led by a huge Rs32.8bn order in Chile executable in 6-7 years.

KPP-JMC merged entity, likely by end-FY23. With the merger process going well, management expects it to be completed by Mar'23. The proposed merger is likely to bring complementary capabilities into play to win business in high-growth segments and emerging markets, heighten capabilities to bid for large/complex projects and bring efficiencies (procurement synergies and cost optimisation – finance and otherwise) to augment shareholder wealth.

Outlook, Valuation. With the overall outlook for ordering remains healthy, management guided to order inflows of Rs100bn-110bn in FY23. Due to commodity price pressures, we cautiously estimate Rs92bn order inflow in FY23. Overall, we expect 11.4%/15.8% revenue/PAT CAGRs over FY22-23 and 8.7%/9.3% EBITDA margins in FY23/FY24 with the risk of an upward revision. **Risk:** Slowdown in inflows due to rise in input prices.

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	79,040	76,707	70,620	78,966	87,691
Net profit (Rs m)	4,463	4,906	3,602	3,884	4,830
EPS (Rs)	29.1	33.0	24.2	26.1	32.4
PE (x)	6.2	10.4	14.2	13.1	10.6
EV / EBITDA (x)	4.2	7.1	9.2	8.5	6.9
PBV (x)	0.8	1.3	1.2	1.1	1.0
RoE (%)	13.3	13.3	8.8	8.6	9.9
RoCE (%)	17.9	15.3	11.2	10.9	12.5
Dividend yield (%)	1.9	2.5	0.4	1.9	1.5
Net debt / equity (x)	0.2	0.2	0.2	0.2	0.1

Source: Company, Anand Rathi Research

Rahul Jain
Research Analyst

Prem Khurana
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Order book	132,880	138,900	157,590	170,208	187,191
Net revenues	79,040	76,707	70,620	78,966	87,691
Growth (%)	*11.1*	*-3.0*	*-7.9*	*11.8*	*11.0*
Material cost	32,680	27,937	29,700	33,166	36,830
Employee & other exps.	37,760	40,700	34,390	38,930	42,693
EBITDA	**8,600**	**8,070**	**6,530**	**6,870**	**8,168**
EBITDA margins (%)	*10.9*	*10.5*	*9.2*	*8.7*	*9.3*
- Depreciation	1,100	1,146	1,050	1,182	1,292
Other income	580	792	810	1,052	1,086
Interest expenses	1,660	1,086	1,240	1,419	1,346
PBT	6,420	6,630	5,050	5,321	6,616
Effective tax rate (%)	*30.5*	*26.0*	*28.7*	*27.0*	*27.0*
+ Associates / (Minorities)	-	-	-	-	-
Net income	4,630	6,152	5,150	3,884	4,830
Adjusted income	4,463	4,906	3,602	3,884	4,830
WANS	153	149	149	149	149
FDEPS (Rs / sh)	29.1	33.0	24.2	26.1	32.4
EPS growth (%)	*11.2*	*13.3*	*-26.6*	*7.8*	*24.3*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	309	298	300	300	300
Net worth	35,356	38,628	43,620	46,537	50,622
Debt	11,774	9,808	16,770	14,770	13,570
Minority interest	-	-	-	-	-
DTL / (Assets)	51	-234	-	-	-
Capital employed	**47,181**	**48,202**	**60,390**	**61,307**	**64,192**
Net tangible assets	5,849	6,422	6,310	6,365	6,412
Net intangible assets	91	60	160	106	59
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	395	407	40	40	40
Investments (strategic)	8,642	8,860	9,140	9,140	9,140
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	78,199	77,477	79,870	83,462	91,024
Cash	3,371	3,121	7,470	7,565	8,528
Current liabilities	49,366	48,144	42,600	45,371	51,011
Working capital	28,833	29,333	37,270	38,091	40,013
Capital deployed	**47,181**	**48,202**	**60,390**	**61,307**	**64,192**
Contingent liabilities	6,619	7,131	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
PBT	6,660	8,313	7,220	5,321	6,616
+ Non-cash items	2,180	1,440	1,480	1,549	1,551
Oper. prof. before WC	8,840	9,753	8,700	6,870	8,168
- Incr. / (decr.) in WC	5,091	164	6,979	794	1,894
Others incl. taxes	-1,822	-2,446	-1,836	-1,437	-1,786
Operating cash-flow	1,927	7,143	-116	4,640	4,487
- Capex (tang. + intang.)	1,650	1,700	671	1,183	1,292
Free cash-flow	276	5,443	-787	3,457	3,195
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	731	1,266	223	968	745
+ Equity raised	-	-12	2	-	-
+ Debt raised	5,695	-1,966	6,962	-2,000	-1,200
- Fin investments	2,157	218	280	-	-
- Misc. (CFI + CFF)	1,167	2,232	1,325	394	288
Net cash-flow	1,916	-250	4,349	95	963

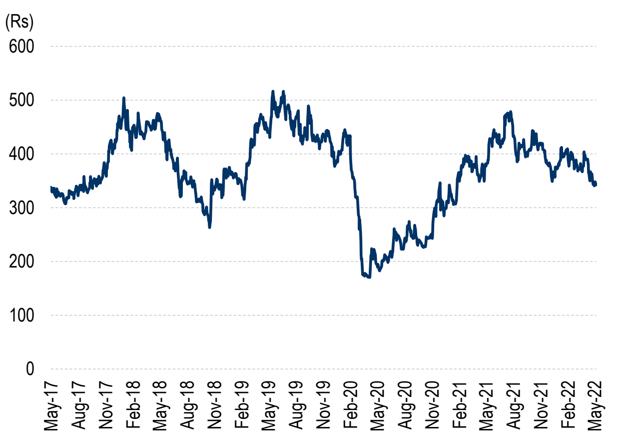
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	6.2	10.4	14.2	13.1	10.6
EV / EBITDA (x)	4.2	7.1	9.2	8.5	6.9
EV / Sales (x)	0.5	0.8	0.9	0.7	0.6
P/B (x)	0.8	1.3	1.2	1.1	1.0
RoE (%)	13.3	13.3	8.8	8.6	9.9
RoCE (%) - after tax	17.9	15.3	11.2	10.9	12.5
RoIC (%) - after tax	16.0	14.9	10.7	10.9	12.5
DPS (Rs / sh)	3.5	8.5	1.5	6.5	5.0
Dividend yield (%)	1.9	2.5	0.4	1.9	1.5
Dividend payout (%) - incl. DDT	15.8	20.6	4.3	24.9	15.4
Net debt / equity (x)	0.2	0.2	0.2	0.2	0.1
Receivables (days)	162	178	168	170	174
Inventory (days)	34	28	32	32	32
Payables (days)	99	109	126	111	109
CFO : PAT %	43.2	145.6	-3.2	119.5	92.9

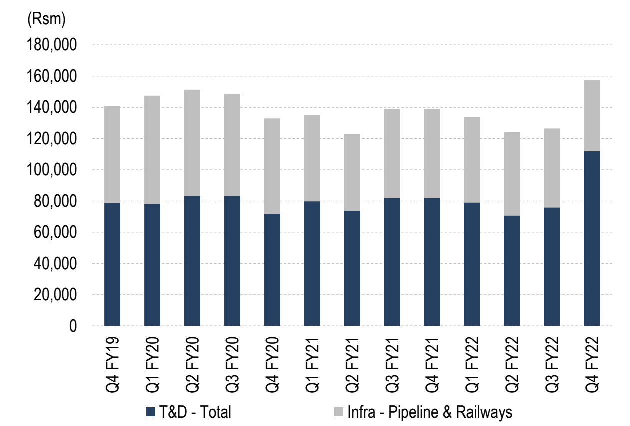
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Strong order book



Source: Company

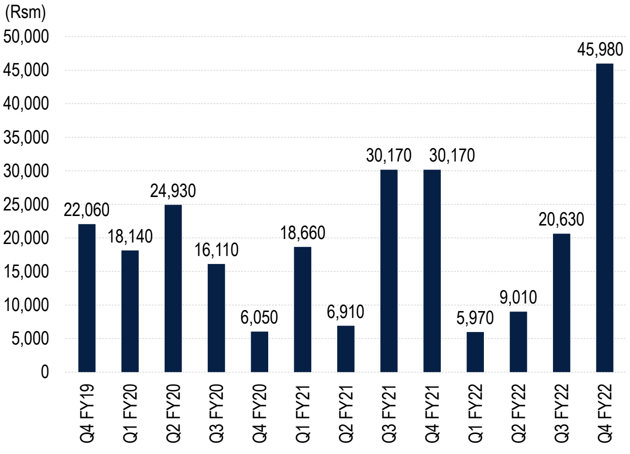
Result Highlights

Fig 7 – Quarterly and annual performance

(Rs m)	Q4 FY22	Q4 FY21	Y/Y (%)	Q3 FY22	Q/Q (%)	FY22	FY21	Y/Y (%)
Net revenue	20,100	23,370	*-14.0*	18,480	*8.8*	70,620	76,710	*-7.9*
EBITDA	1,710	2,430	*-29.6*	1,680	*1.8*	6,530	8,080	*-19.2*
EBITDA margins (%)	*8.5*	*10.4*	*-189bps*	*9.1*	*-58bps*	*9.2*	*10.5*	*-129bps*
Interest	300	280	*7.1*	320	*-6.3*	1,240	1,090	*13.8*
Depreciation	260	280	*-7.1*	260	*0.0*	1,050	1,150	*-8.7*
Other income	190	140	*35.7*	270	*-29.6*	810	790	*2.5*
Extraordinary items	-	-		2,620		2,170	1,680	*29.2*
Profit before tax	1,340	2,010	*-33.3*	3,990	*-66.4*	7,220	8,310	*-13.1*
Tax	470	710	*18.3*	840	*-44.0*	2,070	2,160	*-4.2*
Reported PAT	870	1,300	*-33.1*	3,150	*-72.4*	5,150	6,150	*-16.3*
Adjusted PAT	870	1,300	*-33.1*	1,082	*-19.6*	3,602	4,906	*-26.6*
Net margins (%)	*4.3*	*5.6*	*-123bps*	*17.0*	*-1272bps*	*7.3*	*8.0*	*-72bps*
Adj. EPS (Rs)	5.8	8.5	*-31.0*	7.0	*-17.1*	24.2	32.0	*-24.3*

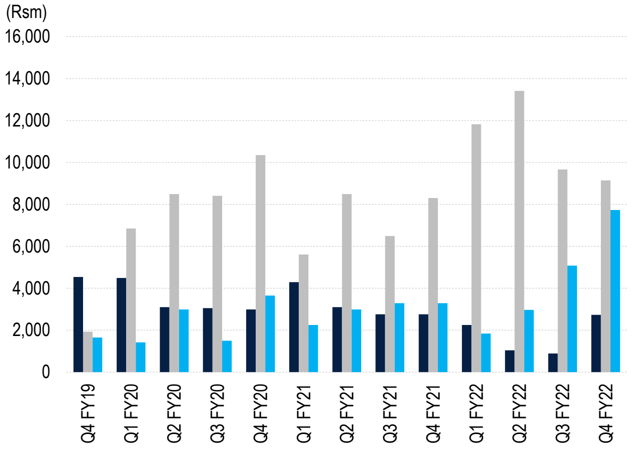
Source: Company

Fig 8 – Q4 order inflow was robust, led by single large order



Source: Company

Fig 9 – Debt and cash and cash equivalent profile



Source: Company

Concall highlights

Q4 FY22 update

Revenue declined 14% y/y to Rs20.1bn owing to lower dispatches in its T&D business, subdued order inflows in H1 FY22 and slow progress in a few oil & gas pipeline projects. The Q4 FY22 EBITDA margin contracted 189bps y/y to 8.5%, impacted mainly by higher commodity prices and freight costs, and CTC provisioning (Rs1.18bn). Other income increased 36% y/y to Rs190m; interest cost was 7% higher y/y, while depreciation declined 7% y/y. PAT was down 33% y/y to Rs870m.

Order book position strengthens to Rs157.6bn

The end-Mar'22 OB was Rs157.6bn (incl. LMG and Fasttel): domestic 37%, international 63%. T&D accounted for 71%, O&G 12% and the Railways 17%. The company attained the targeted order inflow of Rs81.6bn in FY22 (incl. LMG & Fasttel): domestic 26%, international 74%. Significant inflows were from T&D (87%); O&G contributed 7% and the Railways, 6%. The company bagged orders of Rs45.98bn in Q4 FY22 and Rs16.3bn in ytd FY23. It is also L1 for orders of ~Rs15bn, largely T&D.

It secured a high-value order of Rs32.8bn in South America for a 700km HVDC power transmission line in Chile. The timeline for the project is 6-7 years, of which the first 12-18 months will be engineering and design, while the EPC portion will be executed in 36 months. For this project, the client will look at the environmental clearance part and the rest of the related work. This order is funded by three large developers, who have won the concessional project and the company has received the EPC order.

Guidance

Consolidated: Management aims at 15%+ revenue growth and a 5% PBT margin. It guided to Rs210bn+ in order inflows. FY23 debt reduction was targeted at Rs3bn-4bn. The company will continue its journey toward de-levering its non-core assets.

Standalone: 10-15% revenue growth and ~9% EBITDA margin aimed at. Order inflows would be Rs100bn-110bn in FY23, with the current Rs60bn-70bn pipeline. The company sees execution challenges in FY23 due to supply-chain disruptions. Overall T&D ordering visibility has improved with funding by multilateral agencies and a cost-plus approach by PGCIL.

On the KPP-JMC merger

The merger process is progressing and is expected to be completed by Q4 FY23. Management expects significant synergies and further strengthening of its service offerings. It believes the merger, once effective, would lead to operational and financial efficiencies and enhance abilities (thereby placing it well to bid for larger projects).

- Management sees the merger to save ~Rs1bn-1.5bn annually. Most of these savings would be in finance costs (on the sturdier balance sheet).
- On operations, management envisages that the merged entity would be poised for even better growth and, thus, would need augmented resources (more employees for faster growth). Thus, synergies in operations would mostly come from operating leverage (more than any significant cost cuttings).

LMG (Sweden) and Fasttel

- LMG reported healthy revenue growth and margins in FY22. Revenue grew 12% y/y to Rs11.9bn with improved profitability. With orders of Rs9.85bn in FY22, the company's order backlog was ~Rs13bn at end-Mar'22.
- Fasttel reported Rs5.5bn revenue in FY22. For Q4 FY22, the company reported a loss. The Fasttel order book at end-Mar'22 was ~Rs5.1bn.
- In Q4 FY22, both LMG and Fasttel's revenues declined, largely on account of their order-book mix.
- Both the companies are expected to grow in single digits (5-7%) in FY23.
- Fasttel made a one-time loss provision of Rs270m in FY22. With this, the company will not report a loss. LMG and Fasttel's net margins in FY23 are targeted at 6-7%.
- LMG is cash-surplus, while Fasttel has minor debt, taken in Q4.

To reduce consolidated debt by Rs3bn-4bn

Consolidated net debt at end-Mar'22 fell Rs4.02bn to Rs19.02bn. The company plans to reduce debt by Rs3bn-4bn, largely from internal accruals and aided by its Indore real estate, which can provide Rs1.25bn cash in FY23. Divestments can further support debt reduction. Working capital rose as the company did not take customer advances owing to higher interest costs. Consolidated NWC days improved from 102 in FY21 to 98 in FY22. On a consolidated basis, the company is aiming at 90-100 days in FY23; while standalone will be higher, at 120 days by end-FY23 (from 134 at end-FY22).

Other key highlights

- In **Indore real estate**, 60% of the units were sold in FY22 (35% in FY21). Collection in FY22 was Rs1.6bn. Sales of all the units are expected in this financial year. Indore's realizable value is Rs2.5bn.
- The **CTC provision** in Q4 FY22 was Rs1.18bn, primarily provided at the standalone entity based on commodity prices as on 31st Mar'22. Some savings in the provision could come from the recent respite in commodity prices.
- **Shree Shubham Logistics**. Divestment from this company should take some time as warehousing utilisation has declined 25% due to higher wheat prices, leading to more exports. Utilisation should inch up with restrictions on imports of wheat.
- In FY22, the company entered four countries (and is L1 in two new countries) with operations now in 67 countries.
- Consolidated **capex** in FY23 is targeted at Rs3bn.
- **Pledge**. The reduction plan of Dec'22 stays. Starting from Q2 FY23, the pledge will start coming down. There will be no reduction in Q1 FY23.

Valuation and earnings revision

We cautiously estimate order inflows due to ongoing challenges related to higher prices, supply-chain disruptions and the geopolitical situation. With this, we expect 11.4%/15.8% revenue/PAT CAGRs over FY22-23 & 8.7%/ 9.3% EBITDA margins in FY23/FY24 with the risk of an upward revision.

We value the standalone business at 10x FY24e EPS, JMC Projects at a 20% holdco discount to our target price, LMG at 1x invested value and development projects on an equity-invested basis.

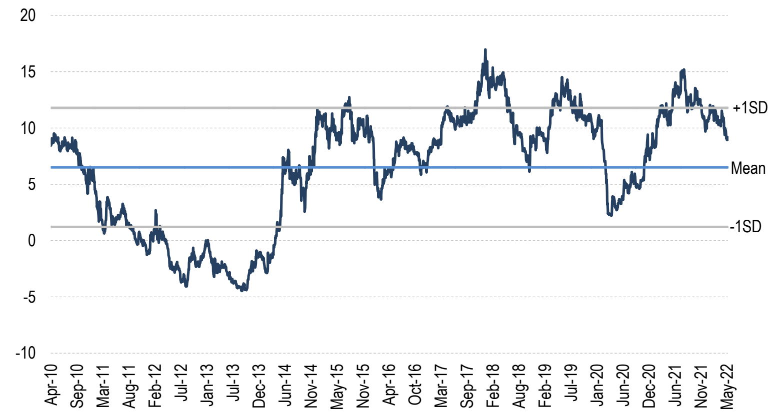
Consequently, our target price works out to ~Rs427.

Fig 11 – Sum-of-parts valuation

	1-yr fwd (x)	Basis	Value (Rs m)	KPT share (%)	Value for KPT (Rs m)	Value per share (Rs)
Kalpataru Power (standalone)	10	PER	48,298	100	48,298	324
Linjemontage (an 85% stake)	1	Invested value	1,621	85	1,378	9
JMC Projects (a 67.19% subsidiary)	.	Market cap	19,880	67.8	13,469	80
Enegylink (Indore commercial/ residential project)	1	P/BV	1,200	100	1,200	8
Shubham Logistics	0.5	P/BV	1,633	100	1,633	5
Total			**72,633**			**427**

Source: Anand Rathi Research

Fig 12 – One-year-forward PE band



Source: Bloomberg, Anand Rathi Research

Risks

- Better-than-expected pace of execution can be a risk to our earnings estimate.
- Significant movement in commodity prices.
- Better order inflows.

Appendix

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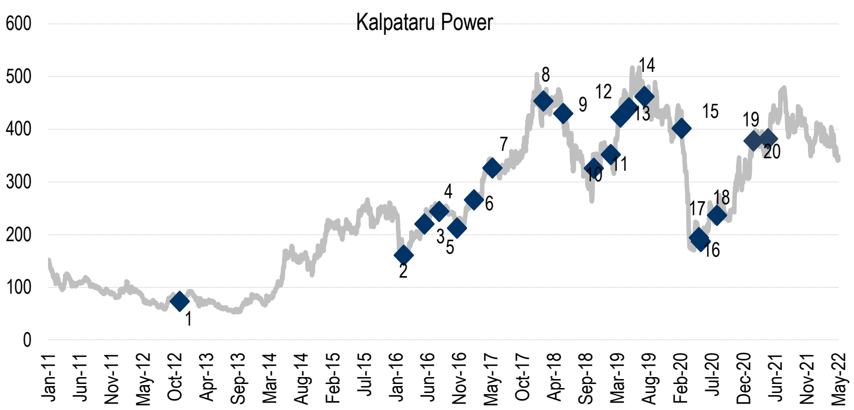

	Date	Rating	TP (Rs)	Share Price (Rs)
5	17-Nov-16	Buy	301	219
6	15-Feb-17	Buy	363	289
7	23-May-17	Buy	484	356
8	14-Feb-18	Buy	670	474
9	29-May-18	Hold	544	474
10	6-Nov-18	Buy	525	474
11	4-Feb-19	Buy	537	368
12	26-Mar-19	Buy	548	444
13	10-May-19	Buy	649	458
14	31-Jul-19	Buy	639	470
15	11-Feb-20	Buy	576	416
16	11-May-20	Buy	318	201
17	22-May-20	Buy	344	193
18	14-Aug-20	Buy	385	247
19	15-Feb-21	Buy	472	369
20	13-May-21	Buy	381	466

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Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.