

Buy

Ordering momentum to improve in H2; Maintain Buy

- Sales for Q2FY21 came in flat at Rs18.8bn, largely in line with our estimates, as company successfully restored labor availability and normalcy of supply chain; majority of projects are currently operating at pre-COVID levels. EBITDA came in flat at Rs2bn while EBITDA margins were stable at 10.7%. The company has an order book of Rs.123bn with a split of ~40% orders from O&G and Rail business
- The company is looking at an ordering pipeline of Rs140-150bn in the domestic space. Along with Oil & Gas and Railways, it is targeting a full year order of Rs90-100bn. It continues to maintain its revenue target of 5% in FY21 with EBDITA margins in the range of 10.5-11% while aiming to be debt free by end of the year on a standalone basis.
- With the management confident of orders picking momentum in H2, the outlook continues to remain positive for Kalpataru. We maintain our Buy rating with SOTP based TP of Rs340, as we roll forward our valuations to Sep 22E.

Q2 was an operationally good quarter

Sales for Q2FY21 came in flat at Rs18.8bn, largely in line with our estimates, as company successfully restored labor availability and normalcy of supply chain; majority of projects are currently operating at pre-COVID levels. EBITDA came in flat at Rs2bn mainly due to 23% YoY higher other expenses; while EBITDA margins were stable at 10.7% due to better GM by 363bps. RPAT was higher by 25% YoY at Rs1.6bn due to gain from sale of JKPL of Rs140mn and lower interest cost by 48% YoY in Q2FY21. The order inflows of Rs6.9bn in Q2FY21 were mainly driven by international T&D orders. The company has an order book of Rs.123bn with a split of ~40% orders from O&G and Rail business. Company has maintained its WC position of ~90-day levels in Q2FY21 as compared with March quarter with inventory levels largely in-line. Net debt is slightly higher at Rs8.2bn vs Rs7.7 in Q1FY21 due to increase in short term borrowings.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	18,820	19,670	(4.3)	14,590	29.0
Total Expense	16,800	17,600	(4.5)	13,030	28.9
EBITDA	2,020	2,070	(2.4)	1,560	29.5
Depreciation	290	270	7.4	290	0.0
EBIT	1,730	1,800	(3.9)	1,270	36.2
Other Income	370	250	48.0	90	311.1
Interest	230	440	(47.7)	350	(34.3)
EBT	2,010	1,610	24.8	1,010	99.0
Tax	420	340	23.5	320	31.3
RPAT	1,590	1,270	25.2	690	130.4
APAT	1,450	1,270	14.2	690	110.1
			(bps)		(bps)
Gross Margin (%)	28.4	25.1	326	28.0	41
EBITDA Margin (%)	10.7	10.5	21	10.7	4
NPM (%)	8.4	6.5	199	4.7	372
Tax Rate (%)	20.9	21.1	(22)	31.7	(1079)
EBIT Margin (%)	9.2	9.2	4	8.7	49

CMP	Rs 250
Target / Upside	Rs 340 / 36%
NIFTY	11,814

Scrip Details

Equity / FV	Rs 305mn / Rs 2
Market Cap	Rs 38bn
	USD 511mn
52-week High/Low	Rs 477/ 170
Avg. Volume (no)	414,844
Bloom Code	KPP IN

Price Performance	1M	3M	12M
Absolute (%)	4	9	(43)
Rel to NIFTY (%)	0	1	(44)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	54.4	54.4	55.3
MF/Banks/FIs	32.7	30.9	30.5
FIIIs	7.4	7.1	6.5
Public / Others	5.5	7.6	7.7

Valuation (x)

	FY21E	FY22E	FY23E
P/E	8.1	7.1	6.1
EV/EBITDA	4.7	4.4	3.7
ROE (%)	12.9	12.8	13.4
RoACE (%)	13.3	13.4	13.8

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	83,028	95,453	105,058
EBITDA	9,133	10,500	11,556
PAT	4,697	5,372	6,268
EPS (Rs.)	30.8	35.2	41.1

VP - Research: Vinod Chari

Tel: +91 22 40969776

E-mail: vinodc@dolatcapital.com

Associate: Pranav Lala

Tel: +9122 40969722

E-mail: pranavl@dolatcapital.com

Ordering momentum to improve in H2; maintains FY21 revenue guidance

The company is looking at an ordering pipeline of Rs140-150bn in the domestic space. It is also affiliating with PGCIL as an EPC partner for TBCB projects, while state transmission projects are also expected to happen. It is targeting Rs20bn inflows from domestic T&D projects and is confident of achieving this in H2. On the international side, it is seeing traction in Middle East and Nordic markets. 90% of the order inflows in H1 are on the international side, where it is targeting orders of Rs40bn. Along with Oil & Gas and Railways, it is targeting a full year order of Rs90-100bn. It continues to maintain its revenue target of 5% in FY21 with EBDITA margins in the range of 10.5-11%, as though sites are running at normal, productivity has lowered due to new working norms.

Interests costs reduce; aims to be debt-free by end of FY21

Cash conservation remains top priority of the management. While short term debt has slightly gone up, it still managed to reduce interest cost (as % of sales) on a combination of lower rates as well as higher mix of short term loans at 20-25% vs the usual 15%. It intends to payback current debt of Rs8.2bn to be debt-free (on a standalone basis) by the end of FY21, with cash flows supplemented through sale its transmission assets.

Clarity on pledge reduction

The company clarified its position on the pledge shares (57.5% of promoter holding and 31.5% of total outstanding shares), where promoters had raised loans to support their real estate venture. It has brought down its outstanding loan against from Rs8.3bn to Rs7.2bn and plans to bring it down further by Rs1.5bn in March 21 and another Rs1.5bn in December 21.

Valuations are favorable; Maintain Buy

With the management confident of orders picking momentum in H2, the outlook continues to remain positive for Kalpataru. The business is currently valued at PE of 7x FY22 and we continue to maintain our Buy rating with SOTP based TP of Rs340, valuing the core business at 9x FY22 at Rs315 and its holding in JMC at Rs26, based on a holdco discount of 25% to its current market cap.

Exhibit 1: Variance from Our Estimates

(Rs Mn)	Actual	DART	Consensus	DART	Consensus	Comments
	Q2FY21	Q2FY21E	Q2FY21E	Var (%)	Var (%)	
Sales	18,820	19670	18702	(4.3)	0.6	Execution was in line with expectations
EBITDA	2,020	1987	1963	1.7	2.9	
EBITDA margins	10.7	10.1	10.5	63.2	23.7	EBITDA and margins were in line with expectations
PAT	1,590	1078	1058	47.5	50.3	PAT came higher due to lower interest cost and one time income on sale of asset
Pat margins	8.4	5.5	5.7	296.8	279.1	
EPS	10.4	7.1	6.9	47.5	50.3	

Source: Company, DART

Exhibit 2: Change in Our Estimates

(Rs Mn)	FY21E			FY22E		
	Old	New	Chg. (%)	Old	New	Chg. (%)
Sales	83,028	83,028	0.0	95,453	95,453	0.0
EBITDA	9,133	9,133	0.0	10,500	10,500	0.0
EBITDA margin (%)	11.0	11.0	0	11.0	11.0	0
PAT	4,315	4,697	8.8	4,783	5,372	12.3
EPS	28.3	30.8	8.8	31.4	35.2	12.3

Source: DART, Company

Exhibit 3: Quarterly Performance

Rs mn	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Net Revenue	19,670	19,790	23,030	14,590	18,820	-4.3	29.0	16,550	14,590	-11.8
Total Raw Material Cost	14,730	14,840	17,460	10,510	13,480	-8.5	28.3	12,000	10,510	-12.4
Staff Expenditure	1,310	1,350	1,360	1,380	1,400	6.9	1.4	1,240	1,380	11.3
Other Expenses	1,560	1,520	1,680	1,140	1,920	23.1	68.4	1,390	1,140	-18.0
EBITDA	2,070	2,080	2,530	1,560	2,020	-2.4	29.5	1,920	1,560	-18.8
Depreciation	270	280	290	290	290	7.4	0.0	260	290	11.5
EBIT	1,800	1,800	2,240	1,270	1,730	-3.9	36.2	1,660	1,270	-23.5
Other Income	250	160	70	90	370	48.0	311.1	100	90	-10.0
Interest	440	420	460	350	230	-47.7	-34.3	340	350	2.9
Exceptional items	0	240	0	0	140			0	0	
PBT	1,610	1,780	1,850	1,010	2,010	24.8	99.0	1,420	1,010	-28.9
Tax	340	410	780	320	420	23.5	31.3	500	320	-36.0
Net Profit	1,270	1,370	1,070	690	1,590	25.2	130.4	920	690	-25.0
Reported EPS	8	9	7	5	10	25.2	130.4	6.0	4.5	-25.0

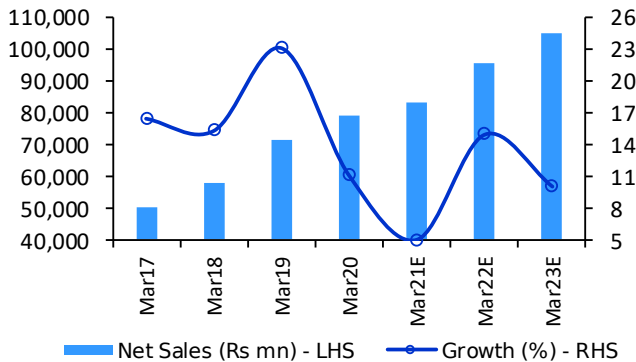
Source: Company, DART

Exhibit 4: Operating Cost and Margins

Operating Cost as a % of Sales	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Raw Material Cost	74.9	75.0	75.8	72.0	71.6	-326.0	-41.0	72.5	72.0	-47.2
Staff Cost	6.7	6.8	5.9	9.5	7.4	77.9	-202.0	7.5	9.5	196.6
Other Expenses	7.9	7.7	7.3	7.8	10.2	227.1	238.8	8.4	7.8	-58.5
Margins (%)										
GM	25.1	25.0	24.2	28.0	28.4	326.0	41.0	27.5	28.0	47.2
EBITDA	10.5	10.5	11.0	10.7	10.7	21.0	4.1	11.6	10.7	-90.9
EBIT	9.2	9.1	9.7	8.7	9.2	4.1	48.8	10.0	8.7	-132.6
PBT	8.2	9.0	8.0	6.9	10.7	249.5	375.8	8.6	6.9	-165.8
NPM	6.5	6.9	4.6	4.7	8.4	199.2	371.9	5.6	4.7	-83.0

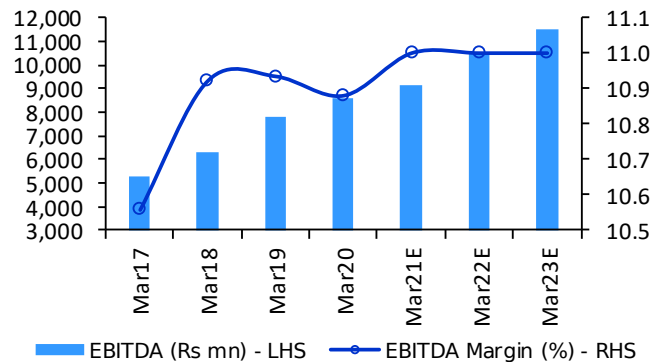
Source: DART, Company

Exhibit 5: Net Sales and Growth (%)



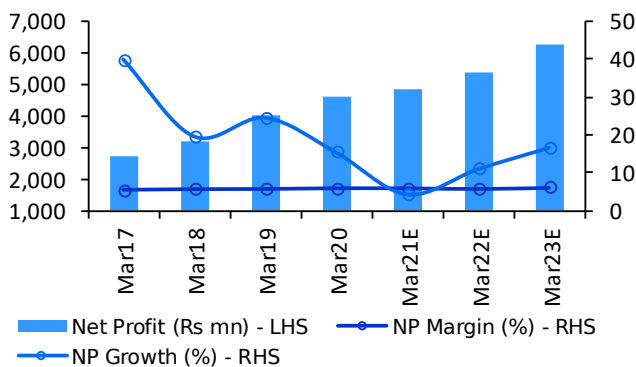
Source: DART, Company

Exhibit 6: EBITDA and Growth (%)



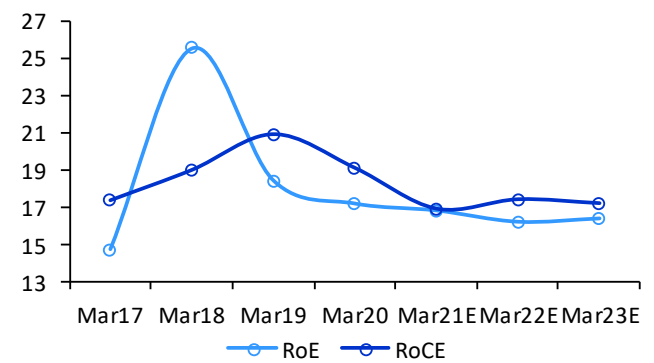
Source: DART, Company

Exhibit 7: Net Profit and Growth (%)



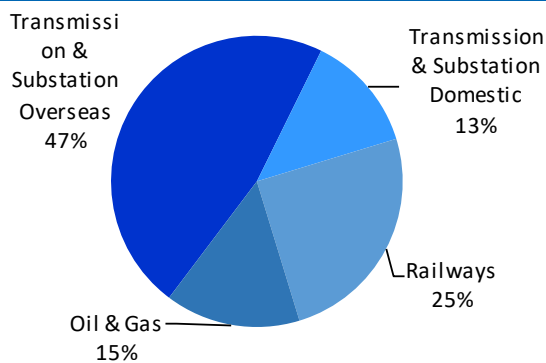
Source: DART, Company

Exhibit 8: RoE and RoCE (%)



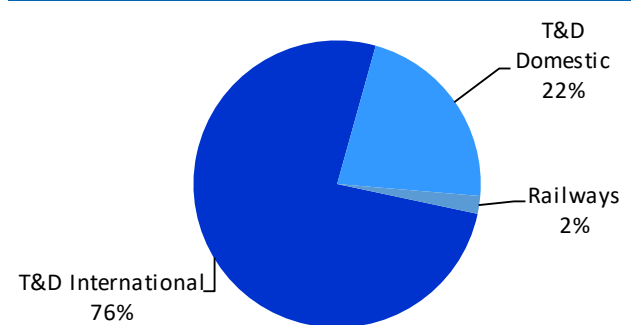
Source: DART, Company

Exhibit 9: Order Book as on Sept'20



Source: DART, Company

Exhibit 10: Order inflow YTD



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	79,040	83,028	95,453	105,058
Total Expense	70,440	73,895	84,953	93,502
COGS	59,030	63,101	70,635	77,743
Employees Cost	5,260	6,642	7,636	6,303
Other expenses	6,150	4,151	6,682	9,455
EBIDTA	8,600	9,133	10,500	11,556
Depreciation	1,100	1,315	1,493	1,614
EBIT	7,500	7,819	9,007	9,943
Interest	1,660	1,895	2,040	2,185
Other Income	580	600	600	600
Exc. / E.O. items	240	140	0	0
EBT	6,660	6,663	7,566	8,357
Tax	2,030	1,826	2,194	2,089
RPAT	4,630	4,837	5,372	6,268
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	4,390	4,697	5,372	6,268

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	310	305	305	305
Minority Interest	0	0	0	0
Reserves & Surplus	35,050	39,173	43,831	49,386
Net Worth	35,360	39,478	44,136	49,691
Total Debt	11,770	12,770	13,770	14,770
Net Deferred Tax Liability	50	50	50	50
Total Capital Employed	47,180	52,298	57,956	64,511

Applications of Funds

Net Block	6,340	7,002	6,609	5,996
CWIP	400	400	400	400
Investments	8,640	8,640	8,640	8,640
Current Assets, Loans & Advances	53,230	64,235	71,858	82,000
Inventories	7,390	7,052	8,368	9,211
Receivables	36,170	44,357	50,995	56,127
Cash and Bank Balances	3,370	7,594	6,218	9,755
Loans and Advances	6,300	5,232	6,276	6,908
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	49,370	50,727	58,318	64,186
Payables	45,890	46,632	53,611	59,005
Other Current Liabilities	3,480	4,095	4,707	5,181
		<i>sub total</i>		
Net Current Assets	3,860	13,508	13,541	17,814
Total Assets	47,180	52,298	57,956	64,511

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	25.3	24.0	26.0	26.0
EBIDTA Margin	10.9	11.0	11.0	11.0
EBIT Margin	9.5	9.4	9.4	9.5
Tax rate	30.5	27.4	29.0	25.0
Net Profit Margin	5.9	5.8	5.6	6.0
(B) As Percentage of Net Sales (%)				
COGS	74.7	76.0	74.0	74.0
Employee	6.7	8.0	8.0	6.0
Other	7.8	5.0	7.0	9.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.3	0.3	0.3
Interest Coverage	4.5	4.1	4.4	4.5
Inventory days	34	31	32	32
Debtors days	167	195	195	195
Average Cost of Debt	18.6	15.4	15.4	15.3
Payable days	212	205	205	205
Working Capital days	18	59	52	62
FA T/O	12.5	11.9	14.4	17.5
(D) Measures of Investment				
AEPS (Rs)	28.8	30.8	35.2	41.1
CEPS (Rs)	36.0	39.4	45.0	51.7
DPS (Rs)	3.6	4.0	4.0	4.0
Dividend Payout (%)	12.4	13.0	11.4	9.7
BVPS (Rs)	231.9	258.9	289.4	325.8
RoANW (%)	13.8	12.9	12.8	13.4
RoACE (%)	14.3	13.3	13.4	13.8
RoAIC (%)	18.8	17.7	18.7	18.7
(E) Valuation Ratios				
CMP (Rs)	250	250	250	250
P/E	8.7	8.1	7.1	6.1
Mcap (Rs Mn)	38,140	38,140	38,140	38,140
MCap/ Sales	0.5	0.5	0.4	0.4
EV	46,540	43,316	45,692	43,156
EV/Sales	0.6	0.5	0.5	0.4
EV/EBITDA	5.4	4.7	4.4	3.7
P/BV	1.1	1.0	0.9	0.8
Dividend Yield (%)	1.4	1.6	1.6	1.6
(F) Growth Rate (%)				
Revenue	11.1	5.0	15.0	10.1
EBITDA	10.5	6.2	15.0	10.1
EBIT	8.4	4.2	15.2	10.4
PBT	6.7	0.0	13.6	10.5
APAT	9.5	7.0	14.4	16.7
EPS	9.5	7.0	14.4	16.7

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	2,660	7,815	1,478	6,436
CFI	(4,200)	(2,000)	(1,100)	(1,000)
CFF	3,395	(1,613)	(1,754)	(1,899)
FCFF	610	5,815	378	5,436
Opening Cash	1,460	3,370	7,594	6,218
Closing Cash	3,370	7,594	6,218	9,755

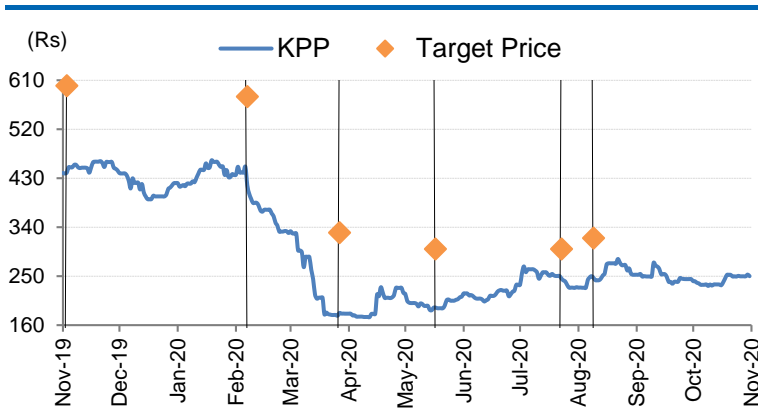
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	Buy	600	440
Feb-20	Buy	580	417
Mar-20	Buy	330	183
May-20	Buy	300	193
Jul-20	Buy	300	246
Aug-20	Buy	320	247

*Price as on recommendation date

DART Team

Purvag Shah **Managing Director** **purvag@dolatcapital.com** **+9122 4096 9747**

Amit Khurana, CFA **Head of Equities** **amit@dolatcapital.com** **+9122 4096 9745**

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**II. Disclaimer:**

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.



Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
