

Buy

Ordering traction; balance sheet improvement; Maintain Buy

- Sales for Q3FY21 came in flat at Rs19.9bn, largely in line with our estimates, as sites became almost fully normal with majority of projects operating at pre-COVID levels. EBITDA margins were stable at 10.4%. The company has an order book of Rs.133bn with a split of ~40% orders from O&G, urban infra and Rail business
- The 9M order inflow for the company is Rs63bn with another L1 orders of Rs31bn, which makes it well on its targeted a full year order inflow of Rs90-100bn. It continues to maintain its revenue target of 0-5% in FY21 with EBDITA margins in the range of 10.5% while aiming for a double digit growth in FY22 and a similar 10.5% margins.
- We expect orders to pick momentum going forward given the thrust on capex in the budget. The outlook continues to remain positive for Kalpataru, along with balance sheet improvement. We maintain our Buy rating with SOTP based TP of Rs450, valuing the core EPC business at 10xSep 22E.

Sales & EBITDA in-line, PAT slightly better

Sales for Q3FY21 came in flat at Rs19.9bn, in line with our estimates. EBITDA came in flat at Rs2bn even with 53% YoY higher other expenses; while EBITDA margins were fairly stable at 10.4% due to better GM by 414bps. RPAT was higher by 88% YoY at Rs2.6bn due to gain from sale of JKTP and ATL of Rs1.5bn and lower interest cost by 45% YoY in Q3FY21. Net debt is lower at Rs6.1bn vs Rs8.2bn in Q2FY21, with one off exceptional income from sale of T&D BOOT assets. KPTL acquired 51% stake in Fasttel Brazil for USD 8.8mn in line with expansion objective for EPC business. Company has declared an interim dividend of Rs8.5 per share as compared to Rs3.5 per share in FY20.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	19,930	19,790	0.7	18,820	5.9
Total Expense	17,860	17,710	0.8	16,800	6.3
EBITDA	2,070	2,080	(0.5)	2,020	2.5
Depreciation	290	280	3.6	290	0.0
EBIT	1,780	1,800	(1.1)	1,730	2.9
Other Income	190	160	18.8	370	(48.6)
Interest	230	420	(45.2)	230	0.0
EBT	3,280	1,780	84.3	2,010	63.2
Tax	710	410	73.2	420	69.0
RPAT	2,570	1,370	87.6	1,590	61.6
APAT	1,363	1,185	15.0	1,479	(7.8)
			(bps)		(bps)
Gross Margin (%)	29.2	25.0	414	28.4	78
EBITDA Margin (%)	10.4	10.5	(12)	10.7	(35)
NPM (%)	12.9	6.9	597	8.4	445
Tax Rate (%)	21.6	23.0	(139)	20.9	75
EBIT Margin (%)	8.9	9.1	(16)	9.2	(26)

CMP	Rs 365
Target / Upside	Rs 450 / 23%
NIFTY	15,163

Scrip Details

Equity / FV	Rs 305mn / Rs 2
Market Cap	Rs 56bn
	USD 766mn
52-week High/Low	Rs 411/ 170
Avg. Volume (no)	509,961
Bloom Code	KPP IN

Price Performance	1M	3M	12M
Absolute (%)	9	31	(5)
Rel to NIFTY (%)	4	12	(30)

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	54.4	55.3	56.5
MF/Banks/FIs	30.9	30.5	28.5
FIs	7.1	6.5	4.4
Public / Others	7.6	7.7	10.6

Valuation (x)

	FY21E	FY22E	FY23E
P/E	11.8	10.4	8.9
EV/EBITDA	6.5	5.9	5.1
ROE (%)	16.7	12.4	12.9
RoACE (%)	13.1	13.1	13.5

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

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Ordering momentum to improve; maintains FY21 revenue guidance

The order inflows of Rs2.9bn in Q3FY21 were mainly driven by international T&D orders. The company has an order book of Rs.133bn as on December 31st 2020, maintaining a healthy split of ~40% orders from O&G, urban infra and Rail business. The 9M order inflow for the company is Rs63bn with another L1 orders of Rs31bn, which makes it well on its targeted a full year order inflow 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. It is aiming for a double digit growth in FY22 and a similar 10.5% margins.

Valuations are favorable; Maintain Buy

We expect orders to pick momentum going forward given the thrust on capex in the budget. The outlook continues to remain positive for Kalpataru, along with balance sheet improvement. We continue to maintain our Buy rating with SOTP based TP of Rs450, valuing the core business at 11xSep22E at Rs410 and its holding in JMC at Rs40, based on a holdco discount of 25% to its current market cap.

Exhibit 1: x

	Actual	DART Consensus		DART Consensus		
Particulars (Rs mn)	Q3FY21	Q3FY21E	Q3FY21E	Var (%)	Var (%)	Comments
Sales	19,930	19394	20520	2.8	(2.9)	Sales in line with estimates
EBITDA	2,070	1998	2190	3.6	(5.5)	EBITDA also largely in line with est.
EBITDA margins	10.4	10.3	10.7	8.4	(28.6)	
PAT	2,570	2190	1399	17.4	83.7	PAT ahead on lower taxes
Pat margins	12.9	11.3	6.8	160.3	607.7	
EPS (Rs)	16.9	14.4	9.2	17.4	83.7	

Source: Company

Exhibit 2: Change in estimates

	FY21E			FY22E			FY23E		
Particulars (Rs mn)	Earlier	New	Chg (%)	Earlier	New	Chg (%)	Earlier	New	Chg (%)
Sales	83,028	83,028	0.0	95,453	95,453	0.0	78,934	88,236	98,672
EBITDA	9,133	9,133	0.0	10,500	10,500	0.0	8,273	9,493	10,605
EBITDA Margin	11.0	11.0	0	11.0	11.0	0	10.5	10.8	10.7
PAT	4,697	4,697	0.0	5,372	5,372	0.0	4,318	5,404	6,148
EPS (Rs)	30.8	30.8	0.0	35.2	35.2	0.0	28.3	35.4	40.3

Source: Company, DART

Exhibit 3: Quarterly performance

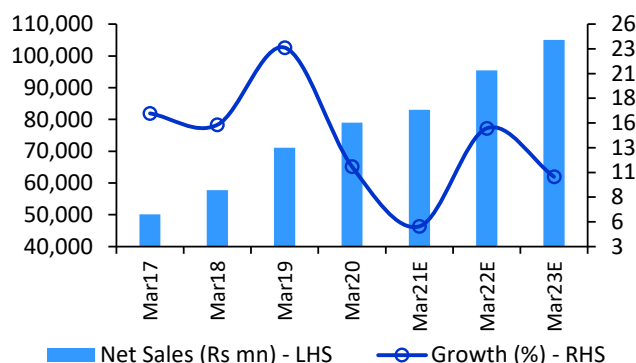
Particulars (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Net Revenue	19,790	23,030	14,590	18,820	19,930	0.7	5.9	56,010	53,340	(4.8)
Total Raw Material Cost	14,840	17,460	10,510	13,480	14,120	(4.9)	4.7	41,570	38,110	(8.3)
Staff Expenditure	1,350	1,360	1,380	1,400	1,420	5.2	1.4	3,900	4,200	7.7
Other Expenses	1,520	1,680	1,140	1,920	2,320	52.6	20.8	4,470	5,380	20.4
EBITDA	2,080	2,530	1,560	2,020	2,070	(0.5)	2.5	6,070	5,650	(6.9)
Depreciation	280	290	290	290	290	3.6	0.0	810	870	7.4
EBIT	1,800	2,240	1,270	1,730	1,780	(1.1)	2.9	5,260	4,780	(9.1)
Other Income	160	70	90	370	190	18.8	-48.6	510	650	27.5
Interest	420	460	350	230	230	(45.2)	0.0	1,200	810	(32.5)
Exceptional items	240	0	0	140	1,540			240	1,680	
PBT	1,780	1,850	1,010	2,010	3,280	84.3	63.2	4,810	6,300	31.0
Tax	410	780	320	420	710	73.2	69.0	1,250	1,450	16.0
Net Profit	1,370	1,070	690	1,590	2,570	87.6	61.6	3,560	4,850	36.2
Reported EPS	9	7	5	10	17	87.6	61.6	23.3	31.8	36.2

Source: Company, DART

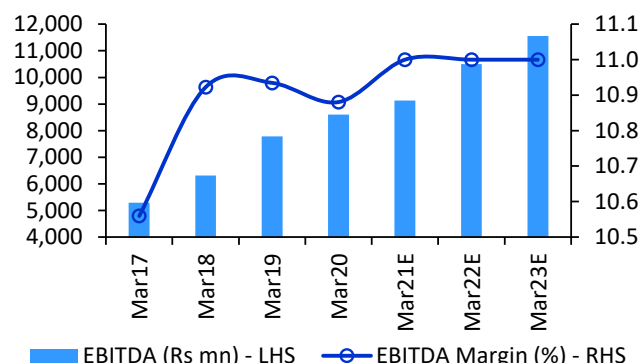
Exhibit 4: Operating Cost and Margins

Particulars	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	bps (YoY)	bps (QoQ)	YTD FY20	YTD FY21	YoY(%)
Raw Material Cost	75.0	75.8	72.0	71.6	70.8	-413.9	-77.8	74.2	71.4	-277.2
Staff Cost	6.8	5.9	9.5	7.4	7.1	30.3	-31.4	7.0	7.9	91.1
Other Expenses	7.7	7.3	7.8	10.2	11.6	396.0	143.9	8.0	10.1	210.6
Margins (%)										
GM	25.0	24.2	28.0	28.4	29.2	413.9	77.8	25.8	28.6	277.2
EBITDA	10.5	11.0	10.7	10.7	10.4	-12.4	-34.7	10.8	10.6	-24.5
EBIT	9.1	9.7	8.7	9.2	8.9	-16.4	-26.1	9.4	9.0	-43.0
PBT	9.0	8.0	6.9	10.7	16.5	746.3	577.7	8.6	11.8	322.3
NPM	6.9	4.6	4.7	8.4	12.9	597.2	444.7	6.4	9.1	273.7

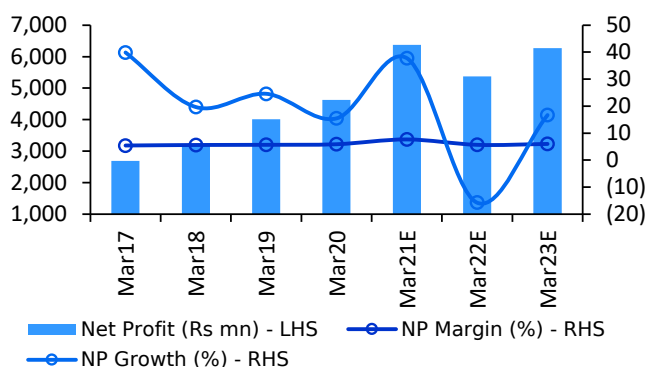
Source: Company, DART

Exhibit 5: Net Sales and Growth (%)


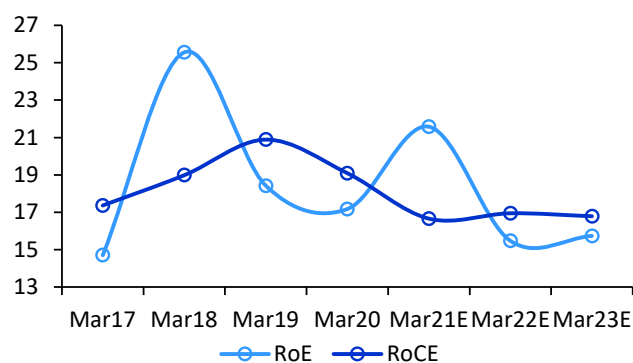
Source: Company

Exhibit 6: EBITDA and Growth (%)


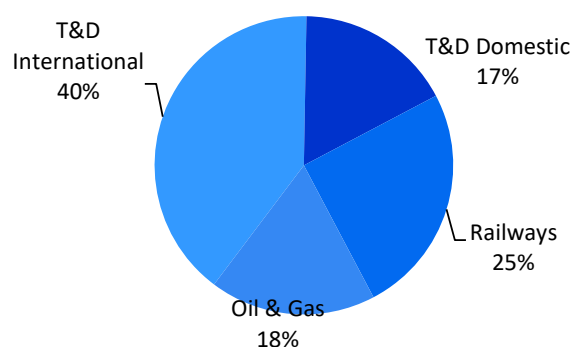
Source: Company

Exhibit 7: Net Profit and Growth (%)


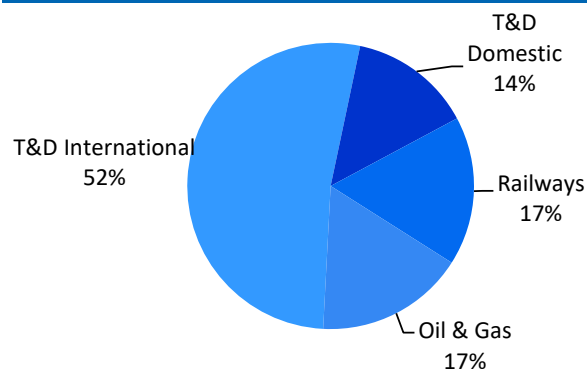
Source: Company

Exhibit 8: RoE and RoCE (%)


Source: Company

Exhibit 9: Order Book as on December'20


Source: Company

Exhibit 10: Order inflow YTD FY21


Source: 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	1,680	0	0
EBT	6,660	8,203	7,566	8,357
Tax	2,030	1,826	2,194	2,089
RPAT	4,630	6,377	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	40,713	45,371	50,926
Net Worth	35,360	41,018	45,676	51,231
Total Debt	11,770	12,770	13,770	14,770
Net Deferred Tax Liability	50	50	50	50
Total Capital Employed	47,180	53,838	59,496	66,051

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	65,775	73,398	83,540
Inventories	7,390	7,052	8,368	9,211
Receivables	36,170	44,357	50,995	56,127
Cash and Bank Balances	3,370	9,134	7,758	11,295
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	15,048	15,081	19,354
Total Assets	47,180	53,838	59,496	66,051

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	22.3	29.0	25.0
Net Profit Margin	5.9	7.7	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	66	58	67
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	269.0	299.5	335.9
RoANW (%)	13.8	16.7	12.4	12.9
RoACE (%)	14.3	13.1	13.1	13.5
RoAIC (%)	18.8	17.7	18.7	18.7
(E) Valuation Ratios				
CMP (Rs)	365	365	365	365
P/E	12.7	11.8	10.4	8.9
Mcap (Rs Mn)	55,617	55,617	55,617	55,617
MCap/ Sales	0.7	0.7	0.6	0.5
EV	64,017	59,253	61,629	59,092
EV/Sales	0.8	0.7	0.6	0.6
EV/EBITDA	7.4	6.5	5.9	5.1
P/BV	1.6	1.4	1.2	1.1
Dividend Yield (%)	1.0	1.1	1.1	1.1
(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	23.2	(7.8)	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	9,355	1,478	6,436
CFI	(4,200)	(2,000)	(1,100)	(1,000)
CFF	3,395	(1,613)	(1,754)	(1,899)
FCFF	610	7,355	378	5,436
Opening Cash	1,460	3,370	9,134	7,758
Closing Cash	3,370	9,134	7,758	11,295

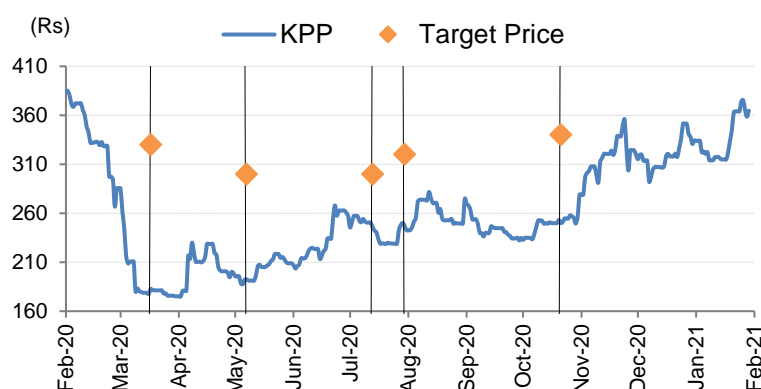
E – Estimates

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.)
Mar-20	Buy	330	183
May-20	Buy	300	193
Jul-20	Buy	300	246
Aug-20	Buy	320	247
Nov-20	Buy	340	250

*Price as on recommendation date

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