Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Kalpataru Power Transmission Ltd

Slow execution, margin pressures mar Q4

Capital Goods	Sharekhan code: KALPATPOWR
Reco/View: Buy ↔	CMP: Rs. 347
	Price Target: Rs. 398 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 41.02

Updated Jan 08, 2022

Severe Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

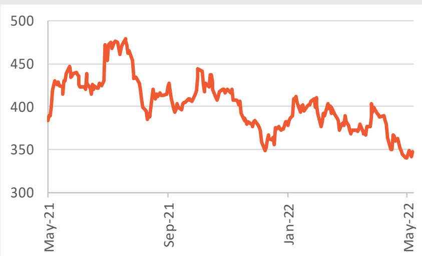
Company details

Market cap:	Rs. 5,205 cr
52-week high/low:	Rs. 496 / 332
NSE volume: (No of shares)	2.4 lakh
BSE code:	522287
NSE code:	KALPATPOWR
Free float: (No of shares)	7.3 cr

Shareholding (%)

Promoters	51.6
FII	5.3
DII	35.8
Others	7.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.8	-11.6	-16.6	-9.5
Relative to Sensex	-5.8	-5.3	-6.7	-19.1

Sharekhan Research, Bloomberg

Summary

- Q4FY2022 standalone performance numbers were largely affected by continuation of delayed T&D dispatches and lower order intake during H1FY2022. OPM remained under pressure owing to raw material inflation and higher freight costs.
- Order inflows for Q4FY22 were healthy at Rs. 4,598 crore (L1 of Rs. 1,500 crore) and Rs. 8,159 crore for FY22 (including LMG & Fasttel). Management guided for consolidated order inflows of ~Rs. 22,000 crore for FY23 with equal contribution from KPTL and JMC.
- JMC positively surprised on execution. The management expects 15-20% y-o-y (conservatively) growth in JMC's revenues for FY2023 and OPM to be at ~9%.
- We maintain a Buy rating on Kalpataru Power Transmission Limited (KPTL) with a revised PT of Rs. 398, factoring downward revision in standalone estimates and lower valuation of JMC Projects.

KPTL reported weak numbers for Q4FY2022. Standalone revenues declined by ~8% y-o-y to Rs. 2,010 crore affected by delayed dispatches and lower order intake in H1FY2022. Standalone OPM at 8.5% (down 189 bps y-o-y) was lower than our estimates of 9%, affected by commodity inflation and rise in freight costs. Consequently, standalone net profit declined by 33.1% y-o-y to Rs. 87 crore. Standalone order intake was at Rs4,598 cr as the company bagged a large order of Rs. 3,276 crore during Q4FY22 for construction of a 700-km T&D line in Chile. The company expects 10-15% revenue growth in standalone on sharp jump in inflows seen during Q4FY22 and margins of 9% for FY23. The company sees domestic tendering activities in T&D space picking up off late and international order pipeline is also robust. The merger of KPTL and JMC would increase geographical reach and improve capability to bid for large-size projects in non T&D. Further, material cost synergies would lead to cost savings of ~Rs. 100 crore.

Key positives

- JMC Projects reported better than expected performance during the quarter.
- Standalone order intake was healthy at Rs 4,598 crore and order book stands at Rs 15,759 crore (domestic/international: 37:63)
- KPTL won its single largest order of ~Rs. 3,276 crore in Q4 for a 700-km T&D line in Chile. The order is expected to be completed in 5-6 years.

Key negatives

- Standalone revenues and profit continued to decline y-o-y for the third consecutive quarter due to execution delays and cost inflation.
- Consolidated performance for Q4 and FY22 has been impacted by write offs and impairment related to road projects and Shree Shubham Logistics (SSL) and CTC provisioning to factor in the impact of high commodity prices on existing projects.

Management Commentary

- Consolidated revenues in FY23E is expected to grow at 15% y-o-y with JMC expected to grow at 15-20% y-o-y with OPM at 9% on a conservative side due to commodity price fluctuations. Standalone revenues would grow at 10-15% in FY2023 and margins of ~9%.
- Its subsidiaries - LMG (Sweden) and Fasttel (Brazil) have shown healthy revenues and have decent order book during FY2022. However, in Q4 revenue growth and profitability were impacted due to the product mix and a rise in input cost. The company expects slower pace of growth in FY23 for these subsidiaries. SSL's performance was also impacted due to lower procurement.
- The merger of KPTL and JMC would get completed by Q4FY23. The merger would increase geographical reach and improve capability to bid for large-size projects in non T&D. Further, material cost synergies would lead to cost savings of ~Rs. 100 crore. Further, merged balance sheet would help in reducing borrowing cost.

Revision in estimates – We have lowered our estimates factoring lower execution and OPM for FY2022-FY2024.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 398: KPTL's near-term performance could be impacted by execution delays, cost escalation and high working capital requirements for execution of large projects. In the long term, the management is optimistic on a healthy consolidated performance post-merger as cost synergies kick in. The company has been trying to clean its balance sheet by providing for impairments and credit loss provisioning. We maintain a Buy rating on the stock with a revised SoTP based PT of Rs. 398 factoring downward revision in standalone estimates and valuation of JMC Projects.

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.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Net Sales	7,671	7,062	8,264	9,657
OPM	10.5%	9.2%	8.8%	9.0%
Adj Net Profit	447	298	390	499
% YoY growth	*(3.5)*	*(33.3)*	*31.0*	*27.9*
Adj EPS(Rs)	29.8	19.9	26.0	33.3
PER (x)	11.6	17.5	13.3	10.4
P/BV (x)	1.4	1.2	1.2	1.6
EV/EBITDA (x)	6.2	8.0	6.2	7.2
ROCE (%)	16.2	11.6	11.9	29.9
ROE (%)	12.1	7.2	9.0	12.9

Source: Company; Sharekhan estimates

Disappointing standalone performance

KPTL reported weak numbers for Q4FY2022. Standalone revenues declined by ~8% y-o-y to Rs. 2,010 crore affected by delayed dispatches and lower order intake in H1FY2022. Standalone OPM at 8.5% (down 189 bps y-o-y) was lower than our estimates of 9%, affected by commodity inflation and rise in freight costs. Consequently, standalone net profit declined by 33.1% y-o-y to Rs. 87 crore. Standalone order intake was at Rs4,598 cr as the company bagged a large order of Rs. 3,276 crore during Q4FY22 for construction of a 700-km T&D line in Chile. The company expects 10-15% revenue growth in standalone on sharp jump in inflows seen during Q4FY22 and margins of 9% for FY23. The company sees domestic tendering activities in T&D space picking up off late and international order pipeline is also robust. The merger of KPTL and JMC would increase geographical reach and improve capability to bid for large-size projects in non T&D. Further, material cost synergies would lead to cost savings of ~Rs. 100 crore.

Healthy guidance for FY23; strong growth opportunities

Consolidated revenues are expected to grow at over 15% y-o-y in in FY23E with JMC Projects expected to grow at 15-20% y-o-y with OPM at 9% on a conservative side due to commodity price fluctuations. KPTL's standalone revenues would grow at 10-15% in FY2023 with margins expected to be at ~9%. In FY22, Buildings & Factories (B&F) and oil & gas business secured project in international markets for the first time. Further, growth in core EPC business and strengthening international business has helped the company achieve broad-based growth across leading businesses. The company has successfully scaled up JMC's international presence by securing new projects of over Rs 3,276 crore in Africa and Maldives. The company is focusing on accelerating growth in core business and strengthening balance sheet through debt reduction and efficient capital management. The merger of KPTL and JMC would be completed by Q4FY23 and would increase geographical reach and improve capability to bid for large projects particularly in the non-T&D segment. Further, material cost synergies would lead to cost savings of ~Rs. 100 crore. Moreover, the merged balance sheet would help in reducing borrowing cost.

Key result highlights from earnings call

- **Guidance:** Consolidated revenues are expected to grow at over 15% y-o-y with JMC expected to grow at 15-20% y-o-y plus for FY2023 with OPM at 9%. The standalone revenues would grow at 10-15% in FY23. The company expects an order intake of ~Rs. 21000-22,000 crore (up over 15% y-o-y) driven by opportunities across segments such as T&D, B&F, Oil & Gas, water and civil infrastructure. Both KPTL and JMC are expected to have equal contribution in order inflows.

- **Non-T&D segment:** The oil & gas sector is seeing increase in inquiries given rise in oil prices and higher capex. Oil & Gas is seeing traction and tenders coming in. It is qualified in oil & gas tenders in middle east and Africa but has not succeeded it. Railways has seen slowness in electrification. It is looking at railways in Africa. Huge investments are planned in Road, Metro, Airports, Ports in India as well as in International markets such as SAARC, Africa & Central Asia. Further, Focus on Make-in-India and PLI scheme to attract local manufacturing leading to industrial capex.

- **Robust order book and order intake:** Standalone order book stood at Rs 15,759 crore. comprising of orders from T&D (60%), Oil & Gas (12%) and Railways (17%). Order inflow was at Rs 8,159 crore, comprising of T&D (87%), Oil & Gas (7%) and Railways (6%).

- **Guidance for JMC:** JMC's revenues is expected to grow at 15-20% y-o-y (conservatively) for FY2023. The OPM is expected at 9% for FY2023 due to volatility in commodity prices. Order inflows are expected to be Rs. 10000 - 11000 crore for FY2023.

- **JMC's Q4 performance:** JMC positively surprised on execution for Q4FY2022 with standalone revenues rising by 15.6% y-o-y. Operating profit and net profit dipped 2.5% y-o-y and 4.3% y-o-y, respectively, affected by higher input costs, increased interest and depreciation. The order inflow YTD stood at Rs. 9984 crore while order book stands at Rs. 19,192 crore. It received order inflows of Rs. 10,199 crore during FY2022. The order book as on FY2022 end stands at Rs. 17,139 crore. It further received Rs. 2,193 crore order inflows during FY2023 till date and has L1 position in Rs. 2700 crore worth of orders.

- **Debt:** Consolidated net debt stood at Rs. 1,902 crore, down 21% y-o-y. The company expects debt to come down gradually through sale of non-core assets and focus on working capital management through speedy project closures and timely collections.

Results (Standalone) **Rs cr**

Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
Net Sales	**2,010**	**2,337**	**(14.0)**	**1,848**	**8.8**
Operating expenditure	1,839	2,094	(12.2)	1,680	9.5
Operating profit	**171**	**243**	**(29.6)**	**168**	**1.8**
Other income	19	14	35.7	27	(29.6)
Interest	30	28	7.1	32	(6.3)
Depreciation	26	28	(7.1)	26	-
PBT	**134**	**201**	**(33.3)**	**137**	**(2.2)**
Tax	47	71	(33.8)	84	(44.0)
Reported PAT	**87**	**130**	**(33.1)**	**315**	**(72.4)**
Exceptional item	-	-	NA	(262)	NA
Adj PAT	**87**	**130**	**(33.1)**	**53**	**64.2**
EPS (Rs)	**5.8**	**8.7**	**(33.1)**	**3.5**	**64.2**
OPM (%)	8.5	10.4	(189)	9.1	(58)
NPM (%)	4.3	5.6	(123)	2.9	146
Tax Rate (%)	35.1	35.3	(25)	61.3	(2,624)

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 needs to spend $4.5 trillion on infrastructure by 2030. To achieve the desired goal, the government drew up a 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 the 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 projected infrastructure investments in India. The huge outlay towards the infrastructure sector is expected to provide healthy growth opportunities for infrastructure companies.

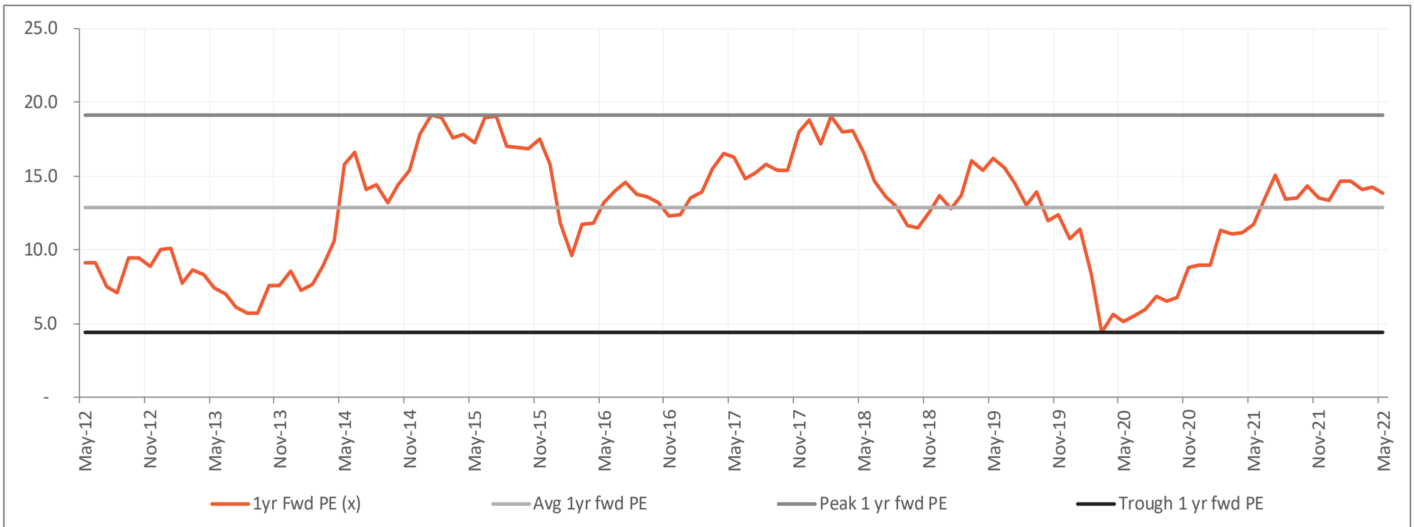
■ **Company outlook – Expect growth to revert from FY2023:** KPTL's near term outlook is expected to be affected by its cautious approach towards domestic T&D orders and the company is likely to focus on international orders. In FY22, Buildings & Factories (B&F) and oil & gas business secured project in international markets for the first time. Further, growth in core EPC business and strengthening international business has helped the company achieve broad-based growth across leading businesses. The company has successfully scaled up JMC's international presence by securing new projects of over Rs. 3,276 crores in Africa and Maldives. The company is focusing on accelerating growth in core business and strengthening balance sheet through debt reduction and efficient capital management. The KPTL and JMC merger would get completed by Q4FY23. The merger of KPTL and JMC would increase geographical reach and improve capability to bid for large-size projects particularly in non T&D. Further, material cost synergies would lead to cost savings of ~Rs. 100 crore.

■ **Valuation – Maintain Buy with a revised PT of Rs. 398:** KPTL's near-term performance could be impacted by execution delays, cost escalation and high working capital requirements for execution of large projects. In the long term, the management is optimistic on a healthy consolidated performance post-merger as cost synergies kick in. The company has been trying to clean its balance sheet by providing for impairments and credit loss provisioning. We maintain a Buy rating on the stock with a revised SoTP based PT of Rs. 398 factoring downward revision in standalone estimates and valuation of JMC Projects.

SOTP Valuation

Valuation	Value/share (Rs)	Basis of valuation and multiple
KPTLL	266	Valued at 8x FY24E earnings
JMC	86	Valued at our target price
SSL	2.0	Valued at stake acquisition price by KPTLL
Others	44	Value of other investments
Total Value	398	Price Target

One-year forward P/E (x) band



Source: Sharekhan Research

About company

KPTLL 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 has 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. KPTLL 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 Avtar Patodia	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	15.68
2	KC Holdings Pvt Ltd	14.20
3	Mofatraj Pukhraj Munot	10.98
4	Hdfc Trustee Company Limited	9.59
5	ICICI Prudential Value Discovery Fund	9.19
6	SBI Small Cap Fund	7.25
7	Parag Mofatraj Munot	5.35
8	Kotak Emerging Equity Scheme	3.58
9	Nippon Life India Trustee Ltd	2.18
10	ICICI Prudential Life Insurance Company	1.50

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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