

# Kalpataru Power

Refer to important disclosures at the end of this report

## Strong inflows imply better earnings ahead

- KPTL (Standalone) missed street's estimates due to lower revenue owing to low opening order book in the T&D segment and slower progress in select projects. Revenue fell by 6% YoY for Q2FY23, while EBITDAM came in at 8.2% vs. 8.4% QoQ. Management now expects revenue growth to be at 7.5-10%, as the execution pace is expected to pick up in 4QFY23. Strong order inflows of ~Rs69bn (YTD) imply revenue pickup for FY24. Order book stands at Rs188bn (Rs157bn as of March 2022-end), excluding L1 of Rs43bn.
- JMC Projects reported 36% YoY revenue growth for Q2FY23, with EBITDAM at 8.3% – flat QoQ and up 180bps YoY. YTD inflows stood at Rs75bn, while order book at the end of the quarter stood at Rs200bn.
- Given improved order inflow, higher valuation of JMC Projects, and rollover to Dec-2023, our TP now stands at Rs565 (earlier Rs545). We maintain our Buy rating on the stock, as improvement in real estate business, merger of JMC in KPTL, and improved inflows across segments are all positives.

- **KPTL:** Revenue growth has been lagging in H1 as FY22 ordering was moderate. This is expected to pick up from 4QFY23. Further, margin at 8.2-8.4% is expected to improve, given easing commodity prices. KPTL's average EBITDAM for the past five years has been ~10.5%.
- **JMC Projects:** H1FY2023 revenue growth stood at 40%. Hence, management's guidance of 20-25% for the year looks conservative. Margin has recouped to 8.4% during H1FY2023 vs. ~7% YoY. Easing commodity prices should aid margins in the coming quarters. Funding for road projects would be Rs700mn-800mn in FY23. With restructuring and revenue growth, it could mostly reach Rs250mn in FY24. Order book of Rs200bn implies book-to-bill of 3.2x.
- **Consolidated guidance and merger benefits:** Management has guided for >15% revenue growth at the consolidated level, with margin at 9.0-9.5%. The merger will bring in financial benefits (JMC's debt cost is at least 200bps higher than KPTL), operational benefits (savings at head office and back office), and project benefits (bidding for larger-size projects). Consolidated core EPC net debt is expected to be below Rs15bn. For FY24, revenue growth is expected to be near 20%. Cash flow has improved at the real estate level, which bodes well for a reduction in pledge shares going forward.
- **Valuation, outlook, and risks:** We have cut our FY24/FY25 EPS by 5% each, as we assume slower margin recovery. We have rolled our valuation to Dec-23, with a TP of Rs565. We have valued the core KPTL standalone business at Rs428/share (13.5x on Dec-24 earnings) and JMC's share at Rs88/share (30% discount to the proportionate value). Cash and other investments are valued at Rs49/share. We maintain Buy on the stock. Low ordering remains a risk.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Eng. & Cap. Goods, Infra, Power \(Page 8\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	76,710	70,620	76,664	85,769	92,160
EBITDA	8,080	6,530	6,670	8,362	9,216
EBITDA Margin (%)	10.5	9.2	8.7	9.8	10.0
APAT	4,470	2,980	3,789	4,821	5,508
EPS (Rs)	29.8	19.9	25.3	32.1	36.7
EPS (% chg)	5.0	(33.3)	27.1	27.2	14.3
ROE (%)	12.1	7.2	8.4	10.1	10.7
P/E (x)	16.9	25.4	20.0	15.7	13.7
EV/EBITDA (x)	10.6	12.9	10.9	8.5	7.5
P/BV (x)	2.0	1.7	1.6	1.5	1.4

Source: Company, Emkay Research

CMP	Target Price
Rs 504 as of (November 11, 2022)	Rs 565 (▲) 12 months
Rating	Upside
BUY (■)	12.1 %

### Change in Estimates

EPS Chg FY23E/FY24E (%)	(9.0)/(4.8)
Target Price change (%)	3.5
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	25.3	32.1
Consensus	28.8	39.1
Mean Consensus TP (12M)	Rs 483	

### Stock Details

Bloomberg Code	KPP IN
Face Value (Rs)	2
Shares outstanding (mn)	149
52 Week H/L	516 / 332
M Cap (Rs bn/USD bn)	75 / 0.93
Daily Avg Volume (nos.)	3,29,795
Daily Avg Turnover (US\$ mn)	1.8

### Shareholding Pattern Sep '22

Promoters	51.6%
FIIIs	5.1%
DIIIs	36.8%
Public and Others	6.5%

### Price Performance

(%)	1M	3M	6M	12M
Absolute	13	35	48	20
Rel. to Nifty	4	30	30	17

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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**Exhibit 1: Quarterly Results**

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)
Revenues	16,180	18,480	20,100	15,420	15,280	-5.6	-0.9
Material cost	12,030	13,660	15,670	11,550	11,240	-6.6	-2.7
As % of sales	74.4	73.9	78.0	74.9	73.6	-79bps	-134bps
Employee Cost	1,140	1,290	1,370	1,220	1,190	4.4	-2.5
As % of sales	7.0	7.0	6.8	7.9	7.8	74bps	-12bps
Other expenditure	1,490	1,850	1,350	1,350	1,600	7.4	18.5
As % of sales	9.2	10.0	6.7	8.8	10.5	126bps	172bps
Total expenditure	14,660	16,800	18,390	14,120	14,030	-4.3	-0.6
EBITDA	1,520	1,680	1,710	1,300	1,250	-17.8	-3.8
Depreciation	270	260	260	250	250	-7.4	0.0
EBIT	1,250	1,420	1,450	1,050	1,000	-20.0	-4.8
Other Income	210	270	190	620	210	0.0	-66.1
Interest	280	320	300	280	350	25.0	25.0
PBT	1,180	1,370	1,340	1,390	860	-27.1	-38.1
Taxes	360	840	470	260	240	-33.3	-7.7
PAT	820	530	870	1,130	620	-24.4	-45.1
Reported PAT	820	530	870	1,130	620	-24.4	-45.1
Extra ord / Exceptional item	450	(2,620)	-	460	460		
Adjusted PAT	873	1,014	870	670	620	-29.0	-7.5
EPS	2.5	21.0	5.8	7.5	4.1	67.6	-45.1

Source: Emkay Research, Company

**Exhibit 2: Change in Estimates**

Y/E, March (Rs. mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenue	77,558	76,664	-1.2%	86,770	85,769	-1.2%	93,252	92,160	-1.2%
EBITDA	7,194	6,670	-7.3%	8,699	8,362	-3.9%	9,582	9,216	-3.8%
EBITDAM (%)	9.3%	8.7%	-58 bps	10.0%	9.8%	-28 bps	10.3%	10.0%	-28 bps
APAT	4,164	3,789	-9.0%	5,062	4,821	-4.8%	5,774	5,508	-4.6%
EPS (Rs)	27.8	25.3	-9.0%	33.7	32.1	-4.8%	38.5	36.7	-4.6%

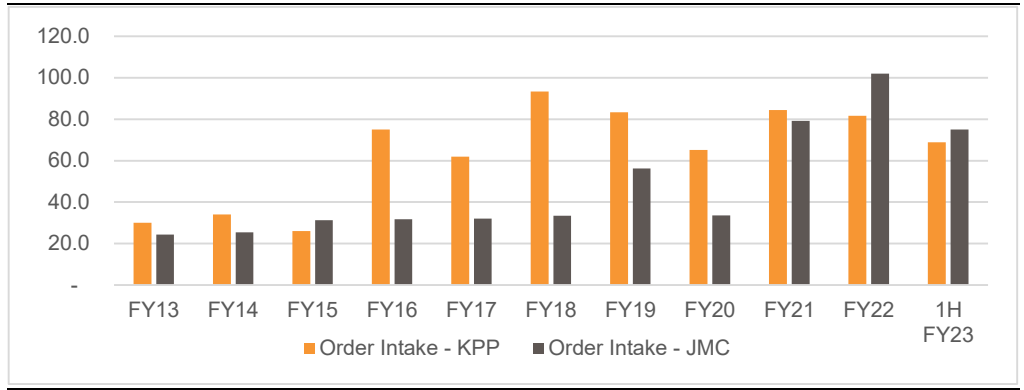
Source: Company, Emkay Research

**Exhibit 3: SoTP**

Valuation (Sum of the parts)	Dec'23
KPTL Standalone	
Core EPS Dec-24E (Rs)	31.7
PE (x)	13.5
Value/share (Rs)	428
JMC Projects	
Market Capitalization (Rs mn)	20,000
67.2% Holding with a 30% discount	13,440
Value/share (Rs)	88
Cash and other investment	7,500
Value/share (Rs)	49
<b>Total value per share</b>	<b>565</b>

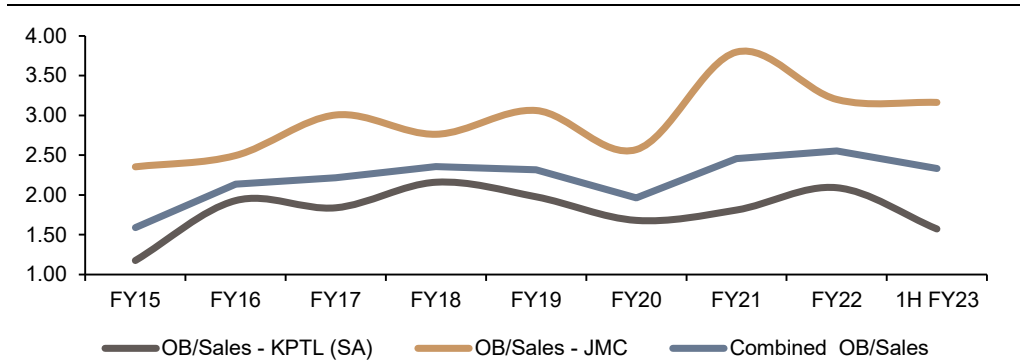
Source: Company, Emkay Research

**Exhibit 4: Order Intake of KPTL and JMC (Rs bn)**



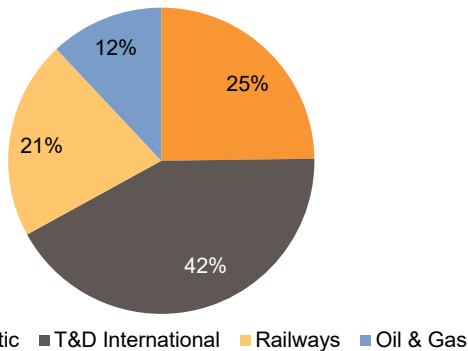
Source: Emkay Research, Company

**Exhibit 5: Order Book-to-Sales Ratio – KPTL and JMC**



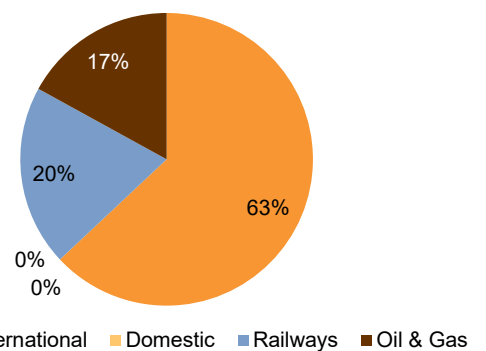
Source: Company, Emkay Research

**Exhibit 6: KPTL's Standalone Order Book – Rs188.6bn**



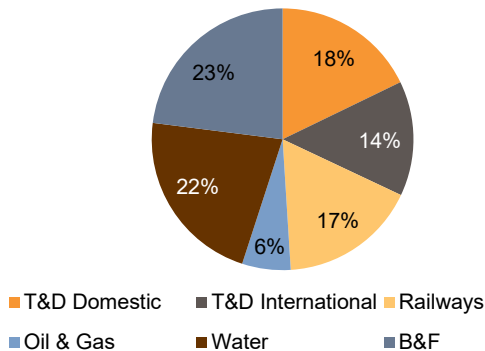
Source: Company, Emkay Research

**Exhibit 7: KPTL's Standalone Order Inflow – YTD Rs69bn**



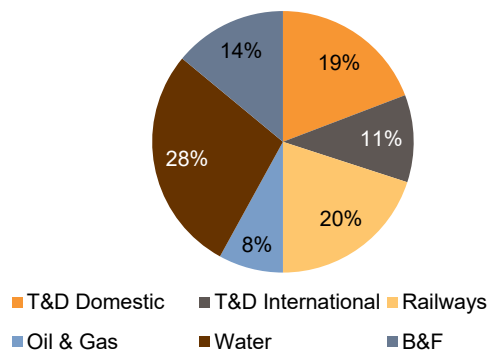
Source: Company, Emkay Research

**Exhibit 8: KPTL's Consolidated Level Order Book- Rs385bn**



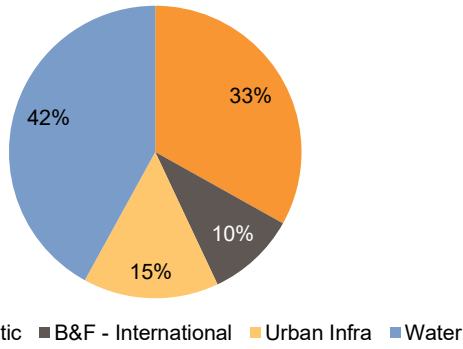
Source: Company, Emkay Research

**Exhibit 9: KPTL's Consolidated Level Order Inflow – YTD Rs144bn**



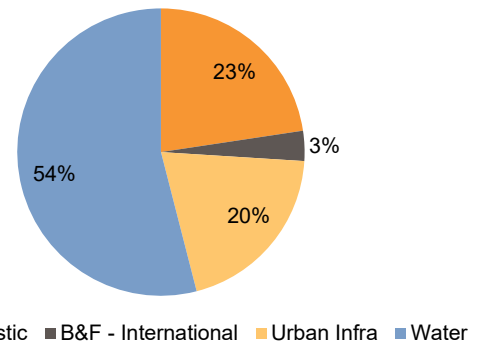
Source: Company, Emkay Research

**Exhibit 10: JMC Order Book – Rs200bn**



Source: Emkay Research, Company

**Exhibit 11: JMC Order inflow YTD – Rs75bn**



Source: Emkay Research, Company

**Key Financials (Standalone)****Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>76,710</b>	<b>70,620</b>	<b>76,664</b>	<b>85,769</b>	<b>92,160</b>
<b>Expenditure</b>	<b>68,630</b>	<b>64,090</b>	<b>69,995</b>	<b>77,407</b>	<b>82,944</b>
<b>EBITDA</b>	<b>8,080</b>	<b>6,530</b>	<b>6,670</b>	<b>8,362</b>	<b>9,216</b>
Depreciation	1,150	1,050	1,103	1,158	1,216
<b>EBIT</b>	<b>6,930</b>	<b>5,480</b>	<b>5,567</b>	<b>7,205</b>	<b>8,001</b>
Other Income	790	810	992	715	723
Interest expenses	1,090	1,240	1,297	1,224	1,073
<b>PBT</b>	<b>6,630</b>	<b>5,050</b>	<b>5,262</b>	<b>6,696</b>	<b>7,650</b>
Tax	2,160	2,070	1,473	1,875	2,142
Extraordinary Items	1,680	2,170	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>6,150</b>	<b>5,150</b>	<b>3,789</b>	<b>4,821</b>	<b>5,508</b>
<b>Adjusted PAT</b>	<b>4,470</b>	<b>2,980</b>	<b>3,789</b>	<b>4,821</b>	<b>5,508</b>

**Balance Sheet**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	300	300	300	300	300
Reserves & surplus	38,330	43,320	45,869	49,113	52,819
<b>Net worth</b>	<b>38,630</b>	<b>43,620</b>	<b>46,169</b>	<b>49,413</b>	<b>53,119</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>12,855</b>	<b>16,770</b>	<b>13,750</b>	<b>10,730</b>	<b>10,730</b>
Net deferred tax liability	(230)	640	640	640	640
<b>Total Liabilities</b>	<b>51,255</b>	<b>61,030</b>	<b>60,559</b>	<b>60,783</b>	<b>64,489</b>
<b>Net block</b>	<b>6,680</b>	<b>6,310</b>	<b>6,208</b>	<b>6,050</b>	<b>5,834</b>
<b>Investment</b>	<b>12,560</b>	<b>14,040</b>	<b>9,140</b>	<b>9,140</b>	<b>9,140</b>
<b>Current Assets</b>	<b>76,900</b>	<b>82,440</b>	<b>91,220</b>	<b>97,089</b>	<b>1,04,863</b>
Cash & bank balance	2,743	8,110	16,506	15,495	16,965
Other Current Assets	29,707	35,810	27,456	31,073	33,612
<b>Current liabilities &amp; Provision</b>	<b>45,085</b>	<b>41,960</b>	<b>46,209</b>	<b>51,697</b>	<b>55,549</b>
<b>Net current assets</b>	<b>31,815</b>	<b>40,480</b>	<b>45,012</b>	<b>45,393</b>	<b>49,314</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>51,255</b>	<b>61,030</b>	<b>60,559</b>	<b>60,783</b>	<b>64,489</b>

**Cash Flow**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>5,840</b>	<b>4,240</b>	<b>4,270</b>	<b>5,981</b>	<b>6,928</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(3,673)	(2,428)	3,864	(1,392)	(2,451)
<b>Operating Cashflow</b>	<b>2,427</b>	<b>2,032</b>	<b>9,061</b>	<b>5,096</b>	<b>4,623</b>
Capital expenditure	(1,298)	(680)	(1,000)	(1,000)	(1,000)
<b>Free Cash Flow</b>	<b>1,129</b>	<b>1,352</b>	<b>8,061</b>	<b>4,096</b>	<b>3,623</b>
Investments	310	(1,480)	4,900	0	0
Other Investing Cash Flow	(180)	0	0	0	0
<b>Investing Cashflow</b>	<b>(378)</b>	<b>(1,350)</b>	<b>4,892</b>	<b>(285)</b>	<b>(277)</b>
Equity Capital Raised	(9)	0	0	0	0
Loans Taken / (Repaid)	(484)	3,915	(3,020)	(3,020)	0
Dividend paid (incl tax)	(1,500)	(975)	(1,240)	(1,577)	(1,802)
Other Financing Cash Flow	314	2,985	0	0	0
<b>Financing Cashflow</b>	<b>(2,770)</b>	<b>4,685</b>	<b>(5,557)</b>	<b>(5,821)</b>	<b>(2,875)</b>
<b>Net chg in cash</b>	<b>(721)</b>	<b>5,367</b>	<b>8,396</b>	<b>(1,011)</b>	<b>1,470</b>
Opening cash position	3,464	2,743	8,110	16,506	15,495
<b>Closing cash position</b>	<b>2,743</b>	<b>8,110</b>	<b>16,506</b>	<b>15,495</b>	<b>16,965</b>

Source: Company, Emkay Research

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**Key Ratios**

<b>Profitability (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EBITDA Margin	10.5	9.2	8.7	9.8	10.0
EBIT Margin	9.0	7.8	7.3	8.4	8.7
Effective Tax Rate	32.6	41.0	28.0	28.0	28.0
Net Margin	5.8	4.2	4.9	5.6	6.0
ROCE	15.5	11.2	10.8	13.1	13.9
ROE	12.1	7.2	8.4	10.1	10.7
RoIC	13.8	8.7	10.9	14.7	15.5

<b>Per Share Data (Rs)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EPS	29.8	19.9	25.3	32.1	36.7
CEPS	37.5	26.9	32.6	39.9	44.8
BVPS	257.5	290.8	307.8	329.4	354.1
DPS	10.0	6.5	8.3	10.5	12.0

<b>Valuations (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
PER	16.9	25.4	20.0	15.7	13.7
P/CEPS	11.2	15.6	12.9	10.5	9.4
P/BV	2.0	1.7	1.6	1.5	1.4
EV / Sales	1.1	1.2	1.0	0.8	0.8
EV / EBITDA	10.6	12.9	10.9	8.5	7.5
Dividend Yield (%)	2.0	1.3	1.6	2.1	2.4

<b>Gearing Ratio (x)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Net Debt/ Equity	0.3	0.2	(0.1)	(0.1)	(0.1)
Net Debt/EBIDTA	1.3	1.3	(0.4)	(0.6)	(0.7)
Working Cap Cycle (days)	138.3	167.3	135.7	127.2	128.1

<b>Growth (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Revenue	(2.9)	(7.9)	8.6	11.9	7.5
EBITDA	(6.0)	(19.2)	2.1	25.4	10.2
EBIT	(7.6)	(20.9)	1.6	29.4	11.0
PAT	40.1	(16.3)	(26.4)	27.2	14.3

<b>Quarterly (Rs mn)</b>	<b>Q2FY22</b>	<b>Q3FY22</b>	<b>Q4FY22</b>	<b>Q1FY23</b>	<b>Q2FY23</b>
Revenue	16,180	18,480	20,100	15,420	15,280
EBITDA	1,520	1,680	1,710	1,300	1,250
<b>EBITDA Margin (%)</b>	<b>9.4</b>	<b>9.1</b>	<b>8.5</b>	<b>8.4</b>	<b>8.2</b>
PAT	370	3,150	870	1,130	620
<b>EPS (Rs)</b>	<b>2.5</b>	<b>21.0</b>	<b>5.8</b>	<b>7.5</b>	<b>4.1</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Sep-21</b>	<b>Dec-21</b>	<b>Mar-22</b>	<b>Jun-22</b>	<b>Sep-22</b>
Promoters	54.6	51.6	51.6	51.6	51.6
FIIIs	7.5	5.7	5.3	5.4	5.1
DIIIs	28.7	34.2	35.8	36.0	36.8
Public and Others	9.3	8.5	7.3	7.1	6.5

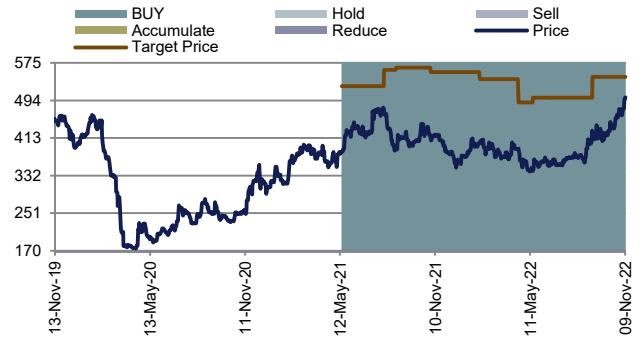
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
14-Sep-22	428	545	12m	Buy	Abhineet Anand
07-Sep-22	421	545	12m	Buy	Abhineet Anand
18-Aug-22	372	500	12m	Buy	Abhineet Anand
07-Aug-22	372	500	12m	Buy	Abhineet Anand
16-May-22	342	500	12m	Buy	Abhineet Anand
18-Apr-22	390	490	12m	Buy	Abhineet Anand
03-Feb-22	403	540	12m	Buy	Abhineet Anand
01-Nov-21	410	555	12m	Buy	Abhineet Anand
27-Aug-21	388	565	12m	Buy	Abhineet Anand
04-Aug-21	472	560	12m	Buy	Abhineet Anand
15-May-21	384	525	12m	Buy	Abhineet Anand

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Eng. & Capital Goods, Infra, Power



**Analyst: Abhineet Anand**

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### Sector

Engineering, Infra and Power

### Analyst bio

Abhineet has experience of over 19 years in Engineering, Infrastructure and Power sectors as Analyst, Consultant and Engineer. Abhineet has completed his B.E. in Mechanical Engineering and PGDM in Finance from IIM Kozhikode.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
<b>Engineering &amp; Capital Goods, Infra, Power</b>	<b>3.79</b>	<b>3.61</b>	<b>-5%</b>	<b>-18</b>	<b>100.00</b>	
Action Construction Equipments	0.00	0.00	NA	0	0.00	0
HG Infra Engineering	0.00	0.09	NA	9	2.41	0
Kalpataru Power	0.00	0.24	NA	24	6.40	0
KEC International	0.00	0.18	NA	18	4.77	0
Larsen & Toubro	2.23	1.57	-30%	-66	41.39	0
CESC	0.00	0.16	NA	16	4.12	0
NHPC	0.11	0.10	-10%	-1	2.62	0
NTPC	0.76	0.76	0%	0	20.11	0
Power Grid Corporation	0.68	0.51	-25%	-17	13.47	0
<b>Cash</b>	<b>0.00</b>	<b>0.18</b>	<b>NA</b>	<b>18</b>	<b>4.70</b>	<b>0</b>

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

### Sector portfolio NAV

	Base					Latest
	1-Apr-19	11-Nov-21	12-May-22	11-Aug-22	10-Oct-22	10-Nov-22
EAP - Engineering & Capital Goods, Infra, Power	100.0	143.4	114.6	115.4	114.7	123.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	138.4	113.8	114.5	116.4	121.0

\*Performance measurement base date 1<sup>st</sup> April 2019

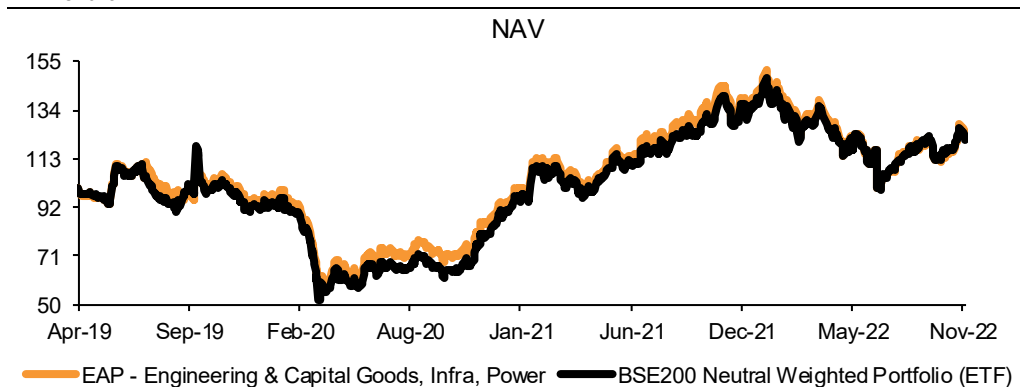
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - Engineering & Capital Goods, Infra, Power	7.5%	6.9%	7.7%	-14.0%
BSE200 Neutral Weighted Portfolio (ETF)	4.0%	5.7%	6.3%	-12.5%

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”



## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 14 Nov 2022 15:19:25 (SGT)

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