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Kalpataru Power

Towards a stronger entity

CMP	Target Price
Rs 518 as of (December 8, 2022)	Rs 615 (▲) 12 months
Rating	**Upside**
BUY (■)	19.0 %

- Over the years, KPTL has always traded at a discount to KEC International due to concerns around capital allocation (investment in several Transmission assets and Road assets as well as other non-core investments) and promoter pledge.
- We argue that given the company's merger process being under way, no more investments expected in non-core assets and the anticipated gradual decrease in promoter pledge, its valuation gap with direct peers like KEC should become negligible.
- We now value the KPTL standalone entity at 15x (at par with KEC's exit P/E) vs 13.5x earlier, to arrive at our SoTP-based Dec-23 TP of Rs615/share (earlier, Rs565). We believe this may hold further upside, if one were to incorporate the merger synergies. We maintain BUY on the stock. Better standalone inflows (YTD inflows stand at ~Rs70bn along with L1 of ~Rs45bn) and softening commodity will improve earnings going forward. Consolidated order book stands at Rs385bn, together with L1 of Rs60bn.

- **Fundamentals of the standalone entity have improved:** Compared with FY22, inflows have been considerably strong in YTDFY23 at Rs69bn and L1 of Rs45bn. Given the strong order book of ~Rs190bn and softening commodity, earnings would improve hereon.
- **JMC's strong order book has continued:** With good inflow in the Water segment (54% of overall inflow) and steady orders in the Building & Factories segment, JMC is poised for revenue growth in excess of 20% in the next 2 years. Post its merger with KPTL, there will be improvement in the finance cost as well.
- **Consolidated entity expected to grow in the 15-20%** range during FY23 and FY24. Margin is expected to normalize towards double digits in the next 18 months, in our view.
- **Valuation and outlook:** We now remove the valuation discount with peers like KEC International. This is mainly owing to no more investments expected in non-core asset, anticipation of a gradual decrease in promoter pledge and improved growth prospects. Our Dec-23 TP now stands at Rs615. The Standalone entity is valued at 15x Dec-24 EPS, implying Rs475/share.
- **Further upside possible:** Our present value of JMC is based on its current market capitalization. The implied value of JMC's stake in KPTL SoTP is ~Rs13.8bn. Given the strong order book of ~Rs200bn, along with L1 position of Rs17bn, revenue growth is expected to be in excess of 20%. Loss at Road projects is expected to be minimal by FY25. JMC's standalone PAT is expected to be in the Rs2.5-3bn range in FY24/FY25.This can imply additional value per share of ~Rs50 to our KPTL SoTP.

Please see our sector model portfolio (Emkay Alpha Portfolio): Eng. & Cap. Goods, Infra, Power (Page 6)

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)	17.4	26.1	20.5	16.1	14.1
EV/EBITDA (x)	10.9	13.2	11.2	8.7	7.8
P/BV (x)	2.0	1.8	1.7	1.6	1.5

Source: Company, Emkay Research

Change in Estimates	
EPS Chg FY23E/FY24E (%)	0/0
Target Price change (%)	9
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates	FY23E	FY24E
Emkay	25.3	32.1
Consensus	27.9	36.1
Mean Consensus TP (12M)		Rs 573

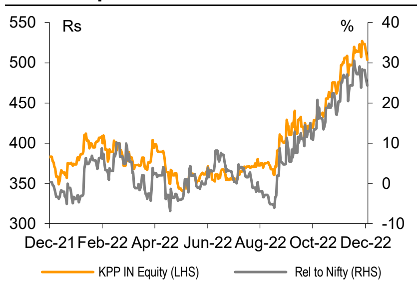
Stock Details	
Bloomberg Code	KPP IN
Face Value (Rs)	2
Shares outstanding (mn)	149
52 Week H/L	533 / 332
M Cap (Rs bn/USD bn)	77 / 0.94
Daily Avg Volume (nos.)	2,61,182
Daily Avg Turnover (USD mn)	1.5

Shareholding Pattern Sep '22	
Promoters	51.6%
FIIs	5.1%
DIIs	36.8%
Public and Others	6.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	23	40	37
Rel. to Nifty	2	18	23	29

Relative price trend



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: Dec-23E SOTP-based valuation for KPTL

Valuation (Sum of the parts)	Dec-23
KPTL Standalone	
Core EPS - Dec-24E (Rs)	31.7
P/E (x)	15
Value/share (Rs)	***475***
JMC Projects	
Market Capitalization (Rs mn)	20,500
67.2% Holding (Rs mn)	13,776
Value/share (Rs)	***90***
Cash and other investment (Rs mn)	**7,500**
Value/share (Rs)	49
Total value per share (Rs)	***615***

Source: Emkay Research

Exhibit 2: Further upside, if one considers JMC valuation based on its earnings trajectory

Upside from JMC valuation	Rs mn
Dec-24E PAT	3,145
10x P/E	31,448
67% holding	21,070
Value per share in KPTL SoTP (Rs)	137
Overall KPTL SoTP (Rs)	661

Source: Emkay Research

Key Financials (Standalone)

Income Statement

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

Balance Sheet

Y/E Mar (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
Net worth	**38,630**	**43,620**	**46,169**	**49,413**	**53,119**
Minority Interest	**0**	**0**	**0**	**0**	**0**
Loan Funds	**12,855**	**16,770**	**13,750**	**10,730**	**10,730**
Net deferred tax liability	(230)	640	640	640	640
Total Liabilities	**51,255**	**61,030**	**60,559**	**60,783**	**64,489**
Net block	**6,680**	**6,310**	**6,208**	**6,050**	**5,834**
Investment	**12,560**	**14,040**	**9,140**	**9,140**	**9,140**
Current Assets	**76,900**	**82,440**	**91,220**	**97,089**	**1,04,863**
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
Current liabilities & Provision	**45,085**	**41,960**	**46,209**	**51,697**	**55,549**
Net current assets	**31,815**	**40,480**	**45,012**	**45,393**	**49,314**
Misc. exp	0	0	0	0	0
Total Assets	**51,255**	**61,030**	**60,559**	**60,783**	**64,489**

Cash Flow

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

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
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

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
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

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	17.4	26.1	20.5	16.1	14.1
P/CEPS	13.8	19.3	12.9	10.5	9.4
P/BV	2.0	1.8	1.7	1.6	1.5
EV / Sales	1.1	1.2	1.0	0.9	0.8
EV / EBITDA	10.9	13.2	11.2	8.7	7.8
Dividend Yield (%)	1.9	1.3	1.6	2.0	2.3

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
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

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
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

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

Source: Company, Emkay Research

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

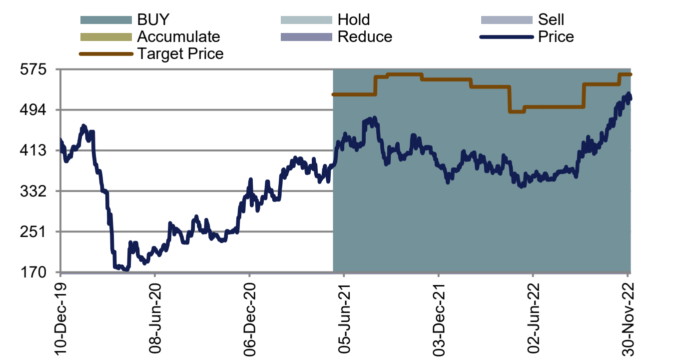
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
21-Nov-22	508	565	12m	Buy	Abhineet Anand
14-Nov-22	509	565	12m	Buy	Abhineet Anand
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 (Rs/share)



Source: Bloomberg, Company, Emkay Research

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

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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)
Engineering & Capital Goods, Infra, Power	**3.87**	**3.70**	**-5%**	**-18**	**100.00**	
Action Construction Equipments	0.00	0.00	NA	0	0.00	0
HG Infra Engineering	0.00	0.10	NA	10	2.55	0
Kalpataru Power	0.00	0.24	NA	24	6.21	0
KEC International	0.00	0.19	NA	19	4.86	0
Larsen & Toubro	2.34	1.65	-29%	-68	42.71	0
CESC	0.00	0.15	NA	15	4.00	0
NHPC	0.11	0.10	-9%	-1	2.48	0
NTPC	0.74	0.75	1%	0	19.29	0
Power Grid Corporation	0.69	0.52	-25%	-17	13.34	0
Cash	**0.00**	**0.18**	**NA**	**18**	**4.56**	**0**

Source: Emkay Research

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

Sector portfolio NAV

	Base					Latest
	1-Apr-19	7-Dec-21	8-Jun-22	7-Sep-22	4-Nov-22	7-Dec-22
EAP - Engineering & Capital Goods, Infra, Power	100.0	133.5	119.5	119.1	126.1	127.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	130.0	118.6	120.2	124.3	126.8

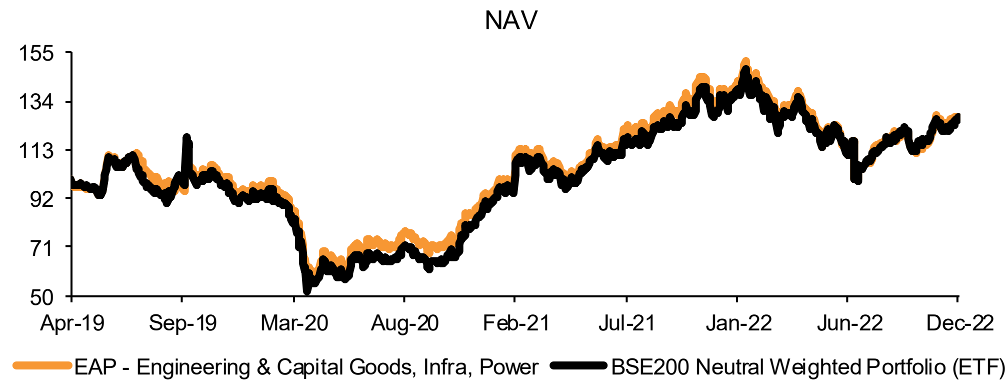
**Performance measurement base date 1st April 2019*
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Engineering & Capital Goods, Infra, Power	1.0%	6.9%	6.6%	-4.6%
BSE200 Neutral Weighted Portfolio (ETF)	2.1%	5.5%	6.9%	-2.4%

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: 09 Dec 2022 02:02:07 (SGT)
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