

February 12, 2023

## Q3FY23 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		ACCUMULATE	
Target Price	670		547	
Sales (Rs. m)	1,63,941	1,87,223	88,506	99,677
% Chng.	85.2	87.8		
EBITDA (Rs. m)	15,035	17,879	8,629	10,307
% Chng.	74.2	73.5		
EPS (Rs.)	45.7	57.3	34.1	42.5
% Chng.	33.8	34.9		

### Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	1,24,070	1,42,524	1,63,941	1,87,223
EBITDA (Rs. m)	8,530	12,743	15,035	17,879
Margin (%)	6.9	8.9	9.2	9.5
PAT (Rs. m)	3,051	5,727	7,418	9,309
EPS (Rs.)	20.5	35.3	45.7	57.3
Gr. (%)	(61.0)	72.1	29.5	25.5
DPS (Rs.)	2.3	5.3	6.9	8.6
Yield (%)	0.5	1.1	1.4	1.7
RoE (%)	6.0	10.4	12.3	13.8
RoCE (%)	7.7	11.9	13.3	14.8
EV/Sales (x)	0.7	0.7	0.6	0.5
EV/EBITDA (x)	10.7	7.7	6.6	5.6
PE (x)	24.1	14.0	10.8	8.6
P/BV (x)	1.4	1.4	1.3	1.1

### Key Data

**KAPT.BO | KPP IN**

52-W High / Low	Rs.593 / Rs.332
Sensex / Nifty	60,683 / 17,857
Market Cap	Rs.80bn/ \$ 971m
Shares Outstanding	162m
3M Avg. Daily Value	Rs.193.86m

### Shareholding Pattern (%)

Promoter's	56.49
Foreign	4.37
Domestic Institution	28.54
Public & Others	10.60
Promoter Pledge (Rs bn)	12.16

### Stock Performance (%)

	1M	6M	12M
Absolute	(3.2)	33.4	22.3
Relative	(4.1)	29.3	18.7

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# Kalpataru Power Transmission (KPP IN)

Rating: BUY | CMP: Rs493 | TP: Rs670

## Decent sales growth; merger synergies to accrue

### Quick Pointers:

- Order book healthy at Rs41.4bn, providing strong visibility for next 2-3 years.
- KPP's merger with JMC Projects (India) stands complete w.e.f. 11<sup>th</sup> Jan, 2023.

**We estimate FY23/24/25E EPS at Rs35.3/45.7/57.3 and upgrade to 'Buy' from Accumulate with TP of Rs670 (Rs549 earlier), after factoring in robust order inflows along with merger synergies materializing from Q1FY24. The merged entity of Kalpataru Power Transmission (KPP) saw revenue growth of 9.8% YoY to Rs35.1bn, led by decent execution in domestic and international geographies. EBITDA margin contracted by 32bps YoY to 8.7%. Order pipeline remains healthy with strong traction in domestic Water and B&F, International T&D and Oil & Gas. Interest cost synergies of ~Rs500-700mn will accrue from the merger in FY24. Further, management has guided for revenue growth of ~15% in FY23 and 20%+ in FY24 & FY25 each.**

**We remain positive on KPP's in the long run owing to 1) robust order backlog, 2) strong export market outlook, 3) growing opportunities in water and commercial real estate, along with government's thrust on capex in civil infrastructure, railways, and energy transition, 4) post-merger cost & operational synergies, and 5) deleveraging via non-core asset monetization. The stock is currently trading at a PE of 14.0x/10.8x/8.6x FY23/24/25E EPS. Upgrade to 'BUY'.**

**Lower other expenses cushion the fall in EBITDA margin:** Standalone revenue of the combined entity grew 9.8% YoY to Rs35.1bn, with strong growth in JMC's Urban Infra (+43.2% YoY), Water (+41.0% YoY), and B&F (+29.9% YoY) segments on account of healthy execution. Meanwhile, T&D revenues were subdued (down ~16% YoY), due to lower order backlog at the start of FY23. Gross margin declined 96bps YoY to 23.8%, owing to continuing cost pressures. However, a 2.0% YoY fall in other expenses limited the drop in EBITDA margin to 32bps YoY. EBITDA rose 5.9% YoY to Rs3.1bn. PBT (excluding extraordinary items) fell 14.4% YoY to Rs1.6bn, impacted by lower other income (Rs90mn vs Rs400mn in Q3FY22), while adj. PAT further declined 27.7% YoY to Rs1.1bn on account of higher effective tax rate (32.5% vs 20.0% in Q3FY22).

**Robust order inflows of Rs6.3bn across segments:** Order inflows came in at Rs6.3bn in Q3FY23 driven by T&D, Railways, and Oil & Gas. Order book currently stands at Rs41.4bn (3.1x TTM revenue) with L1 orders worth Rs5.2bn. Of the total order book, T&D accounts for 35%, Oil & Gas 4%, Railways 9%, Water 24%, B&F 19%, and Urban Infra 9%.

**Exhibit 1: Restated financials of the merged entity – decent sales growth with a slight dip in margins YoY**

Y/e March (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY gr. (%)	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
<b>Revenue</b>	<b>31,960</b>	<b>35,650</b>	<b>31,390</b>	<b>32,930</b>	<b>35,090</b>	<b>9.8</b>	<b>6.6</b>	<b>99,410</b>	<b>88,420</b>	<b>12.4</b>
<b>Total Revenues</b>	<b>31,960</b>	<b>35,650</b>	<b>31,390</b>	<b>32,930</b>	<b>35,090</b>	<b>9.8</b>	<b>6.6</b>	<b>99,410</b>	<b>88,420</b>	<b>12.4</b>
<b>Expenditure</b>	<b>29,540</b>	<b>32,580</b>	<b>28,700</b>	<b>30,170</b>	<b>32,040</b>	<b>8.5</b>	<b>6.2</b>	<b>90,910</b>	<b>82,960</b>	<b>9.6</b>
as % of sales	92.4	91.4	91.4	91.6	91.3			91.4	93.8	
Consumption of RM	24,120	28,340	24,360	25,380	26,820	11.2	5.7	76,560	67,400	13.6
as % of sales	75.5	79.5	77.6	77.1	76.4			77.0	76.2	
Employee Cost	2,390	2,450	2,380	2,440	2,700	13.0	10.7	7,520	6,720	11.9
as % of sales	7.5	6.9	7.6	7.4	7.7			7.6	7.6	
Other expenditure	3,030	1,790	1,960	2,350	2,520	(16.8)	7.2	6,830	8,840	(22.7)
as % of sales	9.5	5.0	6.2	7.1	7.2			6.9	10.0	
<b>EBITDA</b>	<b>2,420</b>	<b>3,070</b>	<b>2,690</b>	<b>2,760</b>	<b>3,050</b>	<b>26.0</b>	<b>10.5</b>	<b>8,500</b>	<b>5,460</b>	<b>55.7</b>
Depreciation	700	680	660	710	750	7.1	5.6	2,120	2,040	3.9
<b>EBIT</b>	<b>1,720</b>	<b>2,390</b>	<b>2,030</b>	<b>2,050</b>	<b>2,300</b>	<b>33.7</b>	<b>12.2</b>	<b>6,380</b>	<b>3,420</b>	<b>86.5</b>
Other Income	400	230	660	150	90	(77.5)	(40.0)	900	750	20.0
Interest	650	630	610	750	740	13.8	(1.3)	2,440	1,810	34.8
<b>PBT</b>	<b>1,470</b>	<b>1,990</b>	<b>2,080</b>	<b>1,450</b>	<b>1,650</b>	<b>12.2</b>	<b>13.8</b>	<b>4,840</b>	<b>2,360</b>	<b>105.1</b>
Total Tax	740	550	440	410	540	(27.0)	31.7	1,390	940	47.9
<b>Adj. PAT</b>	<b>730</b>	<b>1,440</b>	<b>1,640</b>	<b>1,040</b>	<b>1,110</b>	<b>52.1</b>	<b>6.7</b>	<b>3,450</b>	<b>1,420</b>	<b>143.0</b>
Extra ordinary items	2,230	-	-	-	-	(100.0)	-	-	640	(100.0)
<b>Reported PAT</b>	<b>2,960</b>	<b>1,440</b>	<b>1,640</b>	<b>1,040</b>	<b>1,110</b>	<b>(62.5)</b>	<b>6.7</b>	<b>3,450</b>	<b>2,060</b>	<b>67.5</b>
<b>Adjusted EPS</b>	<b>7.4</b>	<b>8.9</b>	<b>10.1</b>	<b>6.5</b>	<b>7.0</b>	<b>(6.6)</b>	<b>7.6</b>	<b>23.5</b>	<b>22.7</b>	<b>3.5</b>
<b>Margins (%)</b>	<b>Q3FY22</b>	<b>Q4FY22</b>	<b>Q1FY23</b>	<b>Q2FY23</b>	<b>Q3FY23</b>	<b>bps</b>	<b>bps</b>	<b>9MFY23</b>	<b>9MFY22</b>	<b>bps</b>
EBIDTA	7.6	8.6	8.6	8.4	8.7	112	31	8.6	6.2	238
EBIT	5.4	6.7	6.5	6.2	6.6	117	33	6.4	3.9	255
EBT	4.6	5.6	6.6	4.4	4.7	10	30	4.9	2.7	220
PAT	9.3	4.0	5.2	3.2	3.2	(610)	1	3.5	2.3	114
Effective Tax rate	50.3	27.6	21.2	28.3	32.7	(1,761)	445	28.7	39.8	(1,111)

Source: Company, PL

## Conference Call Highlights

- **Cost synergies of ~Rs1bn to accrue from the merger**, including Rs500-700mn interest cost savings in FY24. Merger will also help KPP participate in larger projects, going forward.
- **Standalone net debt increased to Rs2.0bn vs Rs1.1bn in Q3FY22**, on account of incremental working capital requirements in select projects and higher CapEx for new orders, largely in international markets.
- **Expect debt levels to reduce next year** on the back of better collections, project closure and proceeds from divestment of non-core assets.
- **All divisions (except Railways) should grow at 20%+ for the next 2 years** given current order book visibility of Rs460bn.
- **Expecting to exceed current year order inflow target of Rs210bn**, and land up at Rs240-250bn for the full year.
- **Ramping up manpower in Water segment and international markets** after seeing how the order book has grown.
- **EBITDA margin will sustain around 8.5-9% levels**, with a PBT margin target of ~5% in FY24.
- **T&D - Revenue subdued largely** on account of lower backlog at the start of the financial year. With improved tendering activity and business development efforts, have secured projects of over Rs75bn YTD. With the new orders gearing up for execution, expect the segment to kick start from Q4 onwards, with 10%+ growth estimated next year. There is good visibility in the international business, which should be growing at 25%+.
- **B&F - Revenue growth of 30% YoY in Q3** on the back of robust execution and a strong order book. YTD order intake stands Rs34bn and order book stands at Rs81bn. Strong inquiries coming from commercial, residential and IT segments.
- **Water - Strong growth of 41% YoY in Q3** aided by a record order book and healthy execution. Order book stands at Rs99bn. Currently executing over 30 projects in India and overseas market. Continued thrust by government and increased budget allocation Jal Jeevan Mission augurs well for this division. There is very good visibility for next 2-3 years across the country.
- **Oil & Gas - Bidding activity very positive in MENA and African markets.** KPP is now qualified to bid in 6-7 countries and expect international reach in the oil & gas business to improve in coming quarters. Meanwhile, domestic business is not growing as aggressively.
- **Railways - Order book not grown consciously** as focus was on completing orders from healthy order book at start of the year. With the new budget, hopefully a lot more tenders will come up and that's when they will re-strategize growth plans for railway division.

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>1,24,070</b>	<b>1,42,524</b>	<b>1,63,941</b>	<b>1,87,223</b>
YoY gr. (%)	9.2	14.9	15.0	14.2
Cost of Goods Sold	95,740	1,09,744	1,25,415	1,42,851
Gross Profit	28,330	32,781	38,526	44,372
Margin (%)	22.8	23.0	23.5	23.7
Employee Cost	9,170	10,316	11,523	12,825
Other Expenses	10,630	9,722	11,968	13,667
<b>EBITDA</b>	<b>8,530</b>	<b>12,743</b>	<b>15,035</b>	<b>17,879</b>
YoY gr. (%)	(37.6)	49.4	18.0	18.9
Margin (%)	6.9	8.9	9.2	9.5
Depreciation and Amortization	2,720	2,945	3,177	3,395
<b>EBIT</b>	<b>5,810</b>	<b>9,798</b>	<b>11,858</b>	<b>14,484</b>
Margin (%)	4.7	6.9	7.2	7.7
Net Interest	2,440	2,757	2,572	2,683
Other Income	980	1,140	1,312	1,498
<b>Profit Before Tax</b>	<b>4,990</b>	<b>8,182</b>	<b>10,598</b>	<b>13,298</b>
Margin (%)	4.0	5.7	6.5	7.1
Total Tax	1,490	2,455	3,179	3,990
Effective tax rate (%)	29.9	30.0	30.0	30.0
<b>Profit after tax</b>	<b>3,500</b>	<b>5,727</b>	<b>7,418</b>	<b>9,309</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>3,051</b>	<b>5,727</b>	<b>7,418</b>	<b>9,309</b>
YoY gr. (%)	(61.0)	87.7	29.5	25.5
Margin (%)	2.5	4.0	4.5	5.0
Extra Ord. Income / (Exp)	449	-	-	-
<b>Reported PAT</b>	<b>3,500</b>	<b>5,727</b>	<b>7,418</b>	<b>9,309</b>
YoY gr. (%)	(61.8)	63.6	29.5	25.5
Margin (%)	2.8	4.0	4.5	5.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,500	5,727	7,418	9,309
<b>Equity Shares O/s (m)</b>	<b>149</b>	<b>162</b>	<b>162</b>	<b>162</b>
<b>EPS (Rs)</b>	<b>20.5</b>	<b>35.3</b>	<b>45.7</b>	<b>57.3</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>23,788</b>	<b>25,288</b>	<b>26,788</b>	<b>28,288</b>
Tangibles	-	-	-	-
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>10,574</b>	<b>13,518</b>	<b>16,695</b>	<b>20,090</b>
Tangibles	-	-	-	-
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>13,214</b>	<b>11,770</b>	<b>10,093</b>	<b>8,198</b>
Tangibles	13,214	11,770	10,093	8,198
Intangibles	-	-	-	-
Capital Work In Progress	203	291	334	381
Goodwill	-	-	-	-
Non-Current Investments	18,120	21,877	25,163	28,735
Net Deferred tax assets	880	880	880	880
Other Non-Current Assets	1,315	1,283	1,475	1,685
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	9,193	12,495	14,373	16,414
Trade receivables	41,276	48,810	57,042	65,143
Cash & Bank Balance	9,886	9,279	9,815	12,204
Other Current Assets	46,713	51,039	58,535	66,684
<b>Total Assets</b>	<b>1,55,097</b>	<b>1,73,098</b>	<b>1,94,563</b>	<b>2,18,782</b>
<b>Equity</b>				
Equity Share Capital	298	325	325	325
Other Equity	52,115	56,983	63,289	71,202
<b>Total Networth</b>	<b>52,413</b>	<b>57,308</b>	<b>63,614</b>	<b>71,527</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	8,631	8,631	8,631	8,631
Provisions	626	784	902	1,030
Other non current liabilities	6,209	6,556	7,541	8,612
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	18,934	18,934	20,934	22,934
Trade payables	37,755	44,124	50,754	57,962
Other current liabilities	26,626	32,210	37,051	42,312
<b>Total Equity &amp; Liabilities</b>	<b>1,55,097</b>	<b>1,73,098</b>	<b>1,94,563</b>	<b>2,18,782</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	4,990	8,182	10,598	13,298
Add. Depreciation	2,720	2,945	3,177	3,395
Add. Interest	2,472	2,757	2,572	2,683
Less Financial Other Income	980	1,140	1,312	1,498
Add. Other	764	-	-	-
Op. profit before WC changes	10,946	13,883	16,347	19,377
Net Changes-WC	(5,771)	(2,671)	(5,719)	(5,368)
Direct tax	(1,485)	(2,455)	(3,179)	(3,990)
<b>Net cash from Op. activities</b>	<b>3,690</b>	<b>8,757</b>	<b>7,448</b>	<b>10,019</b>
Capital expenditures	(2,143)	(1,588)	(1,543)	(1,547)
Interest / Dividend Income	588	-	-	-
Others	(1,207)	(4,188)	(3,684)	(4,004)
<b>Net Cash from Invt. activities</b>	<b>(2,762)</b>	<b>(5,776)</b>	<b>(5,226)</b>	<b>(5,551)</b>
Issue of share cap. / premium	-	27	-	-
Debt changes	5,014	-	2,000	2,000
Dividend paid	(341)	(859)	(1,113)	(1,396)
Interest paid	(2,476)	(2,757)	(2,572)	(2,683)
Others	667	-	-	-
<b>Net cash from Fin. activities</b>	<b>2,864</b>	<b>(3,589)</b>	<b>(1,685)</b>	<b>(2,079)</b>
<b>Net change in cash</b>	<b>3,792</b>	<b>(608)</b>	<b>537</b>	<b>2,389</b>
Free Cash Flow	1,053	7,169	5,906	8,473

Source: Company Data, PL Research

## Key Financial Metrics

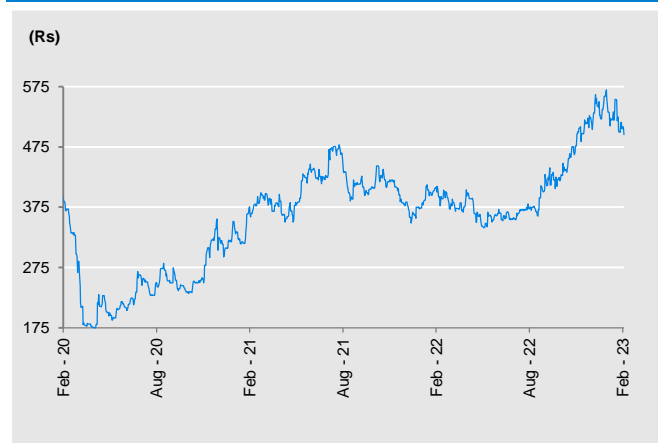
Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	20.5	35.3	45.7	57.3
CEPS	38.8	53.4	65.2	78.2
BVPS	352.0	352.8	391.6	440.3
FCF	7.1	44.1	36.4	52.2
DPS	2.3	5.3	6.9	8.6
<b>Return Ratio(%)</b>				
RoCE	7.7	11.9	13.3	14.8
ROIC	6.2	9.4	10.5	11.8
RoE	6.0	10.4	12.3	13.8
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.3	0.3	0.3	0.3
Net Working Capital (Days)	37	44	46	46
<b>Valuation(x)</b>				
PER	24.1	14.0	10.8	8.6
P/B	1.4	1.4	1.3	1.1
P/CEPS	12.7	9.2	7.6	6.3
EV/EBITDA	10.7	7.7	6.6	5.6
EV/Sales	0.7	0.7	0.6	0.5
Dividend Yield (%)	0.5	1.1	1.4	1.7

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<b>Net Revenue</b>	<b>35,650</b>	<b>31,390</b>	<b>32,930</b>	<b>35,090</b>
YoY gr. (%)	-	-	3.0	(1.6)
Raw Material Expenses	28,340	24,360	25,380	26,820
Gross Profit	7,310	7,030	7,550	8,270
Margin (%)	20.5	22.4	22.9	23.6
<b>EBITDA</b>	<b>3,070</b>	<b>2,690</b>	<b>2,770</b>	<b>3,070</b>
YoY gr. (%)	-	-	(4.5)	-
Margin (%)	8.6	8.6	8.4	8.7
Depreciation / Depletion	680	660	710	750
<b>EBIT</b>	<b>2,390</b>	<b>2,030</b>	<b>2,060</b>	<b>2,320</b>
Margin (%)	6.7	6.5	6.3	6.6
Net Interest	630	610	750	740
Other Income	230	660	150	90
<b>Profit before Tax</b>	<b>1,990</b>	<b>2,080</b>	<b>1,460</b>	<b>1,670</b>
Margin (%)	5.6	6.6	4.4	4.8
Total Tax	550	440	410	540
Effective tax rate (%)	27.6	21.2	28.1	32.3
<b>Profit after Tax</b>	<b>1,440</b>	<b>1,640</b>	<b>1,050</b>	<b>1,130</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,440</b>	<b>1,640</b>	<b>1,050</b>	<b>1,130</b>
YoY gr. (%)	-	-	(13.2)	(21.5)
Margin (%)	4.0	5.2	3.2	3.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,440</b>	<b>1,640</b>	<b>1,050</b>	<b>1,130</b>
YoY gr. (%)	-	-	(69.5)	(21.5)
Margin (%)	4.0	5.2	3.2	3.2
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,440</b>	<b>1,640</b>	<b>1,050</b>	<b>1,130</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jan-23	Accumulate	549	570
2	11-Nov-22	Accumulate	549	504
3	04-Oct-22	BUY	442	419
4	05-Aug-22	BUY	442	373
5	05-Jul-22	BUY	421	357
6	16-May-22	BUY	421	342
7	08-Apr-22	BUY	467	394
8	21-Feb-22	BUY	465	403
9	15-Feb-22	BUY	444	382

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	3,291	2,689
2	Apar Industries	BUY	2,260	1,687
3	Bharat Electronics	BUY	125	93
4	BHEL	Sell	36	80
5	Cummins India	Accumulate	1,708	1,578
6	Engineers India	BUY	89	80
7	GE T&D India	Hold	102	116
8	Kalpataru Power Transmission	Accumulate	549	570
9	KEC International	Accumulate	500	457
10	Larsen & Toubro	BUY	2,481	2,113
11	Praj Industries	BUY	495	364
12	Siemens	Accumulate	3,290	2,837
13	Thermax	Accumulate	2,556	1,956
14	Triveni Turbine	BUY	340	276
15	Voltamp Transformers	Hold	3,150	2,691

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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