Stock Update

Management meet update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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 Feb 08, 2023

Severe Risk

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

Source: Morningstar

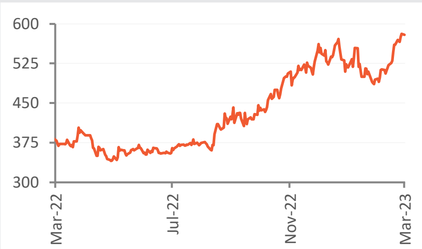
Company details

Market cap:	Rs. 9,380 cr
52-week high/low:	Rs. 597/332
NSE volume: (No of shares)	3.2 lakh
BSE code:	522287
NSE code:	KALPATPOWR
Free float: (No of shares)	8.5 cr

Shareholding (%)

Promoters	47.2
FII	5.5
DII	38.8
Others	8.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.6	3.0	37.9	51.1
Relative to Sensex	20.3	9.9	41.8	46.3

Sharekhan Research, Bloomberg

Kalpataru Power Transmission Ltd

In a formidable growth phase

Capital Goods	Sharekhan code: KALPATPOWR
Reco/View: Buy ↔	CMP: **Rs. 579**
Price Target: **Rs. 695** ↑	

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Our interaction with Kalpataru Power Transmission Limited (KPTL) reinstates our faith on the company's ability to demonstrate superior performance, backed by robust order book, margin tailwinds, and merger synergies.
- Demand environment is encouraging in both domestic and international markets across T&D, oil and gas, water, and infrastructure segments. The merger with JMC would enhance the magnitude of the business and lead to cost and interest savings.
- Monetisation of non-core assets and reduction in promoter's pledge could be key re-rating catalysts.
- Promising outlook on execution/margins and high probability of deleveraging in the coming years give us comfort. Hence, we maintain our Buy rating on KPTL with a revised PT of Rs. 695, considering an attractive valuation at ~13x/~10x its FY2024/FY2025E PER.

Our interaction with Kalpataru Power Transmission Limited (KPTL) reinstates our positive stance on the company's capability to accelerate its revenue growth and margin expansion. KPTL is a leading turnkey player in T&D and infrastructure segments with a strong order book (up 46% y-o-y) and fresh orders (surpassed order inflow guidance for FY2023), given strong ordering environment in both domestic and international markets. As a result, revenue visibility has improved considerably, and the company is well positioned to deliver strong performance in the coming years. On the profitability front, we expect operating margin to inch upwards from FY2024, given higher execution and stability in commodity and freight cost. Moreover, the merger of KPTL and JMC Projects would increase the group's geographical reach and improve its capability to bid for large-size and more complex projects. The merger is also likely to bring cost savings of Rs. 50-70 crore from FY2024. The company has an ambitious target of achieving Rs. 24,000 crore in revenue by FY2025 and aims OPM in double digits. We believe monetization of its non-core assets and reduction in promotors' pledge could be key catalysts for re-rating in the long term.

- **Robust and diversified order book would accelerate revenue growth:** KPTL's current order book stands at Rs. 46,642 crore (including L1 position of Rs. 5,200 crore) executable over a period of 2.5-3.0 years. With the recent order win of Rs. 3,185 crore, KPTL's YTD order intake for FY2023 stands at Rs. 22,672 crore, and it has already surpassed its guidance of Rs. 20,000-22,000 crore for FY2023. Management has shared an optimistic outlook, backed by a robust and diversified order book, which provides strong revenue visibility. T&D business also has strong prospects in Africa, Latin America, MENA, and SAARC regions. Hence, we expect improvement in execution in the long term, given the strong order book. Revenue growth guidance for FY2023 is 12-14% y-o-y, while OPM is expected at 8.5-9% and PBT margin is likely to be at 4.5%. For FY2024, the company expects revenue growth to be ~20%, backed by strong order book. Further, it expects margin to be at 9.0-9.5% due to the decline in freight cost and commodity cost and as orders with better margin kick in.
- **Merger to increase the magnitude of business in the long run:** KPTL's merger with JMC would enable the merged entity to bid for large-size complex projects along with improved management bandwidth. The combined entity will have a strong balance sheet and financial flexibility to invest in the core EPC business. The company would be able to meet the pre-qualification criteria in many complex projects in terms of technological capabilities and net worth requirements. Further, ease of raw-material procurement and access to JMC's civil capabilities would benefit KPTL. Further, competitive intensity is less in combined projects of civil and T&D. The company expects these synergies should materialise fully in the next 2-3 years, which would lead to increased margins. Moreover, JMC's merger with KPTL would enhance JMC's credit rating, leading to lower lending rates. The company expects interest saving of Rs. 45-50 crore and other cost savings of Rs. 20-30 crore to accrue from FY2024 as a result of the merger.
- **Reduction in debt and improvement in working capital from FY2024:** On a standalone level, net debt is at Rs. 2,053 crore, while gross debt of the merged entity (KPTL and JMC) has increased to Rs. 2,858 crore (up 49% y-o-y) for meeting increased capex and working capital requirements. On a consolidated level, debt is Rs. 3,800 crore and net debt is Rs. 2,900 crore. The consolidated debt includes Rs. 169 crore debt in Shree Shubham Logistics (SSL) and 3 BOOT projects have debt of Rs. 647 crore. In international orders, the company gets 10% advances; and therefore, increasing proportion of international orders in the order mix would ease the working capital cycle. Further, based on improving operating performance, the company expects reduction in debt and improvement in working capital in the long term. The company expects that, in the long term, monetisation of its non-core assets – SSL, BOOT projects and Indore real estate project – should lead to a significant reduction in its debt levels.

Revision in estimates – We have revised our estimates upwards for FY2023-FY2025E.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 695: KPTL boasts of a healthy and diversified order book and order prospects, which provide strong revenue visibility. Further, cost synergies emanating from JMC Projects' merger and enhancement of its capabilities to bid for large projects and increased scope of its key markets bode well for its future growth. Further, the company expects a decline in debt and improvement in the working capital cycle going forward through improving operating performance and monetisation of its non-core assets. There has also been a reduction in promoter's pledge post the merger, and we expect further reduction in promoter's pledge could be a key re-rating catalyst for the stock. At the CMP, the stock trades at ~13x its FY2024E and ~10x its FY2025E EPS, which is below its peers. Hence, given the attractive valuation and strong growth potential going forward, we maintain Buy with our SoTP-based price target (PT) of Rs. 695.

Key Risks

- Slower-than-expected project execution in domestic and international markets would affect KPTL's performance.
- The company is also exposed to commodity, interest rate, and forex fluctuation risks.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Net Sales	12,407	14,216	16,885	19,927
OPM(%)	6.9	8.8	9.2	9.4
Adj. Net Profit	305	541	736	955
% YoY growth	(41.1)	77.3	36.0	29.7
Adj. EPS (Rs.)	18.8	33.4	45.4	58.9
PER (x)	30.7	17.3	12.7	9.8
P/BV (x)	1.9	1.7	1.5	1.4
EV/EBITDA (x)	15.1	13.6	10.3	7.7
ROCE (%)	8.9	11.7	13.2	15.3
ROE (%)	6.2	10.5	12.9	14.7

Source: Company; Sharekhan estimates

Strong order book and order pipeline would drive revenue growth

KPTL's current order book stands at Rs. 46,642 crore (including L1 position of Rs. 5,200 crore) executable over a period of 2.5-3.0 years. The order book is well diversified with orders coming from segments such as T&D (35%), B&F (19%), water (24%), oil and gas (4%), urban infra (9%), and railways (9%). Domestic: International break-up of the order book is 56:44. With the recent order win of Rs. 3,185 crore, KPTL's YTD order intake for FY2023 stands at Rs. 22,672 crore and has already surpassed its guidance of Rs. 20,000 -22,000 crore for FY2023. The company is bullish on water, B&F, urban infra as well as international business in the near to medium term. Management has shared an optimistic outlook, backed by a robust and diversified order book, which provides strong revenue visibility. T&D business also has strong prospects in Africa, Latin America, MENA, and SAARC regions. Hence, we expect improvement in execution in the long term, given the strong order book. Revenue growth guidance for FY2023 is 12-14% y-o-y, while OPM is expected at 8.5-9% and PBT margin is likely to be at 4.5%. For FY2024, the company expects revenue growth to be ~20%, backed by a strong order book. Further, the company expects margin to be at 9.0-9.5% due to the decline in freight cost and commodity cost and as orders with better margin kick in.

Merger with JMC Projects would create multiple synergies and lead to cost saving

KPTL's merger with JMC would enable the merged entity to bid for large-size complex projects along with improved management bandwidth. The combined entity will have a strong balance sheet and financial flexibility to invest in the core EPC business. The company would be able to meet the pre-qualification criteria in many complex projects in terms of technological capabilities and net worth requirements. Further, ease of raw-material procurement and access to JMC's civil capabilities would benefit KPTL. Further, competitive intensity is less in combined projects of civil and T&D. The company expects these synergies should materialise fully in the next 2-3 years, which would also lead to increased margins. Moreover, JMC's merger with KPTL would enhance JMC's credit rating, leading to lower interest rates. The company expects interest saving of Rs. 45-50 crore and other cost savings of Rs. 20-30 crore to accrue from FY2024 as a result of the merger.

Pursuing new opportunities in existing and emerging segments

Although the company is being selective in bidding for railways orders due to high competition intensity and stricter payment terms, it is pursuing signalling, metro electrification, large tunnel orders, and ballast-less track orders in railways. The company believes that, as a merged entity, it will qualify for high-speed corridor projects as well. Some of the T&D projects such as Leh-Ladakh and North-East projects have not seen much progress. However, budgetary allocation of Rs. 35,000 crore for green energy transition and tenders from SEBs such as Gujarat, Karnataka, West Bengal, Rajasthan, and UP are likely to boost the order inflow. The company is also exploring the possibility of offering its EPC capabilities in setting up of green hydrogen plants by oil and gas companies.

Working capital and debt to reduce going forward

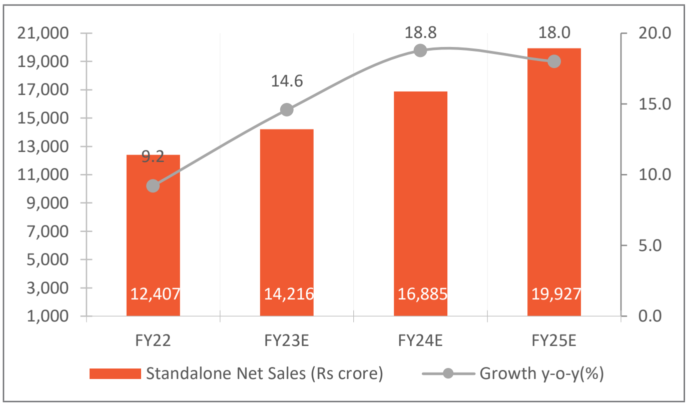
On a standalone level, net debt was at Rs. 2,053 crore, while gross debt of the merged entity increased to Rs. 2,858 crore (up 49% y-o-y) for meeting increased capex and working capital requirements. On a consolidated level, debt is Rs. 3,800 crore and net debt is Rs 2,900 crore. The consolidated debt includes Rs. 169 crore debt in Shree Shubham Logistics (SSL) and 3 BOOT projects have debt of Rs. 647 crore. In international orders, the company gets 10% advances and, therefore, increasing proportion of international orders in the order mix would ease the working capital cycle. Further, based on improving operating performance, the company expects reduction in debt and improvement in working capital in the long term. The company expects that, in the long term, monetization of its non-core assets – SSL and BOOT projects and Indore real estate projects – would lead to a significant reduction in its debt levels.

Low capacity utilization at Raipur plant

Utilization of the tower manufacturing facility at Raipur, Chhattisgarh, plant is low at ~55% since the contribution of domestic T&D sales has gone down in the past one year. For international orders, the company prefers to locally source galvanized angles and towers rather than importing from India. utilization levels at Gandhinagar, Gujarat, facility are high at ~70%.

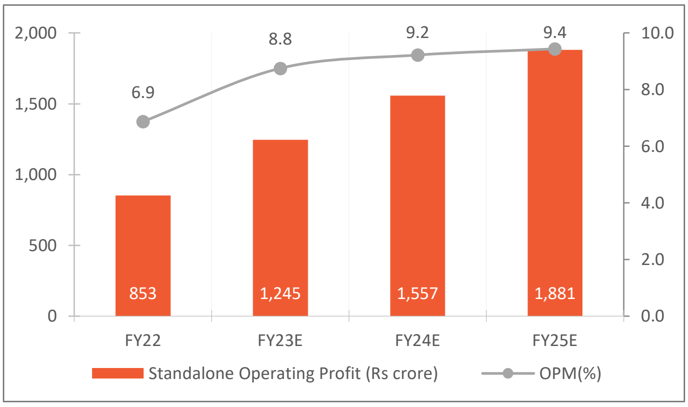
Financials in charts

Net sales growth trend



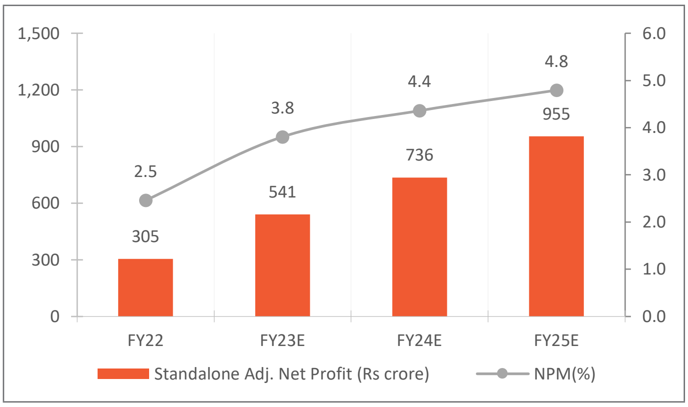
Source: Company, Sharekhan Research

Operating profit and margin trend



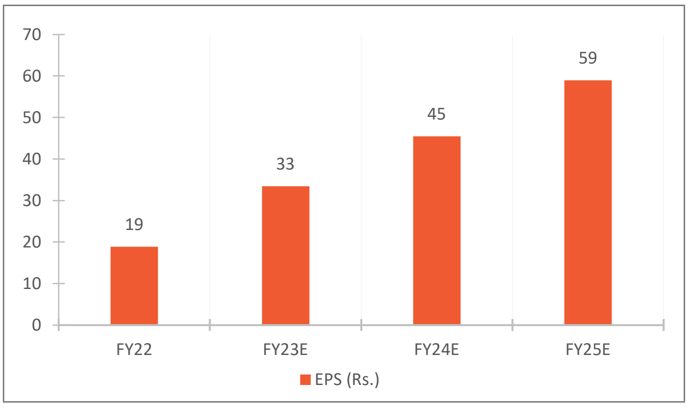
Source: Company, Sharekhan Research

Net profit and margin trend



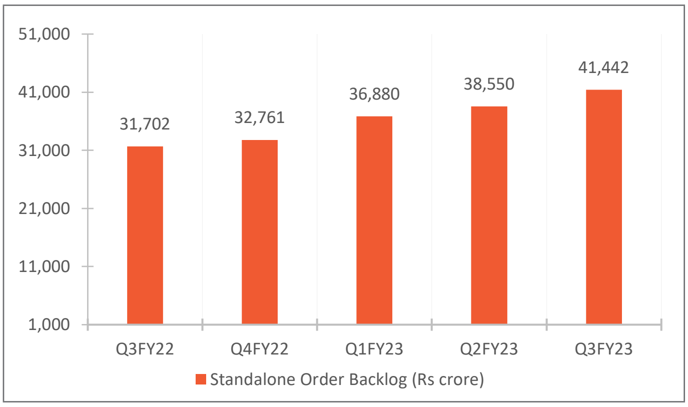
Source: Company, Sharekhan Research

EPS (Rs.) growth trend



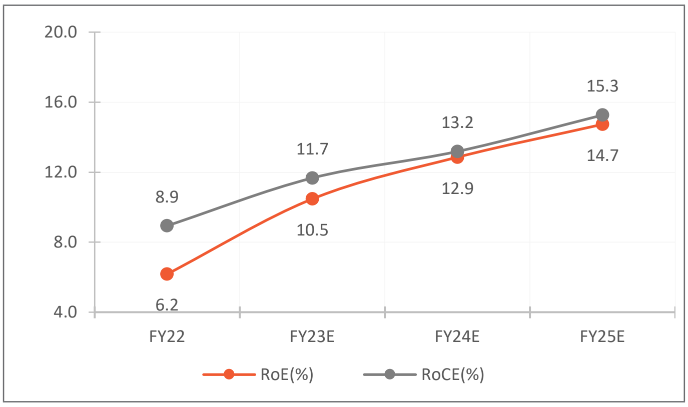
Source: Company, Sharekhan Research

Order backlog trend



Source: Company, Sharekhan Research

Return Ratios ternd



Source: Company, Sharekhan Research

Outlook and Valuation

Sector View – Continued government focus on infrastructure bodes well for growth

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.

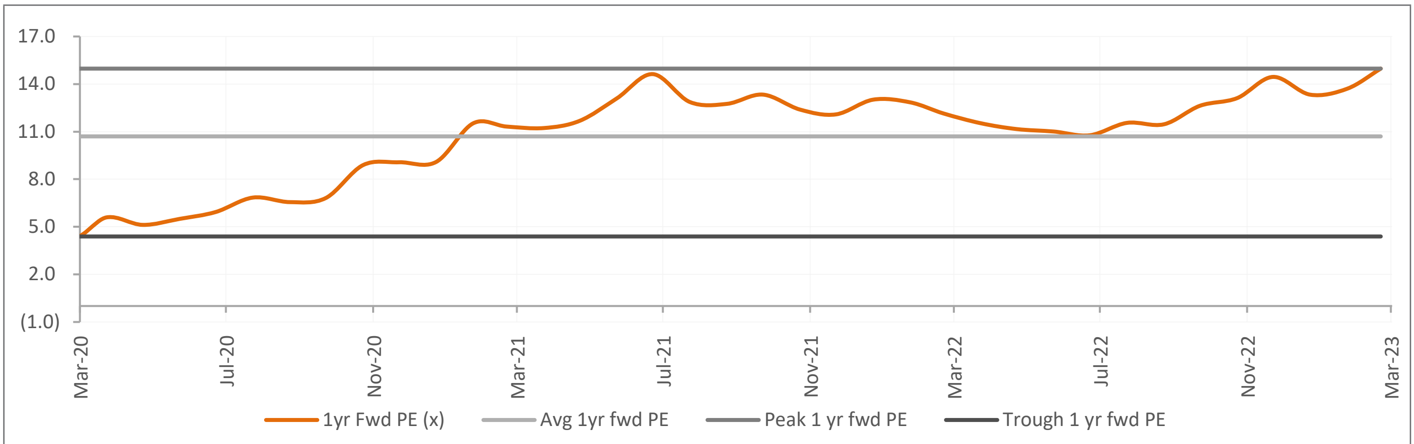
Company Outlook – On a healthy growth trajectory

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 FY2022, B&F and oil and gas businesses secured projects in international markets for the first time. Further, growth in the core EPC business and strengthening international business have helped the company achieve broad-based growth across leading businesses. The company has successfully scaled up JMC Projects' international presence by securing new projects of over Rs. 3,695 crore in Africa and Maldives. The company is focusing on accelerating growth in its core business and strengthening its balance sheet through debt reduction and efficient capital management. The merger of KPTL and JMC Projects would increase its geographical reach and improve its capability to bid for large-size projects, particularly in the non-T&D space. Further, material cost synergies would lead to cost savings of Rs. 50-70 crore.

Valuation – Maintain Buy with a revised PT of Rs. 695

KPTL boasts of a healthy and diversified order book and order prospects, which provide strong revenue visibility. Further, cost synergies emanating from JMC Projects' merger and enhancement of its capabilities to bid for large projects and increased scope of its key markets bode well for its future growth. Further, the company expects a decline in debt and improvement in the working capital cycle going forward through improving operating performance and monetisation of its non-core assets. There has also been a reduction in promoter's pledge post the merger, and we expect further reduction in promoter's pledge could be a key re-rating catalyst for the stock. At the CMP, the stock trades at ~13x its FY2024E and ~10x its FY2025E EPS, which is below its peers. Hence, given the attractive valuation and strong growth potential going forward, we maintain Buy with our SoTP-based PT of Rs. 695.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

KPTL 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 JMC Projects. JMC Projects primarily constructs industrial buildings and residential and commercial complexes. Of late, JMC Projects has ventured into the infrastructure segment, taking up road projects, bridges, flyovers, and transportation structures. In FY2023, JMC Projects was merged with KPTL.

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 spending is likely to come from SEBs. Additionally, ordering for the Green Energy Corridor is likely to provide ample opportunities in the domestic market going forward. Moreover, expansion in regional transmission networks in Africa, SAARC, and CIS countries is likely to supplement domestic demand and present a huge business opportunity. KPTL has significantly scaled up non-T&D segments (railways and oil and gas) and margins in these segments are expected to inch up gradually. The opportunity size remains high in the non-T&D segment to provide enough opportunities to ramp up its total order outstanding for the business. Further, monetization of its non-core three road BOOT projects and reduction in promoter's pledge would be a key catalyst for re-rating in the stock.

Key Risks

- Slower-than-expected project execution in domestic and international markets would affect KPTL's performance.
- The company is also exposed to commodity, interest rate, and forex fluctuation risks.

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
Mr. Basant Kumar Parasramka	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co. Ltd.	9.08
2	ICICI Prudential Asset Management Co. Ltd.	8.67
3	SBI Funds Management Ltd.	8.09
4	Kotak Mahindra Asset Management Ltd.	4.27
5	Nippon Life India Asset Management Ltd.	2.12
6	ICICI Prudential Life Insurance Co. Ltd.	1.48
7	IDFC Mutual Fund	1.18
8	Dimensional Fund Advisors	1.02
9	DSP Investment Managers Pvt. Ltd.	0.76
10	ALPS Advisors	0.42

Source: Bloomberg (Old data)

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

Sharekhan

by BNP PARIBAS

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