Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Kalpataru Power Transmission Ltd

Low profitability weighs on performance, outlook stays promising

Capital Goods	Sharekhan code: KALPATPOWR
Reco/View: Buy ↔	CMP: Rs. 527 / Price Target: Rs. 695 ↔

↑ 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 Mar 08, 2023

Severe Risk

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

Source: Morningstar

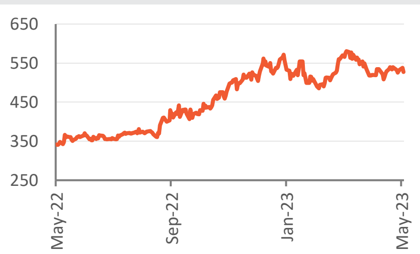
Company details

Market cap:	Rs. 8,537 cr
52-week high/low:	Rs. 597 / 332
NSE volume: (No of shares)	3.3 lakh
BSE code:	522287
NSE code:	KALPATPOWR
Free float: (No of shares)	8.5 cr

Shareholding (%)

Promoters	47.2
FII	6.9
DII	37.8
Others	8.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.5	10.2	8.0	56.3
Relative to Sensex	0.2	8.4	7.1	43.7

Sharekhan Research, Bloomberg

Summary

- Q4FY2023 standalone performance a mixed bag; wherein revenue growth was strong; however, OPM and net profit were below estimates. The management has ambitious revenue growth target of over 25% for FY24/FY25 and expects PBT margin of 4.5-5% in FY24.
- Highest-ever annual order inflows of Rs. 25,241 crore led to an all-time high order book of Rs. 45,918 crore with additional L1 orders of Rs.4,000 crore.
- Performance is expected to improve driven by a robust order book and tender pipeline, merger synergies, subsiding cost headwinds. Monetization of non-core assets and reduction in promoter's pledge could be key re-rating catalysts.
- We maintain a Buy on Kalpataru Power Transmission Limited (KPTL) with an unchanged PT of Rs. 695, as stock is attractively valued at ~12/~9x FY24/25E PER and optimistic outlook on execution and margins.

Q4FY2023 standalone performance (including JMC Projects standalone financials) was weak on the margin and profitability fronts, while sales were in-line with estimates. Revenue was up by ~23% y-o-y to Rs. 4,396 crore (versus our estimate of Rs. 4,120 crore). Operating profit was down by 15% y-o-y to Rs. 311 crore (versus our estimate of Rs. 367 crore). OPM came in at 7.1%, down 154 bps y-o-y (versus our estimate of 8.9%). Reported PAT was up 5.6% y-o-y to Rs. 152 crore due to one-time gain with respect to an award obtained by an erstwhile power transmission subsidiary and is contractually receivable by the company. Adjusting for one-time gain, net profit has declined by 32% y-o-y to Rs.98 crore (vs our estimate of Rs.147 crore). Highest-ever annual order inflow of Rs. 25,241 crore led to an all-time high order book of Rs. 45,918 crore. Standalone net debt declined by 18% q-o-q to Rs. 1,680 crore and consolidated net debt stands at Rs. 2,577 crore.

Key positives

- Order intake was Rs. 25,241 crore (up 39% y-o-y) driven by order wins in T&D in domestic as well as international markets and expansion of civil business in international markets.
- Order book at an all-time high of Rs. 45,918 crore and additional L1 position of Rs.4,000 crore.
- The order pipeline remains promising in both domestic and international markets.
- Standalone net debt fell to Rs.1,680 crore (down 18% q-o-q).
- Merger synergies with JMC Projects would strengthen market position.
- More than 65% of current order book is variable; thereby providing cushion against volatility in raw material prices.

Key negatives

- OPM and net profit lagged expectations due to higher raw material cost and sharp increase in interest cost.

Management Commentary

- Company has given strong revenue growth guidance of over 25% for FY24 and expects PBT margin of 4.5-5%. It aims to achieve Rs. 25,000 crore revenue by 2025; which means a high double-digit growth even for FY25.
- The company expects OPM margin to improve going forward.
- The company is focused on project closures and timely collections to improve its net working capital cycle.
- KPTL targets interest cost to be lower than 2% of sales.
- Net working capital days are below 100 days for the combined entity.
- During FY23 company incurred capex of Rs. 500 crore for improving project delivery and achieving growth targets.
- Benefits of the merger have increased its scope particularly in the civil business as the company has secured numerous high-value orders in water and buildings & factories (B&F).

Revision in estimates – We have marginally tweaked our estimates for FY2024-FY2025E. Our estimates are on a conservative side given rising interest cost and a likely increase in working capital requirements to achieve higher revenue growth.

Our Call

Valuation – Maintain Buy with an unchanged 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 future growth. Further, the company expects a decline in debt and improvement in working capital cycle going forward. There has also been a reduction in promoter 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 ~12x its FY2024E and ~9x 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.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Net Sales	12,407	14,337	16,969	20,059
OPM(%)	6.9	8.1	8.8	9.1
Adj. Net Profit	305	493	690	917
% YoY growth	(41.1)	61.6	39.8	33.1
Adj. EPS (Rs.)	18.8	30.4	42.6	56.6
PER (x)	28.0	17.3	12.4	9.3
P/BV (x)	1.7	1.6	1.4	1.3
EV/EBITDA (x)	13.8	12.3	10.1	7.3
ROCE (%)	8.9	11.7	13.3	15.5
ROE (%)	6.2	9.6	12.2	14.4

Source: Company; Sharekhan estimates

Profits miss estimates, robust order book and order inflow

Q4FY2023 standalone performance (including JMC Projects standalone financials) was weak on margin and profitability front, while sales were in line with estimates. Revenue was up by ~23% y-o-y to Rs. 4,396 crore (versus our estimate of Rs. 4,120 crore). Operating profit was down by 15% y-o-y to Rs. 311 crore (versus our estimate of Rs. 367 crore). OPM came in at 7.1% , down 154 bps y-o-y (versus our estimate of 8.9%). Reported PAT was up 5.6% y-o-y to Rs. 152 crore due to one-time gain of Rs. 109 crore with respect to an award obtained by an erstwhile power transmission subsidiary and is contractually receivable by the company. Further, the company made a provision of Rs. 55 crore towards impairment in value of its investment in two wholly-owned subsidiaries namely Kalpataru Power Transmission (Mauritius) Limited and Shree Shubham Logistics Limited. Adjusting for one-time gain/loss, net profit fell by 32% y-o-y to Rs.98 crore (vs our estimate of Rs.147 crore). Highest ever annual order inflow of Rs. 25,241 crore led to an all-time high order book of Rs. 45,918 crore. Standalone net debt declined by 18% q-o-q to Rs.1,680 crore and consolidated debt stands at Rs. 2,577 crore.

Strong revenue growth and margin improvement going forward

The management has shared an optimistic outlook, backed by a robust and diversified order book, which provides strong revenue visibility. Further, the order pipeline remains strong for domestic T&D, oil & gas, B&F, and urban infrastructure. International T&D business also has strong prospects in Africa, Latin America, MENA, and SAARC regions. Hence, we expect strong execution going forward. The debt levels are expected to grow to support working capital requirements but at a slower pace as compared to revenues. Moreover, reduction in losses from subsidiaries such as Shubham Logistics, Fastell and monetisation of road projects would help margin expansion and profitability. The synergies of merger would help the company bid for large projects. It would also aid in cost optimisation and interest cost reduction in the long term.

Key result highlights from earnings call

- **Capex guidance:** During FY23, the company invested close to Rs. 500 crore for capex for improving project delivery and achieving its growth targets. In FY24 and FY25, the company expects capex in the range of Rs.250/Rs. 275 crore.
- **Strong order prospects:** The company has a huge tender pipeline over Rs. 50,000 crore in the next 20 to 24 months. In the international market tender pipeline is over $4 billion, especially in focused markets in Africa, Latin America, Asia and Middle East.
- **Order book provides healthy revenue visibility:** Standalone order book stood at Rs. 45,918 crore, with additional L1 position of Rs. 4,000 crore comprising orders from T&D (36%), B&F (19%), water (27%), oil and gas (4%), urban infra (7%), and railways (8%). Domestic: international break-up of the order book is 60:40. FY23 order inflow was at Rs. 25,241 crore, comprising T&D (40%), water (30%), B&F (15%), oil & gas (3%), urban infra (6%), and railways (6%). More than 65% of the current order book is variable and therefore provides cushion from volatility in commodity prices.
- **Pursuing growth in international markets:** The company continues to expand its international presence by securing new clients and improving presence in areas like data centers, institutional buildings and processing plants.
- **Update on sale of its non-core assets:** The company has appointed advisors to evaluate road BOOT assets and expects to sign a non-binding offer from at least one out of the three assets in the current quarter itself. It is also receiving active interest from investors in Shubham Logistics.
- **Order inflow guidance:** In FY23, order inflows grew by 39% y-o-y to be Rs. 25,241 crore. The growth in order intake was led by T&D and water business. The company expects inflow of ~Rs. 26,000 crore in FY24.
- **Fasttel -Brazil business update:** The company has suffered losses in the last two years and expects Brazil to be positive on a PBT and EBITDA level in the current year. This shall also help the company improve its margins.

- **Debt:** The company's net debt stood at around Rs. 1,680 crore and next year debt could go up to Rs. 2,300 crore driven by working capital requirements for execution but the increase will still be lower than the revenue growth.
- **Revenue guidance:** The company has an ambitious target of achieving Rs. 25,000 crore revenue by FY25 and therefore targets over 25% growth in consolidated sales in FY24 and similar levels in FY25. It has also guided for 4.5% - 5% of PBT margin.
- **Other subsidiaries' performance:** LMG FY23: order book of Rs. 1,009 crore with revenues of Rs. 1,002 crore. Fasttel FY23: Order book of Rs. 1,140 crore with revenues of Rs. 439 crore.

Results (Consolidated) **Rs cr**

Particulars	Q4FY23	Q4FY22	Y-o-Y %	Q3FY23	Q-o-Q %
Net Sales	**4,396**	**3,565**	**23.3**	**3,509**	**25.3**
Operating expenditure	4,085	3,258	25.4	3,204	27.5
Operating profit	**311**	**307**	**1.3**	**305**	**2.0**
Other income	22	23	(4.3)	9	144.4
Interest	84	63	33.3	74	13.5
Depreciation	83	68	22.1	75	10.7
PBT	**220**	**199**	**10.6**	**165**	**33.3**
Tax	**68**	**55**	**23.6**	**54**	**25.9**
Reported PAT	**152**	**144**	**5.6**	**111**	**36.9**
Exceptional item	54	-	NA	-	NA
Adj. PAT	**98**	**144**	**(31.9)**	**111**	**(11.7)**
Adj. EPS (Rs.)	**6.0**	**8.9**	**(31.9)**	**6.9**	**(11.7)**
Margin (%)			**BPS**		**BPS**
OPM	7.1	8.6	(154)	8.7	(162)
NPM	2.2	4.0	(181)	3.2	(93)
Tax Rate	30.9	27.6	327	32.7	(182)

Source: Company; Sharekhan Research

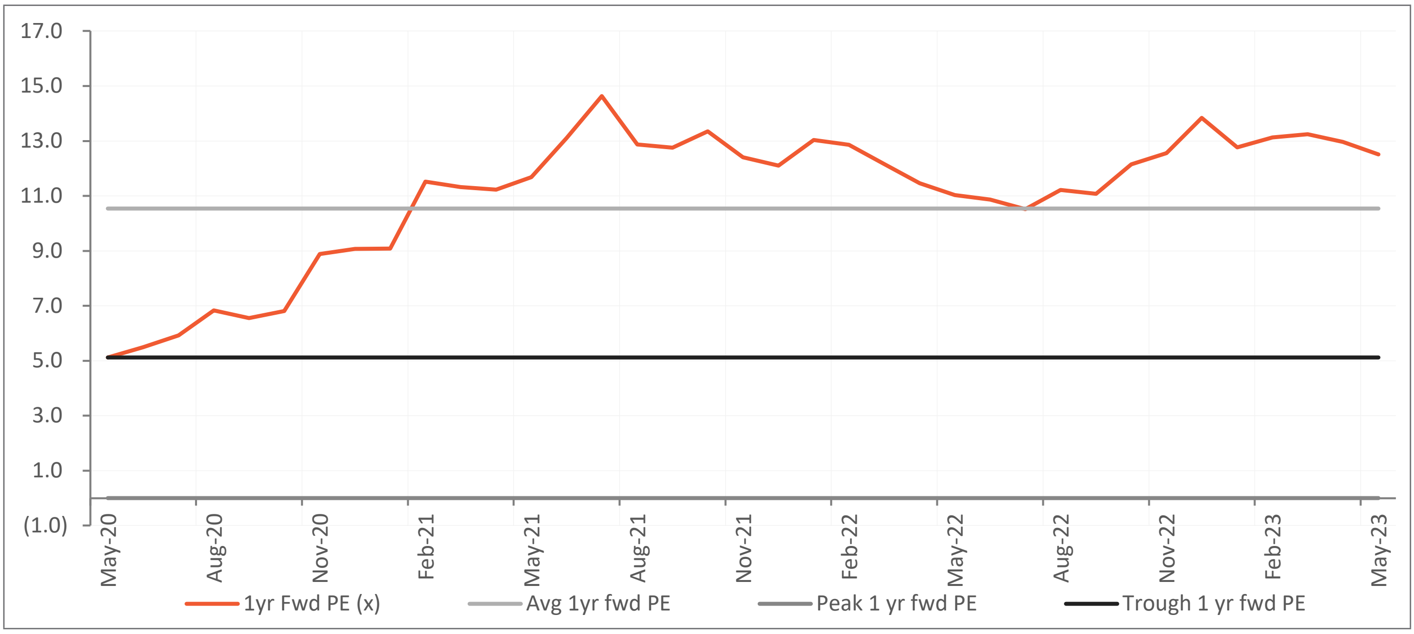
Outlook and Valuation

- **Sector xView – 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 the government 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. In 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 –** 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 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 an unchanged 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 future growth. Further, the company expects a decline in debt and improvement in working capital cycle going forward. There has also been a reduction in promoter 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 ~12x its FY2024E and ~9x 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.

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

Mofatraj P. Munot	Executive Director – Chairperson
Manish Mohnot	Managing Director and Chief Executive Officer
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	KC Holdings Private Limited	13.02
2	HDFC Asset Management Company Limited	9.83
3	SBI Funds Management Limited	8.12
4	ICICI Prudential Asset Management	7.95
5	Kotak Mahindra Asset Management Company	5.83
6	Nippon Life India Asset Management	1.95
7	Vanguard Group Incorporation	1.42
8	ICICI Prudential Life Insurance Company	1.17
9	IDFC Mutual Fund	0.90
10	Dimensional Fund Advisors LP	0.64

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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