

May 9, 2023

Q4FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	625		670	
Sales (Rs. m)	1,83,976	2,11,654	1,63,941	1,87,223
% Chng.	12.2	13.0		
EBITDA (Rs. m)	15,127	18,639	15,035	17,879
% Chng.	0.6	4.3		
EPS (Rs.)	40.2	53.2	45.7	57.3
% Chng.	(11.9)	(7.2)		

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	1,24,070	1,43,370	1,83,976	2,11,654
EBITDA (Rs. m)	8,530	11,610	15,127	18,639
Margin (%)	6.9	8.1	8.2	8.8
PAT (Rs. m)	3,051	4,921	6,534	8,642
EPS (Rs.)	18.8	30.3	40.2	53.2
Gr. (%)	(64.3)	61.3	32.8	32.3
DPS (Rs.)	2.1	4.9	6.0	8.0
Yield (%)	0.4	0.9	1.1	1.5
RoE (%)	6.2	9.6	11.7	13.8
RoCE (%)	7.9	10.8	13.2	15.2
EV/Sales (x)	0.8	0.7	0.6	0.5
EV/EBITDA (x)	12.1	9.2	7.2	6.0
PE (x)	28.1	17.4	13.1	9.9
P/BV (x)	1.7	1.6	1.5	1.3

Key Data

KAPT.BO | KPP IN

52-W High / Low	Rs.597 / Rs.332
Sensex / Nifty	61,761 / 18,266
Market Cap	Rs.86bn / \$ 1,043m
Shares Outstanding	162m
3M Avg. Daily Value	Rs.182.7m

Shareholding Pattern (%)

Promoter's	47.24
Foreign	6.92
Domestic Institution	37.76
Public & Others	8.08
Promoter Pledge (Rs bn)	23.10

Stock Performance (%)

	1M	6M	12M
Absolute	1.3	5.2	54.1
Relative	(1.8)	4.0	35.9

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Healthy topline; synergy benefit yet to kick in

Quick Pointers:

- Order book stands strong at Rs459bn (including Fasttel and Linjemontage), providing revenue visibility for next couple of years.
- Merger to have cost synergy benefit of ~Rs1bn over period of time.

We revise our FY24/25E estimates by -11.9%/-7.2% factoring in 1) slow revival in margin, 2) cost synergy expected from H2FY24 and 3) continued low profitability in railway and Oil & Gas. The merged entity of Kalpataru Power Transmission (KPP) reported healthy revenue growth (up 23.3% YoY), while margins were impacted due to sudden rise in travelling cost (up 35% YoY) and legal fees. Order pipeline remains strong in T&D, Water, B&F and Oil & Gas from domestic as well as exports market. Post-merger focus is on leveraging KPTL's presence on export market in T&D segment to enter into other verticals such as B&F, Civil, Water etc. Management has guided for standalone revenue growth of ~30%, with order inflows of ~Rs260bn and PBT margin of 4.5-5% for FY24.

We remain positive on KPP in long run owing to 1) strong order backlog, 2) strong order pipeline across segment, 3) focus on geographical expansion for segment such as Water, Railways, Civil etc. 4) increasing pre-qualification for large contracts and 5) operational & cost synergy arising due to merger. The stock is trading at PE of 12.9x/9.8x FY24/25E. Maintain 'BUY' rating on stock with revised SoTP of Rs.625 (earlier Rs670).

Higher traveling expenses (up 35% YoY) and legal fees impact margins:

Standalone revenue grew 23.3% YoY to ~Rs44bn (PL estimates of Rs43bn), led by growth across segment except Oil & Gas. T&D grew ~22% YoY to Rs16.3bn, Railways grew 12% YoY to Rs5.5bn, B&F grew 13.6% YoY to Rs10.7bn, Water grew 50.9% YoY to Rs7.9bn and Urban Infra grew 37.5% YoY to Rs1.2bn. While Oil & Gas segment declined 9.4% YoY to Rs2.6bn. EBITDA grew 1.3% YoY to Rs3.1bn (PL estimates of Rs4.2bn), with EBITDA margins contracting 154bps YoY to 7.1%, impacted by higher other expenses as % of sales (6.7% as on Q4FY23 vs 5% as on Q4FY22). Adj. PAT declined 20.4% YoY to Rs1.1bn (PL estimates of Rs1.9bn), on account of a higher depreciation expenses (up ~22% YoY), higher interest cost (up ~33% YoY) and higher effective tax rate (~30.9% vs ~27.6% in Q4FY22).

Order book stand strong at Rs459bn: Order inflow for FY23 came in at Rs252bn (including Linjemontage (LMG) and Fasttel) up 39% YoY, driven by T&D and water segment. Order Book (OB) stands at Rs459bn (including LMG and Fasttel) and is L1 in orders worth Rs40bn. Fasttel's order book stood at INR 11.4bn and LMG's order book stood at INR 10.1bn as of FY23. Off the total order book ~65% is variable cost project.

Exhibit 1: Higher other expenses drag profitability

Y/e March (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY gr. (%)	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Revenue	35,650	31,390	32,930	35,090	43,960	23.3	25.3	143,370	124,070	15.6
Total Revenues	35,650	31,390	32,930	35,090	43,960	23.3	25.3	143,370	124,070	15.6
Expenditure	32,580	28,700	30,170	32,040	40,850	25.4	27.5	131,760	115,540	14.0
<i>as % of sales</i>	91.4	91.4	91.6	91.3	92.9			91.9	93.1	
Consumption of RM	28,340	24,360	25,380	26,820	35,070	23.7	30.8	111,630	95,740	16.6
<i>as % of sales</i>	79.5	77.6	77.1	76.4	79.8			77.9	77.2	
Employee Cost	2,450	2,380	2,440	2,700	2,820	15.1	4.4	10,340	9,170	12.8
<i>as % of sales</i>	6.9	7.6	7.4	7.7	6.4			7.2	7.4	
Other expenditure	1,790	1,960	2,350	2,520	2,960	65.4	17.5	9,790	10,630	(7.9)
<i>as % of sales</i>	5.0	6.2	7.1	7.2	6.7			6.8	8.6	
EBITDA	3,070	2,690	2,760	3,050	3,110	1.3	2.0	11,610	8,530	36.1
Depreciation	680	660	710	750	830	22.1	10.7	2,950	2,720	8.5
EBIT	2,390	2,030	2,050	2,300	2,280	(4.6)	(0.9)	8,660	5,810	49.1
Other Income	230	660	150	90	220	(4.3)	144.4	1,120	980	14.3
Interest	630	610	750	740	840	33.3	13.5	2,940	2,440	20.5
PBT	-	-	-	-	540	NA	-	540	640	(15.6)
Total Tax	1,990	2,080	1,450	1,650	2,200	10.6	33.3	7,380	4,990	47.9
Adj. PAT	550	440	410	540	680	23.6	25.9	2,070	1,490	38.9
Extra ordinary items	1,440	1,640	1,040	1,110	1,520	5.6	36.9	5,310	3,500	
Reported PAT	1,440	1,640	1,040	1,110	1,147	(20.4)	3.3	4,921	3,051	61.3
Adjusted EPS	8.9	10.1	6.4	6.8	7.1	(20.4)	3.3	30.3	18.8	61.3
Margins (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	bps	bps	FY23	FY22	bps
EBIDTA	8.6	8.6	8.4	8.7	7.1	(154)	(162)	8.1	6.9	122
EBIT	6.7	6.5	6.2	6.6	5.2	(152)	(137)	6.0	4.7	136
EBT	5.6	6.6	4.4	4.7	5.0	(58)	30	5.1	4.0	113
PAT	4.0	5.2	3.2	3.2	3.5	(58)	29	3.7	2.8	88
Effective Tax rate	27.6	21.2	28.3	32.7	30.9	327	(182)	28.0	29.9	(181)

Source: Company, PL

Exhibit 2: SoTP Valuation – valuing core business at 11x on FY25E

Rs mn	Equity Investment /PAT (FY25)	1yr fwd (x)	Basis of Investment	Market Cap	KPTL Share (%)	Value for KPTL	Value per share
KPP+JMC (Merged)	8,642	11	PER	95,065	1.0	95,065	585
Linjemontage (85% stake)	1,400	1	PER	1,400	1.0	1,400	9
Enegylink (Indore Commercial-residential project)	1,500	0.8	PBV	1,500	0.80	1,200	7
Shubham Logistics	814	0.7	PBV	814	0.70	570	4
Total Investment in Road BOOT Assets	6,690	0.5	PBV	6,690	0.50	3,345	21
Total				105,469		101,580	625

Source: Company, PL

Conference Call Highlights

- Company has started seeing benefit of merger as 1) it increased its capability to bid for large size Civil project specially in water and B&F segment, 2) interest cost benefit (200bps interest cost difference between JMC and KPTL) and cost synergy. Long term cost synergies to be ~Rs1bn from the merger.
- Margins were impacted in Q4FY23 due to higher travelling expenses (up 35% YoY), legal fees and forex losses.
- **Guidance:** Management guided for standalone revenue growth of 30% and order inflow of Rs260bn, with PBT margin of 4.5-5%. Finance cost as % of sales to be ~2% for FY24. Building & Factory, O&G, Urban Infra and Railway to witness strong growth in FY24.
- Standalone Net debt reduced by Rs3.7bn QoQ to ~Rs17bn, given healthy collections and focus on project closures. Net debt is not expected to exceed Rs23bn for FY24, despite strong revenue growth.
- **Indore Real Estate:** Collected cash of Rs700mn in FY23 and expect remaining to be collected in FY24. **Shree Shubham Logistics (SSL):** Performance of SSL was impacted due to lower capacity utilization on account of lower procurement from government. **Road BOOT project:** Interest has been receiving from foreign players for road project. Management is expected to sign one binding agreement with third party in Q1FY24.
- **T&D: OB stands at ~Rs165bn** and is L1 in Rs25bn. Domestic T&D tender pipeline is ~Rs500bn. While on international front projects, worth +US\$4bn are to be bided in the next 10-12 months. Shortlisted to execute large size EPC project in Australia. Segment will take couple of more years to reach double digit margins. Standalone T&D is expected to report +20% growth, LMG to report 5-10% growth and Fasttel to report moderate growth for FY24.
- **B&F: OB stands at Rs85.5bn.** Diversifying in new segments like data centers, educational complexes, etc. Focus is on expanding international market.
- **Water: OB stands strong at Rs124.8bn.** Order inflow came in at Rs75.8bn in FY23, with large size order wins in Madhya Pradesh, Uttar Pradesh, Odisha and Jharkhand. Focus is on strengthening capabilities and bidding for large-size projects in India and international markets.
- **Oil and Gas: OB stands a Rs16.7bn** Growth opportunities is from national pipeline grid and replacement of old pipelines. International market is expected to witness investment of ~ US\$150bn over next 5 years.
- **Railways: OB stands strong at Rs37.5bn.** Strengthen presence in technology-enabled areas like metro electrification, signaling & telecom, sub-station, ballast-less track etc. Focus is on international market.
- **Urban infra: OB stands strong at Rs30bn.** Opportunity stands strong from elevated metro, tunnel, flyover, and high-speed rail sectors over next five years.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	1,24,070	1,43,370	1,83,976	2,11,654
YoY gr. (%)	9.2	15.6	28.3	15.0
Cost of Goods Sold	95,740	1,11,630	1,42,765	1,63,926
Gross Profit	28,330	31,740	41,211	47,728
Margin (%)	22.8	22.1	22.4	22.6
Employee Cost	9,170	10,340	11,550	12,855
Other Expenses	10,630	9,790	14,534	16,234
EBITDA	8,530	11,610	15,127	18,639
YoY gr. (%)	(37.6)	36.1	30.3	23.2
Margin (%)	6.9	8.1	8.2	8.8
Depreciation and Amortization	2,720	2,950	3,617	3,970
EBIT	5,810	8,660	11,510	14,669
Margin (%)	4.7	6.0	6.3	6.9
Net Interest	2,440	2,940	3,694	4,061
Other Income	980	1,120	1,196	1,312
Profit Before Tax	4,990	7,380	9,012	11,920
Margin (%)	4.0	5.1	4.9	5.6
Total Tax	1,490	2,070	2,478	3,278
Effective tax rate (%)	29.9	28.0	27.5	27.5
Profit after tax	3,500	5,310	6,534	8,642
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,051	4,921	6,534	8,642
YoY gr. (%)	(61.0)	61.3	32.8	32.3
Margin (%)	2.5	3.4	3.6	4.1
Extra Ord. Income / (Exp)	449	389	-	-
Reported PAT	3,500	5,310	6,534	8,642
YoY gr. (%)	(61.8)	51.7	23.0	32.3
Margin (%)	2.8	3.7	3.6	4.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,500	5,310	6,534	8,642
Equity Shares O/s (m)	162	162	162	162
EPS (Rs)	18.8	30.3	40.2	53.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	23,788	30,294	31,794	33,294
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Acc: Dep / Amortization	10,574	13,524	17,140	21,111
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	13,210	16,770	14,653	12,183
Tangibles	13,210	16,770	14,653	12,183
Intangibles	-	-	-	-
Capital Work In Progress	210	480	368	423
Goodwill	200	200	200	200
Non-Current Investments	14,880	18,800	20,506	23,591
Net Deferred tax assets	880	1,340	1,340	1,340
Other Non-Current Assets	1,320	1,260	1,656	1,905
Current Assets				
Investments	-	-	-	-
Inventories	9,190	10,870	16,129	18,556
Trade receivables	41,090	49,440	59,477	68,425
Cash & Bank Balance	9,890	8,580	9,299	10,198
Other Current Assets	46,690	61,100	66,071	76,817
Total Assets	1,51,250	1,77,380	1,98,749	2,23,656
Equity				
Equity Share Capital	300	320	320	320
Other Equity	49,070	52,870	58,424	65,770
Total Network	49,370	53,190	58,744	66,090
Non-Current Liabilities				
Long Term borrowings	8,640	9,650	9,650	9,650
Provisions	630	710	1,012	1,164
Other non current liabilities	6,210	2,760	7,451	7,408
Current Liabilities				
ST Debt / Current of LT Debt	18,940	20,470	22,470	25,970
Trade payables	37,570	45,830	55,949	64,366
Other current liabilities	26,630	43,160	38,433	43,210
Total Equity & Liabilities	1,51,250	1,77,380	1,98,749	2,23,656

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	4,990	7,380	9,012	11,920
Add. Depreciation	2,720	2,950	3,617	3,970
Add. Interest	2,440	2,940	3,694	4,061
Less Financial Other Income	980	1,120	1,196	1,312
Add. Other	1,050	(640)	-	-
Op. profit before WC changes	11,200	12,630	16,323	19,951
Net Changes-WC	(5,360)	(4,510)	(7,464)	(9,511)
Direct tax	(2,070)	(2,530)	(2,478)	(3,278)
Net cash from Op. activities	3,770	5,590	6,380	7,163
Capital expenditures	(2,120)	(7,080)	(1,388)	(1,555)
Interest / Dividend Income	500	1,040	-	-
Others	(1,250)	1,580	(1,599)	(2,851)
Net Cash from Inv. activities	(2,870)	(4,460)	(2,987)	(4,406)
Issue of share cap. / premium	-	-	-	-
Debt changes	5,770	1,910	2,000	3,500
Dividend paid	(260)	(1,020)	(980)	(1,296)
Interest paid	(2,520)	(3,120)	(3,694)	(4,061)
Others	-	-	-	-
Net cash from Fin. activities	2,990	(2,230)	(2,674)	(1,857)
Net change in cash	3,890	(1,100)	719	899
Free Cash Flow	1,440	(1,840)	4,992	5,607

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	18.8	30.3	40.2	53.2
CEPS	35.5	48.5	62.5	77.6
BVPS	303.9	327.4	361.6	406.8
FCF	8.9	(11.3)	30.7	34.5
DPS	2.1	4.9	6.0	8.0
Return Ratio(%)				
RoCE	7.9	10.8	13.2	15.2
ROIC	6.4	8.7	10.7	12.4
RoE	6.2	9.6	11.7	13.8
Balance Sheet				
Net Debt : Equity (x)	0.4	0.4	0.4	0.4
Net Working Capital (Days)	37	37	39	39
Valuation(x)				
PER	28.1	17.4	13.1	9.9
P/B	1.7	1.6	1.5	1.3
P/CEPS	14.8	10.9	8.4	6.8
EV/EBITDA	12.1	9.2	7.2	6.0
EV/Sales	0.8	0.7	0.6	0.5
Dividend Yield (%)	0.4	0.9	1.1	1.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	31,390	32,930	35,090	43,960
YoY gr. (%)	-	3.0	(1.6)	40.0
Raw Material Expenses	24,360	25,380	26,820	35,070
Gross Profit	7,030	7,550	8,270	8,890
Margin (%)	22.4	22.9	23.6	20.2
EBITDA	2,690	2,770	3,050	3,110
YoY gr. (%)	-	(4.5)	(0.7)	15.6
Margin (%)	8.6	8.4	8.7	7.1
Depreciation / Depletion	660	710	750	830
EBIT	2,030	2,060	2,300	2,280
Margin (%)	6.5	6.3	6.6	5.2
Net Interest	610	750	740	840
Other Income	660	150	90	220
Profit before Tax	2,080	1,460	1,650	2,200
Margin (%)	6.6	4.4	4.7	5.0
Total Tax	440	410	540	680
Effective tax rate (%)	21.2	28.1	32.7	30.9
Profit after Tax	1,640	1,050	1,110	1,520
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,640	1,050	1,110	1,147
YoY gr. (%)	-	(13.2)	(22.9)	(30.1)
Margin (%)	5.2	3.2	3.2	2.6
Extra Ord. Income / (Exp)	-	-	-	373
Reported PAT	1,640	1,050	1,110	1,520
YoY gr. (%)	-	(69.5)	(22.9)	(7.3)
Margin (%)	5.2	3.2	3.2	3.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,640	1,050	1,110	1,520
Avg. Shares O/s (m)	162	162	162	162
EPS (Rs)	10.1	6.5	6.8	7.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-23	BUY	670	519
2	12-Feb-23	BUY	670	493
3	04-Jan-23	Accumulate	549	570
4	11-Nov-22	Accumulate	549	504
5	04-Oct-22	BUY	442	419
6	05-Aug-22	BUY	442	373
7	05-Jul-22	BUY	421	357
8	16-May-22	BUY	421	342

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	4,119	3,719
2	Apar Industries	UR	-	2,695
3	Bharat Electronics	BUY	125	100
4	BHEL	Sell	36	71
5	Cummins India	Accumulate	1,708	1,587
6	Engineers India	BUY	85	74
7	GE T&D India	UR	-	128
8	Harsha Engineers International	BUY	440	414
9	Kalpataru Power Transmission	BUY	670	519
10	KEC International	Accumulate	559	514
11	Larsen & Toubro	BUY	2,479	2,310
12	Praj Industries	BUY	495	343
13	Siemens	Accumulate	3,351	3,384
14	Thermax	BUY	2,608	2,316
15	Triveni Turbine	BUY	340	332
16	Voltamp Transformers	Hold	3,056	2,905

PL's Recommendation Nomenclature (Absolute Performance)

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



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