

August 12, 2023

Q1FY24 Result Update

■ Change in Estimates | Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	732		625	
Sales (Rs. m)	1,83,976	2,11,654	1,83,976	2,11,654
% Chng.	-	-	-	-
EBITDA (Rs. m)	15,129	18,641	15,129	18,641
% Chng.	-	-	-	-
EPS (Rs.)	40.2	53.2	40.2	53.2
% Chng.	-	-	-	-

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)	8,526	11,617	15,129	18,641
Margin (%)	6.9	8.1	8.2	8.8
PAT (Rs. m)	3,054	4,932	6,535	8,644
EPS (Rs.)	18.8	30.4	40.2	53.2
Gr. (%)	(64.3)	61.5	32.5	32.3
DPS (Rs.)	2.1	4.9	6.0	8.0
Yield (%)	0.3	0.8	1.0	1.3
RoE (%)	6.2	9.6	11.7	13.8
RoCE (%)	7.9	10.8	13.2	15.2
EV/Sales (x)	1.0	0.9	0.7	0.6
EV/EBITDA (x)	14.2	10.7	8.3	6.9
PE (x)	33.8	20.9	15.8	11.9
P/BV (x)	2.1	1.9	1.8	1.6

Key Data

KAPT.BO | KPIL IN

52-W High / Low	Rs.655 / Rs.353
Sensex / Nifty	65,323 / 19,428
Market Cap	Rs.103bn/ \$ 1,245m
Shares Outstanding	162m
3M Avg. Daily Value	Rs.308.41m

Shareholding Pattern (%)

Promoter's	41.08
Foreign	8.16
Domestic Institution	42.42
Public & Others	8.34
Promoter Pledge (Rs bn)	46.96

Stock Performance (%)

	1M	6M	12M
Absolute	14.4	28.4	70.5
Relative	15.0	19.2	54.9

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Healthy topline visibility; margin revival a key

Quick Pointers:

- Strong domestic T&D prospects of ~Rs250bn and ~\$3.5bn in international markets, providing healthy revenue visibility.
- Lower other income amid high base, higher interest cost & effective tax rate drags profitability.

Kalpataru Projects International (KPIL) reported decent quarterly performance with standalone revenue growth of ~15.4% YoY and EBITDA margins remaining broadly flat at 8.7%. Net working capital days improved to 106days vs 134days in Q1FY23, driven by efforts towards project closure and timely collections. Order pipeline remains strong across business verticals such as T&D, Water, B&F and Oil & Gas. Management priorities are currently on 1) increasing margin to 9-10% over next 2-3 years, 2) expanding international business in new and existing areas, and 3) strengthening resources via training. Management maintained its FY24 guidance of 30%+ standalone revenue growth, Rs260bn order inflows, 4.5%-5% PBT margin and interest cost below 2% of sales. Debt is likely to be higher compared to FY23 owing to high growth expectations in 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 15.8x/11.9x FY24/25E. Maintain 'BUY' rating on stock with revised SoTP based TP of Rs732 (earlier Rs625), valuing core business at 13x FY25E (11x earlier), owing to robust tendering prospects.

Lower other income and higher expenses drags PAT: Standalone revenue grew 15.4% YoY to ~Rs36.2bn (PLe ~Rs39.2bn), driven by growth across segments except O&G. Segmental performance: T&D grew 8.3% YoY to Rs14bn, Railways grew 21.4% YoY to Rs4.4bn, B&F grew 9.5% YoY to Rs10bn, Water grew 48% YoY to Rs9bn and Urban Infra grew 100% YoY to Rs1.5bn. While Oil & Gas segment declined 26.6% YoY to Rs2.2bn. EBITDA grew 17.2% YoY to Rs3.1bn (PLe ~Rs3.3bn), with EBITDA margins remaining broadly flat at 8.7% (vs ~8.5% in Q1FY23). Adj. PAT declined 22.7% YoY to Rs1.3bn (PLe ~Rs1.5bn), on account of lower other income amid high base (Rs290mn -down ~56% YoY), higher interest cost (up ~23%, YoY) and higher effective tax rate (at 28% vs 21.3% in Q1FY23).

Order book stands strong at Rs473bn: Q1FY24 order inflows came in at Rs51.2bn. 90% order wins / L1 were in strategic markets – India, South America, Asia Oceania & Europe. Order backlog (OB) (including LMG and Fasttel) stands at Rs473bn (3.2x TTM revenue) as on Q1FY24 and is L1 in orders worth Rs40bn. LMG and Fasttel OBs stand at Rs14.0bn and Rs6.4bn respectively.

Exhibit 1: Lower other income and higher interest cost drags PAT

Y/e March (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY23	YoY gr. (%)	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Revenue	31,390	32,930	35,090	43,960	36,220	15.4	(17.6)	143,370	124,070	15.6
Total Revenues	31,390	32,930	35,090	43,960	36,220	15.4	(17.6)	143,370	124,070	15.6
Expenditure	28,710	30,170	32,040	40,850	33,080	15.2	(19.0)	131,753	115,540	14.0
<i>as % of sales</i>	<i>91.5</i>	<i>91.6</i>	<i>91.3</i>	<i>92.9</i>	<i>91.3</i>			<i>91.9</i>	<i>93.1</i>	
Consumption of RM	24,330	25,380	26,820	35,070	27,920	14.8	(20.4)	111,625	95,740	16.6
<i>as % of sales</i>	<i>77.5</i>	<i>77.1</i>	<i>76.4</i>	<i>79.8</i>	<i>77.1</i>			<i>77.9</i>	<i>77.2</i>	
Employee Cost	2,380	2,440	2,700	2,820	3,000	26.1	6.4	10,338	9,170	12.7
<i>as % of sales</i>	<i>7.6</i>	<i>7.4</i>	<i>7.7</i>	<i>6.4</i>	<i>8.3</i>			<i>7.2</i>	<i>7.4</i>	
Other expenditure	2,000	2,350	2,520	2,960	2,160	8.0	(27.0)	9,790	10,630	(7.9)
<i>as % of sales</i>	<i>6.4</i>	<i>7.1</i>	<i>7.2</i>	<i>6.7</i>	<i>6.0</i>			<i>6.8</i>	<i>8.6</i>	
EBITDA	2,680	2,760	3,050	3,110	3,140	17.2	1.0	11,617	8,530	36.2
Depreciation	660	710	750	830	930	40.9	12.0	2,948	2,720	8.4
EBIT	2,020	2,050	2,300	2,280	2,210	9.4	(3.1)	8,670	5,810	49.2
Other Income	660	150	90	220	290	(56.1)	31.8	1,117	980	14.0
Interest	610	750	740	840	750	23.0	(10.7)	2,939	2,440	20.5
Extra ordinary items	-	-	-	540	-	-	-	541	640	(15.5)
PBT	2,070	1,450	1,650	1,660	1,750	(15.5)	5.4	7,388	4,990	48.1
Total Tax	440	410	540	680	490	11.4	(27.9)	2,067	1,490	38.7
Reported PAT	1,630	1,040	1,110	980	1,260	(22.7)	28.6	5,321	3,500	52.0
Adj. PAT	1,630	1,040	1,110	1,147	1,260	(22.7)	9.9	4,932	3,051	61.6
Adjusted EPS	10.0	6.4	6.8	7.1	7.8	(22.7)	9.9	30.4	18.8	61.6
Margins (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY23	bps	bps	FY23	FY22	bps
EBIDTA	8.5	8.4	8.7	7.1	8.7	13	159	8.1	6.9	123
EBIT	6.4	6.2	6.6	5.2	6.1	(33)	92	6.0	4.7	136
EBT	6.6	4.4	4.7	3.8	4.8	(176)	106	5.2	4.0	113
PAT	5.2	3.2	3.2	2.6	3.5	(171)	87	3.7	2.8	89
Effective Tax rate	21.3	28.3	32.7	41.0	28.0	674	(1,296)	28.0	29.9	(188)

Source: Company, PL

Exhibit 2: SoTP Valuation- Valuing core business at 13x 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)	8,644	13	PER	112,373	1.0	112,373	692
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				122,777		118,888	732

Source: Company, PL

Conference Call Highlights

- Pipeline remains strong across all businesses.
- Working capital level is seasonally higher in Q1; aiming to bring it below 100 days in FY24. Given the high growth plans, debt is likely to come in higher versus FY23. Confident of bringing standalone interest cost below 2% of sales.
- **Guidance:** Management maintained its FY24 guidance of 30%+ revenue growth, Rs260bn order inflows, and ~4.5%-5% PBT margin. Given the order book positions and pipeline, will drive strong growth in Water (35-40%), B&F (25%+), International T&D (20-25%), and Urban Infra (40-50%).
- **Top priorities** for the company include 1) increasing margin to 9-10% over the next 2-3 years, 2) expanding international business in new and existing areas, and 3) strengthening resources via training.
- **T&D: OB stands at Rs158.0bn.** Order pipeline of ~Rs250bn in India (including tenders worth Rs100-120bn in the next 3 months), and over \$3.5bn in international markets. Africa, Middle East and Latin America remain key markets. This segment can grow 20%+ for the next 3 years. Won a large HVDC contract in Australia along with 3 JV partners (more details to follow in Q2).
- **LMG and Fastell: Respective OBs stand at Rs14.0bn and Rs6.4bn.** Focus for LMG is to build the team properly, while business grows steadily at 10-15% and PBT margin remains steady at 4-5%. Fastell is now a 100% subsidiary. It faced difficulties in the past 2 years so focus is on profitability, productivity and building the team, rather than fast-paced growth. Some orders got cancelled due to lack of clarity on project clearance. Should be PBT positive in FY24.
- **B&F: OB stands at Rs103.3bn.** Order intake driven by addition of new clients & markets. Robust outlook for industrial, institutional buildings, data centers & residential buildings. Segment has the highest PBT margin at 8-9%.
- **Water: OB stands at Rs123.9bn.** Segment saw strong project execution this quarter. Ramp-up in project intake is linked to water supply in India. Healthy bid pipeline of Rs500bn in the near-term.
- **Oil & Gas: OB stands at Rs14.6bn** Revenue declined due to lower execution and order delays. Focus is on international markets, where KPP already bid for 5-6 large tenders and expects to win at least one in Q2. Expecting ~15% growth in FY24.
- **Railways: OB stands at Rs42.5bn.** Focusing on metro electrification, signaling & telecom (S&T), and high speed & semi-speed rail. PBT margin is at 3-4% and will remain so for next couple of years due to competitive pressure and high working capital deployment give slow project closure.
- **Urban Infra: OB stands strong at Rs31.0bn.** Ramp-up in execution of Kanpur metro rail project. Huge pipeline of tenders coming up, with strong traction in underground metros. Order book should grow to Rs45bn by end of FY24. Targeting projects in elevated roads, tunnels, flyovers and airports. Less focused on international markets. PBT margin is minimal at 0-1%.

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	95,736	1,11,625	1,42,765	1,63,926
Gross Profit	28,334	31,745	41,211	47,728
Margin (%)	22.8	22.1	22.4	22.6
Employee Cost	9,169	10,338	11,548	12,853
Other Expenses	10,639	9,790	14,534	16,234
EBITDA	8,526	11,617	15,129	18,641
YoY gr. (%)	(37.7)	36.3	30.2	23.2
Margin (%)	6.9	8.1	8.2	8.8
Depreciation and Amortization	2,720	2,948	3,617	3,970
EBIT	5,806	8,670	11,512	14,671
Margin (%)	4.7	6.0	6.3	6.9
Net Interest	2,436	2,939	3,693	4,060
Other Income	984	1,117	1,196	1,312
Profit Before Tax	4,994	7,388	9,014	11,923
Margin (%)	4.0	5.2	4.9	5.6
Total Tax	1,491	2,067	2,479	3,279
Effective tax rate (%)	29.9	28.0	27.5	27.5
Profit after tax	3,502	5,321	6,535	8,644
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,054	4,932	6,535	8,644
YoY gr. (%)	(61.0)	61.5	32.5	32.3
Margin (%)	2.5	3.4	3.6	4.1
Extra Ord. Income / (Exp)	448	390	-	-
Reported PAT	3,502	5,321	6,535	8,644
YoY gr. (%)	(61.8)	51.9	22.8	32.3
Margin (%)	2.8	3.7	3.6	4.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,502	5,321	6,535	8,644
Equity Shares O/s (m)	162	162	162	162
EPS (Rs)	18.8	30.4	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	23,789	27,708	29,208	30,708
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Acc: Dep / Amortization	10,574	10,941	14,557	18,528
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	13,214	16,767	14,651	12,180
Tangibles	13,214	16,767	14,651	12,180
Intangibles	-	-	-	-
Capital Work In Progress	203	484	368	423
Goodwill	201	201	201	201
Non-Current Investments	14,878	18,802	20,506	23,591
Net Deferred tax assets	880	1,338	1,338	1,338
Other Non-Current Assets	1,315	1,258	1,656	1,905
Current Assets				
Investments	-	-	-	-
Inventories	9,193	10,874	16,129	18,556
Trade receivables	41,087	49,439	59,477	68,425
Cash & Bank Balance	9,886	8,581	9,311	10,212
Other Current Assets	46,685	61,094	66,068	76,814
Total Assets	1,51,219	1,77,379	1,98,758	2,23,667
Equity				
Equity Share Capital	298	325	325	325
Other Equity	49,073	52,872	58,428	65,775
Total Networkth	49,371	53,197	58,752	66,100
Non-Current Liabilities				
Long Term borrowings	8,631	9,644	9,644	9,644
Provisions	626	711	1,012	1,164
Other non current liabilities	6,209	2,760	7,451	7,408
Current Liabilities				
ST Debt / Current of LT Debt	18,935	20,473	22,473	25,973
Trade payables	37,566	45,825	55,949	64,366
Other current liabilities	26,624	43,155	38,436	43,213
Total Equity & Liabilities	1,51,220	1,77,379	1,98,758	2,23,667

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	4,995	7,387	9,014	11,923
Add. Depreciation	2,720	2,948	3,617	3,970
Add. Interest	2,436	2,939	3,693	4,060
Less Financial Other Income	984	1,117	1,196	1,312
Add. Other	1,036	(633)	-	-
Op. profit before WC changes	11,186	12,640	16,324	19,954
Net Changes-WC	(5,355)	(4,512)	(7,457)	(9,511)
Direct tax	(2,067)	(2,534)	(2,479)	(3,279)
Net cash from Op. activities	3,764	5,594	6,389	7,164
Capital expenditures	(2,113)	(7,078)	(1,384)	(1,555)
Interest / Dividend Income	495	1,044	-	-
Others	(1,245)	1,568	(1,600)	(2,851)
Net Cash from Inv. activities	(2,862)	(4,467)	(2,984)	(4,406)
Issue of share cap. / premium	-	-	-	-
Debt changes	5,768	1,911	2,000	3,500
Dividend paid	(261)	(1,022)	(980)	(1,297)
Interest paid	(2,517)	(3,120)	(3,693)	(4,060)
Others	-	-	-	-
Net cash from Fin. activities	2,989	(2,231)	(2,674)	(1,857)
Net change in cash	3,891	(1,104)	730	901
Free Cash Flow	1,437	(1,838)	5,004	5,609

Source: Company Data, PL Research

Key Financial Metrics

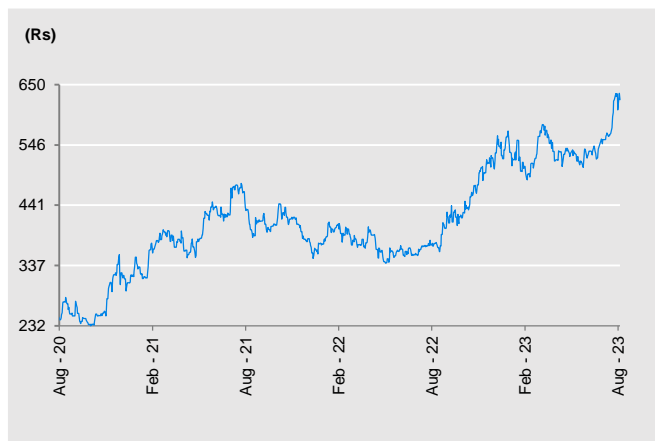
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	18.8	30.4	40.2	53.2
CEPS	35.5	48.5	62.5	77.7
BVPS	303.9	327.5	361.7	406.9
FCF	8.8	(11.3)	30.8	34.5
DPS	2.1	4.9	6.0	8.0
Return Ratio(%)				
RoCE	7.9	10.8	13.2	15.2
ROIC	6.4	8.7	10.7	12.4
RoE	6.2	9.6	11.7	13.8
Balance Sheet				
Net Debt : Equity (x)	0.4	0.4	0.4	0.4
Net Working Capital (Days)	37	37	39	39
Valuation(x)				
PER	33.8	20.9	15.8	11.9
P/B	2.1	1.9	1.8	1.6
P/CEPS	17.9	13.1	10.2	8.2
EV/EBITDA	14.2	10.7	8.3	6.9
EV/Sales	1.0	0.9	0.7	0.6
Dividend Yield (%)	0.3	0.8	1.0	1.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	32,930	35,090	43,960	36,220
YoY gr. (%)	3.0	(1.6)	40.0	10.0
Raw Material Expenses	25,380	26,820	35,070	27,920
Gross Profit	7,550	8,270	8,890	8,300
Margin (%)	22.9	23.6	20.2	22.9
EBITDA	2,770	3,050	3,110	3,140
YoY gr. (%)	(4.5)	(0.7)	16.0	13.4
Margin (%)	8.4	8.7	7.1	8.7
Depreciation / Depletion	710	750	830	930
EBIT	2,060	2,300	2,280	2,210
Margin (%)	6.3	6.6	5.2	6.1
Net Interest	750	740	840	750
Other Income	150	90	220	290
Profit before Tax	1,460	1,650	2,200	1,750
Margin (%)	4.4	4.7	5.0	4.8
Total Tax	410	540	680	490
Effective tax rate (%)	28.1	32.7	30.9	28.0
Profit after Tax	1,050	1,110	1,520	1,260
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,050	1,110	1,147	1,260
YoY gr. (%)	(13.2)	(22.9)	(29.6)	20.0
Margin (%)	3.2	3.2	2.6	3.5
Extra Ord. Income / (Exp)	-	-	373	-
Reported PAT	1,050	1,110	1,520	1,260
YoY gr. (%)	(69.5)	(22.9)	(6.7)	20.0
Margin (%)	3.2	3.2	3.5	3.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,050	1,110	1,520	1,260
Avg. Shares O/s (m)	162	162	162	162
EPS (Rs)	6.5	6.8	7.1	7.8

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	BUY	625	555
2	09-May-23	BUY	625	527
3	11-Apr-23	BUY	670	519
4	12-Feb-23	BUY	670	493
5	04-Jan-23	Accumulate	549	570
6	11-Nov-22	Accumulate	549	504
7	04-Oct-22	BUY	442	419

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	4,119	4,400
2	Apar Industries	Accumulate	4,100	3,782
3	Bharat Electronics	Accumulate	140	130
4	BHEL	Reduce	67	93
5	Carborundum Universal	BUY	1,482	1,259
6	Cummins India	Hold	1,788	1,796
7	Engineers India	Accumulate	165	155
8	GE T&D India	Hold	260	273
9	Grindwell Norton	BUY	2,604	2,191
10	Harsha Engineers International	Accumulate	474	432
11	Kalpataru Projects International	BUY	625	555
12	KEC International	Hold	645	658
13	Larsen & Toubro	BUY	2,955	2,560
14	Praj Industries	BUY	475	416
15	Siemens	Accumulate	4,241	3,779
16	Thermax	Hold	2,613	2,602
17	Triveni Turbine	Accumulate	419	398
18	Voltamp Transformers	Hold	4,611	4,802

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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