Stock Update

Company Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Kalpataru Projects International Ltd

Long-term growth story intact

Capital Goods	Sharekhan code: KPIL
Reco/View: Buy ↔	CMP: **Rs. 980**	Price Target: **Rs. 1,140** ↑

↑ 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		↔	

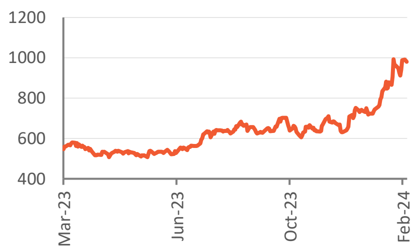
Company details

Market cap:	Rs. 15,921 cr
52-week high/low:	Rs. 1,044 / 485
NSE volume: (No of shares)	3.7 lakh
BSE code:	522287
NSE code:	KPIL
Free float: (No of shares)	9.6 cr

Shareholding (%)

Promoters	40.6
FII	7.7
DII	43.8
Others	7.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	29.3	53.7	52.0	79.3
Relative to Sensex	28.8	45.6	40.8	57.6

Sharekhan Research, Bloomberg

Summary

- KPIL's consolidated order book of Rs. 51,753 crore along with additional L1 position of over Rs. 6,000 crore provides revenue visibility of more than 3 years.
- As per international media report, Saudi Aramco has issued a letter of intent for about 16 EPC package worth USD10 billion for its Master Gas System expansion (Phase 3). As per industry source, KPIL could emerge as the lowest bidder for three packages. Any order win in this prestigious project will qualify KPIL for future large projects and drive re-rating of the stock.
- Foray into the new underground tunnelling segment and emerging opportunities related to construction for data centres, airports, and industrial plants will provide further impetus to growth momentum.
- Robust order book and tender pipeline, merger synergies, and easing cost headwinds would improve performance. We maintain Buy with a revised PT of Rs. 1,140, as the stock is reasonably valued at ~15x its FY2026E PER.

Kalpataru Projects International Limited's (KPIL) order book stands at an all-time high of Rs. 51,753 crore, with additional L1 position of over Rs. 6,000 crore. Management expects order inflow of more than Rs. 6,000 crore in Q4FY2024, as L1 is expected to convert to orders in Q4FY2024. Further, any new large order win in the international market could provide further impetus to growth. The company plans to diversify its revenue through entry into the new segment. Recently the company entered the underground tunnelling segment and is currently executing one project in Kanpur Underground Metro. The company plans to fully exit the Indore project and VEPL in FY2025. Monetisation of non-core assets and reduction in the promoter's pledge could be key re-rating catalysts.

- **Strong growth in order book:** The company's order book stands at an all-time high of Rs. 51,753 crore with additional L1 position of over Rs. 6,000 crore. Management expects order inflow of more than Rs. 6,000 crore in Q4FY2024 as L1 would convert to orders in Q4FY2024. The T&D segment typically executes orders within 2.5-3 years, while the B&F order book takes 2-5 years, indicating that management expects the entire order book to be delivered within the next 2-3 years. As per an international media report, Saudi Aramco has issued a letter of intent for about 16 EPC packages worth ~USD10 billion for its Master Gas System expansion (Phase 3). As per an industry source, KPIL could emerge as the lowest bidder for three packages. Hence, we expect multiyear growth in the order book backed by a robust tender pipeline in India and international markets.
- **Foray in the new segment:** The company has successfully entered the underground tunnelling segment and is currently executing one project in Kanpur Underground Metro and is L1 in Bhopal Underground Metro. Moreover, within the B&F segment, new projects for data centres, airports, and industrial plants offer promising prospects for future growth, which will lead to diversification of the company's revenue.
- **Divestment and reduction in promoter's pledge could drive the re-rating:** Management expects Indore projects to be fully divested by the end of Q3FY2025. The company has sold close to 70% of inventory and expects to receive Rs. 150-200 crore from sales of the remaining units. The company has also received non-binding offer for one of its largest assets, VEPL, and expects to monetise it in FY2025. There has also been a continuous reduction in the promoter's pledge post the merger and we expect a further reduction in the promoter's pledge could be a key re-rating catalyst for the stock.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 1,140: KPIL boasts of a healthy and diversified order book and order prospects, which provide strong revenue visibility. Further, cost synergies from the recent merger with its subsidiary and enhancement of its capabilities to bid for large projects and increased scope of its key markets bode well for growth. Further, the company expects a shorter working capital cycle going forward. At the CMP, the stock trades at ~15x its FY2026E EPS. Hence, given reasonable valuations and strong future growth potential, we maintain our Buy recommendation with our SoTP-based price target (PT) of Rs. 1,140 (an increase in the PT reflects higher valuation of the standalone business, given a strong growth outlook).

Key Risks

Slower-than-expected project execution in domestic and international markets would affect KPIL's performance.

Valuation (Standalone) Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
Net Sales	14,337	17,365	20,968	24,284
OPM	8.1%	8.3%	8.7%	8.9%
Adj. Net Profit	477	612	860	1,090
% YoY growth	66.8	28.4	40.4	26.8
Adj. EPS(Rs)	29.4	37.7	52.9	67.1
EPS Growth (%)	66.8	28.4	40.4	26.8
PER (x)	33.4	26.0	18.5	14.6
P/BV (x)	3.0	2.7	2.4	2.1
EV/EBITDA (x)	15.3	12.1	9.2	7.5
ROCE (%)	10.4	10.6	12.5	12.2
ROE (%)	9.3	10.9	13.8	15.3

Source: Company; Sharekhan estimates

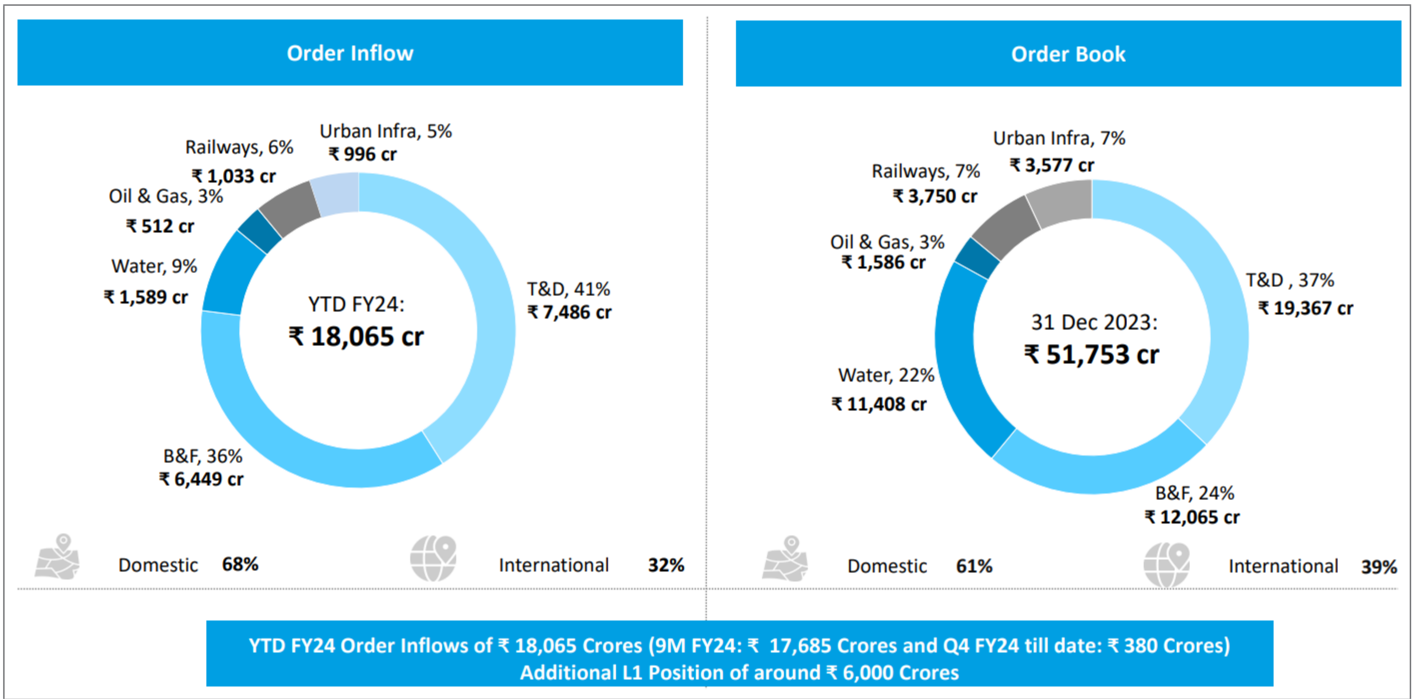
The company's current order book stood at Rs. 51,753 crore. The company reported order inflow of Rs. 24,000 crore, including L1 of Rs. 6,000 crore. Management expects order inflow of more than Rs. 6,000 crore in Q4FY2024 as L1 would convert to orders in Q4FY2024. The fixed price project accounts for around 35% of the order book, while variable projects account for 65% of the order book. A typical order in the T&D segment gets executed in 2.5-3 years, while the B&F order book gets executed in 2-2.5 years. So, management expectss to deliver the entire order book in the next 2-3 years. As per an international media report, Saudi Aramco has issued a letter of intent for about 16 EPC packages worth ~USD10 billion for its Master Gas System expansion (Phase 3). As per an industry source, KPIL could emerge as the lowest bidder for three packages.

Increased power demand, upgradation of T&D infrastructure, and a greater adoption of renewable energy led to a growth spurt in the T&D business segment. Management expects multiyear growth in the T&D segment, backed by a robust tender pipeline in India and international markets. In the B&F segment, emerging projects such as data centres, airports, and industrial plants offer promising prospects for future growth. The company has successfully entered the underground tunnelling segment and is currently executing one project in Kanpur Underground Metro and is L1 in Bhopal Underground Metro.

Manpower retention is one of the key issues for the company going ahead. The company has witnessed attrition of more than 15-20% over the last two years in all its business segments. To mitigate the issue, the company has given assurance to its workforce to provide them work continuously.

Management expects Indore projects to be fully divested by the end of Q3FY25. The company has sold close to 70% of inventory and expects to receive Rs. 150-200 crore from the sale of the remaining units. The company has also received a non-binding offer for one of its largest assets, VEPL, and expects to monetise it in FY2025. The promoters plan neither to increase their pledge nor to sell their stake. In the past, promoters have gradually reduced their pledge.

Order Book & Order Inflow (Consolidated)



Source: Sharekhan Research

Outlook and Valuation

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

To make India a USD5 trillion economy by FY2025 and to continue growing at an escalated trajectory until 2030, it is estimated that the government needs to spend USD4.5 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 from FY2020 to 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.

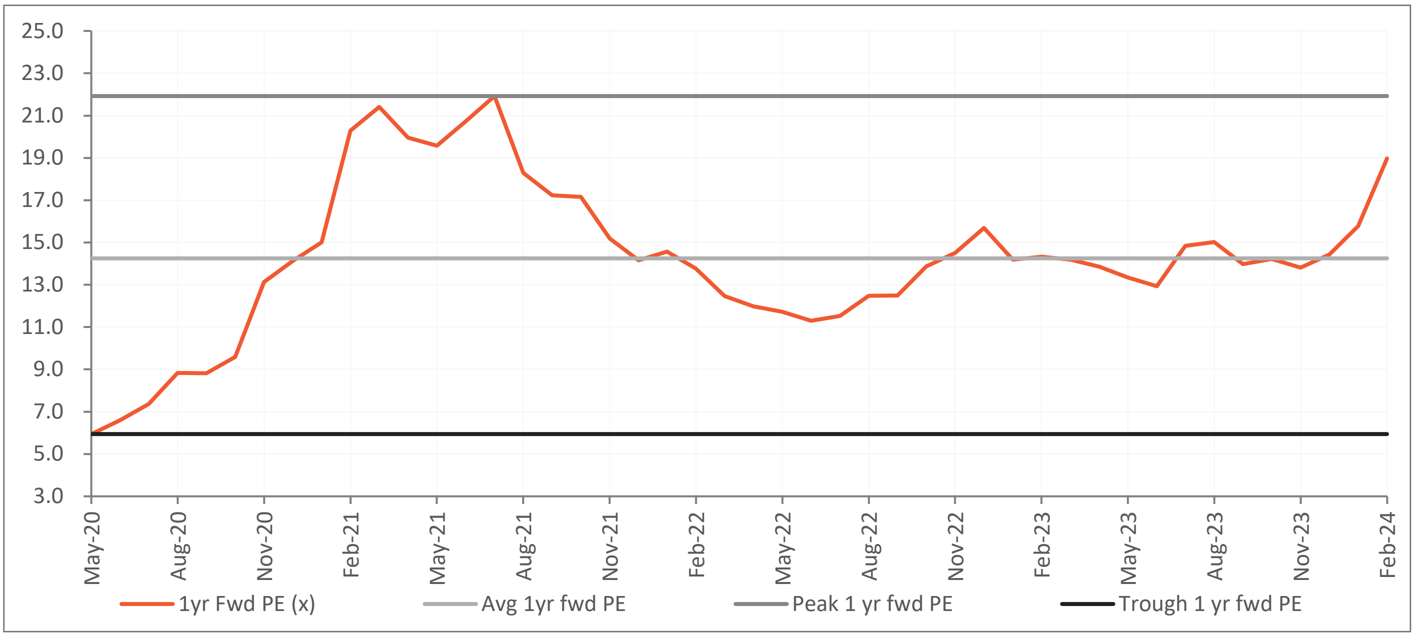
■ Company Outlook – Long Term growth story intact

The 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. Further, growth in the core EPC business and strengthening international business have helped the company achieve broad-based growth across leading businesses. The company is focusing on accelerating growth in its core business and is strengthening its balance sheet through debt reduction and efficient capital management. The recent merger of KPIL with its subsidiary 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. 1,140

KPIL boasts of a healthy and diversified order book and order prospects, which provide strong revenue visibility. Further, cost synergies from the recent merger with its subsidiary and enhancement of its capabilities to bid for large projects and increased scope of its key markets bode well for growth. Further, the company expects a shorter working capital cycle going forward. At the CMP, the stock trades at ~15x its FY2026E EPS. Hence, given reasonable valuations and strong future growth potential, we maintain our Buy recommendation with our SoTP-based PT of Rs. 1,140 (an increase in the PT reflects higher valuation of the standalone business, given a strong growth outlook).

One-year forward P/E (x) band



Source: Sharekhan Research

About company

KPIL 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. KPIL is also exposed to the construction segment through its subsidiary, where the company primarily constructs industrial buildings and residential and commercial complexes. Of late, company has also ventured into the infrastructure segment, taking up road projects, bridges, flyovers, and transportation structures.

Investment theme

T&D spends in India have been expected to be around Rs. 2,30,000 crore over FY2018-FY2024E, 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. KPIL 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 KPIL's performance.
- The company is also exposed to commodity, interest rate, and forex fluctuation risks.

Additional Data

Key management personnel

Mofatraj P. Munot	Non-executive Chairman
Manish Mohnot	Managing Director and Chief Executive Officer
Ram Avtar Patodia	Chief Financial Officer
Sanjay Dalmia	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	9.83
2	ICICI Prudential Asset Management	9.5
3	SBI Funds Management Ltd	8.99
4	Kotak Mahindra Asset Management Co	6.25
5	Aditya Birla Sun Life Asset Manage	2.42
6	Nippon Life India Asset Management	2.38
7	Vanguard Group Inc/The	2.22
8	Dimensional Fund Advisors LP	1.19
9	ICICI Prudential Life Insurance Co	1.09
10	DSP Investment Managers Pvt Ltd	0.78

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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Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

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