

Kalpataru Power Transmission

BUY

Powering ahead

We recommend a BUY on Kalpataru Power Transmission Ltd. (KPTL) with SoTP of Rs 675/sh (core 15x FY21EPS). The Company has upped its FY20E revenue growth guidance from 15-20% to 20%. Tailwinds like significant BS deleveraging by FY21/22E will lead to further re-rating.

HIGHLIGHTS OF THE QUARTER

- Strong all round performance:** KPTL posted a robust 25% YoY revenue growth in 2QFY20 (at Rs 19.7bn), largely driven by T&D (16% growth YoY) and Railways (+100% growth YoY) segment. EBIDTA/APAT growth stood at 21/39% YoY respectively.
- New order inflow on track, likely to beat guidance:** KPTL secured new orders worth Rs 49bn (FYTD20) contributed by T&D (54%), Railways (21%) and Oil & Gas (25%). Besides, L1 status stands at Rs 20bn (T&D-Rs 19bn). KPTL is on track to achieve Rs 90-100bn of new order bookings during FY20. TBCB ordering of Rs 150bn is expected during 2HFY20E which shall benefit KPTL. Global markets are also seeing decent traction.
- Working towards achieving lean balance sheet:** KPTL expects to achieve near zero consolidated net debt (2QFY20 end Rs 38bn) by FY21E. Proceeds from three

Financial Summary (Standalone)

(Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E
Net Revenues	19,670	15,741	25.0	16,550	18.9	57,412	71,151	84,439	95,397
EBITDA	2,070	1,709	21.1	1,920	7.8	6,312	7,782	9,052	10,305
APAT	1,270	914	39.0	920	38.0	3,220	4,013	4,941	5,908
Diluted EPS (Rs)	18.71	13.46	39.0	13.55	38.0	21.0	26.2	32.2	38.5
P/E (x)						21.0	16.8	13.7	11.4
EV/EBIDTA (x)						11.8	9.3	8.3	7.2
RoE (%)						12.3	13.6	14.6	15.2

Source: Company, HDFC sec Inst Research

BOOT transmission (EV – Rs 32bn, total receipts expected by 2QFY21) assets will be used to repay debt.

- JMC adds to KPTL performance, asset monetization key trigger:** Led by robust infra order book execution (+85% rev growth YoY), JMC reported stellar 2QFY20 revenue growth of 28.4% YoY. Continued equity support of Rs 800mn/yr towards loss funding/debt repayment of Roads Assets remains a dampener. JMC is in advance stages of monetization of 2 Assets and restructuring/refinancing of balance 2. This shall cut down funding by Rs 600mn and is key re-rating trigger.

STANCE

KPTL has taken strategic steps towards BS deleveraging. Well diversified sector/geographical presence is yielding high growth. NWC is stable. With 2HFY20 likely to see strong T&D/Railways order bidding, KPTL is well set to exceed Rs 90-100bn of order inflow guidance. Road Assets monetization talks are nearing finalization. Restructuring/refinancing of two Roads BOTs will bring down cash burn significantly. Key risks (1) Delays in capex recovery, (2) Slowdown in government infrastructure spend, (3) Delay in Road BOTs monetization and (3) NWC deterioration.

INDUSTRY	CAPITAL GOODS		
CMP (as on 7 Nov 2019)	Rs 440		
Target Price	Rs 675		
Nifty	12,012		
Sensex	40,654		
KEY STOCK DATA			
Bloomberg	KPP IN		
No. of Shares (mn)	155		
MCap (Rs bn) / (\$ mn)	68/954		
6m avg traded value (Rs mn)	82		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 555/300		
	3M	6M	12M
Absolute (%)	(7.9)	(6.8)	25.4
Relative (%)	(18.7)	(13.0)	10.1
SHAREHOLDING PATTERN (%)			
	Jun-19	Sep-19	
Promoters	59.32	54.37	
FIs & Local MFs	25.68	29.01	
FPIs	4.56	7.39	
Public & Others	10.44	9.23	
Pledged Shares	23.17	22.75	
Source : BSE			

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Earnings Concall – Key Takeaways

KPTL (Standalone)

KPTL 2QFY20 performance and projections for FY20

- T&D business contributed ~Rs 13bn to the revenues, followed by ~Rs 4bn from Railways and ~Rs 3bn from Oil & Gas. For T&D business, the company would continue to focus on Southern SEBs, West Bengal and North East markets for incremental business. T&D revenue is expected to grow at 10-15% during FY20-21E. Railway business is expected to contribute Rs 16-17bn in FY20E with growth driven by both domestic and international market.

Order Inflow breakdown

- Order inflow in 1HFY20 driven equally by both the T&D and non-T&D businesses. The company secured new orders worth Rs 26.4bn in T&D business during 1HFY20 which includes Rs 13bn from international markets, Rs 5bn from neighboring countries and balance from the domestic markets. Of the international order, 50% were from Africa, 40% from SAARC with balance 10% from Middle East, CIS and Linjemontage. First round of orders under Green Energy corridor have been awarded of which the company was able to secure 10-12% of the orders. Railways division secured new orders of Rs 8.5bn during 1HFY20.

Prospective pipeline for 2HFY20

- The company has secured L1 position in orders worth Rs 20bn largely in the T&D business (Rs 19bn). The key geographies for T&D orders from the international market are Nepal, Bhutan, other SAARC countries, Africa with a limited focus on Middle East. Few BOOT and BOOM tenders are declared by PGCIL which are expected to be awarded in 4QFY20. Additionally, ~Rs 150bn worth

of orders are expected to be awarded by PFC and REC.

KPTL (Consolidated)

Road BOT asset performance

- Average daily collection for the 4 BOT Toll assets came in at Rs 4.75mn during 2QFY20 (vs Rs 4.95mn YoY). Cash breakeven level is at Rs 5mn per day. In one of the projects, the revenue has declined 25% YoY due to a competing route in the project vicinity. JMC total investment in BOT Toll Road assets as of 1HFY20 stands at Rs 7.8bn with investments of Rs 420mn during 1HFY20. The investment in these assets is expected to be Rs 800mn during FY20.

JMC (Standalone)

- The outstanding order book as of 1HFY20 stands at Rs 97bn. Order inflow stands at Rs 27bn YTD which was driven by B&F segment. The company has an L1 position of Rs 8bn. During 1HFY20, Infra segment contributed Rs 7bn (+85% YoY) and B&F segment contributed Rs 11bn (+6% YoY). Infrastructure segment is expected to be the key growth driver during 2HFY20. However, the company is not focusing on the HAM segment and is expected to stay away from the bidding expected to take place in 2HFY20E.

Linjemontage

- The company is focusing on scaling up of operations in Linjemontage, Sweden by focusing on securing orders from Nordic countries.
- 2QFY20 revenue stood at Rs 1.4bn with order backlog of Rs 5.7bn. EBITDA margin is expected to be in the range of 5.5-6% for FY20E.

Transmission Asset Stake sale

- All approvals for Transfer of Asset received for Satpura Transmission project with sale proceeds expected to be received in 3QFY20. For Alipurduar Transmission project, the approval for transfer is expected to be received by 4QFY20 and Koima by 2QFY21. KPTL will receive Rs 11.5bn in staggered manners as approvals for these assets come in.

KPTL Guidance for FY20

- New order inflow over FY20 is expected to be in the range of Rs 90-100bn. The company has revised the revenue growth guidance to 20% (vs 15-20% range earlier). EBITDA margin is expected

to be in the range of 10.5-11% with finance cost at 1.7-1.8% of the sales for FY20. The debt position by FY20E is expected to be in the range of Rs 8-10bn. This excludes proceeds from monetization of assets.

JMC guidance for FY20

- The company expects to achieve a revenue growth of 20% during FY20. The company expects the order inflow to be around Rs 60bn. The company is hopeful of securing two high value international orders which is expected to take the order inflow beyond Rs 60bn.

KPTL reported 25% YoY revenue growth. Robust performance was driven by 16% YoY growth in T&D, 100%+ YoY growth in Railways. Pipeline revenue growth was flattish

During 1HFY20 revenue growth stood at 24.9%

EBIDTA margins remain in 10.5-11% guidance band at 10.5%

Higher other income and lower tax negated the impact of high interest expense. This resulted in 39% YoY APAT growth

Quarterly Financials Snapshot: Standalone

Particulars	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1HFY20	1HFY19	YoY(%)
Net Sales	19,670	15,741	25.0	16,550	18.9	36,220	28,990	24.9
Material Expenses	14,730	11,234	31.1	11,990	22.9	26,720	20,826	28.3
Employee Expenses	1,310	1,146	14.3	1,240	5.6	2,550	2,172	17.4
Other Operating Expenses	1,560	1,652	(5.6)	1,400	11.4	2,960	2,713	9.1
EBITDA	2,070	1,709	21.1	1,920	7.8	3,990	3,280	21.7
Depreciation	270	199	35.4	260	3.8	530	393	34.9
EBIT	1,800	1,510	19.2	1,660	8.4	3,460	2,887	19.9
Other Income	250	175	42.9	100	150.0	350	322	8.7
Interest Cost	440	283	55.6	340	29.4	780	561	39.0
PBT	1,610	1,402	14.9	1,420	13.4	3,030	2,647	14.5
Tax	340	488	(30.3)	500	(32.0)	840	923	(9.0)
RPAT	1,270	914	39.0	920	38.0	2,190	1,724	27.0

Source: Company, HDFC sec Inst Research

Margin Analysis: Standalone

MARGIN ANALYSIS	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)	1HFY20	1HFY19	YoY(%)
Material Expenses % Net Sales	74.9	71.4	351.8	72.4	243.8	73.8	71.8	193.4
Emp Expenses % Net Sales	6.7	7.3	(61.9)	7.5	(83.3)	7.0	7.5	(45.2)
Other Ope Exp % Net Sales	7.9	10.5	(256.7)	8.5	(52.8)	8.2	9.4	(118.6)
EBITDA Margin (%)	10.5	10.9	(33.3)	11.6	(107.8)	11.0	11.3	(29.6)
Tax Rate (%)	21.1	34.8	(1,369.7)	35.2	(1,409.3)	27.7	34.9	(714.6)
APAT Margin (%)	6.5	5.8	65.2	5.6	89.8	6.0	5.9	9.9

Source: Company, HDFC sec Inst Research

T&D sector dominates the order book with T&D domestic – 14% and T&D overseas at 41%

KPTL 2QFY20/1HFY20 order inflow stood at Rs 43.1/24.9bn excluding Rs 20bn L1

Company is on track to achieve Rs 90-100bn of new orders during FY20E

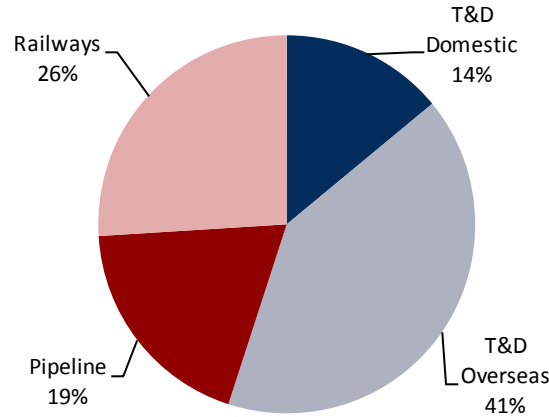
Including L1 orders, KPTL has achieved Rs 46bn of T&D order booking vs Rs 55bn guidance

Green corridor TBCB orders worth Rs 150bn is likely to get awarded by REC/PFC before Mar-20E

Total KPTL order backlog stands at Rs 151bn (1.8x FY20E Rev)

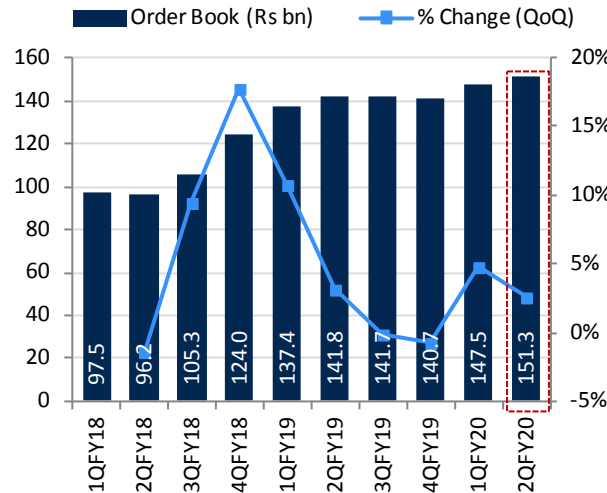
Non T&D mix in the order book is 45% largely driven by Railways and O&G pipelines

Order Book Breakup (2QFY20 – Rs 151bn)



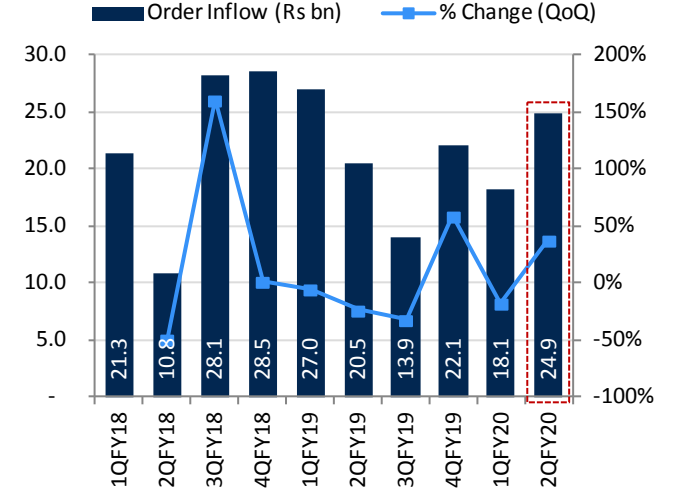
Source : Company, HDFC sec Inst Research

Order Book Trend (Rs bn)



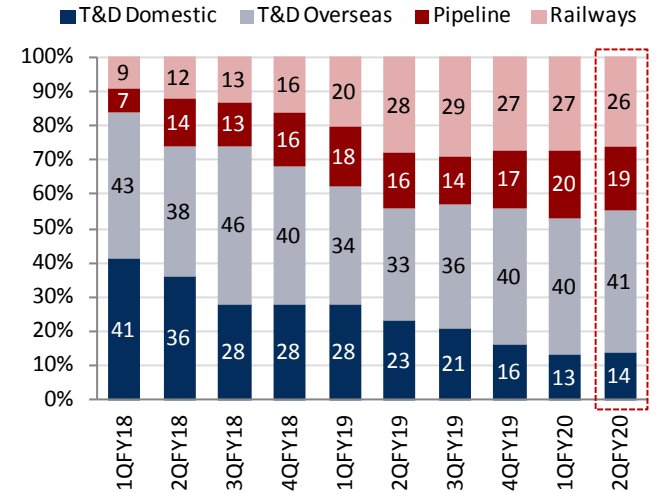
Source : Company, HDFC sec Inst Research

Order Inflow Trend (Rs bn)



Source : Company, HDFC sec Inst Research

Order Mix (Rs bn)



Source : Company, HDFC sec Inst Research

KPTL has already booked Rs 49.4bn of orders FYTD20 and is L1 in orders worth Rs 20bn. KPTL is on track to achieve Rs 90-100bn of order bookings during FY20E

Expect EBIDTA margins to remain around 10.5-11%

Financial charges reduction in line with deleveraging

KPTL has adopted new tax rate

Debt reduction is likely as proceeds from 3 Transmission BOOTs assets gets realized

Key Assumptions & Estimates

Key Assumptions	FY20E	FY21E	Comments
Closing order book	156,919	173,841	
Order book growth (%)	12%	11%	
New order booking	100,678	112,319	Order booking to improve as T&D, Railways and Pipeline orders pick pace
Book to bill ratio	1.9	1.8	Book to bill to be at 1.9-2x
Total Revenue	84,439	95,397	15.8% revenue CAGR over FY19-21E
Growth (%)	18.7	13.0	
EBIDTA	9,052	10,305	
EBIDTA margin (%)	10.7	10.8	Margins to remain stable
Depreciation	1,114	1,188	
Financial Charges	1,571	1,366	Expect finance cost to reduce as transmission BOOT assets proceed of ~Rs 11.5bn get realized. Large part may go towards debt reduction
Other Income	514	478	
PBT	6,882	8,229	14.8% PBT CAGR over FY19-21E
PBT margin (%)	8.1	8.6	
Tax	1,941	2,320	
Tax rate (%)	28.2	28.2	Tax rate to reduce to 28% in FY20-21E owing to adoption of new tax regime
RPAT	4,941	5,908	21.3% RPAT CAGR over FY19-21E
Net margin (%)	5.9	6.2	APAT margins to decline on account of higher tax rate
Extraordinary	-	-	
Adjusted PAT	4,941	5,908	
Gross Block Turnover	9.8	10.3	
Debtor days	210	210	
CFO - a	1,717	3,518	
CFI - b	(2,370)	(620)	
FCFF	1,097	2,898	Higher profitability coupled with tight control on NWC to drive robust cash flow generation
CFF - c	(470)	(2,781)	Debt reduction using asset monetization proceeds
Total change in cash - a+b+c	(1,123)	117	

Source: HDFC sec Inst Research

We have valued KPTL EPC business at 15x Mar-21E EPS and KPTL Jhajjar Transmission asset at 2x P/BV

KPTL 67.2% stake in JMC Standalone as valued at 30% holdco discount to our JMC SOTP valuation (15x Mar-21E EPS)

JMC roads assets are valued based on NPV and 30% holdco discount

Shubham Logistics at 12x FY21E EPS

We recommend BUY on KPTL with SOTP based target price of Rs 675/sh

Outlook and valuation

BUY – Target Price of Rs 675/sh

- Valuation methodology:** We have valued KPTL EPC business at 15x Mar-21E EPS and KPTL Jhajjar Transmission asset at 2x P/BV. KPTL 67.2% stake in JMC Standalone as valued at 30% holdco discount to our JMC SOTP Valuation (15x Mar-21E EPS). JMC roads assets are valued based on NPV and 30% holdco discount. Shubham Logistics at 12x FY21E EPS. We arrive at SOTP based target of Rs 675
- Our BUY stance is based on (1) Robust Standalone order book of Rs 151bn spread across T&D, Oil & Gas and Railways segment (2) Significant BS deleveraging through proceeds from BOOT assets stake sale and (4) Well diversified geographical presence.
- Further re-rating is contingent of KPTL achieving net cash position by FY21-22E. Likely pickup in domestic T&D and Railways orders and JMC roads BOT assets monetization.
- Investments in the T&D, Oil & Gas Pipelines and Railways sector would continue to drive the stock's performance. KPTL, with strong credentials, is likely to benefit from the pick- up in ordering activity.
- We recommend BUY with SOTP based target price of Rs 675/sh.**

SOTP Valuation

Business	Valuation Methodology	Multiple	Stake	Value	Rs/Sh
KPTL Standalone	P/E multiple on FY21E Earnings	15	100.0%	88,622	577
KPTL BOT Assets (T&D)	P/BV multiple on equity invested	2	100.0%	860	6
JMC Standalone	P/E multiple on FY21E Earnings with 30% holdco discount	15	67.2%	12,905	84
JMC BOT Assets (Roads)	NPV		67.2%	885	6
Shubham Logistics	P/E multiple on FY21E Earnings	12	80.0%	1,141	7
Total					675

Source: HDFC sec Inst Research

Income Statement: Standalone (Rs mn)

Year ending March	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	48,941	57,412	71,151	84,439	95,397
Growth (%)		17.3	23.9	18.7	13.0
Material Expenses	34,305	41,215	52,497	62,088	69,495
Employee Expenses	2,918	3,487	4,541	5,277	6,058
Other Operating Expenses	6,427	6,397	6,331	8,022	9,540
EBIDTA	5,291	6,312	7,782	9,052	10,305
EBIDTA (%)	10.8	11.0	10.9	10.7	10.8
EBIDTA Growth (%)		19	23	16	14
Depreciation	777	766	860	1,114	1,188
EBIT	4,514	5,546	6,922	7,938	9,117
Other Income (Incl. EO Items)	493	480	512	514	478
Interest	982	1,033	1,190	1,571	1,366
PBT	4,026	4,993	6,244	6,882	8,229
Tax	1,335	1,773	2,231	1,941	2,320
RPAT	2,691	3,220	4,013	4,941	5,908
EO items (net of tax)	-	-	-	-	-
APAT	2,691	3,220	4,013	4,941	5,908
APAT Growth (%)	34.9	19.7	24.6	23.1	19.6
EPS	17.5	21.0	26.2	32.2	38.5
EPS Growth (%)	34.9	19.7	24.6	23.1	19.6

Source: Company, HDFC sec Inst Research

Balance Sheet: Standalone (Rs mn)

As at March	FY17	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	307	307	307	307	307
Reserves	24,480	27,394	31,215	35,757	41,251
Total Shareholders Funds	24,787	27,700	31,522	36,064	41,558
Minority Interest					
Long Term Debt	3,211	3,903	4,542	4,542	4,542
Short Term Debt	2,315	3,830	1,924	3,424	2,424
Total Debt	5,526	7,732	6,466	7,966	6,966
Other Non Current Liabilities	597	1,750	2,571	2,571	2,571
Deferred Taxes	(410)	(312)	(157)	(157)	(157)
TOTAL SOURCES OF FUNDS	30,500	36,871	40,403	46,445	50,939
APPLICATION OF FUNDS					
Net Block	5,210	5,268	5,707	5,203	4,625
CWIP	26	167	77	87	97
Other Non Current Assets	7,160	7,849	6,486	8,236	8,236
Total Non-current Assets	12,396	13,284	12,270	13,526	12,958
Inventories	4,542	4,828	6,221	8,278	9,126
Debtors	28,480	33,805	33,716	48,581	54,886
Cash & bank balances	2,110	816	1,455	333	450
ST Loans & Advances	4,854	5,390	4,389	5,773	5,888
Other Assets	8,261	14,351	24,311	13,561	14,239
Total Current Assets	48,247	59,190	70,092	76,526	84,590
Creditors	19,327	23,377	26,863	33,633	35,788
Other Current Liabilities & Provns	10,816	12,227	15,096	10,276	11,319
Total Current Liabilities	30,143	35,604	41,960	43,909	47,108
Net Current Assets	18,104	23,586	28,133	32,618	37,483
Misc Expenses & Others		1		302	498
TOTAL APPLICATION OF FUNDS	30,500	36,871	40,403	46,445	50,939

Source: Company, HDFC sec Inst Research

Cash Flow: Standalone (Rs mn)

Year ending March	FY17	FY18	FY19	FY20E	FY21E
PBT	4,026	4,993	6,244	6,882	8,229
Non-operating & EO items	(300)	(508)	(402)	(302)	(196)
Interest expenses	982	1,033	1,190	1,571	1,366
Depreciation	777	766	860	1,114	1,188
Working Capital Change	(714)	(3,836)	(289)	(5,607)	(4,748)
Tax paid	(1,553)	(1,413)	(2,349)	(1,941)	(2,320)
OPERATING CASH FLOW (a)	3,217	1,035	5,253	1,717	3,518
Capex	(576)	(1,063)	(1,184)	(620)	(620)
Free cash flow (FCF)	2,641	(29)	4,070	1,097	2,898
Investments	(1,961)	(701)	(545)	(1,750)	-
Non operating income	422	(111)	4	-	-
INVESTING CASH FLOW (b)	(2,114)	(1,876)	(1,725)	(2,370)	(620)
Debt Issuance	970	784	(1,258)	1,500	(1,000)
Dividend Payment	0	(363)	(449)	(399)	(414)
Interest expenses	(1,001)	(909)	(1,209)	(1,571)	(1,366)
FINANCING CASH FLOW (c)	(31)	(488)	(2,915)	(470)	(2,781)
NET CASH FLOW (a+b+c)	1,072	(1,329)	613	(1,123)	117
Opening Cash & Equivalents	1,007	2,110	816	1,455	332
Closing Cash & Equivalents	2,110	816	1,455	333	450

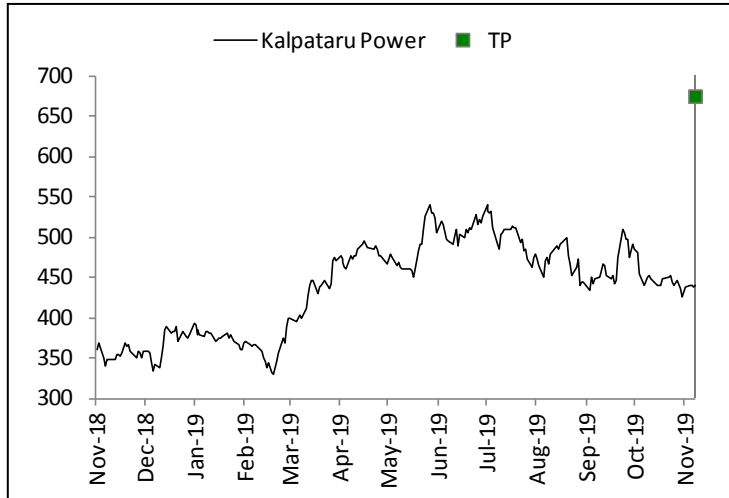
Source: Company, HDFC sec Inst Research

Key Ratios: Standalone

	FY17	FY18	FY19	FY20E	FY21E
PROFITABILITY (%)					
GPM	29.9	28.2	26.2	26.5	27.2
EBITDA Margin	10.8	11.0	10.9	10.7	10.8
EBIT Margin	9.2	9.7	9.7	9.4	9.6
APAT Margin	5.5	5.6	5.6	5.9	6.2
RoE	11.5	12.3	13.6	14.6	15.2
Core RoCE	14.0	14.5	14.7	16.2	16.3
RoCE	11.5	11.8	13.0	14.8	14.9
EFFICIENCY					
Tax Rate (%)	33	36	36	28	28
Asset Turnover (x)	8	9	10	10	10
Inventory (days)	34	31	32	36	35
Debtors (days)	212	215	173	210	210
Other Current Assets (days)	98	126	147	84	77
Payables (days)	144	149	138	145	137
Other Current Liab (days)	81	78	77	44	43
Net Working Capital Cycle (Days)	119	145	137	140	142
Debt/EBITDA (x)	1.0	1.2	0.8	0.9	0.7
Net D/E	0.1	0.2	0.2	0.2	0.2
Interest Coverage	4.6	5.4	5.8	5.1	6.7
PER SHARE DATA					
EPS (Rs/sh)	17.5	21.0	26.2	32.2	38.5
CEPS (Rs/sh)	22.6	26.0	31.8	39.5	46.2
DPS (Rs/sh)	2.0	2.5	3.5	3.5	3.5
BV (Rs/sh)	161.5	180.5	205.4	235.0	270.8
VALUATION					
P/E	25.1	21.0	16.8	13.7	11.4
P/BV	2.7	2.4	2.1	1.9	1.6
EV/EBITDA	13.4	11.8	9.3	8.3	7.2
OCF/EV (%)	4.5	1.4	7.2	2.3	4.8
FCF/EV (%)	3.7	-	5.6	1.5	3.9
FCFE/Market Cap (%)	5.3	1.1	4.2	3.8	2.8
Dividend Yield (%)	0.5	0.6	0.8	0.8	0.8

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
08-Nov-19	440	BUY	675

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH
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