

Accumulate

Resilient margins; All eyes on deleveraging

- Kalpataru Power Transmission (KPP) delivered resilient standalone EBITDA margin of 10.2% (~120bps ahead of consensus est.) as provisions of Rs1.4bn done for higher commodity prices in March 2021 offset the negative impact of USD3mn (50% of annual est.) in Q1FY22 due to increased freight & logistics cost. Despite in line operating performance, PAT came in 16% below consensus est. owing to increased interest costs (+21% QoQ) & higher tax rate (34%).
- Although order inflow during Q1FY22 was subdued, KPP has retained its FY22 guidance of Rs90bn given the healthy tendering visibility (~Rs450bn) from international T&D, railway and oil & gas. We build in 22% standalone earnings CAGR over FY21-FY23E led by improving ordering prospects, strong order backlog of Rs134bn (~1.7x TTM sales), margin sustainability around 10.5% & debt reduction plan backed by asset monetization.
- The stock is attractively trading at 13x/11x FY22E/FY23E standalone earnings, which is lower than historical avg. of ~15x. Fulfilment of promoter's plan to reduce pledged shareholding gradually (~40% by CY21-end) could lead to a multiple re-rating. We retain 'Accumulate' rating with a SOTP- based TP of Rs528.

Healthy OB provides revenue visibility

In Q1FY22, KPP's standalone order inflow remained muted at Rs8.7bn, down 54% YoY mainly due to delay in tendering and finalization of orders. The order inflows were primarily driven by T&D (56%) and Railways (44%). Standalone order backlog stands at Rs134bn (T&D (59%)/Oil & Gas (15%)/Railways (26%), translating into a book to bill ratio of 1.7x, providing revenue visibility over the next 6-8 quarters. The order pipeline for KPP remains healthy at around Rs400-450bn across the verticals. The management has guided an order inflow of Rs90bn with major contribution expected from T&D sector (~Rs50bn) including TL international of USD400mn+, while railways and oil & gas are expected to be around Rs20bn each. We expect Europe, South East Asia and MENA region to drive investments and inflows while Africa and Latin America to take some time to drive inflows.

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	15,860	14,590	8.7	23,370	(32.1)
Total Expense	14,240	13,030	9.3	20,940	(32.0)
EBITDA	1,620	1,560	3.8	2,430	(33.3)
Depreciation	260	290	(10.3)	280	(7.1)
EBIT	1,360	1,270	7.1	2,150	(36.7)
Other Income	140	90	55.6	140	0.0
Interest	340	350	(2.9)	280	21.4
EBT	1,160	1,010	14.9	2,010	(42.3)
Tax	400	320	25.0	710	(43.7)
RPAT	760	690	10.1	1,300	(41.5)
APAT	760	690	10.1	1,300	(41.5)
			(bps)		(bps)
Gross Margin (%)	28.7	28.0	72	25.8	284
EBITDA Margin (%)	10.2	10.7	(48)	10.4	(18)
NPM (%)	4.8	4.7	6	5.6	(77)
Tax Rate (%)	34.5	31.7	280	35.3	(84)
EBIT Margin (%)	8.6	8.7	(13)	9.2	(62)

CMP	Rs 476
Target / Upside	Rs 528 / 11%
NIFTY	16,131
Scrip Details	
Equity / FV	Rs 300mn / Rs 2
Market Cap	Rs 73bn
	USD 984mn
52-week High/Low	Rs 496/ 224
Avg. Volume (no)	4,77,139
Bloom Code	KPP IN
Price Performance	
	1M 3M 12M
Absolute (%)	12 32 107
Rel to NIFTY (%)	10 21 65

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	56.5	56.5	54.6
MF/Banks/FIs	28.6	27.3	28.4
FIs	4.4	6.3	7.3
Public / Others	10.6	9.9	9.8

Valuation (x)

	FY21A	FY22E	FY23E
P/E	16.4	12.9	11.0
EV/EBITDA	9.9	7.7	6.7
ROE (%)	15.2	13.8	14.3
RoACE (%)	11.3	12.7	13.3

Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	76,710	84,927	93,545
EBITDA	8,080	8,723	9,822
PAT	4,470	5,679	6,662
EPS (Rs.)	29.1	37.0	43.4

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Net debt free by FY22 despite Q1 aberration

The company's standalone net debt increased to Rs12bn in Q1FY22 (up by 60% YoY), mainly due to increase in working capital as KPP has extended credit support to vendors and also witnessed delay in collections from customers. Nevertheless, the company has retained its standalone net debt free by FY22 plan with expectations of a significant funds coming from the sale of Kohima-Mariani Transmission Ltd (Rs5-5.5bn) & sale of Indore real estate project (Rs1.5-2bn). Furthermore, KPP's promoters have set a goal of reducing pledged shareholding from 48.7% in Q1FY22 to ~40% by December 2021, which will be key trigger for stock re-rating.

Exhibit 1: SOTP valuation

Particulars	Value/share	Valuation basis
KPTL	434	Valued at 10x FY23E earnings
JMC	65	Valued 67.2% stake at 25% discount to CMP
SSL & Others	29	Valued at 25% discount to investments valued at 0.8x P/B
Total Value	528	OTP based target price

Source: DART, Company

Exhibit 2: Actual V/s Estimates

Particulars (Rs mn)	Actual	DART Estimates	Variance (%)	Comments
Revenue	15,860	17,410	(8.9)	
EBITDA	1,620	1,776	(8.8)	
EBITDAM (%)	10.2	10.2	1.4	
Adj. PAT	760	1,045	(27.3)	Lower due to higher tax rate and higher interest costs

Source: DART, Company

Exhibit 3: Change in estimates

Particulars (Rs mn)	New Estimates		% Change		Old Estimates	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Sales	84,927	93,545	0.0	0.0	84,927	93,545
EBITDA	8,723	9,822	(1.6)	(0.7)	8,863	9,893
PAT	5,679	6,662	(2.9)	(1.1)	5,846	6,738
EPS	37.0	43.4	(2.9)	(1.1)	38.1	43.9
EBITDAM (%)	10.3	10.5	(16.5)	(7.6)	10.4	10.6

Source: DART, Company

Conference Call Highlights

- **Guidance** - Consol revenue is expected to increase by 15% in FY22E, with double-digit margins. JMC has a visible margin of 10-11 percent, with Free Cash Flow expected to improve significantly over the next 2-3 years.

In FY22E, the total order intake at the consol level is expected to be more than Rs160 billion. The order intake for KPP (S/A) is expected to be Rs90 billion, while the order intake for JMC is expected to be in the range of Rs75-80 billion. The majority of order inflows for KPP (S/A) are expected to be driven by T&D, which is expected to be around Rs50bn (TL international - USD400mn+), while Railways and Oil & Gas are expected to be around Rs20bn each.

- **Order pipeline** – KPP currently has orders pipeline worth Rs400-450 billion. Tenders worth Rs100 billion are expected in the domestic market over the next six months for the BOT project from SPVs and Powergrid. T&D International - KPP is restricted in international markets until October (World

Bank debarment), after which Africa will remain a key focus area, with order inflows expected to be in the range of USD500-600 million. Oil and gas tenders from GAIL, IOC, and JSPL are gaining traction in the domestic market. Railways - Tenders for Railway Electrification, Widening, and Metro Projects have been issued; however, management is wary of intense competition in this segment.

KPP has submitted 6/7 tenders for Oil & Gas projects in 6/7 countries. For railways, KPP has shortlisted a few African countries, Bangladesh, and Sri Lanka. The management remains optimistic about receiving one International Railways order in the next 6-9 months.

- **T&D Domestic outlook (addressable market for KPP)**

TBCB projects - In the coming 3/4 months, there are 12 projects in pipeline worth Rs80-100bn for both TL and substation. This market is expected to be at Rs100-150bn on an annualized basis

State level projects - Lot of opportunities are seen from Southern states (Karnataka, Tamil Nadu) and even Eastern & NE states with opportunities worth Rs50-100bn.

Besides, neighboring countries (Nepal, Bangladesh, and SL) have opportunities worth Rs30-50bn on an annualized basis

HVDC project - Out of the total Rs100bn project, the opportunity size for KPP is around Rs60-70bn.

- **Q1FY22 update** - Revenues for T&D (including Linjemontage, and Fasttel)/ Oil & Gas/ Railways grew by 12%, 28% YoY, 23% YoY respectively in Q1FY22

Shubham logistics registered revenues of Rs380mn with EBITDA of Rs80mn and Adj. PAT of Rs12mn. The profitability is expected to maintained in FY22.

Linjemontage, registered a revenue growth of 15% to Rs3.1bn with EBITDA margin of 7%. Linjemontage is expected to grow by 15-20% minimum from Sweden market in FY22E

Kohima-Mariani Transmission (KMTL) - Closure of Kohima-Mariani Transmission transaction affected due to pandemic, the deal is expected to be closed by Q2FY22.

Fasttel recorded revenue of Rs950mn with EBITDA margin at 4%. With current order book EBITDA margin is expected to be 4-5%.

- **Reduction in shares pledged** - Promoter pledge has been on declining trend since last three quarter. As of now, promoter pledge was 45% of their holding with commitment to reduce to 40% by December.

- **Increase in Other income** was due to significant impact in freight cost, with impact of USD3mn in Q1FY22 of the total anticipated USD6mn for FY22E.

- **Intense competition in Railways** - At least 6-7 Railway Electrification project have been up for tendering in the last 3-4 months, with 15 players competing for a single tender ranging from Rs1000 to Rs2000 million. However, for projects worth more than Rs5 billion, competition is limited to 5-6 players.

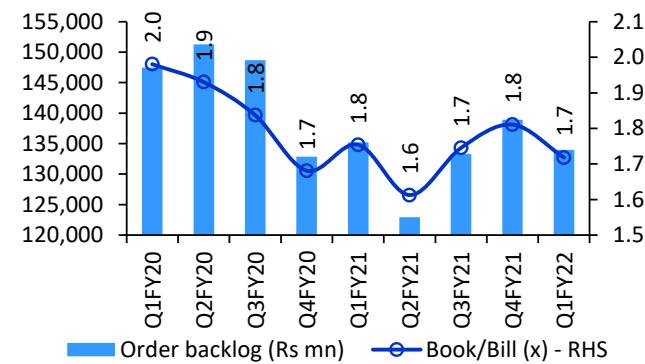
- **The sharp jump in WC** was mainly due to significant payment to Vendor and slight delay in collections.

- **Indore Project** - KPP is targeting Cash inflow of Rs1.5bn from Indore Project. The project is nearly completed with last building expected to get OC in Q3FY22. Sales were impacted by Covid in Q1FY22, but have picked up in Q2FY22, with 6/7 flats sold.

- **Opportunities in railways beyond two years** - Though the share of railway electrification will decline in the next two years, the opportunities for line expansion, modernization, and metro projects will remain significant over the next 5-7 years. Furthermore, international railway opportunities continue to be important areas of focus for KPP.

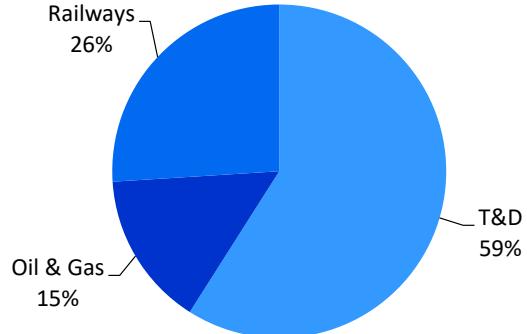
Story in charts

Exhibit 4: Healthy OB at Rs134bn (1.7x TTM sales)



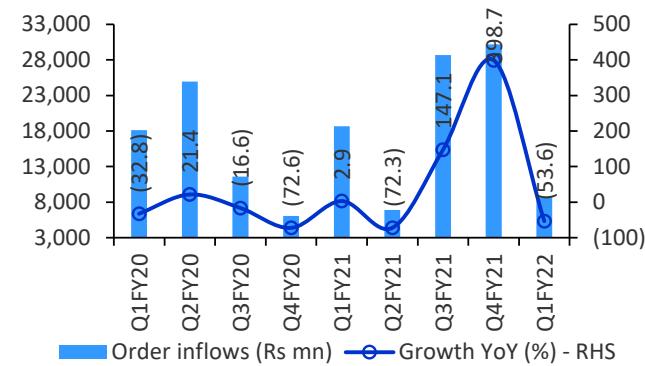
Source: DART, Company

Exhibit 5: Order backlog dominated by T&D



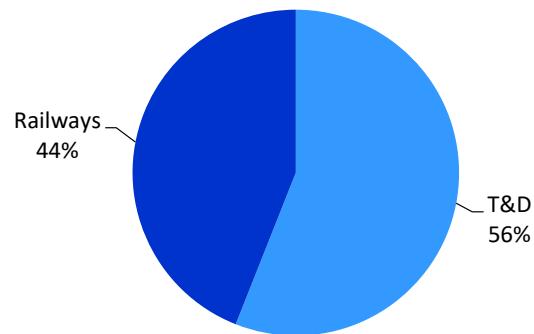
Source: DART, Company

Exhibit 6: Muted order inflows due to delay in tendering activities



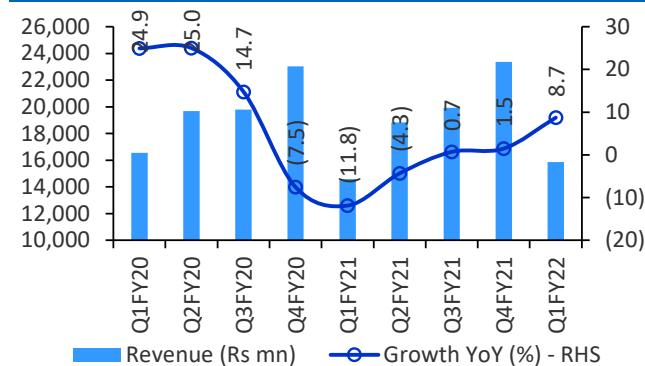
Source: DART, Company

Exhibit 7: Order inflows mainly from T&D and Railways in Q1FY22



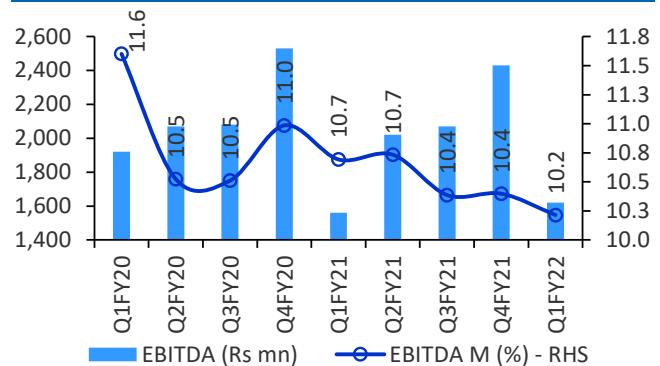
Source: DART, Company

Exhibit 8: Revenues partly impacted by operational constraints caused by the second wave



Source: DART, Company

Exhibit 9: Resilient EBITDA margin at 10.2%



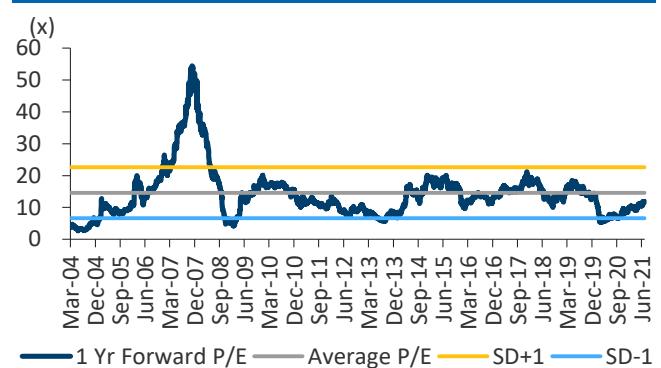
Source: DART, Company

Exhibit 10: Adj. PAT lower than estimates due to higher tax rate and higher interest cost



Source: DART, Company

Exhibit 11: Trading at 1-yr fwd PE of 12x



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	79,040	76,710	84,927	93,545
Total Expense	70,440	68,630	76,205	83,723
COGS	59,030	55,440	62,082	68,288
Employees Cost	5,260	5,510	5,620	6,070
Other expenses	6,150	7,680	8,503	9,365
EBIDTA	8,600	8,080	8,723	9,822
Depreciation	1,100	1,150	1,180	1,218
EBIT	7,500	6,930	7,543	8,604
Interest	1,660	1,090	820	610
Other Income	580	790	869	912
Exc. / E.O. items	240	1,147	0	0
EBT	6,660	7,777	7,592	8,906
Tax	2,030	2,160	1,913	2,244
RPAT	4,630	5,617	5,679	6,662
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	4,390	4,470	5,679	6,662

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	307	300	300	300
Minority Interest	0	0	0	0
Reserves & Surplus	35,050	38,330	43,327	49,190
Net Worth	35,357	38,630	43,627	49,490
Total Debt	11,770	9,810	5,300	5,300
Net Deferred Tax Liability	740	2,510	2,779	3,061
Total Capital Employed	47,867	50,950	51,706	57,851

Applications of Funds

Net Block	6,340	6,740	6,961	7,142
CWIP	400	140	100	100
Investments	18,120	19,790	8,145	8,957
Current Assets, Loans & Advances	71,690	69,900	87,225	96,753
Inventories	7,390	5,980	8,842	9,739
Receivables	36,170	37,320	41,882	46,132
Cash and Bank Balances	3,370	3,120	10,907	12,691
Loans and Advances	24,760	23,480	25,595	28,192
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	48,683	45,620	50,724	55,102
Payables	23,403	22,960	25,595	28,192
Other Current Liabilities	25,280	22,660	25,129	26,910
<i>sub total</i>				
Net Current Assets	23,007	24,280	36,501	41,652
Total Assets	47,867	50,950	51,706	57,851

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	25.3	27.7	26.9	27.0
EBIDTA Margin	10.9	10.5	10.3	10.5
EBIT Margin	9.5	9.0	8.9	9.2
Tax rate	30.5	27.8	25.2	25.2
Net Profit Margin	5.9	7.3	6.7	7.1
(B) As Percentage of Net Sales (%)				
COGS	74.7	72.3	73.1	73.0
Employee	6.7	7.2	6.6	6.5
Other	7.8	10.0	10.0	10.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.3	0.1	0.1
Interest Coverage	4.5	6.4	9.2	14.1
Inventory days	34	28	38	38
Debtors days	167	178	180	180
Average Cost of Debt	18.6	10.1	10.9	11.5
Payable days	108	109	110	110
Working Capital days	106	116	157	163
FA T/O	12.5	11.4	12.2	13.1
(D) Measures of Investment				
AEPS (Rs)	28.6	29.1	37.0	43.4
CEPS (Rs)	35.8	36.6	44.7	51.3
DPS (Rs)	4.2	4.4	4.4	5.2
Dividend Payout (%)	14.7	15.1	12.0	12.0
BVPS (Rs)	230.4	251.7	284.3	322.5
RoANW (%)	13.8	15.2	13.8	14.3
RoACE (%)	14.0	11.3	12.7	13.3
RoAIC (%)	18.4	15.0	17.0	20.0
(E) Valuation Ratios				
CMP (Rs)	476	476	476	476
P/E	16.7	16.4	12.9	11.0
Mcap (Rs Mn)	73,101	73,101	73,101	73,101
MCap/ Sales	0.9	1.0	0.9	0.8
EV	81,501	79,791	67,494	65,710
EV/Sales	1.0	1.0	0.8	0.7
EV/EBITDA	9.5	9.9	7.7	6.7
P/BV	2.1	1.9	1.7	1.5
Dividend Yield (%)	0.9	0.9	0.9	1.1
(F) Growth Rate (%)				
Revenue	11.1	(2.9)	10.7	10.1
EBITDA	10.5	(6.0)	8.0	12.6
EBIT	8.4	(7.6)	8.8	14.1
PBT	6.7	16.8	(2.4)	17.3
APAT	9.5	1.8	27.0	17.3
EPS	9.5	1.8	27.0	17.3

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	2,430	1,980	2,424	4,514
CFI	(4,770)	2,460	10,554	(1,930)
CFF	4,010	(4,360)	(5,191)	(799)
FCFF	(1,205)	5,175	13,592	3,040
Opening Cash	1,460	3,370	3,120	10,907
Closing Cash	3,370	3,120	10,907	12,691

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-20	Buy	320	247
Nov-20	Buy	340	250
Feb-21	Buy	450	365
May-21	Accumulate	441	381

*Price as on recommendation date

* Analyst Change

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