



Quick Insight Update

Kalpataru Power Transmission Ltd.



KALPA-TARU[®]

POWER TRANSMISSION LIMITED

Industry	Capital Goods - Heavy Electrical Equipment
CMP	₹255.7
M Cap (₹ bn)	₹39.56bn
Buy Range	₹250-260
Target	₹340-350
Recommendation	BUY

Investment Argument

- **Better Execution, lower cost and higher other income enabled better performance** – Standalone revenue came in at ₹18.8bn (down 4% YoY) led by improvement in execution despite pandemic and onset of monsoon. EBITDA fell by 2.4% YoY to ₹2bn with EBITDA margins at 10.7% compared to 10.5% in Q2FY20. PBT (including exception item) increased by 25% YoY to ₹2bn on back of higher other income (up 48% YoY), lower interest cost (down 48% YoY) and exception item gain of ₹140mn (Gain on sale of investment in Jhajjar KT Transco). Adj.PAT came in at ₹14.5bn, + 14% YoY. **Revenue break-up – T&D revenue** came in at ₹12bn (~50:50 for domestic: exports), **Railways – ₹4bn** and **Oil and Gas- ₹3.2-3.5bn**. During Q2FY21, T&D segment declined by 5% YoY, Oil & Gas/Railways grew by 30% /25% YoY. Operations at business have improved sequentially and reached almost pre-Covid levels with rise in labour availability, supply chain improvement, and pickup in construction activity. However, inspite of Covid restriction productivity stands at 90% plus across its project sites.
- **Order inflow remains robust for KPTL** – KPTL standalone received an order inflow of ₹32bn during YTD FY21 translating into an order backlog of ₹123bn, down 3% YoY. It has an L1 position of around ₹24bn, which is expected to get awarded during Q3FY21. International T&D has contributed 76% of order inflows during Q2FY21. International geographies like Middle East, CIS, Africa, Nordic region have been active in tenders. Order finalization from domestic T&D was weak during 1HFY21 but the company expects it to improve in 2HFY21 with bids of ₹100-150 bn getting finalized on TCB side. Bidding for railways projects has already commenced with bid submission of nearly ₹40bn and tendering for oil & gas projects has also now started. KPTL's plans to bag railways and oil & gas projects in international geographies which are yet to yield meaningful results. Oil & Gas and Railways are likely to report a double digit revenue growth (₹15-17bn) while T&D is likely to grow 5% to ₹50bn for FY21.
- **Transmission assets sales to be completed in Q3FY21** – KPTIL has successfully completed the sale of JKTPL at an EV of ₹3.1bn and received the proceeds in 1HFY21. Further, KPTIL has received all the necessary approvals for sale of Alipurduar Transmission Ltd (ATL) projects and expect to the transaction (including cash proceed to receive) to complete by Nov'20. The company has completed construction works for Kohima-Mariani Transmission Ltd (KMTL) in Oct'20 and expects the project to commission within coming few days. Working capital has moved up during the quarter as certain inventory remained unbilled due to the lockdown. Despite commencement of work at all locations by the company, we expect a higher working capital cycle during FY21 on challenges seen during 1HFY21. We expect debt to come down from the levels of FY20 on monetization proceeds of T&D asset sale.
- **JMC Projects performance reached to pre-Covid levels** – JMC Projects revenues declined by 15% YoY to ₹8,040mn during the quarter and has now reached almost near pre-Covid levels. Operational efficiencies and cost optimization have resulted in core margins of 10.8% for the quarter. The company expects to achieve positive growth in FY21 revenues for JMC Projects on execution ramp-up and strong order inflows. Borrowings had moved up YoY during the quarter. Toll revenues for BOT projects have also improved sharply sequentially and the company has initiated debt restructuring for two road assets. Loss funding was nil during the quarter and is expected to be less than ₹500 mn for FY21. Order inflow for JMC Projects stood fairly strong at ₹60.3 bn in YTD FY21 and it has an L1 status in projects worth ₹4bn. The mix of order book will change more in favour of infra projects from FY22 as ordering will pick up on the infrastructure segment on both domestic and international side.

Nifty	12,461
Sensex	42,597
Key Stock Data	
CMP	₹255.7
Market Cap (₹)	₹39.56bn
52W High/Low	₹476/170
Shares o/s (mn)	155
Daily Vol. (3M NSE Avg.)	1,054,434
Shareholding pattern (%) Sep'20	
Promoter	55.3
DII	26.3
FII	6.5
Public & Others	11.9

(₹ mn)

Particulars	FY19	FY20	1HFY21
Revenues	71,146	79,040	33,410
EBITDA	7,775	8,600	3,580
EBITDA Margin (%)	10.9	10.9	10.7
Net Profit	4,017	4,630	2,140
EPS (₹)	25.9	29.9	13.9
DPS (₹)	5.5	3.5	
RoE (%)	13.5	13.8	
RoCE (%)	14.6	14.3	
P/E (x)	9.9	8.6	
EV/EBITDA (x)	8.4	5.7	
P/BV (x)	1.9	1.2	

Source: Company Data, Way2Wealth Inst Equity

- **KPTL Real estate business** – In the last 3 months, the company witnessed good traction in its real estate business and recorded a sale of ₹7.5bn primarily from MMR regions. Currently ~80% of its debt is mainly related to working capital requirements and construction finance which is regularly getting serviced. Further, the company has started the process of monetisation of some of its assets such as commercial real estate in order to reduce its debt at parent level.
- **Clarity of pledging and World Bank issue** – KPTL management's clarification on the group real estate business and target for reduction in pledges was appreciable. Real estate business sales will help in debt reduction. Borrowing against the pledged shares has come down by ₹1.1bn in last one year to ₹7.2bn and they plan to reduce it further by ₹1.5bn by Mar'21 and ₹1.5bn by Dec'21. World Bank decision to bar the company for a year starting 06 October 2020 in World Bank funded projects can impact near-term ordering. However, this decision addresses the issue, which was impacting ordering for KPTL from past few years and would open up the opportunities to bid for World Bank and multi-lateral funded projects after a year. With JMC driving more value to order book and revenue growth, KPTL is likely to benefit in the long run by merging the two businesses together once assets are monetized.
- **Shubham Logistics turned PBT positive during Q2FY21** – Performance of Shubham Logistics improved during the quarter on higher utilization of warehousing space, strong margins and debt reduction, turning it PAT positive. The company expects its performance to sustain in coming quarters. For the Indore real estate project, the company has already sold 30% of the units and expects to exit this project at 1X book value by CY21

KPTL board had approved buy-back of shares at a maximum price of ₹275per share for an aggregate amount not exceeding ₹2bn, representing nearly 4.7% of paid-up capital. So far, the company bought back up to an amount of ₹1.2bn from the open market and expects to complete this by Nov'20

Outlook

With continuous focus on operational efficiencies, cost optimisation and prudent working capital management the company witnessed improvement in performance across all segments. International T&D drove order inflows so far and domestic ordering will see revival from 2HFY21. Subsidiaries have benefitted from improved utilization and execution. The company has clarified on its plans to reduce pledges pertaining to real estate. Improved cash flows and transmission asset sale proceeds would help in debt reduction by FY21-end. **We continue to have a BUY view on the company and enhance the target range to ₹340-350 considering the strong revenue visibility on the back of healthy order book, steady margin profile, healthy bid pipeline and positive outlook on T&D and emerging segments like Railways and Oil & Gas.**

Financial & Operating Parameters

	(₹mn)							
Standalone	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	1HFY21	1HFY20
Sales	16,550	19,670	19,790	23,030	14,590	18,820	33,410	36,220
YoY Growth (%)	14.6	16.6	16.1	(7.5)	(11.8)	(4.3)	(7.8)	25.0
EBITDA	1,920	2,070	2,080	2,530	1,560	2,020	3,580	3,990
YoY Growth (%)	16.2	16.1	13.2	(4.9)	(18.8)	(2.4)	(10.3)	22.0
EBITDA Margin (%)	11.6	10.5	10.5	11.0	10.7	10.7	10.7	11.0
Net Profit	920	1,270	1,370	1,070	690	1,450	2,140	2,190
YoY Growth (%)	2.0	44.4	30.7	(21.9)	(25.0)	14.2	(2.3)	27.0
EPS (₹)	5.9	8.2	8.8	6.9	4.5	9.4	13.9	14.1
Order Inflow (₹ mn)	18,140	24,390	16,110	6,050	18,660	6,910	25,570	42,530

Source: Company Data, Way2Wealth Inst Equity

Order Book mix as on 30 September 2020

	(₹mn)
T&D - International	57,772
T&D - Domestic	15,980
Oil & Gas	19,667
Railways	30,730
TOTAL	122,920

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Name of the Security	Kalpataru Power Transmission Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	Yes
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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