



Quick Insight

Kalpataru Power Transmission Ltd.


KALPA-TARU[®]
POWER TRANSMISSION LIMITED

Industry Capital Goods - Heavy Electrical Equipment

CMP ₹272.85

M Cap (bn) ₹42.21bn

Buy Range ₹255-265

Target ₹320-330

Recommendation BUY

Highlights

- Bagged orders worth ₹25bn till date and is L1 in orders worth ₹10bn primarily comprising from T&D - International segment. Going ahead, management expects execution to pick up significantly in Railways and Oil & Gas segments and likely to see double digit revenue growth while T&D is expected to grow 5-10% for FY21
- Good traction in international transmission lines orders seen, while domestic transmission lines ordering would start by Sep-Oct'20.
- In railway electrification, it expects orders of ₹50-60bn (international and domestic) to be floated. The company is interested to bid for upcoming station redevelopment projects of Indian Railways on concession basis
- The Company has bid for Oil & Gas orders in the 3-4 countries where it has qualified. It was recently qualified in another 5-6 countries, leading to significant room for bidding in O&G internationally. In domestic market, management expects pipeline orders of ₹80bn-100bn from five large operators including IOCL, BPCL, ONGC, GAIL, etc. Internationally, it expects to win orders of \$50-100mn in the next five months from the Middle East and North Africa.

Kalpataru Power Transmission Ltd (KPTL)

Background

Kalpataru Power Transmission Ltd (KPTL) is amongst the largest players firmly entrenched in the global power transmission and infrastructure EPC space. The company has established its footprints in over 50 countries, executing marquee projects with comprehensive capabilities that deliver complete solutions covering design, testing, fabrication, erection and construction of transmission lines. It 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. It has successfully positioned its High Voltage Substation business both in air insulated (AIS) and gas insulated (GIS) segment in domestic as well as international market. It has been partnering in India's accelerating infrastructure push by executing EPC projects in Oil & Gas infrastructure and Railways infrastructure as well as undertaking power transmission projects on Build, Operate, Own, and Maintain (BOOM) model. The company is also exposed to the construction segment with a 67.2% stake in JMC Projects (JMC). JMC primarily constructs industrial buildings and residential and commercial complexes. Of late, JMC ventured into the infrastructure segment, taking up road projects, bridges, flyovers, and transportation structures.

Investment Arguments

- **Steady Q1FY21 Performance** – Kalpataru Power Transmission Ltd (KPTL) reported steady performance for the quarter amidst nation-wide lockdown led by strong execution, better operational performance and higher other income. Revenues (₹14.6bn, -12% YoY) were impacted by weak execution in domestic projects across Railways (20% of sales, -31% YoY), Oil & Gas pipeline (15% of sales, -19% YoY) and T&D (33% of sales, -12% YoY) due to lockdown, while overseas T&D revenues grew 12-13% YoY. EBITDA at ₹1.6bn declined 19% YoY as EBITDA margin at 10.7% contracted by just 90bps YoY. Lower other expenses aided margins. Interest expense at 2.4% of sales compared to 2% YoY/QoQ. However, it declined in absolute terms by 24% QoQ as it cut its net debt by ₹2bn QoQ on better collections. Net debt was lower at ₹7.7bn in Jun'20 against ₹9.7bn in Mar'20. Net profit came in at ₹690mn down 25% YoY. For FY21 margin guidance of 10.5%-11% for the company maintained despite a strong show accounting for recent volatility in raw material prices and FX with the aim to be debt free.
- **Maintains Order inflow guidance of ₹90-100bn for FY21** – During Q1FY21, order inflows came in at ~₹19bn (+3% YoY) impacted due to deferment of order. Order book stands at ₹135bn (down 8% YoY) still healthy at 1.8x book-to-sales. Company has bagged orders worth ₹25bn till date and is L1 in orders worth ₹10bn primarily comprising from T&D - International segment. Going ahead, management expects execution to pick up significantly in Railways and Oil & Gas segments and report a double digit revenue growth while T&D is expected to grow 5-10% for FY21. Site & labour productivity levels at 90% in KPTL and 75% in JMC. Plant utilization is at 100%. Overall productivity to revert back to pre-COVID level in H2FY21.
- **International geographies ramping up faster than domestic** – Revenue growth was much was better due to higher growth of 12-13% YoY from international T&D projects. Railways and oil & gas segment revenues were impacted by the lockdown. Linjemontage (Sweden) is expanding business in Norway with new order wins. Linjemontage's revenue was ₹2.7bn in Q1 FY21. Its order book was ₹10bn as on Jun'20. The EBITDA margin has significantly improved in the last one year, from 4.5% - 5.5%. In FY21, the margins are expected to be ~5.5-6% and improve further the next year. We expect T&D-Domestic segment sales to decline and expect railways and oil & gas to witness a growth in FY21.
- **Strong Order pipeline** – The company has bid for international projects in Railway and Oil & Gas pipeline segments. It expects to secure at least one project in each segment with average ticket size of US\$ 50-100mn. Transmission lines: The Company

Nifty	11,377
Sensex	38,435
Key Stock Data	
CMP	₹272.85
Market Cap (₹)	₹42.21bn
52W High/Low	₹515/170
Shares o/s (mn)	155
Daily Vol. (3M NSE Avg.)	580,000
Shareholding pattern (%) Jun'20	
Promoter	54.4
DII	26.9
FII	7.1
Public & Others	11.6

(₹ mn)			
Particulars	FY18	FY19	FY20
Revenues	57,412	71,146	79,040
EBITDA	6,312	7,775	8,600
EBITDA Margin (%)	11.0	10.9	10.9
Net Profit	3,220	4,017	4,630
EPS (₹)	21.0	25.9	29.9
DPS (₹)	2.0	5.5	3.5
RoE (%)	8.1	13.5	13.8
RoCE (%)	7.8	14.6	14.3
P/E (x)	12.8	10.5	9.1
EV/EBITDA (x)	14.1	8.7	5.9
P/BV (x)	2.9	2.0	1.2

Source: Company Data, Way2Wealth Inst Equity

continues to bid for transmission lines internationally, with L1 in a large order. Good traction in international transmission lines orders would be seen, while domestic transmission lines ordering would start by Sep-Oct'20. The company has bid for 2-3 Power T&D orders under the TBCB route with a strategy of bid, win and exit. Capital allocation for these TBCB orders would largely be from internal accruals. However, the company would limit its capital commitment in these projects by bidding in a JV and looking to secure the backend EPC contract for the project. Railways: The company already has an order from Bangladesh and has bid for 2-3 large orders, of ₹15bn-20bn. In railway electrification, it expects orders of ₹50-60bn (international and domestic) to be floated. The company is interested to bid for upcoming station redevelopment projects of Indian Railways on concession basis. Oil & Gas (O&G): The Company has bid for orders in the 3-4 countries where it is qualified. It was recently qualified in another 5-6 countries, leading to significant room for bidding in O&G internationally. In domestic market, management expects pipeline orders of ₹80bn-100bn from five large O&G operators including IOCL, BPCL, ONGC, GAIL, etc. Internationally, it expects to win orders of \$50-100mn in the next five months from the Middle East and North Africa.

- **De-levering the balance sheet** – KPTL entered into agreement with India Grid Trust to sell Jhajjar KT Transco Private Limited (JKTPL) for estimated enterprise value of ₹3,100mn; Further it signed definitive agreements to sell Alipurduar Transmission Limited to Adani Transmission Limited for a total Enterprise Value (EV) of about ₹12,860mn. Closure in both the assets expected in H2FY21. It has also successfully commissioned Element 1 & 3 of Kohima-Mariani Transmission Ltd. (KMTL); Element 2 is expected to be commissioned soon; Deal in place with CLP India to sell KMTL. The proceeds of these assets sold would be used to de-lever the balance sheet and for future growth.
- **On pledged shares** – From Mar'20 till now, promoters reduced debt on pledged shares by ~₹500m-600m (from ~₹7.8bn to ~₹7.3bn). They plan to reduce debt by another ₹700m-800m in the next 4-5 months.
- **Shubham Logistics turned PBT positive during the quarter** –Performance of Shubham Logistics improved during the quarter on strong margins and debt reduction, making it turn PBT positive. The company expects its performance to improve further in coming quarters. It has also appointed advisors for initiating the sale of Shubham Logistics. 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.
- **JMC Projects performance was impacted by lower sales and lower cost absorption** – JMC Projects revenues declined by 48% YoY during the quarter and under absorption of costs led to loss for Q1FY21. Borrowings had moved up during the quarter on higher working capital. Toll revenues for BOT projects were impacted by the lockdown but the company has done debt restructuring for two road assets. Loss funding was NIL during the quarter and is expected to be around ₹500mn for FY21. Order inflow for JMC projects stood fairly strong at ₹34.3bn in YTD FY21 and it has an L1 status in projects worth ₹17bn.
- **FY20 Performance** – During FY20, the revenue increased by 11% to ₹79bn. Total exports revenue was ₹28bn (~35.60% of revenues). PAT for FY20 increased by 15.4% to ₹4.6bn. EBITDA increased by 11% to ₹8.6bn with margins at 10.9%, driven by revenues and lower operational expenses as cost rationalizations initiatives and productivity enhancement gain momentum. The company acquired Linjemontage (LMG), based in Gastorpe along with its two subsidiaries in FY20. Linjemontage (LMG) bagged orders of ₹11.3bn in FY20 and an order book of ₹11.5bn. The revenues grew by 21% YoY to ₹5.8bn with EBITDA margins improving by ~100bps to 5% along with a 35% YoY growth in net profit. T&D business secured orders worth ₹36.6bn in India, the company secured orders from PGCIL, SEBs and private clients; secured 1st order in 765 KV GIS Substation segment in India. Achieved leadership

position in Railways and Oil & Gas EPC in addition to T&D business in SAARC and India. KPTL achieved record sales of around ₹13bn during FY20 in the Oil and Gas business. The company won single largest EPC order for gas pipeline of ₹6.2bn. During FY20, the Company secured orders of ₹14.8bn from IOCL, GAIL and GICL. Railway business registered sales of around ₹17.5bn in FY20 with 30 projects under execution, double against the previous year. The business won orders worth ₹13.5bn from RVNL and G-RIDE in FY20. The company commissioned around 700kms of Over Head Equipment (OHE) works in FY20. The company purchased 19.94% of the equity share capital of Shree Shubham Logistics Limited from Private Equity Holders for ~ ₹647bn, by issuing 1.3mn equity shares of the Company at ₹515.25 per share. Working capital increased sharply, with cash generated from operations declining 53% in FY20 despite a flat operating profit before the WC impact. Cash conversion cycle has jumped by 26 days from 86 days in FY19 to 112 days in FY20. The company announced a buy-back worth ₹2bn at a maximum price of ₹275 per share, payable by cash.

Outlook

The Q1FY21 was a steady performance despite difficult environment showcases management's ability to execute and manage cash flows despite challenging macros. Its commentary on growing order inflows both in standalone operations and JMC in the current environment in FY21 is still under appreciated by investors. Its standalone operations which account for 95% of consolidated profits is on a strong footing on improving order inflows, better utilization at sites and power asset sale provide comfort on future direction. Debt has come down sequentially and the company is on track to become debt-free by FY21. Considering the above points we view it as a **BUY stock with target range of ₹320-330**.

Financial & Operating Parameters

	(₹ mn)						
Standalone	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	FY19	FY20
Sales	16,550	19,670	19,790	23,030	14,590	71,146	79,040
YoY Growth (%)	14.6	16.6	16.1	(7.5)	(11.8)	23.0	11.1
EBITDA	1,920	2,070	2,080	2,530	1,560	7,775	8,600
YoY Growth (%)	16.2	16.1	13.2	(4.9)	(18.8)	23.2	10.6
EBITDA Margin (%)	11.6	10.5	10.5	11.0	10.7	10.9	10.9
Net Profit	920	1,270	1,370	1,070	690	4,017	4,630
YoY Growth (%)	2.0	44.4	30.7	(21.9)	(25.0)	24.6	15.3
EPS (₹)	5.9	8.2	8.8	6.9	4.5	25.9	29.9
Order Inflow (₹ mn)	18,140	24,390	16,110	6,050	18,660	83,410	64,690

Source: Company Data, Way2Wealth Inst Equity

Order Book mix as on 30 June 2020

	(₹ mn)
T&D - International	62,201
T&D - Domestic	17,579
Oil & Gas	22,987
Railways	32,453
TOTAL	135,220

Source: Company Data, Way2Wealth Inst Equity

Technical View

After posting a fresh 52-week low of 169.50; KPTL has seen decent recovery in past few weeks. Looking at daily chart, we are seeing a formation of 'Rising Channel' and recently stock precisely rebound from the lower band of channel formation. Daily RSI (14) precisely took support near 40 and started heading northward. Also, price is trading above its 89-EMA. On a daily chart, Higher Top Higher Bottom formation remains intact hence we expect further up move in stock towards 330. Lower side, recent swing low of 224 will be a strong support.



21st August 2020**Disclaimer**

Analyst Certification: I, Jayakanth Kasthuri, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed Jayakanth Kasthuri, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement in Kalpataru Power Transmission Ltd. (KPTL) as on August 21, 2020

Name of the Security	Kalpataru Power Transmission Ltd. (KPTL)
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
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.