

Steady execution amid pandemic disruptions...

About the stock: Kalpataru Power (KPTL) is among the leading EPC players in key infrastructure sectors such as power T&D, railways, oil & gas pipeline, urban infrastructure, buildings & factories, water, etc.

- Focus on strengthening core EPC business in India and overseas markets
- Strong capabilities across business verticals with growing international presence (60+ countries) contributed ~46% of revenue in FY21

Q1FY22 Results: KPTL reported steady Q1FY22 results.

- Standalone revenue was up 8.7% YoY, aided by steady execution
- EBITDA came in at ₹ 162 crore, up 3.8% YoY with EBITDA margins at 10.2% with decline of 10 bps QoQ and 50 bps YoY, impacted by higher commodity prices, supply chain disruptions
- Consequently, PAT came in at ₹ 76 crore, up 10.1% YoY
- Order inflows for Q1FY22 came in muted at ₹ 865 crore

What should investors do? We believe monetisation of non-core assets to improve balance sheet health and return ratios in the long run.

- We remain long term positive and retain our BUY rating on the stock.

Target Price and Valuation: We value KPTL at ₹ 550 on an SoTP basis

Key triggers for future price performance:

- We expect revenue to grow at ~14.4% CAGR over FY21-23E owing to strong order book worth ~₹ 13397 crore and L1 orders worth ~₹ 2550 crore
- Strong order pipeline for 9MFY22E to ensure decent order inflow growth
- Expected cash proceed from monetisation of non-core assets by Q4FY22E, to make balance sheet net debt free at standalone level

Alternate Stock Idea: We also like KEC International in our coverage

- Strategic shift in portfolio from T&D to non-T&D (13% contribution in FY16 increased to 42% in FY21), double-digit return ratios
- BUY with target price of ₹ 485



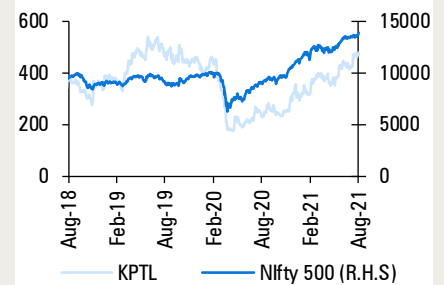
Particulars

Particular (₹)	Amount
Market Capitalization	7,349.0
Total Debt (FY21)	980.8
Cash and Inv. (FY21)	309.4
EV	8,020.4
52 week H/L	₹ 496 / 224
Equity capital	₹ 30.7 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	55.3	56.5	56.5	54.6
FII	6.5	4.4	6.3	7.3
DII	26.4	28.6	27.3	28.4
Others	11.8	10.5	9.9	9.7

Price Chart



Recent events & Key risk

- **Key Risks:** (i) Any project headwinds, slowdown in order intake, (ii) Volatile commodity prices, delay in sale of non-core assets

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Key Financial Summary

Particulars (₹ crore)	FY19	FY20	FY21	5-year CAGR (FY16-FY21)	FY22E	FY23E	2-year CAGR (FY21-FY23E)
Net Sales	7,115.1	7,904.0	7,671.0	12.2%	8,747.6	10,045.4	14.4%
EBITDA	778.2	860.0	808.0	11.6%	877.9	1,039.4	13.4%
EBITDA Margin (%)	10.9	10.9	10.5		10.0	10.3	
Adj. Net Profit	401.3	463.0	491.1	19.7%	504.5	625.4	12.9%
EPS (₹)	26.1	29.9	41.3		33.9	42.0	
P/E (x)	18.2	15.9	11.5		14.0	11.3	
RoNW (%)	12.7	12.6	12.7		11.5	12.7	
RoCE (%)	19.6	17.1	15.9		16.6	17.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Steady execution amid near term challenges...

- For Q1FY22, KPTL's standalone revenue came in at ₹ 1586 crore (in line with our estimate of ₹ 1588.3 crore) growing 8.7% YoY on the back of steady execution across all businesses amid challenging economic conditions and labour availability constraints
- YTD FY22 order inflow came in muted at ₹ 865 crore out of which T&D contributed 56% followed by 44% from railways. Also, KPTL is L1 in orders worth ~₹ 2550 crore amid a few delay in awards. As on Q1FY22, the order book was at ₹ 13397 crore (including Linjemontage Sweden) with T&D segment contributing 59% followed by oil & gas (15%) and railways (26%).
- EBITDA came in at ₹ 162 crore (vs. our estimate of ₹ 162 crore), up marginally by 3.8% YoY while EBITDA margins sustained at 10.2% with decline of 10 bps QoQ and 50 bps YoY impacted by higher commodity prices, logistics cost supply chain disruptions
- Adjusted PAT came in at ₹ 76 crore, up 10.1% YoY, partly aided by a reduction in depreciation, which declined 10.3% to ₹ 26 crore YoY, higher other income. While interest expense was at ₹ 34 crore, down 2.9% YoY and up 21.4% QoQ

Q1FY22 Earnings Conference Call highlights

- The management has guided for 10% to 15% revenue growth for FY22E while order inflows for FY22E are expected to be ~₹ 9000 crore (~₹ 5000 crore in T&D and ₹ 2000 crore each in railways and oil and gas). The margins are expected to sustain at double digit levels for FY22E
- During Q1FY22, JMC Projects' consolidated revenue came in at ₹ 1161 crore, up 133% YoY on a low base led by decent execution in infrastructure and B&F business. Core EBITDA margin was at 8.3%, up 110 bps YoY while PAT came in at a loss of ₹ 10 crore vs. loss of ₹ 52 crore in Q1FY21. Q4FY21 order inflow came in at ₹ 4659 crore while order book was at ₹ 15916 crore suggesting strong revenue visibility. Per day revenue for toll road projects has improved to ₹ 45.5 lakh/day for Q1FY22 vs. ₹ 36.6 lakh/day in Q1FY21
- For Q1FY22, Shubham Logistics (SSL) revenue grew 15% to ₹ 37.7 crore while EBITDA margin came in at 22.2% (vs. 34.4% in Q1FY21)
- During Q1FY22, KPTL's consolidated net debt has increased from ₹ 2304 crore to ₹ 2946 crore on a QoQ basis. It aims to become net debt free on a standalone basis by H2FY22E on the back of cash proceeds from non-core assets
- Strategic plan to monetise Kohima-Mariani asset is likely to see closure by Q3FY22E, Q4FY22E. Indore real estate execution is expected to be fully sold over the next 12-18 months while around 35% units have been sold. It has received OC for two buildings and expects to receive OC for the remaining buildings very soon. KPTL expects to exit and get back its total investment of ₹ 320 crore in 12-18 months of which ~₹ 150 crore is expected to come in FY22E
- International tendering opportunities are there in Africa, Middle East, Bangladesh, Nepal, Saarc, Nordic countries. In railways, focus continues on bidding pipeline in neighbouring countries like Bangladesh. Domestic T&D tendering opportunities are expected to improve with TBCB bidding, private players and SEBs. However, there could be some short term delays in tendering and awarding of projects due to current pandemic situation. Overall, it sees the tendering pipeline of ~ ₹ 25000-30000 crore for T&D
- Linjemontage posted Q1FY22 revenue of ₹ 312 crore while Fasttel (Brazil) contributed ₹ 95 crore

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (Chg %)	Q4FY21	QoQ (Chg %)	Comments
Revenue	1,586.0	1,588.3	1,459.0	8.7	2,337.0	-32.1	Decent revenue growth on the back of execution pick-up
Other Income	14.0	15.0	9.0	55.6	14.0	0.0	
Employee Expenses	134.0	139.8	138.0	-2.9	131.0	2.3	
Raw Material Expenses	528.0	673.4	607.0	-13.0	812.0	-35.0	
Other Operating Expenses	159.0	135.0	114.0	39.5	230.0	-30.9	
Sub Contracting Charges	603.0	478.1	444.0	35.8	921.0	-34.5	
EBITDA	162.0	162.0	156.0	3.8	243.0	-33.3	
EBITDA Margin (%)	10.2	10.2	10.7	-48 bps	10.4	-18 bps	Decline in EBITDA margin on account of rising commodity prices, logistics costs
Depreciation	26.0	30.0	29.0	-10.3	28.0	-7.1	
Interest	34.0	26.6	35.0	-2.9	28.0	21.4	
PBT	116.0	120.4	101.0	14.9	201.0	-42.3	
Total Tax	40.0	32.9	32.0	25.0	71.0	-43.7	
PAT	76.0	87.5	69.0	10.1	130.0	-41.5	
Adj. PAT (After exceptional item)	76.0	87.5	69.0	10.1	130.0	-41.5	Adjusted PAT up 10.1% aided by reduced depreciation and higher other income
Key Metrics							
Order inflows	865.0	2,200.0	1,866.0	-53.6	3,017.0	-71.3	
Order backlog	12737.8	14570.0	13,093.8	-2.7	13458.8	-5.4	Order backlog provides strong revenue visibility

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	8,780.2	8,747.6	-0.4	10,116.4	10,045.4	-0.7	Strong order booking and pick-up in execution to drive revenue growth in long run
EBITDA	873.8	877.9	0.5	1,039.7	1,039.4	0.0	
EBITDA Margin (%)	10.0	10.0	8 bps	10.3	10.3	7 bps	We expect sustained margins with short-term hiccups due to rising commodity prices, logistics cost
PAT	498.2	504.5	1.3	599.4	625.4	4.3	
EPS (₹)	33.5	33.9	1.1	40.3	42.0	4.2	

Source: Company, ICICI Direct Research

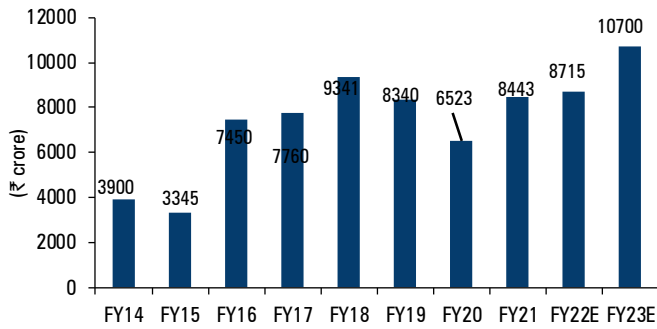
Exhibit 3: Assumptions

	Current			Previous		Comments
	FY21	FY22E	FY23E	FY22E	FY23E	
Order Inflow growth	29.4	3.2	22.8	3.0	23.0	
Order Backlog growth	6.1	-6.6	5.2	6.8	4.1	Decent order inflows to ensure growth momentum over FY21-23E
Revenue growth	-2.9	14.0	14.8	14.5	15.2	Consistent order intake to lead to robust billing in FY21-23E
EBITDA Margins	10.5	10.0	10.3	10.0	10.3	

Source: Company, ICICI Direct Research

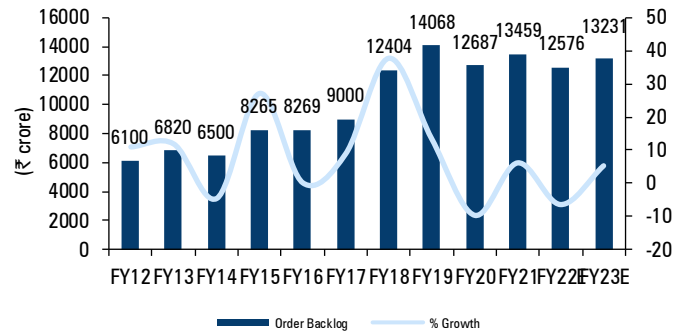
Financial story in charts

Exhibit 4: Trend in order inflows



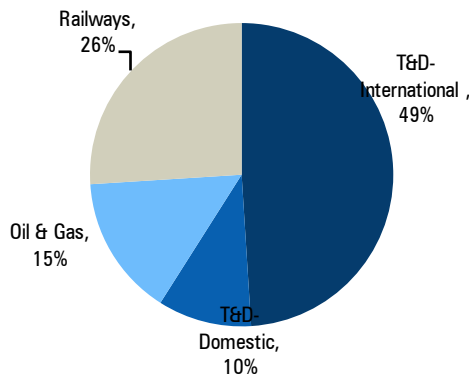
Source: ICICI Direct Research, Company

Exhibit 5: Order backlog trend...



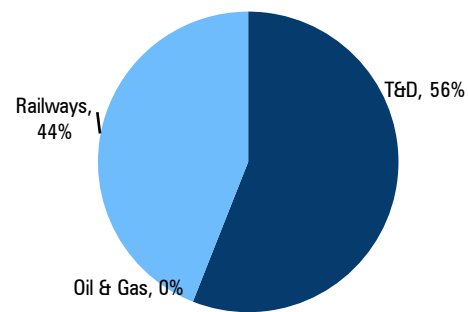
Source: ICICI Direct Research, Company

Exhibit 6: Segmental break-up of order backlog



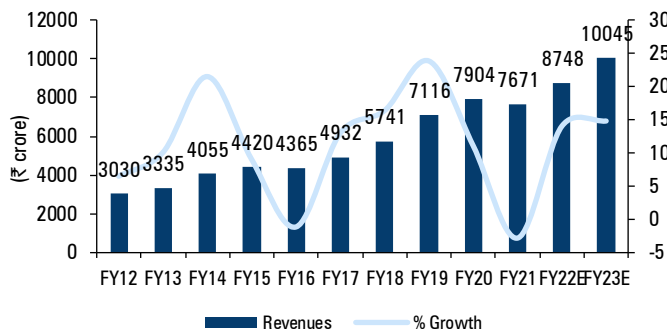
Source: Company, ICICI Direct Research

Exhibit 7: YTD order inflow break-up



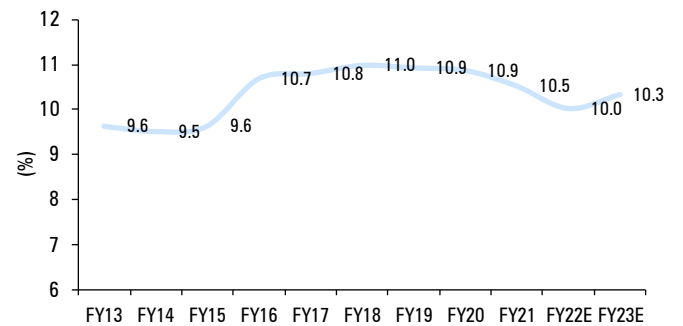
Source: Company, ICICI Direct Research

Exhibit 8: Trend in revenue...



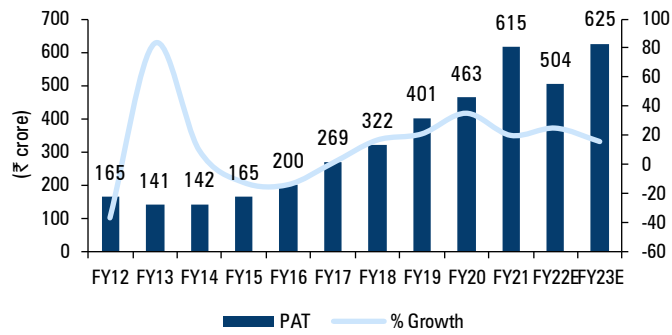
Source: Company, ICICI Direct Research

Exhibit 9: Trend in EBITDA margin...



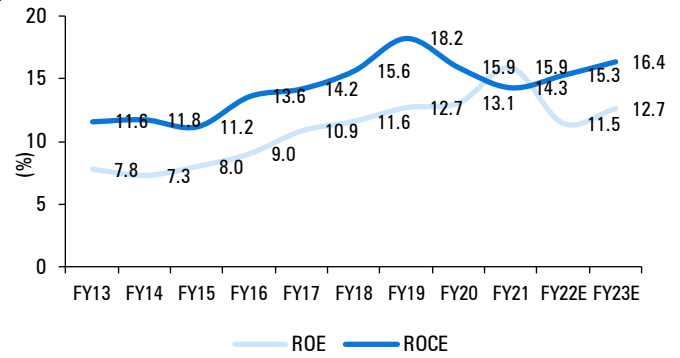
Source: Company, ICICI Direct Research

Exhibit 10: Trend in profitability...



Source: Company, ICICI Direct Research

Exhibit 11: RoE and RoCE trend...



Source: Company, ICICI Direct Research

Exhibit 12: SOTP valuation for Kalpataru Power

	Basis of Valuation	Multiple	Total Value (₹ crore)	Per share value(₹)
Base Business	P/E	11.0x	6,880	462
JMC Projects	40% Holdco discount on market Cap	67.2% stake	798	54
Other JVs/Investment in BOOT projects	Equity Invested	1.0x	370	25
Investment in Linjemontage (85% Stake)	Book Value	1.0x	141	9
Total			8,047	550

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	7,904.0	7,671.0	8,747.6	10,045.4
Growth (%)	11.1	-2.9	14.0	14.8
Raw Material Expenses	3,267.0	2,793.0	3,385.1	4,087.6
Employee Expenses	526.0	551.0	601.9	689.3
Sub Contracting Charges	2,635.0	2,751.0	3,056.0	3,312.6
Other Operating Expenses	616.0	768.0	826.8	916.5
Other expenses	0.0	0.0	0.0	0.0
Total Operating Expenditure	7,044.0	6,863.0	7,869.8	9,005.9
EBITDA	860.0	808.0	877.9	1,039.4
Growth (%)	10.5	-6.0	8.7	18.4
Depreciation	110.0	114.6	137.9	159.6
Interest	166.0	109.0	102.9	77.5
Other Income	58.0	79.0	61.0	65.0
PBT	666.0	831.4	698.1	867.3
Others	0.0	0.0	0.0	0.0
Total Tax	203.0	216.0	193.6	241.9
PAT	463.0	615.4	504.5	625.4
Growth (%)	15.4	32.9	-18.0	24.0
EPS (₹)	29.9	41.3	33.9	42.0

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	463.0	615.4	504.5	625.4
Add: Depreciation	110.0	114.6	137.9	159.6
(Inc)/dec in Current Assets	-751.6	136.6	-525.7	-713.9
Inc/(dec) in CL and Provisions	467.4	-100.5	541.6	394.0
Others	0.0	0.0	0.0	0.0
CF from operating activities	288.8	766.1	658.2	465.0
(Inc)/dec in Investments	-215.7	-21.8	0.0	-50.0
(Inc)/dec in Fixed Assets	-204.8	-130.3	-137.5	-167.5
Others	0.0	0.0	0.0	0.0
CF from investing activities	-573.6	-275.3	-143.3	-275.4
Issue/(Buy back) of Equity	0.3	-1.2	0.0	0.0
Inc/(dec) in loan funds	531.3	-196.6	-550.0	0.0
Dividend paid & dividend tax	-119.2	-126.6	-79.1	-87.9
Inc/(dec) in Sec. premium	64.4	-175.7	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	451.7	-484.8	-512.8	-87.9
Net Cash flow	167.0	6.0	2.1	101.8
Opening Cash	136.5	303.4	309.4	311.5
Closing Cash	303.4	309.4	311.5	413.3

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	30.9	29.8	29.8	29.8
Reserve and Surplus	3,504.7	3,833.0	4,374.8	4,912.3
Total Shareholders funds	3,535.6	3,862.8	4,404.5	4,942.1
Total Debt	1,177.4	980.8	430.8	430.8
Deferred Tax Liability	5.1	0.0	0.0	0.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	4,990.8	5,094.6	5,126.3	5,683.9
Assets				
Gross Block	1,012.2	1,131.7	1,251.0	1,406.0
Less: Acc Depreciation	387.6	463.1	597.6	753.4
Net Block	624.7	668.6	653.5	652.6
Capital WIP	39.5	14.4	30.0	40.0
Total Fixed Assets	664.2	683.0	683.5	692.6
Investments	864.2	886.0	886.0	936.0
Inventory	738.9	598.3	767.8	828.5
Debtors	3,517.4	3,731.9	4,002.3	4,403.4
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	2,509.2	2,351.3	2,687.4	2,938.0
Cash	303.4	309.4	311.5	413.3
Total Current Assets	7,491.6	7,361.0	7,888.8	8,704.5
Creditors	2,136.2	2,295.6	2,420.6	2,587.0
Provisions	321.4	483.2	532.5	543.3
Total Current Liabilities	4,663.9	4,563.4	5,104.9	5,498.9
Net Current Assets	2,827.7	2,797.6	2,783.9	3,205.7
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	4,990.8	5,094.6	5,126.4	5,683.9

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	29.9	41.3	33.9	42.0
Cash EPS	37.0	49.0	43.1	52.7
BV	228.5	259.4	295.8	331.9
DPS	6.5	7.2	4.5	5.0
Cash Per Share	19.6	20.8	20.9	27.8
Operating Ratios (%)				
EBITDA Margin	10.9	10.5	10.0	10.3
PBT / Total Operating income	8.4	10.8	8.0	8.6
PAT Margin	5.9	8.0	5.8	6.2
Inventory days	34.1	28.5	32.0	30.1
Debtor days	162.4	177.6	167.0	160.0
Creditor days	98.6	109.2	101.0	94.0
Return Ratios (%)				
RoE	12.6	12.7	11.5	12.7
RoCE	17.1	15.9	16.6	17.6
RoIC	20.9	18.9	19.0	20.7
Valuation Ratios (x)				
P/E	15.9	11.5	14.0	11.3
EV / EBITDA	9.6	9.9	8.5	7.1
EV / Net Sales	1.0	1.0	0.9	0.7
Market Cap / Sales	0.9	1.0	0.8	0.7
Price to Book Value	2.1	1.8	1.6	1.4
Solvency Ratios				
Debt/EBITDA	1.4	1.2	0.5	0.4
Debt / Equity	0.3	0.3	0.1	0.1
Current Ratio	1.5	1.4	1.5	1.5
Quick Ratio	1.3	1.3	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1623	1,870	Buy	227739	81.9	46.7	52.9	19.8	34.8	30.7	7.4	8.0	8.8	18.8	10.2	11.0
AIA Engineering (AIAENG)	1980	2,275	Buy	18675	60.0	58.7	71.0	33.0	33.7	27.9	16.5	15.1	16.7	13.3	12.2	13.3
Thermax (THERMA)	1386	1,685	Buy	16515	17.3	26.8	37.0	80.0	51.8	37.4	9.8	12.5	15.9	7.6	9.8	12.4
Kalpataru Power(KALPOW)	475	550	Buy	7349	41.3	33.9	42.0	11.5	14.0	11.3	15.9	16.6	17.6	12.7	11.5	12.7
KEC International (KECIN)	416	485	Buy	10695	21.5	23.3	32.2	19.4	17.8	12.9	19.4	18.3	20.9	16.5	15.9	18.3
Greaves Cotton (GREAVE)	158	210	Buy	3653	0.4	4.7	6.5	352.6	33.3	24.1	6.5	16.5	21.9	3.3	12.0	16.0
Elgi Equipment (ELGEQU)	205	260	Buy	6497	3.2	4.3	6.5	63.4	48.1	31.8	11.7	13.7	18.7	11.8	14.8	19.2
Bharat Electronics (BHAELE)	176	205	Buy	42884	8.5	9.5	10.8	20.8	18.5	16.3	27.1	26.7	27.7	19.1	19.7	20.5
Cochin Shipyard (COCSHI)	375	500	Buy	5089	46.4	44.0	55.6	8.1	8.5	6.7	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	2815	3,300	Buy	14100	60.2	72.0	94.0	46.8	39.1	29.9	24.8	25.0	28.0	19.0	19.0	21.0
Timken India (TIMIND)	1490	1,235	Hold	11729	19.0	31.2	35.3	78.3	47.8	42.2	15.4	19.4	21.9	11.9	14.8	16.8
NRB Bearing (NRBBEA)	138	175	Buy	1466	5.6	8.0	9.8	24.6	17.3	14.1	11.8	15.8	17.2	10.4	13.1	14.1
Action Construction (ACTCON)	245	300	Buy	2894	7.1	9.4	13.7	34.5	26.1	17.9	26.9	25.8	30.7	15.3	17.1	20.3

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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