

Muted execution amid supply chain disruptions...

About the stock: Kalpataru power (KPTL) is amongst the leading EPC 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.

Q2FY22 Results: KPTL reported muted Q2FY22 results.

- Standalone Revenue at ₹ 1618 crore, down 14% YoY, amid muted execution
- EBITDA came in at ₹ 152 crore, down 9.4% YoY with EBITDA margins at 9.4% with decline of 80bps on QoQ and 130bps on YoY basis impacted by higher commodity prices, supply chain disruptions, unseasonal rains.
- Consequently, adjusted PAT came in at ₹ 59.8 crore, down 59.6% YoY
- Order inflows for YTD FY22 stands muted at ₹ 2001 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 retain our HOLD rating on the stock.

Target Price and Valuation: We value KPTL at ₹ 455 on SoTP basis

Key triggers for future price performance:

- We expect revenue to grow at CAGR of ~9.8% over FY21-FY23E owing to decent order book worth ~₹ 12397 crore and L1 orders worth ~₹ 1800 crore
- Decent order pipeline for H2FY22E to ensure reasonable order inflows.
- 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 ₹ 550



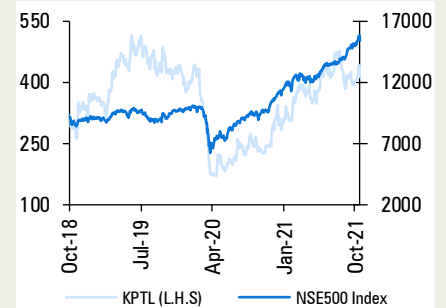
Particulars

Particular (₹)	Amount
Market Capitalization	6,188.6
Total Debt (FY21)	980.8
Cash and Inv. (FY21)	309.4
EV	6,860.0
52 week H/L	₹ 496 / 228
Equity capital	₹ 30.7 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	56.5	56.5	54.6	54.6
FII	4.4	6.3	7.3	7.5
DII	28.6	27.3	28.4	28.7
Others	10.6	9.9	9.8	9.3

Price Chart



Recent events & Key risk

- Key Risks: (i) Execution pick-up, ordering revival in domestic T&D could auger well, (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%	8,055.3	9,247.9	9.8%
EBITDA	778.2	860.0	808.0	11.6%	771.5	940.6	7.9%
EBITDA Margin (%)	10.9	10.9	10.5		9.6	10.2	
Adj. Net Profit	401.3	463.0	491.1	19.7%	384.4	562.2	7.0%
EPS (₹)	26.1	29.9	41.3		25.8	37.8	
P/E (x)	15.3	13.4	9.7		15.5	10.6	
RoNW (%)	12.7	12.6	12.7		9.7	11.8	
RoCE (%)	19.6	17.1	15.9		15.2	16.7	

Source: Company, ICICI Direct Research

Key takeaways of the recent quarter & Concall highlights

Q2FY22 Results: Muted execution amid near term challenges...

- For Q2FY22, KPTL's standalone revenue came in at ₹ 1618 crore (much below our estimate of ₹ 1618 crore) down by 14% YoY due to delayed dispatches in T&D, supply chain issues and unseasonal rains affecting sales in oil & gas business.
- KPTL's YTD FY22 order inflows came in muted at ₹ 2001 crore including T&D (58%), Railways (26%). Also, KPTL is L1 in orders worth ~1800 crore amid few delay in awards. As on Q2FY22, order book stood at ₹ 12397 crore (including Linjemontage Sweden order book) with T&Ds segment contributing 57%, followed by Railways (25%), Oil & Gas (18%).
- EBITDA came in at ₹ 152 crore (Vs. our estimates of ₹ 222.6 crore) which declined by 24.8% YoY while EBITDA margins came in at 9.4% with decline of 80bps on QoQ basis and 130bps on YoY basis impacted by higher commodity prices, rise in freight cost, supply chain disruptions.
- Adj. PAT (net of exceptional items) came in at ₹ 59.8 crore, down by 59.6% on YoY basis partly impacted by lower other income and higher effective tax rate. While interest expense stood at ₹ 28 crore, down 21.7% on YoY.

Q2FY22 Earnings Conference Call highlights

- Revenue guidance revised to 5% to 10% for FY22E and while order inflows for FY22E are expected to be ~₹ 7000-8000 crore. The margins are expected to be in the range of 9 to 10% for FY22E amid higher raw material cost.
- During Q2FY22, JMC Projects' consolidated revenue came in at ₹ 1321 crore, up 64% Building & Factories and Water segment. Core EBITDA margin was at 6.5%, down 260 bps YoY while PAT came in at loss of ₹ 212 crore Vs. net PAT of ₹ 7 crore in Q2FY21. Q2FY22 order inflow came in at ₹ 4428 crore while order book stood at ₹ 18700 crore suggesting strong revenue visibility. Per day revenue for toll road projects has improved stood ₹ 49 lakh/day for Q2FY22 Vs 52.4 lakh/day in Q2FY21.
- For Q2FY22, Shubham Logistics (SSL) revenue declined by 23% to ₹ 31.7 crore while EBITDA margin came in at 22.5% (Vs. 46% in Q2FY21).
- During the Q2FY22, KPTL's Consolidated Net Debt has decreased by ₹ 136 crore to ₹ 2810 crore on QoQ basis. It is well on track to become net debt free on standalone basis by Q4FY22E factoring in expected cash proceeds from non-core assets.
- Received major approval for transfer of Kohima-Mariani assets, expect deal closure by H2FY22E. Indore real estate execution is expected to be fully sold over next 12-18 months and around 35% units have been sold, expects another 20% over next two quarters. It has received OC for three buildings and expects to receive OC for the remaining buildings very soon. It reported exceptional item worth ~₹ 45 crore towards impairment of investments towards Indore real estate. KPTL expects to exit and get back its total investment of ₹ 280 crore (post impairment) in 12-18 months of which ~100 crore expected to come in FY22E.
- International tendering opportunities 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 remain muted except some TBCB bidding from private players and SEBs. Overall, it sees tendering pipeline of ~ ₹ 15000 to ₹ 20000 crore for T&D in H2FY22.
- Linjemontage posted Q1FY22 revenue of ₹ 268 crore while Fasttel (Brazil) contributed ₹ 223 crore in Q2FY22.

Exhibit 1: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (Chg %)	Q1FY22	QoQ (Chg %)	Comments
Revenue	1,618.0	2,182.7	1,882.0	-14.0	1,586.0	2.0	Muted revenue growth amid execution headwinds
Other Income	21.0	16.0	37.0	-43.2	14.0	50.0	
Employee Expenses	114.0	141.9	140.0	-18.6	134.0	-14.9	
Raw Material Expenses	767.0	831.6	700.0	9.6	528.0	45.3	
Other Operating Expenses	149.0	207.4	192.0	-22.4	159.0	-6.3	
Sub Contracting Charges	436.0	779.2	648.0	-32.7	603.0	-27.7	
EBITDA	152.0	222.6	202.0	-24.8	162.0	-6.2	
EBITDA Margin (%)	9.4	10.2	10.7	-134 bps	10.2	-82 bps	Decline in EBITDA margin on account of rising commodity prices, logistics costs, supply chain issues
Depreciation	27.0	28.5	29.0	-6.9	26.0	3.8	
Interest	28.0	30.2	23.0	21.7	34.0	-17.6	
PBT	73.0	180.0	201.0	-63.7	116.0	-37.1	
Total Tax	36.0	46.8	42.0	-14.3	40.0	-10.0	
PAT	37.0	133.2	159.0	-76.7	76.0	-51.3	
Adj. PAT (After exceptional item)	59.8	133.2	147.9	-59.6	76.0	-21.3	Adjusted PAT down 59.6% partly impacted by lower other income, higher effective tax rate
Key Metrics							
Order inflows	1,137.0	2,650.0	691.0	64.5	865.0	31.4	
Order backlog	12256.8	13005.1	11,902.8	3.0	12737.8	-3.8	Order backlog provides decent revenue visibility

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21		FY22E		FY23E			Comments
	Actual	Old	New	% Change	Old	New	% Change	
(₹ Crore)								
Revenue	7,671.0	8,747.0	8,055.3	-7.9	10,045.4	9,247.9	-7.9	Estimates revised downwards in-line with muted execution, slowdown in order inflows
EBITDA	808.0	877.9	771.5	-12.1	1,039.4	940.6	-9.5	
EBITDA Margin (%)	10.5	10.0	9.6	-46 bps	10.3	10.2	-18 bps	Margins likely to revert gradually with short-term hiccups due to rising commodity prices, logistics cost.
PAT	615.4	504.5	384.4	-23.8	625.4	562.2	-10.1	
EPS (₹)	41.3	33.9	25.8	-23.8	42.0	37.8	-10.1	

Source: Company, ICICI Direct Research

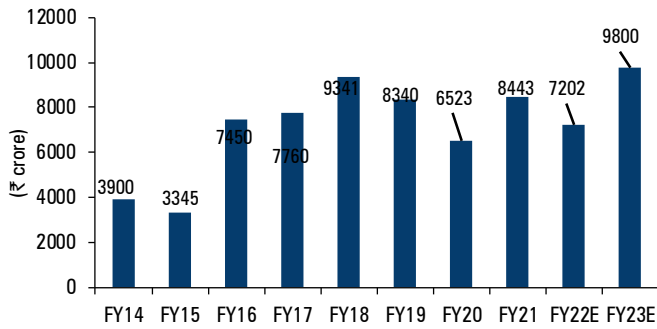
Exhibit 3: Assumptions

	Current			Previous		Comments
	FY21	FY22E	FY23E	FY22E	FY23E	
Order Inflow growth	29.4	-14.7	36.1	3.2	22.8	
Order Backlog growth	6.1	-11.2	12.1	-6.6	5.2	Order inflows guidance revised downward for FY22E
Revenue growth	-2.9	5.0	14.8	14.0	14.8	Factoring in the lowered guidance for FY22E
EBITDA Margins	10.5	9.6	10.2	10.0	10.3	

Source: Company, ICICI Direct Research

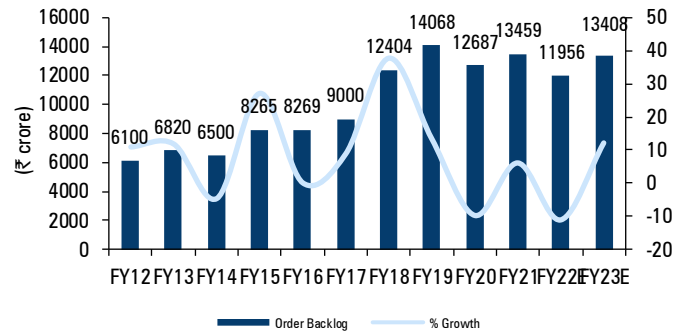
Financial story in charts

Exhibit 4: Trend in order inflows



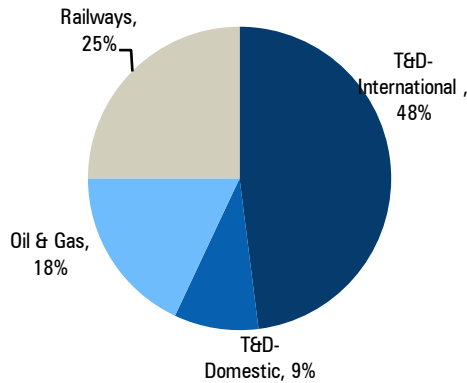
Source: ICICI Direct Research, Company

Exhibit 5: Order backlog trend...



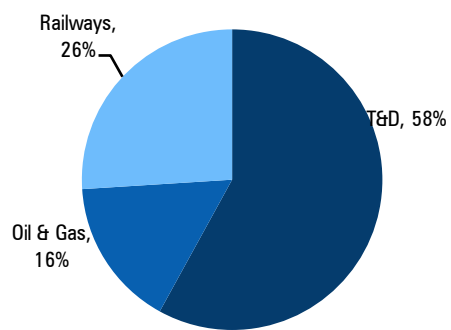
Source: ICICI Direct Research, Company

Exhibit 6: Segmental break-up of order backlog



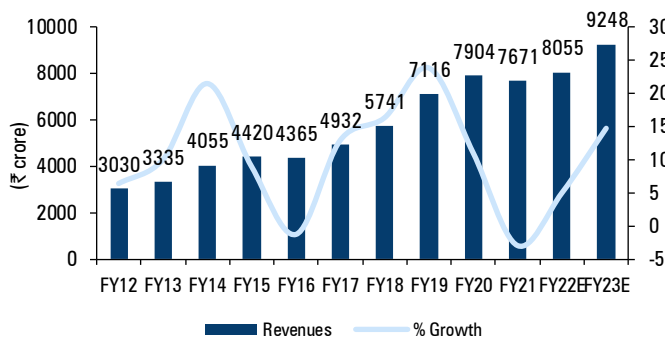
Source: Company, ICICI Direct Research

Exhibit 7: YTD order inflow break-up



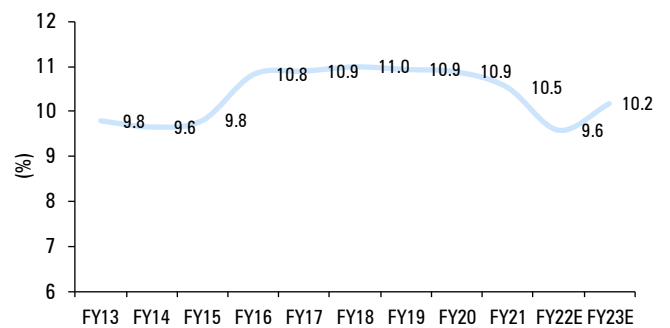
Source: Company, ICICI Direct Research

Exhibit 8: Trend in revenue...



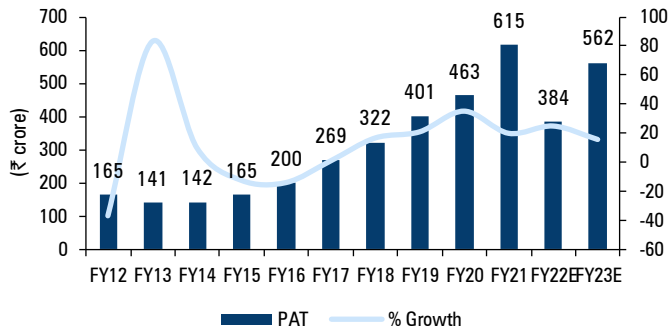
Source: Company, ICICI Direct Research

Exhibit 9: Trend in EBITDA margin...



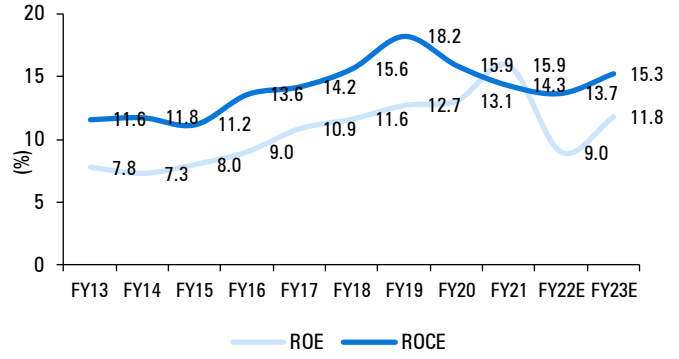
Source: Company, ICICI Direct Research

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	10.0x	5,622	378
JMC Projects	45% Holdco discount on Market Cap	67.2% stake	649	44
Other JV's/Investment in BOOT projects	Equity Invested	1.0x	370	25
Investment in Linjemontage (85% Stake)	Book Value	1.0x	141	9
Total			6,641	455

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	8,055.3	9,247.9
Growth (%)	11.1	-2.9	5.0	14.8
Raw Material Expenses	3,267.0	2,793.0	3,174.4	3,672.0
Employee Expenses	526.0	551.0	559.4	634.3
Sub Contracting Charges	2,635.0	2,751.0	2,793.4	3,156.5
Other Operating Expenses	616.0	768.0	756.5	844.6
Other expenses	0.0	0.0	0.0	0.0
Total Operating Expenditure	7,044.0	6,863.0	7,283.8	8,307.3
EBITDA	860.0	808.0	771.5	940.6
Growth (%)	10.5	-6.0	-4.5	21.9
Depreciation	110.0	114.6	125.2	148.3
Interest	166.0	109.0	115.0	83.1
Other Income	58.0	79.0	70.0	72.0
PBT	666.0	831.4	556.3	781.2
Others	0.0	0.0	0.0	0.0
Total Tax	203.0	216.0	171.9	219.0
PAT	463.0	615.4	384.4	562.2
Growth (%)	15.4	32.9	-37.5	46.3
EPS (₹)	29.9	41.3	25.8	37.8

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	384.4	562.2
Add: Depreciation	110.0	114.6	125.2	148.3
(Inc)/dec in Current Assets	-751.6	136.6	-166.2	-694.2
Inc/(dec) in CL and Provisions	467.4	-100.5	93.2	450.6
Others	0.0	0.0	0.0	0.0
CF from operating activities	288.8	766.1	436.6	466.9
(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	-108.0	-221.6
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	-184.2	157.5
Opening Cash	136.5	303.4	309.4	125.2
Closing Cash	303.4	309.4	125.2	282.6

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	4,254.7	4,729.0
Total Shareholders funds	3,535.6	3,862.8	4,284.5	4,758.8
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	5,006.3	5,500.6
Assets				
Gross Block	1,012.2	1,131.7	1,251.0	1,406.0
Less: Acc Depreciation	387.6	463.1	584.9	729.4
Net Block	624.7	668.6	666.2	676.7
Capital WIP	39.5	14.4	30.0	40.0
Total Fixed Assets	664.2	683.0	696.2	716.7
Investments	864.2	886.0	886.0	936.0
Inventory	738.9	598.3	681.7	787.8
Debtors	3,517.4	3,731.9	3,795.9	4,180.6
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	2,509.2	2,351.3	2,449.7	2,729.2
Cash	303.4	309.4	125.2	282.6
Total Current Assets	7,491.6	7,361.0	7,343.0	8,194.6
Creditors	2,136.2	2,295.6	2,295.2	2,407.0
Provisions	321.4	483.2	488.9	505.5
Total Current Liabilities	4,663.9	4,563.4	4,656.6	5,107.2
Net Current Assets	2,827.7	2,797.6	2,686.4	3,087.4
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	4,990.8	5,094.6	5,006.3	5,500.6

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	25.8	37.8
Cash EPS	37.0	49.0	34.2	47.7
BV	228.5	259.4	287.7	319.6
DPS	6.5	7.2	4.5	5.0
Cash Per Share	19.6	20.8	8.4	19.0
Operating Ratios (%)				
EBITDA Margin	10.9	10.5	9.6	10.2
PBT / Total Operating income	8.4	10.8	6.9	8.4
PAT Margin	5.9	8.0	4.8	6.1
Inventory days	34.1	28.5	30.9	31.1
Debtor days	162.4	177.6	172.0	165.0
Creditor days	98.6	109.2	104.0	95.0
Return Ratios (%)				
RoE	12.6	12.7	9.7	11.8
RoCE	17.1	15.9	15.2	16.7
RoIC	20.9	18.9	16.9	18.9
Valuation Ratios (x)				
P/E	13.4	9.7	15.5	10.6
EV / EBITDA	8.2	8.5	8.4	6.7
EV / Net Sales	0.9	0.9	0.8	0.7
Market Cap / Sales	0.8	0.8	0.8	0.7
Price to Book Value	1.8	1.5	1.4	1.3
Solvency Ratios				
Debt/EBITDA	1.4	1.2	0.6	0.5
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)	1810	2,150	Buy	253979	81.9	51.9	52.9	22.1	34.8	34.2	7.4	8.0	9.0	18.8	11.4	11.2
Siemens Ltd	2245	2,550	Buy	79949	28.3	37.9	45.1	79.4	59.2	49.8	13.5	16.3	17.4	9.9	12.1	13.0
AIA Engineering (AIAENG)	1925	2,230	Buy	18157	59.7	60.4	69.7	32.2	31.9	27.6	16.4	15.3	16.1	13.3	12.4	12.9
Thermax (THERMA)	1400	1,680	Buy	16682	17.3	26.8	40.0	80.8	52.2	35.0	9.8	11.9	16.3	7.6	9.3	12.7
Kalpataru Power(KALPOW)	400	455	Hold	6189	41.3	25.8	37.8	9.7	15.5	10.6	15.9	15.2	16.7	12.7	9.7	11.8
KEC International (KECIN)	455	550	Buy	11698	21.5	19.9	32.3	21.2	22.8	14.1	19.4	17.3	21.3	16.5	14.7	18.7
Greaves Cotton (GREAVE)	134	150	Hold	3098	0.4	2.4	5.4	299.0	54.8	24.9	6.5	7.2	18.6	3.3	5.1	13.6
Elgi Equipment (ELGEQU)	199	260	Buy	6306	3.2	3.9	6.2	61.5	50.8	32.3	11.7	12.8	18.1	11.8	13.9	18.7
Bharat Electronics (BHAELE)	199	250	Buy	48488	8.5	9.6	11.3	23.5	20.7	17.6	27.2	27.0	28.7	19.1	19.9	21.4
Cochin Shipyard (COCSHI)	350	500	Buy	4760	46.4	44.0	55.6	7.5	8.0	6.3	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	3320	3,960	Buy	17596	67.6	78.1	98.9	49.1	42.5	33.6	27.0	26.5	27.9	21.4	20.6	21.6
Timken India (TIMIND)	1780	1,740	Hold	11392	19.0	28.2	36.3	93.5	63.1	49.0	13.7	18.3	23.5	10.7	14.0	18.0
NRB Bearing (NRBBEA)	130	175	Buy	1261	5.6	8.0	9.8	23.2	16.3	13.3	11.8	15.8	17.2	10.4	13.1	14.1
Action Construction (ACTCON)	252	300	Buy	2848	7.1	9.4	13.7	35.5	26.8	18.4	26.9	25.8	30.7	15.3	17.1	20.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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