

Institutional Equity Research

Kalpataru Power Transmission

Capital Goods | India

1QFY19 Result Update | August 08, 2018

| | |
|------------------------|--------|
| CMP* (Rs) | 369 |
| Upside/ (Downside) (%) | 50 |
| Bloomberg Ticker | KPP IN |
| Market Cap. (Rs bn) | 57 |
| Free Float (%) | 40.7 |
| Shares O/S (mn) | 153.5 |

BUY 

Target Price: Rs555

Earnings Momentum to Sustain; Maintain BUY

Aided by strong execution in T&D, Railway and Pipeline business coupled with higher margin, Kalpataru Power Transmission (KPTL) has delivered a decent performance in 1QFY19. Its standalone earnings improved by 15% YoY to Rs810mn (in-line with our estimate of Rs792mn), while revenue grew by 10% YoY (16% YoY Like-to-Like basis) to Rs13.2bn. EBITDA grew by 15% YoY to Rs1.6bn, while EBITDA margin expanded by 50bps YoY to 11.9% led by cost control. At subsidiary level, while JMC Projects' PAT grew by 24% YoY to Rs266mn led by margin expansion and higher other income, Shree Shubham Logistics' (SSL) revenue rose by 115% YoY to Rs290mn led by higher utilisation level. We continue to believe that KPTL is well-placed to benefit from continued spending in T&D, railway and pipeline segments. **Considering strong visibility on revenue and order flow front, sustained earnings momentum and likely improvement in return ratios in next two years, we maintain our BUY recommendation on the stock with a revised Target Price of Rs555.**

Improved Execution Aided Revenue Growth; EBITDA Margin at 11.9%

KPTL's revenue rose by 10% YoY to Rs13.2 bn led by higher execution in T&D, Railway and Pipeline business. With 50bps YoY expansion in operating margin to 11.9%, its EBITDA and PAT grew by 15% each to Rs1.6bn and Rs810 mn, respectively. Looking ahead, the Management looks forward to 15% revenue growth in FY19 as well led by strong order book.

Improved Performance Continues at Subsidiary Level

At subsidiary level, JMC's PAT grew by 24% to Rs266mn, while EBITDA margin improved by 50bps YoY 10.3% led by continued focus on high-margin business. JMC's revenue grew by 3% YoY (10% YoY on Like-to-Like basis) to Rs6.9bn in 1QFY19. Its order backlog stood at Rs98bn (+40% YoY), while order inflow improved by 310% YoY to Rs29bn in 1QFY19. The Management expects JMC's revenue to grow by ~15% in FY19E. Further, SSL's revenue rose by 115% YoY to Rs292mn led by higher utilisation, while reported PAT came in at Rs6mn against Rs104mn net loss in 1QFY18.

Robust Growth in Standalone Order Book

KPTL's standalone order book rose by 41% YoY to Rs137bn in 1QFY19 led by 27% growth in order inflow to at Rs27bn. Further, the Company is favourably placed (L1) in projects worth Rs23.4bn and received orders worth Rs9bn in Aug'18. We expect order inflow to the tune of ~Rs100bn in FY19E.

Outlook & Valuation

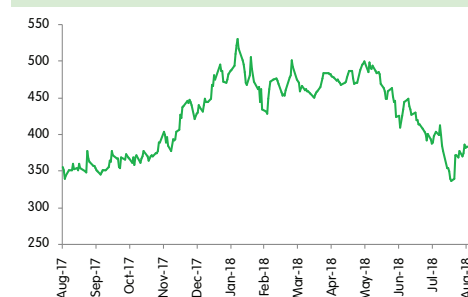
Looking ahead, we expect KPTL to be one of the key beneficiaries of strong transmission capex in both domestic and global markets, which would drive 21% CAGR in earnings through FY18-20E. Valuing its standalone business at Rs491 (16x of FY20E standalone operational EPS), we have assigned Rs56/share (applying 25% holding company discount) of value for its 67% equity in JMC. We have valued SSL based on EV/EBITDA multiple at Rs8/share. **We maintain our BUY recommendation on the stock with a revised Target Price of Rs555 (from Rs567 earlier).**

| Key Financials (Rs mn) | FY17 | FY18 | FY19E | FY20E |
|------------------------|--------|--------|--------|--------|
| Net sales | 48,941 | 57,785 | 65,191 | 75,784 |
| PAT | 2,691 | 3,220 | 3,885 | 4,706 |
| EPS (Rs) | 17.5 | 21.0 | 25.3 | 30.7 |
| PE (x) | 21.0 | 17.6 | 14.6 | 12.0 |
| EV/EBITDA (x) | 10.3 | 8.9 | 7.5 | 6.4 |
| P/BV (x) | 2.3 | 2.0 | 1.8 | 1.6 |
| ROCE | 15.7 | 16.6 | 17.4 | 18.5 |
| RONW | 10.9 | 11.6 | 12.4 | 13.1 |

Source: Company, RSec Research

| Share price (%) | 1 mth | 3 mth | 12 mth |
|----------------------|--------|--------|--------|
| Absolute performance | (7.2) | (26.0) | 8.5 |
| Relative to Nifty | (12.7) | (32.8) | (7.0) |

| Shareholding Pattern (%) | Mar'18 | Jun'18 |
|--------------------------|--------|--------|
| Promoter | 59.3 | 59.3 |
| Public | 40.7 | 40.7 |

1 Year Stock Price Performance

Note: * CMP as on August 08, 2018

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Risks to the View

- ▶ Weakness on margin front especially in T&D business.
- ▶ Decreased T&D spend in key markets i.e. India, Middle East & Europe.
- ▶ Unfavourable currency movement.

Exhibit 1: Quarterly Performance

| (Rs mn) | 1Q FY19 | 1Q FY18 | YoY (%) | 4Q FY18 | QoQ (%) |
|----------------------|---------------|---------------|-------------|---------------|---------------|
| Total Sales | 13,249 | 12,069 | 9.8 | 19,314 | (31.4) |
| Raw Material | 9,592 | 8,234 | 16.5 | 13,788 | (30.4) |
| % of Sales | 72.4 | 68.2 | | 71.4 | |
| Employee Cost | 1,026 | 780 | 31.5 | 1,000 | 2.7 |
| % of Sales | 7.7 | 6.5 | | 5.2 | |
| Other Exp | 1,061 | 1,683 | (37.0) | 2,435 | (56.4) |
| % of Sales | 8.0 | 13.9 | | 12.6 | |
| Total Exp | 11,679 | 10,697 | 9.2 | 17,223 | (32.2) |
| EBITDA | 1,571 | 1,372 | 14.5 | 2,092 | (24.9) |
| EBITDA Margin (%) | 11.9 | 11.4 | | 10.8 | |
| Other Income | 147 | 114 | 29.4 | 109 | 34.9 |
| Interest | 279 | 220 | 26.6 | 310 | (10.2) |
| Depreciation | 194 | 188 | 2.9 | 191 | 1.3 |
| PBT | 1,245 | 1,078 | 15.6 | 1,699 | (26.7) |
| Tax | 435 | 373 | 16.6 | 651 | (33.1) |
| Tax rate (%) | 34.9 | 34.6 | | 38.3 | |
| Net Profit | 810 | 704 | 15.0 | 1,048 | (22.7) |
| OCI | (55) | (45) | | 42 | |
| Net Income (Inc OCI) | 755 | 659 | 14.6 | 1,090 | (30.7) |
| Net Margin (%) | 6.1 | 5.8 | | 5.4 | |
| EPS (Rs) | 5.3 | 4.6 | 15.0 | 6.8 | (22.7) |

Source: Company, RSec Research

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Profit & Loss Statement

| Y/E March (Rs mn) | FY17 | FY18 | FY19E | FY20E |
|-----------------------------|---------------|---------------|---------------|---------------|
| Net sales | 48,941 | 57,785 | 65,191 | 75,784 |
| RM cost | 20,343 | 26,416 | 26,989 | 31,450 |
| Employee expenses | 2,918 | 3,487 | 3,846 | 4,471 |
| Other expenses | 20,388 | 21,569 | 27,185 | 31,450 |
| Total operating expenditure | 43,649 | 51,473 | 58,020 | 67,372 |
| EBIDTA | 5,291 | 6,312 | 7,171 | 8,412 |
| Depreciation | 777 | 766 | 958 | 1,075 |
| EBIT | 4,514 | 5,546 | 6,213 | 7,337 |
| Other income | 493 | 480 | 542 | 630 |
| Interest costs | 982 | 1,033 | 868 | 836 |
| PBT | 4,026 | 4,993 | 5,886 | 7,131 |
| Taxes | 1,335 | 1,773 | 2,001 | 2,424 |
| Tax rate (%) | 33.2 | 35.5 | 34.0 | 34.0 |
| PAT | 2,691 | 3,220 | 3,885 | 4,706 |
| % yoy change | 34.9 | 19.7 | 20.7 | 21.1 |
| EPS | 17.5 | 21.0 | 25.3 | 30.7 |

Balance Sheet

| Y/E March (Rs mn) | FY17 | FY18 | FY19E | FY20E |
|--|---------------|---------------|---------------|---------------|
| Liabilities | | | | |
| Share capital | 307 | 307 | 307 | 307 |
| Reserves & Surplus | 24,480 | 27,394 | 31,048 | 35,540 |
| Total shareholder's funds | 24,787 | 27,700 | 31,355 | 35,847 |
| Secured loans | 5,526 | 6,409 | 5,084 | 4,834 |
| Unsecured loans | 1,598 | 1,699 | 1,699 | 1,699 |
| Total borrowings | 7,124 | 8,108 | 6,783 | 6,533 |
| Other long term liabilities | 21 | 538 | 581 | 668 |
| Capital employed | 31,932 | 36,347 | 38,720 | 43,048 |
| Assets | | | | |
| Gross Block | 10,900 | 11,724 | 13,124 | 14,724 |
| Accumulated Depreciation | 5,690 | 6,456 | 7,414 | 8,489 |
| Net Block | 5,210 | 5,268 | 5,710 | 6,235 |
| Capital Work in Progress | 26 | 167 | 800 | 650 |
| Investments (non current) | 7,160 | 7,849 | 8,349 | 8,849 |
| Net Current Assets: | | | | |
| Inventories | 4,542 | 4,828 | 5,253 | 5,926 |
| Sundry Debtors | 27,635 | 32,920 | 26,076 | 30,314 |
| Cash and Bank | 2,112 | 816 | 1,338 | 525 |
| Loans and Advances | 6,081 | 6,597 | 11,734 | 14,020 |
| Other Current Assets | 7,754 | 13,926 | 14,091 | 14,206 |
| Total Current Assets | 48,123 | 59,087 | 58,493 | 64,991 |
| Current Liabilities & Provisions: | | | | |
| Current liabilities | 25,942 | 33,536 | 32,189 | 35,306 |
| Provision | 3,181 | 2,904 | 2,904 | 2,904 |
| Total current liabilities | 29,123 | 36,439 | 35,093 | 38,210 |
| Net Current Assets | 19,001 | 22,648 | 23,400 | 26,781 |
| Other non-current assets | 536 | 415 | 460 | 532 |
| Capital Deployed | 31,932 | 36,347 | 38,720 | 43,048 |

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Cash Flow Statement

| Y/E March (Rs mn) | FY17 | FY18 | FY19E | FY20E |
|--|----------------|----------------|----------------|----------------|
| PBT | 4,026 | 4,993 | 5,886 | 7,131 |
| Depreciation | 777 | 766 | 958 | 1,075 |
| Interest provided | 982 | 1,033 | 868 | 836 |
| Other adjustments | (270) | (92) | | |
| Operating cash flow before WC requirement | 5,515 | 6,700 | 7,713 | 9,042 |
| Change in working capital | 303 | 4,305 | 233 | 4,179 |
| Tax Paid | 1,335 | 1,773 | 2,001 | 2,424 |
| Operating cash flow | 3,877 | 622 | 5,479 | 2,439 |
| FCF | 3,289 | (343) | 3,445 | 989 |
| Capex | 588 | 964 | 2,033 | 1,450 |
| Investments | 2,211 | 690 | 500 | 500 |
| Investing cash flow | (2,799) | (1,654) | (2,533) | (1,950) |
| Issue/repayment of debt | 1,168 | 984 | (1,325) | (250) |
| Dividends paid | 215 | 215 | 230 | 215 |
| Interest paid | (982) | (1,033) | (868) | (836) |
| Financing cash flow | (28) | (263) | (2,423) | (1,301) |
| Opening cash balance | 1,062 | 2,112 | 816 | 1,338 |
| Net change in cash | 1,050 | (1,296) | 522 | (812) |
| Closing cash balance | 2,112 | 816 | 1,338 | 525 |

Key Ratios

| Y/E March | FY17 | FY18 | FY19E | FY20E |
|-----------------------|------|------|-------|-------|
| EBITDA margins (%) | 10.8 | 10.9 | 11.0 | 11.1 |
| PBT margins (%) | 8.2 | 8.6 | 9.0 | 9.4 |
| PAT margins (%) | 5.5 | 5.6 | 6.0 | 6.2 |
| ROCE (%) | 15.7 | 16.6 | 17.4 | 18.5 |
| RONW (%) | 10.9 | 11.6 | 12.4 | 13.1 |
| Debt/Equity Ratio (x) | 0.3 | 0.3 | 0.2 | 0.2 |
| EV/EBITDA (x) | 10.3 | 8.9 | 7.5 | 6.4 |
| EV/Sales (x) | 1.1 | 1.0 | 0.8 | 0.7 |

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Rating History

| Date | Reco | CMP | TP |
|-----------|------|-----|-----|
| 11-Jan-17 | BUY | 267 | 340 |
| 23-May-17 | BUY | 344 | 397 |
| 17-Feb-17 | BUY | 280 | 342 |
| 16-Aug-17 | BUY | 355 | 397 |
| 16-Nov-17 | BUY | 393 | 443 |
| 8-Feb-18 | BUY | 462 | 550 |
| 31-May-18 | BUY | 443 | 567 |

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| Rating | Expected absolute returns (%) over 12 months |
|--------|--|
| BUY | >10% |
| HOLD | -5% to 10% |
| REDUCE | >-5% |

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