

RESULT UPDATE

MID CAP

Share Data

Reuters code	KAPT.BO
Bloomberg code	KPPIN
Market cap. (US\$ mn)	522
6M avg. daily turnover (US\$ mn)	1.1
Issued shares (mn)	27
Target price (Rs)	1,247

Performance (%)	1M	3M	12M
Absolute	10	25	47
Relative	10	15	(24)

Valuation Ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	60.2	71.9
+/- (%)	69.2	19.5
EPS (Rs) (Consolidated)	68.3	81.5
+/- (%) (Consolidated)	59.3	19.4
PER (x) (Consolidated)	13.5	11.3
PBV (x)	2.5	2.1
Dividend/Yield (%)	0.9	0.9
EV/Sales (x)	1.2	1.0
EV/EBITDA (x)	9.2	8.1

Major shareholders (%)

Promoters	64
FII's	7
MF's	14
BFSI's	3
Public & Others	12

Financial highlights (Standalone)

(Rs mn)	2QFY09	2QFY10	YOY (%)	1HFY09	1HFY10	YOY (%)	FY09	FY10E	YOY (%)	FY11E	YOY (%)
Net Revenue	4,326	5,525	27.7	9,076	10,398	14.6	18,807	24,547	30.5	30,358	23.7
EBITDA	523	716	36.8	1,148	1,300	13.2	2,305	3,233	40.3	3,817	18.1
EBITDA Margin (%)	12.1	12.9	-	12.7	12.5	-	12.3	13.2	-	12.6	-
Other Income	71	98	38.6	64	162	154.0	27	250	811.1	276	10.4
Depreciation	65	85	31.6	125	167	33.9	273	349	27.9	413	18.2
Interest	227	239	5.3	385	379	(1.5)	853	978	14.6	1,105	13.0
PBT	302	489	62.1	703	916	30.3	1,206	2,155	78.7	2,576	19.5
Tax	79	120	52.4	190	226	19.1	262	560	114.1	670	19.5
Adjusted PAT	223	369	65.5	513	690	34.5	944	1,595	68.9	1,906	19.5
EPS (Rs)	8.4	13.9	65.5	19.4	26.0	34.5	35.6	60.2	68.9	71.9	19.5

Kalpataru Power

Maintain BUY

Price: Rs 919

BSE Index: 16,741

26 October 2009

2QFY10 Result – Margins expand on favourable business mix

Kalpataru Power (KPTL) posted better than expected growth in earnings, led by margin expansion.

- Revenue growth of 28% is in line with expectations, led by 16% growth in T&D and 156% growth in pipeline contracting business. Exports contributed 44% of T&D business and 36% of the total revenues.
- EBITDA margins increased 80 bps YoY to 12.9% led by 600 bps decline in raw material costs to sales. This has been largely due to commencement of revenue booking from firm priced overseas transmission line projects and near completion of the distribution project. However, part of this was offset by ~80% rise in employee expenses derived from higher growth in the pipeline contracting works.
- Interest expenses, adjusted for forex loss of Rs 66 mn last year, increased 48% YoY due to increase in average borrowing costs and greater working capital requirements for the discom project. Overall, earnings grew by 66% YoY.
- Order book increased 38% YoY, at Rs 55 bn (order intake of Rs 12.5 bn). Of this, domestic transmission line constitutes 55%, distribution at 5%, exports 33% and pipelines 8%.

Outlook

The operating performance of KPTL has started reflecting the impact of changes in the business mix, as overseas firm priced projects are progressively executed and Mahadiscom's feeder separation project (Rs 8 bn) approaching completion in 3QFY10. Pipeline contracting business is also expected to post strong volumes as execution of two large projects is underway. While we have marginally reduced revenue estimates by 3% for FY10, we have maintained earnings estimates owing to improvement in profitability. At current valuations, we maintain Buy with a target price of Rs 1,247, based on 16x and 10x FY11E KPTL's standalone and JMC projects' earnings, respectively, given strong growth and earnings visibility. At the target price, the stock trades at 15x consolidated earnings.

Segmental highlights (Standalone)

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)
Revenue						
T&D	3,873	4,502	16.2	7,920	8,300	4.8
Real estate	–	1	–	1	1	–
Power	103	127	23.9	227	252	10.9
Infrastructure	351	896	155.5	937	1,845	97.0
Net sales	4,326	5,525	27.7	9,084	10,398	14.5
PBIT margin (%)						
T&D	11.0	12.5	–	10.7	11.6	–
Power	15.4	29.1	–	23.4	31.5	–
Infrastructure	13.6	6.0	–	10.5	7.0	–
Total	11.3	11.8	–	11.0	11.3	–
Capital employed						
T&D	–	–	–	9,543	11,487	20.4
Real estate	–	–	–	112	5	–
Power	–	–	–	728	751	3.3
Infrastructure	–	–	–	1,550	1,639	5.7
Unallocable	–	–	–	2,480	3,607	45.4
Total	–	–	–	14,412	17,489	21.3

- **T&D business rebounds with strong earning growth** – Revenue grew in line with expectations, at 16% YoY. This consisted of 44% from overseas transmission line, 15% from domestic distribution project and 41% from domestic transmission line business. Margins improved better than expected at 12.5%, against 11% last year.
- **Higher volumes in pipeline business** – Commencement of execution of two large projects in this segment (Vijaypur-Dadri from GAIL and Mundra-Bhatinda (500 km)) resulted in 156% growth in revenue. Being in the early phase of revenue booking, margins booked on these projects was lower, resulting in overall 6% EBIT margins against a high base last year.

JMC Projects – Financial highlights

- The current order book of the company is ~Rs 25 bn, 1.7x FY10E and 1.4x FY11E, revenue. The order book constitutes orders from civil construction (63%), infrastructure (27%) and power (10%).
- The EBITDA margin at 7.4% remained flat YoY but was down by 60 bps QoQ due to increased construction expenses. However, it improved by 40 bps YoY in the 1HFY10 and stood at 7.7%.
- The company raised ~Rs 400 mn by a right issue of 3.6 mn equity shares at a price of Rs 110 per equity share. Rs 253 mn of the right issue proceeds have been used for the redemption of the 1.25 mn Non-cumulative redeemable preference shares. The balance fund will be used for long-term working capital requirements.

Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	3,255	3,133	(3.7)	6,404	6,054	(5.5)	13,090	4,899	13.8	17,229	15.6
EBITDA	244	232	(4.8)	470	467	(0.5)	1,038	1,182	13.9	1,359	15.0
EBITDA Margin (%)	7.5	7.4	–	7.3	7.7	–	7.9	7.9	–	7.9	–
Other Income	4	–	(97.1)	4	1	(85.4)	92	120	31.0	120	–
Interest	70	57	(18.4)	112	118	5.1	312	370	18.9	403	8.8
Depreciation	72	86	19.0	136	170	24.9	298	355	18.9	392	10.6
PBT	105	89	(15.1)	225	180	(20.2)	519	577	11.1	684	18.5
Tax	37	32	(13.8)	78	58	(26.4)	152	173	14.0	205	18.5
Reported PAT	68	57	(15.8)	147	122	(17.0)	368	404	9.9	479	18.5
PAT Margin (%)	2.1	1.8	–	2.3	2.0	–	2.8	2.7	–	2.8	–
EPS (Rs)	3.7	3.2	(15.8)	8.1	6.7	(17.0)	20.3	22.3	9.9	26.4	18.5

Income Statement (Standalone)

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	17,345	18,807	24,547	30,358
<i>Growth (%)</i>	<i>13.9</i>	<i>8.4</i>	<i>30.5</i>	<i>23.7</i>
Operating expenses	(14,796)	(16,520)	(21,314)	(26,541)
Operating profit	2,548	2,287	3,233	3,817
Other operating income	31	18	0	0
EBITDA	2,579	2,305	3,233	3,817
<i>Growth (%)</i>	<i>(2.2)</i>	<i>(10.6)</i>	<i>40.3</i>	<i>18.1</i>
Depreciation	(218)	(273)	(349)	(413)
Other income	202	27	250	276
EBIT	2,563	2,059	3,133	3,680
Interest paid	(548)	(853)	(978)	(1,105)
Pre-tax profit (before non-recurring items)	2,016	1,206	2,155	2,576
Pre-tax profit (after non-recurring items)	2,016	1,206	2,155	2,576
Tax (current + deferred)	(516)	(262)	(560)	(670)
Net profit	1,500	944	1,595	1,906
Adjusted net profit	1,500	944	1,595	1,906
<i>Growth (%)</i>	<i>(6.0)</i>	<i>(37.0)</i>	<i>68.9</i>	<i>19.5</i>
Prior period adjustments	(1)	(1)	0	0
Net income	1,499	943	1,595	1,906

Balance Sheet (Standalone)

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Current assets	13,304	19,257	21,827	24,122
Investments	1,475	1,268	1,568	1,723
Net fixed assets	2,246	2,684	3,386	3,685
Total assets	17,025	23,209	26,781	29,530
Current liabilities	5,992	8,165	9,697	10,732
Total debt	3,259	6,547	7,240	7,296
Other non-current liabilities	97	128	128	128
Total liabilities	9,348	14,840	17,065	18,156
Share capital	265	265	265	265
Reserves & surplus	7,413	8,104	9,451	11,109
Shareholders' funds	7,678	8,369	9,716	11,374
Total equity & liabilities	17,025	23,209	26,781	29,530
Capital employed	11,033	15,045	17,084	18,798

Cash Flow Statement (Standalone)

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	2,016	1,206	2,155	2,576
Depreciation	216	274	348	411
Chg in working capital	(1,684)	(4,227)	236	(2,098)
Total tax paid	(582)	(231)	(561)	(670)
Other operating activities	(14)	(20)	0	0
Cash flow from oper. (a)	(48)	(2,998)	2,178	219
Capital expenditure	(370)	(712)	(1,050)	(710)
Chg in investments	714	207	(300)	(155)
Cash flow from inv. (b)	344	(505)	(1,350)	(865)
Free cash flow (a+b)	295	(3,503)	828	(646)
Equity raised/(repaid)	1	0	0	0
Debt raised/(repaid)	(109)	3,289	693	56
Dividend (incl. tax)	(233)	(233)	(233)	(248)
Cash flow from fin. (c)	(341)	3,056	460	(192)
Net chg in cash (a+b+c)	(45)	(447)	1,289	(838)

Key Ratios (Standalone)

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
EPS (Rs)	56.6	35.6	60.2	71.9
EPS growth	(6.0)	(37.0)	68.9	19.5
EBITDA margin	14.8	12.2	13.2	12.6
EBIT margin	14.8	10.9	12.8	12.1
RoCE	24.5	15.8	19.5	20.5
Net debt/Equity	30.8	72.9	56.7	56.3

Valuations (Standalone)

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	16.2	25.8	15.3	12.8
PCE	14.2	20.0	12.5	10.5
Price/Book	3.2	2.9	2.5	2.1
Yield (%)	0.8	0.8	0.9	0.9
EV/Net sales	1.5	1.6	1.2	1.0
EV/EBITDA	10.4	13.2	9.2	8.1

Du Pont Analysis – ROE (Standalone)

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	8.6	5.0	6.5	6.3
Asset turnover	1.1	0.9	1.0	1.1
Leverage factor	2.3	2.5	2.8	2.7
Return on equity (%)	21.3	11.8	17.6	18.1

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