

## RESULT UPDATE

### MID CAP

#### Share Data

Reuters code	KAPT.BO
Bloomberg code	KPP IN
Market cap. (US\$ mn)	598
6M avg. daily turnover (US\$ mn)	1.1
Issued shares (mn)	27
Target price (Rs)	1,247

#### Performance (%) 1M 3M 12M

Absolute	(1)	11	273
Relative	5	9	110

#### Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	60.2	71.9
+/- (%)	69.2	19.5
Consolidated EPS (Rs)	68.3	81.5
Consolidated +/- (%)	59.3	19.4
Consolidated PER (x)	15.3	12.8
PER (x)	17.3	14.5
PBV (x)	2.8	2.4
Dividend/Yield (%)	0.8	0.8
EV/Sales (x)	1.3	1.1
EV/EBITDA (x)	10.2	8.9

#### Major shareholders (%)

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

#### Financial highlights (Standalone)

(Rs mn)	3QFY09	3QFY10	YoY (%)	9MFY09	9MFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Revenue	4,181	7,192	72.0	13,256	17,590	32.7	18,807	24,547	30.5	30,358	23.7
EBITDA	413	822	99.2	1,561	2,121	35.9	2,305	3,233	40.3	3,817	18.1
EBITDA Margin (%)	9.9	11.4	-	11.8	12.1	-	12.3	13.2	-	12.6	-
Other Income	93	97	4.7	157	259	65.6	27	250	811.1	276	10.4
Depreciation	72	107	47.7	197	274	39.0	273	349	27.9	413	18.2
Interest	200	199	(0.8)	585	578	(1.3)	853	978	14.6	1105	13.0
PBT	233	614	163.4	936	1,530	63.5	1,206	2,155	78.7	2,576	19.5
Tax	34	173	416.7	223	399	78.8	262	560	114.1	670	19.5
Adjusted PAT	199	441	120.9	712	1,131	58.7	944	1,595	68.9	1,906	19.5
EPS (Rs)	7.5	16.6	120.9	26.9	42.7	58.7	35.6	60.2	68.9	71.9	19.5

## Kalpataru Power

Price: Rs 1,043

BSE Index: 16,358

Maintain BUY

30 January 2010

### 3QFY10 Result – Strong execution led earnings growth

- Kalpataru Power (KPTL) posted strong revenue of Rs 7.2 bn (B&K: Rs 5.9 bn), increase of 72% YoY, led by 63% growth in T&D and 206% in pipeline contracting segment. Exports contributed 45% of T&D business and 38% of the total sales. ~18-20% of Kuwait project (Rs 1.5 bn) has been executed by 3QFY10.
- EBITDA margins increased 150 bps YoY on low base last year, to 11.4% (though 150 bps lower QoQ). T&D EBIT margins were up 250 bps YoY to 10.5% and pipeline being 7%, 200 bps lower YoY. While raw material to sales has remained flat QoQ at 44%, erections and subcontracting costs increased 370 bps QoQ, to 28%, offsetting the 11% QoQ decline in employee expenses.
- With incremental disbursements on Mahadiscom feeder separation project, interest expenses have moderated QoQ by declining 17%, however, remained flat YoY, at 2.8% of sales.
- With 18% increase in depreciation and 28% tax provisioning against 14% last year, net profits increased 120% to Rs 441 mn (B&K: Rs 413 mn).
- Order book increased by 11% YoY, at Rs 52 bn (order intake of Rs 4.2 bn), however, 5% QoQ down. Of this, domestic transmission line constitutes 59%, distribution at 4%, exports 30% and pipelines 7%.

### Outlook

**On the back of strong order book, from domestic and overseas business, KPTL is expected to post strong volume growth over the next two years. With large tenders due for award in the next six-nine months, we believe the growth visibility will remain strong. Also, pipeline segment, with orders being exhausted by 1QFY11, is expected to see increased ordering in the next six months, thus providing visibility for growth. At 13x FY11E consolidated earnings, we maintain Buy.**

## Segmental Analysis (Standalone)

(Rs mn)	3QFY09	3QFY10	YOY (%)	9MFY09	9MFY10	YoY (%)
<b>Revenue</b>						
T&D	3752	6123	63.2	11,671	14,423	23.6
Real Estate	-	4.1	-	1	5	-
Power	123	131	6.1	351	383	9.1
Infrastructure	305	934	206.2	1,242	2,779	123.8
<b>Net Sales</b>	<b>4,181</b>	<b>7,192</b>	<b>72.0</b>	<b>13,265</b>	<b>17,590</b>	<b>32.6</b>
<b>PBIT</b>						
T&D	295	645	118.2	1117	1607	44.0
Real Estate	-	4	-	-	4	-
Power	56	31	(45.3)	110	110	0.6
Infrastructure	28	64	129.9	126	193	52.7
<b>Total</b>	<b>380</b>	<b>743</b>	<b>95.8</b>	<b>1352</b>	<b>1914</b>	<b>41.6</b>
<b>Margin (%)</b>						
T-Line	7.9	10.5	-	9.6	11.1	-
Power	45.6	23.5	-	31.2	28.8	-
Infrastructure	9.1	6.8	-	10.2	6.9	-
<b>Total</b>	<b>9.1</b>	<b>10.3</b>	<b>-</b>	<b>10.2</b>	<b>10.9</b>	<b>-</b>
<b>Capital employed</b>						
T&D	-	-	-	10,938	11,795	7.8
Real Estate	-	-	-	112	5	-
Power	-	-	-	708	692	(2.2)
Infrastructure	-	-	-	1,487	193	(87.0)
Unallocable	-	-	-	2,637	3,386	28.4
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,882</b>	<b>16,069</b>	<b>1.2</b>

While the company was expected to complete Rs 8 bn Mahadiscom projects in 3QFY10, the client has further extended the scope of work by adding back 150 feeders (earlier ~250 feeders were cancelled due to unavailability of right of way), ~Rs 1-1.5 bn, extending the completion schedule to April 2010.

**JMC Projects (53% Subsidiary) – 3QFY10 results**

JMC Projects' (JMC) earnings were in line with our expectation. Net sales grew by 8% YoY, at Rs 3.4 bn. EBITDA margin improved by 30 bps YoY, at 7.7%. With lower interest expenses, net profit grew 43% YoY, at Rs 82 mn.

**Financial highlights**

(Rs mn)	3QFY09	3QFY10	YoY (%)	9MFY09	9MFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	3,123	3,386	8.4	9,527	9,440	(0.9)	13,090	4,899	13.8	17,229	15.6
EBITDA	232	261	12.5	701	728	3.8	1,038	1,182	13.9	1,359	15.0
EBITDA Margin (%)	7.4	7.7	–	7.4	7.7	–	7.9	7.9	–	7.9	–
Other Income	4	2	(37.8)	8	3	(62.8)	92	120	31.0	120	–
Interest	64	50	(21.7)	176	168	(4.6)	312	370	18.9	403	8.8
Depreciation	77	88	13.8	213	258	20.9	298	355	18.9	392	10.6
PBT	95	126	32.5	320	305	(4.6)	519	577	11.1	684	18.5
Tax	37	44	16.6	115	101	(12.5)	152	173	14.0	205	18.5
Reported PAT	58	82	42.8	205	204	(0.2)	368	404	9.9	479	18.5
PAT Margin (%)	1.9	2.4	–	2.2	2.2	–	2.8	2.7	–	2.8	–
Diluted EPS (Rs)	2.6	3.8	42.8	9.4	9.4	(0.2)	16.9	22.3	9.9	26.4	18.5

- The current order book of the company is ~Rs 26 bn, 1.9x FY10E and 1.6x FY11E, revenue. The order book constitutes orders from civil construction (63%), infrastructure (27%) and power (10%). JMC has received an order for construction of buildings for residential purpose worth Rs 3.5 bn in Bangalore from Purvankara Group. Also, it has marked its presence in BOT toll road project and is L1 on one (Rohtak-Bawal, BOT toll) in consortium with SREI Infrastructures.
- The company has not seen much growth in terms of order inflow over the last few years although the execution has picked up. To factor the slow order accretion in our estimates, we will revise our earnings estimates downwards for FY10 and FY11 in a follow-up date, post concall.

**Income Statement (Standalone)**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net sales</b>	<b>17,345</b>	<b>18,807</b>	<b>24,547</b>	<b>30,358</b>
<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
<b>EBITDA</b>	<b>2,579</b>	<b>2,305</b>	<b>3,233</b>	<b>3,817</b>
<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
<b>EBIT</b>	<b>2,563</b>	<b>2,059</b>	<b>3,133</b>	<b>3,680</b>
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
<b>Adjusted net profit</b>	<b>1,500</b>	<b>944</b>	<b>1,595</b>	<b>1,906</b>
<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
<b>Net income</b>	<b>1,499</b>	<b>943</b>	<b>1,595</b>	<b>1,906</b>

**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
<b>Total assets</b>	<b>17,025</b>	<b>23,209</b>	<b>26,781</b>	<b>29,530</b>
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
<b>Total liabilities</b>	<b>9,348</b>	<b>14,840</b>	<b>17,065</b>	<b>18,156</b>
Share capital	265	265	265	265
Reserves & surplus	7,413	8,104	9,451	11,109
<b>Shareholders' funds</b>	<b>7,678</b>	<b>8,369</b>	<b>9,716</b>	<b>11,374</b>
<b>Total equity &amp; liab.</b>	<b>17,025</b>	<b>23,209</b>	<b>26,781</b>	<b>29,530</b>
<b>Capital employed</b>	<b>11,033</b>	<b>15,045</b>	<b>17,084</b>	<b>18,798</b>

**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
<b>Cash flow from oper. (a)</b>	<b>(48)</b>	<b>(2,998)</b>	<b>2,178</b>	<b>219</b>
Capital expenditure	(370)	(712)	(1,050)	(710)
Chg in investments	714	207	(300)	(155)
<b>Cash flow from inv. (b)</b>	<b>344</b>	<b>(505)</b>	<b>(1,350)</b>	<b>(865)</b>
<b>Free cash flow (a+b)</b>	<b>295</b>	<b>(3,503)</b>	<b>828</b>	<b>(646)</b>
Equity raised/(repaid)	1	0	0	0
Debt raised/(repaid)	(109)	3,289	693	56
Dividend (incl. tax)	(233)	(233)	(233)	(248)
<b>Cash flow from fin. (c)</b>	<b>(341)</b>	<b>3,056</b>	<b>460</b>	<b>(192)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(45)</b>	<b>(447)</b>	<b>1,289</b>	<b>(838)</b>

**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	18.4	29.3	17.3	14.5
PCE	16.1	22.7	14.2	11.9
Price/Book	3.6	3.3	2.8	2.4
Yield (%)	0.7	0.7	0.8	0.8
EV/Net sales	1.7	1.8	1.3	1.1
EV/EBITDA	11.6	14.6	10.2	8.9

**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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**Analyst Declaration:** I, Renu Baid, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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1. **BUY:** Potential upside of > +25% (absolute returns)
  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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