

# KALPATARU POWER TRANSMISSION



*Strong execution*

## ■ Strong execution; margins expand 69bps Y-o-Y

Kalpataru Power Transmission's (KPP) Q4FY10 results were ahead of our expectations, driven by higher execution. Revenue recorded robust growth of 50% Y-o-Y to INR 8.4 bn on back of strong 72% Y-o-Y growth in the infrastructure division, while transmission division grew 50% Y-o-Y. Biomass segment's growth declined 5% Y-o-Y during the quarter. EBITDA in Q4FY10 surged 60% Y-o-Y to INR 926 mn. EBITDA margin improved 69bps Y-o-Y to 11.1% on back of lower raw material and employee costs, which, to an extent, were subdued by increase in other expenses. On segmental basis, operating margins improved for transmission and infrastructure businesses by 74bps Y-o-Y to 10.0% and 136bps Y-o-Y to 7.2%, respectively; biomass business margins dipped 2,624bps Y-o-Y to 10.0%. PAT growth was robust at 148% Y-o-Y to INR 574 mn, primarily due to margin expansion and decrease in interest cost. Interest cost dipped 367bps Y-o-Y to 1.7% of sales.

## ■ Order backlog at 1.6x FY11E revenues provides strong visibility

KPP's order backlog (excluding L1) at FY10 end was flat Y-o-Y at INR 50 bn. However, order accretion during the quarter, at INR 7 bn, declined 55% Y-o-Y. Of the current order backlog, international orders account for ~INR 15 bn. The transmission line tower and distribution segment account for ~INR 45.0 bn and ~INR 2.5 bn, respectively. The pipeline business had an order backlog of ~INR 2.5 bn.

## ■ Outlook and valuations: Order inflow lowered; maintain 'HOLD'

We have marginally revised up our revenue estimates for KPP by 3.3% and 5.2% for FY11 and FY12, respectively on the back of lowered execution period. Also, we have revised our PAT estimate for FY11E and FY12E by 7.1% and 8.0%, respectively on the back of lowered interest cost. Our revised standalone EPS estimate for FY11 and FY12 is now INR 63.4 (down 8.2%) and INR 70.1 (down 6.5%) despite increase in PAT estimate for FY11 and FY12 due to dilution after the QIP issue by the company. On our revised estimates, the stock is trading at P/E of 16.1x and 14.5x FY11E and FY12E earnings, respectively. Given the rich valuation, we maintain '**HOLD**' recommendation on the stock and rate it '**Sector Performer**' on relative returns (refer rating page for details).

May 31, 2010

Reuters: KAPT.BO Bloomberg: KPP IN

### EDELWEISS 4D RATINGS

Absolute Rating	<b>HOLD</b>
Rating Relative to Sector	<b>Performer</b>
Risk Rating Relative to Sector	<b>Medium</b>
Sector Relative to Market	<b>Overweight</b>

Note:  
Please refer last page of the report for rating explanation

### MARKET DATA

CMP	:	INR 1,018
52-week range (INR)	:	1,250 / 636
Share in issue (mn)	:	26.5
M cap (INR bn/USD mn)	:	31 / 673
Avg. Daily Vol. BSE/NSE ('000):	:	46.5

### SHARE HOLDING PATTERN (%)

Promoters*	:	63.7
MFs, FIs & Banks	:	22.3
FIIIs	:	5.1
Others	:	8.9
* Promoters pledged shares (% of share in issue)	:	6.0

### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	(6.0)	(2.9)	(4.3)
3 months	1.3	2.9	(0.4)
12 months	43.7	16.8	17.8

### Financials (standalone)

Year to March	Q410	Q409	% change	Q310	% change	FY10	FY11E
Net rev. (INR mn)	8,383	5,584	50.1	7,192	16.6	25,974	30,753
EBITDA (INR mn)	926	579	60.0	822	12.8	3,048	3,539
Net profit (INR mn)	574	232	147.7	441	30.2	1,705	1,946
Diluted EPS (INR)	21.7	8.7	147.7	16.7	30.1	64.3	63.4
Diluted P/E (x)						15.8	16.1
EV/EBITDA (x)						10.3	9.6
ROAE (%)						18.7	15.0

Rahul Gajare

+91 22 4063 5561

rahul.gajare@edelcap.com

Financial snapshot (Standalone)						(INR mn)		
Year to March	Q410	Q409	% change	Q310	% change	FY10	FY11E	FY12E
Revenues	8,383	5,584	50.1	7,192	16.6	25,974	30,753	34,943
Raw material	3,965	3,064	29.4	3,174	24.9	11,552	16,424	18,624
Staff costs	409	308	32.8	416	(1.6)	1,618	1,948	2,201
Other operating expenses	3,082	1,634	88.7	2,780	10.9	9,756	8,841	10,151
Total expenditure	7,457	5,006	49.0	6,371	17.1	22,926	27,214	30,976
EBITDA	926	579	60.0	822	12.8	3,048	3,539	3,967
Interest	145	302	(52.0)	199	(27.0)	723	712	747
Depreciation	109	76	42.7	107	2.3	382	439	536
Other income	74	69	6.3	97	(24.0)	333	242	223
PBT	746	270	176.2	614	21.6	2,276	2,630	2,906
Tax	173	39	346.9	173	(0.3)	571	684	756
Core profit	574	232	147.7	441	30.2	1,705	1,946	2,150
Adjusted net profit	574	232	147.7	441	30.2	1,705	1,946	2,150
Minority Interest	0	0	NM	0	NM	0	0	0
Associate income	0	0	NM	1	NM	0	0	0
Net profit	574	232	147.7	441	30.1	1,705	1,946	2,150
Equity capital (FV INR 10)	265	265		265		265	307	307
No. of shares (mn)	27	27		27		27	31	31
Diluted EPS (INR)	21.7	8.7	147.7	16.7	30.1	64	63	70
Diluted P/E (x)						16	16	15
EV/EBITDA (x)						10.3	9.6	8.8
Market cap / Revenues (x)						1.0	0.9	0.8

## as % of net revenues

Raw material	47.3	54.9		44.1		44.5	53.4	53.3
Staff expenses	4.9	5.5		5.8		6.2	6.3	6.3
Other operating expenses	36.8	29.3		38.7		37.6	28.8	29.1
EBITDA	11.1	10.4		11.4		11.7	11.5	11.4
Depreciation	1.3	1.4		1.5		1.5	1.4	1.5
Other income	0.9	1.2		1.4		1.3	0.8	0.6
Tax rate	23.1	14.3		28.2		25.1	26.0	26.0
Net profit	6.8	4.1		6.1		6.6	6.3	6.2

NM: Not meaningful

- **Company Description**

Kalpataru Power Transmission (KPP), located at Gandhinagar, Gujarat, was promoted by Mr. Mofatraj Munot, Mr. Mahendra Punatar, and Mr. Imtiaz Kanga. All the promoters have rich experience in the transmission line industry. The company has three business divisions viz. transmission line division, biomass energy division, and infrastructure division. It has an in-house tower testing station with a capacity to test square/rectangular base towers of up to 800 kV D/C as well as multi-circuit towers. KPP also ventured into the construction segment with acquisition of ~51% stake in JMC Projects (JMC); JMC is primarily engaged in the construction of industrial buildings, and residential and commercial complexes. Off late, JMC has ventured into the infrastructure segment with projects in roads, bridges, flyovers, and transportation structures.

- **Investment Theme**

India's inter-regional power transmission capacity is likely to increase from ~20,750 MW currently to ~37,700 MW at the end of the Eleventh Plan (FY12-end). Power Grid Corporation of India (PGCIL) is likely to invest ~INR 300 bn over FY10-12E period to upgrade India's power transmission network. Besides PGCIL, Damodar Valley Corporation (DVC) and various other state electricity boards (SEBs) are planning transmission capacity expansions in India. Also, expansion in regional transmission network in Africa and Middle East is likely to supplement domestic demand and present a large business opportunity. KPP is the front-runner in the power T&D EPC sector, and hence, is well-placed to leverage from the opportunity. Further, KPP's pipeline business is easily scalable. We expect the company to become a strong player in the pipeline business, going forward.

- **Key Risks**

Power T&D investments are executed by state utilities, which, in turn, are mandated by the government. Hence, any change in the political environment can potentially impact the pace of execution in the industry, thus impacting the timing of revenue growth. Additionally, customer concentration risk is high in the business, which in turn, impacts the bargaining power of transmission tower companies. Further, higher than expected rise in steel prices is likely to negatively impact KPP's margins.

## Financial Statements - Standalone

<b>Income statement</b>		<b>(INR mn)</b>				
Year to March	FY08	FY09	FY10	FY11E	FY12E	
Income from operations	17,376	18,825	25,974	30,753	34,943	
Materials costs	8,687	10,177	11,552	16,424	18,624	
Employee cost	906	1,086	1,618	1,948	2,201	
Other manufacturing expenses	5,244	5,335	9,756	8,841	10,151	
Total operating expenses	14,836	16,598	22,926	27,214	30,976	
EBITDA	2,540	2,227	3,048	3,539	3,967	
Depreciation and amortisation	218	273	382	439	536	
EBIT	2,322	1,954	2,665	3,100	3,431	
Interest expense	521	1,056	723	712	747	
Other income	215	308	333	242	223	
Profit before tax	2,016	1,206	2,276	2,630	2,906	
Provision for tax	516	262	571	684	756	
Core profit	1,500	944	1,705	1,946	2,150	
Prior period adjustments	1	0	0	0	0	
Profit after tax	1,499	944	1,705	1,946	2,150	
Equity shares outstanding (mn)	27	27	27	31	31	
EPS (INR) basic	56.6	35.6	64.3	63.4	70.1	
Diluted shares (mn)	27	27	27	31	31	
EPS (INR) fully diluted	56.6	35.6	64.3	63.4	70.1	
CEPS (INR)	65.6	47.1	78.8	77.7	87.5	
DPS	7.5	7.5	7.5	7.5	7.5	
Dividend payout (%)	15.5	24.6	13.6	13.8	12.5	

### Common size metrics- as % of net revenues

Year to March	FY08	FY09	FY10	FY11E	FY12E
Operating expenses	85.4	88.2	88.3	88.5	88.6
Material cost	50.0	54.1	44.5	53.4	53.3
Employee cost	5.2	5.8	6.2	6.3	6.3
Other manufacturing expenses	30.2	28.3	37.6	28.8	29.1
Depreciation and amortisation	1.3	1.5	1.5	1.4	1.5
Interest expenditure	3.0	5.6	2.8	2.3	2.1
EBITDA margins	14.6	11.8	11.7	11.5	11.4
Net profit margins	8.6	5.0	6.6	6.3	6.2

### Growth metrics (%)

Year to March	FY08	FY09	FY10	FY11E	FY12E
Revenues	14.0	8.3	38.0	18.4	13.6
EBITDA	(3.9)	(12.3)	36.8	16.1	12.1
Net profit	(6.0)	(37.0)	80.6	14.2	10.5
EPS	(6.0)	(37.0)	80.6	(1.4)	10.5

<b>Balance sheet</b>		<b>(INR mn)</b>				
As on 31st March	FY08	FY09	FY10E	FY11E	FY12E	
Equity capital	265	265	265	307	307	
Reserves & surplus	7,413	8,105	9,577	15,713	17,594	
Shareholders funds	7,678	8,370	9,842	16,020	17,900	
Secured loans	2,959	4,854	4,097	4,097	4,097	
Unsecured loans	300	1,693	1,943	1,543	1,543	
Borrowings	3,259	6,547	6,040	5,640	5,640	
Deferred tax (Net)	97	128	128	128	128	
<b>Sources of funds</b>	<b>11,033</b>	<b>15,045</b>	<b>16,009</b>	<b>21,788</b>	<b>23,668</b>	
Gross block	2,960	3,591	4,441	5,691	6,441	
Depreciation	733	1,007	1,389	1,829	2,364	
Net block	2,227	2,584	3,052	3,862	4,076	
Capital work in progress	19	100	0	0	0	
Investments	1,475	1,268	1,268	1,268	1,268	
Inventories	1,537	2,369	2,846	4,213	4,787	
Sundry debtors	6,507	9,772	12,809	14,913	16,945	
Cash and bank balances	892	445	397	1,603	810	
Loans and advances	1,512	3,118	3,558	4,213	4,787	
Other current assets	2,857	3,553	4,327	5,137	5,847	
Total current assets	13,304	19,257	23,937	30,078	33,175	
Sundry creditors and others	5,131	7,214	10,364	11,929	13,154	
Provisions	861	950	1,884	1,491	1,697	
Total current liabilities & provisions	5,992	8,165	12,248	13,420	14,852	
Net current assets	7,312	11,092	11,689	16,657	18,323	
<b>Uses of funds</b>	<b>11,033</b>	<b>15,045</b>	<b>16,009</b>	<b>21,788</b>	<b>23,668</b>	
Book value per share (BV) (INR)	290	316	371	522	583	

<b>Free cash flow</b>		<b>(INR mn)</b>				
Year to March	FY08	FY09	FY10E	FY11E	FY12E	
Net profit	1,499	944	1,705	1,945	2,149	
Add: Depreciation	218	273	382	439	536	
Add: Deferred tax	21	31	0	0	0	
Add: Others	(15)	0	0	0	0	
Gross cash flow	1,723	1,248	2,087	2,384	2,685	
Less: Changes in working capital	1,770	4,227	645	3,762	2,459	
Operating cash flow	(47)	(2,979)	1,442	(1,378)	226	
Less: Capex	370	712	750	1,250	750	
<b>Free cash flow</b>	<b>(418)</b>	<b>(3,691)</b>	<b>692</b>	<b>(2,628)</b>	<b>(524)</b>	

<b>Cash flow metrics</b>		<b>(INR mn)</b>				
Year to March	FY08	FY09	FY10E	FY11E	FY12E	
Operating cash flow	(47)	(2,979)	1,442	(1,378)	226	
Financing cash flow	(341)	3,056	(740)	3,834	(269)	
Investing cash flow	344	(505)	(750)	(1,250)	(750)	
Net cash flow	(45)	(428)	(48)	1,206	(793)	
Capex	(370)	(712)	(750)	(1,250)	(750)	
Dividend paid	(233)	(233)	(233)	(269)	(269)	
Share issuance/(Buyback)	0	0	0	4,503	0	

**Profitability & liquidity ratios**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
ROAE (%)	21.3	11.8	18.7	15.0	12.7
ROACE (%)	26.9	16.7	18.7	17.6	16.0
Inventory (days)	66	70	82	78	88
Debtors (days)	125	158	159	165	166
Payable (days)	203	221	278	248	246
Cash conversion cycle	(13)	6	(37)	(5)	9
Current ratio	2.2	2.4	2.0	2.2	2.2
Debt/EBITDA	1.3	2.9	2.0	1.6	1.4
Interest cover (x)	4.5	1.9	3.7	4.4	4.6
Debt/Equity (x)	0.4	0.8	0.6	0.4	0.3
Adjusted debt/Equity	0.4	0.8	0.6	0.4	0.3

**Operating ratios**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Fixed assets turnover (x)	8.1	7.8	9.2	8.9	8.8
Total asset turnover(x)	1.7	1.4	1.7	1.6	1.5
Equity turnover(x)	2.5	2.3	2.9	2.4	2.1

**Du pont analysis**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
NP margin (%)	8.6	5.0	6.6	6.3	6.2
Total assets turnover	1.7	1.4	1.7	1.6	1.5
Leverage multiplier	1.5	1.6	1.7	1.5	1.3
ROAE (%)	21.2	11.8	18.7	15.0	12.7

**Valuation parameters**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Diluted EPS (INR)	56.6	35.6	64.3	63.4	70.1
Y-o-Y growth (%)	(6.0)	(37.0)	80.6	(1.4)	10.5
CEPS (INR)	65.6	47.1	78.8	77.7	87.5
Diluted P/E (x)	18.0	28.6	15.8	16.1	14.5
Price/BV(x)	3.5	3.2	2.7	2.0	1.7
EV/Sales (x)	1.6	1.7	1.2	1.1	1.0
EV/EBITDA (x)	11.0	14.3	10.3	9.6	8.8
Dividend yield (%)	0.7	0.7	0.7	0.7	0.7
Basic EPS	56.6	35.6	64.3	63.4	70.1



## RATING & INTERPRETATION

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ABB India	BUY	SO	L	AIA Engineering	HOLD	SU	M
Bajaj Electricals	BUY	SO	M	BGR Energy Systems	BUY	SO	M
Bharat Heavy Electricals	BUY	SO	L	Crompton Greaves	BUY	SO	L
Cummins India	BUY	SO	L	Havell's India	BUY	SO	M
Jyoti Structures	HOLD	SP	M	Kalpataru Power Transmission	HOLD	SP	M
KEC International	BUY	SO	M	Kirloskar Oil Engines	BUY	SO	L
Larsen & Toubro	HOLD	SP	L	Punj Lloyd	HOLD	SU	M
Sanghvi Movers	BUY	SO	H	Siemens	HOLD	SU	L
Techno Electric & Engineering	BUY	SO	M	Texmaco	BUY	SP	H
Thermax	BUY	SO	L	Voltamp Transformers	HOLD	SP	M
Voltas	HOLD	SU	L				

### ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

### RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

### RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

### SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss  
Ideas create, values protect



**Edelweiss Securities Limited**, 14<sup>th</sup> Floor, Express Towers, Nariman Point, Mumbai – 400 021.  
Board: (91-22) 2286 4400, Email: [research@edelcap.com](mailto:research@edelcap.com)

Vikas Khemani	Head Institutional Equities	<a href="mailto:vikas.khemani@edelcap.com">vikas.khemani@edelcap.com</a>	+91 22 2286 4206
Nischal Maheshwari	Head Research	<a href="mailto:nischal.maheshwari@edelcap.com">nischal.maheshwari@edelcap.com</a>	+91 22 6623 3411

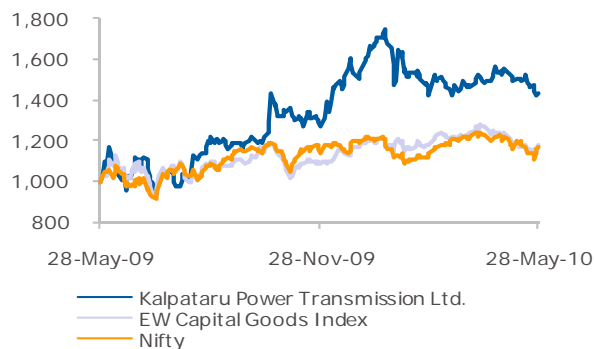
**Coverage group(s) of stocks by primary analyst(s): Engineering and Capital Goods**

ABB India, AIA Engineering, BGR Energy Systems, Bharat Heavy Electricals, Bajaj Electricals, Crompton Greaves, Havell's India, Jyoti Structures, KEC International, Cummins India, Kirloskar Oil Engines, Kalpataru Power Transmission, Larsen & Toubro, Punj Lloyd, Sanghvi Movers, Siemens, Techno Electric & Engineering, Thermax, Texmaco, Voltamp Transformers, Voltas

**Kalpataru Power Transmission**



**EW Indices**



**Distribution of Ratings / Market Cap**

**Edelweiss Research Coverage Universe**

	Buy	Hold	Reduce	Total
Rating Distribution*	101	56	9	169
* 3 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	103	53	13	

**Recent Research**

Date	Company	Title	Price (INR)	Recos
31-May-10	<b>AIA Engineering</b>	Increased expenses dent profitability; <i>Result Update</i>	398	Hold
27-May-10	<b>Bajaj Electricals</b>	One-offs dampen earnings; <i>Result Update</i>	202	Buy
26-May-10	<b>BHEL</b>	Strong quarter; margin expands; <i>Result Update</i>	2255	Buy

**Access the entire repository of Edelweiss Research on [www.edelresearch.com](http://www.edelresearch.com)**

This document has been prepared by Edelweiss Securities Limited (Edelweiss). Edelweiss, its holding company and associate companies are a full service, integrated investment banking, portfolio management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Edelweiss or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, group companies, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Edelweiss and affiliates/ group companies to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Edelweiss reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Edelweiss is under no obligation to update or keep the information current. Nevertheless, Edelweiss is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Edelweiss nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this document are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. Edelweiss Securities Limited generally prohibits its analysts, persons reporting to analysts and their family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. Analyst holding in the stock: no.