

Key data	
Sector	Capital Goods
Market Cap	Rs45.8bn/US\$1.1bn
52 Wk H/L (Rs)	1959/859.85
Avg. daily vol. (6 month)	31,311

BSE Code	522287
NSE Code	KALPATPOWER
Bloomberg	KPP IN
Reuters	KAPT.BO

Sensex	19,724
Nifty	5,866

Shareholding pattern (%)	30-Jun-07		30-Sep-07	
FII's NRI, ADR/GDR	9.9	8.9		
MFs and institutions	19.6	19.4		
Promoters	63.7	63.7		
Others	6.9	8.1		

Absolute returns (%)	30-Jun-07		
	1mth	3mth	12mth
Kalpataru Power	7.3	19.7	92.0
Sensex	13.8	32.1	51.3

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Kalpataru Power

Accumulate **Current Price: Rs1764** **Target price: Rs2063**

Results were below our estimates.

Figure 1: Actual Vs Religare Estimates

	Q2FY08A	Q2FY08E	Difference (%)	Consensus
Net sales	3852	3,858	-0.2%	NA
EBITDA	533	606	-12.0%	NA
EBITDA margins (%)	13.8%	15.7%	-190bps	NA
PAT	321.5	368	-12.6%	NA
PAT margins (%)	8.3%	9.5%	-120bps	NA

Source: Religare Institutional Equity Research, Bloomberg

Financial highlights

- **Net sales** were up 26% YoY to Rs 3.8bn. The sales for the T&D segment grew 21% YoY to Rs 3.4bn and the infrastructure division grew by 94% YoY to Rs 379mn.
- **EBITDA** was up 18% YoY to Rs 533mn. The EBITDA margin was down 90bps YoY mainly on account of a 127% YoY increases in job charges pertaining to the infrastructure segment. This is one time and will not be repeated in the future months.
- **Adjusted PAT** was up 18% YoY to Rs 322mn.

Valuations and Recommendation

The stock is trading at 20x its 1 year forward earnings. The stock has consistently re-rated on back of its strong earnings growth and re-rating of the capital goods sector. We are upgrading our multiple for the stock from 16x to 18x. Our revised SOTP target price for the stock is Rs 2063. We maintain our **Accumulate** rating on the stock.

Figure 2: SOTP Value

Core business	1907	18x 2 year forward earnings
JMC projects	156	Market value of investments
Total	2063	

Figure 3: Quarterly Performance

	FY07				FY08		(Rs mn)	
	1Q	2Q	3Q	4Q	1Q	2QA	FY07	FY08E
Net Sales	3,026	3,066	3,935	5,222	3,686	3,852	15,249	20,306
Change %	129.7%	128.1%	84.9%	44.5%	21.8%	25.6%	81.4%	33.2%
EBITDA	485	451	606	947	603	533	2,489	3,090
EBITDA margin (%)	16.0%	14.7%	15.4%	18.1%	16.4%	13.8%	16.3%	15.2%
Change (%)	192.5%	148.3%	104.9%	89.1%	24.3%	18.4%	117.6%	24.2%
Depreciation	34	32	48	54	47	48	168	190
Other Income	7	11	43	64	48	59	125	216
Interest exp/(inc)	90	59	75	91	90	94	315	388
PBT	367	372	526	867	515	450	2,132	2,729
PBT margin (%)	12.1%	12.1%	13.4%	16.6%	14.0%	11.7%	14.0%	13.4%
PBT growth (%)	257.0%	245.3%	164.1%	123.8%	40.2%	21.1%	167.4%	28.0%
Extraordinary exp/(Inc)	0	0	0	0	0	0	0	0
Tax	112	99	138	222	144	128	572	766
Effective tax rate (%)	30.5%	26.7%	26.2%	25.6%	27.9%	28.5%	26.8%	28.1%
PAT reported	255	272	388	645	371	322	1,560	1,963
Adjusted PAT *	255	272	388	645	371	322	1,560	1,963
Adj PAT margin (%)	8.4%	8.9%	9.9%	12.3%	16.4%	8.3%	10.2%	9.7%
Change (%)	314%	335%	201%	143%	45%	18.1%	201%	26%
Equity Capital (Rs mn)	215	215	265	265	265	265	265	265
Adj EPS	11.87	12.66	14.64	24.32	14.00	12.13	65.00	74.08

* Excluding extraordinary

Other business highlights

- The order book at the end of the quarter stood at Rs 33bn (including L1 orders) which is 2.17x FY07 sales.
- The company received its single largest order, the first of its kind in the Power Distribution Industry, for feeder separation from Maharashtra State Electricity Distribution Company Ltd. worth Rs.9, 970 Mn.
- Kalpataru Power secured a spur lines order which has a contract value of Rs. 240 mn from Reliance Gas Transportation Infrastructure Ltd
- The company plans to set up 11 modern commodity warehouses. It has earmarked Rs 500Mn for this venture. The warehouses would come up at major agriculture markets for storing agricultural commodities and perishable goods which need refrigeration facilities. They will also offer third-party logistics. The company would initially set up warehouses in Maharashtra, Gujarat, Rajasthan and Madhya Pradesh. We expect this to be a trigger for the stock in future as the company's plans start getting actioned.
- We have revised our FY08 earnings downwards by 3% to factor in the lower than expected margins in this quarter. Our other forecasts remain unchanged.

Figure 4: Table for earnings revision

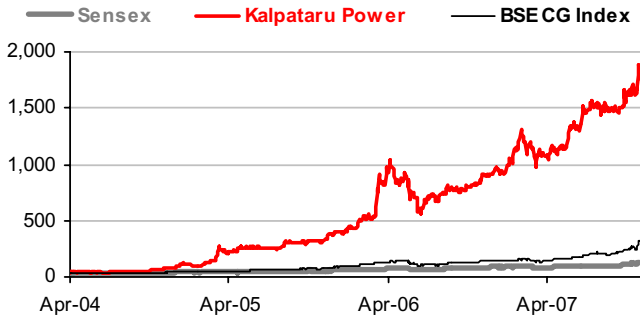
(Rs mn)	Earlier estimates			Revised estimates			Upgrade/(downgrade) (%)		
	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Net Sales	20306.4	25383	30460	20306	25383	30460	0%	0%	0%
EBITDA	3188	3893	4672	3090	3893	4672	-3%	0%	0%
EBITDA margin (%)	15.7%	15.3%	15.3%	15.2%	15.3%	15.3%	50bps	0%	0%
PBT	2815	3500	4303	2729.1	3500.1	4303	-3%	0%	0%
Adj PAT	2028	2478	3046	1,963	2,478	3046	-3%	0%	0%
Adj PAT margin (%)	10.0%	9.8%	9.7%	9.7%	9.8%	9.7%	-3%	0%	0%
Adj EPS (Rs)	76.5	93.5	114	74.1	93.5	114.0	-3%	0%	0%

Source: Religare Institutional Equity Research, Bloomberg

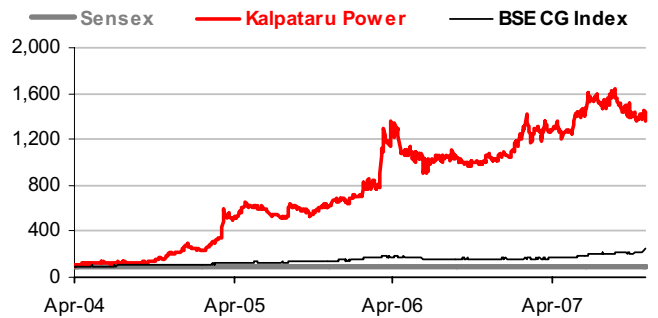
Stock performance

Kalpataru Power

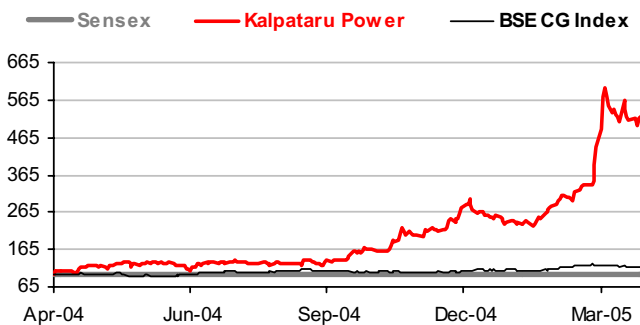
Absolute Perf. From Apr 04



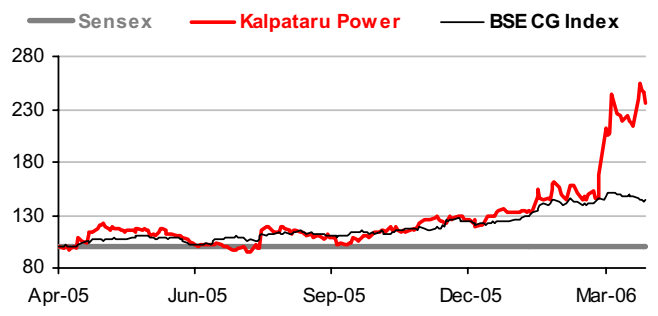
Relative Perf. From Apr 04



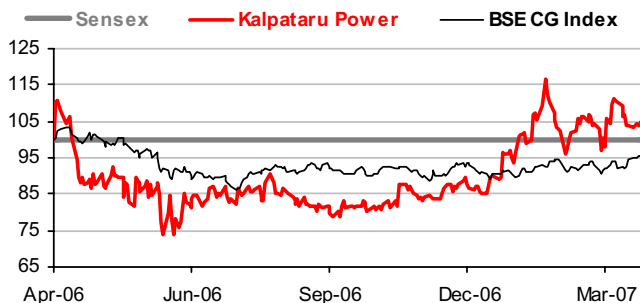
Relative Perf. From Apr 04 to Mar 05



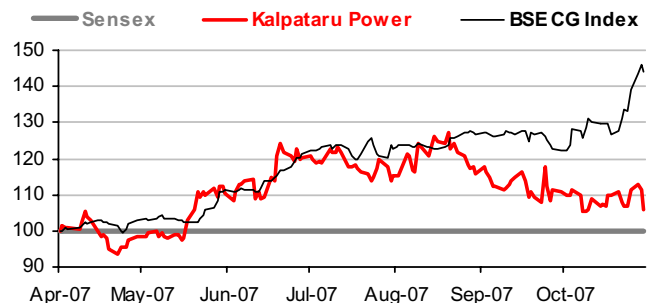
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



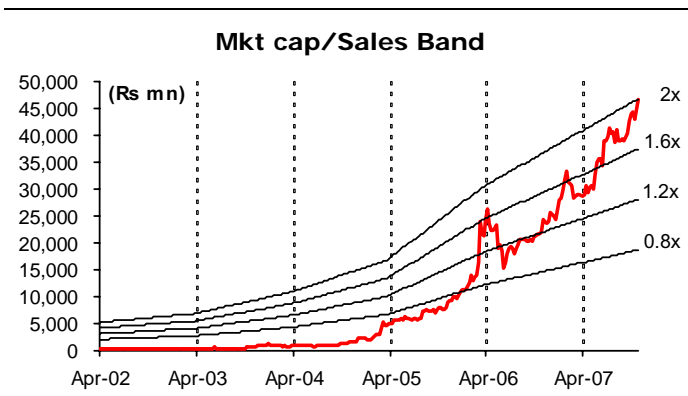
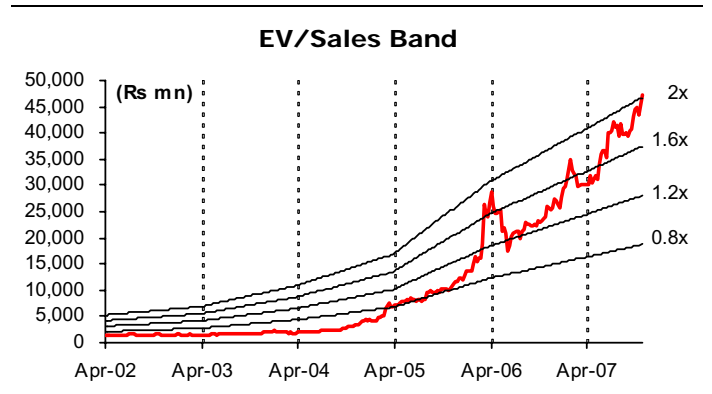
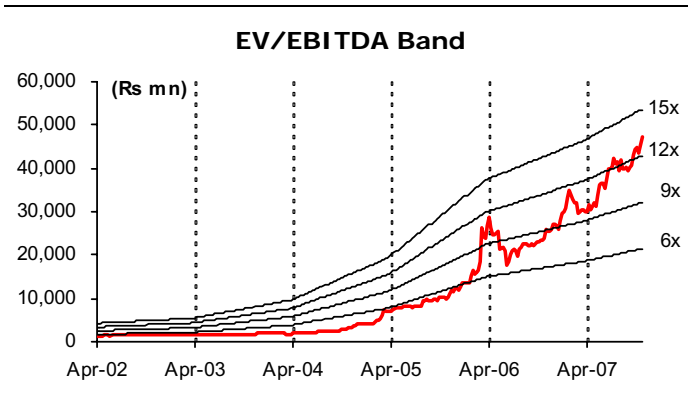
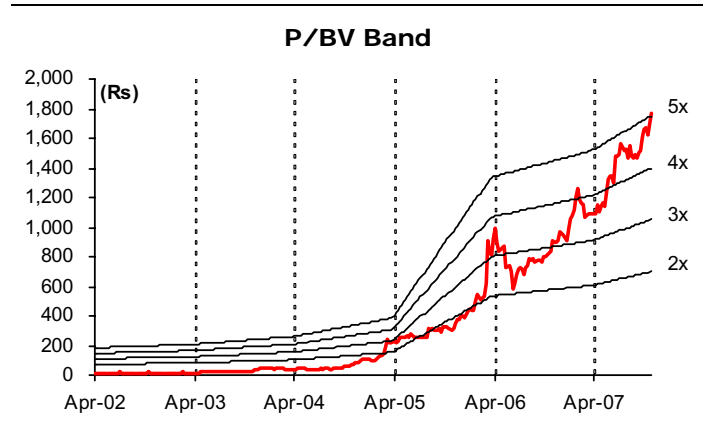
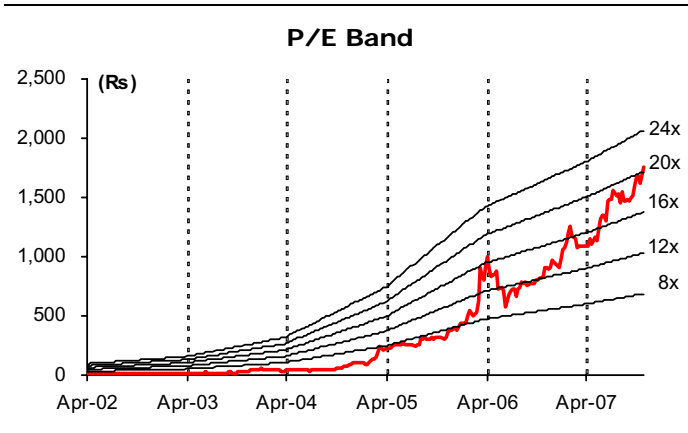
Relative Perf. From Apr 07



Source: Bloomberg, Religare Institutional Equity Research

12 month forward rolling band charts

Kalpataru Power



Financials

Income statement

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Net sales	8,409	15,249	20,306	25,383	30,460
EBITDA	1,292	2,489	3,090	3,893	4,672
EBITDA margin (%)	15.4%	16.3%	15.2%	15.3%	15.3%
Depreciation	88	168	190	251	282
EBIT	1,204	2,322	2,901	3,642	4,390
Other income	49	125	216	241	350
Interest Exp/(Inc)	309	315	388	382	438
PBT (Operating)	944	2,132	2,729	3,500	4,303
PBT margin (%)	11.2%	14.0%	13.4%	13.8%	14.1%
Extra ord (inc)/exp	-	-	-	-	-
Taxes	279	572	766	1,022	1,256
Minority interest	-	-	-	-	-
PAT(Reported)	665	1,560	1,963	2,478	3,046
Less: Extra ordinary income / Others	-	-	-	-	-
Adj PAT	665	1,560	1,963	2,478	3,046
Adj PAT margin (%)	7.9%	10.2%	9.7%	9.8%	10.0%

Quarterly – Financials

(Rs mn)

Y/E, 31st March	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Net sales	3,066	3,935	5,222	3,686	3,852
Changes (%)	128.1	84.9	44.5	22	26
EBITDA	451	606	947	603	533
Changes (%)	148.3	104.9	89.1	24.3	18.4
Margin (%)	14.7	15.4	18.1	16.4	13.8
PAT	272	388	645	371	322
PAT adj	272	388	645	371	322
Changes (%)	334.8	200.5	143.2	45.5	18.1
Margin (%)	8.9	9.9	12.3	10.1	8.3
EPS adj (Rs)	12.7	14.6	24.3	14.0	12.1
EPS dil (Rs)	12.7	14.6	24.3	14.0	12.1

Ratios

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Growth					
Net sales (%)	54.7	81.3	33.2	25.0	20.0
EBITDA (%)	102.5	92.7	24.2	26.0	20.0
PAT adjusted (%)	131.7	134.4	25.9	26.2	22.9
EPS adjusted (%)	131.7	111.3	14.5	26.2	22.9
EPS diluted (%)	131.7	111.3	14.5	26.2	22.9
EPS Consl and diluted (%)					

Valuations

P/E (x)	60.4	28.6	25.0	19.8	16.1
P/BV (x)	24.0	6.9	6.1	4.9	3.9
EV/EBITDA (x)	32.8	18.8	16.3	12.6	10.1
EV/Sales (x)	5.0	3.1	2.5	1.9	1.5

Profitability

EBITDA margin (%)	15.4	16.3	15.2	15.3	15.3
Adj PAT margin (%)	7.9	10.2	9.7	9.8	10.0
RoE (%)	45.5	37.3	26.5	26.7	26.3
RoCE (%)	21.2	19.3	15.5	16.0	16.4
RoIC (%)*	21.8	19.0	22.1	25.8	29.3

B/S ratios

Inventory days	70.5	45.0	42.7	45.0	45.8
Creditor days	67.6	70.3	61.9	64.2	66.0
Debtor days	89.1	99.9	102.1	97.5	97.3
Working Capital days	162.5	152.9	166.6	161.4	160.8
Net debt/equity	1.3	0.4	0.2	(0.0)	(0.2)

* ROIC is calculated on post tax basis.

Balance sheet

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Liabilities					
Equity share capital	109	265	265	265	265
Total Res. & Surplus	1,571	6,159	7,766	9,795	12,285
Total Shareholders' fund	1,679	6,424	8,031	10,060	12,550
Convertible Debt	-	-	-	-	-
Others Debt	2,328	3,367	3,515	3,159	3,616
Total Loans	2,328	3,367	3,515	3,159	3,616
Deferred tax liability (net)	58	76	55	55	56
Total liabilities	4,065	9,868	11,601	13,274	16,223
Assets					
Net fixed assets & others	1,240	2,050	2,099	2,184	2,280
Capital WIP & others	284	41	140	157	176
Total non-current assets	1,524	2,092	2,239	2,342	2,456
Total investments - non current	294	2,189	2,189	2,189	2,189
Current assets					
Inventories	1,387	1,583	2,242	2,800	3,360
Sundry debtors	2,974	5,371	6,398	7,650	9,180
Cash & cash equivalents					
Cash	167	937	2,160	3,297	5,621
Liquid investments					
Other current assets	1,482	2,958	3,845	4,614	5,537
Total current assets	6,009	10,848	14,644	18,361	23,698
Total current liabilities	3,402	4,549	6,426	8,304	10,509
Total provisions	361	712	1,045	1,312	1,610
Net current assets	2,246	5,586	7,173	8,744	11,579
Misc. expenditure	1	1	1	1	1
Total assets	4,065	9,868	11,601	13,274	16,223

Cash flow

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Cash from operations					
PBT	944	2,132	2,729	3,500	4,303
Tax paid	(279)	(572)	(766)	(1,022)	(1,256)
Dep & amortization	88	168	190	251	282
Working capital changes	(656)	(2,571)	(364)	(433)	(510)
Others	0	0	0	0	1
Net cash from operations	97	(843)	1,789	2,296	2,818
Cash from investments					
Capital expenditure	(899)	(731)	(337)	(354)	(396)
Sale/purchase of inv & others	(193)	(1,895)	0	0	0
Net cash from investments	(1,092)	(2,626)	(337)	(354)	(396)
Cash from financing					
Issue of shares & share premium	0	3,475	0	0	0
Dividend paid	(124)	(285)	(358)	(452)	(557)
Debt change	1,223	1,039	148	(355)	457
Others	3	13	(19)	3	2
Net cash from financing	1,102	4,243	(230)	(805)	(98)
Net change in cash	107	774	1,222	1,138	2,324

Per share data

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
EPS adjusted	30.6	64.7	74.1	93.5	114.9
EPS diluted - wtd	30.6	64.7	74.1	93.5	114.9
EPS Consl and diluted					
CEPS	34.7	71.7	81.2	103.0	125.5
Book value	77.0	266.3	302.8	379.3	473.3
Dividend	5.0	10.4	11.9	15.0	18.1
O/s shs.-actual (mn)	21.7	26.5	26.5	26.5	26.5
O/s shs.-diluted (mn)	21.7	26.5	26.5	26.5	26.5
O/s shs wtd / diluted (mn)	21.7	24.	26.5	26.5	26.5

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Rating definition

Buy	: > 15% returns relative to Sensex	Accumulate	: +5 to +15% returns relative to Sensex
Sell	: > (-)15% returns relative to Sensex	Reduce	: (-) 5 to (-) 15% returns relative to Sensex
Hold	: Upto + / (-) 5% returns relative to Sensex		

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