

Execution slows on ROW issues

- Slower execution led to net profit miss of 17%:** Slower execution owing to right of way (ROW) clearances and delays in approvals from clients led to 8% YoY decline in sales to ₹5.8bn, 16% below ₹7bn JMFe. However, management indicated that these issues are temporary in nature and is confident of achieving double digit growth for the year. Net profit declined 17% YoY to ₹342mn (JMFe ₹414mn), despite an improvement in operating margins (+50bps), as interest expenses escalated 30% YoY on MTM provisioning on shipment credit.
- Strict cost controls and better mix improved margins by 50bps YoY:** Kalpataru Power (KPP) has been able to improve its operating performance in an increasing commodity price scenario as 75% of projects have a price variation clause. Also, better mix of projects executed during the quarter improved operating margins by 50bps YoY to 12.1%.
- Working capital under control; supported by increase in customer advances:** Net working capital cycle improved from 245 days in Sep'10 to 224 days, despite increasing debtor (+11days) and inventory (+2days) days, as customer advances increased sharply from ₹2.5bn to ₹4bn (+60% YoY). We note that customer advances are an important tool in managing debt as interest rates charged by clients are lower than prevailing interest rates.
- JMC Projects sales +61%, profits +55%:** JMC reported 61% YoY growth in sales on healthy execution in infra segment. However, net profit increase was slower at 55% on lower margins (-30bps) and sharp increase (+87%) in interest expense. The current OB stands at ₹50bn, up 18% YoY.
- Maintain BUY, cut TP to ₹125:** Despite slackening ordering scenario, KPP reported a 43% YoY increase in order intake in 1H12. However, we cut EPS estimates by 23%/22% for FY12/13 to factor slower execution and increase in interest expense. We maintain a BUY rating on **a)** healthy order book (2.0x FY12E sales), **b)** resilient margins (75% of orders on PVC basis) and **c)** de-risked business model on increasing component of infra, railways and annuity income from BOOT projects. We reduce our SOTP based TP to ₹125, valuing KPP at ₹106 and JMC Projects at ₹19 (KPP holds 67.2% stake).

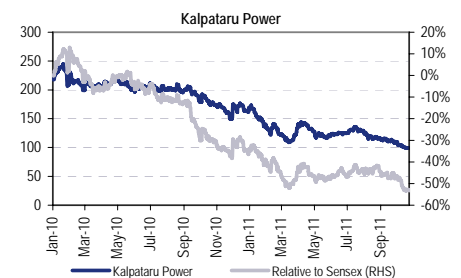
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Key Data

Market cap (bn)	₹ 15.2 / US\$ 0.3
Shares in issue (mn)	153.5
Diluted share (mn)	153.5
3- mon avg daily val (mn)	₹ 6.3/US\$ 0.1
52- week range	₹ 181.5/97.3
Sensex/Nifty	16,939/5,098
₹/US\$	49.9

Daily Performance



%	1M	3M	12M
Absolute	- 10.7	- 23.1	- 44.3
Relative	- 15.5	- 13.6	- 28.3

* To the BSE Sensex

Shareholding Pattern (%)

	Jun- 11	Jun- 10
Promoters	55.0	55.0
FII	12.0	14.9
DII	18.3	17.3
Public / Others	14.7	12.9

Exhibit 1. Financial Summary

(₹ mn)

Y/E March	FY09A	FY10A	FY11A	FY12E	FY13E
Net sales	32,442	39,882	43,687	48,226	56,274
Sales growth (%)	21.3	22.9	9.5	10.4	16.7
EBITDA	3,057	3,967	4,645	4,762	5,664
EBITDA (%)	9.4	9.9	10.6	9.9	10.1
Adjusted net profit	1,109	1,777	2,001	1,824	2,183
EPS (₹)	8.4	13.4	13.0	11.9	14.2
EPS growth (%)	- 32.7	60.2	- 2.8	- 8.8	19.7
ROCE (%)	11.2	13.4	13.6	11.7	12.6
ROE (%)	12.8	18.8	15.0	10.7	11.7
PE (x)	11.8	7.4	7.6	8.3	7.0
Price/Book value (x)	1.5	1.3	0.9	0.9	0.8
EV/EBITDA (x)	7.2	5.4	4.4	4.7	3.8

Source: Company data, JM Financial. Note: Valuations as of 25/10/2011

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- **Order inflow up 43% YoY in 1H12:** Healthy intake in 1Q12 pegs order inflow growth in 1H12 at +43% YoY to ₹16.7bn. Further, order book increased by 20% YoY to ₹60bn, providing ample visibility over next two years. We learn from our industry interactions that new management at PGCIL has greater focus towards ordering (up 30% YoY in 1H12) and FY12 is likely to witness ordering in excess of ₹150bn.
- **Change in estimates:** We have reduced our sales estimates by 7% each for FY12 and FY13 as we increase the average execution period to 25 months (+4 months). Further, we cut our consolidated EPS estimates by 23%/22% for FY12/13 on adverse currency movement (9% depreciation in INR/USD) and increasing interest rates (+34% YoY in KPP and +87% YoY in JMC Projects).

Exhibit 2. Change in estimates - Consolidated (₹mn)

	Previous estimates		New Estimates		% chg	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Net Sales	51,975	60,304	48,226	56,274	-7.2	-6.7
Sales growth (%)	19%	16%	11%	17%		
EBITDA	5,297	6,254	4,762	5,664	-10.1	-9.4
EBITDA M (%)	10.2%	10.4%	9.9%	10.1%	-30bps	-30bps
PAT	2,378	2,806	1,824	2,183	-23.3	-22.2
EPS (₹)	15.5	18.3	11.9	14.2	-23.3	-22.2
EPS Growth (%)	19%	18%	-9%	20%		

Higher interest rates lead to a sharper cut in profit estimates

Source: JM Financial

Exhibit 3. Quarterly performance - Standalone (₹mn)

Y/E March	1Q 12	2Q 11	2Q 12	% YoY	2Q 12E	% YoY E	1H 11	1H12	% YoY
Net Sales	5,848	6,315	5,833	-7.6	6,964	10.3	11,693	11,681	-0.1
Expenditure	5,179	5,583	5,126	-8.2	6,221	11.4	10,241	10,304	0.6
EBITDA	669	732	708	-3.3	743	1.6	1,452	1,377	-5.2
EBITDA (%)	11.4	11.6	12.1	50bps	10.7	-90bps	12.4	11.8	-60bps
Other income	144	138	138	-0.5	179	29.2	222	282	27.0
Depreciation	117	113	121	6.4	133	17.1	224	238	6.2
EBIT	696	757	724	-4.2	789	4.3	1,449	1,421	-2.0
Interest	221	186	242	29.8	214	15.0	376	463	23.0
PBT	475	570	482	-15.4	575	0.8	1,073	958	-10.7
Tax	138	156	140	-10.5	161	2.9	291	278	-4.6
Eff. Tax rate (%)	28.9	27.4	29.0		28.0		27.1	29.0	
PAT	338	414	342	-17.2	414	0.0	782	680	-13.0
EPS	2.2	2.7	2.2	-17.2	2.7	0.0	5.1	4.4	-13.0

Source: Company, JM Financial

Exhibit 4. Cost break-up - Standalone (₹mn)

Y/E March	1Q 12	2Q 11	2Q 12	% YoY	2Q 12E	% YoY E	1H 11	1H12	% YoY
Raw Material	4,191	4,576	4,189	-8.5	5,084	11.1	5,131	5,494	7.1
as a % of sales	71.7	72.5	71.8	-70bps	73.0	50bps	43.9	47.0	320bps
Staff Cost	439	474	403	-14.9	498	5.0	932	843	-9.6
as a % of sales	7.5	7.5	6.9	-60bps	7.1	-40bps	8.0	7.2	-80bps
Other expenses	548	533	534	0.1	639	20.0	1,006	1,082	7.6
as a % of sales	9.4	8.4	9.1	70bps	9.2	70bps	8.6	9.3	70bps

Source: Company, JM Financial

Key takeaways from conference call

- Management maintains a double digit growth guidance for FY12, indicating that issues are temporary in nature and will be resolved by next quarter. However, we cut our growth estimates to 6%/14% from 21%/14% for FY12/13E.
- Shree Shubham Logistics (SSL) (85% owned subsidiary) reported sales/EBITDA/PBT of ₹480/83/25mn in 2Q12. PBT margins are expected to remain in 5-6% range for the year.
- KPP has planned for an annual capex of ₹1.75-2bn for FY12, excluding equity investments towards BOOT projects. It expects to invest c.₹2bn towards equity component of these projects.
- Jhajjar transmission BOOT project is expected to be commissioned by end of 3Q12 and will start contributing to revenue from 4Q12. The annuity income from this project will be ₹540mn, where KPP holds 51% stake.
- Other BOOT projects i.e. Rohtak-Bawal and Agra-Aligarh are progressing as per schedule and are expected to contribute revenue FY14 onwards.

Exhibit 5. Segmental performance							(₹mn)
	1Q 12	2Q 11	2Q 12	% YoY	1H 11	1H12	% YoY
T&D	5,228	5,472	4,827	-11.8	10,210	10,055	-1.5
EBIT	544	581	566	-2.5	1,165	1,110	-4.8
<i>% EBIT</i>	10.4	10.6	11.7	110bps	11.4	11.0	-40bps
Biomass	106	97	109	12.8	169	215	27.1
EBIT	5	5	-1	-121.3	-15	4	-127.5
<i>% EBIT</i>	4.9	4.9	-0.9	-580bps	-9.1	2.0	1100bps
Infrastructure	512	745	897	20.3	1,312	1,408	7.3
EBIT	14	63	31	-50.5	117	46	-60.9
<i>% EBIT</i>	2.8	8.5	3.5	-500bps	8.9	3.2	-560bps

Source: JM Financial

Financial Tables (Consolidated)

Profit & Loss Statement					
	₹ mn				
Y/E March	FY09A	FY10A	FY11A	FY12E	FY13E
Net sales (Net of excise)	32,442	39,882	43,687	48,226	56,274
Growth (%)	21.3	22.9	9.5	10.4	16.7
Other operational income	0	0	0	0	0
Raw material (or COGS)	20,157	24,547	25,801	36,270	42,275
Personnel cost	1,988	2,632	3,279	3,241	3,736
Other expenses (or SG&A)	7,241	8,737	9,962	3,953	4,600
EBITDA	3,057	3,967	4,645	4,762	5,664
EBITDA (%)	9.4	9.9	10.6	9.9	10.1
Growth (%)	-7.2	29.8	17.1	2.5	18.9
Other non-op. income	370	328	277	493	482
Depreciation and amort.	576	745	880	903	975
EBIT	2,850	3,550	4,042	4,352	5,170
Add: Net interest income	-1,151	-903	-1,143	-1,503	-1,744
Pre tax profit	1,699	2,647	2,899	2,849	3,426
Taxes	417	691	773	886	1,063
Add: Extraordinary items	0	0	0	0	0
Less: Minority interest	173	179	126	139	180
Reported net profit	1,109	1,777	2,001	1,824	2,183
Adjusted net profit	1,109	1,777	2,001	1,824	2,183
Margin (%)	3.4	4.5	4.6	3.8	3.9
Diluted share cap. (mn)	133	133	153	153	153
Diluted EPS (₹)	8.4	13.4	13.0	11.9	14.2
Growth (%)	-32.7	60.2	-2.8	-8.8	19.7
Total Dividend + Tax	237	267	303	246	294

Source: Company, JM Financial

Balance Sheet					
	₹ mn				
Y/E March	FY09A	FY10A	FY11A	FY12E	FY13E
Share capital	265	265	307	307	307
Other capital	0	0	0	0	0
Reserves and surplus	8,384	10,006	16,123	17,427	19,315
Networth	8,649	10,271	16,430	17,733	19,622
Total loans	9,451	9,014	8,318	9,818	8,818
Minority interest	947	1,254	1,120	1,259	1,438
Sources of funds	19,048	20,540	25,868	28,810	29,879
Intangible assets	83	83	202	202	202
Fixed assets	7,062	9,270	11,500	12,039	13,539
Less: Depn. and amort.	1,731	2,427	3,234	4,148	5,123
Net block	5,414	6,927	8,467	8,092	8,617
Capital WIP	1,133	1,895	2,562	3,534	3,534
Investments	66	66	1,357	1,357	1,357
Def tax assets/- liability	-206	-196	-139	-139	-139
Current assets	24,879	28,862	34,864	35,969	38,872
Inventories	3,270	3,485	4,036	3,914	4,193
Sundry debtors	14,160	18,263	20,747	21,801	23,897
Cash & bank balances	472	557	1,875	1,481	939
Other current assets	3,553	3,292	4,126	3,950	4,215
Loans & advances	3,424	3,266	4,080	4,823	5,627
Current liabilities & prov.	12,256	17,024	21,244	20,003	22,363
Current liabilities	11,052	15,431	19,395	17,925	20,099
Provisions and others	1,203	1,593	1,849	2,078	2,264
Net current assets	12,624	11,838	13,620	15,966	16,509
Others (net)	17	9	0	0	0
Application of funds	19,048	20,540	25,868	28,810	29,879

Source: Company, JM Financial

Cash flow statement					
	₹ mn				
Y/E March	FY09A	FY10A	FY11A	FY12E	FY13E
Reported net profit	1,109	1,777	2,001	1,824	2,183
Depreciation and amort.	553	696	808	914	975
- Inc/dec in working cap.	-2,769	61	929	-2,403	-201
Others	125	307	-135	139	180
Cash from operations (a)	-982	2,841	3,603	474	3,136
- Inc/dec in investments	289	0	-1,290	0	0
Capex	-2,640	-2,971	-3,015	-1,511	-1,500
Others	-2,414	809	-1,393	-337	-884
Cash flow from inv. (b)	-4,764	-2,162	-5,698	-1,848	-2,384
Inc/- dec in capital	380	111	4,462	-275	0
Dividend+Tax thereon	-237	-267	-303	-246	-294
Inc/- dec in loans	4,985	-437	-696	1,500	-1,000
Others	8	-3	-48	0	0
Financial cash flow (c)	5,136	-595	3,414	980	-1,294
Inc/- dec in cash (a+b+c)	-611	84	1,318	-395	-541
Opening cash balance	649	472	557	1,875	1,481
Closing cash balance	38	557	1,875	1,481	939

Source: Company, JM Financial

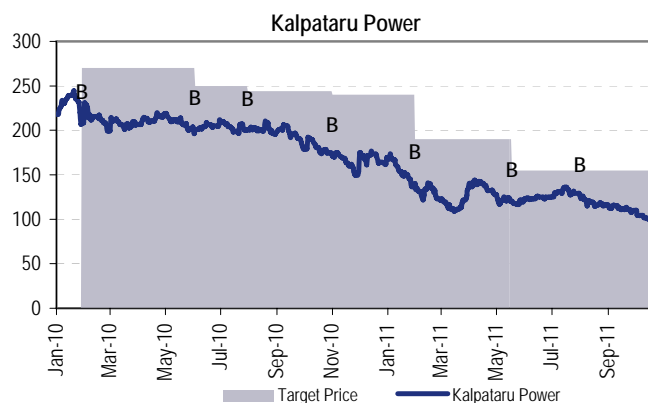
Key Ratios					
Y/E March	FY09A	FY10A	FY11A	FY12E	FY13E
BV/Share (₹)	65.3	77.5	107.1	115.6	127.9
ROCE (%)	11.2	13.4	13.6	11.7	12.6
ROE (%)	12.8	18.8	15.0	10.7	11.7
Net Debt/equity ratio (x)	1.0	0.8	0.3	0.4	0.3
Valuation ratios (x)					
PER	11.8	7.4	7.6	8.3	7.0
PBV	1.5	1.3	0.9	0.9	0.8
EV/EBITDA	7.2	5.4	4.4	4.7	3.8
EV/Sales	0.7	0.5	0.5	0.5	0.4
Turnover ratios (no.)					
Debtor days	159	167	173	165	155
Inventory days	37	32	34	30	27
Creditor days	200	229	274	180	174

Source: Company, JM Financial

History of earnings estimates and target price

Date	FY12E EPS (₹)	% Chg.	FY13E EPS (₹)	% Chg.	Target Price	Target Date	% Chg.
29-Jan-10	23.8				270	Mar-11	
3-Jun-10	21.2	-10.9			250	Mar-11	-7.4
31-Jul-10	21.1	-0.5			244	Mar-11	-2.4
1-Nov-10	19.9	-5.5	23.5		240	Sep-11	-1.6
31-Jan-11	17.6	-11.6	21.7	-7.7	190	Dec-11	-20.8
18-May-11	15.5	-11.9	18.3	-15.7	155	Mar-12	-18.4
1-Aug-11	15.5	0.0	18.3	0.0	155	Mar-12	0.0

Recommendation history



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