Prabhudas Lilladher

INDIA

Industry Report

Power Transmission

On the cusp of huge opportunity

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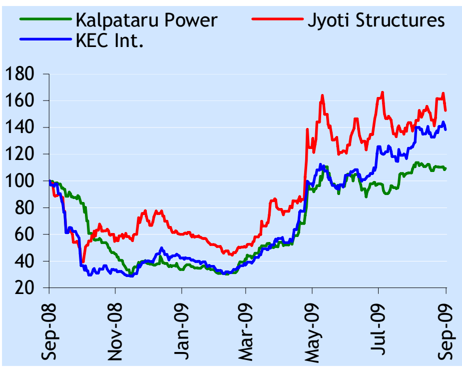
Industry Report
September 25, 2009

Power Transmission

Recommendations

	Rating	TP	CMP
KEC Int.	Acc	632	524
Kalpataru Power	Acc	1,025	835
Jyoti Structures	BUY	207	152

Relative Stock Performance

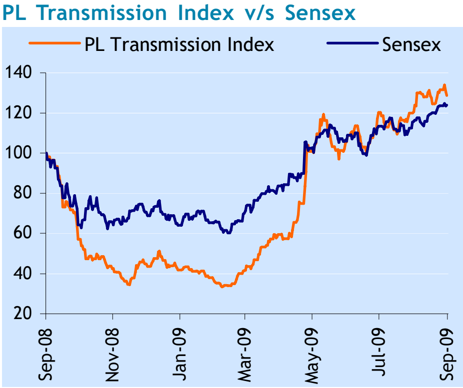


Source: Bloomberg, PL Research

Absolute Stock Performance

(%)	1M	6M	12M
Sensex	**6.4**	**72.7**	**23.2**
Transmission Index	**4.0**	**195.8**	**28.7**
KEC Int.	8.7	263.6	35.8
Kalpataru Power	2.5	171.2	11.3
Jyoti Structures	10.1	200.3	52.0

PL Transmission Index v/s Sensex



Source: Bloomberg, PL Research

- **Power generation capacity addition to ensure strong order flows:** There is a direct connection between new power generation capacity being added and transmission line orders being awarded. Depending on the scope of the project and the connectivity required, transmission line orders are normally awarded around 24 months before the generation capacity is commissioned. We have assumed capacity addition of 48GW and 85GW for the 11th and 12th plan, respectively. We expect the likely investment in transmission to be Rs1,200bn and Rs1,900bn (excluding the amount spent by Power Grid Corporation of India (PGCIL) on grid strengthening and upgradation of transmission systems) in the 11th and the 12th plan, respectively.

- **National grid strengthening and other central schemes to continue:** Along with setting up new transmission systems for transmitting power intra-state (State Electricity Boards (SEBs) are responsible for their respective inter-state transmission systems), PGCIL has also been actively involved in upgrading several transmission systems and is also in the process of increasing the capacity of the national grid from the current 19,150MW to more than 37,000MW by the end of the 11th plan. Out of PGCILs planned expenditure of Rs550bn for the 11th plan, around 30-35% will be spent on upgradation of various transmission assets and setting up a national grid. In the 12th plan, we expect PGCIL to have a targeted spend of Rs800-900bn.

  Apart from PGCIL's plan, the central government intends to spend Rs500bn and Rs280bn on the Restructured Accelerated Power Development Reform Programme (R-APDRP) and the Rajiv Gandhi Grameen Vidhyutikaran Yojna (RGGVY) in the 11th plan period.

- **International order inflow - a mixed bag:** International orders for most transmission players have dried up relatively in the past 6-9 months. One of the biggest reasons for this has been the slowdown in the Gulf Cooperation Council (GCC). Although countries like Kuwait and Saudi Arabia have dished out a few orders in the recent past, we believe that it will be a while before the entire region as a whole starts looking attractive again, especially for the transmission line players. On the other hand, activities have been picking up in Africa, South East Asia and Commonwealth of Independent states (CIS).

- **Incumbents to thrive despite increased competition:** PGCIL is expected to award Rs150bn and spend Rs1,150bn during FY10. Despite the increased competition we believe that the established players like JSL, KEC, KPTL, L&T will continue to have the lion's share. Also, various SEBs (Maharashtra has already dished out large orders in the past 3-4 months) in Rajasthan, Chhattisgarh, Bihar and some North Eastern states are expected to dish out large orders during the fiscal. We expect the competition to be at bay in these orders as there are various geo-political execution constraints which will be best managed by the established players.

Financial Summary

Financials

	Revenue (Rs m)			EBITDA (Rs m)			EBITDA Margin (%)			PAT (Rs m)			Book to Bill
	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY10E
KEC Int.	34,274	40,124	46,716	3,003	4,293	4,999	8.8	10.7	10.7	1,163	1,971	2,400	1.30
YoY chng. (%)	*21.8*	*17.1*	*16.4*	*(15.3)*	*43.0*	*16.4*	*(383)*	*194*	*0*	*(32.5)*	*69.5*	*21.8*	
Kalpataru Power	32,461	38,715	47,079	3,298	4,147	5,187	10.2	10.7	11.0	1,283	1,818	2,461	2.53
YoY chng. (%)	*21.4*	*19.3*	*21.6*	*0.1*	*25.7*	*25.1*	*(215)*	*55*	*31*	*(28.6)*	*41.7*	*35.4*	
Jyoti Structures	17,171	21,342	26,401	1,959	2,390	2,957	11.4	11.2	11.2	797	990	1,301	1.86
YoY chng. (%)	*25.3*	*24.3*	*23.7*	*14.0*	*22.0*	*23.7*	*(113)*	*(21)*	*(0)*	*10.1*	*24.2*	*31.4*	

Source: Company Data, PL Research

Ratios

	EPS (Rs)			BV (Rs)			RoCE (%)			RoE (%)			Debt/ Eq. (x)
	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY10E
KEC Int.	23.6	39.9	48.6	113.2	143.7	181.4	15.7	19.9	20.1	22.1	31.1	29.9	1.0
Kalpataru Power	41.8	61.7	84.0	328.2	381.1	452.9	14.2	14.4	16.6	15.5	19.3	22.3	0.8
Jyoti Structures	9.8	12.1	15.9	51.0	61.7	75.7	18.9	18.8	19.4	21.0	21.5	23.2	0.8

Source: Company Data, PL Research

Valuations (x)

	PER			P/BV			EV/EBITDA			EV/Sales		
	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E	FY09	FY10E	FY11E
KEC International	22.2	13.1	10.8	4.6	3.6	2.9	10.2	7.4	6.3	0.9	0.8	0.7
Kalpataru Power	20.0	13.5	9.9	2.5	2.2	1.8	9.4	7.2	5.8	1.0	0.8	0.6
Jyoti Structures	15.6	12.5	9.5	3.0	2.5	2.0	7.7	6.7	5.6	0.9	0.8	0.6

Source: Company Data, PL Research

Power generation capacity addition to ensure strong order flows

Capacity addition to miss target, yet a marked increase in absolute numbers

The 11th five year plan entailed a target of adding 78,700MW of capacity. Targets for the first two years of the plan have been broadly missed as the capacity addition has only been around 15,000MW (v/s a target of 27,000MW). More than 80,000MW worth of capacity is already under construction at this point in time. We expect capacity addition for the 11th plan to be in the range of 48,000MW, an increase of more than 200% over the previous plan.

Power capacity under execution

	Hydro	*% of total (fuel type)*	Thermal	*% of total (fuel type)*	Nuclear	*% of total (fuel type)*	Total
Central	8,654	*25.8*	21,496	*64.1*	3,380	*10.1*	33,530
% of total (ownership)	*55.8*		*34.8*		*100.0*		*41.6*
State	3,362	*13.3*	22,001	*86.7*		–	25,363
% of total (ownership)	*21.7*		*35.6*		–		*31.5*
Private	3,491	*16.1*	18,226	*83.9*		–	21,717
% of total (ownership)	*22.5*		*29.5*		–		*26.9*
Total	**15,507**	***19.2***	**61,723**	***76.6***	**3,380**	***4.2***	**80,610**

Source: CEA, PL Research

India is still under-powered and continues to have a high power deficit

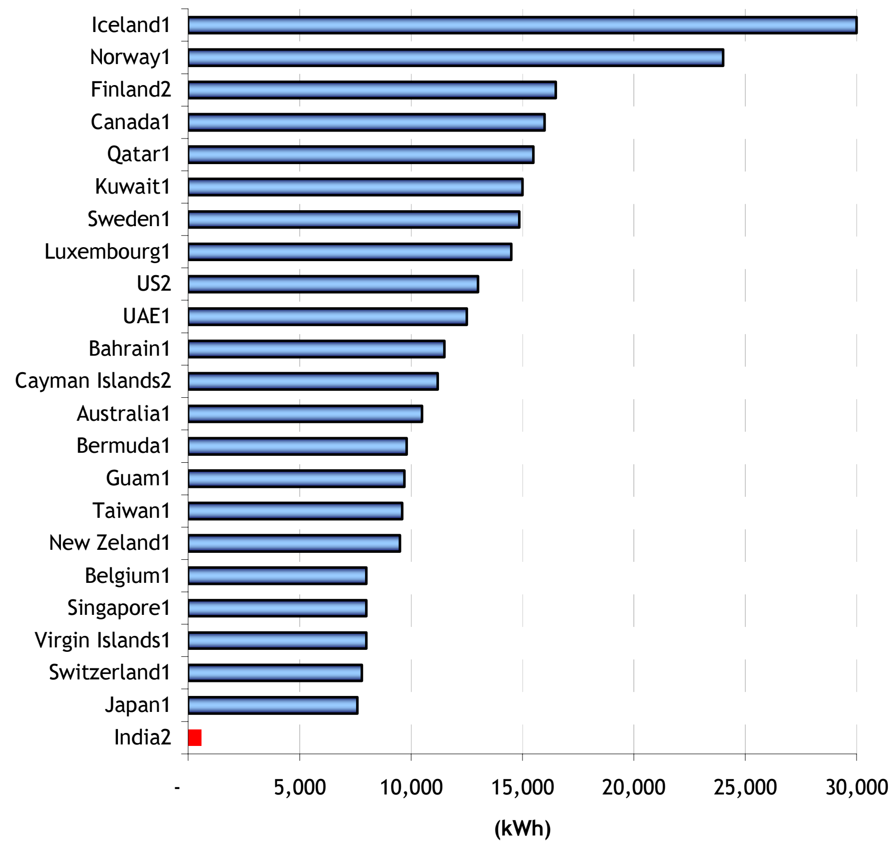
The peak hour deficit and the energy deficit for the month of August 2009 was 14.2% and 10.7%, respectively. This high power deficit scenario, coupled with the fact that India is an under-powered country in terms of per capita consumption, gives us further confidence that the government's stance on power generation addition will continue to be positive.

Power generation addition and deficit

Particulars	Capacity (MW)	Growth (%)	T&D losses (%)	Electricity supplied MU (kWh)	Growth (%)	Energy Deficit (%)	Peak deficit (%)
FY03	107,877		32.5	497,890		8.8	12.2
FY04	112,683	4.5	32.5	519,398	4.3	7.1	11.2
FY05	118,425	5.1	31.3	548,115	5.5	7.3	11.7
FY06	124,287	4.9	30.4	578,819	5.6	8.4	12.3
FY07	132,329	6.5	28.6	624,495	7.9	9.6	13.8
FY08	143,061	8.1	26.9	664,660	6.4	9.8	16.6
FY09	147,965	3.4		723,555	8.9	11.0	12.0

Source: CEA, PL Research

Top 20 power consuming countries (per capita basis)



Source: Crisil, PL Research

1 Latest data available for the year 2006

2 Latest data available for the year 2007

Private sector to increase its contribution in capacity addition

Apart from the government getting serious about the power capacity addition, several large Indian conglomerates have either already entered the power sector or have extensive plans to do so. In our capacity addition expectation of 48GW and 85GW in the 11th and 12th plan, respectively, we expect the share of the private players to go up from around 20% in the 11th plan to more than 40% (around 35GW) in the 12th plan.

The government has indicated a power capacity addition of 100GW between FY13-17 but cumulatively large private players itself have announced capacity addition of more than 80GW to be added by 2015. Therefore, the overall slippage in the 12th plan could be considerably lower due to the higher-than-anticipated contribution of the private sector.

Although the slippage in the private sector is expected to be lower than the public sector in terms of execution, we have taken a conservative estimate as a large number of these projects announced might get rationalized or pushed to the next plan period due to lack of financial closure or fuel linkages or certain clearances.

Private players capacity addition plan for next 5-6 years **(MW)**

	FY10	FY11	FY12	FY13	FY14	FY15
RPower	-	600	2,220	2,640	5,040	3,320
Adani	660	1,320	1,980	1,320	1,320	1,000
Lanco	1,994	3,772	3,848	6,404	8,384	
JP	-	250	2,000	660	660	1,000
Tata	120	525	1,325	3,200	660	
CESC	250	-	600	1,160	1,660	500
Jindal	-	600	600	600	600	
GMR	-	-	1,050	-	1,200	500
GVK	-	870	500	500		
Indiabulls	-	-	1,320	1,995	1,320	1,980
Sterlite Energy	1,200	1,200				
Others private	500	600	720	864	1,037	1,244
Total addition	**4,724**	**9,737**	**16,163**	**19,343**	**21,881**	**9,544**

Source: Company Data, PL Research

Order inflow for the transmission sector to be driven by the domestic market

India currently has a transmission network of 2,22,746ckm and transformation capacity of more than 292,892MVA. The transmission network and the transformation capacity are expected to increase to 290,282ckm and 428,000MVA, respectively by the end of the 11th plan.

Transmission line and substation capacity addition for the 11th Plan

	Units	31/3/07	31/3/09	Addition so far	Addition target for 11th Plan	Cumulative total at the end of 11th Plan	Balance	% Left
Transmission Lines								
765kV	ckm	2,422	3,118	696	5,428	7,850	4,732	87.2
HVDC +/-500kV	ckm	2,226	7,172	4,946	5,206	7,432	260	5.0
400kV	ckm	75,722	89,496	13,774	49,278	125,000	35,504	72.0
230/220kV	ckm	114,630	122,960	8,330	35,370	150,000	27,040	76.4
Total transmission Lines	**ckm**	**195,000**	**222,746**	**27,746**	**95,282**	**290,282**	**67,536**	**70.9**
Substations								
HVDC Terminal Capacity	MW	5,200	8,700	3,500	6,000	11,200	2,500	41.7
765kV	MVA	2,000	4,500	2,500	51,000	53,000	48,500	95.1
400kV	MVA	92,942	111,202	18,260	52,058	145,000	33,798	64.9
230/220kV	MVA	156,500	177,190	20,690	73,500	230,000	52,810	71.9
Total -AC Substation Capacity	**MVA**	**251,442**	**292,892**	**41,450**	**176,558**	**428,000**	**135,108**	**76.5**

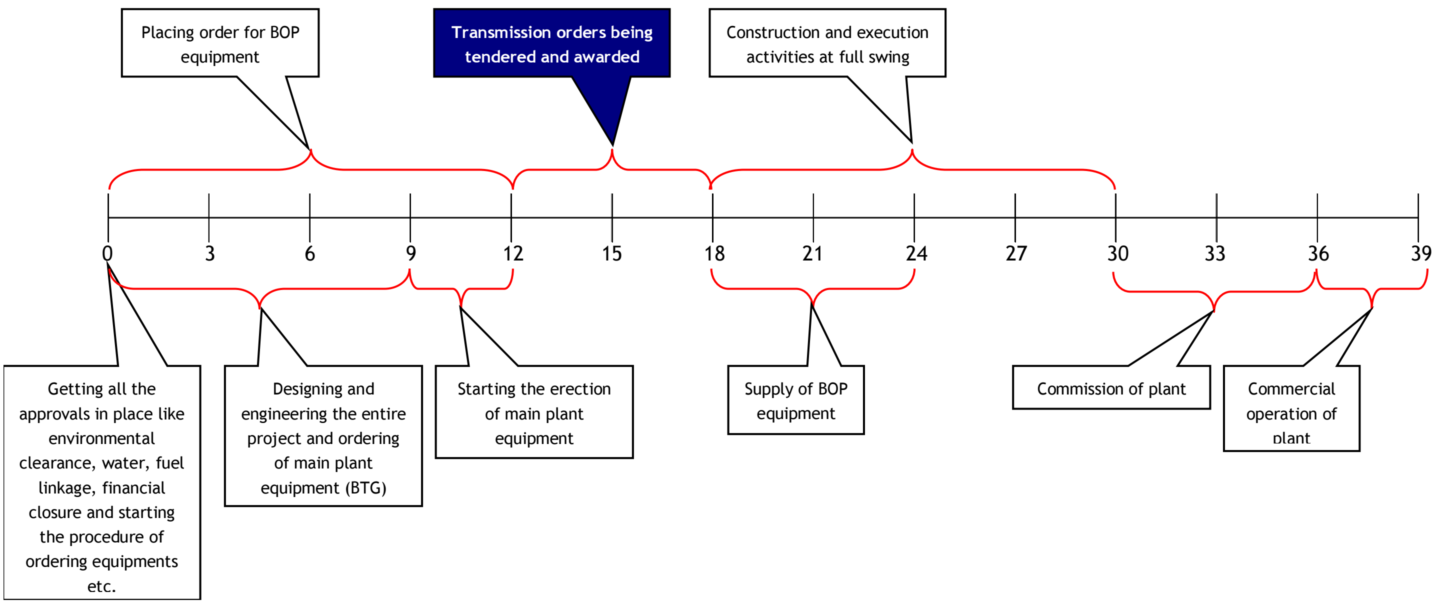
Source: CEA, PL Research

Internationally, the thumb rule in terms of T&D investment is that for every rupee spent on generation, a rupee needs to be spent on the T&D infrastructure as well. It has been largely found that the investment in T&D have been insufficient, resulting in weak T&D infrastructure and excess load on the transmission network. Total T&D spend targeted for the 11th and 12th plan is Rs4,270bn (Rs1,400bn was for transmission) and Rs6,000bn (Rs2,400bn is for transmission) respectively.

Since we have assumed capacity addition of 48GW and 85GW for the 11th and 12th plan, respectively, we expect the likely investment in transmission to be Rs1,200bn and Rs1,900bn (excluding the amount spent by PGCIL on grid strengthening and upgradation of transmission systems) in the 11th and the 12th plan, respectively.

Time line in the power sector: Typical 500MW thermal plant

Time line for a typical 500MW thermal plant



Source: PL Research

There is a direct connection between new power generation capacity being added and transmission line orders being awarded. Depending on the scope of the project and the connectivity required, transmission line orders are normally awarded 24 months before the generation capacity is commissioned.

In order to understand better the likely order inflow in the power transmission space (from new capacity addition) over the next five - seven years, we have made the following assumptions:

- Capacity addition of 48GW and 85GW in the 11th and 12th plan, respectively
- Orders for transmission system will be awarded 24 months prior to generation getting commissioned
- Spend on transmission would be 0.4 x the spend in generation
- 50% of transmission orders will be for substation, 35% for transmission lines and 15% for conductors
- Market share of Jyoti Structures (JSL), KEC International (KEC) and Kalpataru Power (KPTL) together in transmission line is expected to be 54%

Expected transmission order inflow based on generational capacity addition

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
New capacity addition (mw)	9,000	11,500	12,000	15,000	16,000	17,500	18,000	18,500
Investment required for generation	405,000	517,500	540,000	695,250	763,848	860,523	911,662	965,096
Tranmission orders inflows (0.4 x generation)	**216,000**	**278,100**	**305,539**	**344,209**	**364,665**	**386,038**	**397,619**	**409,548**
Substation orders (50%)	108,000	139,050	152,770	172,105	182,332	193,019	198,810	204,774
Transmission line orders (35%)	75,600	97,335	106,939	120,473	127,633	135,113	139,167	143,342
Conductor orders (15%)	32,400	41,715	45,831	51,631	54,700	57,906	59,643	61,432
Transmission line orders addressable to KEC, JSL & KPTL	**40,824**	**52,561**	**57,747**	**65,056**	**68,922**	**72,961**	**75,150**	**77,405**

Source: PL Research

Domestic order inflow of JSL, KPTL & KEC over the past three years

Particular	FY07	FY08	FY09
Jyoti Structures*	16,448	20,711	9,893
Kalpataru Power*	14,509	22,919	13,160
KEC International*	9,797	11,124	30,605
Total	**40,754**	**54,753**	**53,658**

Source: Company Data, PL Research

** Includes Rural electrification and substation orders as well*

We expect order inflows for transmission line orders alone to increase from Rs41bn in FY10 to Rs77bn in FY17. Given the large opportunity in this space, competition is expected to increase. However, in the long term, we expect the top four players (including L&T) to maintain a combined market share of 70-75%.

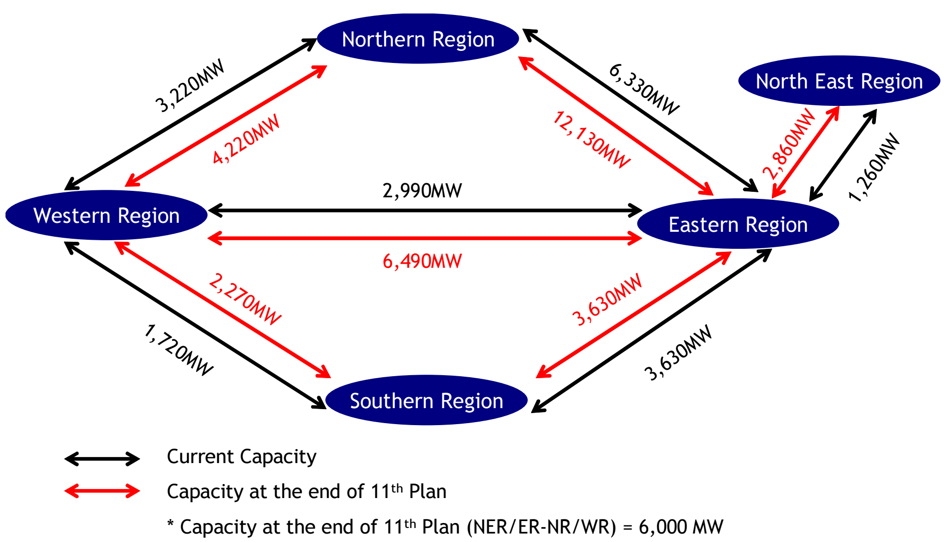
Rural electrification and substation orders form a considerable amount of the order book for JSL (35%), KEC (20%) and KPTL (6%) therefore the order inflow from transmission line orders would have been considerably lower than stated in the table above. Given that all three players are well seasoned, transmission line orders itself would lead to robust order inflow growth for them over the next 5-7 years.

National grid strengthening and other central schemes to continue

Power Grid to invest in increasing grid capacity and upgrade certain transmission systems

Along with setting up new transmission systems for transmitting power intra-state (SEBs are responsible for their respective inter state transmission systems), PGCIL has also been actively involved in upgrading several transmission systems and is also in the process of increasing the capacity of the national grid from the current 19,150MW to more than 37,000MW by the end of the 11th plan. Out of PGCILs planned expenditure of Rs550bn for the 11th plan, around 30-35% will be spent on upgradation of various transmission assets and setting up a national grid. In the 12th plan, we expect PGCIL to have a targeted spend of Rs800-900bn, out of which, 30-35% could be spent on various strengthening and upgradation schemes.

National grid strengthening programme for the 11th Plan



Source: Working Committee Report, CRISIL Research, PL Research

Restructured Accelerated Power Development Reform Programme (R-APDRP)

The R-APDRP scheme has entailed an overall investment of Rs500bn. By making these investments, the State Utilities are expected to reduce their AT & C losses to 15%. The overall scheme is to be undertaken in two parts:

Part - A

Part A entails an overall investment of Rs100bn. This part will involve preparation of base-line data for the project area covering Consumer Indexing, GIS Mapping, Metering of Distribution Transformers and Feeders, Automatic Data Logging for all Distribution Transformers and Feeders and SCADA / DMS system.

Part - B

This part will entail an investment of Rs400bn and involve renovation, modernization and strengthening of 11 kV level substations, transformers / transformer centers, re-conductoring of lines at 11kV level and below, load bifurcation, load balancing, HVDS, installation of capacitor banks and mobile service centers etc.

Rajiv Gandhi Grameen Vidhyutikaran Yojna (RGGVY)

As the name suggests, RGGVY is a programme responsible for rural electrification. RGGVY was initiated in the 10th plan and is expected to continue well into the 11th plan. Recently, a capital subsidy of Rs280bn has been approved for the 11th plan under this scheme. So far Rs150bn has been released under the scheme. The Government of India provides a capital subsidy of up to 90% of the cost and the state utility is to provide for the remaining 10%.

International order inflow - a mixed bag

International orders for most transmission players have dried up relatively in the past 6-9 months; one of the biggest reasons for this has been the slowdown in the GCC countries. Although countries like Kuwait and Saudi Arabia have dished out a few orders in the recent past, we feel that it will be a while before the entire region as a whole starts looking attractive again, especially for transmission line players. We believe that unlike India which is a power-starved country and the investment in the power sector is relatively inelastic, the investment in power in GCC countries could be more or less linked to new cities and townships being developed which has slowed down tremendously. Another factor pointing out to the slowdown in investment in power in this region is the drastic drop in order inflows for companies like Alstom and ABB in the Middle East.

Some of the key trends expected in other markets are as follows:

Africa:

- Funding from Multilateral Agencies
- South Africa's plans to invest Rs125bn (US$2.6bn) in the next five years
- South African Power Pool stepping in by building inter-connecting grids through Africa for Transmission

America:

- The existing transmission structure is over stretched
- Major thrust to build transmission infrastructure
- American Transmission Corporation plans to invest Rs135bn (US$2.8bn) over 10 years in construction and maintenance projects

South Asian Countries:

- Large opportunity exists in Bangladesh; upcoming projects of Power Grid Corporation of Bangladesh have planned major expansion of its transmission grid
- Many Hydro Projects are taking shape in Nepal, giving rise to numerous opportunities there

Incumbents to thrive despite increased competition

PGCIL is expected to award close to Rs150bn during FY10 and spend around Rs115bn. We expect competition to be aggressive for these PGCIL orders. However, we expect the 4-5 established players to continue to have the lion's share. The main reason behind them being able to do so is that, in the past few years a lot of new players have tried to make inroads into this sector but have been unsuccessful. Four probable reasons for this would have been 1)execution expertise required, 2)low operating margins as the new entrants would have to outbid the incumbents, 3)working capital management related issues and 4)it would take some time before new players would develop the required qualifications and trust from PGCIL to become prominent players in the market.

Apart from that, various SEBs (Maharashtra has already dished out large orders in the past 3-4 months) in Rajasthan, Chhattisgarh, Bihar and some North Eastern states are expected to dish out large orders during the fiscal. We expect the competition to be at bay in these orders as well, as there are various geo-political execution constraints which will be best managed by the established players.

Although the transmission system is a smaller part of the entire power chain, it is nevertheless a critical part. No utility can afford to have a delayed or a sub standard transmission system which would have an adverse impact on the entire project. PGCIL and various SEBs will always ensure that important contracts are awarded to the most competent players rather than simply dishing out the orders to the lowest bidder.

Sector Risks

Volatility in order inflow

Due to delayed capacity addition

The capacity addition in the power sector has traditionally been missed (53% and 35% in the 9th and 10th plan, respectively) in the past few 5-year plans, resulting in India being an under-powered country. Even for the 11th plan, we expect the capacity addition to be in the range of 48GW as compared to a target of 79GW. Investment in transmission systems is linked directly to the generation capacity addition. Therefore, lapses in capacity addition, which might be due to various reasons like regulatory hurdles, execution risk, fuel shortage, financial closure etc. will have a direct and a adverse impact on the order inflows for transmission.

Due to political reasons

Most of the transmission orders are given out by state or central utilities events like elections and change of guard (for the utilities) normally result in the tendering process either coming to a halt or being staggered. The financial position of these utilities also has a direct bearing on their ordering pipeline as well.

COMPANY SECTION

Prabhudas Lilladher

Company Report
September 25, 2009

KEC International

Rating	Accumulate
Price	Rs524
Target Price	Rs632
Implied Upside	20.8%
Sensex	16,693

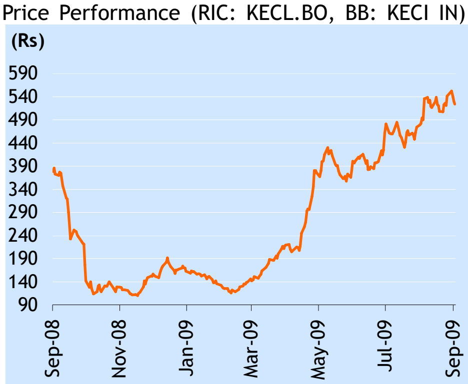
(Prices as on September 25, 2009)

Trading Data	
Market Cap. (Rs bn)	25.8
Shares o/s (m)	49.3
Free Float	58.1%
3M Avg. Daily Vol ('000)	19.1
3M Avg. Daily Value (Rs m)	9.2

Major Shareholders	
Promoters	41.9%
Foreign	5.9%
Domestic Inst.	38.3%
Public & Others	13.9%

Stock Performance	1M	6M	12M
Absolute	8.7	263.6	35.8
Relative	2.3	190.9	12.6

Price Performance (RIC: KECL.BO, BB: KECI IN)



Source: Bloomberg, PL Research

- **BSNL order undecided for the time being:** Currently a few shortlised players have gone to court to contest the award of contracts by BSNL. The litigation is expected to be resolved in the next few months. Once the litigation process is over, BSNL will be in a position to award these contracts.

  The order would be coupled with a 10 year maintenance contract as well, which will provide a regular stream of cash flows for the contractor. We expect KEC's share of the BSNL order to be in the range of Rs50-80bn. At this point, we have not included any revenue or profit from the BSNL order into our estimates.

- **Higher contribution of domestic orders and stable currency to improve margins:** In FY09, EBITDA margins were lower at 8.8% due to depreciation of the rupee (translation loss) and increased commodity prices. Currently the domestic order book accounts for more than 53% (of Rs52bn) and with recent announcement of order wins of Rs7.8bn, out of which Rs5.9bn was from MSETCL, has further increased the share of domestic orders in the order book. Increased domestic mix, coupled with expectation of a relatively stable currency, would result in a marked improvement in EBITDA margin (10.5-10.8%) in FY10.

- **Interest cost in check:** Although by the end of FY09, the management was able to the keep the debt levels and working capital cycle in check, the increased interest expenses in FY10 clearly depicted the liquidity and working capital constraints faced during the fiscal. The improved liquidity situation in FY10, coupled with lower interest cost will help keep the interest costs in check. We expect interest cost to be flat YoY for FY10, in the range of Rs1-1.1bn.

- **Valuation:** At CMP of Rs524, the stock trades at 13.1x FY10E and 10.8x FY11E earnings of Rs39.9 and Rs48.3, respectively. Given the strong order book (1.3x FY10E revenue), expectation of orders to flow in from both PGCIL and various SEBs and expectation of a smooth execution, we maintain our '**Accumulate**' rating on the stock.

Key Financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenue (Rs m)	28,145	34,274	40,124	46,716
Growth (%)	*37.9*	*21.8*	*17.1*	*16.4*
EBITDA (Rs m)	3,543	3,003	4,293	4,999
PAT (Rs m)	1,722	1,163	1,971	2,400
EPS (Rs)	34.9	23.6	39.9	48.6
Growth (%)	*25.7*	*(32.5)*	*69.5*	*21.8*
Net DPS (Rs)	5.0	5.0	6.0	7.3

Source: Company Data; PL Research

Profitability & Valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	12.6	8.8	10.7	10.7
RoE (%)	*44.9*	*22.1*	*31.1*	*29.9*
RoCE (%)	*24.1*	*15.7*	*19.9*	*20.1*
EV / sales (x)	1.1	0.9	0.8	0.7
EV / EBITDA (x)	8.8	10.2	7.4	6.3
PE (x)	15.0	22.2	13.1	10.8
P / BV (x)	5.2	4.6	3.6	2.9
Net dividend yield (%)	*1.0*	*1.0*	*1.1*	*1.4*

Source: Company Data; PL Research

Investment Arguments

BSNL order undecided for the time being

Currently a few shortlisted players have gone to court to contest the award of contracts by BSNL. The litigation is expected to be resolved in the next few months. Once the litigation process is over, BSNL will be in a position to award these contracts.

We expect margin on these orders to be in the range of 7-9%, with an average execution cycle of 2-3 years. The order would be coupled with a 10 year maintenance contract as well, which will provide a regular stream of cash flows for the contractor. We expect KEC's share of the BSNL order to be in the range of Rs50-80bn. If the order is awarded in the near term, both revenue and profit contribution from this order could begin in H2FY11. At this point we have not included any revenue or profit from the BSNL order into our estimates.

Others players short listed for the BSNL order are ACME, Spanco, GTL infrastructure, Aster tele and ICOM.

Higher contribution of domestic orders and stable currency to improve margins

In FY09, EBITDA margins were lower at 8.8% due to depreciation of the rupee (translation loss) and increased commodity prices (63% sales from International business which is based on fixed cost contracts). Currently the domestic order book accounts for more than 53% (of Rs52bn) and with recent announcement of order wins of Rs7.8bn, out of which Rs5.9bn was from MSETCL, has further increased the share of domestic orders in the order book. Increased domestic mix, coupled with expectation of a relatively stable currency, could result in a marked improvement in EBITDA margin (10.5-10.8%) in FY10.

Order book breakup (Rs m)

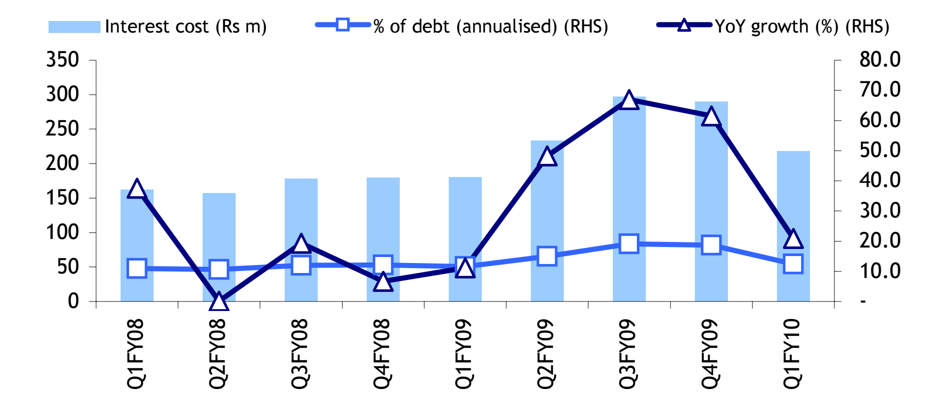
Y/e March	FY07	FY08	FY09
International orders	23,291	30,782	25,750
% of total	*75.5*	*79.5*	*49.9*
Domestic orders	7,571	7,935	25,880
% of total	*24.5*	*20.5*	*50.1*
Total Order book	**30,862**	**38,717**	**51,630**

Source: Company Data, PL Research

Interest cost in check

Although by the end of FY09, the management was able to the keep the debt levels and working capital cycle in check, the increased interest expenses in FY10 clearly depicted the liquidity and working capital constraints faced during the fiscal. The improved liquidity situation in FY10, coupled with lower interest cost will help keep the interest costs in check. We expect interest cost to be flat for FY10, in the range of Rs1-1.1bn.

Interest cost movement



Source: Company Data, PL Research

Investment Risks

Adverse movement in raw material cost

Most of the international orders received by the company are on fixed cost contracts. Therefore, the company tries to book most of the material back-to-back. But the fact remains that most transmission line contracts have a time line of 18-24 months and thereby certain commodity risk remains. Therefore, adverse movements in commodity price could have a negative impact on margins.

Slowdown in the power generation capacity addition

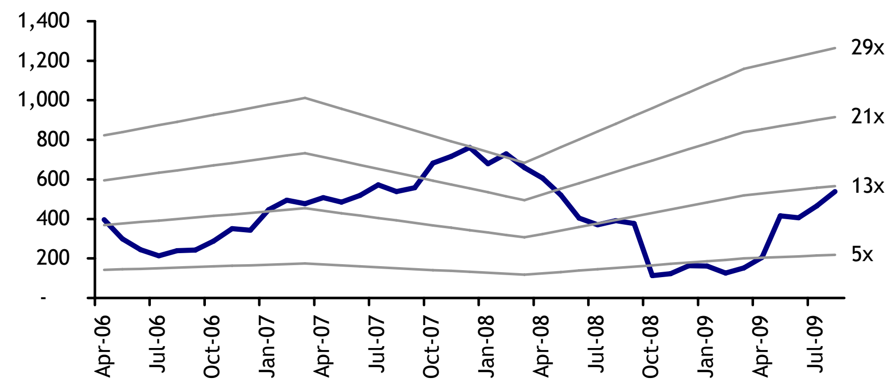
The government is currently committed to increase the power generation capacity in the country and there has been a lot of interest from private players as well. Although it might seem unlikely in the near term, any long-term slowdown in the power sector, whether it is due to financial constraints, regulatory hurdles or supply constraints of key equipment, will have a direct impact on the transmission sector. Order inflow for the next 2-3 years seems to be strong from both PGCIL and several SEBs. However, a slowdown in the power sector will adversely impact the future visibility of the sector.

Valuation and Outlook

KEC has an order book of Rs51bn which is sufficient to support its revenue growth for the next 18 months. We expect Revenue to grow at a CAGR of 18-20% over the next 2-3 years. EBITDA margin is expected to improve in FY10 on the back of lower raw material cost and a relatively stable currency. With the interest cost expected to rationalize in FY10 PAT is expected to see a marked improvement (69 %YoY).

Telecom and Railways could be future growth drivers for KEC, especially the telecom division with the BSNL order expected to be awarded in the near term.

Rolling 12M foward PE band



Source: Bloomberg, PL Research

At CMP of Rs524, the stock trades at 13.1x FY10E and 10.8x FY11E earnings of Rs39.9 and Rs48.3, respectively. Given the strong order book (1.3x FY10E revenue), expectation of orders to flow in from both PGCIL and various SEBs and expectation of a smooth execution, we maintain our '**Accumulate**' rating on the stock.

Financials

Income Statement

(Rs m)

Y/e March	FY07	FY08	FY09	FY10E	FY11E
Net Revenue	**20,406**	**28,145**	**34,274**	**40,124**	**46,716**
Expenditure					
Raw material Consumed	9,293	14,139	19,758	20,864	24,339
% of Net Sales	*45.5*	*50.2*	*57.6*	*52.0*	*52.1*
Erection and sub contracting charges	5,270	6,180	5,746	8,827	10,231
% of Net Sales	*25.8*	*22.0*	*16.8*	*22.0*	*21.9*
Total RM and sub contracting charges	14,564	20,319	25,505	29,692	34,570
% of Net Sales	*71.4*	*72.2*	*74.4*	*74.0*	*74.0*
Employee Costs	955	1,233	1,416	1,725	2,009
% of Net Sales	*4.7*	*4.4*	*4.1*	*4.3*	*4.3*
Other Costs	2,370	3,050	4,350	4,414	5,139
% of Net Sales	*11.6*	*10.8*	*12.7*	*11.0*	*11.0*
Cost of Goods Sold	17,888	24,602	31,271	35,831	41,718
% of Net Sales	*87.7*	*87.4*	*91.2*	*89.3*	*89.3*
EBITDA	**2,518**	**3,543**	**3,003**	**4,293**	**4,999**
Margin	*12.3*	*12.6*	*8.8*	*10.7*	*10.7*
Depreciation	334	251	228	292	319
Other Income	7	3	3	3	4
EBIT	**2,191**	**3,295**	**2,778**	**4,004**	**4,683**
Interest	593	677	1,000	1,018	1,046
PBT	**1,599**	**2,619**	**1,778**	**2,986**	**3,637**
Total tax	552	897	615	1,015	1,237
Effective Tax rate(%)	*34.5*	*34.3*	*34.6*	*34.0*	*34.0*
PAT	**1,046**	**1,722**	**1,163**	**1,971**	**2,400**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY07	FY08	FY09	FY10E	FY11E
Share Capital	377	493	493	493	493
Reserves & Surplus	2,213	4,354	5,092	6,597	8,456
Total Shareholders Equity	2,720	4,952	5,586	7,091	8,950
Total Debt	3,864	5,918	6,218	7,018	7,118
Deferred Tax Liabilities	290	200	298	298	298
Total Liabilities	**6,874**	**11,070**	**12,102**	**14,407**	**16,366**
Gross Block	4,676	5,213	6,255	7,168	7,918
Depreciation	600	899	1,222	1,634	2,074
Net Block	4,076	4,314	5,032	5,534	5,845
Capital Work in Progress	23	189	514		
Investments	206	5	18	18	18
Current Assets					
Inventories	1,506	2,053	2,258	2,945	3,429
Debtors	9,041	14,300	18,510	19,787	23,038
Cash and Cash Equivalent	214	680	1,365	1,102	1,331
Loans and Advances	1,717	2,701	3,266	4,947	5,760
Total Current Assets	12,478	19,735	25,398	28,781	33,557
Current Liabilities					
Creditors	7,281	11,171	15,540	15,550	18,013
Advance from Customers	2,248	1,434	2,850	3,887	4,503
Provisions	370	540	444	489	538
Total Current Liabilities	9,908	13,173	18,860	19,926	23,054
Net Current Assets	2,569	6,562	6,538	8,855	10,504
Total Assets	**6,874**	**11,070**	**12,102**	**14,407**	**16,366**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e March	FY07	FY08	FY09	FY10E	FY11E
Net Cash from Operating Activities	(219)	43	3,698	701	2,347
Net Cash from Investing Activities	(98)	(307)	(1,326)	(400)	(750)
Net Cash from Financing Activities	(99)	545	(1,687)	(564)	(1,368)
Increase/(Decrease) in cash	(416)	282	685	(263)	229
Cash at the beginning of the year	630	398	680	1,365	1,102
Cash at the end of the year	214	680	1,365	1,102	1,331

Source: Company Data, PL Research

Key Ratios (Rs m)

Y/e March	FY07	FY08	FY09	FY10E	FY11E
Ratios					
Avg. Net Worth	2,296	3,836	5,269	6,338	8,020
Avg Cap Employed	6,137	8,972	11,586	13,255	15,387
Asset Based Ratios (%)					
ROCE	23.4	24.1	15.7	19.9	20.1
ROE	45.6	44.9	22.1	31.1	29.9
Growth Ratios (%)					
Sales	18.1	37.9	21.8	17.1	16.4
EBITDA	55.2	40.7	(15.3)	43.0	16.4
PAT	112.3	64.5	(32.5)	69.5	21.8
EPS	112.3	25.7	(32.5)	69.5	21.8
Liquidity					
Current Ratio	1.3	1.5	1.3	1.4	1.5
Acid Test Ratio	1.1	1.3	1.2	1.3	1.3
Balance Sheet Ratios					
Gross Debt : Equity (x)	1.4	1.2	1.1	1.0	0.8
Net Debt : Equity (x)	1.3	1.1	0.9	0.8	0.6
Inventory Days	31	30	26	30	30
Debtor Days	192	220	232	225	225
Creditor Days	194	187	215	198	197
Net Working Capital Days	29	64	44	57	58
Per Share (Rs)					
EPS	27.8	34.9	23.6	39.9	48.6
BV	72.2	100.4	113.2	143.7	181.4
CEPS	43.5	48.6	43.8	60.6	69.8
DPS	4.5	5.0	5.0	6.0	7.3
FCPS	(22.5)	(45.7)	14.8	(14.5)	11.2
Margins (%)					
EBITDA	12.3	12.6	8.8	10.7	10.7
PAT	5.1	6.1	3.4	4.9	5.1
Tax Rate	34.5	34.3	34.6	34.0	34.0
Valuations (x)					
P/E	18.9	15.0	22.2	13.1	10.8
P/BV	7.3	5.2	4.6	3.6	2.9
P/CEPS	12.0	10.8	11.9	8.6	7.5
EV/EBITDA	11.7	8.8	10.2	7.4	6.3
EV/Sales	1.4	1.1	0.9	0.8	0.7
Market Cap/Sales	1.3	0.9	0.8	0.6	0.6
Dividend Yield (%)	0.9	1.0	1.0	1.1	1.4

Source: Company Data, PL Research

Prabhudas Lilladher

Company Report
September 25, 2009

Kalpataru Power Transmission

Rating	Accumulate
Price	Rs835
Target Price	Rs1,025
Implied Upside	22.7%
Sensex	16,693

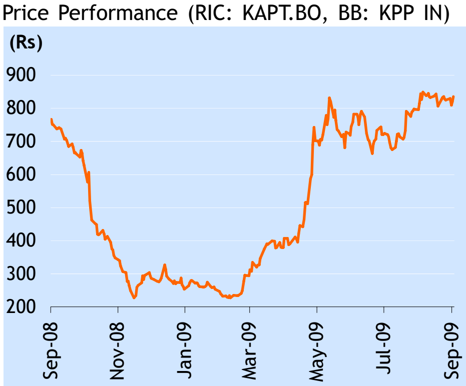
(Prices as on September 25, 2009)

Trading Data	
Market Cap. (Rs bn)	22.1
Shares o/s (m)	26.5
Free Float	36.3%
3M Avg. Daily Vol ('000)	20.7
3M Avg. Daily Value (Rs m)	16.0

Major Shareholders	
Promoters	63.7%
Foreign	9.1%
Domestic Inst.	20.4%
Public & Others	6.8%

Stock Performance	1M	6M	12M
Absolute	2.5	171.2	11.3
Relative	(3.9)	98.5	(12.0)

Price Performance (RIC: KAPT.BO, BB: KPP IN)



Source: Bloomberg, PL Research

- **Order book visibility, the best amongst transmission players:** KPTL currently has an order book of more than Rs60bn; this is more than 2.5 x FY10E revenue. In little over a year, the order book has increased by 77% from Rs34bn in FY09. Out of the current order book, transmission accounts for 86%, pipeline 8% and rural electrification 6%.

- **Orders inflow to be strong from both PGCIL and SEBs:** We expect PGCIL to spend Rs115bn in FY10 and award contracts worth Rs15bn. Also, we believe that the established players, including KPTL, will continue to maintain their lion's share in SEB orders like the orders dished out by Maharashtra State Electricity Transmission Company (MSETCL) and the tenders which are to come in from states like Rajasthan, Bihar, Chhattisgarh and some North-Eastern states.

- **Working Capital worries to reduce by December 2009:** The MSEDCL order worth Rs10bn, which was delayed, has been reduced to Rs8bn. Payment schedule for this order is back-ended in nature and therefore, required high levels of working capital. This is expected to be released by December 2009, as the work is expected to be completed by October 2009.

- **Valuation and Outlook:** The strong order book provides excellent outlook on growth in both the transmission and infrastructure divisions. Execution is expected to pick up pace in the coming quarters, coupled with expectation of improved margins (due to execution of international orders) topped up with order inflows to confirm in from both PGCIL and SEBs; helps us provide a positive outlook on the company.

  At the CMP of Rs835, the stock trades at 13.5x FY10E and 9.9x FY11E earnings of Rs61.7 and Rs84.0, respectively. We initiate coverage on the stock with an **'Accumulate'** rating.

Key Financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenue (Rs m)	26,749	32,461	38,715	47,079
Growth (%)	*67.4*	*21.4*	*19.3*	*21.6*
EBITDA (Rs m)	3,294	3,298	4,147	5,187
PAT (Rs m)	1,797	1,283	1,818	2,461
EPS (Rs)	62.2	41.8	61.7	84.0
Growth (%)	*2.2*	*(32.9)*	*47.6*	*36.3*
Net DPS (Rs)	7.5	7.5	7.5	10.4

Source: Company Data; PL Research

Profitability & Valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	12.3	10.2	10.7	11.0
RoE (%)	*25.2*	*15.5*	*19.3*	*22.3*
RoCE (%)	*18.6*	*14.2*	*14.4*	*16.6*
EV / sales (x)	1.0	1.0	0.8	0.6
EV / EBITDA (x)	7.7	9.4	7.2	5.8
PE (x)	13.4	20.0	13.5	9.9
P / BV (x)	2.8	2.5	2.2	1.8
Net dividend yield (%)	*0.9*	*0.9*	*0.9*	*1.2*

Source: Company Data; PL Research

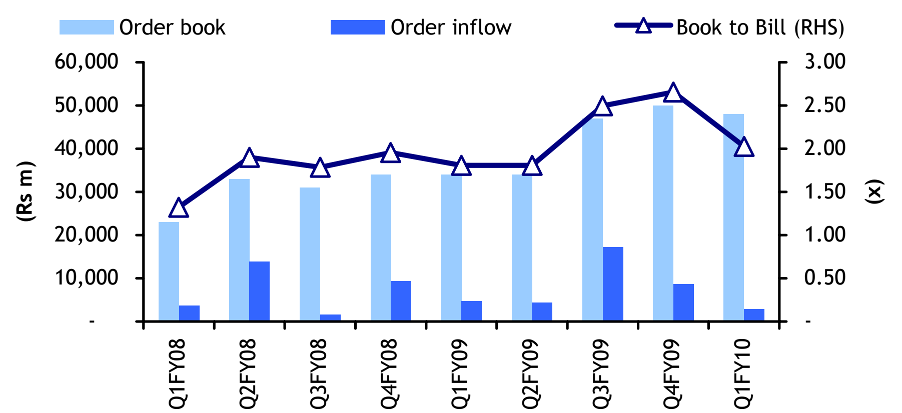
Investment Arguments

Order book visibility, the best amongst transmission players

KPTL currently has a current order book of more than Rs60bn which is more than 2.5 x FY10E revenue. In little over a year, the order book has increased by 77% from Rs34bn in FY09. Out of the current order book, transmission accounts for 86%, pipeline 8% and rural electrification 6%.

Order inflow in the past 6-9 months has included several large domestic orders from PGCIL, as well as a large US$250m (~Rs10bn) order for a 172km 400KV transmission line in Kuwait, followed by a Rs3.9bn 48' pipeline order from GAIL.

Order book and book to bill



Source: Company Data, PL Research

Orders inflow to be strong from both PGCIL and SEBs

We expect PGCIL to meet its target of spending Rs115bn and award contracts worth Rs150bn in FY10. We expect competition to increase from marginal players which could have an impact on margins while bidding for these orders for the more established players like KPTL. On the upside, we believe that the established players will continue to maintain their lion's share in SEB orders like the orders dished out by MSETCL and the tenders which are yet to come in from states like Rajasthan, Bihar, Chhattisgarh and some North-Eastern states. Due to several execution constraints, the competition is expected to be limited and margins healthy in these orders. We believe that KPTL, along with JSL and KEC, will continue to be key beneficiaries of these surged order inflows.

Working capital worries to reduce by December 2009

KPTL had won a MSEDCL order of close to Rs10bn in October 2007 for feeder separation. There were talks in the recent past that this order would be cancelled due to certain delays but has been eventually reduced to Rs8bn. Payment schedule for this order is back-ended in nature and therefore, required high levels of working capital which has already had an adverse impact on KPTL numbers. The management maintains that they are on the path of completing the work by October 2009 and expect most of the funds blocked in this project to be released by December 2009 end and hence, improve the overall working capital situation for the company.

Margins in transmission expected to improve in the near term

KPTL had won its single largest international order of ~Rs10bn (US$250m) in January 2009 when the commodity prices were relatively high. Execution of this order is expected to start from Q3FY10 onwards. Since these are 18-24 month contracts, raw material of these international orders cannot be completely hedged back-to-back. Hence, we expect some benefit of lower raw material cost to seep in during the execution of these orders as they get executed.

Infrastructure division to grow at a CAGR of 30-35%

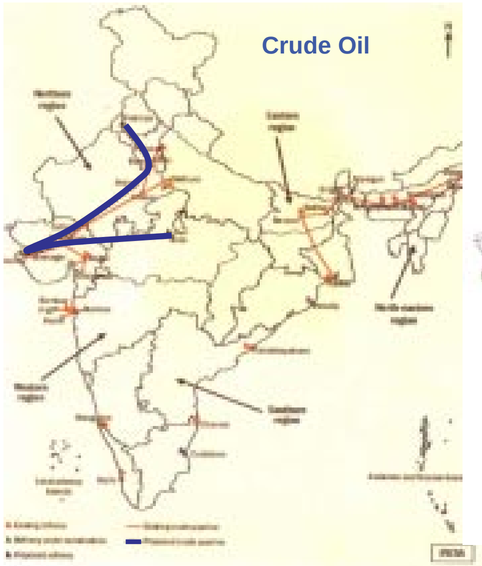
The infrastructure division of the company undertakes EPC work for setting up crude and gas pipeline infrastructure. The opportunity in the pipeline infrastructure space in India is expected to be around Rs100bn for more than doubling the pipeline infrastructure (majority of it being gas pipelines) in the country in the next five years. Similarly, investment of more than US$5bn in pipeline infrastructure is likely to come across GCC countries, Thailand, Myanmar etc.

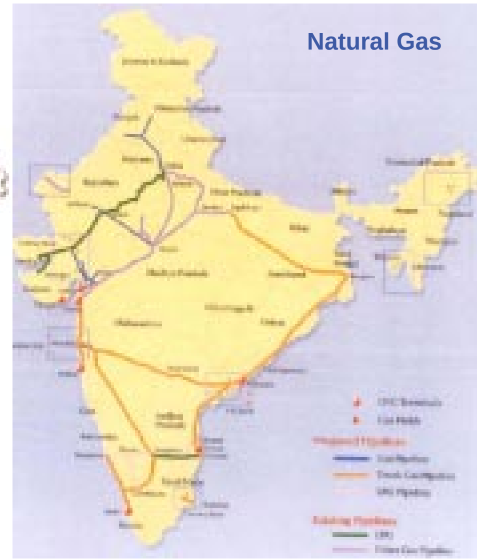
Investment in pipeline over the next 3 years

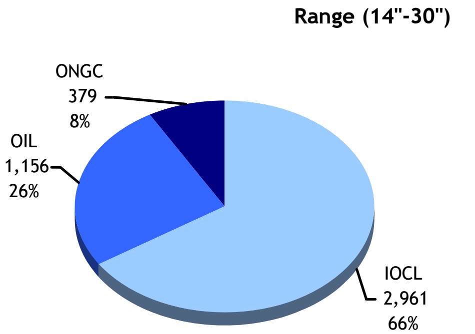
Company	Length (Km)	Value (In Rs m)
GAIL	3,617	30,280
GSPL	50	-
HPCL	1,012	5,244
IOCL	95	5,170
KGNL	200	
Reliance	-	2,520
Total	**4,974**	**43,214**

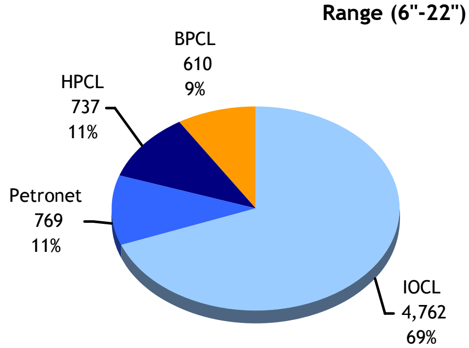
Source: Company Data, PL Research

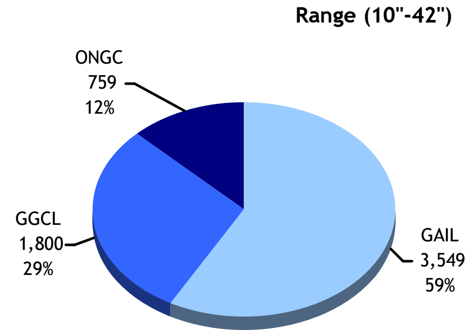
Pipeline infrastructure in India











Source: Company Data, PL Research

In FY09, the company had spent close to Rs1bn in this division to buy various equipments and set up team strength in order to scale up this division. The current order book of this division is around ~Rs5bn. Some of the prestigious orders won by this segment in the recent past are the Rs2.4bn order for a 48" 165.5 Km Vijaypur-Dadri high pressure gas pipeline from Gail (December 2008) and Rs3.8bn order for a 28"/30"/48" 550km Mundra-Bhatinda pipeline (crude oil) from HPCL-MITTAL. KPTL now has the prerequisite experience to scale up this division, both nationally and internationally. We expect this division to grow at a CAGR of 30-35% for the next 3-4 years.

Actively looking at BOOT and BOO projects

KPTL has bid for projects in Haryana & Rajasthan (worth ~Rs13bn in total) and will continue to bid for BOT and BOO projects in the transmission space. KPTL could eventually look at this space not only as a contractor but possibly as an owner of these assets too. The management intends to shape up the business model of KPTL in such a manner that they can strike a healthy balance between contracting income and annuity based income.

Investment Risks

Adverse movement in raw material cost

Most of the international orders received by the company are on fixed cost contracts. Therefore, the company tries to book most of the material back-to-back. But the fact remains that most transmission line contracts have a time line of 18-24 months and therey certain commodity risk remains. Therefore, adverse movements in commodity price could have a negative impact on margins.

Efficient working capital management is paramount

The entire EPC space is extremely working capital intensive (especially rural electrification). As KPTL grows in the Transmission & Distribution space and expands its presence in the pipeline infrastructure business, it will be of paramount importance for the company to manage its working capital efficiently in order to generate positive cash flows in the future.

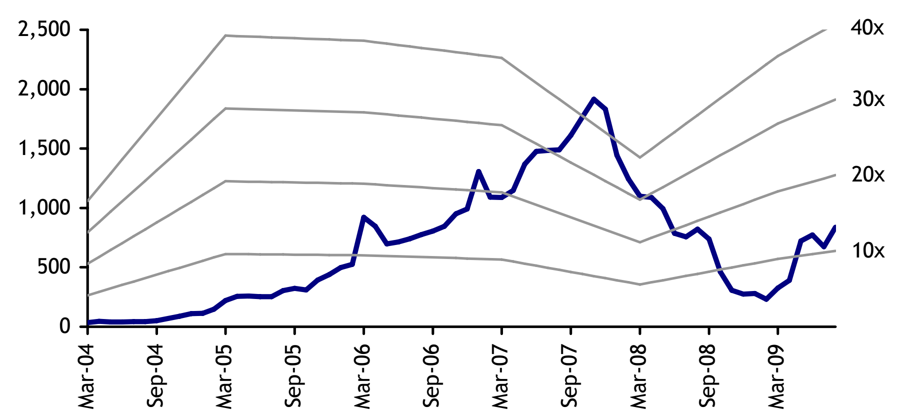
Slowdown in the power generation capacity addition

The government is currently committed to increase the power generation capacity in the country and there has been a lot of interest from private players as well. Although it might seem unlikely in the near term, any long-term slowdown in the power sector, whether it is due to financial constraints, regulatory hurdles or supply constraints of key equipment, will have a direct impact on the transmission sector. Order inflow for the next 2-3 years seems to be strong from both PGCIL and several SEBs. However, a slowdown in the power sector will adversely impact the future visibility of the sector.

Valuation and Outlook

KPTL has an order book of Rs60bn (includes L1 position) which is 2.5 x FY10E stand alone revenue. It provides us an excellent outlook on the growth prospects for both the transmission and infrastructure divisions. We expect KPTL's revenue to grow at a CAGR of 25% over the next 2-3 years. With execution expected to pick up pace in the coming quarters, coupled with expectation of improved margins (due to execution of international orders) topped up with order inflows to continue from both PGCIL and SEBs, helps us provide a positive outlook on the company.

Rolling 12M foward PE band



Source: Bloomberg, PL Research

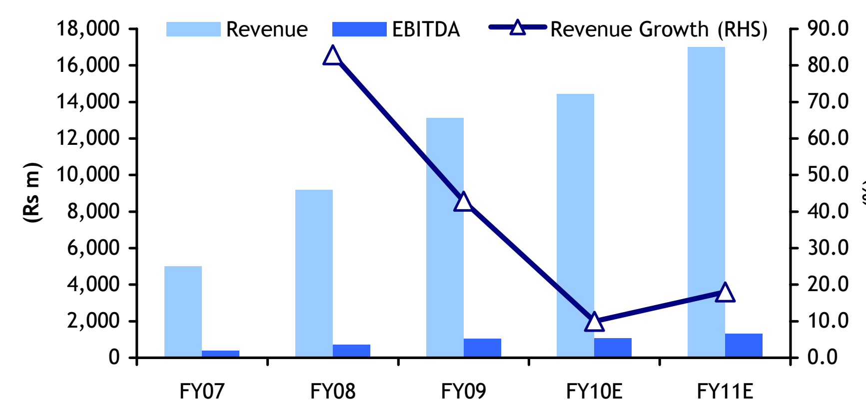
At the CMP of Rs835, the stock trades at 13.5x FY10E and 9.9x FY11E earnings of Rs61.7 and Rs84.0, respectively. We initiate coverage on the stock with an **'Accumulate'** rating.

Subsidiary companies

JMC Projects

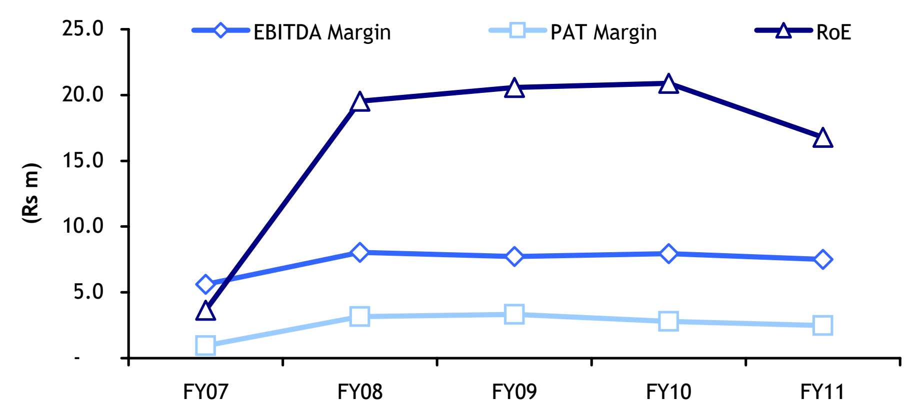
KPTL bought a 53% stake in JMC projects in February 2005. JMC Projects is involved in construction activities related to Infrastructure projects like roads, bridges, power plants, factories, buildings etc. The company currently has an order book of Rs22bn, a YoY growth of 5.5%. Buildings, infrastructure and power account for 63%, 27% and 10% of the order book, respectively. We expect JMC to report flattish growth (8-12%) for FY10 on the back of lower order inflow and slower execution.

Revenue growth and EBITDA movement



Source: Company Data, PL Research

Margin and RoE movement



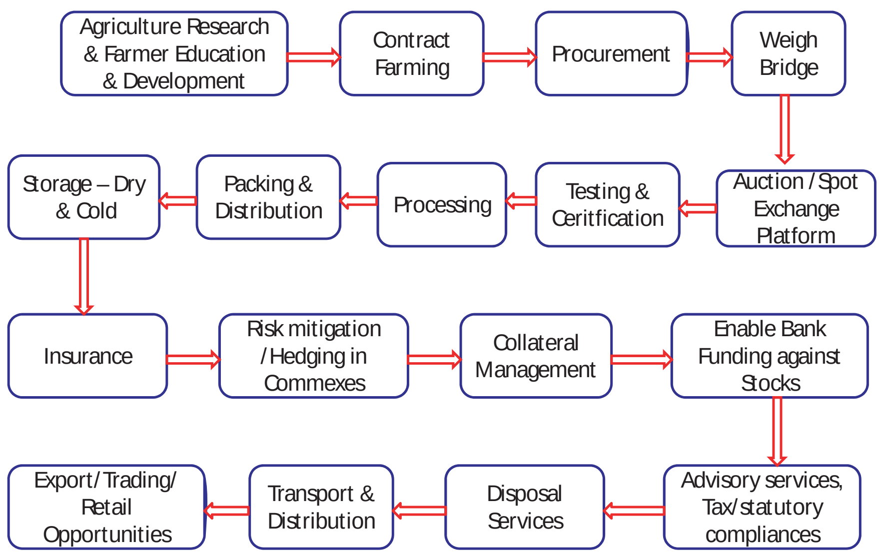
Source: Company Data, PL Research

Shree Shubham Logistics (SSLL): Agri business could contribute greatly in the future

KPTL owns 80% of SSLL (20% owned by the Bafna family). SSLL has 11 agri logistic hubs in various parts of Western India and intends to increase this tally to 41 such hubs spreading across various parts of the country. The prime idea behind setting up these hubs is to provide a one-stop shop for both producers and procurers, providing a range of services like procurement, Weigh Bridge, auction, processing, testing, cold and dry storage, insurance risk management, disposal services, transportation & distribution etc.

SSLL has already invested Rs1.2bn for setting up the current hubs. In FY09, revenue grew by 83% to Rs560m along with a marginal PAT of Rs2m. Although small in size at this point, we believe that this business is scalable and could positively contribute to the overall group in the coming 3-4 years. The table below explains the entire value chain involved in the logistic and warehousing chain.

Logistics and Warehousing Value Chain



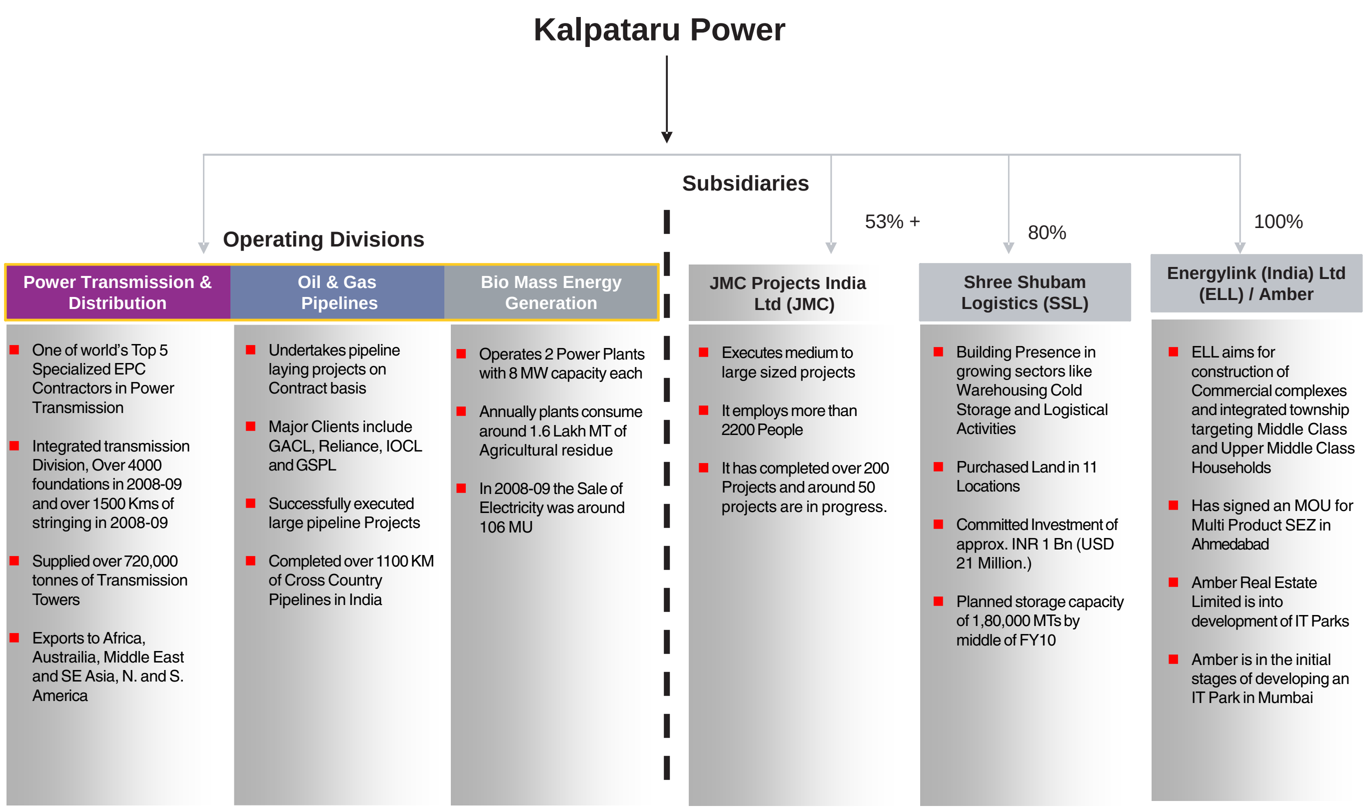
- SSLL has presence in the entire value chain, except the Advisory role

Source: Company Data, PL Research

Company Background

Established in 1969, KPTL is one of the leading companies in the field of turnkey projects for Transmission & Distribution and pipeline infrastructure projects. On a stand alone basis, KPTL can be broadly divided into three segments; Transmission & Distribution, Infrastructure and Biomass Energy. The company is a part of the diversified KPTL Group which has a presence in Real Estate/Property Development, Civil Contracting, International Trading and Consumer Goods & Services. The group has a 63% stake in KPTL.

Company Details



Source: Company Data, PL Research

Financials

Income Statement (Consolidated) (Rs m)

Y/e March	FY07	FY08	FY09	FY10E	FY11E
Net Revenue	**15,982**	**26,749**	**32,461**	**38,715**	**47,079**
Raw material Consumed	8,037	13,005	16,453	19,358	23,539
% of Net Sales	*50.3*	*48.6*	*50.7*	*50.0*	*50.0*
Erection & Subcontracting Expenses	2,767	3,350	3,660	4,452	5,414
% of Net Sales	*17.3*	*12.5*	*11.3*	*11.5*	*11.5*
Total RM and Erection & Subcont Exps	10,805	16,355	20,113	23,810	28,953
% of Net Sales	*67.6*	*61.1*	*62.0*	*61.5*	*61.5*
Employee Costs	777	1,522	1,988	2,323	2,825
% of Net Sales	*4.9*	*5.7*	*6.1*	*6.0*	*6.0*
Other Costs	1,682	5,578	7,061	8,435	10,113
% of Net Sales	*10.5*	*20.9*	*21.8*	*21.8*	*21.5*
Cost of Goods Sold	13,264	23,454	29,162	34,568	41,891
% of Net Sales	*83.0*	*87.7*	*89.8*	*89.3*	*89.0*
EBITDA	**2,718**	**3,294**	**3,298**	**4,147**	**5,187**
Margin (%)	*17.0*	*12.3*	*10.2*	*10.7*	*11.0*
Depreciation	182	386	576	698	823
Other Income	123	251	346	363	327
EBIT	**2,660**	**3,159**	**3,068**	**3,812**	**4,691**
Interest	439	674	1,369	1,356	1,365
PBT	**2,220**	**2,485**	**1,700**	**2,456**	**3,326**
Total tax	590	689	417	639	865
Effective Tax rate(%)	*26.6*	*27.7*	*24.5*	*26.0*	*26.0*
PAT	**1,630**	**1,797**	**1,283**	**1,818**	**2,461**
Minority Interest	(17)	(148)	(176)	(183)	(235)
PAT After extra ordinary	**1,613**	**1,649**	**1,107**	**1,634**	**2,227**

Source: Company Data, PL Research

Balance Sheet (Consolidated) (Rs m)

Y/e March	FY07	FY08	FY09	FY10E	FY11E
Share Capital	265	265	265	265	265
Reserves & Surplus	6,178	7,566	8,433	9,834	11,738
Total Shareholders Equity	6,443	7,831	8,698	10,099	12,003
Minority Interest	625	822	947	1,130	1,364
Total Debt	3,986	4,467	9,451	8,476	8,426
Deferred Tax Liabilities	158	210	206	206	206
Total Liabilities	**11,212**	**13,330**	**19,302**	**19,911**	**21,999**
Gross Block	3,915	5,474	7,062	8,842	10,292
Depreciation	817	1,178	1,731	2,429	3,253
Net Block	3,098	4,297	5,331	6,412	7,039
Capital Work in Progress	51	80	1,133		
Current Assets					
Inventories	1,890	2,677	3,270	3,788	4,591
Debtors	8,747	12,189	17,713	16,706	19,057
Cash and Cash Equivalent	1,367	1,085	583	678	495
Loans and Advances	1,458	1,996	3,424	5,569	6,352
Total Current Assets	13,463	17,946	24,989	26,741	30,495
Current Liabilities					
Creditors	2,827	4,076	6,129	6,251	7,575
Advances from customers	2,454	3,053	3,280	4,167	5,050
Provisions	780	1,023	1,203	1,203	1,203
Other	815	1,309	1,644	1,726	1,812
Total Current Liabilities	6,875	9,461	12,256	13,347	15,640
Net Current Assets	6,587	8,486	12,734	13,394	14,855
Total Assets	**11,212**	**13,330**	**19,302**	**19,911**	**21,999**

Source: Company Data, PL Research

Cash Flow (Consolidated) (Rs m)

Y/e March	FY07	FY08	FY09	FY10E	FY11E
Net cash from operating activities	(282)	440	(2,091)	3,308	3,005
Net cash from investing activities	(3,781)	(190)	(1,568)	(647)	(1,450)
Net cash from financial activities	4,014	(189)	3,776	(2,564)	(1,738)
Increase/(Decrease) in cash	(48)	61	117	96	(183)
Cash at the beginning of the year	411	363	425	583	678
Cash at the end of the year	363	425	502	678	495

Source: Company Data, PL Research

Key Ratios (Consolidated) **(Rs m)**

Y/e March	FY07	FY08	FY09	FY10E	FY11E
Ratios					
Avg. Net Worth	3,221	7,137	8,265	9,399	11,051
Avg Cap Employed	5,606	12,271	16,316	19,606	20,955
Asset Based Ratios (%)					
RoCE	34.8	18.6	14.2	14.4	16.6
RoE	50.6	25.2	15.5	19.3	22.3
Growth Ratios (%)					
Sales	—	67.4	21.4	19.3	21.6
EBITDA	—	21.2	0.1	25.7	25.1
PAT	—	10.2	(28.6)	41.7	35.4
EPS	—	2.2	(32.9)	47.6	36.3
Liquidity					
Current Ratio	2.0	1.9	2.0	2.0	1.9
Acid Test Ratio	1.7	1.6	1.8	1.7	1.7
Balance Sheet Ratios					
Gross Debt : Equity (x)	0.6	0.6	1.1	0.8	0.7
Net Debt : Equity (x)	0.4	0.4	1.0	0.8	0.7
Inventory Days	52	42	41	40	40
Debtor Days	233	194	238	210	197
Creditor Days	145	111	118	110	110
Net Working Capital Days	140	124	161	140	127
Per Share					
EPS	60.9	62.2	41.8	61.7	84.0
BV	243.1	295.5	328.2	381.1	452.9
CEPS	78.1	93.2	100.1	119.8	144.4
DPS	7.5	7.5	7.5	7.5	10.4
FCPS	(278.9)	(65.5)	(215.4)	42.3	(1.7)
Margins (%)					
EBITDA	17.0	12.3	10.2	10.7	11.0
PAT	10.2	6.7	4.0	4.7	5.2
Tax Rate	26.6	27.7	24.5	26.0	26.0
Valuations (x)					
P/E	13.7	13.4	20.0	13.5	9.9
P/BV	3.4	2.8	2.5	2.2	1.8
P/CEPS	10.7	9.0	8.3	7.0	5.8
EV/EBITDA	9.1	7.7	9.4	7.2	5.8
EV/Sales	1.5	1.0	1.0	0.8	0.6
Market Cap/Sales	1.4	0.8	0.7	0.6	0.5
Dividend Yield (%)	0.9	0.9	0.9	0.9	1.2

Source: Company Data, PL Research

Prabhudas Lilladher

Company Report
September 25, 2009

Jyoti Structures

Rating	BUY
Price	Rs152
Target Price	Rs207
Implied Upside	36.2%
Sensex	16,693

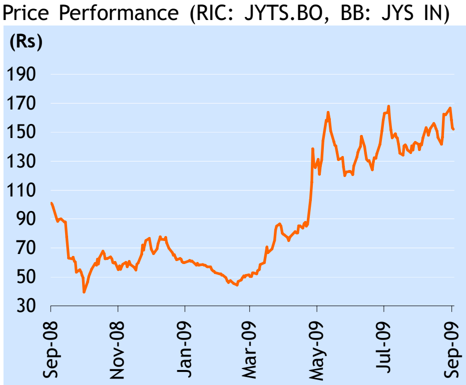
(Prices as on September 25, 2009)

Trading Data	
Market Cap. (Rs bn)	12.4
Shares o/s (m)	81.7
Free Float	73.1%
3M Avg. Daily Vol ('000)	84.5
3M Avg. Daily Value (Rs m)	12.7

Major Shareholders	
Promoters	26.9%
Foreign	18.1%
Domestic Inst.	26.4%
Public & Others	28.6%

Stock Performance	1M	6M	12M
Absolute	10.1	72.7	23.2
Relative	3.7	127.6	28.7

Price Performance (RIC: JYTS.BO, BB: JYS IN)



Source: Bloomberg, PL Research

- **Relatively lower order inflow in the recent past - a temporary phenomenon:** Jyoti Structures' (JSL's) order inflow over the past 6-9 months in the domestic transmission space has been relatively muted as compared to other players. We are confident that in the long run, JSL will maintain its market share in the transmission EPC space. The current dry spell of order inflow does not imply a lack of competitiveness on JSLs part and despite the dry spell, the company still has a book to bill of 1.9 x FY10E which is expected to improve.

- **BOOT and BOO projects - a new opportunity:** JSL has bid for both the HVPN (Haryana) and RRVPNL (Rajasthan) PPP initiatives for transmission line orders worth Rs13bn. The HVPL project entails constructing the substations and line in 24 months and the owner would in turn get a concession period for 25 years. As for the RRVPNL initiative, the deadline for submission of RFPs has been pushed to September 30, 2009. We believe that JSL would tie up with a JV partner who would be interested in owning the asset and try and limit its scope to the contracting part.

- **Large domestic exposure will insulate it from currency and commodity risk:** More than 90% of the current order book is from domestic orders. Most of these domestic orders is covered by price variation clauses, thereby, protecting it from any adverse movement in commodity prices. Moreover, lower exposure to international orders will also protect JSL from volatile currency movements.

- **Valuation:** At the CMP of Rs152, the stock trades at 12.5x FY10E and 9.5x FY11E earnings of Rs12.1 and Rs15.9, respectively. Expectation of lower interest cost, coupled with JSLs strong order book of Rs39bn (1.9 x FY10E) executable over 18-21 months and expectation of strong order inflow in the near term from both PGCIL and SEBs. We upgrade our rating to **BUY**.

Key Financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenue (Rs m)	13,704	17,171	21,342	26,401
Growth (%)	*41.2*	*25.3*	*24.3*	*23.7*
EBITDA (Rs m)	1,719	1,959	2,390	2,957
PAT (Rs m)	724	797	990	1,301
EPS (Rs)	8.9	9.8	12.1	15.9
Growth (%)	*32.0*	*9.4*	*24.2*	*31.4*
Net DPS (Rs)	0.8	0.9	1.2	1.6

Source: Company Data; PL Research

Profitability & Valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	12.5	11.4	11.2	11.2
RoE (%)	*23.5*	*21.0*	*21.5*	*23.2*
RoCE (%)	*19.7*	*18.9*	*18.8*	*19.4*
EV / sales (x)	1.1	0.9	0.8	0.6
EV / EBITDA (x)	8.5	7.7	6.7	5.6
PE (x)	17.0	15.6	12.5	9.5
P / BV (x)	3.6	3.0	2.5	2.0
Net dividend yield (%)	*0.5*	*0.6*	*0.8*	*1.0*

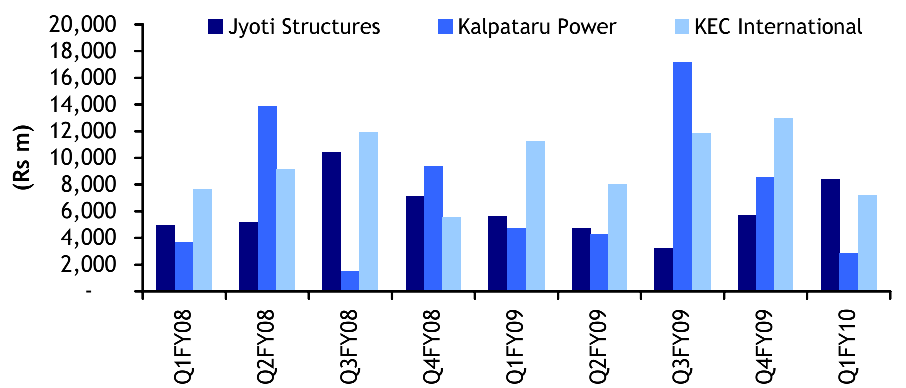
Source: Company Data; PL Research

Investment Arguments

Relatively lower order inflow in the recent past - a temporary phenomenon

JSL's order inflow over the past 6-9 months in the domestic transmission space (apart from the Rs8bn MSETCL order) has been relatively muted as compared to other players like KEC and KPTL. We are confident that in the long run, JSL will maintain its market share in the transmission EPC space (especially domestically). The current dry spell of order inflow does not imply a lack of competitiveness on JSLs part and despite the dry spell, the company still has a book to bill of 1.9 x FY10E which is expected to improve.

Comparative order inflow



Source: Company Data, PL Research

BOOT and BOO projects - a new opportunity

JSL has bid for both the HVPN (Haryana Vidyut Prasaran Nigam) and RRVPNL (Rajasthan Rajya Vidyut Prasaran Nigam) PPP initiatives for transmission line orders worth Rs13bn. The HVPL project entails constructing the substation and line in 24 months and the owner would in turn get a concession period for 25 years. As for the RRVPNL initiative, the deadline for submission of RFPs has been pushed to September 30, 2009. We believe that JSL would tie up with a JV partner who would be interested in owning the asset and try and limit its scope to the contracting part.

Large domestic exposure will insulate it from currency and commodity risk

More than 90% of the current order book is from domestic orders. Since most of these domestic orders (except Rural electrification, which is less than 20% of the order book) is covered by price variation clauses, thereby, protecting it from any adverse movement in commodity prices. Moreover, lower exposure to international orders will also protect JSL from volatile currency movements.

Order book breakup (Rs m)

Y/e March	FY07	FY08	FY09
International	2,000	5,440	7,933
% of total	*10.0*	*16.0*	*22.0*
Domestic	18,000	28,560	28,127
% of total	*90.0*	*84.0*	*78.0*
Total	**20,000**	**34,000**	**36,060**

Source: Company Data, PL Research

Investment Risks

Aggressive bidding could reduce margins

Although JSL has a comfortable order book of Rs39bn (1.9 x FY10E revenue), its order inflow in the domestic market has been much lower than its competitors. If this dry spell continues for long, JSL would have to get a lot more aggressive in bidding and which in turn could have an adverse impact on margins.

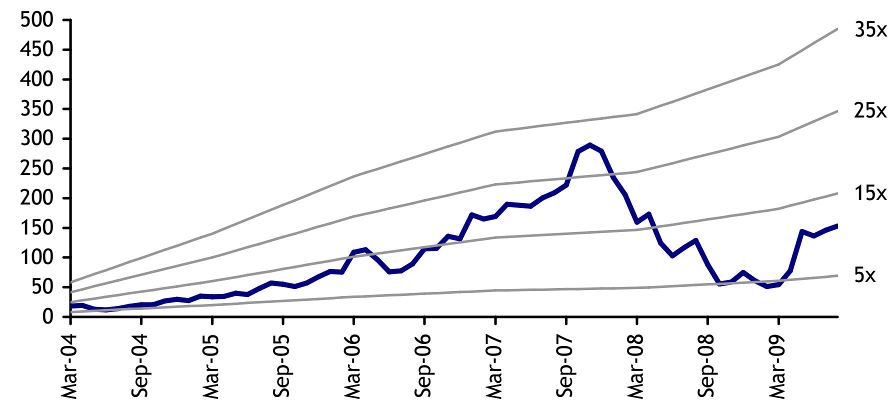
Slowdown in the power generation capacity addition

The government is currently committed to increase the power generation capacity in the country and there has been a lot of interest from private players as well. Although it might seem unlikely in the near term, any long-term slowdown in the power sector, whether it is due to financial constraints, regulatory hurdles or supply constraints of key equipment, will have a direct impact on the transmission sector. Order inflow for the next 2-3 years seems to be strong from both PGCIL and several SEBs. However, a slowdown in the power sector will adversely impact the future visibility of the sector.

Valuation and Outlook

JSL has an order book of Rs39bn which is 1.9 x FY10E revenue and is executable over the next 18-21 months. Although JSL order inflow in the recent past has been much lower than the competition, we expect this to be just a temporary phase and in the long run expect the company to maintain its market share in the domestic market. We expect the revenue of JSL to grow at 23-25% CAGR over the next 2-3years. Given the current order book, EBITDA margin is expected to be in the range of 11.0-11.5%. With the liquidity constraints easing out considerably, we expect the interest cost for FY10 to be in the range of Rs800-810m (18-20% increase YoY).

Rolling 12M foward PE band



Source: Bloomberg, PL Research

At the CMP of Rs154, the stock trades at 12.5x FY10E and 9.5x FY11E earnings of Rs12.1 and Rs15.9, respectively. Expectation of lower interest cost, coupled with JSLs strong order book of Rs39bn (1.9 x FY10E) executable over 18-21 months and expectation of strong order inflow in the near term from both PGCIL and SEBs. We upgrade our rating to **BUY**.

Financials

Income Statement (Rs m)

Y/e March	FY07	FY08	FY09	FY10E	FY11E
Net Revenue	**9,708**	**13,704**	**17,171**	**21,342**	**26,401**
Raw material Consumed	5,882	8,937	11,019	13,659	16,976
% of Net Sales	*60.6*	*65.2*	*64.2*	*64.0*	*64.3*
Erection & Sub contracting expense	1,441	1,705	2,201	2,860	3,538
% of Net Sales	*14.8*	*12.4*	*12.8*	*13.4*	*13.4*
Total RM and Erection & sub cont exps	7,323	10,643	13,220	16,519	20,513
% of Net Sales	*75.4*	*77.7*	*77.0*	*77.4*	*77.7*
Employee Costs	267	347	435	534	634
% of Net Sales	*2.7*	*2.5*	*2.5*	*2.5*	*2.4*
Other Costs	865	995	1,556	1,899	2,297
% of Net Sales	*8.9*	*7.3*	*9.1*	*8.9*	*8.7*
Cost of Goods Sold	8,454	11,985	15,211	18,952	23,444
% of Net Sales	*87.1*	*87.5*	*88.6*	*88.8*	*88.8*
EBITDA	**1,254**	**1,719**	**1,959**	**2,390**	**2,957**
Margin (%)	*12.9*	*12.5*	*11.4*	*11.2*	*11.2*
Depreciation	58	67	86	124	132
Other Income	8	15	73	50	68
EBIT	**1,204**	**1,667**	**1,946**	**2,316**	**2,893**
Interest	329	464	683	816	921
PBT	**875**	**1,203**	**1,264**	**1,500**	**1,972**
Total tax	330	478	466	510	670
Effective Tax rate(%)	*37.7*	*39.8*	*36.9*	*34.0*	*34.0*
PAT	**545**	**724**	**797**	**990**	**1,301**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY07	FY08	FY09	FY10E	FY11E
Share Capital	161	162	163	163	163
Reserves & Surplus	2,597	3,250	4,004	4,879	6,028
Total Shareholders Equity	2,758	3,412	4,168	5,042	6,191
Total Debt	1,595	2,249	3,036	3,886	4,386
Deferred Tax Liabilities	77	81	82	82	82
Total Liabilities	**4,430**	**5,742**	**7,286**	**9,010**	**10,660**
Gross Block	936	1,056	1,688	2,338	2,588
Depreciation	375	440	521	645	777
Net Block	561	616	1,167	1,693	1,811
Capital Work in Progress	2	14	52		
Investments	185	160	231	231	231
Miscellaneous Expense	24	17	12	12	12
Current Assets					
Inventories	763	785	1,460	1,610	1,991
Debtors	3,635	4,988	6,548	7,952	9,837
Cash and Cash Equivalent	92	137	297	236	310
Loans and Advances	1,065	1,147	1,767	1,988	2,459
Other Current Assets	905	1,184	928	974	1,023
Total Current Assets	6,461	8,242	10,999	12,760	15,621
Current Liabilities					
Creditors	1,902	2,279	3,714	4,154	5,138
Advances from customers	521	428	1,002	1,038	1,285
Provisions	196	431	258	282	371
Other	184	169	201	211	221
Total Current Liabilities	2,803	3,307	5,174	5,685	7,015
Net Current Assets	3,658	4,935	5,825	7,075	8,606
Total Assets	**4,430**	**5,741**	**7,286**	**9,011**	**10,659**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e March	FY07	FY08	FY09	FY10E	FY11E
Net cash from operating activity	(393)	78	839	619	898
Net cash from investing activity	(152)	(166)	(720)	(598)	(250)
Net cash from financial activity	599	133	40	(82)	(573)
Increase/(Decrease) in cash	54	45	159	(61)	75
Cash at the beginning of the year	38	92	137	297	236
Cash at the end of the year	92	137	297	236	310

Source: Company Data, PL Research

Key Ratios (Rs m)

Y/e March	FY07	FY08	FY09	FY10E	FY11E
Ratios					
Avg. Net Worth	1,987	3,085	3,790	4,605	5,617
Avg Cap Employed	3,666	5,086	6,514	8,148	9,835
Asset Based Ratios (%)					
RoCE	20.5	19.7	18.9	18.8	19.4
RoE	27.4	23.5	21.0	21.5	23.2
Growth Ratios (%)					
Sales	39.1	41.2	25.3	24.3	23.7
EBITDA	67.7	37.1	14.0	22.0	23.7
PAT	97.3	32.8	10.1	24.2	31.4
EPS	68.7	32.0	9.4	24.2	31.4
Liquidity					
Current Ratio	2.3	2.5	2.1	2.2	2.2
Acid Test Ratio	2.0	2.3	1.8	2.0	1.9
Balance Sheet Ratios					
Gross Debt : Equity (x)	0.6	0.7	0.7	0.8	0.7
Net Debt : Equity (x)	0.5	0.6	0.7	0.7	0.7
Inventory Days	33	24	35	31	31
Debtor Days	177	163	177	170	170
Creditor Days	105	82	113	100	100
Net Working Capital Days	105	105	99	101	101
Per Share (Rs)					
EPS	6.8	8.9	9.8	12.1	15.9
BV	34.2	42.0	51.0	61.7	75.7
CEPS	10.8	14.6	18.1	22.1	27.2
DPS	0.6	0.8	0.9	1.2	1.6
FCPS	(10.9)	(7.1)	(6.3)	(9.7)	(3.3)
Margins (%)					
EBITDA	12.9	12.5	11.4	11.2	11.2
PAT	5.6	5.3	4.6	4.6	4.9
Tax Rate	37.7	39.8	36.9	34.0	34.0
Valuations (x)					
P/E	22.5	17.0	15.6	12.5	9.5
P/BV	4.4	3.6	3.0	2.5	2.0
P/CEPS	14.0	10.4	8.4	6.9	5.6
EV/EBITDA	11.1	8.5	7.7	6.7	5.6
EV/Sales	1.4	1.1	0.9	0.8	0.6
Market Cap/Sales	1.3	0.9	0.7	0.6	0.5
Dividend Yield (%)	0.4	0.5	0.6	0.8	1.0

Source: Company Data, PL Research

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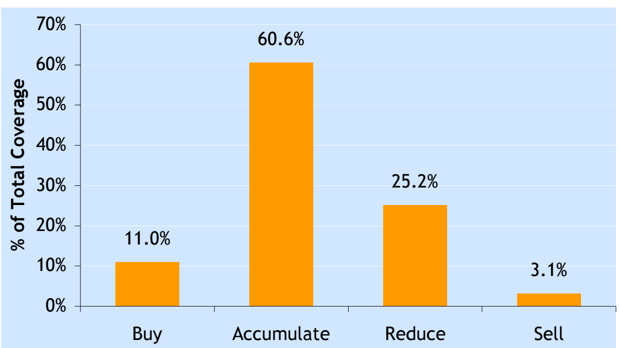
Rating Distribution of Research Coverage



PL's Recommendation Scale

BUY	:	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months	**Sell**	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month	**Trading Sell**	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock	**Under Review** (UR)	:	Rating likely to change shortly