

# KALPATARU POWER

## In line results; Growth priced in

India Equity Research | Engineering and Capital Goods



Kalpataru Power (KPP) Q3FY13 PAT was in line with our estimates adjusting for forex loss of INR40mn. EBITDA margins declined by 130bps YoY to 10% mainly due to higher staff cost as a result of increments accruing in the quarter. It indicated that margins are expected to improve in the coming quarters. The company recorded an impressive order inflow of INR9bn (vs INR2.5bn in Q3FY12). The company has maintained its FY13E revenue guidance of 15% and has issued fresh guidance of 15% revenue growth for FY14E. We maintain 'HOLD'.

### PAT in line; earnings likely to improve in FY14E

The company recorded 11% revenue growth in Q3FY13. After adjusting for forex loss of INR 40mn, PAT was in line with our estimates. The company has guided a 15% revenue growth for FY14E and also maintained 15% revenue growth for FY13E, implying 12-13% revenue growth for Q4FY13E. AT JMC, revenue growth was subdued at 6% with margins declining by 200bps YoY to 4.7%. PAT declined by 70% YoY as a result of higher interest cost and poor operating performance. The company expects margins to remain at 5% levels for the next 2-3 quarters.

### Order book up 12 % YoY; FY13E order intake likely to be flat

The company recorded inflows of INR9bn vs INR2bn in Q3FY12. Order book at the end of Q3FY13 stood at INR 65bn. 70% of the OB is variable price contracts and is split equally between domestic & international. The order book guidance at the end of FY13 is at INR65-70bn with order inflows expected to remain at FY12 level (INR 35bn) which seems achievable as in 9MFY13; the company has achieved inflows worth INR 22bn.

### Outlook and valuations: Upside capped; maintain 'HOLD'

While we expect KPP's margins to improve by 30-40bps in FY14E given low margin order execution in FY13E in T/L, we remain concerned on JMC profitability due to execution of low margin orders. As a result, we have cut JMC's margins by 50bps for FY14E. We have ascribed a higher multiple (6.6x vs 5.4x) to KPP's TL business given improved outlook. However, we maintain 'HOLD/SP' on the stock with a target price of INR94 (earlier INR76) given limited upside from current levels.

#### Financials (Standalone)

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	FY12	FY13E	FY14E
Net rev. (INR mn)	8,897	8,008	11.1	7,147	24.5	30,327	35,197	40,586
EBITDA (INR mn)	886	908	(2.5)	634	39.7	3,293	3,426	4,063
Net profit (INR mn)	351	403	(12.8)	265	32.4	1,649	1,597	1,907
Diluted EPS (INR)	2.3	2.6	(12.8)	1.7	32.4	10.7	10.4	12.4
Diluted P/E (x)						9.0	9.3	7.8
EV/EBITDA (x)						4.6	4.6	4.1
ROAE (%)						9.9	8.8	9.7

#### EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

#### MARKET DATA (R: KAPT.BO, B: KPP IN)

CMP	: INR 97
Target Price	: INR 92
52-week range (INR)	: 134 / 64
Share in issue (mn)	: 153.5
M cap (INR bn/USD mn)	: 15/ 277
Avg. Daily Vol.BSE/NSE('000)	: 226.8

#### SHARE HOLDING PATTERN (%)

	Current	Q2FY13	Q1FY13
Promoters *	57.5	57.5	57.4
MF's, FI's & BK's	24.0	24.0	22.6
FII's	10.9	10.9	11.1
others	7.6	7.6	8.9
* Promoters pledged shares (% of share in issue)			6.0

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	17.4	3.4	12.5
3 months	10.6	5.8	2.5
12 months	(4.0)	19.8	(14.2)

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### Key takeaways from KPP Q3FY13 concall

**Competitive intensity:** Competition intensity in 765KV is expected to go down due to increasing pie of UHV segment in the 12th 5-year plan which should be at 32% of the overall ordering.

**Update on Shubham Logistics:** Shubham logistics registered sales of INR1.6bn. This is a 20% growth in Q3FY13 with margins remaining flat at 11%. The company is in talks with PE player for stake sale in Shubham Logistics.

**Update on Raipur plant:** Raipur plant is under final commissioning and COD expected by Q4 FY13.

**Update on BOOT projects:** Road BOOT projects are on track. While Rohtak Bowel is expected to be completed by Q1FY14 end, Agra –Aligarh is expected to be completed by Q3FY14. Nagpur Wainganga is expected to be completed by Q2FY15.

#### Other key highlights

The company expects 10-15% growth in pipeline & Railways segment for the next couple of quarters.

Debt level at the end of Q3FY13 stood at INR8bn and is expected to go down Q4FY13 by INR2.5bn to INR5.5bn. Cost of debt stood at 9.75%.

Margins are expected to improve in JMC projects on back of recent order intake which has higher margins than the previous order. In the new orders, the raw material risk is passed on to the client.

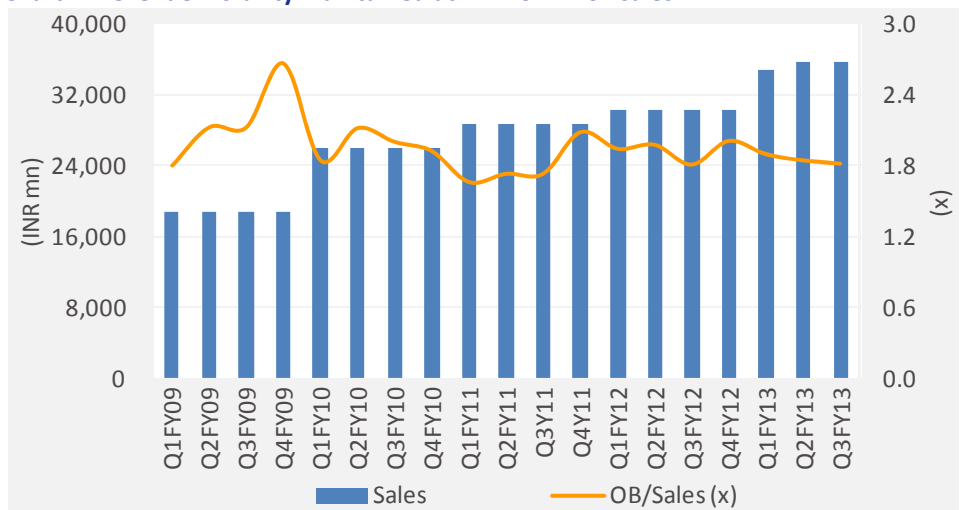
**Table 1: Segmental performance**

(INR mn)

Year to March	Q3FY13	Q3FY12	% change	9MFY13	9MFY12	% change
<b>Revenues (INR mn)</b>						
Transmission & distribution	8,032	7,039	14.1	20,478	17,090	19.8
Others	152	148	2.5	390	386	1.1
Infrastructure EPC	713	827	(13.8)	2,170	2,236	(2.9)
<b>Total</b>	<b>8,897</b>	<b>8,014</b>	<b>11.0</b>	<b>23,038</b>	<b>19,711</b>	<b>16.9</b>
<b>Segment rev. mix (%)</b>						
Transmission & distribution	90.3	87.8		88.9	86.7	
Others	1.7	1.8		1.7	2.0	
Infrastructure EPC	8.0	10.3		9.4	11.3	
<b>EBIT (INR mn)</b>						
Transmission & distribution	730	753	(3.1)	1,802	1,897	(5.0)
Others	75	21	NM	5	26	(81.9)
Infrastructure EPC	1	49	(99.0)	55	95	(42.8)
<b>Total</b>	<b>806</b>	<b>824</b>	<b>(2.2)</b>	<b>1,861</b>	<b>2,018</b>	<b>(7.8)</b>
<b>Segment EBIT margin (%)</b>						
Transmission & distribution	9.1	10.7		8.8	11.1	
Others	49.5	14.2		1.2	6.7	
Infrastructure EPC	0.1	5.9		2.5	4.3	
<b>Total EBIT margins</b>	<b>9.1</b>	<b>10.3</b>		<b>8.1</b>	<b>10.2</b>	
<b>Segment EBIT mix (%)</b>						
Transmission & distribution	90.6	91.5		96.8	94.0	
Others	9.3	2.5		0.3	1.3	
Infrastructure EPC	0.1	6.0		2.9	4.7	

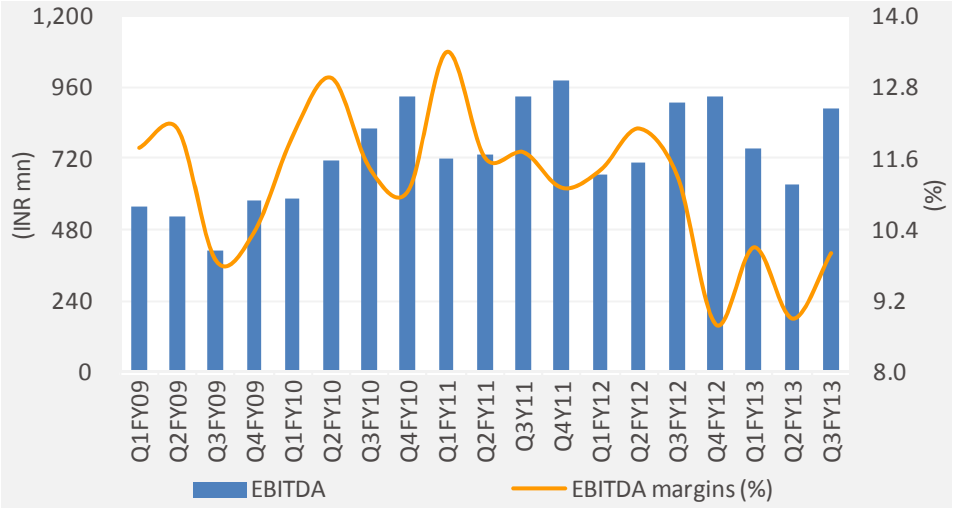
Source: Company, Edelweiss research

**Chart 1: Revenue Visibility maintained at ~ 2 x of FY13E sales**

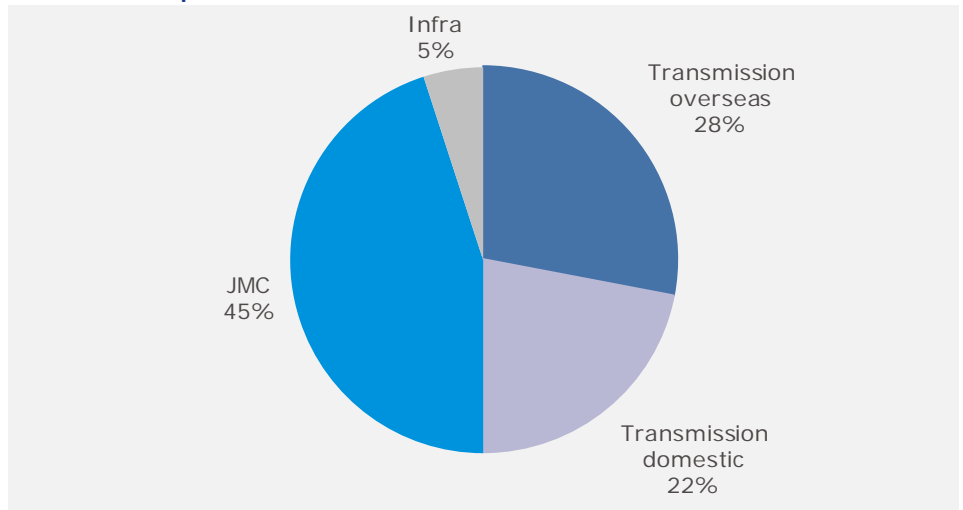


Source: Company, Edelweiss research

**Chart 2: EBITDA & EBITDA margin movement**



**Chart 3: Break up of INR 116bn order book**



Source: Company, Edelweiss research

**Financial snapshot (Standalone)**
**(INR mn)**

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	YTD13	FY13E	FY14E
Net revenues	8,897	8,008	11.1	7,147	24.5	23,038	35,197	40,586
Raw material costs	6,559	5,867	11.8	5,337	22.9	16,870	25,964	29,952
Staff costs	532	402	32.5	428	24.3	1,391	2,043	2,356
Other operating expenses	920	831	10.8	747	23.1	2,553	3,763	4,216
Total expenditure	8,011	7,100	12.8	6,513	23.0	20,814	31,771	36,523
EBITDA	886	908	(2.5)	634	39.7	2,224	3,426	4,063
Depreciation	135	121	11.1	126	6.8	381	597	665
Other income	100	115	(13.4)	136	(26.7)	367	495	477
Interest	347	335	3.8	257	35.2	918	1,092	1,192
Profit before tax	503	568	(11.3)	387	30.1	1,291	2,232	2,683
Tax	152	165	(7.6)	122	25.1	401	636	778
Core profit	351	403	(12.8)	265	32.4	890	1,596	1,905
Adjusted net profit	351	403	(12.8)	265	32.4	890	1,597	1,907
Equity capital (FV INR 2)	307	307		307		307	307	307
No. of shares (mn)	153	154		153		153	153	153
Diluted EPS (INR)	2.3	2.6	(12.8)	1.7	32.4	5.8	10.4	12.4

**As % of net revenues**

Raw material	73.7	73.3		74.7		73.2	73.8	73.8
Employee cost	6.0	5.0		6.0		6.0	5.8	5.8
Other expenses	10.3	10.4		10.5		11.1	10.7	10.4
EBITDA	10.0	11.3		8.9		9.7	9.7	10.0
Depreciation	1.5	1.5		1.8		1.7	1.7	1.6
Other income	1.1	1.4		1.9		1.6	1.4	1.2
Adjusted net profit	3.9	5.0		3.7		3.9	4.5	4.7
Tax rate	30.2	29.0		31.4		31.1	28.5	29.0

### Company Description

KPP has three business divisions viz., transmission line, biomass energy and infrastructure. 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 is exposed to construction segment with a 67% 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 ~INR300bn over FY10-12E period to upgrade India's power transmission network. We expect more than INR100bn worth of investment by PGCIL in the 12<sup>th</sup> plan period. 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 (Consolidated)

### Key Assumptions

Year to March	FY12	FY13E	FY14E	FY15E
<b>Macro</b>				
GDP(Y-o-Y %)	6.5	5.5	6.5	7.0
Inflation (Avg)	8.8	7.8	6.0	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	47.9	54.5	54.0	52.0
<b>Company</b>				
KPP SA Order intake (%)	(8.0)	10.0	10.0	8.0
JM order intake (%)	25.0	15.0	15.0	15.0
KPP SA sales growth (%)	5.5	16.1	15.3	10.8
JMC sales growth (%)	51.0	36.1	23.5	16.6
Depreciation	8.0	7.0	7.1	7.1
Cost of debt (%)	15.2	14.0	13.0	13.0
Tax rate (%)	26.5	27.0	27.0	27.0
Excise duty as a % of sales	2.0	1.8	1.8	1.8
Net borrowings (INR mn)	9,764	11,133	12,098	12,853
Yield on other income (%)	10.8	15.0	14.5	15.0
Capex (INR mn)	5,130	1,750	1,650	1,651
Debtor days	133	142	143	144
Inventory days	108	108	110	110
Payable days	217	220	219	219

### Income statement

(INR mn)

Year to March	FY12	FY13E	FY14E	FY15E
Income from operations	53,080	66,032	78,833	89,846
Materials costs	40,461	51,255	61,208	69,900
Employee costs	3,223	4,017	4,793	5,451
Other manufacturing expenses	4,392	5,568	6,444	7,187
Total operating expenses	48,076	60,840	72,444	82,538
EBITDA	5,004	5,192	6,389	7,308
Depreciation & Amortization	986	1,173	1,290	1,399
EBIT	4,018	4,020	5,099	5,908
Other income	333	343	308	325
Interest expenses	1,576	1,695	1,828	1,940
Profit before tax	2,774	2,667	3,578	4,293
Provision for tax	735	738	990	1,194
Net profit	2,040	1,929	2,589	3,099
Minority interest	153	80	147	212
Profit after minority interest	1,887	1,850	2,441	2,887
Shares outstanding (mn)	154	154	154	154
Diluted EPS (INR)	12.3	12.0	15.9	18.8
Dividend payout (%)	12.2	14.9	17.6	20.2

### Common size metrics

Year to March	FY12	FY13E	FY14E	FY15E
Operating expenses	90.6	92.1	91.9	91.9
EBITDA margins	9.4	7.9	8.1	8.1
Net profit margins	3.8	2.9	3.3	3.4

### Growth ratios (%)

Year to March	FY12	FY13E	FY14E	FY15E
Revenues	21.9	24.4	19.4	14.0
EBITDA	3.6	3.8	23.0	14.4
Net profit	(5.7)	(2.0)	32.0	18.3

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13E	FY14E	FY15E	
Equity capital	307	307	307	307	
Reserves & surplus	18,207	19,800	21,827	23,579	
Shareholders funds	18,514	20,107	22,134	23,886	
Minority interest (BS)	1,286	1,366	1,513	1,725	
Secured loans	7,779	8,529	8,979	9,430	
Unsecured loans	3,779	4,129	4,479	4,830	
Borrowings	11,558	12,658	13,458	14,260	
Deferred tax (net)	30	30	30	30	
<b>Sources of funds</b>	<b>31,388</b>	<b>34,162</b>	<b>37,134</b>	<b>39,900</b>	
Gross block	10,637	11,073	11,295	11,409	
Depreciation	53	43	32	19	
Net block	4,467	4,617	4,767	4,917	
Capital work in progress	15,156	15,734	16,094	16,346	
Investments	75	85	95	105	
Non current investments	761	761	761	761	
Cash and equivalents	1,720	1,440	1,266	1,302	
Inventories	7,178	8,889	10,866	12,418	
Sundry debtors	19,600	25,940	31,177	35,771	
Loans and advances	5,501	6,051	6,656	7,322	
Other current assets	7,195	7,915	8,706	9,577	
Total current assets	39,474	48,795	57,405	65,088	
Sundry creditors and others	24,038	30,894	36,725	41,940	
Provisions	1,761	1,761	1,761	1,761	
Total current liabilities &	25,799	32,655	38,486	43,701	
Net current assets	13,675	16,140	18,919	21,387	
<b>Uses of funds</b>	<b>31,388</b>	<b>34,162</b>	<b>37,134</b>	<b>39,900</b>	
Book value per share (INR)	120.6	131.0	144.2	155.7	

Free cash flow		(INR mn)			
Year to March	FY12	FY13E	FY14E	FY15E	
Net profit	1,905	1,995	2,676	3,228	
Depreciation	986	1,173	1,290	1,399	
Others	1,604	-	-	-	
Gross cash flow	4,495	3,168	3,966	4,627	
Less: Changes in WC	3,263	2,465	2,779	2,468	
Operating cash flow	1,232	703	1,187	2,159	
Less: Capex	5,130	1,750	1,650	1,651	
<b>Free cash flow</b>	<b>(3,897)</b>	<b>(1,047)</b>	<b>(463)</b>	<b>508</b>	

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted PE (X)		Price/BV (X)		ROAE (%)	
		FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Kalpataru Power	277	8.1	6.1	0.7	0.7	10.0	12.3
Jyoti Structures	63	3.9	3.3	0.5	0.4	12.5	13.2
KEC International	293	8.2	5.6	1.2	1.1	16.3	20.3
Median		8.1	5.6	0.7	0.7	12.5	13.2
AVERAGE		6.7	5.0	0.8	0.7	12.9	15.3

Source: Edelweiss research

Cash flow metrics					
Year to March	FY12	FY13E	FY14E	FY15E	
Operating cash flow	1,232	703	1,187	2,159	
Investing cash flow	(3,673)	(1,760)	(1,660)	(1,661)	
Financing cash flow	3,012	778	299	(462)	
Net cash flow	571	(280)	(174)	36	
Capex	(5,130)	(1,750)	(1,650)	(1,651)	
Dividends paid	(272)	(322)	(501)	(1,264)	

## Profitability & efficiency ratios

Year to March	FY12	FY13E	FY14E	FY15E
ROAE (%)	11.7	10.0	12.3	13.5
ROACE (%)	13.8	12.3	14.3	15.4
Inventory day	51	57	59	61
Debtors days	131	126	132	136
Payable days	192	196	202	205
Cash conversion cycle (days)	(10)	(13)	(10)	(9)
Current ratio	1.5	1.5	1.5	1.5
Debt/EBITDA	2.3	2.4	2.1	2.0
Debt/Equity	0.6	0.6	0.6	0.6
Interest coverage	2.5	2.4	2.8	3.0

## Operating ratios

Year to March	FY12	FY13E	FY14E	FY15E
Total asset turnover	1.8	2.0	2.2	2.3
Fixed asset turnover	13.3	14.5	16.8	18.6
Equity turnover	3.0	3.4	3.7	3.9

## Valuation parameters

Year to March	FY12	FY13E	FY14E	FY15E
Diluted EPS (INR)	12.3	12.0	15.9	18.8
Y-o-Y growth (%)	(5.7)	(2.0)	32.0	18.3
CEPS (INR)	19.0	20.2	25.3	29.3
Diluted PE (x)	7.9	8.1	6.1	5.2
Price/BV (x)	0.8	0.7	0.7	0.6
EV/Sales (x)	0.5	0.4	0.3	0.3
EV/EBITDA (x)	5.2	5.3	4.5	4.0



## Additional Data

### Directors Data

Mofatraj P Munot	Chairman	Pankaj Sachdeva	Managing Director
S P Talwar	Non Executive Independent Director	Mahendra G Punatar	Non Executive Independent Director
Narayan Seshadri	Non Executive Independent Director	Sajjanraj Mehta	Non Executive Independent Director
Vimal Bhandari	Non Executive Independent Director	K V Mani	Non Executive Director
Manish Mohnot	Executive Director	Parag Munot	Promoter - Director

Auditors - Deloitte Haskins & Sells

*\*as per last annual report*

### Holding – Top10

	Perc. Holding		Perc. Holding
Icici prudential lif	11.78	Birla Sun life asset	2.00
Prudential icici ass	6.26	Eatspring Investment	1.36
Idbi trusteeship svcs	4.69	Sundaram Asset	1.19
Hsbc global inv maur	3.81	DSP Blackrock	1.17
Msdw mauritius co lt	2.53	UTI Asset	1.06

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
02 Mar 2012	Mofatraj P. Munot	Buy	20000.00
07 Mar 2012	Mofatraj P. Munot	Buy	16122.00
12 Mar 2012	Mofatraj P. Munot	Buy	251092.00
13 Mar 2012	Mofatraj P. Munot	Buy	115870.00

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ABB India	REDUCE	SU	L	Bajaj Electricals	HOLD	SP	M
BGR Energy	REDUCE	SU	M	Bharat Electronics	BUY	SO	H
Bharat Heavy Electricals	HOLD	SP	L	Crompton Greaves	HOLD	SP	M
Cummins India	BUY	SO	L	Havells India	HOLD	SP	M
Jyoti Structures	HOLD	SP	M	Kalpataru Power	HOLD	SP	M
KEC International	BUY	SO	M	Larsen & Toubro	BUY	SO	M
Techno Electric & Engineering	BUY	SO	M	Thermax	REDUCE	SP	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



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

ABB India, BGR Energy, Bharat Electronics, Bharat Heavy Electricals, Bajaj Electricals, Crompton Greaves, Havells India, Jyoti Structures, KEC International, Cummins India, Kalpataru Power, Larsen & Toubro, Siemens, Sterlite Technologies, Techno Electric & Engineering, Thermax, Voltamp Transformers, Voltas

#### Recent Research

Date	Company	Title	Price (INR)	Recos
28-Jan-13	<b>Bharat Electronics</b>	Recouping core; volume recovery on cards; <i>Result Update</i>	1,241	Buy
25-Jan-13	<b>Larsen and Toubro</b>	Delivers on Headline number; Core profitability weak; <i>Result Update</i>	1,585	Buy
24-Jan-13	<b>Havells India</b>	Mixed bag; <i>Result Update</i>	648	Hold

#### Distribution of Ratings / Market Cap

##### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	118	46	17	181
* - stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	117	57	7	

#### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

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