BUY

Kalpataru Projects

Growth levers intact

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Engineering & Capital Goods ▸ Company Update ▸ **August 19, 2024**

TARGET PRICE (Rs): 1,550

We reiterate our BUY rating on Kalpataru Projects International (KPIL), with SOTP-based target price of Rs1,550/sh (Unchanged). In our recent interaction, the management sounded positive on the tendering environment across key business verticals (T&D and B&F to be main growth drivers) and geographies, and maintained its guidance on revenue growth of 20% and on PBT margin range of 4.5-5% for FY25. Profitability is likely to see an uptrend, given that new orders entail double-digit margin. On the divestment of non-core assets, management expects ~Rs5.5bn cashflow (Vindhyachal Expressway and Indore Real Estate) and improving ROCE. With the cyclical turnaround being in favor of engineering players, KPIL stands to benefit the most among peers, owing to its disciplined approach in order picking and impeccable execution track-record.

Kalpataru Projects: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	143,370	167,600	202,909	244,844	287,600
EBITDA	11,610	13,660	17,530	22,407	27,801
Adj. PAT	4,770	5,680	8,093	11,235	14,815
Adj. EPS (Rs)	32.7	32.8	49.8	69.2	91.2
EBITDA margin (%)	8.1	8.2	8.6	9.2	9.7
EBITDA growth (%)	36.1	17.7	28.3	27.8	24.1
Adj. EPS growth (%)	51.7	0.4	51.8	38.8	31.9
RoE (%)	9.3	10.3	13.1	15.8	17.9
RoIC (%)	14.5	14.8	17.4	20.7	23.8
P/E (x)	41.6	34.9	24.5	17.7	13.4
EV/EBITDA (x)	18.9	16.3	12.7	9.9	7.8
P/B (x)	3.7	3.5	3.0	2.6	2.2
FCFF yield (%)	(0.9)	0.1	1.0	1.9	3.8

Source: Company, Emkay Research

T&D and B&F to drive the order inflow growth

While KPIL's tender pipeline remains healthy across business segments, FY25 OI guidance of Rs230bn would be led by T&D (Rs500-600bnpa tendering for the next 4-5 years) and B&F (a Rs800-900bn annual opportunity). YTD order inflow stands at Rs70bn (-5% YoY, on a higher base), led by the T&D/water segments registering 30%/82% YoY growth, respectively. Order backlog was maintained at Rs571bn (BB ratio: 2.9x), along with L1 position of Rs50bn; 75% of L1 pertains to the T&D and B&F segments.

Profitability to see gradual improvement with new orders at double digit margin

KPIL's management is confident of margin improvement, especially H2FY25 onward, and achieving its guidance on PBT/EBITDA margin range of 4.5-5%/8.5-9% for FY25. As per management, new orders in the T&D and B&F segments (~65% of the order book) are booked at a better margin (>10%). We expect the margin to increase, from 8.2% in FY24 to 9.7% in FY27E.

Recent road arbitration win is positive; non-core divestment on track

KPIL has recently won the ongoing arbitration case against the NHAI for two road boot assets: 1) Kurukshetra Expressway Private; and 2) Wainganga Expressway; this is a positive. Also, KPIL is well on track to divest Vindhyachal Expressway (VEPL) and Indore Real Estate. The management has been approached by a large global investor regarding VEPL, which has the largest exposure among road assets, of ~70%. Collectively from these two assets, the company is likely to receive cash flow worth Rs5.5bn in FY25.

Revenue visibility improving among international subsidiaries

Linjemontage (Sweden) has an all-time order book of Rs31bn (BB ratio: 2.5x). KPIL's robust international T&D order pipeline provides conviction toward the mgmt delivering ~25% YoY topline growth (FY24/25: Rs10bn/13bn), with EBITDAM expected to log at 5-6%. Fasttel successfully reported breakeven PBT during Q1FY25, with order backlog growing to Rs12bn. With focused progress on closure of legacy orders, Fasttel is expected to register EBITDAM in the range of 8-9%, and deliver positive PBT by H2FY25.

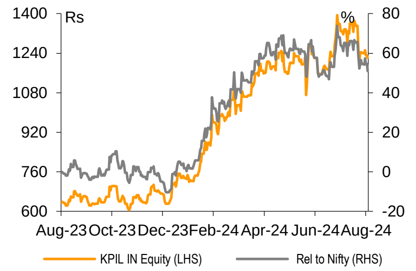
Target Price – 12M	Jun-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	26.9
CMP (16-Aug-24) (Rs)	1,221.6

Stock Data	**Ticker**
52-week High (Rs)	1,428
52-week Low (Rs)	601
Shares outstanding (mn)	162.4
Market-cap (Rs bn)	198
Market-cap (USD mn)	2,364
Net-debt, FY25E (Rs mn)	23,930
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	870.8
ADTV-3M (USD mn)	10.4
Free float (%)	-
Nifty-50	24,541
INR/USD	84.0
Shareholding, Jun-24	
Promoters (%)	35.2
FPIs/MFs (%)	10.1/45.6

Price Performance

(%)	1M	3M	12M
Absolute	(8.0)	1.9	91.5
Rel. to Nifty	(7.8)	(7.9)	51.6

1-Year share price trend (Rs)



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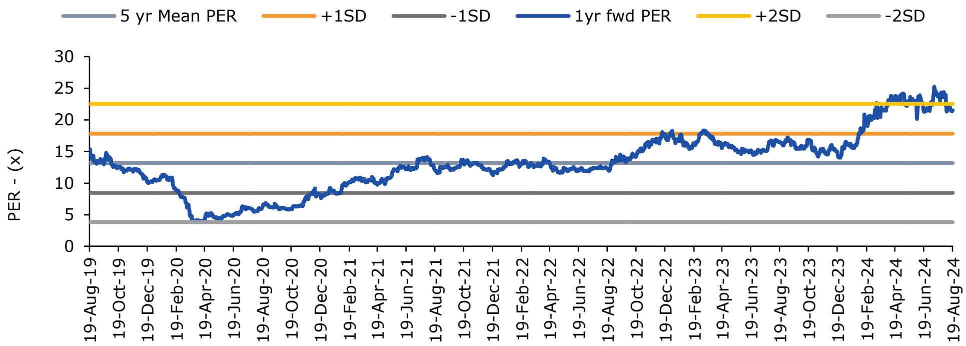
Valuations:

With sheer focus on execution and cash collections, KPIL has managed to pull down its net debt and working capital days over the years, ultimately culminating into a lean balance sheet. KPIL offers a play on multiple high-growth end-markets, and has managed its margins and NWC volatility across cycles. Going ahead, we model a healthy CAGR of 20%/27%/38% in revenue/EBITDA/PAT during FY24-27E. Industrial tailwinds, coupled with a robust order book, strongly aid in maintaining KPIL's one-year forward PER at 20x. In addition, the recent stock-price performance remained slow and hence we believe the company is fundamentally well placed to be accumulated; we re-iterate our BUY rating on KPIL, with a TP of Rs1,550/share (20x 1YF Jun-26E earnings), and ~27% upside from the CMP of Rs1,222/share.

Exhibit 1: KPIL currently trading at 17.7x/13.4x its FY26E/FY27E PER



Source: Bloomberg, Emkay Research

Exhibit 2: KPIL's SOTP-based TP updated to Rs1,550/share

Company name	Value base	Multiple (x)	Value in FY26E (Rs mn)	Total Value (Rs mn)	Rs per share
Kalpataru project (SA)	1YF PER	20	12,130	242,597	1,493
Road BOT projects		1	7,620	3,048	56
Total			**19,750**	**251,741**	**1,550**

Source: Emkay Research

Exhibit 3: Emkay estimates – Sectoral level

Particulars (Rs mn)	2024	2025E	2026E	2027E
Transmission & distribution				
Order inflows	111,540	126,040	142,425	160,941
YoY growth	9.6%	13.0%	13.0%	13.0%
Revenue	60,980	73,446	94,695	114,988
YoY growth	32.7%	20.4%	28.9%	21.4%
Order backlog	206,780	259,374	307,104	353,056
Book-to-bill (x)	3.4	3.5	3.2	3.1
Oil and Gas				
Order inflows	79,530	31,812	34,993	38,493
YoY growth	995.5%	-60.0%	10.0%	10.0%
Revenue	8,220	24,480	28,577	32,139
YoY growth	-16.5%	197.8%	16.7%	12.5%
Order backlog	90,310	97,642	104,058	110,412
Book-to-bill (x)	11.0	4.0	3.6	3.4
B&F				
Order inflows	65,280	75,072	86,333	99,283
YoY growth	73.8%	15.0%	15.0%	15.0%
Revenue	47,900	61,652	73,014	84,511
YoY growth	15.8%	28.7%	18.4%	15.7%
Order backlog	110,210	123,630	136,950	151,722
Book-to-bill (x)	2.3	2.0	1.9	1.8
Urban Infra				
Order inflows	17,650	20,298	23,342	26,843
YoY growth	20.0%	15.0%	15.0%	15.0%
Revenue	7,040	8,742	12,079	15,813
YoY growth	74.7%	24.2%	38.2%	30.9%
Order backlog	30,330	41,885	53,148	64,179
Book-to-bill (x)	4.3	4.8	4.4	4.1
Railways				
Order inflows	10,330	11,363	13,636	17,726
YoY growth	-33.7%	10.0%	20.0%	30.0%
Revenue	14,250	10,146	12,205	14,943
YoY growth	-13.7%	-28.8%	20.3%	22.4%
Order backlog	39,850	41,067	42,497	45,281
Book-to-bill (x)	2.8	4.0	3.5	3.0
Water				
Order inflows	15,890	19,863	24,828	31,035
YoY growth	-79.0%	25.0%	25.0%	25.0%
Revenue	35,110	31,586	32,893	35,331
YoY growth	33.9%	-10.0%	4.1%	7.4%
Order backlog	106,670	94,947	86,881	82,586
Book-to-bill (x)	3.0	3.0	2.6	2.3
Less: Inter-segment revenue	**(5,900)**	**(7,143)**	**(8,619)**	**(10,124)**
Total				
Order inflows	**300,220**	**284,447**	**325,557**	**374,321**
YoY growth	18.9%	-5.3%	14.5%	15.0%
Revenue	**167,600**	**202,909**	**244,844**	**287,600**
YoY growth	16.9%	21.1%	20.7%	17.5%
Order backlog	**584,150**	**658,545**	**730,639**	**807,235**
Book-to-bill (x)	3.5	3.2	3.0	2.8

Source: Company, Emkay Research; Note: The above-mentioned data points pertain to KPIL's standalone business (inclusive of JMC post-merger in FY23)

Kalpataru Projects: Standalone Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**143,370**	**167,600**	**202,909**	**244,844**	**287,600**
Revenue growth (%)	15.6	16.9	21.1	20.7	17.5
EBITDA	**11,610**	**13,660**	**17,530**	**22,407**	**27,801**
EBITDA growth (%)	36.1	17.7	28.3	27.8	24.1
Depreciation & Amortization	2,950	3,680	4,409	4,979	5,486
EBIT	**8,660**	**9,980**	**13,121**	**17,429**	**22,316**
EBIT growth (%)	49.1	15.2	31.5	32.8	28.0
Other operating income	0	0	0	0	0
Other income	1,120	1,130	1,110	1,276	1,467
Financial expense	2,940	3,370	3,440	3,725	4,030
PBT	**6,840**	**7,740**	**10,791**	**14,980**	**19,753**
Extraordinary items	0	0	0	0	0
Taxes	2,070	2,060	2,698	3,745	4,938
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	**5,310**	**5,330**	**8,093**	**11,235**	**14,815**
PAT growth (%)	51.7	0.4	51.8	38.8	31.9
Adjusted PAT	**4,770**	**5,680**	**8,093**	**11,235**	**14,815**
Diluted EPS (Rs)	**32.7**	**32.8**	**49.8**	**69.2**	**91.2**
Diluted EPS growth (%)	51.7	0.4	51.8	38.8	31.9
DPS (Rs)	**7.0**	**8.0**	**8.0**	**8.0**	**8.0**
Dividend payout (%)	**21.4**	**24.4**	**16.1**	**11.6**	**8.8**
EBITDA margin (%)	8.1	8.2	8.6	9.2	9.7
EBIT margin (%)	6.0	6.0	6.5	7.1	7.8
Effective tax rate (%)	30.3	26.6	25.0	25.0	25.0
NOPLAT (pre-IndAS)	**6,039**	**7,324**	**9,841**	**13,072**	**16,737**
Shares outstanding (mn)	162.4	162.4	162.4	162.4	162.4

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	325	325	325	325	325
Reserves & Surplus	52,870	57,180	65,674	75,609	89,124
Net worth	**53,195**	**57,505**	**65,999**	**75,934**	**89,449**
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(1,340)	(1,410)	(1,410)	(1,410)	(1,410)
Total debt	**29,350**	**32,630**	**34,630**	**36,130**	**37,630**
Total liabilities & equity	**81,205**	**88,725**	**99,219**	**110,654**	**125,669**
Net tangible fixed assets	15,840	15,570	18,618	17,639	16,153
Net intangible assets	370	310	310	310	310
Net ROU assets	760	670	670	670	670
Capital WIP	480	320	320	320	320
Goodwill	0	0	0	0	0
Investments [JV/Associates]	8,740	8,590	8,590	8,590	8,590
Cash & equivalents	**8,580**	**8,490**	**10,700**	**12,752**	**18,579**
Current assets (ex-cash)	141,275	164,535	198,025	234,710	276,547
Current Liab. & Prov.	94,080	109,090	137,344	163,667	194,830
NWC (ex-cash)	**47,195**	**55,445**	**60,681**	**71,043**	**81,716**
Total assets	**81,205**	**88,725**	**99,219**	**110,654**	**125,669**
Net debt	20,770	24,140	23,930	23,378	19,051
Capital employed	81,205	88,725	99,219	110,654	125,669
Invested capital	**63,405**	**71,325**	**79,609**	**88,992**	**98,180**
BVPS (Rs)	327.5	354.0	406.3	467.4	550.6
Net Debt/Equity (x)	0.4	0.4	0.4	0.3	0.2
Net Debt/EBITDA (x)	1.8	1.8	1.4	1.0	0.7
Interest coverage (x)	0.3	0.3	0.2	0.2	0.2
RoCE (%)	**12.5**	**13.1**	**15.1**	**17.8**	**20.1**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	6,840	7,740	10,791	14,980	19,753
Others (non-cash items)	0	0	0	0	0
Taxes paid	(2,530)	(2,030)	(2,698)	(3,745)	(4,938)
Change in NWC	(3,990)	(8,320)	(5,236)	(10,362)	(10,673)
Operating cash flow	**5,090**	**3,310**	**9,595**	**8,301**	**12,190**
Capital expenditure	(7,040)	(3,190)	(7,456)	(4,000)	(4,000)
Acquisition of business	180	150	0	0	0
Interest & dividend income	1,040	400	1,110	1,276	1,467
Investing cash flow	**(5,740)**	**(1,910)**	**(6,347)**	**(2,724)**	**(2,533)**
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	2,790	3,280	2,000	1,500	1,500
Payment of lease liabilities	(510)	(410)	0	0	0
Interest paid	(2,940)	(3,370)	(3,440)	(3,725)	(4,030)
Dividend paid (incl tax)	(1,137)	(1,300)	(1,300)	(1,300)	(1,300)
Others	627	(100)	1,700	0	0
Financing cash flow	**(660)**	**(1,490)**	**(1,039)**	**(3,524)**	**(3,830)**
Net chg in Cash	(1,310)	(90)	2,210	2,052	5,827
OCF	5,090	3,310	9,595	8,301	12,190
Adj. OCF (w/o NWC chg.)	1,100	(5,010)	4,359	(2,061)	1,517
FCFF	(1,950)	120	2,139	4,301	8,190
FCFE	(3,850)	(2,850)	(191)	1,852	5,627
OCF/EBITDA (%)	43.8	24.2	54.7	37.0	43.8
FCFE/PAT (%)	(72.5)	(53.5)	(2.4)	16.5	38.0
FCFF/NOPLAT (%)	**(32.3)**	**1.6**	**21.7**	**32.9**	**48.9**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	41.6	34.9	24.5	17.7	13.4
P/CE(x)	25.7	21.2	15.9	12.2	9.8
P/B (x)	3.7	3.5	3.0	2.6	2.2
EV/Sales (x)	1.5	1.3	1.1	0.9	0.8
EV/EBITDA (x)	18.9	16.3	12.7	9.9	7.8
EV/EBIT(x)	25.3	22.3	16.9	12.7	9.7
EV/IC (x)	3.5	3.1	2.8	2.5	2.2
FCFF yield (%)	(0.9)	0.1	1.0	1.9	3.8
FCFE yield (%)	(1.9)	(1.4)	(0.1)	0.9	2.8
Dividend yield (%)	0.6	0.7	0.7	0.7	0.7
DuPont-RoE split					
Net profit margin (%)	3.3	3.4	4.0	4.6	5.2
Total asset turnover (x)	1.8	2.0	2.2	2.3	2.4
Assets/Equity (x)	1.5	1.5	1.5	1.5	1.4
RoE (%)	**9.3**	**10.3**	**13.1**	**15.8**	**17.9**
DuPont-RoIC					
NOPLAT margin (%)	4.2	4.4	4.8	5.3	5.8
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	**14.5**	**14.8**	**17.4**	**20.7**	**23.8**
Operating metrics					
Core NWC days	120.2	120.7	109.2	105.9	103.7
Total NWC days	**120.2**	**120.7**	**109.2**	**105.9**	**103.7**
Fixed asset turnover	7.4	5.7	5.8	6.2	6.6
Opex-to-revenue (%)	14.0	14.3	14.1	14.0	13.9

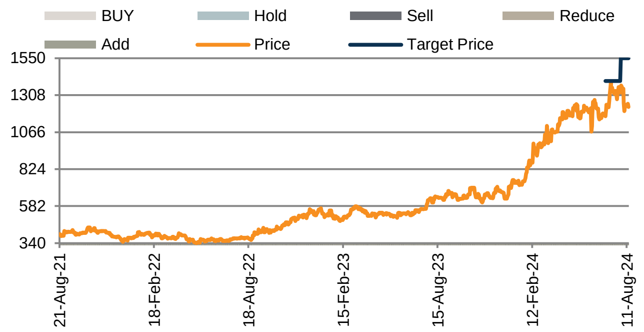
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Jul-24	1,326	1,550	Buy	Ashwani Sharma
01-Jul-24	1,169	1,400	Buy	Ashwani Sharma

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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