

Kalpataru Projects

Estimate changes 

TP change 

Rating change 

CMP: INR1,185

TP: INR1,360 (+15%)

Buy

Outlook remains strong across segments

KPIL's 4QFY24 result was slightly lower than our estimates. Revenue/EBITDA/PAT grew 17%/29%/52% YoY in 4Q. Revenue growth was led by healthy project execution in the T&D, water and urban infra segments. KPIL continues to benefit from an improved prospect pipeline across key segments of T&D and B&F. Post-merger synergies are getting reflected in larger-sized order inflows in the tunneling, B&F, industrial plants, data center and oil and gas segments. We expect KPIL to continue to focus on healthy growth in inflows and revenues, managing efficient working capital, improving margins by 50bp, and maintaining interest costs at around 2% of net sales. Valuation re-rating for Kalpataru is being driven by constant reduction in pledging as well as large-sized oil and gas order win. We tweak our estimates and revise our SOTP-based TP to INR1360, implying 17x P/E for the core business. Maintain BUY rating on the stock as we expect KPIL to continue to benefit from the improved domestic T&D pipeline.

4QFY24 result reflects election-related weakness

KPIL's revenue at INR51.5b was up 17% YoY/24% QoQ, mainly led by healthy execution in the T&D, water and urban infra segments. EBITDA grew 29% YoY/16% QoQ, while margin expanded ~70bp YoY to 7.8%. Adj. PAT came in at INR1.7b (+53% YoY), aided by higher other income (+45% YoY) and a lower effective tax rate (28.6% vs. 30.9% in 4QFY23). During the quarter, order inflows grew 108% YoY to INR119.6b, including an order from Saudi Aramco. This takes the order book to INR584.1b (+27% YoY). International subsidiaries, LMG (Sweden) and Fasttel (Brazil), posted FY24 revenue of INR10.3b and INR7b, while the order book stood at INR20.6b and INR14.8b, respectively, with a strong ordering outlook.

Segmental inflows remain strong from T&D, B&F and Oil & Gas

KPIL continues to witness huge impetus on T&D capex in India, Europe, Africa, Latin America and the CIS region. This has resulted in 47% YoY growth in India T&D order inflows to INR43.4b and an L1 of INR13.5b. The spending outlook has also started improving for LMG and Fasttel, which were going slow until last year. Higher margin is also targeted from Fasttel. B&F is diversifying its presence across residential, commercial, data center and industrial projects, leading to 74% YoY growth in order inflows. Order inflows were weak in the water and railways segments, but oil & gas order inflows jumped ~3x on large order win from Saudi Aramco. We have already baked in this order in our estimates and expect revenue to commence in 3QFY25 and then scale up in FY26. The execution period is 36-42 months, with EBITDA margin of 8-10% and a much lower working capital cycle than that of the domestic segment.

Bloomberg	KPIL IN
Equity Shares (m)	162
M.Cap.(INRb)/(USD\$b)	193 / 2.3
52-Week Range (INR)	1299 / 485
1, 6, 12 Rel. Per (%)	6/80/105
12M Avg Val (INR M)	332

Financials Snapshot (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Net Sales	167.6	212.4	266.2
EBITDA	13.7	18.8	24.4
PAT	5.3	8.8	12.1
EPS (INR)	32.6	53.7	73.9
GR. (%)	8.3	64.6	37.7
BV/Sh (INR)	351.6	398.4	465.3

Ratios

ROE (%)	9.6	14.3	17.1
RoCE (%)	9.0	12.1	13.9

Valuations

P/E (X)	36.4	22.1	16.0
P/BV (X)	3.4	3.0	2.5
EV/EBITDA (X)	15.9	12.0	9.4
Div Yield (%)	0.6	0.6	0.6

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	40.6	40.6	47.2
DII	43.6	43.8	37.8
FII	8.2	7.7	6.9
Others	7.6	7.9	8.1

FII Includes depository receipts

Focus remains on working capital reduction

KPIL continues to focus on reducing working capital and is targeting NWC below 100 days in FY25. The management is focusing on rebalancing the portfolio in areas where working capital is lower. Civil projects, such as B&F and water, have lower NWC and these segments now contribute to 37% of the order book. The increase in net debt during 4QFY24 was mainly due to higher working capital requirements, which will come down in the coming quarters, as the Saudi Aramco packages are less WC intensive. We bake in NWC of 115 days for FY25E/FY26E. OCF grew by 28% in FY24. With an annual capex run rate of ~INR5b, FCF will remain subdued going ahead.

Financial outlook

We expect KPIL to report a CAGR of 26%/34%/51% in revenue/EBITDA/PAT over FY24-26. This would be driven by: 1) inflows of INR266b/INR305b in FY25/FY26 on a strong prospect pipeline, 2) a gradual 100bp recovery in EBITDA margin to 8.9%/9.2% in FY25/FY26, 3) control over working capital owing to improved customer advances, better debtor collections from railways, and claims settlement. Driven by improvement in margins and moderation in working capital, we expect KPIL's RoE and RoCE to improve to 17% and 14% in FY26, respectively.

Valuation and view

KPIL is currently trading at 22.1x/16.0x FY25E/FY26E EPS. We raise our SOTP-based TP to INR1,360, based on 17x P/E for the core business as pledge reduction is leading to valuation re-rating for the company. This is still at a discount to its immediate peer. **Reiterate BUY.**

Standalone Earning Model

Y/E March	FY23				FY24				FY23	FY24	FY24	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	31,390	32,930	35,090	43,960	36,220	38,440	41,470	51,470	1,43,370	1,67,600	54,972	-6
YoY Change (%)					15.4	16.7	18.2	17.1	15.6	16.9	25.1	
Total Expenditure	28,700	30,170	32,040	40,850	33,080	35,360	38,030	47,470	1,31,760	1,53,940	50,556	
EBITDA	2,690	2,760	3,050	3,110	3,140	3,080	3,440	4,000	11,610	13,660	4,416	-9
Margins (%)	8.6	8.4	8.7	7.1	8.7	8.0	8.3	7.8	8.1	8.2	8.0	
Depreciation	660	710	750	830	930	880	940	930	2,950	3,680	932	0
Interest	610	750	740	840	750	850	830	940	2,940	3,370	1,075	-13
Other Income	660	150	90	220	290	250	270	320	1,120	1,130	407	-21
PBT before EO expense	2,080	1,450	1,650	1,660	1,750	1,600	1,940	2,450	6,840	7,740	2,815	-13
Extra-Ord expense	0	0	0	-540	0	0	0	350	-540	350	0	
PBT	2,080	1,450	1,650	2,200	1,750	1,600	1,940	2,100	7,380	7,390	2,815	-25
Tax	440	410	540	680	490	470	500	600	2,070	2,060	993	
Rate (%)	21.2	28.3	32.7	30.9	28.0	29.4	25.8	28.6	28.0	27.9	35.3	
Reported PAT	1,640	1,040	1,110	1,520	1,260	1,130	1,440	1,500	5,310	5,330	1,822	-18
Adj PAT	1,640	1,040	1,110	1,147	1,260	1,130	1,440	1,750	4,921	5,582	1,822	-4
YoY Change (%)					-23.2	8.7	29.7	52.6	-7.3	19.1	58.9	
Margins (%)	5.2	3.2	3.2	2.6	3.5	2.9	3.5	3.4	3.4	3.3	3.3	



Conference call highlights

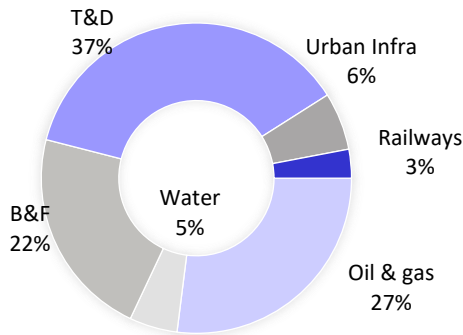
- T&D segment** – Strong traction is being witnessed in both domestic and international markets on the back of renewable energy investments. In India, the company envisages an opportunity pipeline of ~INR500b annually for the next 2-3 years. Notably, the size of projects has increased (above INR5b), which means only larger players with a demonstrated track record are eligible. Though smaller players are trying to make inroads, the company does not really see them as a threat. Similarly, in international geographies such as LatAm and the Middle East, the company has a tender visibility of USD3-4b over the next 18-24 months. Domestic order inflows in FY24 grew by 48% and the order book is robust at INR207b.
- Non-T&D** – The outlook remains healthy for the B&F, oil & gas and urban infra segments, while it would be noticeably weaker for Railways. In B&F, KPIL is seeing strong traction in data centers, airports, real estate, industrial capex, etc. In oil & gas, the optimism is largely on international geographies as the large-sized domestic pipeline does not look too promising, coupled with rising competition from smaller players. In the past decade, the company largely focused on domestic markets; however, in the last 3-4 years, it has gravitated more toward international markets. As a huge chunk of the O&G order book is from international, the emphasis going ahead would be on scaling up, adding manpower and timely execution. Similarly, while there is no dearth of opportunities in railways, the company will be bidding selectively.
- Guidance** – FY25 revenue growth of 20%, PBT margin at 5%, NWC below 100 days, and interest cost as a % of sales below 2%. Capex to be in the range of INR5b. Order inflow guidance will be shared by 1QFY25-end once more clarity emerges on the government's capex plans post elections. The company aims to strengthen its balance sheet through working capital reduction and divestment of non-core assets.
- Non-core assets** – 80% of the Indore real estate inventory has been sold and the company aims to recover ~INR1.7b in FY25. Once the recovery is complete, KPIL intends to exit the same. While Shubham Logistics is expected to see a turnaround in FY26, FY25 will see some challenges and divestment is on the

agenda only beyond FY26. The company has appointed external advisors for VEPL and has already received non-binding offers.

- **International subsidiaries** – LMG and Fasttel are both sitting on healthy order books (INR20.6b and INR15b, respectively). LMG order inflows grew by 150%, while Fasttel order inflows doubled. The addressable market for LMG has almost doubled in the past few years for substations, with the company adding new clients and capabilities. KPIL expects 30-35% growth with 5-6% EBITDAM for FY25. Fasttel faced certain challenges in the past 2-3 years, but the legacy projects are about to be completed. The growth guidance is 20% with 9-10% EBITDAM and 5-6% PBT margin.

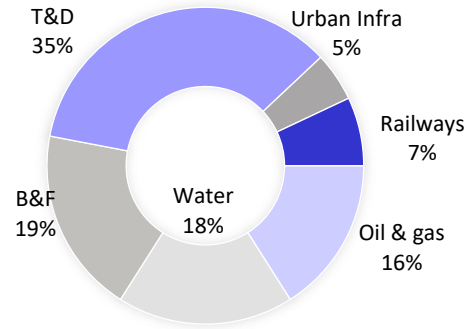
Key Exhibits

Exhibit 1: FY24 order inflow stood strong at INR300b



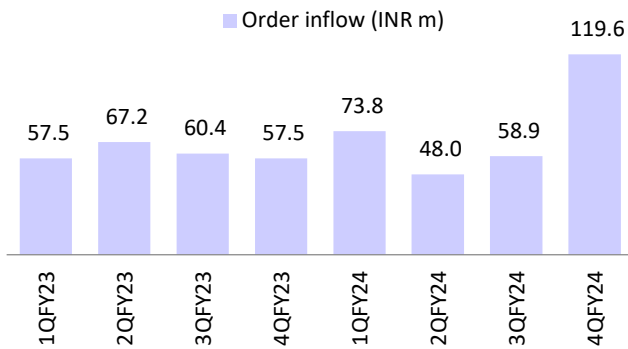
Source: Company, MOFSL

Exhibit 2: Order book of INR584b is fairly diversified



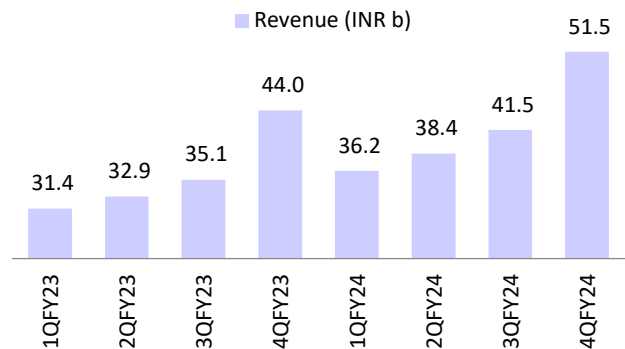
Source: Company, MOFSL

Exhibit 3: 4QFY24 order inflow includes inflow from oil and gas segment (INR b)



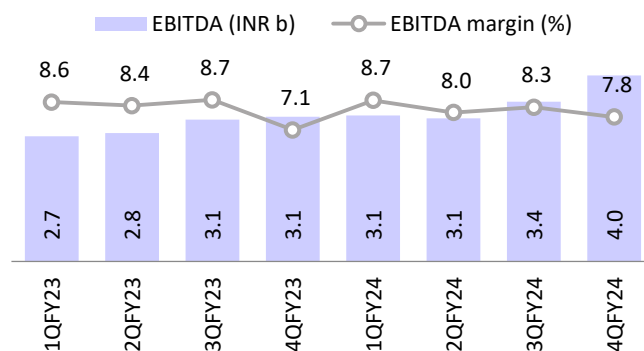
Source: Company, MOFSL

Exhibit 4: Revenue execution is ramping up across segments except railways (INR b)



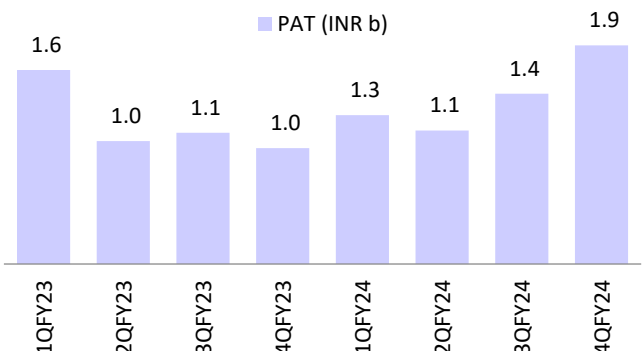
Source: Company, MOFSL

Exhibit 5: EBITDA margin was up 70bps YoY (%)



Source: Company, MOFSL

Exhibit 6: PAT is led by revenue and margin growth (INR b)



Source: Company, MOFSL

Exhibit 7: We tweak our estimates to bake in the FY24 performance

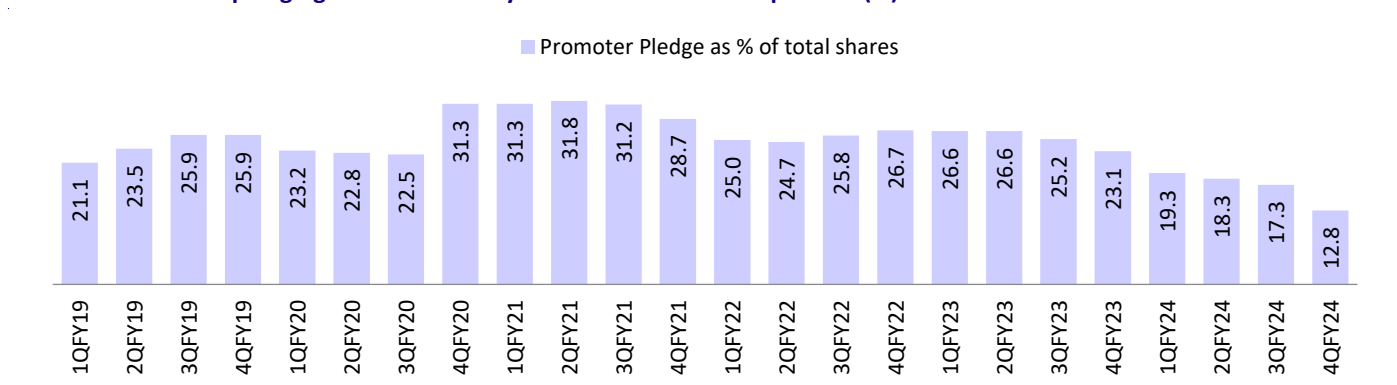
(INR M)	FY25E			FY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	2,12,383	2,12,331	0.0	2,66,170	2,64,850	0.5
EBITDA	18,797	18,951	(0.8)	24,356	24,697	(1.4)
EBITDA (%)	8.9	8.9	-7 bps	9.2	9.3	-17 bps
Adj. PAT	8,775	8,731	0.5	12,083	12,211	(1.0)
EPS (INR)	53.7	53.4	0.5	73.9	74.7	(1.0)

Source: MOFSL

Exhibit 8: We expect the standalone revenue to post a CAGR of 26% during FY24-26E

	FY22	FY23	FY24	FY25E	FY26E
Transmission & distribution					
Order inflows	70,893	1,01,790	1,11,540	1,22,694	1,41,098
YoY growth (%)	14.0	43.6	9.6	10.0	15.0
Revenues	64,460	60,160	78,270	88,482	1,09,039
YoY growth (%)	28.9	(6.7)	30.1	13.0	23.2
Order backlog	1,11,387	1,65,305	2,06,780	2,40,992	2,73,051
Bill to book ratio (%)	54.1	37.1	35.4	33.0	35.0
Buildings and Factories (B&F)					
Order inflows	43,658	37,550	65,280	68,544	75,398
YoY growth (%)	(8.0)	(14.0)	73.8	5.0	10.0
Revenues	33,130	41,360	47,900	54,903	61,389
YoY growth (%)		24.8	15.8	14.6	11.8
Order backlog	78,626	87,244	1,10,210	1,23,851	1,37,860
Bill to book ratio (%)	31.4	42.5	40.0	38.0	38.0
Water and urban infra					
Order inflows	58,211	90,240	33,540	40,248	50,310
YoY growth (%)	87.3	55.0	(62.8)	20.0	25.0
Revenues	20,320	30,250	42,150	39,281	40,781
YoY growth (%)		48.9	39.3	(6.8)	3.8
Order backlog	91,731	1,51,530	1,37,000	1,37,967	1,47,497
Bill to book ratio (%)	24.7	22.1	25.0	25.0	25.0
Railways and Oil and gas					
Order inflows	9,081	22,830	89,860	34,583	38,733
YoY growth (%)	(57.3)	151.4	293.6	10.0	12.0
Revenues	25,040	26,370	22,470	29,717	54,961
YoY growth (%)		5.3	(14.8)	32.3	84.9
Order backlog	45,865	55,102	1,30,160	1,35,026	1,18,798
Bill to book ratio (%)	41.5	46.0	22.5	22.5	22.5
Total Order inflows	1,81,843	2,52,410	3,00,220	2,66,069	3,05,539
YoY growth (%)	12.3	38.8	18.9	(11.4)	14.8
Total Revenues	1,24,071	1,43,370	1,67,600	2,12,383	2,66,170
YoY growth (%)		15.6	16.9	26.7	25.3
Order backlog	3,27,610	4,59,180	5,84,150	6,37,836	6,77,205
Bill to book ratio (%)	33.8	31.6	27.5	29.6	33.7

Source: Company, MOFSL

Exhibit 9: Promoter pledging has considerably come down in recent quarters (%)

Source: Company, MOFSL

Exhibit 10: We revise target price to INR1360 based on SOTP valuation

	Earnings/ book	Valn multiple	Value	KPIL share	Value for KPIL share	Per share value	Valuation basis
	INR m	(X)	INR m	(%)	INR m	INR	
Kalpataru consolidated valuation							

Core construction business	12,206	17.0	214,825	100.0	214,825	1,314	17X two-year fwd EPS
Investments in subsidiaries			8,228		8,228	50	
Road projects total			(723)		(723)	(4)	
Total value			222,338		162,718	1,360	

Source: MOFSL

Valuation and view

KPIL is currently trading at 22.1x/16.0x FY25E/FY26E EPS. We raise our SOTP-based TP to INR1,360 based on 17x P/E for the core business as pledge reduction is leading to valuation re-rating for the company. This is still at a discount to its immediate peer. **Reiterate BUY.**

Key risks

Key downside risks: 1) slowdown in order inflows, 2) a spike in commodity prices, 3) higher crude prices, 4) higher inflation, 5) increase in receivables and working capital, and 6) intensified competition.

Financials and valuations

Income Statement					(INR m)
Y/E March	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	1,24,071	1,43,370	1,67,600	2,12,383	2,66,170
Change (%)	NA	15.6	16.9	26.7	25.3
Total Expenditure	1,13,265	1,31,760	1,53,940	1,93,586	2,41,815
% of Sales	91.3	91.9	91.8	91.1	90.8
EBITDA	10,807	11,610	13,660	18,797	24,356
Margin (%)	8.7	8.1	8.2	8.9	9.2
Depreciation	2,720	2,950	3,680	4,016	4,616
EBIT	8,087	8,660	9,980	14,780	19,739
Int. and Finance Charges	2,436	2,940	3,370	3,766	4,174
Other Income	984	1,120	780	781	675
PBT bef. EO Exp.	6,635	6,840	7,390	11,795	16,240
EO Items	-1,632	540			
PBT after EO Exp.	5,003	7,380	7,390	11,795	16,240
Total Tax	1,491	2,070	2,060	3,019	4,158
Tax Rate (%)	29.8	28.0	27.9	25.6	25.6
Reported PAT	3,512	5,310	5,330	8,775	12,083
Adjusted PAT	4,657	4,921	5,330	8,775	12,083
Change (%)	NA	5.7	8.3	64.6	37.7
Margin (%)	3.8	3.4	3.2	4.1	4.5

Balance Sheet					(INR m)
Y/E March	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	298	325	325	325	325
Total Reserves	49,073	52,872	57,180	64,818	75,764
Net Worth	49,371	53,197	57,505	65,143	76,089
Total Loans	26,551	29,346	32,630	36,630	40,130
Deferred Tax Liabilities	-880	-1,338	-1,410	-1,410	-1,410
Capital Employed	75,042	81,206	88,725	1,00,363	1,14,809
Gross Block	23,789	27,708	30,971	35,971	40,971
Less: Accum. Deprn.	10,574	10,941	14,621	18,637	23,254
Net Fixed Assets	13,214	16,767	16,350	17,334	17,717
Goodwill on Consolidation	201	201	201	201	201
Capital WIP	203	484	320	320	320
Total Investments	8,929	8,741	8,590	8,590	8,590
Curr. Assets, Loans & Adv.	1,22,897	1,47,237	1,70,210	2,12,659	2,61,858
Inventory	9,193	10,874	12,400	16,109	20,188
Account Receivables	43,239	51,246	55,240	78,823	95,140
Cash and Bank Balance	9,886	8,581	8,490	4,349	4,439
Loans and Advances	8,163	8,608	10,880	12,752	15,981
Other Current Assets	52,416	67,928	83,200	1,00,625	1,26,109
Curr. Liability & Prov.	70,401	92,224	1,06,946	1,38,740	1,73,877
Other Current Liabilities	65,676	87,673	1,01,996	1,31,998	1,65,428
Provisions	4,725	4,551	4,950	6,742	8,449
Net Current Assets	52,496	55,012	63,264	73,918	87,981
Appl. of Funds	75,042	81,205	88,725	1,00,362	1,14,808

Financials and valuations

Ratios

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)					
EPS	28.5	30.1	32.6	53.7	73.9
Cash EPS	45.1	48.1	55.1	78.2	102.1
BV/Share	301.9	325.3	351.6	398.4	465.3
DPS	6.5	7.0	7.0	7.0	7.0
Payout (%)	30.3	21.4	21.3	13.0	9.4
Valuation (x)					
P/E	41.6	39.4	36.4	22.1	16.0
Cash P/E	26.3	24.6	21.5	15.1	11.6
P/BV	3.9	3.6	3.4	3.0	2.5
EV/Sales	1.7	1.5	1.3	1.1	0.9
EV/EBITDA	19.4	18.4	15.9	12.0	9.4
Dividend Yield (%)	0.6	0.6	0.6	0.6	0.6
FCF per share	10.1	-9.1	26.0	-37.0	11.6
Return Ratios (%)					
RoE	10.7	9.6	9.6	14.3	17.1
RoCE	9.2	8.9	9.0	12.1	13.9
RoIC	10.1	10.4	10.7	13.9	15.6
Working Capital Ratios					
Fixed Asset Turnover (x)	5.2	5.2	5.4	5.9	6.5
Asset Turnover (x)	1.7	1.8	1.9	2.1	2.3
Inventory (Days)	27	28	27	28	28
Debtor (Days)	127	130	120	135	130
Creditor (Days)	0	0	0	0	0
Leverage Ratio (x)					
Current Ratio	1.7	1.6	1.6	1.5	1.5
Interest Cover Ratio	3.3	2.9	3.0	3.9	4.7
Net Debt/Equity	0.2	0.2	0.3	0.4	0.4

Cash Flow Statement

Y/E March	FY22	FY23	FY24	FY25E	FY26E
(INR m)					
OP/(Loss) before Tax	3,504	5,320	5,330	11,795	16,240
Depreciation	2,720	2,948	3,680	4,016	4,616
Interest & Finance Charges	2,436	2,939	3,370	3,766	4,174
Direct Taxes Paid	-2,067	-2,534	-2,030	-3,019	-4,158
(Inc)/Dec in WC	-5,355	-4,512	-5,800	-17,609	-13,973
CF from Operations	1,236	4,160	4,550	-1,051	6,901
Others	2,529	1,434	2,590	0	0
CF from Operating incl EO	3,765	5,594	7,140	-1,051	6,901
(Inc)/Dec in FA	-2,113	-7,078	-2,890	-5,000	-5,000
Free Cash Flow	1,653	-1,485	4,250	-6,051	1,901
(Pur)/Sale of Investments	-712	-269	-210	0	0
Others	-37	2,880	-1,570	0	0
CF from Investments	-2,862	-4,467	-4,670	-5,000	-5,000
Inc/(Dec) in Debt	4,908	2,460	-800	4,000	3,500
Interest Paid	-2,517	-3,120	-3,160	-3,766	-4,174
Dividend Paid	-261	-1,022	-1,140	-1,137	-1,137
Others	859	-549	3,340	0	0
CF from Fin. Activity	2,989	-2,231	-1,760	-903	-1,811
Inc/Dec of Cash	3,892	-1,104	710	-6,954	90
Opening Balance	5,995	9,685	7,810	11,304	4,349
Closing Balance	9,887	8,581	8,520	4,349	4,439

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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