

Kalpataru Projects International | BUY



Moderation in FY24 estimates but outlook remains strong

Kalpataru Projects International's (KPIL) 2QFY24 standalone PAT at INR 1.13bn missed estimate of INR 1.27bn (consensus: INR 1.21bn) due to lower margins. NWC reduced sharply by 36 days YoY to 104 days but net debt was higher by INR 1.7bn YoY to INR 22.2bn (flat QoQ) given the continued capex and investments/support for subsidiaries. Consolidated order inflows are INR 122bn YTD (L1: INR42bn; FY24 target: INR 250bn). KPIL has lowered its FY24 revenue growth guidance from 30% to 25% due to slower than expected execution ramp up in 1HFY24. PBT margin guidance is also moderated from 4.5-5% to c.4.5%. However, we note that bid pipeline for both domestic and international T&D projects (37% of KPIL's OB) remains robust and provide strong growth opportunities. KPIL's margin and NWC/cash flow management has also been fairly resilient. With real estate (RE) sector seeing strong recovery, any reduction in promoter pledges (done in favour of RE business) can be a re-rating catalyst. We estimate 25% EPS CAGR over FY23-26E. Maintain BUY with TP of INR 750.

- Standalone earnings missed estimates due to lower margins:** Revenue grew by 17% YoY to INR 38.4bn, marginally below estimate of INR 39.2bn. EBITDA grew by 12% YoY to INR 3.1bn (estimate: INR 3.35bn). EBITDA margins declined by 40bps YoY to 8% (estimate: 8.6%) due to adverse revenue mix. Interest costs grew by 13% YoY to INR 850mn (estimate: INR 800mn). Standalone PAT grew by 8.7% YoY to INR 1.13bn and missed estimate of INR 1.27bn due to lower margins.
- Consolidated backlog strong at INR 473bn; lowers revenue and margin guidance:** KPIL received consolidated order inflows of INR 122bn in YTD and targets inflows of INR 250bn in FY24 backed by robust bid pipeline. Domestic T&D bid pipeline is at INR 500-700bn of which KPIL expects awarding of atleast 50% of projects in FY24. Order backlog stood at INR 473bn (2.7x TTM revenues) as on Sept-23. KPIL has lowered its revenue growth guidance from 30% to 25% and PBT margin guidance from 4.5-5% to c.4.5% for FY24. We have cut FY24/25 earnings by 9.5%/6.2% to factor lower revenue/margins.
- Road monetization delayed; to complete sale of Indore real estate by Dec-24:** Sale of Vindhyachal road asset has been delayed as the earlier non-binding offer did not proceed. KPIL will look to sign another non-binding offer in next 2-3 months. The Indore real estate inventory of INR 2.6bn is likely to be fully sold by Dec-24 (1H sale: INR400mn; cash flow: INR 250mn). Loans to subsidiaries (net) increased by INR 1.36bn in 1H comprising of INR 450mn in road assets, INR 750mn in Chile project SPV and balance in other entities.
- Maintain BUY with price target of INR 750:** We estimate robust revenue/EPS CAGR of 19%/25% over FY23-26E for KPIL on standalone basis. KPIL trades at attractive valuations of 12.8x/10.8x FY25/26E standalone EPS. Currently, c.44.6% of promoter holding (41.1%) is pledged towards the promoter's real estate business, which acts as an overhang on the stock. Material reduction in these pledges can drive multiple re-rating. We value standalone EPC business at 13x Sept'25E EPS and investments in BOT assets, international subsidiaries at INR 49/share. Maintain BUY with price target of INR 750.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	750
Upside/(Downside)	18.4%
Previous Price Target	750
Change	0.0%

Key Data – KPIL IN

Current Market Price	INR633
Market cap (bn)	INR102.9/US\$1.2
Free Float	59%
Shares in issue (mn)	162.4
Diluted share (mn)	162.4
3-mon avg daily val (mn)	INR203.9/US\$2.4
52-week range	758/457
Sensex/Nifty	64,364/19,231
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	-10.8	9.9	22.2
Relative*	-8.5	4.3	15.7

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	124,070	143,370	176,401	212,116	243,962
Sales Growth (%)	9.2	15.6	23.0	20.2	15.0
EBITDA	8,530	11,610	14,397	18,450	21,146
EBITDA Margin (%)	6.9	8.1	8.2	8.7	8.7
Adjusted Net Profit	3,500	5,310	5,795	8,020	9,511
Diluted EPS (INR)	23.5	32.7	35.7	49.4	58.5
Diluted EPS Growth (%)	-32.4	39.1	9.1	38.4	18.6
ROIC (%)	4.8	6.8	6.9	8.4	8.7
ROE (%)	5.8	9.6	10.4	13.1	13.8
P/E (x)	17.2	13.6	17.7	12.8	10.8
P/B (x)	1.2	1.4	1.8	1.6	1.4
EV/EBITDA (x)	9.0	8.0	9.0	7.2	6.3
Dividend Yield (%)	1.6	1.6	1.1	1.1	1.1

Source: Company data, JM Financial. Note: Valuations as of 04/Nov/2023

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Exhibit 1. Quarterly standalone results

INR mn	2QFY23	3QFY23	4QFY23	FY23	1QFY24	2QFY24	2QFY24E	Variance (%)	FY24E	FY25E	FY26E
Revenue	32,930	35,090	43,960	143,370	36,220	38,440	39,200	-1.9%	176,401	212,116	243,962
Raw Material Consumed	15,650	15,240	20,050	64,750	14,950	17,080	16,386	4.2%	76,858	89,285	110,546
Employee Expenses	2,440	2,700	2,820	10,340	3,000	2,800	3,100	-9.7%	12,098	14,396	16,556
Erection & sub-contracting expenses	9,730	11,580	15,020	46,880	12,970	13,210	14,112	-6.4%	61,789	76,362	79,775
Other Expenses	2,350	2,520	2,960	9,790	2,160	2,260	2,250	0.4%	11,259	13,623	15,939
EBITDA	2,760	3,050	3,110	11,610	3,140	3,090	3,352	-7.8%	14,397	18,450	21,146
EBITDA margin (%)	8.4%	8.7%	7.1%	8.1%	8.7%	8.0%	8.6%		8.2%	8.7%	8.7%
Other Income	150	90	220	1,120	290	250	200	25.0%	965	624	636
Depreciation	710	750	830	2,950	930	890	940	-5.3%	3,707	3,982	4,323
Interest	750	740	840	2,940	750	850	800	6.3%	3,376	3,634	3,872
PBT	1,450	1,650	1,660	6,840	1,750	1,600	1,812	-11.7%	8,279	11,457	13,587
Tax	410	540	544	1,934	490	470	544	-13.6%	2,484	3,437	4,076
Effective Tax Rate (%)	28.3%	32.7%	32.8%	28.3%	28.0%	29.4%	30.0%		30.0%	30.0%	30.0%
Adjusted PAT	1,040	1,110	1,116	4,906	1,260	1,130	1,269	-10.9%	5,795	8,020	9,511
Exceptional Items	-	-	404	404	-	-	-		-	-	-
Reported PAT	1,040	1,110	1,520	5,310	1,260	1,130	1,269	-10.9%	5,795	8,020	9,511
YoY growth											
Revenue		9.8%	23.3%	15.6%	15.4%	16.7%			23.0%	20.2%	15.0%
EBITDA		26.0%	1.3%	36.1%	17.2%	12.0%			24.0%	28.1%	14.6%
Other Income		-77.5%	-4.3%	14.3%	-56.1%	66.7%			-13.9%	-35.3%	1.9%
Depreciation		7.1%	22.1%	8.5%	40.9%	25.4%			25.7%	7.4%	8.6%
Interest		13.8%	33.3%	20.5%	23.0%	13.3%			14.8%	7.7%	6.5%
PBT		12.2%	-16.6%	57.2%	-15.5%	10.3%			21.0%	38.4%	18.6%
Adjusted PAT		52.1%	-22.5%	71.5%	-22.7%	8.7%			18.1%	38.4%	18.6%
Reported PAT		-62.5%	5.6%	14.4%	-22.7%	8.7%			9.1%	38.4%	18.6%

Source: Company, JM Financial

Exhibit 2. Change in estimates

INR mn	FY24E			FY25E		
	New	Old	YoY	New	Old	YoY
Revenue	176,401	182,391	-3.3%	212,116	227,743	-6.9%
EBITDA	14,397	15,440	-6.8%	18,450	19,371	-4.8%
EBITDA Margin	8.2%	8.5%		8.7%	8.5%	
PAT	5,795	6,407	-9.5%	8,020	8,553	-6.2%
EPS	35.7	39.4	-9.5%	49.4	52.6	-6.2%

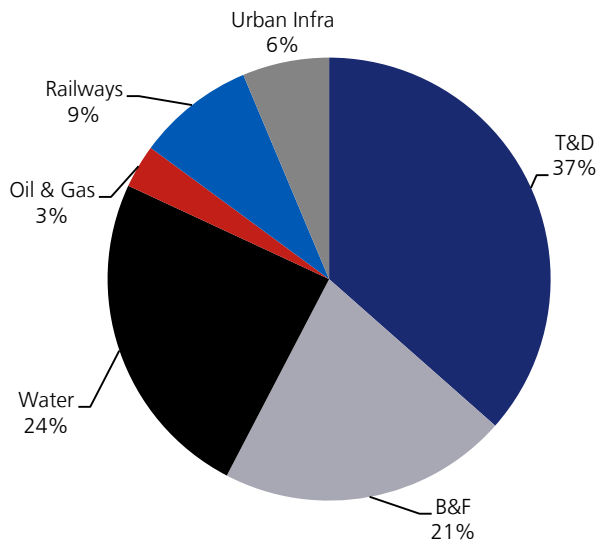
Source: Company, JM Financial

Exhibit 3. Key assumptions (Standalone)

INR mn	FY22A	FY23A	FY24E	FY25E	FY26E
Order inflows	167,870	234,530	236,933	271,998	307,505
EBITDA Margins	6.9%	8.1%	8.2%	8.7%	8.7%
Debt	26,560	29,346	30,346	32,946	33,446
Net WC days*	90	90	94	94	94
Capex	3,102	6,772	2,750	3,500	4,250

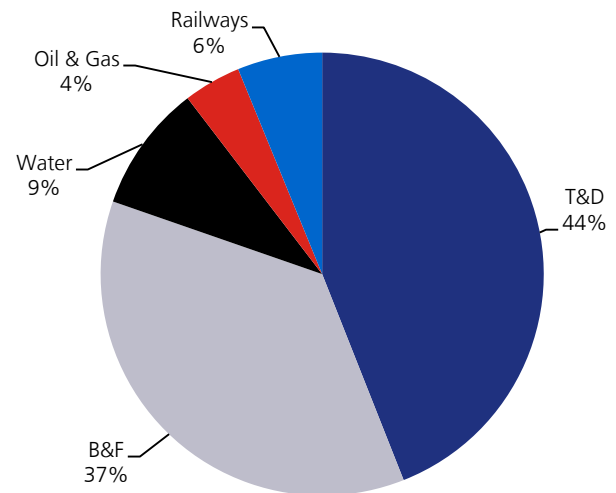
Source: Company, JM Financial; *: ex cash and L&A to subsidiaries/JVs

Exhibit 4. Consolidated backlog of INR 470bn as of Sept'23



Source: Company, JM Financial

Exhibit 5. Consolidated order inflows of INR 122bn in YTD FY24



Source: Company, JM Financial

Exhibit 6. SoTP based price target of INR 750

INR mn	Methodology	Parameter	Multiple	Value	Value per share
Standalone EPC business	P/Ex average FY25-26E	8,765	13.0	113,948	701
International T&D (LMG + Fasttel)	P/Ex average FY25-26E	501	8.0	4,010	25
Road BOT assets	P/Bx	7,710	0.5	3,855	24
Total				121,813	750

Source: Company, JM Financial

Key conference call takeaways

- **Guidance moderated:** Revenue growth: 25% (earlier: 30%) to c.INR 180bn; EBITDA margin: 8-8.5%; PBT margin: c.4.5% (earlier: 4.5-5%); order inflows: INR 250bn (consolidated), Capex: INR 2.5bn+. KPIL will continue to invest in newer businesses and geographical diversifications which will build capabilities but cap margin expansions.
- **Support to Road BOT assets:** KPIL infused INR 450mn in 1HFY24 and will infuse INR 450mn in 2HFY24 (INR 700mn in FY23) for principal repayment in BOT assets. Road assets are PBT positive currently given the improvement in toll collections.
- **Supply chain constraints:** KPIL is seeing supply constraints emerging on the substation side while on the transmission side situation is far better. The company does not see labour supply to be a big challenge.
- **Domestic T&D pipeline remains strong:** Project pipeline of c.INR 700bn of which management expects at-least 50% to be bid out within FY24E
- **Fasttel & LMG performance:** Reported loss of c.INR 200mn in 2QFY24 due to BG encashment of c.INR 160mn (pertains to project prior to acquisition). Revenue stood at INR 1.9bn while backlog is at INR 4.5bn. Expecting PBT break-even in FY24 prior to the BG encashment impact. LMG to see margin normalisation to 4-5% on a relatively higher base of PY.

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	124,070	143,370	176,401	212,116	243,962	
Sales Growth	9.2%	15.6%	23.0%	20.2%	15.0%	
Other Operating Income	0	0	0	0	0	
Total Revenue	124,070	143,370	176,401	212,116	243,962	
Cost of Goods Sold/Op. Exp	95,740	111,630	138,648	165,647	190,321	
Personnel Cost	9,170	10,340	12,098	14,396	16,556	
Other Expenses	10,630	9,790	11,259	13,623	15,939	
EBITDA	8,530	11,610	14,397	18,450	21,146	
EBITDA Margin	6.9%	8.1%	8.2%	8.7%	8.7%	
EBITDA Growth	-25.1%	36.1%	24.0%	28.1%	14.6%	
Depn. & Amort.	2,720	2,950	3,707	3,982	4,323	
EBIT	5,810	8,660	10,690	14,467	16,823	
Other Income	980	1,120	965	624	636	
Finance Cost	2,440	2,940	3,376	3,634	3,872	
PBT before Excep. & Forex	4,350	6,840	8,279	11,457	13,587	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	4,350	6,840	8,279	11,457	13,587	
Taxes	1,490	1,934	2,484	3,437	4,076	
Extraordinary Inc./Loss(-)	640	404	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	3,500	5,310	5,795	8,020	9,511	
Adjusted Net Profit	3,500	5,310	5,795	8,020	9,511	
Net Margin	2.8%	3.7%	3.3%	3.8%	3.9%	
Diluted Share Cap. (mn)	148.9	162.4	162.4	162.4	162.4	
Diluted EPS (INR)	23.5	32.7	35.7	49.4	58.5	
Diluted EPS Growth	-32.4%	39.1%	9.1%	38.4%	18.6%	
Total Dividend + Tax	968	1,137	1,137	1,137	1,137	
Dividend Per Share (INR)	6.5	7.0	7.0	7.0	7.0	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	49,370	53,197	57,855	64,738	73,112	
Share Capital	298	325	325	325	325	
Reserves & Surplus	49,072	52,872	57,531	64,413	72,787	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	26,560	29,346	30,346	32,946	33,446	
Def. Tax Liab. / Assets (-)	-880	-1,338	-1,338	-1,338	-1,338	
Total - Equity & Liab.	75,050	81,206	86,864	96,346	105,220	
Net Fixed Assets	13,630	17,452	16,495	16,012	15,939	
Gross Fixed Assets	34,264	40,752	43,502	47,002	51,252	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	20,834	23,784	27,491	31,474	35,797	
Capital WIP	200	484	484	484	484	
Investments	8,920	8,741	8,741	8,741	8,741	
Current Assets	127,820	149,848	175,339	208,866	238,832	
Inventories	9,190	10,874	14,055	17,245	19,293	
Sundry Debtors	43,240	51,243	62,828	74,386	88,227	
Cash & Bank Balances	9,890	8,581	3,596	3,509	3,649	
Loans & Advances	8,170	8,608	10,086	11,155	11,422	
Other Current Assets	57,330	70,542	84,774	102,571	116,240	
Current Liab. & Prov.	75,320	94,836	113,711	137,273	158,292	
Current Liabilities	40,830	47,439	60,397	72,159	83,428	
Provisions & Others	34,490	47,397	53,314	65,115	74,864	
Net Current Assets	52,500	55,013	61,628	71,593	80,540	
Total - Assets	75,050	81,206	86,864	96,346	105,220	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	4,990	7,244	8,279	11,457	13,587	
Depn. & Amort.	2,720	2,950	3,707	3,982	4,323	
Net Interest Exp. / Inc. (-)	2,440	2,940	3,376	3,634	3,872	
Inc (-) / Dec in WCap.	-5,863	-6,108	-11,599	-10,052	-8,807	
Others	0	0	0	0	0	
Taxes Paid	-1,620	-2,284	-2,484	-3,437	-4,076	
Operating Cash Flow	2,667	4,742	1,279	5,584	8,899	
Capex	-3,102	-6,772	-2,750	-3,500	-4,250	
Free Cash Flow	-434	-2,029	-1,471	2,084	4,649	
Inc (-) / Dec in Investments	-339	2,464	0	0	0	
Others	1,164	-481	0	0	0	
Investing Cash Flow	-2,277	-4,788	-2,750	-3,500	-4,250	
Inc / Dec (-) in Capital	0	27	0	0	0	
Dividend + Tax thereon	-968	-1,137	-1,137	-1,137	-1,137	
Inc / Dec (-) in Loans	7,644	2,786	1,000	2,600	500	
Others	-2,440	-2,940	-3,376	-3,634	-3,872	
Financing Cash Flow	4,236	-1,264	-3,513	-2,172	-4,509	
Inc / Dec (-) in Cash	4,627	-1,310	-4,984	-87	140	
Opening Cash Balance	5,263	9,890	8,581	3,596	3,509	
Closing Cash Balance	9,890	8,581	3,596	3,509	3,649	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
Net Margin		2.8%	3.7%	3.3%	3.8%	3.9%
Asset Turnover (x)		1.8	1.8	2.1	2.3	2.4
Leverage Factor (x)		1.5	1.5	1.5	1.5	1.5
RoE		7.4%	10.4%	10.4%	13.1%	13.8%

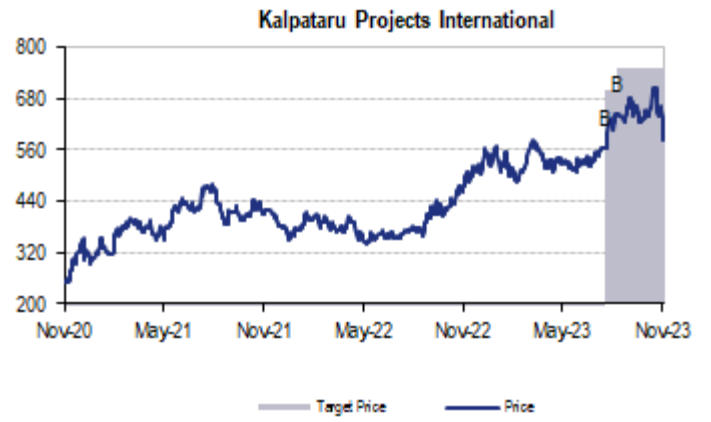
Key Ratios		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
BV/Share (INR)		331.6	327.5	356.2	398.5	450.1
ROIC		4.8%	6.8%	6.9%	8.4%	8.7%
ROE		5.8%	9.6%	10.4%	13.1%	13.8%
Net Debt/Equity (x)		0.2	0.2	0.3	0.3	0.3
P/E (x)		17.2	13.6	17.7	12.8	10.8
P/B (x)		1.2	1.4	1.8	1.6	1.4
EV/EBITDA (x)		9.0	8.0	9.0	7.2	6.3
EV/Sales (x)		0.6	0.6	0.7	0.6	0.5
Debtor days		127	130	130	128	132
Inventory days		27	28	29	30	29
Creditor days		129	131	136	136	137

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
20-Jul-23	Buy	700	
14-Aug-23	Buy	750	7.1

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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* REITs refers to Real Estate Investment Trusts.

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