INITIATING COVERAGE

kotak Kotak Securities

PRIVATE CLIENT RESEARCH

AUGUST 7, 2009

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Stock details

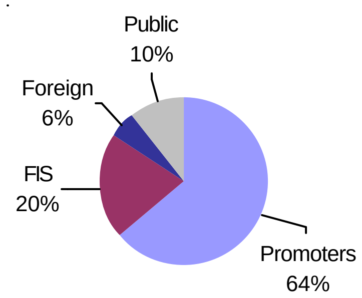
BSE Code	:	522287
NSE Code	:	KALPATPOWR
Market cap (Rs bn)	:	19.2
Free float (%)	:	36
52-wk Hi/Lo (Rs)	:	875/222
Avg. daily volume	:	50000
Shares o/s (m)	:	26.5

Standalone summary table

(Rs mn)	FY09	FY10E	FY11E
Sales	18,825	23,756	30,205
Growth (%)	8.3	26.2	27.1
EBITDA	2,227	2,862	3,669
EBITDA margin (%)	11.8	12.0	12.1
Net profit (Adj)	944	1,361	1,841
Net cash (debt)	(6,102)	(6,693)	(6,515)
EPS (Rs)	34.5	51.4	69.5
Growth (%)	(38.0)	49.0	35.2
CEPS	45.9	64.2	84.1
DPS (Rs)	7.5	7.5	7.5
ROE (%)	14.3	15.2	17.9
ROCE (%)	15.0	15.9	18.8
EV/Sales (x)	1.3	1.1	0.9
EV/EBITDA (x)	11.3	9.0	7.0
P/E (x)	20.3	14.1	10.4
P/Cash Earnings	15.7	11.3	8.6
P/BV (x)	2.4	2.1	1.8

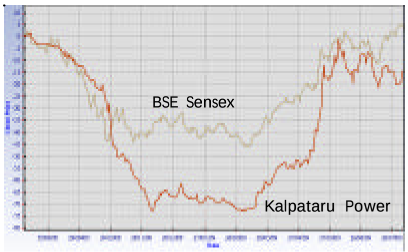
Source: Company & Kotak Securities - Private Client Research

Shareholding pattern



Source: Capitaline

One-year performance (Rel to sensex)



Source: Capitaline

Kalpataru Power Transmission Ltd

PRICE : RS.723 | **RECOMMENDATION : BUY**
TARGET PRICE : RS.865 | **FY10E P/E X: 14.1X**

In a challenging year for global economy, Kalpataru power Transmission (KPTL) has been able to win several large-sized projects. As a result, KPTL now enjoys one of the highest revenue visibility among listed peers. Propelled by a strong order book, the company is well-positioned to accelerate growth in the coming years. On the profitability front, we believe the worst is over and expect operating margins to inch up in FY10. This should drive earnings growth of 39% CAGR between FY09-11. Sector prospects remain strong given the robust spending plans of PGCIL. We rate the stock as BUY with a target price of Rs.865. At our target price FY10 earnings will be discounted by 16.8x.

Key Investment Rationale

- **Play on investment in power sector:** Investment in transmission line is largely linked to creation of new power generation capacities. The Indian power generation sector is slated to witness a quantum addition in thermal power as projects of 52618 MW (as against 12114 MW in the Xth plan) are planned for completion in the remaining three years of the 11th plan. A huge chunk of the planned generation capacity addition is located in the eastern and central region while the main consumption centres are in the West, North and South. In addition, several IPPs have applied to PGCIL for grant of long-term open access to transmit power during the XIth and XIIth plan. This necessitates the establishment of high power capacity evacuation system. Thus, we see brisk order placing by PGCIL as it accelerates capex to meet its XIth plan investment target.

- **High revenue visibility among transmission tower companies.** In a challenging year for the global economy, KPTL had a successful FY09 so far as building its order book is concerned. Fresh orders during the year increased by 49%. Order backlog rose 61% to Rs.50 bn. This has given a boost to the revenue visibility, which has increased to 31 months of revenue, the highest amongst the listed peers.

- **Revenue growth set to accelerate.** Revenue growth was muted in FY09 partly due to delay in a large power distribution order. However, with the rapid expansion in order book, which is convertible in 24 months, we see revenue growth accelerating in the coming quarters. We forecast revenues to grow from Rs 18.8 bn in FY09 to Rs 30.2 bn in FY11.

- **Profit margins likely bottomed out in FY09.** EBITDA margins declined for the second consecutive year in FY09 to 11.8% mainly due to higher material prices, adverse revenue mix and forex fluctuation loss. We believe, EBITDA margins have bottomed out in FY09 as material prices have dropped after peaking out in H1FY09. While metal prices are rising they are still below the peak levels. The company is protected against sharp increase in raw material prices because of 60% of its orders have price escalation benefit.

- **Positioning itself as a infrastructure player.** KPTL's long-term vision is to become an infrastructure sector company and the company is adding new competencies in the areas of construction (through JMC Projects), pipelines and logistics. We believe, such a strategy would build diversified revenue streams thereby reducing dependence on one segment.

- **JMC to benefit from government's thrust on infrastructure sector.** KPTL holds has 53% stake in JMC projects, which is engaged in the construction sector. JMC has expertise in civil, industrial, commercial and bridges construction. KPTL has been able to turnaround operations at JMC. Through rights issue, KPTL has been able to strengthen the balance sheet of JMC, which has enabled the latter to build its order backlog, which now stands at Rs 22 bn. JMC reported 20% growth in PAT in FY09.

Valuation and Recommendation

We initiate coverage with BUY recommendation on Kalpataru Power with a price target of Rs.865

KPTL is currently trading at 14.1x and 10.4x FY10E and FY11E earnings respectively. On the back of strong order backlog, the earnings growth is forecast to grow at a CAGR of 39% over FY09-11. ROE is expected to rise from 14.3% in FY09 to 17.9% in FY11. We recommend a **BUY** with a target price of Rs.865. The target price is arrived based on combining the value of transmission tower business (Rs.811 based on DCF) and value of investment in JMC Projects (Rs.55 as market value of investment).

Concerns

- **KPTL's business is project-driven hence exposed to execution, price and interest rate risk.** KPTL's transmission tower project business faces risk of delay in execution in which case the company could be exposed to liquidated damages. Other risks include material price, interest rate and forex fluctuation.

- **Competition has intensified in past twelve months.** Owing to the overall slowdown in economic growth, several new players have now started to bid for transmission tower segment.

Background

Kalpataru Power Transmission is one of India's leading companies in the design, testing, fabrication, erection and construction of transmission lines (upto 800 KV) and substation structures on a turnkey basis across India and overseas. The company is also a major player in the exports market and has sold tower parts to Mexico, Algeria, Malaysia, Philippines, Thailand, Syria and Australia. Tower fabrication facility and tower testing facility are located in the state of Gujarat.

Promoters' background

Established player in transmission towers

Established over 4 decades ago in 1969 by Mr. Mofatraj P. Munot, a first generation entrepreneur, the Kalpataru Group has an asset base of over USD 300 Million and annual turnover of over USD 700 Million. The group has interests in real estate, contracting, international trading and services. Kalpataru Group is promoted by Munot family. Group companies include Kalpataru Constructions, Property Solutions and JMC projects.

Business Profile

Transmission Towers (88% of revenues)

KPTL has been in the Transmission towers business for the last 25 years and executed projects across the most challenging geographical locations across the world. The company has fully integrated operations in the power transmission business, with design, engineering, testing, fabrication, erection and construction capabilities. It has one of the largest tower testing stations in India of up to 800 KV towers, with 27 meters × 27 meters of base width and 85 meters of height. It also has one of the largest single-site tower fabrication capacities in India of 108,000 MTs per annum. Besides, the company owns tension stringing equipment machines and multiple tools and tackles.

Tower Fabrication Capacity

	MTPA
KECL	151000
Jyoti Structures	95800
Kalpataru	108000

Source: Company

Exports as % of sales in FY08

Company	% of sales
KECL	61
Jyoti Structures	26
Kalpataru	21

Source: Company

Nature of business segment	
Infrastructure	Tower fabrication facility of 108000 mt pa capacity
	Tower testing facility upto 800 KV
	Tension stringing equipment for conductors
Nature of contracts	Varies from fixed price turnkey projects to variable price contracts
	International projects are typically fixed price while domestic projects may allow for material price escalation
Key Success factors	Integrated infrastructure
	Efficient Receivables management
	Ability to price contracts based on risks associated with geographical conditions, materials prices and credit quality of client
Entry Barriers	Localized nature of competition
Key Risks	Material price fluctuation
	Delay in project could lead to liquidated damages
	Credit quality of client
	Topographical challenges could entail higher project costs

Source: Company

Over the years, transmission tower companies have diversified into overseas markets. Currently, 40% of KPTL's order backlog consists of overseas projects. Overseas contracts are fixed priced thereby entailing risk on material as well as foreign exchange front.

Recent order wins in Overseas markets

	USD
Ministry of Electricity and Water, Kuwait	250
Transco, Abu Dhabi	30
Sonelgaz, Algeria	81

Source: Company

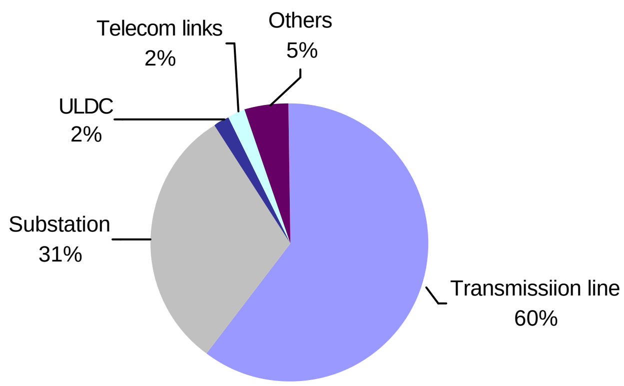
Overseas orders are fixed price while domestic orders have price escalation

Comparison

Area	Domestic	International
Tower design	Utility	Tower supplier
Nature of job	Tower supply and EPC	Full Lump sum turnkey
Escalation in raw materials	Price variation benefit	Fixed price
Retention money	released on bank guarantee	differs as per country

Source: Company

Cost mix of transmission line



Source: Company

Entered into Rural Electrification and distribution projects

In the power distribution business, KPTLs' scope of work involves engineering, procurement and construction of power distribution networks in rural India and electrifying villages.

KPTL is currently executing a Rs.9.9 bn rural electrification project for MSEDCL

These power distribution projects require supplies of concrete poles, conductors, insulators, structures, cables, energy meters, distribution transformers, lighting arrestors, stay sets, transformers, vacuum circuit breakers, control and relay panels, capacitor banks, isolators and batteries. KPTL's scope of work for these projects includes the provision of an 11/33 KV conductors, electric poles, distribution transformer centers and individual electric connections. It also entails the establishment of new and augmentation of existing 33 KV substations.

These projects are being funded by the Ministry of Power and Rural Electrification Corporation through State Electricity Boards (SEBs) and Power Grid Corporation of India Ltd (PGCIL). KPTL is currently executing Rs 9.9 bn project from MSEDCL. This is a feeder separation project which entails the construction of high tension and low tension power distribution lines and 11 KV bays.

We understand that KPTL's role in distribution projects is basically of the nature of project management as materials and equipments required for the project are entirely bought out. This segment is characterized by relatively lower margins (due to high level of bought-outs and low entry barriers) and high working capital intensity.

Infrastructure -making inroads into pipeline segment (9% of revenues)

Kalpataru has also diversified into the cross-country oil and gas pipeline sector. This is a specialized line of construction and demands stringent prequalifications norms. KPTL has tied-up with a Russian contracting Company JSC Zangas for meeting prequalification criteria. JSC Zangas is a leading pipeline network construction company, which has constructed more than 12,000 kilometers of pipelines in Europe, the Middle East, North Africa and Central Asia.

Higher availability of gas driving investment in pipeline projects

The company received its first breakthrough in pipeline business in 2005 and is currently working on its 28-48 inch 556 km Mundra-Bhatinda Pipeline project worth Rs 3.8 bn.

The company is qualified alongwith its partner for pipeline construction projects of upto 48 inches in diameter. Primary competition in the domestic market is from Punj Lloyd, L&T and Dodsal. The company on its own is qualified for a number of pipeline projects, but is going in consortium for long distance and high diameter pipelines. This segment requires specialized personnel and training

The major operations consist of clearing and grading the right-of-way, excavation, hauling the pipe to the place of laying, bending, lining up the succeeding joints, performing various welding operations, non-destructive inspection of welds, lowering the pipes into the ditch, backfilling the ditch, installing mainline valve stations, conducting hydro testing and performing final clean up.

Biomass Energy Division (2.6% of revenues)

KPTL currently owns and operates two power projects totaling 14.8 MW power plant base

KPTL currently owns and operates two power projects totaling 14.8 MW power plant based on bio-mass in Rajasthan. The second plant at Ganganagar has been commissioned in November 2006. The company sells power to Rajasthan Rajya Vidyut Nigam Ltd. In this business segment the critical parameter is the availability of raw material i.e, mustard husk, which is an agriculture-byproduct and hence susceptible to variations in demand and supply.

Eyeing growth in the Logistics segment

Ventured into cold storage warehousing

With acquisition of a 80% stake in a warehousing company, Shree Shubham Logistics, KPTL has invested Rs.800 mn in FY09 in scaling up this business. In the initial phase, the company plans to develop (commodity warehouses and cold storages) in major market towns of Rajasthan.

Construction sector

Construction business through JMC Projects

With a view to develop and exploit various competencies in the infrastructure sector, KPTL in FY05 bought a 48.6% stake in JMC projects, which is a leading player in the field of civil construction, at a cost of Rs.100 mn. Through subsequent equity infusions, the stake of KPTL in JMC projects has increased to 53%. JMC Projects has a good track record of executing construction projects and has a skilled manpower of 2000. JMC is mainly active in civil construction and industrial projects and is a strong player in New Delhi and Bangalore.

Major projects executed by JMC

- Civil work for Soda Ash plant near Bhavnagar
- Civil work for 228 MW plant at Jegurupadu for GVK
- Construction of elevated stations for DMRC
- Construction of new campus for IIMA
- Four-laning of Ahmedabad-Mehsana Road Project
- Industrial Turbine plant of Siemens at Vadodara

JMC's margins were under pressure in FY05 and in FY06 due to cost-escalation in its fixed price contracts. However, after coming under KPTL's fold, the company's financials have improved and ROE is up significantly.

Financials

(Rs mn)	FY05	FY06	FY07	FY08
Revenues	**3,502**	**1,420**	**5,002**	**9,150**
EBITDA	167.9	121.9	405.3	708.1
Depreciation	53.2	20.1	68.7	165.5
Interest	169	49	102	126
Other income	49.6	13.1	17.9	59.9
PAT	**-5**	**66**	**160**	**307**
Net Worth	359	372	1237	1453
Debt	770	571	629	1128
WC	714	342	967	1048
Gross Block	725	817	1265	2310
EBITDA (%)	4.8	8.6	8.1	7.7
ROE (%)	-1.7	18.0	19.9	22.8

Source: Company

KEY GROWTH DRIVERS

Acceleration in power generation capacity driving investment in transmission capacity

Power Transmission Sector

Investment in transmission line driven by new power generation capacities and PGCIL's plan of raising inter-regional power transfer capacity to 37,000 MW 2012 from 20700 MW currently

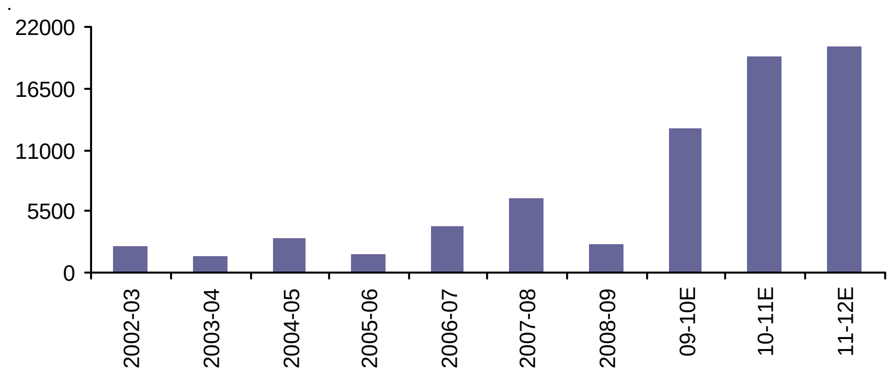
The Indian power system is divided into five regions-northern, southern, western, eastern, and northeastern. Except for the eastern and northeastern regions, all the regions are presently facing power shortages in the range of about 300-6,000 MW. Considering the generation addition program up to FY2012, there will surplus in the eastern region but deficits in other regions. Hence, the northern, western, and southern regions will need to import power to a large extent from the northeastern and eastern regions to reduce their deficit situation. Therefore, development of strong interregional links (National Grid) connecting the northeastern and eastern regions to all other regions is needed. While the state governments are responsible for the intrastate transmission system, PGCIL is entrusted on the creation of a national grid in a phased manner by adding over 60,000 circuit kilometers (ckm) of transmission network by 2012.

Investment in Transmission projects have been driven by the following

- **Generation-linked transmission projects,** to facilitate the transfer of power from a specific new interstate or inter-regional generation project to its intended beneficiaries. The Indian power generation sector is slated to witness a quantum addition in thermal power as projects of 52618 MW (as against 12114 MW in the Xth plan) are planned for completion in the remaining three years of the 11th plan. A huge chunk of the planned generation capacity addition is located in the eastern and central region while the main consumption centres are in the West, North and South. In addition, several IPPs have applied to PGCIL for grant of long-term open access to transmit power during the XIth and XIIth plan. This necessitates the establishment of high power capacity evacuation system.

Thermal capacity added and under implementation MW

Significant power generation capacity additions expected at the end of XIth plan to drive investment in transmission lines



Source: CEA, Kotak Securities - Private Client Research

- Grid-strengthening projects, to strengthen power transfer capacity and add to reliability and security; and
- Inter-regional transmission projects, to strengthen power transfer capacity between regions and allow for inter-regional power exchanges. This plan includes the goal of raising inter-regional power transfer capacity to 37,000 MW 2012 from 20700 MW currently.

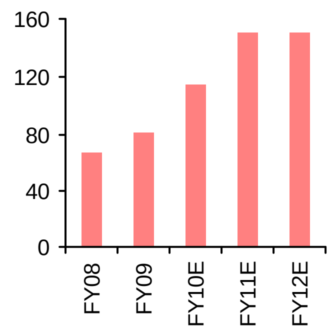
Development of transmission lines in India

Outlay Rs bn	9th plan	10th plan	XIth plan till Mar 09
Share of Central sector	41217	66579	80243
Share of State sector	110252	131828	142503

Source: CEA

The GoI's Eleventh Five Year Plan commenced on April 1, 2007. PGCIL is the prime investment entity for the development of inter-regional power transmission network. PGCIL plans to invest Rs. 550 billion on transmission infrastructure during this five-year period.

PGCIL Capex (Rs bn)



Source: Company, Kotak Securities - Private Client Research

The investment programme by PGCIL has been running behind schedule partly due to the delay in completion of generation projects. To complete its 11th plan target of development of transmission grid, PGCIL has envisaged an investment of Rs 550 bn. At the end of Mar 09, the company had invested Rs 147 bn and needs to accelerate its investment in FY10-12 period to be able to meet its target. We thus expect an increase in ordering activity in FY10.

Investment in transmission sector in XIth plan

	(Rs bn)	% share
Transmission lines	854	61
Sub-station	546	39
Total	1400	

Source: CEA

Power Distribution

The investment in power distribution is driven by the need for reduction in T&D losses which are in some region as high as 30-35%. Apart from this, the government has launched rural electrification programme which is creating opportunities for EPC players like Kalpataru Power.

Investment in power distribution projects driven by Government's thrust on rural electrification

To further strengthen the pace of rural electrification and with an objective to electrify all villages and rural households in five years, the Government of India launched Rajiv Gandhi Grameen Vidyutikaran Yojana. RGGVY aims to create rural electricity distribution backbone through providing for sub-stations, distribution transformers and decentralized distribution generation system where grid supply is not feasible. The RGGVY scheme identified that 1.15 lac unelectrified villages for electrification over the Xth and XIth plan. So far, only 61209 villages have been electrified, indicating continued scope for investment in the coming years.

The distribution segment continues to throw up opportunities for participation in rural electrification, feeder separation and renovation and modernization.

RGGVY Programme

	Xth plan	Xith plan
Projects (nos)	235	327
Project cost Rs bn	97.3	162
Project sanctioned in X & Xith plan Rs bn		260
Amount disbursed Rs bn		149

Source: Powermin.nic.in

Pipeline segment holds huge potential

Pipeline transportation is the most cost-efficient mode of transportation of petro-products

Pipeline transportation is the most cost-efficient mode of transportation of petro-products. Despite this, only 30% of petro-products is transported through pipeline in India, this ratio is 60% in developed countries. Considering the global trend of shift in energy axis from oil to gas, the share of gas in consumption pattern is expected to rise. The demand for natural gas in the country is expected to grow from 196 mmscmd in 2008-09 to about 279 mmscmd by 2011-12 as per report of working group on petroleum and natural gas. The total gas supply is expected to increase to more than 191 mmscmd by 2011-12. This increased demand is expected to result in the need for an extensive gas transportation pipeline infrastructure.

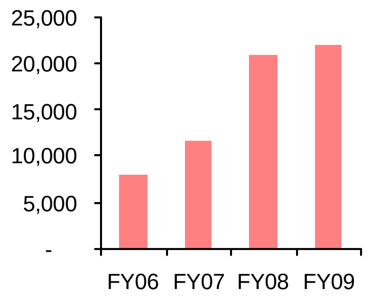
GAIL has plans to complete seven new gas pipelines spread over 6200 kms at an estimated capex of Rs 280 bn by FY12. This would double its current gas pipeline network to over 12000 kms. The major pipelines planned are Jagdiswar-Haldia and Dabhol-Bengaluru pipeline.

JMC on profit growth trajectory

JMC has an order backlog of Rs.22bn

Due to the conscious thrust of the Government of India (GoI) on improving the state of physical infrastructure, the construction industry is experiencing a great surge in the quantum of workload. Significant demand is expected to come up from power, ports, urban infrastructure, railways, roads as well as irrigation. JMC Projects, a established player with presence in diverse segments, is set to benefit from the increased investments in each of them.

JMC's order book (Rs mn)



Source: Company

Construction sector investments

(Rs bn)	2001-06	2007-12
Real Estate	10218	18517
Housing	9810	17338
Commercial	408	1179
Industrial	612	1826
Infrastructure	3213	6129

Source: Crisil

After being taken over by KPTL, the operations of JMC have turned around. KPTL has infused fresh equity into the company thus bringing its net worth close to a healthy Rs 1.8 bn. This has enabled JMC to bid for more projects and as a result its order backlog has consistently expanded and now stands at Rs 22 bn.

Competitive Scenario is intensifying

The transmission line business has been mainly dominated by KEC, Jyoti Structures and KPTL. However, in recent months, robust investment pipeline in the transmission sector is attracting new players including Sujana Towers and Emco. Even L&T has increased its presence in the sector. This is clearly resulting in increase in competitive intensity especially for 400 KV and below transmission line orders. In such a scenario, margin gains can only come from operating efficiencies and correct assessment of project costs and risks.

New players are entering transmission towers business

KPTL has built a diversified mix of revenues from domestic and international geographies. The overseas projects account for 40% of order mix. KPTL's strength is in execution of large projects on EPC basis in domestic and international geography and across different topographical profile.

ORDER BOOK ANALYSIS

Order book provides revenue visibility of 32 months

The total order book of the company stands at Rs 50 bn which has increased 61% in FY09. During the previous fiscal, the company received several major orders in the international and domestic market. The company won a Rs 12.5 bn EPC contract for 172 kms transmission line project. This is a fixed price contract, which the company had bid when the steel prices were ruling firm. KPTL expects this project to generate decent profits in light of the softness in steel prices.

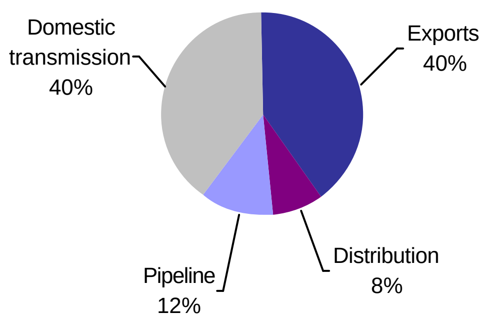
Share of Power Distribution projects has declined to Rs 4.0 bn (8% of order book) from Rs 12.0 bn at the beginning of FY09. We expect this to have a salutary impact on profitability in FY10-11 as the Rs 10 bn distribution project is expected to be completed by September 2009.

Some major orders won in FY09

	Rs mn	Execution period (mths)	kms
Powergrid (TL)	3730	27	413
Hind Mittal Energy-Mundra Bhathinda pipeline	3850	18	550
Powergrid 400/765 KV (TL)	3990	22	
EHV, Sonelgaz, Algeria (TL)	4000	8 to 15	500
Ministry of Electricity and Water, Kuwait (TL)	12500	24	172

Source: Company

Order mix (%)



Source: Company

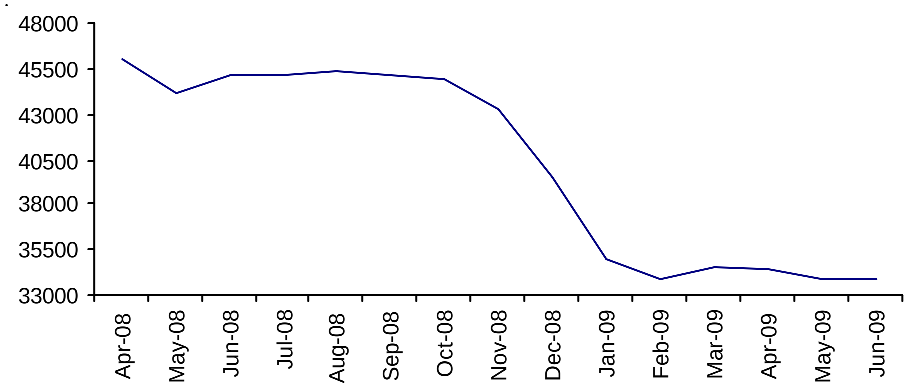
Earnings and Revenue Outlook

FY09 results

FY09 profits lower because of margin pressure and higher interest expenses

- Revenues for the fiscal grew 8.3% due to sluggish growth in order inflows from transmission line towers segment in FY08 and delay in Rs 9.9 bn feeder separation project Phase II.
- The feeder separation project commenced in Oct 2007 and was scheduled for completion in Dec 2008, but has been delayed and is now expected to be completed in Sep 2009. The project has been financed by REC.
- KPTL has received substantial flak from the Maharashtra Government for delay in project and poor quality of work. KPTL has clarified that the delays in the said project were due to factors like delay in receiving right of way and design and scope changes from the client's end. This project did not involve any advance payment and cash receipts are back-ended ie on completion of project. This explains much of the expansion in KPTL's working capital.
- KPTL has indicated that the scope of work has been reduced and close to Rs.3.5-4.0 bn of balance work is remaining which it is expected to complete by September 2009.
- EBITDA margins declined to 11.8% in FY09 (from 14.6% in FY08) as a result of higher material prices eroding profitability coupled with higher share of revenues from the power distribution segment.

HR coil price in Rs/ton



Source: Bloomberg

Interest expenses rose 62% as higher working capital was financed by borrowings which rose from Rs 3.25 bn in FY08 to Rs 6.5 bn in FY09.

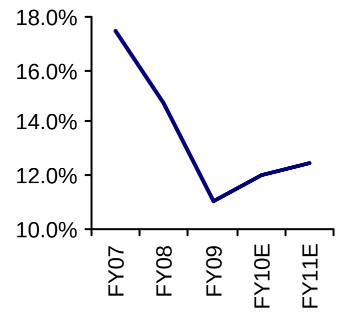
KPTL enjoys lower tax rate due to its EOU facility for making transmission towers and income from sale of Power, which is tax exempt.

Segment Margins

(%)	FY06	FY07	FY08	FY09
Transmission Towers	12.0	15.8	15.3	9.9
Biomass based Power	32.6	29.1	32.5	26.5
Infrastructure	3.9	8.5	12.8	10.6
Total	**12.8**	**15.3**	**15.3**	**10.4**

Source: Company

EBITDA margins (%)



Source: Company, Kotak Securities - Private Client Research

Earnings Outlook

- We expect revenue to grow 26% and 27% in FY10 and FY11 respectively mainly driven by order backlog of Rs 50 bn which is up 61% and provides revenue visibility for 31 months based on trailing four quarter revenues. The execution period of the order backlog is 24 months.
- Revenue growth would be driven by transmission line tower business. We expect share of power distribution to decline as the company has only Rs 4.0 bn of unexecuted orders at the end of FY09.

Revenues

	FY09	FY10E	FY11E
Transmission Towers	16,653	21,264	27,390
Energy	485	510	535
Infrastructure	1,724	1,982	2,280
Total	**18,862**	**23,756**	**30,205**

Source: Company, Kotak Securities - Private Client Research

- We expect EBITDA margins to remain stable at 12.0% in FY09. Lower material prices and reduced share of power distribution projects could provide upsides to margin assumptions. Fixed price projects form 40% of the order backlog and most of these projects have been bid when the steel prices were ruling higher. With the subsequent softening in steel prices, the company stands to gain on margin front.

Earnings CAGR of 39% over FY09 -FY011

- Domestic orders won from PGCIL and SEBs have a built-in price escalation clause. Hence, the profitability of domestic orders are largely material price neutral. However, overseas orders are fixed price based and hence transmission line EPC companies have to take a call on movement of metal prices and also build in some buffer for any unforeseen spike in metal prices.
- If metal prices are to witness a rebound in coming months, then the profitability of domestic orders would remain largely unaffected. The profitability on the overseas orders which are fixed prices would also be protected as these projects were bagged when metal prices were high and hence should have adequate buffer against any metal price rise.
- We forecast interest expenses to stabilize in FY10 as the completion of feeder separation project would release working capital.
- The company is planning capex of Rs 0.9 bn towards purchase of equipment for its overseas transmission tower, infrastructure and pipeline business.
- Consequently, earnings are expected to grow at a CAGR of 39% between FY09-11.

Quarterly Results

Muted numbers yoy but substantial improvement on a sequential basis

KPTL reported flat revenues mainly aided by the pipeline division which grew 62% yoy. The transmission line division reported 6% decline yoy. EBITDA margins remained stable on a yoy basis but expanded significantly on a sequential basis. The company has an order backlog of Rs 48 bn. The management has guided for a revenue growth of 25-30% in the current fiscal.

Margins rebouded on a sequential basis

Quarterly performance

(Rs mn)	Q1 FY10	Q1 FY09	YoY (%)	Q4 FY09	QoQ (%)
Net Sales	**4,873**	**4,758**	**2**	**5,584**	**(13)**
Other Income	64	51	27	69	(7)
Raw Material costs	1,972	2,524	(22)	3,064	(36)
Staff costs	323	279	16	308	5
job charges	1,470	957	54	1,135	30
Other expenditure	523	431	21	499	5
Total Expenditure	4289	4190	2	5,006	(14)
PBIDT	**584**	**568**	**3**	**579**	**1**
Interest	140	158	(11)	302	(54)
PBDT	**508**	**461**	**10**	**5862**	**(91)**
Depreciation	82	60	36	76	7
PBT	**427**	**401**	**6**	**5785**	**(93)**
Tax	106	111	(5)	39	174
Reported Profit After Tax	321	290	11	232	38
EPS (Unit Curr.)	**12.1**	**10.9**	**11**	**8.8**	
PBDIT (%)	12.0	11.9		10.4	
Raw material costs to sales (%)	40.5	53.0		54.9	
job charges to sales (%)	30.2	20.1		20.3	
Staff costs to sales (%)	6.6	5.9		5.5	
Other expenditure to sales (%)	10.7	9.1		8.9	
Tax rate (%)	24.8	27.7		0.7	

Source: Company

JMC Projects posts healthy numbers in a difficult environment

- JMC reported 43% rise in revenues during FY09 aided healthy order book at the beginning of the year.
- EBITDA margins expanded 30 bps despite pressure from the material price front.
- Interest costs rose sharply due to general firming up of interest rates and higher working capital borrowings.
- PAT for the year grew 20% partly shored by deferred tax assets.
- The company has ended the year with a order backlog of Rs 22 bn, which provides revenue visibility of 20 months.
- JMC now plans to raise Rs 400 mn through rights issue. The objective is to meet redemption obligation of non-cumulative redeemable preference shares and for long-term working capital requirements.
- We have a moderate growth outlook on the company.

JMC Projects

(Rs mn)	FY08	FY09	FY10E	FY11E
Net Sales	**9,150**	**13,122**	**14,434**	**16,599**
Total Expenditure	8,479	12,128	13,351	15,354
PBIDT	**671**	**994**	**1,083**	**1,245**
Other Income	57	71	10	15
Interest	86	247	284	327
PBDT	**642**	**818**	**808**	**933**
Depreciation	166	298	360	395
PBT	**476**	**519**	**448**	**538**
Tax	170	152	134	161
Reported Profit After Tax	**306**	**367**	**314**	**377**
Revenue growth (%)			10	15
EBITDA (%)	**7.3**	**7.6**	**7.5**	**7.5**
Tax rate (%)	35.7	29.3	30.0	30.0
Shares Outstanding mn	18.1	18.1	18.1	18.1
EPS Rs/Share	16.9	20.3	17.3	20.8

Source: Company, Kotak Securities - Private Client Research

JMC Projects

(Rs mn)	Q1FY10	Q1FY09	YoY (%)
Net Sales	**2,921**	**3,128**	**-6.6**
Total Expenditure	2,686	2,923	-8.1
PBIDT	**235**	**205**	**14.6**
Other Income	0.5	21.4	-97.7
Interest	60.9	42.3	44.0
PBDT	**175**	**184**	**-5.2**
Depreciation	84	63.8	31.7
PBT	**91**	**120**	**-24.8**
Tax	25.6	41.1	-37.7
Reported Profit After Tax	**65**	**79**	**-18.1**
PBDIT (%)	8.0	6.6	
Tax rate (%)	28	34	

Source: Company

Consolidated P&L

(Rs mn)	FY08	FY09	FY10E	FY11E
Net Sales	**26,856**	**32,591**	**38,190**	**46,803**
PBIDT	3,215	3,211	3,945	4,914
Other Income	144	216	260	265
Interest	485	1,151	1,240	1,371
PBDT	**2,874**	**2,275**	**2,964**	**3,807**
Depreciation	389	576	701	782
PBT	**2,485**	**1,700**	**2,263**	**3,025**
Tax	688	417	588	808
Reported Profit After Tax	**1,797**	**1,283**	**1,675**	**2,217**
Minority interest	-148	-173	-151	-181
PAT after minority interest	**1,649**	**1,109**	**1,524**	**2,037**
EPS Rs per share	62.2	41.9	57.5	76.8
PE (x)	**11.6**	**17.3**	**12.6**	**9.4**

Source: Company, Kotak Securities - Private Client Research

VALUATION

KPTL is currently trading at 14.1x and 10.4x FY10E and FY11E earnings respectively. We recommend KPTL due to the following factors

- Comfortable order book of Rs.48 bn as of Q1FY10, equivalent to 31 months of FY09E revenues.
- KPTL holds 53% stake in JMC projects. We have valued the company's holding in JMC at Rs 55 per share. Adjusted for this, KPTL is trading at 13x FY10 earnings.

Since KPTL has diversified business portfolio with the standalone business of transmission towers and a substantial interest in JMC projects, the sum of the parts methodology is the most appropriate. We have valued the transmission towers business at Rs.811 on the basis of DCF, implying 16x FY10 earnings of Rs.51. Adding Rs.55 per share as value of its stake in JMC projects, we arrive at a target price of Rs.865 per share.

DCF valuation per share (Rs mn)

PV of FCF	27,580
surplus cash	-6,102
Shareholders' Value	21,478
Value per share	811

Source: Kotak Securities - Private Client Research

DCF valuation

Free Cash Flow to Firm

(Rs mn)	2011E	2012E	2013E	2014E	2015E	2016E	2016E	2017E
PAT	**1,841**	**2,239**	**2,404**	**2,715**	**3,059**	**3,493**	**3,893**	**3,911**
Depreciation	387	410	435	461	488	518	549	582
Int	773	790	783	810	838	880	924	970
Capex	(600)	(410)	(435)	(461)	(488)	(518)	(549)	(582)
NWC change	(1,217)	(381)	(1,569)	(1,152)	(1,935)	(2,167)	(2,023)	(1,335)
FCFF	**1,183**	**2,648**	**1,618**	**2,373**	**1,962**	**2,206**	**2,794**	**3,546**
Discounted Value	1,084	2,129	1,141	1,468	1,064	1,050	1,167	1,299

Source: Kotak Securities - Private Client Research

Assumptions

Adjusted beta	1.0
Risk free rate (%)	7.5
Market Risk Premium (%)	6.5
Cost of Equity (%)	14.0
Cost of Debt (%)	9.5
WACC (%)	11.9
Terminal growth (%)	4.0

Source: Kotak Securities - Private Client Research

Sensitivity analysis

Terminal / WACC (%)	10.9	11.9	12.9
3	801	732	672
4	901	811	735
5	1034	912	814

Source: Kotak Securiites - Private Client Research

Concerns

- KPTL's business is project-driven hence exposed to execution, price and interest rate risk
- KPTL's transmission tower project business faces risk of delay in execution in which case the company could be exposed to liquidated damages. Other risks include material price, interest rate and forex fluctuation.
- Competition has intensified in past twelve months
- Owing to the overall slowdown in economic growth, several new players have now started to bid for transmission tower segment.

FINANCIALS: STANDALONE

Profit and Loss Statement (Rs mn)

Year end March	FY08	FY09	FY10E	FY11E
Revenues	**17,376**	**18,825**	**23,756**	**30,205**
% change yoy	14	8	26	27
EBITDA	**2,540**	**2,227**	**2,862**	**3,669**
% change yoy	(4.5)	(12.3)	28.5	28.2
Depreciation	218	273	341	387
EBIT	**2,322**	**1,954**	**2,521**	**3,282**
% change yoy	(6.8)	(15.8)	29.0	30.2
Net Interest	548	853	956	1,044
Other Income	215	308	250	250
Earnings Before Tax	1,989	1,408	1,815	2,487
% change yoy	(9.0)	(29.2)	28.9	37.1
Forex (loss)/gain	26.5	(202.5)	-	-
Tax	542	293	454	647
as % of EBT	27.3	20.8	25.0	26.0
Net Income adj	**1,473**	**913**	**1,361**	**1,841**
% change yoy	(7.6)	(38.0)	49.0	35.2
Shares outstanding (m)	26.5	26.5	26.5	26.5
EPS (Rs)	55.6	34.5	51.4	69.5
DPS (Rs)	7.5	7.5	7.5	7.5
CEPS	64.8	45.9	64.2	84.1

Source: Company, Kotak Securities - Private Client Research

Balance Sheet (Rs mn)

Year end March	FY08	FY09	FY10E	FY11E
Cash and cash equivalents	892	445	307	485
Accounts receivable	6,507	9,772	10,088	12,827
Stocks	1,537	2,369	3,254	3,724
Loans and Advances	1,512	3,118	3,274	2,567
Others	2,857	3,553	4,264	4,954
Current Assets	13,304	19,257	21,187	24,556
LT investments	1,475	1,268	1,268	1,268
Net fixed assets	2,246	2,684	3,243	3,456
Total Assets	**17,025**	**23,209**	**25,698**	**29,280**
Payables	5,131	7,214	7,932	9,792
Others	861	950	1,140	1,255
Current liabilities	5,992	8,165	9,072	11,046
LT debt	3,259	6,547	7,000	7,000
Other liabilities (deferred tax+minority int)	97	128	128	128
Equity & reserves	7,678	8,370	9,498	11,106
Total Liabilities	**17,025**	**23,209**	**25,698**	**29,280**

Source: Company, Kotak Securities - Private Client Research

Cashflow Statement (Rs mn)

Year end March	FY08	FY09	FY10E	FY11E
PBDIT	2,540	2,227	2,862	3,669
Tax and adjustments	(583)	136	(454)	(647)
Cash flow from operations	1,957	2,364	2,409	3,022
Net Change in WC	(1,785)	(4,227)	(1,161)	(1,217)
Net Cash from Operations	**172**	**(1,863)**	**1,248**	**1,805**
Capital Expenditure	(382)	(712)	(900)	(600)
Cash from investing	1,014	515	250	250
Net Cash from Investing	**632**	**(197)**	**(650)**	**(350)**
Interest paid	(548)	(853)	(956)	(1,044)
Issue of Shares	-	-	-	-
Dividends Paid	(232)	(233)	(233)	(233)
Debt Raised	41	3,289	453	-
Net cash from financing	**(740)**	**2,203**	**(736)**	**(1,277)**
Net change in cash	64	142	(138)	178
Free cash flow	(210)	(2,575)	348	1,205
Cash at end	892	445	307	485

Source: Company, Kotak Securities - Private Client Research

Ratio Analysis

Year end March	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	14.6	11.8	12.0	12.1
EBIT margin (%)	13.4	10.4	10.6	10.9
Net profit margin (%)	8.5	4.9	5.7	6.1
EPS growth (%)	-7.6	-38.0	49.0	35.2
Receivables (days)	136.7	189.5	155.0	155.0
Inventory (days)	32.3	45.9	50.0	45.0
Sales / Net Fixed Assets (x)	7.7	7.0	7.3	8.7
ROE (%)	20.9	14.3	15.2	17.9
ROCE (%)	22.2	15.0	15.9	18.8
EV/ Sales (x)	1.2	1.3	1.1	0.9
EV/EBITDA (x)	8.5	11.3	9.0	7.0
Price to earnings (x)	12.8	20.3	14.1	10.4
Price to book value (x)	2.6	2.4	2.1	1.8
Price to cash earnings (x)	11.2	15.7	11.3	8.6

Source: Company, Kotak Securities - Private Client Research

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Disclaimer

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