

Pick of the week



Kalpataru Power Transmission Ltd

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 332

Target Price

₹ 590

Potential Upside

77.7%

Investment Argument

- Kalpataru Power Transmission Ltd (KPTL) (standalone) reported an increase of 15%/13%/23% yoy in 3QFY20 revenues/EBITDA/PAT. Its subsidiary Shubham logistics continues to make PBT losses and the company expects it to turn PBT positive from 4QFY20 while other subsidiary JMC Projects revenues were led by a strong order book.
- Working capital has moved up during the quarter on incremental vendor support across all segments resulting in lower creditor days as well as build-up of receivables from some projects. This resulted in increasing net debt by Rs. 3 bn yoy to Rs. 9.96 bn. This is expected to come down from the monetization proceeds of power transmission assets during FY20/FY21. KIE expects the company to become debt free by FY22.
- KPTL expects order inflow to ramp up from GEC (Green Energy Corridor) phase-2 tendering, state utility boards, railways and international geographies especially African and Nordic countries. It expects to maintain a market share of 15-16% in the upcoming bids. KIE has revised its order inflow estimates and expects order inflow to grow by 10%/12% in FY21/FY22.
- KPTL has already sold its three power transmission assets during 1QFY20 to CLP India at 2X invested book. With a total investment of around Rs. 5.5-6 bn as equity on full completion of these projects, it will receive nearly Rs. 11.5-12 bn. During the quarter, KPTL completed the sale of its entire stake in Kalpataru Satpura Transco. Transaction for the remaining assets is expected to be completed between 4QFY20-2QFY21.
- JMC Projects is targeting to monetize two road projects in a year and expects to refinance debt of two projects having a larger tail period. Post refinancing, it expects to save Rs. 250-300 mn, which is going as a funding support to these projects.
- KIE has revised standalone FY2020/21/22 estimates by 3%/5%/8% on lower ordering estimates. Net of roll forward, KIE has given the fair value of Rs. 590. The key overhang for the stock would be the pledged shareholding by promoters and selling of shares to fund real estate projects. The company doesn't expect pledging to go up from current levels in the near term.