

26 July 2024

## Kalpataru Projects – BUY

**CMP** : Rs. 1,360  
**Target Price** : Rs. 1,635  
**Upside** : 20%+  
**Stop Loss** : Rs. 1,170 (Closing basis)

### Investment Thesis

- Kalpataru Projects International Ltd. (KPIL) is a well-known EPC player (Engineering, Procurement, and Construction) with a significant market share in local and foreign markets. Its addressable market has continuously grown in the T&D (Power Transmission and Distribution), B&F (Building and Factories), and water sectors.
- KPIL's merger with JMC allowed it to bid on more complicated projects and enabled cost optimisation across all divisions. Strong investment at both domestic and international in the T&D space and rising traction across B&F and Oil & Gas segments should further improve KPIL's order book.
- KPIL is in a good position to gain from the significant investments made in real estate launches, water supply projects, oil and gas pipelines, urban infrastructure development and power T&D projects.
- PGCIL (Power Grid corporation Ltd. ) accounts for 70-80% of ISTS projects, and KPIL holds around 15.20% market share within this segment which translates into an opportunity base of Rs1tn over the next 8 years' time period. This provides a strong opportunity and visibility for order execution for KPIL going ahead.
- KPIL has established a strong presence in the international EPC market. KPIL's expansion into Saudi Arabia, Dubai, and select African countries, along with strategic acquisitions in Europe and Latin America, has positioned it for potential growth. Despite subdued performances in FY23, both European and Latin America subsidiaries, have experienced increased order inflows in FY24 due to a resurgence in capital expenditure and positive market outlook in respective markets. This positions KPIL to capitalize on the opportunities and drive further growth in the industry.
- Power demand in India is expected to experience high growth over the next decade which will necessitate substantial power generation, T&D, and substation capacities. The Central ordering through PCGIL is expected to see material growth in coming years due to the development of green energy corridors and installation of high KVA lines which will improve order intake and order execution for KPIL.

### Financials

- Revenue grew by 20% YoY to Rs.19,626 Cr. led by strong execution & diversified business mix.

Particulars	FY22	FY23	FY24	FY25E	FY26E
Revenue (Rs in Crs)	14,777	16,361	19,626	24,337	29,204
EBITDA (Rs in Crs)	1,569	1,654	1,878	2,190	2,628
EBITDA margin %	10.6%	10.1%	9.6%	9.0%	9.0%
Adj. PAT (Rs in Crs)	540	441	510	726	946
Adj. EPS (Rs.)	36.3	27.1	31.4	44.8	58.4
PE Multiple (x)	37.5	50.1	43.3	30.4	23.3

### Stock Data

Market Cap (Rs. Crs)	22,085
Market Cap (\$ Mn)	2,637
Shares O/S (in Mn)	162
Avg. Volume (3 month)	7,50,760
52-Week Range (Rs.)	1,428 / 574

### Shareholding Pattern

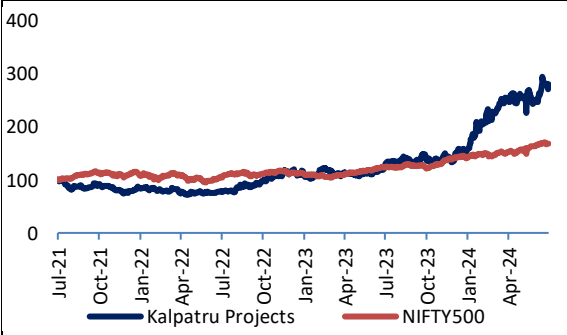
Promoters	35.24%
FII's	10.06%
Institutions	45.61%
Public	9.09%
Others (incl. body corporate)	0.00%

### Key Ratios

Div Yield	0.60%
TTM PE	43.30x
ROE	10.40%
TTM EPS (Rs.)	31.40/-

### Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	13.3%	18.3%	131.1%
NIFTY500	2.8%	17.8%	35.9%



- KPIL reposted sustained quality of earnings despite cost headwinds, reported EBITDA at record high of Rs.1,628 Cr., up by 19% YoY with EBITDA margin of 8.3% for FY24.
- KPIL reported order book of Rs. 58,415 Cr. fueled by robust business activity in T&D, Oil & Gas and civil construction. Order worth Rs.30,022 Cr. secured in FY24 (up 19% vs FY23).
- KPIL reported improved operating cash flows on back of robust working capital management & project closures.

## Key Business Highlights

- Kalpataru Projects International Ltd. is a global EPC player with diversified interest in power transmission and distribution, oil and gas pipeline, railways and biomass based power generation with a 30-year history. They handle design, testing, fabrication, erection, and construction on a turnkey basis. KPIL has manufacturing facilities in India with an annual production capacity of 240,000MT of transmission towers and an ultra-modern testing facility. KPIL has a presence in 63 countries and has expanded into Europe and Latin America through subsidiaries. KPIL's T&D business has presence in countries like Africa, CIS countries, the Middle East, SAARC, AsiaPacific, Europe, and America.
- KPIL's order book stands at a decadal high of Rs. 58400 Cr., 3x of FY24 sales. FY24 order inflow grew by 27% YoY led by huge oil and gas pipeline order worth Rs7000 Cr. from Aramco in Saudi Arabia. The major business sectors of KPIL are Power T&D, B&F, and O&G account for 88% of the total order backlog, with 48% coming from overseas orders.
- In the T&D business, KPIL has secured record order inflows of over Rs. 11,150 Cr. with order booking in the domestic market up by 48% in FY24. The T&D order book has reached Rs. 20,678 Cr. at the end of March 24. In terms of revenue, the T&D business saw a 30% YoY growth driven by strong project progress and a healthy order book.
- The LMG Sweden business witnessed strong momentum with order inflows of Rs. 1,656 Cr., a growth of over 150% compared to FY23. LMG's order book stands at Rs. 2,000 Cr. In FY24, its Brazil subsidiary Fasttel achieved a revenue growth of around 60%. Order inflows have nearly doubled in FY24 compared to last year, reaching a total of Rs. 1,400 crores, resulting in a closing order book of around Rs. 1,500 Cr.

## Valuation

With strong order backlog of Rs. 58400 Cr. and an average execution timeline of 2-3 years, we expect the company to yield a revenue CAGR of 22.5% over FY24-FY26E period. **We recommend BUY on the stock with a TP of Rs1,635, valuing it at 28x FY26E P/E.**

## Risk & Concern

- Infrastructure projects involve complex design and engineering, significant procurement of equipment and supplies, extensive construction management, and other activities conducted over extended periods, sometimes in remote locations. This could lead to cost and time overruns, thereby impacting its profitability. Also it faces the risk of being blacklisted due to quality or delay issues.

## Graphs & Charts

Figure 1: Revenue (Rs. In Cr)

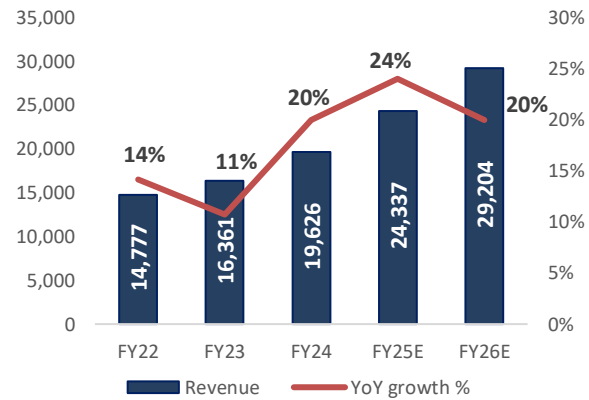


Figure 2: Order Book (Rs. In Cr)

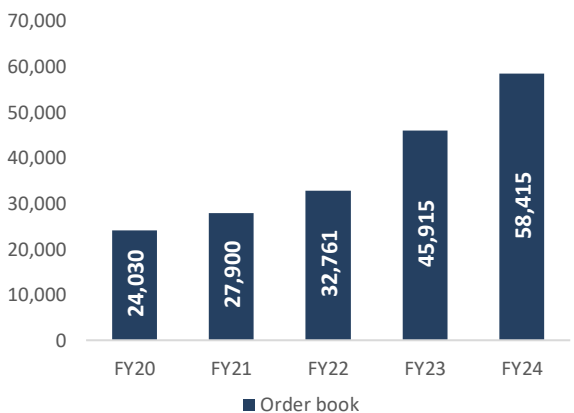


Figure 3: Order Book Classification

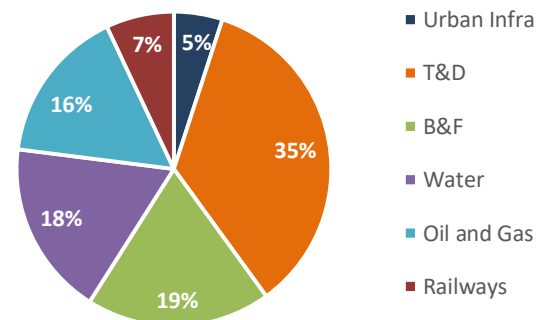
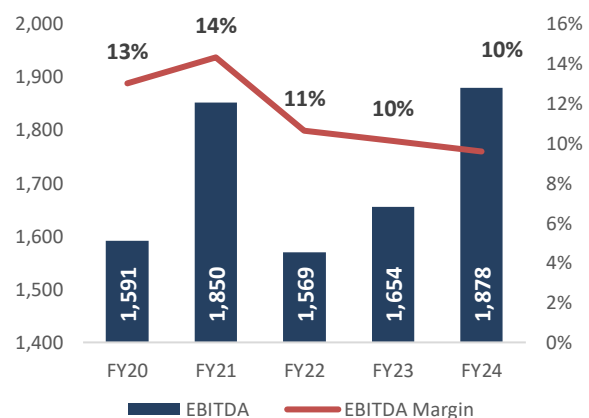


Figure 4: EBITDA and EBITDA Margin



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