

Kalpataru Projects

BSE SENSEX
73,651

S&P CNX
22,327

CMP: INR1,070
TP: INR1,200 (+12%)
Buy


Bloomberg	KPIL IN
Equity Shares (m)	162
M.Cap.(INRb)/(USDb)	173.8 / 2.1
52-Week Range (INR)	1163 / 485
1, 6, 12 Rel. Per (%)	7/56/67
12M Avg Val (INR M)	298

Financials & Valuations (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Net Sales	171.1	212.3	264.8
EBITDA	14.1	19.0	24.7
PAT	5.7	8.7	12.2
EPS (INR)	34.6	53.4	74.7
GR. (%)	14.8	54.5	39.8
BV/Sh (INR)	352.9	399.4	467.1

Ratios

ROE (%)	10.2	14.2	17.2
RoCE (%)	9.3	12.0	14.0

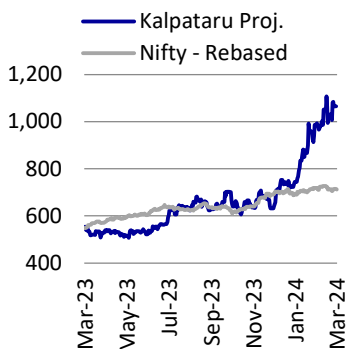
Valuations

P/E (X)	30.8	19.9	14.3
P/BV (X)	3.0	2.7	2.3
EV/EBITDA (X)	14.1	10.8	8.4
Div Yield (%)	0.7	0.7	0.7

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	40.6	41.1	51.5
DII	43.8	42.7	37.1
FII	7.7	8.5	5.5
Others	7.9	8.3	5.9

FII Includes depository receipts

Stock Performance (1-year)

Ticking the right boxes

In our recent interaction, the management of Kalpataru Projects International (KPIL) highlighted notable improvements in its domestic T&D prospect pipeline and inflows of large orders from the Middle East in the oil and gas (O&G) sector. These factors provide long-term revenue visibility for KPIL, with transmission, urban infra and O&G being key growth drivers. Factoring in inflows from the Middle East, we raise our FY26 estimates by 12%. Pledging by promoters as a percentage of total shares has come down to 12.8% in Mar'24 from 17.5% in Dec'23 and 26.6% in 1QFY23, which we believe is resulting in valuation re-rating of KPIL. Our revised SoTP-based TP stands at INR1,200, taking into account core business valuation at a slightly higher multiple of 16x Mar'26E EPS. We maintain BUY on KPIL.

Large order wins in O&G segment to drive earnings growth

KPIL has received a letter of intent (LoI) from Saudi Aramco for EPC of the third expansion phase of MGS-3. Saudi Aramco has divided EPC work on the MGS-3 project worth USD10b into 17 packages. MGS enables Saudi Aramco to utilize all the gas it produces domestically, mainly consumed by power generation, petrochemical and refining industries, cement and desalination plants, and fertilizer and steel-making facilities. The first two packages involve upgrading existing gas compression systems and installing new gas compressors. The 15 other packages are related to laying gas transport pipelines across various locations in the kingdom. KPIL is awarded three packages – 13, 15, 17. The tentative order value, as per industry estimates, is around USD850-950m and the execution period is 36-42 months. The company targets EBITDA margins of 8-10% and a working capital cycle much lower than that of the domestic segment. We bake in this order in our estimates and expect execution to commence from FY25 and ramp up sharply from FY26.

Improving addressable market for domestic T&D

The domestic transmission pipeline has improved significantly over the last 15-18 months, and now the annual addressable market is expected to be closer to INR400b. The number of bids floated by tendering agencies is higher than bids put together in the last four years. Our analysis of ISTS transmission schemes recommended by the National Committee on Transmission to the Ministry of Power over the last 3-4 meetings (Exhibit 1) suggests that projects worth INR1t could be awarded over the next 1-2 years. The average size of projects has also increased meaningfully, thereby allowing only serious players in the bidding process, such as KPIL, KEC, L&T, Transrail, Skipper, and Bajaj Electricals. The company aims to increase its market share to 20-25% in the current addressable market.

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Continuous reduction in promoter pledge a welcome sign

KPIL's promoter pledge as a percentage of total shares has further come down to 12.8% in Mar'24 from 17.5% in Dec'23 and from 26.6% in 1QFY23, and loan against shares has also come down. The overall loan against shares was INR11b in Mar'20, which declined to INR8b in Mar'22 and now it stands at INR6.6b. A further reduction in pledge is linked to the delivery schedule of projects in its real estate entity as per the covenants by lenders. We expect a further reduction in pledging as the real estate entity's project comes closer to completion in the next 6-12 months.

Margin and working capital cycle to improve from current levels

With the near completion of low-margin projects in domestic T&D and relatively lower commodity prices, we expect margin to start improving from current levels for KPIL in T&D and other segments. The company is also building up its employee base and resources for the execution of projects in the Middle East. Its working capital cycle is also much better in O&G orders from the Middle East. Accordingly, as execution ramps up, we expect NWC reduction to start reflected from FY26 onward.

Financial outlook

We estimate a CAGR of 24%/32%/47% in KPIL's revenue/EBITDA/PAT over FY24-26. The growth would be driven by: 1) 21% growth in order inflow on a strong prospect pipeline; 2) a gradual 110bp recovery in EBITDA margin to 8.2%/8.9%/9.3% in FY24/FY25/FY26, and 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 20x/14x FY25E/FY26E EPS. We raise our SoTP-based TP to INR1,200 based on 16x P/E for the core business as large order wins and pledge reduction are leading to valuation re-rating for the company. Reiterate BUY. Any further reduction in the level of promoter pledge will be positive for core business valuations.

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.

Key exhibits

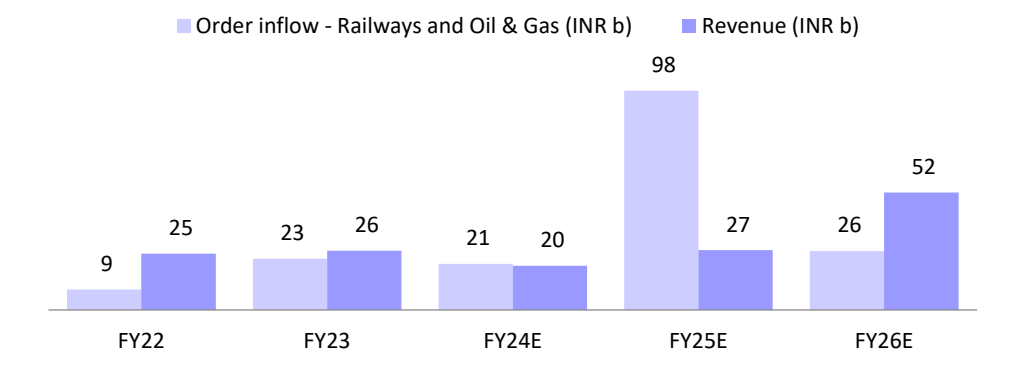
Saudi Aramco’s MGS-3 expansion project is worth USD10b and is divided into 17 packages

Exhibit 1: KPIL has been awarded three packages by Saudi Aramco

Package	Players
Package 1	China Petroleum Engineering & Construction Company (China)
Package 2	Sepco (China)
Package 3 & 12	Gas Arabian (Saudi Arabia)
Package 4 & 9	Mapa (Turkey)
Package 5	Bin Quraya (Saudi Arabia)
Package 6 & 7	Sinopec Petroleum Services (China)
Package 8	L&T Energy Hydrocarbon (India)
Package 10 & 14	Nesma & Partners (Saudi Arabia)/Sicim (Italy)
Package 11	Max Streicher (Germany)
Package 13, 15 & 17	Kalpataru Projects International (India)

Source: MEED, MOFSL

Exhibit 2: We bake in order inflow to reflect from FY25 and expect execution to ramp up sharply from FY26



Source: Company, MOFSL

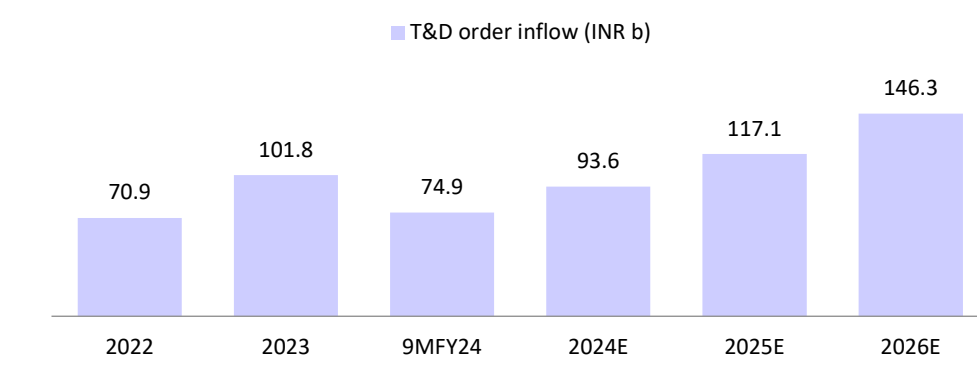
Strong domestic pipeline

Exhibit 3: ISTS project approvals over last four meetings outline a strong tendering pipeline of nearly INR1t projects to be awarded over next 2-2.5 years

Transmission scheme for evacuation of power from zones	Mode	Timeframe	BPC	Est Cost (INR b)
14th meeting recommendations				
Khavda area of Gujarat under Phase-IV (7 GW): Part A	TBCB	24 months	RECPDCL	40.9
Khavda area of Gujarat under Phase-IV (7 GW): Part B	TBCB	24 months	RECPDCL	47.7
Khavda area of Gujarat under Phase-IV (7 GW): Part B	TBCB	24 months	RECPDCL	53.4
Khavda area of Gujarat under Phase-IV (7 GW): Part D	TBCB	24 months	PFCCCL	34.6
Khavda area of Gujarat under Phase-IV (7 GW): Part E2	TBCB	21 months	RECPDCL	6.9
Khavda area of Gujarat under Phase-V (8 GW): Part A	TBCB	48 and 54 months	RECPDCL	248.2
Khavda area of Gujarat under Phase-V (8 GW): Part C	TBCB	48 months	PFCCCL	120.0
Rajasthan REZ PhIV (Part-2 :5.5 GW) (Jaisalmer/Barmer Complex): Part A	TBCB	24 months	RECPDCL	22.0
Rajasthan REZ PhIV (Part-2 :5.5 GW) (Jaisalmer/Barmer Complex): Part B	TBCB	24 months	PFCCCL	32.8
Rajasthan REZ PhIV (Part-2 :5.5 GW) (Jaisalmer/Barmer Complex): Part C	TBCB	24 months	RECPDCL	27.1
Rajasthan REZ PhIV (Part-2 :5.5 GW) (Jaisalmer/Barmer Complex): Part D	TBCB	24 months	PFCCCL	22.3
Rajasthan REZ PhIV (Part-2 :5.5 GW) (Jaisalmer/Barmer Complex): Part E	TBCB	24 months	RECPDCL	32.5
Rajasthan REZ PhIV (Part-2 :5.5 GW) (Jaisalmer/Barmer Complex): Part F	TBCB	24 months	PFCCCL	27.4
Rajasthan REZ PhIV (Part-2 :5.5 GW) (Jaisalmer/Barmer Complex): Part H1	TBCB	24 months	RECPDCL	36.7
15th meeting recommendations				
Integration of Tumkur-II REZ in Karnataka	TBCB	24 months	RECPDCL	7.9
Strengthening for interconnections of Bhadla-III & Bikaner-III complex.	TBCB	24 months	PFCCCL	13.8
Network Expansion scheme in Gujarat for drawl of about 3.6 GW load under Phase-I in Jamnagar area	TBCB	24 months	PFCCCL	38.2
16th meeting recommendations				
Network Expansion Scheme in Navinal (Mundra) area of Gujarat for drawl of power in the area	TBCB	21 months	PFCCCL	23.8
Eastern Region Expansion SchemeXXXIX (ERESXXXIX)	TBCB	June,2026	RECPDCL	29.0
17th and 18th meeting recommendations				
Rajasthan REZ PhIV (Part 3: 6GW) (Bikaner Complex): Part A	TBCB	24 months	RECPDCL	59.7
Rajasthan REZ PhIV (Part 3: 6GW) (Bikaner Complex): Part B	TBCB	24 months	RECPDCL	53.6
Integration of Davanagere / Chitradurga and Bellary REZ in Karnataka	TBCB	24 months	PFCCCL	34.5
Integration of Bijapur REZ in Karnataka	TBCB	24 months	PFCCCL	11.1
Evacuation of power from Kudankulam Unit - 3 & 4 (2x1000 MW)	TBCB	24 months	PFCCCL	5.5
Total				1,030

Source: CEA, MOFSL

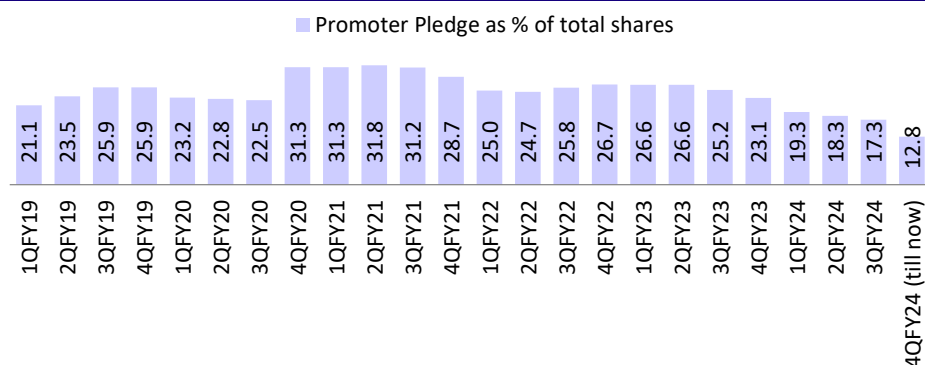
Exhibit 4: KPIL's T&D order inflow has seen an improvement since FY22 (INR b)



Source: Company, MOFSL

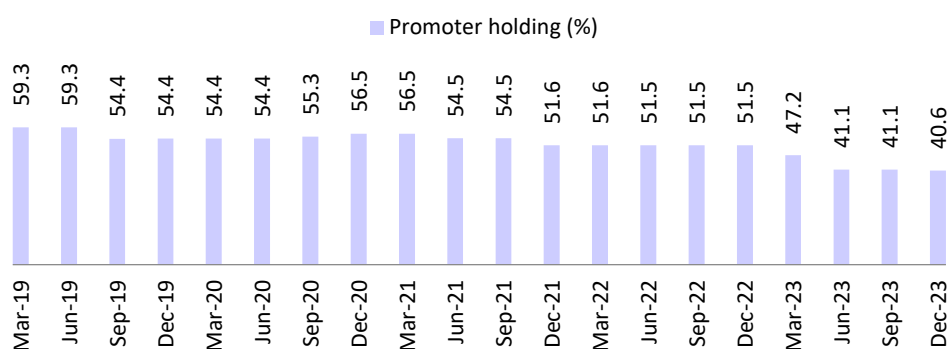
Pledging has seen a sharp reduction over last one year for KPIL and is driving core business valuation re-rating

Exhibit 5: Promoter pledge has been coming down in recent quarters (%)



Source: Company, MOFSL

Exhibit 6: Decline in promoter holding in CY23 was led by the effect of JMC merger and stake sale in 1QFY24 to repay loan against shares (%)



Source: Company, MOFSL

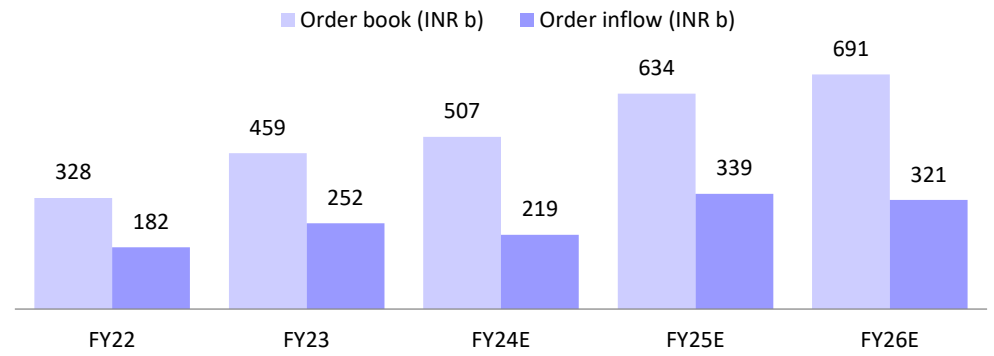
Exhibit 7: We revise our estimates to factor in the O&G package award and execution

(INR M)	FY24E			FY25E			FY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	1,71,102	1,74,875	(2.2)	2,12,331	2,09,510	1.3	2,64,850	2,39,408	10.6
EBITDA	14,076	14,386	(2.2)	18,951	19,040	(0.5)	24,697	21,757	13.5
EBITDA (%)	8.2	8.2	0 bps	8.9	9.1	-16 bps	9.3	9.1	24 bps
Adj. PAT	5,652	5,820	(2.9)	8,731	9,153	(4.6)	12,211	10,955	11.5
EPS (INR)	34.6	35.6	(2.9)	53.4	56.0	(4.7)	74.7	67.0	11.4

Source: MOFSL

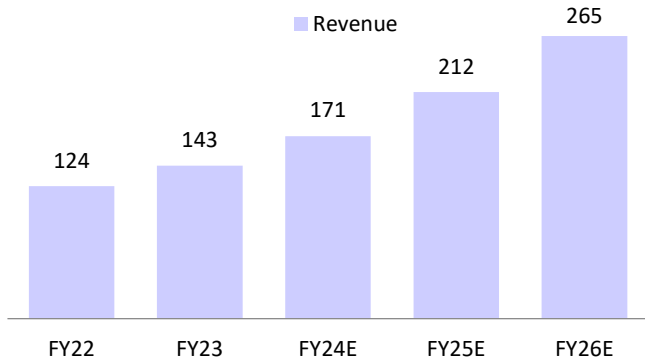
Financial outlook

Exhibit 8: Order inflow and order book trend (INR b)



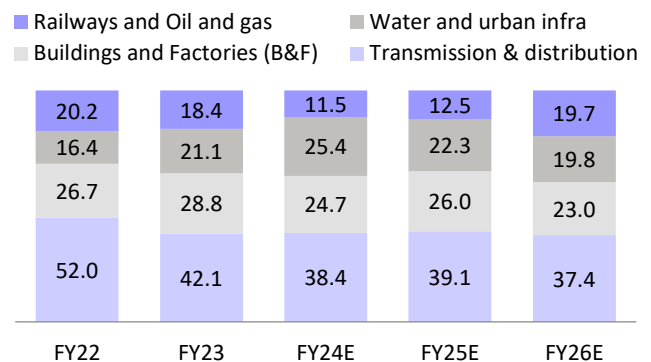
Source: Company, MOFSL

Exhibit 9: Revenue trend over FY23-26E (INR b)



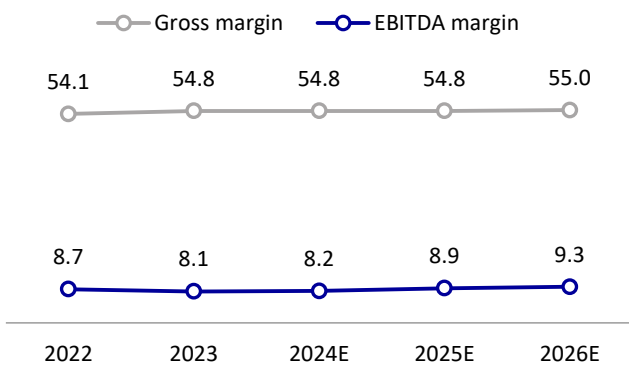
Source: MOFSL, Company

Exhibit 10: Revenue mix is diversified across segments (%)



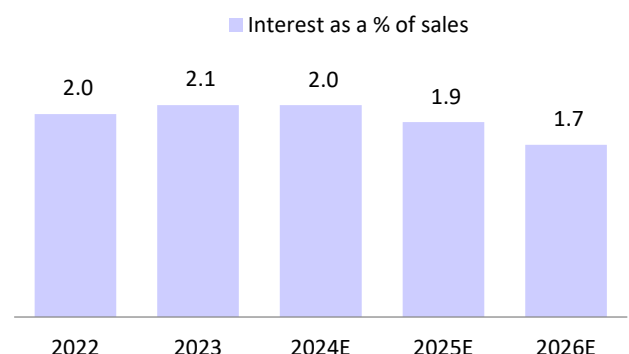
Source: MOFSL, Company

Exhibit 11: EBITDA margin to improve from FY25E (%)



Source: MOFSL, Company

Exhibit 12: Interest as % of sales is still below peers



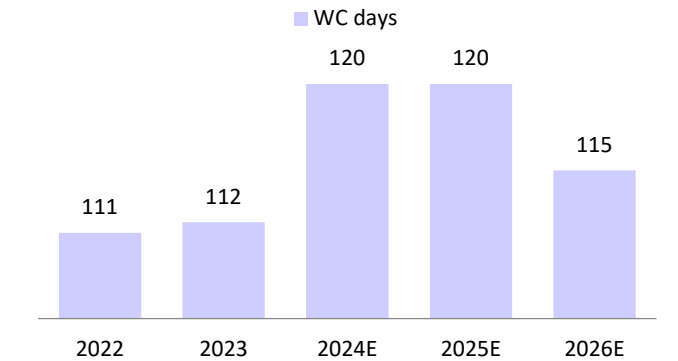
Source: MOFSL, Company

Exhibit 13: Net debt is at comfortable levels (INR b)



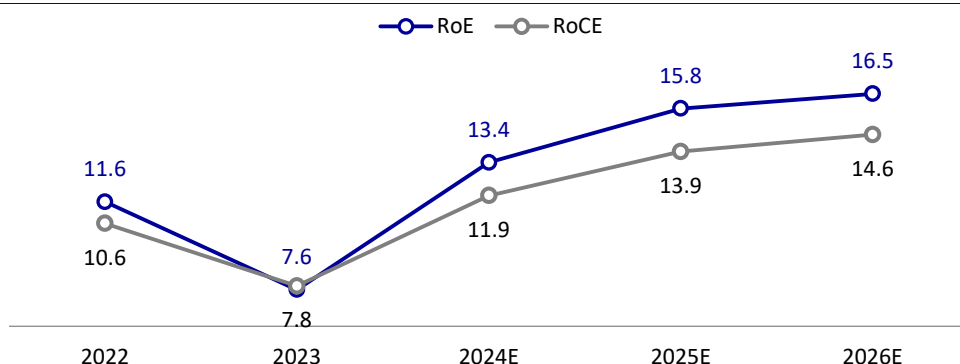
Source: MOFSL, Company

Exhibit 14: NWC to remain in the range of 115-120 days



Source: MOFSL, Company

Exhibit 15: Return ratios poised to improve on improved profitability (%)



Source: Company, MOFSL

Exhibit 16: Sum-of-the-parts valuation of KPIL yields a value of nearly INR1,200 per share on Mar'26 estimates

	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 Projects valuation							
Core construction business	11,692	16	187,604	100.0	187,604	1,144	16X Mar,26E EPS
Investments in subsidiaries			7,410		7,410	45	P/BV
Road projects total			(723)		(723)	(4)	FCFE
Total value			187,905		187,905	1,185	

Source: MOFSL

Financials and Valuation

Standalone – Income Statement					(INR m)
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	1,24,071	1,43,370	1,71,102	2,12,331	2,64,850
Change (%)	NA	15.6	19.3	24.1	24.7
Raw Materials	57,001	64,750	77,275	95,895	1,19,084
Gross Profit	67,071	78,620	93,827	1,16,436	1,45,766
Employee Costs	9,169	10,340	12,340	15,314	19,101
Other Expenses	47,095	56,670	67,412	82,172	1,01,967
Total Expenditure	1,13,265	1,31,760	1,57,026	1,93,380	2,40,152
% of Sales	91.3	91.9	91.8	91.1	90.7
EBITDA	10,807	11,610	14,076	18,951	24,697
Margin (%)	8.7	8.1	8.2	8.9	9.3
Depreciation	2,720	2,950	3,682	4,045	4,645
EBIT	8,087	8,660	10,393	14,906	20,052
Int. and Finance Charges	2,436	2,940	3,505	4,003	4,415
Other Income	984	1,120	1,217	833	775
PBT bef. EO Exp.	6,635	6,840	8,105	11,736	16,412
EO Items	-1,632	540			
PBT after EO Exp.	5,003	7,380	8,105	11,736	16,412
Total Tax	1,491	2,070	2,453	3,004	4,202
Tax Rate (%)	29.8	28.0	30.3	25.6	25.6
Minority Interest					
Reported PAT	3,512	5,310	5,652	8,731	12,211
Adjusted PAT	4,657	4,921	5,652	8,731	12,211
Change (%)	NA	5.7	14.8	54.5	39.8
Margin (%)	3.8	3.4	3.3	4.1	4.6

E: MOFSL estimates

Standalone – Balance Sheet					(INR m)
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	298	325	325	325	325
Total Reserves	49,073	52,872	57,387	64,982	76,055
Net Worth	49,371	53,197	57,712	65,307	76,380
Total Loans	26,551	29,346	34,386	38,386	41,886
Deferred Tax Liabilities	-880	-1,338	-1,338	-1,338	-1,338
Capital Employed	75,042	81,206	90,761	1,02,355	1,16,929
Gross Block	23,789	27,708	31,208	36,208	41,208
Less: Accum. Deprn.	10,574	10,941	14,623	18,668	23,313
Net Fixed Assets	13,214	16,767	16,585	17,540	17,895
Goodwill on Consolidation	201	201	201	201	201
Capital WIP	203	484	484	484	484
Total Investments	8,929	8,741	8,741	8,741	8,741
Curr. Assets, Loans & Adv.	1,22,897	1,47,237	1,76,523	2,14,095	2,62,622
Inventory	9,193	10,874	12,978	16,105	20,088
Account Receivables	43,239	51,246	63,502	78,804	94,668
Cash and Bank Balance	9,886	8,581	8,703	5,837	6,481
Loans and Advances	8,163	8,608	10,273	12,749	15,902
Other Current Assets	52,416	67,928	81,067	1,00,600	1,25,484
Curr. Liability & Prov.	70,401	92,224	1,11,773	1,38,706	1,73,014
Other Current Liabilities	65,676	87,673	1,06,342	1,31,966	1,64,607
Provisions	4,725	4,551	5,432	6,740	8,408
Net Current Assets	52,496	55,012	64,750	75,389	89,608
Appl. of Funds	75,042	81,205	90,760	1,02,355	1,16,928

E: MOFSL estimates

Financials and Valuation

Ratios

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)					
EPS	28.5	30.1	34.6	53.4	74.7
Cash EPS	45.1	48.1	57.1	78.1	103.1
BV/Share	301.9	325.3	352.9	399.4	467.1
DPS	6.5	7.0	7.0	7.0	7.0
Payout (%)	30.3	21.4	20.1	13.0	9.3
Valuation (x)					
P/E	37.4	35.4	30.8	20.0	14.3
Cash P/E	23.6	22.1	18.7	13.6	10.3
P/BV	3.5	3.3	3.0	2.7	2.3
EV/Sales	1.5	1.4	1.2	1.0	0.8
EV/EBITDA	17.6	16.7	14.1	10.9	8.4
Dividend Yield (%)	0.6	0.7	0.7	0.7	0.7
FCF per share	10.1	-9.1	-17.7	-10.6	16.5
Return Ratios (%)					
RoE	10.7	9.6	10.2	14.2	17.2
RoCE	9.2	8.9	9.3	12.0	14.0
RoIC	10.1	10.4	10.6	13.9	15.8
Working Capital Ratios					
Fixed Asset Turnover (x)	5.2	5.2	5.5	5.9	6.4
Asset Turnover (x)	1.7	1.8	1.9	2.1	2.3
Inventory (Days)	27	28	28	28	28
Debtor (Days)	127	130	135	135	130
Leverage Ratio (x)					
Current Ratio	1.7	1.6	1.6	1.5	1.5
Interest Cover Ratio	3.3	2.9	3.0	3.7	4.5
Net Debt/Equity	0.2	0.2	0.3	0.4	0.3

E: MOFSL estimates

Standalone – Cash Flow Statement

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
(INR m)					
OP/(Loss) before Tax	3,504	5,320	8,105	11,736	16,412
Depreciation	2,720	2,948	3,682	4,045	4,645
Interest & Finance Charges	2,436	2,939	3,505	4,003	4,415
Direct Taxes Paid	-2,067	-2,534	-2,453	-3,004	-4,202
(Inc)/Dec in WC	-5,355	-4,512	-12,226	-13,505	-13,575
CF from Operations	1,236	4,160	613	3,274	7,695
Others	2,529	1,434	0	0	0
CF from Operating incl EO	3,765	5,594	613	3,274	7,695
(Inc)/Dec in FA	-2,113	-7,078	-3,500	-5,000	-5,000
Free Cash Flow	1,653	-1,485	-2,887	-1,726	2,695
(Pur)/Sale of Investments	-712	-269	0	0	0
Others	-37	2,880	0	0	0
CF from Investments	-2,862	-4,467	-3,500	-5,000	-5,000
Inc/(Dec) in Debt	4,908	2,460	5,040	4,000	3,500
Interest Paid	-2,517	-3,120	-3,505	-4,003	-4,415
Dividend Paid	-261	-1,022	-1,137	-1,137	-1,137
Others	859	-549	0	0	0
CF from Fin. Activity	2,989	-2,231	398	-1,140	-2,052
Inc/Dec of Cash	3,892	-1,104	-2,489	-2,866	643
Opening Balance	5,995	9,685	11,192	8,703	5,837
Closing Balance	9,887	8,581	8,703	5,837	6,481

E: MOFSL estimates

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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