



Bright prospects

A strong order book, favourable industry outlook and lower input prices will drive Kalpataru Power's earnings in the coming years

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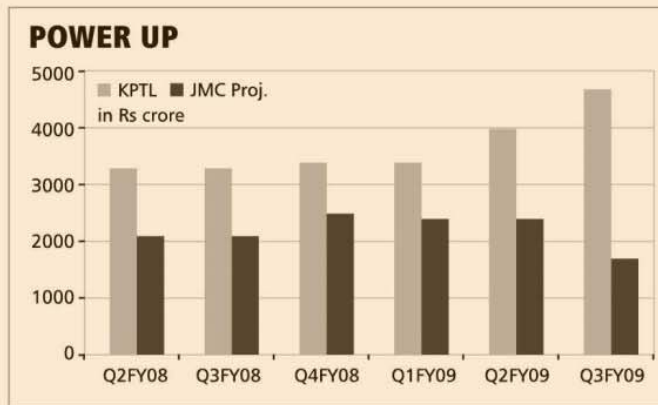
Power-based engineering companies catering to the needs of the transmission and distribution sector are once again in the news for repeated orders. After a lull in late-2008, order flow from the domestic and the international markets has improved leading to increased growth visibility for these companies. The recent correction in metal prices also augurs well for companies with a larger share of fixed price contracts, on account of better margins in the coming quarters. Kalpataru Power Transmission (KPTL) is one such company, which has significant portion of its orders based on the fixed pricing. Notably, the company has bagged two big orders worth Rs 760 crore in the fortnight ended March 14 2009, which follows the \$250 million contract from Kuwait government—the largest international order by an Indian firm.

KPTL undertakes work related to design, fabrication, construction and erection of transmission lines and sub-station structures. The company a major player with market share of about 20 per cent in the domestic transmission and distribution (T&D) market, and would be the key beneficiary of the emerging opportunities in the sector.

More opportunities

Typically, projects in the T&D sector are awarded by Power Grid Corporation (PGCIL). The latter has envisaged a total capital expenditure (capex) of Rs 55,000 crore towards T&D capacity during the 11th five-year plan—about Rs 10,000-11,000 crore worth of capex annually. For FY09, PGCIL has envisaged Rs 8,500 crore, which will be further enhanced to Rs 11,000 crore in FY10.

Additionally, an equal amount is expected to be spent by various State Electricity Boards and under the central government-sponsored schemes like rural electrification and APDRP, and will be positive for companies operating in the T&D sector. It does not end there. The setting up of power generation capacity by private companies including the UMPPs will require additional expenditure in T&D to evacuate and distribute the power generated to various parts of the country.



Keeping pace

The increasing investment in T&D sector also means better visibility, in terms of revenue and earnings growth, for companies operating in this space. KPTL, currently, has an order book of about Rs 5,000 crore, which is 2.8 times its FY08 revenue. To cope up with the rising demand, the company has been upping its tower manufacturing capacity; it increased it from 54,000 tonnes in 2001 to 84,000 tonnes in 2005 and further to 108,000 tonnes in September 2008. The benefits from the latter will be felt in the coming quarters.

International business

The company is equally aggressive in the international markets and undertakes supply of towers and EPC (engineering, procurement and construction) projects. It has so far (in 8 years), completed project in 28 countries having supplied over 80,000 tonnes of towers. In January 2009, KPTL won a transmission order worth \$250 million (about Rs 1,200 crore) from the ministry of Energy and Water, Kuwait. Including this project, the share of international orders stands increased to about 40 per cent of total order book. The company's international projects are fixed price contracts, which is also a reason the company was earlier feeling the pinch of high commodity prices. KPTL is expecting the margins

ELECTRIFYING OUTLOOK

in Rs crore	FY08	FY09E	FY10E
Sales	2,675	3,300	3,910
EBITDA (%)	11.8	9.0	9.5
Net profit	165	115	158
EPS (Rs)	62.2	43.4	59.6
PE (x)	3.8	5.4	3.9

E: analyst estimates

to improve in the international projects, given the correction in the steel prices which have corrected by about 40 per cent—margins could improve by 150 basis points by FY10. Overall, the strong order book, expectation of the new transmission orders and gains from lower steel prices augur well for the company in the coming quarters.

Pipeline

Leveraging on its EPC capabilities, the company has also established a presence in the oil and gas pipe lines segment, which currently accounts for 8-10 per cent of the total order book. In this segment, the company's work involves project designing and laying of pipe lines. Although this is a highly competitive business, the recent flow of orders on account of higher oil and gas capex in the country has helped KPTL procure new business. It has recently won a Rs 385 crore contract from a joint venture between L N Mittal group and HPCL, which involves laying of 550 Km of crude oil pipeline. This project is in addition to the Rs 240 crore project bagged in December 2008 from GAIL. Overall, this is a promising business given the lack of sufficient pipeline infrastructure to support the growing energy needs. So far, the company has completed over 1,000 Km of cross country pipelines in India in the last four years. And given this track record of having worked with established companies in the oil and gas sector, KPTL should do well in this business too, going ahead.

Investment rationale

KPTL also has two subsidiaries, one each in the infrastructure and logistic business. The latter's size however is insignificant currently, with revenue share of 2 per cent in FY08. Its infrastructure business is represented by its 53 per cent holding in JMC projects, a listed company. JMC Projects has an order book of about Rs 1,700 crore and reported revenues of Rs 945 crore (up 56 per cent) and net profit of Rs 20.5 crore (down 3 per cent) in the nine-months ended December 2008. The lower net profit growth was largely due to high interest outgo and depreciation expenses, and partly due to higher operating expenses (input prices). Going forward, the concerns remain with regards to the outlook for JMC Projects, which has also seen a slowdown in order inflow. Its share price has thus, fallen by 84 per cent from its 52-week high of Rs 339 to currently at Rs 54. At the current market capitalisation of Rs 90 crore is valued at Rs 18-20 per share of KPTL.

To sum up, in light of the strong order book, revenue visibility, expected improvement in profitability and emerging opportunities, KPTL should report good numbers going ahead. At Rs 235, KPTL is trading at 5 and 3.7 times its estimated consolidated earnings for FY09 and FY10, respectively, and can deliver 25-30 per cent returns in the next one year.