

In The Pipeline

The award of a contract for laying 550 km of pipeline worth Rs 385 crore provides Kalpataru Power an opportunity to shore up its revenues and improve profits in a dwindling market. This is the second big order for the company this month, after securing a power transmission order worth Rs 373 crore from Power Grid. The client for this order is the high profile Hindustan Mittal Energy, a JV between HPCL and the L N Mittal group, and related to their upcoming refinery in Bhatinda. The order is to be executed in 18 months and does not include cost of material, which shall be supplied by the client. The orders is more than twice the trailing four quarters' revenue for Kalpataru from this segment and would help shore it up, which has seen a decline over the last few quarters. The company has been a beneficiary of a number of domestic orders which have been awarded this month.

Kalpataru, which is mainly in the transmission and distribution (T&D) business with

total revenue of Rs 1,748 crore in FY08, derives about 10% of its revenues from the pipeline and infrastructure segment, which is quite lucrative mainly because of low investment in fixed assets or working capital, as all the material is provided by the client. This is reflected in the operating profit margin level, which stood at about 17% for the pipeline and infrastructure segment against about 12% for its core T&D segment in FY08. However, for FY09 so far, margins have been nearly the same for both segments, owing to changed market conditions. The company has been in the pipeline and infrastructure segment for the last few years, and has already completed some medium-size orders. It has also moved from executing smaller size pipelines of 8" diameter to 30" diameter and now is executing this order with size upto 48" diameter. The bigger size does not really pose any constraint, except for mobilisation of heavier equipments on site, for handling and laying the pipes. Even though it has an order backlog worth about Rs 625 crore from this segment, this is by far the largest order being executed by it.