India

Overweight *(no change)*

Highlighted Companies

Kalpataru Projects International

ADD, TP Rs1461, Rs898 close

Kalpataru Projects International remains confident of its long-term growth, despite short-term challenges in the water segment. Domestic and international T&D markets remain robust, driven by rising power demand, grid modernization, renewable energy integration, and electrification in developing countries. The company sees strong opportunities in this space.

KEC International

ADD, TP Rs1122, Rs720 close

The YTD order inflow grew by 70% YoY to Rs Rs220bn, 70% from the T&D business, with FY25F inflow guidance of Rs50bn. The order book stands at Rs374bn, with an additional L1 status pipeline of Rs40bn, (from T&D) totalling over Rs410bn.

Skipper

ADD, TP Rs695, Rs412 close

The 75,000tpa expansion is on track for completion, with a portion of it to commence operations in 4QFY25F and reach full capacity utilization by FY26F. The new capacity will add Rs7bn in revenue potential, strengthening Skipper's position in domestic & export markets.

Summary Valuation Metrics

P/E (x)	Mar25-F	Mar26-F	Mar27-F
Kalpataru Projects International	21.6	14.7	12.7
KEC International	33.0	20.2	15.8
Skipper	26.6	21.5	16.6

P/BV (x)	Mar25-F	Mar26-F	Mar27-F
Kalpataru Projects International	2.3	2.0	1.8
KEC International	3.6	3.1	2.7
Skipper	4.1	3.5	2.9

Dividend Yield	Mar25-F	Mar26-F	Mar27-F
Kalpataru Projects International	0.8%	0.9%	0.9%
KEC International	0.7%	1.1%	1.4%
Skipper	0.1%	0.1%	0.2%

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Industrial Goods and Services

India power T&D biz – High-voltage growth

- The Rs9,150bn NEP 2022-32 targets 648,190ckm transmission and 2,342GVA transformation capacity by FY32F, driving a Rs1,800-2,000bn market.
- KPIL, KEC, and Skipper ride a 38% order surge, targeting margin expansion and 2.5% interest costs by FY27F, thereby blending growth and profitability.
- HVDC, smart grids, 47GW BESS push 500GW of RE to cut losses. With revenue at 14% CAGR (FY18-24), T&D players remain firm despite capex dip.

Healthy industry tailwinds propel T&D sector's growth

India's power T&D sector is primed for a decade of growth with National Electricity Plan or NEP's Rs9,150bn investment (Rs6,610bn inter-state, Rs2,540bn intra-state), targeting 458GW peak demand by FY32F (8% CAGR from 250GW in FY25F). Transmission lines set to grow from 485,544circuit km or ckm to 648,190ckm, and transformation capacity from 1,251GVA (gross value added) to 2,342GVA, creating a Rs1,800-2,000bn market. Additionally, the NEP emphasizes green hydrogen initiatives and pump storage systems, which will further enhance energy sustainability. These developments are expected to provide strong order visibility for major transmission companies, cable manufacturers, and transformer producers, thereby driving the growth of the sector.

Technological advancements and strong order inflow

Technologies like HVDC (33.25GW addition), smart grids (250m smart meters by FY26F), and energy storage (47GW/236GWh BESS) are key to hitting India's 500GW of renewable energy or RE goal by FY30F, cutting grid losses to 15-12%. Despite capex slowdown, T&D companies saw a 38% YoY surge in YTDFY25 orders to Rs507bn—KEC International up 70% (Rs220bn, guidance of Rs250bn for FY25F), Transrail Lighting 50% (Rs47.2bn), Kalpataru Projects International or KPIL 14% (Rs201.9bn), and Skipper 19% (Rs13.18bn)—driven by NEP targets and renewable energy or RE evacuation needs. KPIL is expected to report an order inflow of Rs353bn in FY25F, up 20%, while Skipper and Transrail Lighting are projected to see their order books growing by 20% and 25%, respectively.

Execution strength and margin expansion levers

The sector's revenue grew at a 14% CAGR (FY18-24) and is projected to touch 16% (FY24-27F). KPIL grew by 17% YoY (Rs57.33bn), KEC International grew by 7% (Rs53.49bn, revised to 12-14% for FY25F), Transrail Lighting grew by 62% (Rs13.6bn), & Skipper grew by 42% (Rs11.35bn) in 3QFY25. Margin, now at 7-8% (down from 11%+ in FY18), is set to recover to 10% by FY27F, with Transrail Lighting's at 13.2%, Skipper's 9.8%, & KEC International's 7%, boosted by high-margin HVDC/sub-station projects & operational efficiency.

Easing interest costs; valuation outlook

Interest costs, currently at 3.1% of sales in FY25F, are expected to decline to 2.5% by FY27F as companies strengthen their balance sheets—Transrail Lighting raised Rs8.4bn (Rs4bn fresh share issue), KPIL secured Rs10bn via QIP (cutting net debt by 27% QoQ to Rs26.94bn), KEC International raised Rs8.7bn, and Skipper plans to raise Rs6bn to meet capex and working capital needs. This deleveraging enhances liquidity and bottom-line growth amid strong execution. Valuations stand at 20-28x FY27F EPS—KEC International at Rs1,122, Skipper at Rs695, & KPIL at Rs1,461—balancing a decade-long growth runway with profitability gains in this diversified T&D play.

Figure 1: 3QFY25 results summary

Company	CMP	Revenue (Rs m)		EBITDA (Rs m)		PAT (Rs m)	
	(Rs)	Dec-24	YoY (%)	Dec-24	YoY (%)	Dec-24	YoY (%)
KEC International	720	53,494	6.8	3,745	21.6	1,296	33.7
Kalpataru Projects International	898	57,325	17.1	4,792	13.0	1,396	-3.1
Skipper	412	11,352	41.6	1,109	43.9	361	76.3

SOURCES: INCRED RESEARCH, COMPANY REPORTS

India power T&D biz – High-voltage growth

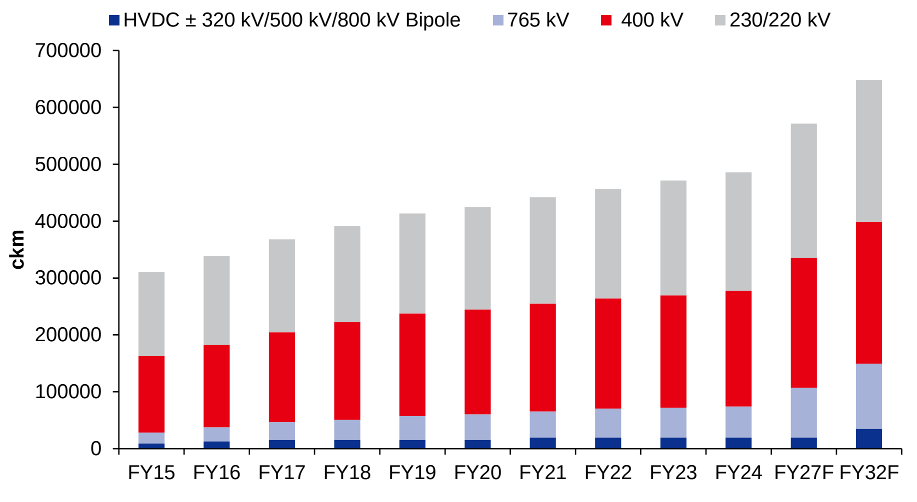
India's power transmission & distribution (T&D) sector is on the cusp of a transformative decade, driven by a Rs9,150bn investment roadmap, escalating electricity demand, and a critical push towards renewable energy (RE) integration. With key players—KEC International, Kalpataru Projects International (KPIL), Skipper, and Transrail Lighting (NOT RATED)—showcasing resilience and scalability, the sector presents a robust investment case.

Structural tailwinds ignite a multi-decade cycle

The National Electricity Plan (NEP) 2022-32 outlines a Rs9,150bn investment or approximately US$110bn at the current exchange rate, to strengthen India's transmission infrastructure, targeting peak electricity demand of 458GW by FY32F, an 8% CAGR from 250GW in FY25F. This creates a total addressable market (TAM) of Rs1,800-2,000bn for T&D players. Key targets include:

- **Transmission lines**: Expansion from 485,544ckm in FY24 to 648,190ckm by FY32F, adding 162,646ckm—a 33% increase.
- **Transformation capacity**: A rise from 1,251GVA to 2,342GVA, adding 1,091 GVA to address the current shortfall (2.3MVA/MW vs. optimal 7MVA/MW), critical for RE evacuation.
- **Inter-regional transfer**: Set to increase from 118.74GW (FY22) to 168GW (FY32F), enhancing grid flexibility amid regional disparities (e.g., northern region's peak demand dominance in FY24).

Figure 2: Transmission lines to reach 648,190ckm in FY32F, driven by 755KV (10% CAGR) and HVDC (8% CAGR)

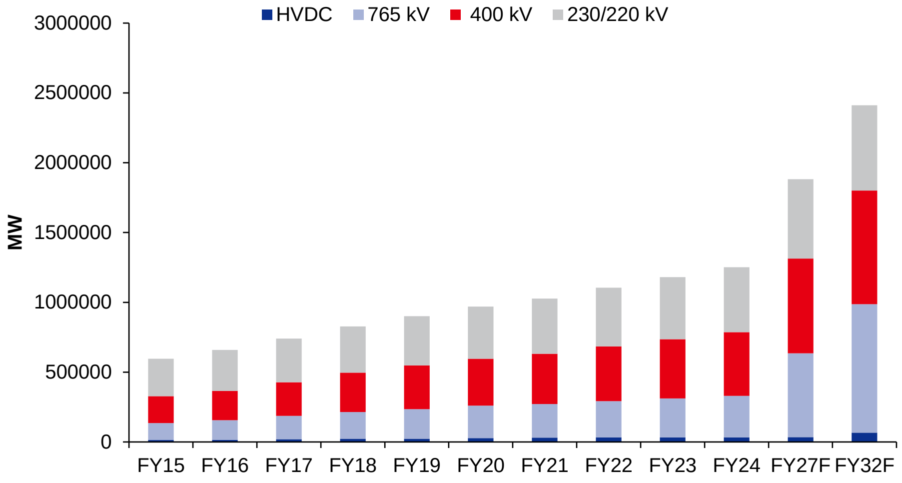


SOURCE: INCRED RESEARCH, NEP

Rs9,150bn investment under NEP

The NEP's total planned outlay of Rs9,150bn for FY22-32F is split as follows: Rs6,610bn for inter-state transmission systems (ISTS) and Rs2,540bn for intra-state transmission systems (Intra-STS). This scale is bolstered by India's unique demand drivers like electrification initiatives (e.g., PM Surya Ghar's rooftop solar push), industrial growth, and emerging sectors like green hydrogen and electric vehicles (EVs). The Union Budget 2025-26 has allocated Rs11,210bn for infrastructure (+10% YoY), amplifying these tailwinds. Cross-border electricity trade with Nepal, Bhutan, and Bangladesh is expected to strengthen regional energy security. Rising industrialization and digital infrastructure expansion, including data centres, high-speed rail, and smart cities, are set to push up electricity demand further.

Figure 3: Transformation capacity to post a 12% CAGR (over FY24-32F) due to massive addition of 765kV sub-stations (15% CAGR) and HVDC capacity (9% CAGR)



SOURCE: INCRED RESEARCH, NEP

Figure 4: NEP's focus on inter-state transmission system (ISTS) to connect remote RE capacity to load centres

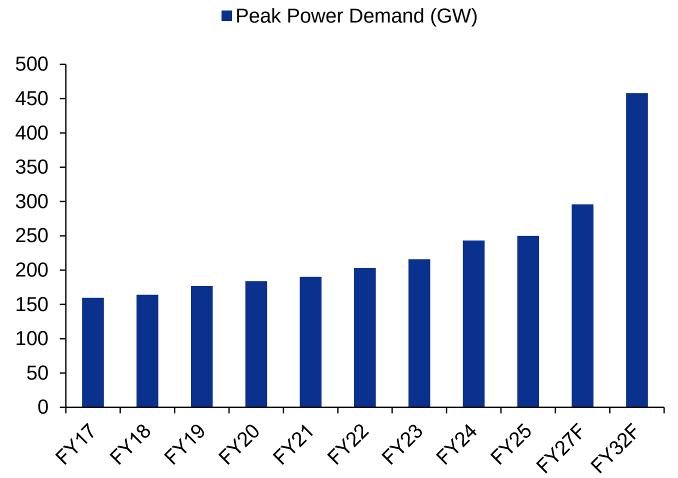
		At the end of 2016-17	Addition during 2017-22	At the end of 2021-22	Planned addition during 2022-27F	At the end of 2026F-27F	Planned addition during 2027F-32F	At the end of 2031F-32F	Total
Transmission lines (ckm)	ISTS	1,58,859	41,177	2,00,036	51,185	2,51,221	43,324	2,94,545	**6,48,190**
	Intra-state	2,08,992	47,688	2,56,680	63,502	3,20,182	33,463	3,53,645	
Transformation capacity (MVA)	ISTS	2,84,208	1,76,757	4,60,965	4,72,225	9,33,190	3,48,165	12,81,355	**24,11,885**
	Intra-state	4,56,557	1,86,928	6,43,485	3,05,105	9,48,590	1,81,940	11,30,530	

SOURCES: INCRED RESEARCH, NEP

Renewable energy and policy catalysts ›

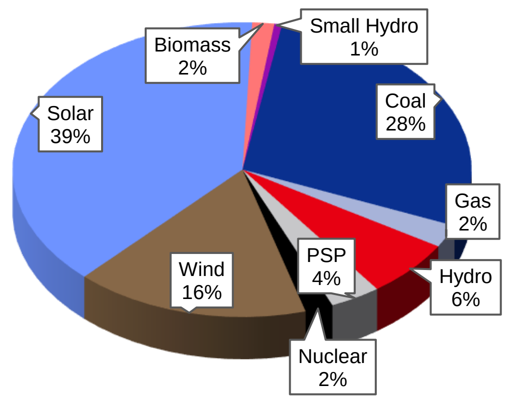
India's commitment to 500GW of RE capacity by FY30F (50% of energy mix) necessitates significant grid enhancements, with Green Energy Corridors (GEC) targeting 42GW evacuation capacity by FY32F (NEP) and a total 613GW of evacuation capacity by FY32F (under NEP). Nine high voltage direct current (HVDC) lines of 33.25GW capacity will be added, in addition to 33.5GW currently operating highlight the technological leap while Battery Energy Storage Systems or BESS (47GW/236GWh) and Pumped Storage Plants or PSPs (27GW) address RE intermittency. Policy measures—such as Right-of-Way (RoW) compensation at 200% of land value and Viability Gap Funding (VGF) for the offshore wind industry (as per industry reports)—reduce the execution hurdles, fostering private participation via Tariff-Based Competitive Bidding (TBCB). Power Grid Corporation of India or PGCIL's market share rose from 43% (FY14-21) to 67% (FY22-24), but still private players like KPIL (20-25% domestic T&D share in 3QFY25) thrive in this expanding pie.

Figure 5: Latest estimates suggest that peak demand is likely to touch 458GW by FY32F, but NEP has been framed considering 366GW peak demand in the same period



SOURCE: INCRED RESEARCH, NEP

Figure 6: All-India installed generation capacity likely in FY32F, with non-fossil generation capacity touching 70%



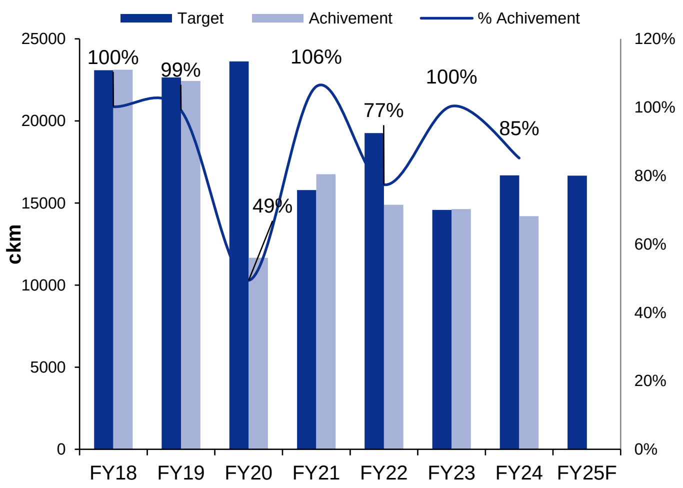
SOURCE: INCRED RESEARCH, NEP

Beyond the hype

While NEP's ambition is a game changer, execution risks loom large. Historical achievement rates (85% for lines, 106% for transformation in 2017-22, as per NEP) suggest a potential slippery path and bottlenecks that could delay FY30F target. Green hydrogen's viability hinges on cost decline (currently US$4-6/kg vs. US$1.5-2/kg target), while PSPs face geological and funding hurdles. Compared to global peers—e.g., Europe's EUR600bn grid plan by 2030F or China's 1,200GW RE capacity—T&D's share in India's energy capex (20-25%) lags global peers, hinting at underinvestment risks if demand overshoots (e.g., a 13% spike in peak demand in FY24). Yet, India's private sector agility (e.g., Transrail Lighting's 32% international inflow) and export potential (Skipper's US edge) differentiate it, offering a dual domestic-global growth lever that is lacking in more mature markets.

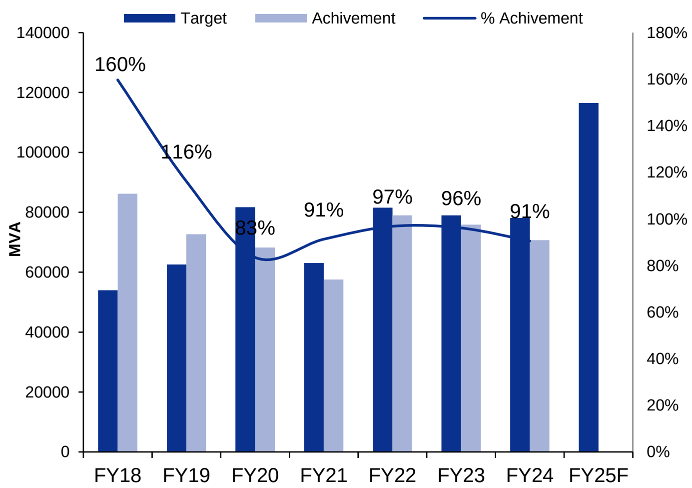
Unlike thermal power's cyclicality, the T&D sector's defensive growth stems from its role as a grid enabler and not a fuel bet. The NEP's Rs6,610bn investment for inter-state systems (72% of total) prioritizes private EPC companies over state utilities, a shift from the past public sector-heavy cycle (FY03-12). This, coupled with RE's non-linear demand (e.g., solar power peaking at noon vs. evening loads), positions T&D as a high-conviction play in India's energy transition, with an upside if execution exceeds historical norms.

Figure 7: During FY17-22, transmission lines saw an achievement rate of 85%, with ISTS at 104% & intra-state lagging at 74%



SOURCE: INCRED RESEARCH, NEP

Figure 8: Transformation capacity saw an achievement rate of 106%, with ISTS at 105% & intra-state at 107% under the FY18-22 plan



SOURCE: INCRED RESEARCH, NEP

Evolution and future opportunities ➤

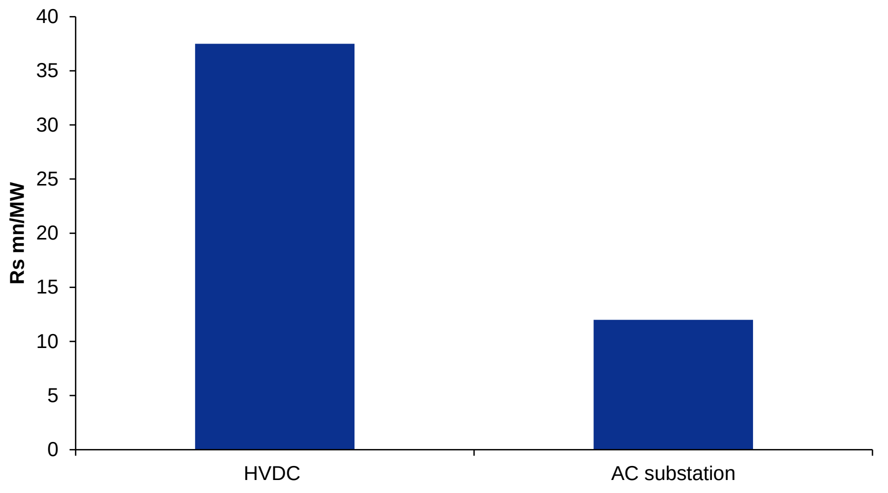
Technological drivers

India's power transmission & distribution (T&D) sector is undergoing a technological revolution, driven by the Rs9,150bn National Electricity Plan (NEP) 2022-32 and the nation's ambitious 500GW renewable energy (RE) target by FY30F. These advancements—High Voltage Direct Current (HVDC), smart grids, energy storage systems, and advanced conductors—are not incremental upgrades but foundational shifts that address grid resilience, efficiency, and RE integration. Given below is the detailed explanation of each of them:

High voltage direct current (HVDC) technology

HVDC technology, with its addition of Rs1,250bn market potential by FY32F, is a game changer for long-distance power transmission. Unlike traditional alternating current (AC) systems, which lose 6-8% of power over 1,000km, HVDC cuts losses to 3-4%, making it ideal for connecting RE-rich deserts (e.g., Rajasthan, Gujarat) to demand centres (e.g., Maharashtra, Delhi). The NEP's target for new HVDC lines (33.25GW additional capacity) reflects this shift, targeting stability for India's 458GW peak demand by FY32F.

Figure 9: Globally, HVDC constitutes 20% of transmission investment, offering lower lifecycle costs despite high initial capex (Rs35-40m/MW vs. Rs10-15m/MW for AC sub-stations, industry benchmarks)

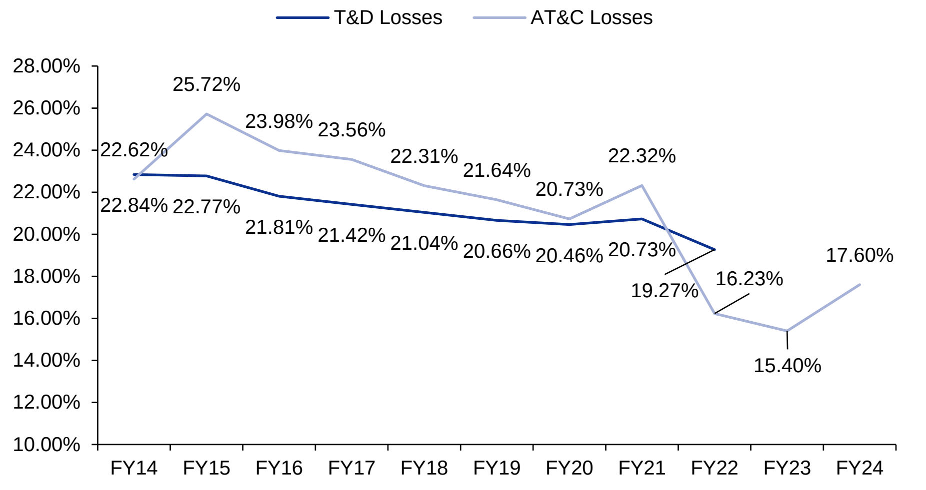


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Smart grids and digitalization

Smart grids are transforming India's T&D landscape by harnessing Internet of Things (IoT), Artificial Intelligence (AI), and real-time monitoring to enhance grid reliability and efficiency. The cornerstone of this shift is the ambitious rollout of 250 million smart meters by FY26F, as mandated by the Ministry of Power, enabling better load management and outage prevention. National Smart Grid Mission dashboard states that 222.3m smart meters have been sanctioned, of which 138m have been awarded, but only 21.8m meters installed so far. AI-driven predictive tools can anticipate disruption by analyzing weather and demand patterns, a critical edge as renewable energy (RE) integration deepens. Digitalization also optimizes RE's variability (e.g., solar power's noon peak vs. evening demand), critical as RE penetration rises. As a result of reform measures taken under the Revamped Distribution Sector Scheme (RDSS), aggregate technical & commercial (AT&C) losses have come down to 17.6% and the average cost of supply - average revenue realized (ACS-ARR) gap has reduced to Rs.0.39/kWh in FY24.

Figure 10: AT&C losses see a significant reduction in the past three years and in the future are expected to decline to the15-12% range with smart grid schemes



SOURCE: COMPANY REPORTS, INCRED RESEARCH

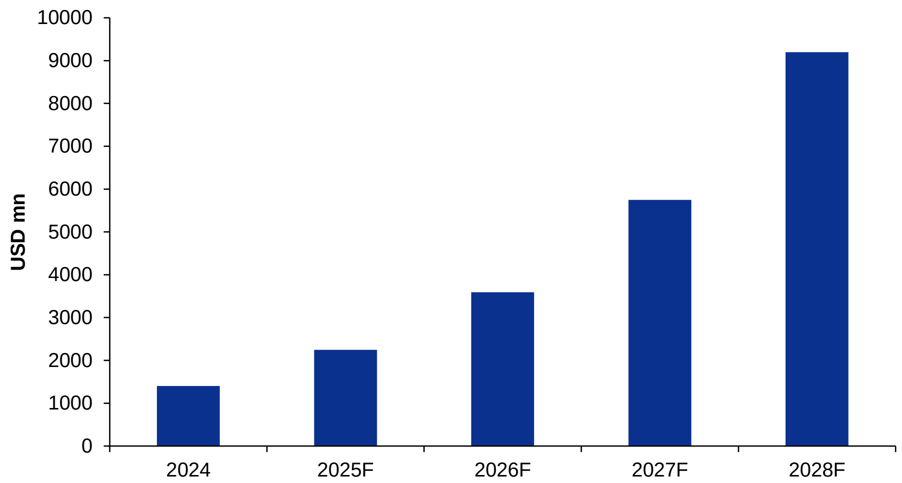
Battery Energy Storage Systems and Pumped Storage Plants

Battery Energy Storage Systems (BESS) and Pumped Storage Plants (PSPs), with NEP targets of 47GW/236GWh and 27GW by FY32F, represent a Rs4,000bn+ opportunity (as per IBEF) to support the 500GW renewable energy goal by FY30F. They stabilize the grid as RE scales up—BESS stores solar and wind power for peak demand, while PSPs ensure a large-scale balance, addressing the inefficiency spotlighted in NEP's Rs9,150bn T&D plan. These systems are vital to eliminate grid inefficiency (17% losses vs. 6% in developed markets).

Advanced conductors and FACTS

High-Temperature Low-Sag (HTLS) conductors bolster India's T&D backbone under the NEP's blueprint, expanding transmission lines to 648,190ckm by FY32F to meet 458GW peak demand. HTLS conductors withstand higher temperatures to deliver increased current efficiently. These advanced conductors optimize RE-heavy grids, like Gujarat's wind power zones, by carrying more power without new towers, supporting the NEP's vision of seamless energy flow. Meanwhile, Flexible AC Transmission Systems (FACTS) emerge as a dynamic upgrade, enhancing grid control and stability. FACTS devices adjust power flow in real time to prevent overload and outage.

Figure 11: India's HVDC and FACTS market is set to grow at a 60-65% CAGR, with Rs 760bn in announced projects and Rs300-400bn in tenders expected in the next four-to-five years



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Strategic impact and implications

These technologies address India grid's Achilles' heel—15-12% losses—and enable 458GW peak without thermal overbuild. HVDC and HTLS streamline power flow from renewable energy (RE) hubs, smart grids bolster reliability, and storage ensures RE stability, aligning with the NEP's roadmap.

- **Revenue growth**: These advancements open new revenue streams for key players like KPIL, Transrail Lighting, KEC International, and Skipper. HVDC and storage projects leverage KPIL and Transrail Lighting's expertise in high-voltage systems and solar EPC, while KEC International and Skipper capitalize on HTLS and sub-station opportunities, fueled by their manufacturing strengths.
- **Margin expansion**: Tech-driven projects promise profitability gains. Transrail Lighting's 13.2% and KPIL's 8.4% margin (3QFY25) edge higher with HVDC's complexity, outpacing KEC's 7% baseline. Skipper's sub-station focus lifts margin beyond traditional towers, as per 3QFY25 guidance. Smart grids add efficiency, enhancing returns across the board.
- **Execution risks**: Scaling these technologies brings challenges. High upfront costs for HVDC and storage strain finances—KEC International's 3QFY25 labour delays hint at broader hurdles—while smart grids demand digital skills which India lacks, as per a warning in the IEEMA Journal. Geological and funding issues for PSPs further test the timelines, risking project setbacks.

The T&D sector's tech shift is a survival race—India's plan to control grid losses to 15-12% demand HVDC/smart grids to avert inefficiency. Players mastering high-margin niches (e.g., Transrail Lighting's HVDC and Skipper's sub-stations) could outpace tower-centric peers (e.g., KEC International), and could redefine sector leaders.

Market structure and key players

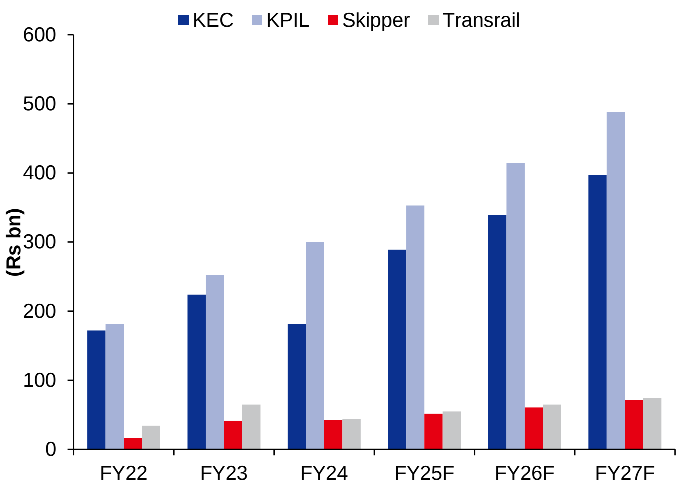
India's T&D market blends public dominance with private dynamism. Power Grid Corporation of India (PGCIL), with a Rs250bn Khavda-Nagpur HVDC order win in 3QFY25 (as per company announcement), commands 65% of TBCB tariffs over 9MFY25, followed by private giants like Adani Energy (14%, as per company filing) and Sterlite Power (10%). Among the companies in focus:

- **KPIL**: Rs614bn order book (3QFY25), 20-25% domestic T&D share, excels in 765kV and HVDC execution.

KEC International: Rs374bn backlog (+Rs40bn L1 status orders), 70% T&D-weighted, leverages 468,000mtpa tower capacity.

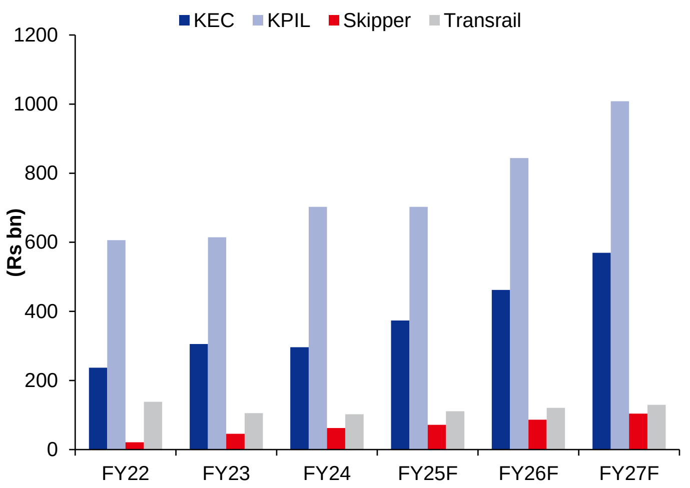
- **Transrail Lighting**: Rs115bn order book, 90% T&D, dominates high-voltage (e.g., 800kV HVDC) with 51% overseas exposure.
- **Skipper**: Rs63.54bn order backlog, pivots to sub-station EPC (13-15% margin) from tower supply.

Figure 12: Healthy order inflow…



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 13: …and order book



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Competitive differentiation

- **Scale vs. niche**: PGCIL's scale (Rs17bn backlog spike in 3QFY25) contrasts with private players' agility—Transrail Lighting's 54,000ckm execution history (IPO filing) and Skipper's 75,000tpa expansion target in niche high-margin segments.
- **Global reach**: Transrail Lighting (32% international order inflow) and KPIL (Sweden HVDC) outpace KEC International's domestic focus (55% of Rs220bn YTD orders), while Skipper's US exports leverage tariff exemptions.
- **Technological edge**: HVDC (Transrail Lighting, KPIL) and sub-station EPC (Skipper) position these companies for NEP's 33.25GW HVDC and 1,091GVA transformation goals, unlike tower-centric peers.

Market dynamics

The TBCB shift since 2011 (inter-state) and 2013 (intra-state) has democratized T&D, with private sector inflows surging. Yet, concentration risks persist—PGCIL's 65% 9MFY25 win rate (e.g., Khavda-Nagpur) could crowd out smaller players if bidding aggression escalates. Private sector companies counter this via specialization: Skipper's sub-station pivot targets a Rs50bn+ market by FY27F (as per management's guidance), while Transrail Lighting's solar EPC (80MW international win) taps RE diversification. However, execution capacity varies—KEC International's 7% growth in 3QFY25 lags Transrail Lighting's 62%, reflecting labour and legacy project drags (3QFY25 update).

The T&D pecking order hinges on execution over order wins. KPIL's Rs614bn backlog dwarfs KEC International's Rs374bn, but the latter's tower manufacturing scale (468,000 mtpa, post expansion) offers supply-chain control—a moat less evident in EPC-heavy peers. Skipper's sub-station bet could disrupt tower commoditization (10% margin), while Transrail Lighting's 13.2% margin (3QFY25) signals premium pricing power in HVDC. Risks include over-reliance on PGCIL contracts (e.g., 60% of Skipper's backlog) and potential margin dilution if RE bids spike, but export diversification and policy support balance these threats.

Order inflow: Resilience amid capex moderation ➤

Despite a broader capex slowdown, T&D companies have posted a 38% YoY surge in year-to-date or YTDFY25 order inflow, totaling Rs507bn (initial estimate). Updated 3QFY25 data shows this picture:

- **KEC International**: Rs220bn YTD (+70% YoY), with a guidance of Rs250bn in FY25F (+60% YoY). The order book stands at Rs374bn, with a potential L1 status pipeline worth Rs40bn.
- **Transrail Lighting**: Rs47.2bn YTD (+50% YoY), with its order book at Rs115bn.
- **Kalpataru Projects International**: Secured Rs201.9bn of orders YTD, with its total order book touching Rs614bn (+19% YoY), ensuring strong execution visibility.
- **Skipper**: Order inflow stood at Rs13.18bn, pushing its total backlog to Rs63.54bn (+10% YoY). The company's T&D order pipeline remains strong (~Rs200bn) and the sub-station EPC foray is expected to drive further order growth.

Opportunity pipeline

The Rs3-4tr capex pipeline for power distribution between FY25F-29F will continue to drive T&D demand. The NEP's 162,646ckm target and high-profile wins like PGCIL's Rs250bn Khavda-Nagpur HVDC project signal a robust pipeline. Private players excel under TBCB, with Skipper eyeing a Rs200bn domestic T&D pool and Transrail Lighting securing complex contracts (e.g., 800kV HVDC package). International diversification—Transrail' Lighting's 51% overseas backlog, KPIL's HVDC wins in Sweden, and Skipper's North American push—mitigates domestic risks and leverages global demand.

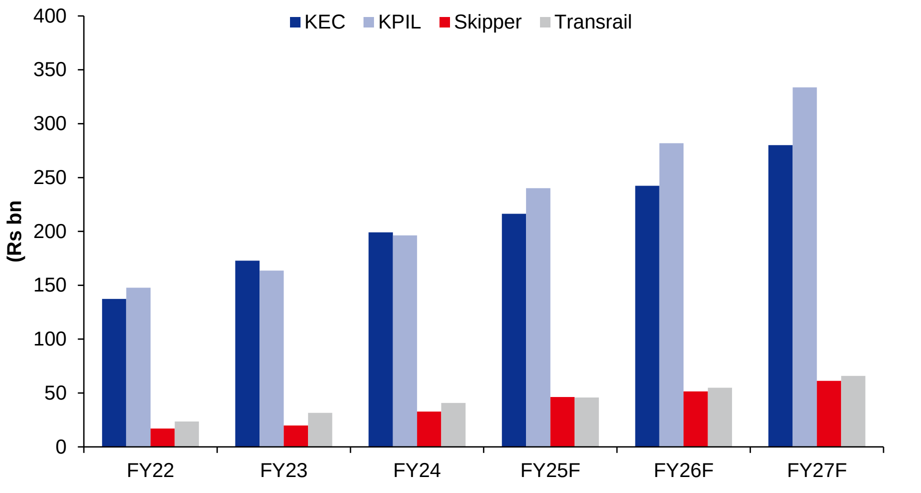
Order growth exceeds GDP trajectories driven by RE evacuation (66.5GW GEC-II) and grid upgrades. KEC International's 70% T&D share and Skipper's sub-station EPC entry (targeting a 13-15% margin) reflect a shift to high-value segments, suggesting that inflows could sustain beyond FY25F as private capex accelerates.

Execution capabilities: Scaling with resilience

Strong execution is a differentiator in the T&D sector, given project complexity and regulatory hurdles. The T&D sector's revenue grew at 14% CAGR over FY18-24 and is projected to rise by 16% over FY24-27F (initial estimate), supported by 3QFY25 performance:

- **KPIL:** 14% CAGR over FY18-24; 17% YoY in 3QFY25 (Rs57.33bn); 19% CAGR over FY24-27F.
- **KEC International:** 12% CAGR over FY18-24; 7% YoY in 3QFY25 (Rs53.49bn, revised to 12-14% in FY25F from 15%).
- **Transrail Lighting:** 22.5% CAGR over FY22-24 (IPO document); 62% YoY in 3QFY25 (Rs13.6bn).
- **Skipper:** 42% YoY in 3QFY25 (Rs11.35bn); 57% in 9MFY25 (Rs33.37bn).

Figure 14: Revenue clocked a 14% CAGR over FY18-24



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Operational strengths and challenges

- **KPIL**: T&D (+42% YoY) and oil & gas (+123%) offset the water segment's sluggishness; international scale (e.g., Linjemontage Sweden doubled revenue) bolsters resilience.
- **KEC International**: T&D segment (+17% YoY) mitigated railway (-30%) and oil & gas (-58%) segments' decline; Jabalpur plant's expansion to 468,000mtpa enhances capacity.
- **Transrail Lighting**: Historically executed 54,000ckm (as per IPO document); 800kV HVDC and Nepal 400kV wins showcase high-voltage prowess.
- **Skipper**: Engineering products (+75% YoY) and 75,000tpa expansion drive scalability; sub-station EPC entry diversifies its business beyond towers.

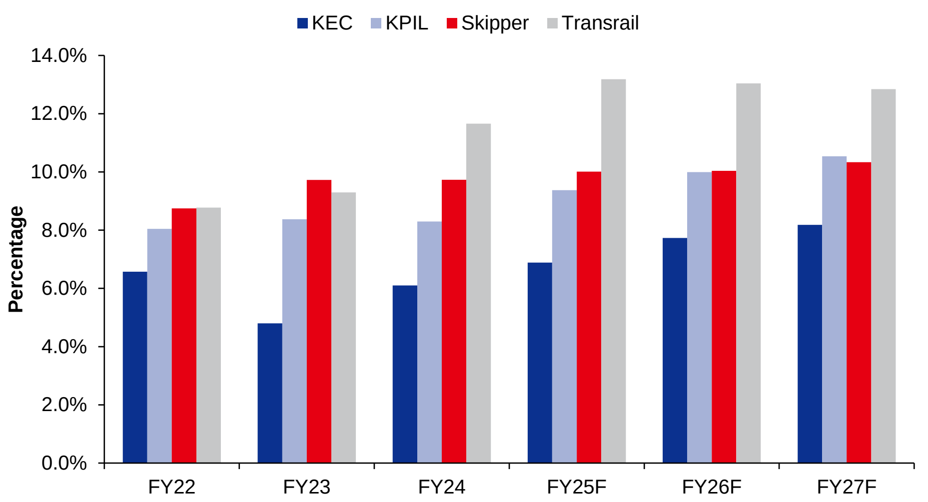
Execution disparities—Transrail Lighting and Skipper's outsized gains contrast with KEC International's moderation (labour shortage, FX headwinds, water segment delay). Yet, capacity investments and NEP-driven demand (e.g., 1,399 ckm added by PGCIL in 3QFY25, as per a company report) support a 16%+ CAGR. Export contribution (32% of Transrail Lighting's inflow) and technological leap (e.g., KPIL's tunnel boring for metro rail projects) position the sector in terms of global competitiveness.

Margin expansion: Levers aligning for a recovery

Sector EBITDA margin, currently at 7-8% (down from 11%+ in FY18), is set to recover to 10% by FY27F (initial estimate), validated by 3QFY25 results:

- **KEC International:** 7% (+85bp YoY), targeting 9-10% with T&D focus; up from 4.8% in FY23.
- **KPIL:** 8.4% (-30bp YoY), hit by water segment/FX losses; aims at a 5% PBT margin in 4QFY25F.
- **Transrail Lighting:** 13.2% (+172bp YoY), leading the pack with high-voltage projects.
- **Skipper:** 9.8% (+16bp YoY), with sub-station EPC (13-15%) as a future catalyst.

Figure 15: Margin profile likely to expand



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key levers

- **Project mix:** High-margin HVDC (Transrail Lighting, KPIL) and sub-station EPC (Skipper) contrast with legacy low-margin contracts (e.g., KEC International's SAE Tower losses).
- **Operational efficiency:** KPIL's provisioning and Skipper's cost controls (finance costs down to 4.4%) enhance profitability.
- **Scale and diversification:** Transrail Lighting's 13% 9MFY25 margin and KEC International's capacity expansion signals an upside as execution scales.

Transrail Lighting's 13.2% margin sets a high bar, leveraging NEP's HVDC focus (33.25GW). Skipper's sub-station pivot could lift sector average above 10%, while KEC International and KPIL's recovery depends on shedding legacy drag. Faster RE project execution (e.g., Transrail Lighting's 80MW solar EPC) could push margin beyond the FY27F target, reflecting a structural profitability shift.

Interest cost dynamics: Peaking cycle, strengthening Balance Sheet

Interest costs, at 3.1% of sales in FY25F (initial estimate), are peaking, with companies raising funds to deleverage:

- **Transrail Lighting**: Rs8.4bn (Rs4bn fresh share issue); debt-to-equity ratio at 0.67 in FY24 (IPO filing).
- **KPIL**: Rs10bn QIP; net debt down 27% QoQ to Rs26.94bn.
- **KEC International**: Rs8.7bn; interest costs at 3.2% of sales in 3QFY25.
- **Skipper**: Rs1.48bn rights share issue (plans total Rs6bn); finance costs at 4.4% of sales.

The path to reduce interest costs to 2.5% of sales by FY27F

The path to reduce interest costs to 2.5% of sales by FY27F is underway, with KPIL targeting below 2% from 4QFY25F by leveraging its Rs10bn qualified institutional placement or QIP of shares and Rs614bn backlog execution, while Skipper's working capital improvement to 88 days (from 154 days in FY24) and declining finance costs (4.4% in 3QFY25) signal progress, and Transrail Lighting's Rs8.4bn IPO proceeds (Rs4bn fresh share issue) alongside a 92% PAT growth (Rs932m) enhance liquidity; however, KEC International's higher burden (3.2% in 3QFY25) due to execution delay ties its recovery to FY26F growth—overall, the 2.5% FY27F target may prove conservative as KPIL's sub-2% ambition and Skipper's optimization suggest a steeper decline, although KEC International's challenges underscore execution risks, with sector-wide deleveraging, exemplified by PGCIL's capex surge with a stable RoE (as per company report), reinforcing bottom-line potential amid robust order books.

Management commentary & highlights

Kalpataru Projects International

- **T&D and oil & gas sector drives revenue:** Kalpataru Projects International or KPIL reported a 17% YoY revenue growth in 3QFY25, with standalone revenue rising by 16% YoY. The growth was driven by T&D (+42% YoY), B&F (+26% YoY), and oil & gas (+123% YoY) segments. However, the water segment remained sluggish, impacted by delayed payments from Jal Jeevan Mission (JJM) projects. Margins were affected by lower water segment revenue and currency fluctuations in Brazil.
- **Order inflow at an all-time high:** KPIL reported record-high YTD order inflow of Rs202bn, including a recent Rs8.2bn contract. The order book touched Rs614bn (+19% YoY), with 80%-90% of new orders concentrated in T&D and B&F segments, ensuring healthy execution visibility. The company expanded its global presence in Sweden through major HVDC project wins and strengthened its metro rail footprint with Nagpur metro and Kanpur metro orders, with the latter using the tunnel boring machine (TBM) technology.
- **Strong balance sheet post QIP**: KPIL successfully raised capital via a qualified institutional placement or QIP of shares in Dec 2024, The proceeds were used to strengthen the balance sheet, leading to a 27% QoQ reduction in net debt to Rs26.9bn (consolidated) and a 35% QoQ decline to Rs18.2bn (standalone). Net working capital days improved to 112 days (standalone) and 94 days (consolidated), reflecting higher efficiency. KPIL's Linjemontage Sweden subsidiary doubled its revenue YoY, securing a record Rs31.4bn of orders, while Fasttel Brazil faced profitability challenges due to currency devaluation affecting US dollar-denominated loans.
- **Maintain positive outlook:** KPIL remains well-positioned for future growth, with strong execution momentum in T&D, B&F and oil & gas segments. We have cut FY25F/26F/27F EPS by 10%/3%/3%, respectively, factoring in lower execution in railway and water segments. We have valued the standalone business at 20x FY27F EPS and investments at Rs40/share. Retain our ADD rating on KPIL with a target price of Rs1,461.

KEC International

- **Muted order execution**: KEC International posted weaker-than-expected 3QFY25 results due to lower execution in railway and oil & gas segments. Revenue was up 6.8% YoY (+4.6% QoQ) at Rs53.4bn, 7% below our estimate and 5% below Bloomberg or BB consensus estimate. The revenue of T&D segment grew by 17% YoY to Rs31.7bn, while non-T&D businesses declined 8% YoY driven by railway (down 30% YoY) and oil & gas (down 58% YoY) segments. EBITDA grew by 21% YoY to Rs3.7bn (+17% QoQ), 11% below our estimate and 6% below BB consensus estimate. The EBITDA margin rose by 85bp YoY to 7%. PAT jumped 33% YoY & 52% QoQ to Rs1.3bn, ~19% below our estimate and 20% below BB consensus estimate.

- **Lower revenue guidance with EBITDA margin of ~7%**: Management gave revenue growth guidance of 12-14% (vs. previous guidance of 15%) for FY25F. For FY26F, management has given guidance of ~15% growth, driven by T&D business expansion and civil business recovery. Margin is expected to reach 9-10% as the business mix shifts towards higher-margin T&D projects. KEC International is looking to increase its capacity at the Jabalpur plant by 48,000mtpa to touch 468,000mtpa, enabling better service across India and the Middle East.
- **Healthy order inflow:** The YTD order inflow grew by 70% YoY to Rs Rs220bn, 70% from the T&D business, with FY25F inflow guidance of Rs50bn. The order book stands at Rs374bn, with an additional L1 status pipeline of Rs40bn, (from T&D) totalling over Rs410bn.
- **Outlook & valuation:** The T&D business received significant heathy orders from the government & private developers. The company is also expanding its tower supply business internationally, notably in Australia. It is focusing on expanding capabilities in energy transition areas, including wind energy and green hydrogen, to capitalize on the global shift towards renewable energy. We expect the company to report healthy revenue growth on the back of its robust order book and a healthy tender pipeline. Factoring in lower revenue in railway and oil & gas sectors, we cut revenue estimates by ~1-3% & PAT estimates by 7-25% for FY25F27F. We maintain our ADD rating on the stock with a slightly lower target price of Rs1,122, valuing it at 25x FY27F EPS.

Skipper

- **Robust revenue growth:** Skipper reported a solid 42% YoY revenue growth to Rs11.35bn in 3QFY25, led by engineering products (+75% YoY at Rs9.06bn). However, its polymer and infrastructure businesses declined by 14% and 23% YoY, respectively. EBITDA increased by 44% YoY to Rs1.1bn, with margin at 9.8% (-33bp YoY). PAT surged 76% YoY to Rs361m, driven by lower finance costs & operational efficiency. The order book grew to Rs63.54bn (+10% YoY), with order inflow at Rs13.18bn for the quarter, indicating continued strong demand.
- **Sub-station EPC is the future growth driver:** Skipper has forayed into the sub-station EPC business, marking a major step beyond its core transmission line segment. Management expects sub-station projects to offer a higher margin (13-15%) compared to traditional T&D lines (~10%), enhancing profitability. The company is well-positioned to win its first major sub-station contract soon, with the segment expected to scale significantly from FY27F. The domestic T&D pipeline remains strong at Rs200bn, aided by government-driven grid modernization & renewable energy integration.
- **Capacity expansion & strong financial position:** The 75,000tpa capacity expansion remains on track, with completion of a portion of it by 4QFY25F and adding Rs7bn revenue potential at full capacity utilization in FY26F. Skipper continues to enhance its presence in global markets, particularly in North America, leveraging India's exemption from US tariffs on transmission structures. Net working capital improved to 88 days, aided by Rs1.48bn from a rights share issue, helping optimize finance costs.
- **Maintain ADD rating:** We expect Skipper to maintain a ~25% revenue CAGR, backed by expansion in sub-station EPC business, rising order inflow, and sustained execution strength. Factoring in the strong 3Q performance, we increase our revenue/EBITDA/PAT estimates by 3%/2%5%, respectively, for FY25F and maintain estimates for FY26F/27F. We also maintain our ADD rating on Skipper with a higher target price of Rs695, valuing the stock at 28x FY27F EPS.

Figure 16: Power transmission capacity

		FY20	FY21	FY22	FY23	FY24	FY27F	FY32F
Type / Voltage Class								
Transmission Lines								
(a) HVDC ± 320 kV/500 kV/800 kV Bipole	ckm	15,556	19,375	19,375	19,375	19,375	19,455	34,887
(b) 765kV	ckm	44,906	46,143	51,076	52,731	54,850	87,581	1,14,719
(c) 400kV	ckm	1,84,238	1,89,627	1,93,695	1,97,467	2,03,555	2,28,596	2,49,585
(d) 230/220 kV	ckm	1,80,371	1,86,676	1,92,570	2,01,768	2,07,764	2,35,771	2,48,999
Total: Transmission Lines	**ckm**	**4,25,071**	**4,41,821**	**4,56,716**	**4,71,341**	**4,85,544**	**5,71,403**	**6,48,190**
Sub-stations								
(a) 765 kV	MVA	2,32,500	2,40,200	2,58,700	2,78,200	2,96,200	6,00,700	9,20,200
(b) 400 kV	MVA	3,35,697	3,60,252	3,91,638	4,24,273	4,56,458	6,78,083	8,13,828
(c) 230/220 kV	MVA	3,74,196	3,95,516	4,20,612	4,44,379	4,64,922	5,68,497	6,11,107
Total: Sub-stations	MVA	**9,42,393**	**9,95,968**	**10,70,950**	**11,46,852**	**12,17,580**	**18,47,280**	**23,45,135**
HVDC								
(a) Bi-pole link capacity	MW	24,500	28,500	30,500	30,500	30,500	31,500	63,750
(b) Back-to back capacity	MW	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Total- HVDC	**MW**	**27,500**	**31,500**	**33,500**	**33,500**	**33,500**	**34,500**	**66,750**
Total: Transformation Capacity	**MW**	**9,69,893**	**10,27,468**	**11,04,450**	**11,80,352**	**12,51,080**	**18,81,780**	**24,11,885**

SOURCE: INCRED RESEARCH, NEP

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.