

J. Kumar Infraprojects

BUY

INDUSTRY INFRASTRUCTURE

CMP (as on 30 May 2017) Rs 299

Target Price Rs 351

Nifty 9,625

Sensex 31,159

KEY STOCK DATA

Bloomberg JKIL IN

No. of Shares (mn) 76

MCap (Rs bn) / (\$ mn) 23/349

6m avg traded value (Rs mn) 100

STOCK PERFORMANCE (%)

52 Week high / low Rs 322/105

3M 6M 12M

Absolute (%) 33.8 54.2 26.6

Relative (%) 25.4 37.3 10.0

SHAREHOLDING PATTERN (%)

Promoters 43.94

DII's & Local MFs 10.54

FPIs 24.40

Public & Others 21.12

Source : BSE

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'Boring' is key to re-rating

JKIL's 4QFY17 net revenues/EBIDTA/APAT, came in ~11/17.1/26.3% below our estimates respectively. Delay in shifting of utilities in JNPT/Metro projects impacted execution. The balance sheet remained stable, with net debt at Rs 3.5bn and net D/E at 0.25x vs Rs 4.7bn and 0.34x during 3QFY17.

JKIL is going slow in bidding for new orders as it expects to consolidate the current order backlog (Rs 93.4bn, 6.5x FY17 rev), and focus on execution. Total FY17 order inflow stood at Rs 74.3bn. We expect Rs 15-20 bn/yr order inflow over FY18-19E. JKIL's road project at JNPT is facing execution issues owing to delay in the shifting of utilities, and a ramp up is expected from 2HFY18E.

We have retained our FY18-19E revenue estimates, and upgraded our FY19E EPS estimate by 10.2% to factor in EBIDTA margin expansion. **Maintain BUY with a TP of Rs 351/sh (15x FY19E EPS).**

Financial Summary (Standalone)

Year End March (Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY16	FY17E	FY18E	FY19E
Net Sales	3,555	4,039	(12.0)	3,690	(3.7)	14,086	14,375	18,547	23,762
EBITDA	602	645	(6.7)	631	(4.6)	2,483	2,476	3,112	4,201
APAT	259	244	6.1	268	(3.2)	986	1,057	1,182	1,772
Diluted EPS (Rs)	3.4	3.2	6.1	3.5	(3.2)	13.0	14.0	15.6	23.4
P/E (x)						22.9	21.4	19.1	12.8
EV / EBITDA (x)						9.8	10.5	8.7	6.2
RoE (%)						9.5	8.0	8.4	11.7

Source: Company, HDFC sec Inst Research

Highlights of the quarter

- **Execution disappoints:** JKIL has been facing a six-month delay in JNPT road/Mumbai Line 2A/Line 7 projects, on account of right of way/utilities shifting. This has lead to a revenue miss of ~Rs 600mn vs our estimates. With these issues now sorted, we build in 28.6% FY17-19E rev CAGR.
- **Balance sheet stable, net D/E at 0.25x:** JKIL has utilised ~Rs 4bn of cash and investments as cash margins for the Metro Project's bank guarantee. This has resulted in net debt of Rs 3.5bn in 4QFY17 vs Rs 4.7bn in 3QFY17. We have modelled for peak debt of Rs 5bn. Working capital remains at elevated levels (debtor days – 133).
- **Near-term outlook:** JKIL's new orders are expected to deliver FY17-19E 28.6/29.5% revenue/APAT CAGR and are key to further re-rating. We remain constructive on the stock.

JKILs 4QFY17 net revenues/EBIDTA/APAT, were ~11/17.1/26.3% below our estimates. Delay in utilities shifting in JNPT/Metro projects impacted execution

JKIL reported a consolidated performance, reflecting entire Delhi Metro project execution

Company's net debt is now Rs 3.5bn, with net D/E ratio of 0.25x vs Rs 4.7bn net debt and 0.34x net D/E end 3QFY17

FY17 order inflow/order book stood at Rs 74.3/93.4bn

There was no fresh order inflow in 4QFY17

To factor in back-ended order book growth, we have cut our rev estimate by 3.1% for FY18E. Increased FY19E EPS 10.2% owing to EBIDTA margins expansion

Quarterly Financial

Particulars (Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY17	FY16	YoY (%)	FY17*	FY16*	YoY (%)
Net Revenues	3,555	4,039	(12.0)	3,690	(3.7)	14,375	14,086	2.0	15,728	15,078	4.3
Material Expenses	(1,616)	(2,467)	(34.5)	(2,552)	(36.7)	(8,783)	(8,859)	(0.9)	(9,384)	(8,988)	4.4
Employee Expenses	(312)	(226)	38.4	(307)	1.7	(1,029)	(784)	31.2	(1,252)	(1,151)	8.8
Other Operating Expenses	(1,024)	(702)	45.9	(200)	410.8	(2,086)	(1,960)	6.5	(2,599)	(2,475)	5.0
EBITDA	602	645	(6.7)	631	(4.6)	2,476	2,483	(0.3)	2,494	2,464	1.2
Depreciation	(149)	(132)	13.0	(143)	3.8	(556)	(512)	8.6	(556)	(512)	8.6
EBIT	453	513	(11.8)	488	(7.1)	1,920	1,971	(2.6)	1,937	1,952	(0.8)
Other Income	103	87	18.3	63	63.2	287	175	64.4	302	183	65.1
Interest Cost	(154)	(142)	8.2	(155)	(0.7)	(659)	(616)	7.0	(661)	(635)	4.1
PBT	402	458	(12.3)	396	1.5	1,548	1,529	1.2	1,578	1,500	5.2
Tax	(139)	(212)	(34.4)	(130)	6.7	(493)	(544)	(9.4)	(522)	(569)	(8.2)
RPAT	263	246	6.8	265	(1.0)	1,055	985	7.1	1,056	931	13.4
Profit from ass/OCI	(3)	(1)		3		2	1		1	31	
APAT	259	244	6.1	268	(3.2)	1,057	986	7.2	1,057	962	9.9

Source: Company, HDFC sec Inst Research , * Consolidated financial

Margin Analysis

	4QFY17	4QFY16	YoY (bps)	3QFY17	QoQ (bps)	FY17	FY16	YoY (bps)	FY17*	FY16*	YoY (bps)
Material Exp % Net Sales	45.5	61.1	(1,560)	69.1	(2,368)	61.1	62.9	(180)	59.7	59.6	5
Employee Exp % Net Sales	8.8	5.6	320	8.3	47	7.2	5.6	159	8.0	7.6	33
Other Ope Exp % Net Sales	28.8	17.4	1,144	5.4	2,338	14.5	13.9	60	16.5	16.4	11
EBITDA Margin (%)	16.9	16.0	96	17.1	(17)	17.2	17.6	(40)	15.9	16.3	(49)
Tax Rate (%)	34.6	46.3	(1,167)	33.0	168	31.8	35.6	(374)	33.1	37.9	(484)
APAT Margin (%)	7.4	6.1	130	7.2	20	7.3	7.0	35	6.7	6.2	54

Source: Company, HDFC sec Inst Research, * Consolidated financial

Change In Estimates

Particulars	FY18E New	FY18E Old	% Change	FY19E New	FY19E Old	% Change
Sales (Rs mn)	18,547	19,139	(3.1)	23,762	24,020	(1.1)
EBITDA (Rs mn)	3,112	3,127	(0.5)	4,201	3,981	5.5
APAT (Rs mn)	1,261	1,270	(0.7)	1,772	1,608	10.2
EPS (Rs)	16.7	16.8	(0.7)	23.4	21.3	10.2

Source: Company, HDFC sec Inst Research

We expect -6.4% FY17-19E order book CAGR. JKIL has guided for Rs 15-20bn new order inflows as focus is on execution of current backlog

Expect execution to materially pick up during FY17-19E. We estimate FY17-19E revenue CAGR at 28.6%

FY17-19E EBIDTA CAGR of 30.3%

FY17-19E PAT CAGR of 29.5%

Key Assumptions & Estimates

(Rs mn)	FY17E	FY18E	FY19E	Comments
Closing order book	93,370	86,844	82,279	We expect -6.1% FY17-19E order book CAGR on as JKIL is slowing down bidding so as to step up execution of current order book
Order book growth (%)	190.5	(7.0)	(5.3)	
New order booking	74,300	15,000	20,000	New order booking to remain muted after strong FY17 wins
Book to bill ratio	6.5	4.7	3.5	
Total Revenue	14,375	18,547	23,762	Expect execution to materially pick up during FY17-19E. We estimate FY17-19E revenue CAGR at 28.6%
Growth (%)	2.0	29.0	28.1	
EBIDTA	2,476	3,112	4,201	FY17-19E EBIDTA CAGR of 30.3%
EBIDTA margin (%)	17.2	16.8	17.7	Margins decline in FY18E is on account of low margin in utilities shifting work for JNPT road. EBIDTA margins to expand during FY19E back to normal 17-18% range
Depreciation	556	857	1,040	We est. FY17-19E depreciation CAGR at 36.7%, owing to new TBM's capex
Financial Charges	659	832	882	We est. FY17-19E interest exp. CAGR at 15.7%, largely on account of WC
PBT	1,548	1,689	2,531	FY17-19E PBT CAGR of 27.9%,
PBT margin (%)	10.8	9.1	10.7	
Tax	492.7	506.7	759.3	
Tax rate (%)	31.8	30.0	30.0	
PAT	1,057	1,182	1,772	FY17-19E PAT CAGR of 29.5%
Net margin (%)	7.4	6.4	7.5	
Gross Block Turnover	2.0	2.0	2.2	
Debtor days	133	108	98	Higher revenue growth, to result in WC investment and lower CFO
CFO - a	(31)	1,468	2,565	
CFI - b	(786)	(1,334)	(257)	TBM's key driver of capex. Three new at Rs 2.1bn and 2 refurbished
FCF - a+b	(817)	134	2,308	FCF to remain muted in FY18E on back of TBM capex of Rs 2.5bn
CFF - c	(44)	(730)	(1,481)	
Total change in cash - a+b+c	(862)	(596)	827	

Source : HDFC sec Inst Research

We value standalone EPC business at Rs 351/share (15x one-year forward Mar-19E EPS)

Our target price is Rs 351/share (vs earlier TP of Rs 319/share)

TP increase is largely on account of 10.2% upgrade in our FY19E EPS

Outlook and valuation

Increase in Target Price to Rs 351/sh implies ~17.5% upside

- **Valuation methodology:** We have valued JKIL on P/E basis in line with peers, namely Sadbhav/KNRC/Ashoka Buildcon, at 15x one-year forward. Our justification behind this assumption is (i) Strong order backlog of Rs 93.4bn (6.5x FY17 revenue) (ii) Stable FY17-end balance sheet with net D/E at 0.25x and net debt at Rs 3.5bn (iii) No exposure to capex-intensive BOT projects and (iv) Well-diversified presence across different infrastructure sub-segments viz. metro, flyovers, road, water transport etc.
- Further expansion in multiples is supported by JKIL crossing the Rs 1bn mark in profits (size effect) during FY17, which catapults it to the league of larger construction peers. We estimate 29.5% FY17-19E EPS CAGR for JKIL, with profit multiplying 1.7x.
- Investments in the transportation sector (constitutes 98% JKIL's FY17 order book) would continue to drive stock performance, and JKIL, with strong credentials is likely to benefit from the pickup in order execution. We value the standalone EPC business at Rs 351/share (15x one-year forward Mar-19E EPS).
- **We maintain a BUY stance on JKIL, with an increased target price of Rs 351/share (vs. Rs 319/share earlier).** The price target increases on 10.2% upgrade in our FY19E EPS.

Valuation

Particulars	Segments	Value (Rsmn)	Value per share(Rs)	Rationale
EPC	Core construction business	26,575	351	At 15x Mar-19E EPS
Total		26,575	351	

Source : HDFC sec Inst Research

Income Statement - Standalone

Year ending March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	13,432	14,086	14,375	18,547	23,762
Growth (%)	13.2	4.9	2.0	29.0	28.1
Material Expenses	7,993	8,859	8,783	11,804	14,886
Employee Expenses	741	784	1,029	1,259	1,600
Other Operating Expenses	2,192	1,960	2,086	2,373	3,076
EBIDTA	2,506	2,483	2,476	3,112	4,201
EBIDTA (%)	18.7	17.6	17.2	16.8	17.7
EBIDTA Growth (%)	21.7	(0.9)	(0.3)	25.7	35.0
Depreciation	474	512	556	857	1,040
EBIT	2,032	1,971	1,920	2,255	3,161
Other Income (Incl. EO Items)	130	175	287	266	253
Interest	768	616	659	832	882
PBT	1,395	1,529	1,548	1,689	2,531
Tax	451	544	493	507	759
PAT	944	985	1,055	1,182	1,772
EO items (net of tax)	(8)	1	2	-	-
APAT	936	986	1,057	1,182	1,772
APAT Growth (%)	11.7	5.3	7.2	11.9	49.9
EPS	12.4	13.0	14.0	15.6	23.4
EPS Growth (%)	11.7	5.3	7.2	11.9	49.9

Source: Company, HDFC sec Inst Research

Balance Sheet – Standalone

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital	322	378	378	378	378
Reserves	7,569	12,455	13,341	14,125	15,498
Total Shareholders Funds	7,891	12,833	13,719	14,503	15,877
Long Term Debt	5,154	3,540	4,370	4,870	4,670
Short Term Debt	-	-	-	-	-
Total Debt	5,154	3,540	4,370	4,870	4,670
Deferred Taxes	131	170	170	170	170
TOTAL SOURCES OF FUNDS	13,176	16,543	18,259	19,543	20,717
APPLICATION OF FUNDS					
Net Block	4,301	4,299	5,095	6,738	6,198
CWIP	633	675	675	675	675
Investments, LT Loans & Advances	11	1,797	1,427	527	537
Total Non-current Assets	4,945	6,771	7,197	7,940	7,410
Inventories	5,431	4,862	5,621	6,169	7,535
Debtors	2,008	2,956	5,226	5,484	6,375
Cash & Equivalents	1,548	1,736	874	278	1,105
ST Loans & Advances, Others	797	1,040	1,386	1,371	1,739
Other Current Assets	2,193	2,282	5,782	5,282	4,782
Total Current Assets	11,978	12,875	18,888	18,584	21,535
Creditors	1,355	1,140	1,583	1,828	2,608
Other Current Liabilities & Provns	2,391	1,964	6,243	5,153	5,621
Total Current Liabilities & Provns	3,746	3,104	7,827	6,981	8,229
Net Current Assets	8,232	9,771	11,062	11,603	13,306
TOTAL APPLICATION OF FUNDS	13,176	16,543	18,259	19,543	20,716

Source: Company, HDFC sec Inst Research

Cash Flow - Standalone

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Reported PBT	1,395	1,538	1,549	1,689	2,531
Non-operating & EO items	16	(0)	0	0	0
Interest expenses (Net)	645	478	448	566	630
Depreciation	476	512	604	857	1,040
Working Capital Change	(1,559)	(1,411)	(2,152)	(1,137)	(877)
Tax Paid	(387)	(435)	(480)	(507)	(759)
OPERATING CASH FLOW (a)	586	681	(31)	1,468	2,565
Capex	(405)	(553)	(1,400)	(2,500)	(500)
Free cash flow (FCF)	180	128	(1,431)	(1,032)	2,065
Investments	(129)	(1,711)	614	1,166	243
INVESTING CASH FLOW (b)	(535)	(2,264)	(786)	(1,334)	(257)
Share capital Issuance	1,372	4,093	0	0	0
Debt Issuance	(433)	(1,615)	830	500	(200)
Interest expenses	(768)	(611)	(692)	(832)	(882)
Dividend	(141)	(155)	(182)	(398)	(398)
FINANCING CASH FLOW (c)	30	1,713	(44)	(730)	(1,481)
NET CASH FLOW (a+b+c)	81	130	(862)	(596)	827
Closing Cash & Equivalents	197	284	874	278	1,105

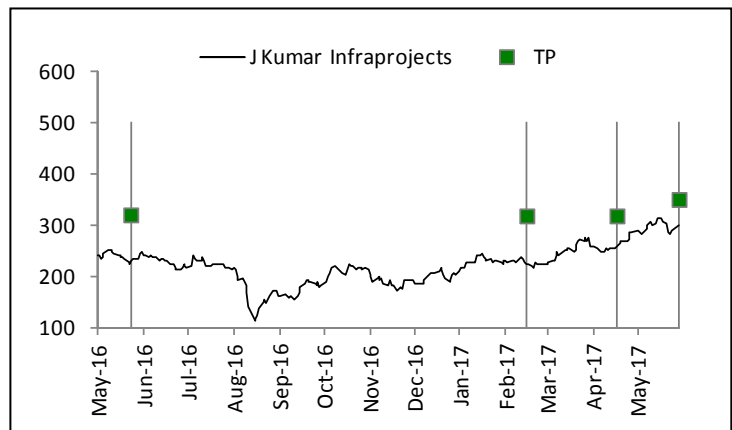
Source: Company, HDFC sec Inst Research

Key Ratios - Standalone

	FY15	FY16	FY17E	FY18E	FY19E
PROFITABILITY (%)					
GPM	40.5	37.1	38.9	36.4	37.4
EBITDA Margin	18.7	17.6	17.2	16.8	17.7
EBIT Margin	15.1	14.0	13.4	12.2	13.3
APAT Margin	7.0	7.0	7.4	6.4	7.5
RoE	13.7	9.5	8.0	8.4	11.7
Core RoCE	17.6	15.1	13.2	12.6	16.1
RoCE	16.6	14.1	12.2	12.6	16.1
EFFICIENCY					
Tax Rate (%)	32.3	35.6	31.8	30.0	30.0
Asset Turnover (x)	1.0	1.0	0.9	1.0	1.2
Inventory (days)	148	126	143	121	116
Debtors (days)	55	77	133	108	98
Payables (days)	37	30	40	36	40
Cash Conversion Cycle (days)	165	173	235	193	174
Loans & Advances (days)	22	27	35	27	27
Other Assets (days)	60	59	147	104	73
Other Liab (days)	65	51	159	101	86
NWC (days)	182	208	259	223	187
Debt/EBITDA (x)	2.1	1.4	1.8	1.6	1.1
Net D/E	0.46	0.14	0.21	0.30	0.26
Interest Coverage	2.6	3.2	2.9	2.7	3.6
PER SHARE DATA					
EPS (Rs/sh)	12.4	13.0	14.0	15.6	23.4
CEPS (Rs/sh)	18.6	19.8	21.3	26.9	37.2
DPS (Rs/sh)	4.0	2.0	2.0	2.0	2.0
BV (Rs/sh)	104.3	169.6	181.3	191.7	209.8
VALUATION					
P/E	24.2	22.9	21.4	19.1	12.8
P/BV	2.9	1.8	1.6	1.6	1.4
EV/EBITDA	10.5	9.8	10.5	8.7	6.2
OCF/EV (%)	2.2	2.8	(0.1)	5.4	9.8
FCF/EV (%)	0.7	0.5	(5.5)	(3.8)	7.9
FCFE/Market Cap (%)	(4.5)	(9.3)	(5.7)	(6.0)	4.3
Dividend Yield (%)	1.3	0.7	0.7	0.7	0.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
25-May-16	223	BUY	321
16-Feb-17	223	BUY	319
18-Apr-17	257	BUY	319
30-May-17	299	BUY	351

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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