

# J KUMAR INFRAPROJECTS

## Robust performance

India Equity Research | Infrastructure - Construction

J Kumar Infraprojects (JKIL) delivered strong Q4FY18 performance with revenue surging 73% YoY to ~INR9bn; top-line growth was aided by consolidation of joint ventures (~INR1.5bn contribution). With EBITDA margin improving 110bps YoY, PAT soared 95% YoY. Pick up in work on Mumbai Metro and JNPT projects drove execution during the quarter. With all five TBMs expected to start working on the Mumbai Metro Line 3 project from July 2018, we believe execution will gain further traction. Healthy order book (book-to-bill at 3.7x), lean balance sheet (net debt<0.1x) and burgeoning opportunities in the urban infra space render us bullish on the company. Maintain 'BUY' with target price of INR474.

### Work gathers pace on Mumbai Metro, JNPT projects

Q4FY18 top line rose 73% YoY as JKIL executed ~INR3.9bn work on the three Mumbai Metro projects (Line 2A, Line 3 and Line 7); execution on the JNPT project also picked up (~INR1.65bn in Q4FY18 versus ~INR940mn in Q3FY18). Revenue in Q4FY18 was also aided by consolidation of joint ventures; this consolidation was for execution done in the whole year, but it was given effect only in Q4FY18. Having surpassed its FY18 revenue guidance of INR17-18bn by delivering ~INR20.5bn top line, management has guided for ~INR23bn revenue in FY19 and ~INR26bn in FY20.

### Buoyant order inflow prospects

JKIL ended Q4FY18 with order book of ~INR75bn (3.7x TTM revenue); it has already won ~INR10bn orders in Q1FY19 and is also L1 in an INR1.8bn project. Management is targeting additional ~INR10-15bn projects in FY19. They are targeting the metro rail (upcoming projects in Mumbai, Ahmedabad, Pune and Delhi), urban infra, roads and the buildings segments for future orders and currently has a bid pipeline of ~INR45bn.

### Outlook and valuations: Getting a move on; maintain 'BUY'

Improving execution trajectory, robust order book, lean balance sheet (net debt:equity amongst the lowest in industry) and niche presence in the urban infra space are key positives for JKIL. We expect the company to continue its strong run as work is on full swing on all major projects. We maintain 'BUY' with target price of INR474 (18x FY20E EPS).

#### EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

#### MARKET DATA (R: JKIP.BO, B: JKIL IN)

CMP	: INR 270
Target Price	: INR 474
52-week range (INR)	: 375 / 182
Share in issue (mn)	: 75.7
M cap (INR bn/USD mn)	: 20 / 313
Avg. Daily Vol. BSE/NSE ('000)	: 197.2

#### SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	43.9	43.9	43.9
MF's, FI's & BKs	10.9	11.2	10.6
FII's	23.6	23.8	25.1
Others	21.6	21.1	20.4
* Promoters pledged shares (% of share in issue)	:	31.58	

#### PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(5.6)	(2.0)	3.6
3 months	(3.1)	(13.6)	(10.5)
12 months	10.8	(6.7)	(17.5)

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#### Financials

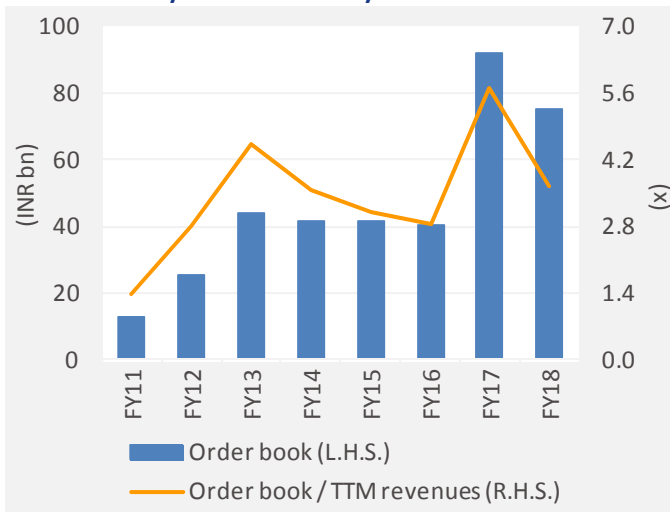
(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Revenues	9,023	5,222	72.8	4,572	97.4	20,507	24,307	27,621
EBITDA	1,194	631	89.2	776	53.8	3,212	3,905	4,589
Adj. profit	548	281	95.1	329	66.3	1,366	1,588	1,991
Dil. EPS (INR)	7.2	3.7	95.1	4.4	66.3	18.0	21.0	26.3
Diluted P/E (x)						15.0	12.9	10.3
EV/EBITDA (x)						6.6	5.5	4.6
ROAE (%)						9.4	10.1	11.4

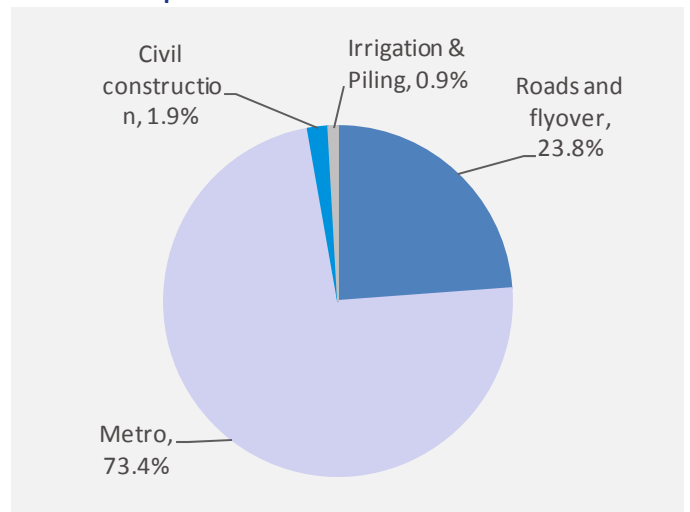
### Other highlights

- Consolidation of joint ventures contributed to ~INR1.7bn revenues in FY17 and INR1.5bn in FY18; the same resulted in FY17/18 margins being lower than the 17-18% margin which the company has historically delivered.
- JKIL will target upcoming bids for Mumbai Metro Line 5, 6 and 7 (extension).
- Two tunnel boring machines (TBM) have already started working on the Mumbai Metro Line 3 project; all the five TBMs will start revenue generation from July 2018.
- Gross debt stood at ~INR5.8bn at FY18 end.

**Chart 1: Healthy revenue visibility**



**Chart 2: Transport dominates order book**



Source: Company, Edelweiss research

Note: Order book includes L1 projects

## Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	9,023	5,222	72.8	4,572	97.4	20,507	24,307	27,621
Direct costs	5,752	2,493	130.8	2,709	112.3	12,087	14,254	16,046
Staff costs	677	550	23.2	495	36.8	1,971	2,312	2,627
Other expenses	1,400	1,548	(9.6)	591	136.7	3,237	3,837	4,360
Total expenditure	7,829	4,591	70.5	3,795	106.3	17,295	20,403	23,032
EBITDA	1,194	631	89.2	776	53.8	3,212	3,905	4,589
Depreciation	218	149	46.6	176	24.1	727	869	972
EBIT	976	482	102.3	600	62.5	2,485	3,035	3,617
Interest	212	156	35.9	170	24.9	703	932	951
Other income	99	126	(21.8)	56	77.4	285	303	350
Add: Prior period items								
Profit before tax	863	453	90.6	486	77.4	2,067	2,407	3,016
Provision for taxes	315	172	83.3	157	100.7	701	818	1,026
Add: Exceptional items								
Reported profit	548	281	95.1	329	66.3	1,366	1,588	1,991
Adjusted Profit	548	281	95.1	329	66.3	1,366	1,588	1,991
Equity capital	378	378	-	378	-	378	378	378
Diluted shares (mn)	76	76	-	76	-	76	76	76
Adjusted Diluted EPS	7.2	3.7	95.1	4.4	66.3	18.0	21.0	26.3
as a % of net revenues								
Direct costs	63.7	47.7		59.2		58.9	58.6	58.1
Other expenses	15.5	29.6		12.9		15.8	15.8	15.8
EBITDA	13.2	12.1		17.0		15.7	16.1	16.6
Tax rate	36.5	38.0		32.3		33.9	34.0	34.0

### Company Description

JKIL is a civil engineering and infrastructure development company with primary focus on development of roads, flyovers, bridges, metro projects, bridges, irrigation projects, commercial and residential buildings, railway buildings, sports complexes, etc. It also undertakes the piling of foundation work using hydraulic piling rigs for major projects which are awarded to other contractors.

With over two decades of experience, it has established a track record of efficient project management and execution skills with trained and skilled manpower, efficient deployment of equipment and strategic purchasing capabilities.

JKIL went public in January 2008, with a public issue of 6.5mn shares at a price of INR110/per share aggregating INR715mn. The issue proceeds were utilised for meeting the company's capex and working capital requirements. It also raised INR555mn via a QIP in December 2009, issuing 3.1mn shares at INR180.25/share.

### Investment Theme

JKIL, primarily present in the transportation (roads, metro, bridges and flyovers) space, has been on a high growth trajectory, posting a revenue and PAT CAGR of 53% each over FY07-12. Robust revenue visibility and diversification into new segments and geographies will be the springboard of stable growth in the future.

The company's operating margins, leverage and working capital are amongst the best in the industry, so are its return ratios (RoE upwards of 16%). The reason behind the company's high margins is its strategy of not sub-contracting work to smaller contractors. Management has stressed that operating margin will not be sacrificed at the altar of revenue growth. Also, JKIL is steering clear of BOT projects as it aims to keep its balance sheet light. Ergo, its RoE is expected to inch closer to 20% in future.

### Key Risks

Majority of JKIL's orders are from the transportation segment. This exposes it to concentration risk arising from exposure to a particular segment.

While JKIL has done well over the past couple of years, it has yet to demonstrate its execution capabilities in new segments and geographies that the company is entering. Also, the average size of projects is increasing and they also involve higher level of complexity than what the company has encountered so far. Completion of such projects within the stipulated time and cost will be paramount to maintain profitability.

With increasing size of projects, JKIL will face competition from bigger, more experienced and established players. Such heightened competition can lead to margin dilution.

## Financial Statements

### Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
<b>Macro</b>				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
<b>Company</b>				
Raw Material (% net rev)	60.2	58.9	58.6	58.1
Order intake (INR bn)	67	4	29	44
Y-o-Y growth (%)	425.1	(94.6)	688.5	52.4
Book-to-bill ratio (x)	5.7	3.6	3.3	3.4
Order backlog (INR bn)	92	75	79	95
Order backlog growth (%)	127.5	(18.4)	5.8	20.2
Revenue growth (% yoy)	14	28	19	14
Salary (% of revenues)	7.9	9.6	9.5	9.5
Other admin (% net rev)	16.3	15.8	15.8	15.8
Avg. Interest rate (%)	16.1	12.8	12.5	12.5
Depreciation rate (%)	10.1	9.5	9.1	9.1
Dividend per share	2.0	2.0	2.0	2.0
Inc. in invts (INR mn)	(1,786)	147	-	-
Tax rate (%)	32.9	33.9	34.0	34.0
Debtor days	89	90	86	86
Inventory days	213	220	227	230
Payable days	222	326	347	351
Capex (INR mn)	1,390	3,313	1,260	1,010
<b>Provisions days</b>				
Loans & adv (% net rev)	0.7	0.8	0.9	0.9
Incremental debt	517	1,433	400	(100)

### Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Income from operations	16,043	20,507	24,307	27,621
Direct costs	9,659	12,087	14,254	16,046
Employee costs	1,267	1,971	2,312	2,627
Other Expenses	2,611	3,237	3,837	4,360
Total operating expenses	13,537	17,295	20,403	23,032
EBITDA	2,506	3,212	3,905	4,589
Depreciation	556	727	869	972
EBIT	1,950	2,485	3,035	3,617
Less: Interest Expense	662	703	932	951
Add: Other income	311	285	303	350
Profit Before Tax	1,599	2,067	2,407	3,016
Less: Provision for Tax	525	701	818	1,026
Reported Profit	1,073	1,366	1,588	1,991
Adjusted Profit	1,073	1,366	1,588	1,991
Shares o /s (mn)	76	76	76	76
Adjusted Basic EPS	14.2	18.0	21.0	26.3
Diluted shares o/s (mn)	76	76	76	76
Adjusted Diluted EPS	14.2	18.0	21.0	26.3
Adjusted Cash EPS	21.8	29.0	32.5	39.1
Dividend per share (DPS)	2.0	2.0	2.0	2.0
Dividend Payout Ratio (%)	17.0	13.3	11.5	9.2

### Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	84.4	84.3	83.9	83.4
EBITDA margins	15.6	15.7	16.1	16.6
Adjusted profit margins	6.7	6.7	6.5	7.2

### Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	13.9	27.8	18.5	13.6
EBITDA	0.9	28.2	21.6	17.5
PBT	4.6	29.3	16.5	25.3
Adjusted Profit	9.0	27.2	16.3	25.3
EPS	9.0	27.2	16.3	25.3

## Infrastructure - Construction

Balance sheet (INR mn)				
As on 31st March	FY17	FY18	FY19E	FY20E
Share capital	378	378	378	378
Reserves & Surplus	13,530	14,709	16,116	17,923
Shareholders' funds	13,908	15,088	16,494	18,302
Long term borrowings	334	1,134	1,134	1,134
Short term borrowings	4,033	4,666	5,066	4,966
Total Borrowings	4,367	5,800	6,200	6,100
Long Term Liabilities	3	-	-	-
Def. Tax Liability (net)	184	289	289	289
<b>Sources of funds</b>	<b>18,462</b>	<b>21,176</b>	<b>22,983</b>	<b>24,690</b>
Gross Block	6,163	8,926	10,176	11,176
Net Block	5,115	7,161	7,542	7,570
Capital work in progress	712	1,262	1,272	1,282
Total Fixed Assets	5,827	8,423	8,814	8,852
Non current investments	3	150	150	150
Cash and Equivalents	5,229	5,106	5,174	5,590
Inventories	6,436	8,143	9,587	10,634
Sundry Debtors	4,861	5,288	6,167	6,849
Loans & Advances	106	160	219	249
Other Current Assets	5,169	6,346	7,535	8,562
Current Assets (ex cash)	16,574	19,937	23,508	26,295
Trade payable	1,803	3,292	3,686	4,122
Other Current Liab	7,367	9,148	10,977	12,075
Total Current Liab	9,170	12,439	14,664	16,197
Net Curr Assets-ex cash	7,403	7,498	8,844	10,098
<b>Uses of funds</b>	<b>18,462</b>	<b>21,176</b>	<b>22,983</b>	<b>24,690</b>
BVPS (INR)	183.8	199.4	218.0	241.9

Free cash flow (INR mn)				
Year to March	FY17	FY18	FY19E	FY20E
Reported Profit	1,073	1,366	1,588	1,991
Add: Depreciation	556	727	869	972
Interest (Net of Tax)	444	465	615	627
Others	1,830	(554)	(3,309)	(3,135)
Less: Changes in WC	1,127	(97)	(1,347)	(1,254)
Operating cash flow	2,777	2,100	1,111	1,709
Less: Capex	(396)	3,460	1,260	1,010
<b>Free Cash Flow</b>	<b>3,173</b>	<b>(1,359)</b>	<b>(149)</b>	<b>699</b>

Cash flow metrics				
Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	2,777	2,100	1,111	1,709
Financing cash flow	335	1,251	218	(283)
Investing cash flow	396	(3,460)	(1,260)	(1,010)
Net cash Flow	3,508	(109)	69	416
Capex	396	(3,460)	(1,260)	(1,010)
Dividend paid	(182)	(182)	(182)	(183)

Profitability and efficiency ratios				
Year to March	FY17	FY18	FY19E	FY20E
ROACE (%)	12.9	14.1	15.3	16.8
ROAE (%)	8.0	9.4	10.1	11.4
Inventory Days	213	220	227	230
Debtors Days	89	90	86	86
Payable Days	222	326	347	351
Cash Conversion Cycle	80	(16)	(34)	(35)
Current Ratio	2.4	2.0	2.0	2.0
Gross Debt/EBITDA	1.7	1.8	1.6	1.3
Gross Debt/Equity	0.3	0.4	0.4	0.3
Adjusted Debt/Equity	0.3	0.4	0.4	0.3
Net Debt/Equity	(0.1)	-	0.1	-
Interest Coverage Ratio	2.9	3.5	3.3	3.8

Operating ratios				
Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	0.9	1.0	1.1	1.2
Fixed Asset Turnover	3.4	3.3	3.3	3.7
Equity Turnover	1.2	1.4	1.5	1.6

Valuation parameters				
Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	14.2	18.0	21.0	26.3
Y-o-Y growth (%)	9.0	27.2	16.3	25.3
Adjusted Cash EPS (INR)	21.8	29.0	32.5	39.1
Diluted P/E (x)	19.1	15.0	12.9	10.3
P/B (x)	1.5	1.4	1.2	1.1
EV / Sales (x)	1.2	1.0	0.9	0.8
EV / EBITDA (x)	7.8	6.6	5.5	4.6
Dividend Yield (%)	0.7	0.7	0.7	0.7

### Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
J Kumar Infraprojects	313	12.9	10.3	5.5	4.6	10.1	11.4
Ahluwalia Contracts	389	16.5	13.2	8.6	6.8	21.6	21.7
Median	-	14.7	11.8	7.1	5.7	15.8	16.6
AVERAGE	-	14.7	11.8	7.1	5.7	15.8	16.6

Source: Edelweiss research

## Additional Data

### Directors Data

Mr. Jagdish Kumar Gupta	Executive Chairman	Mr. Kamal J Gupta	Managing Director
Mr. Nalin J Gupta	Managing Director	Dr. R. Srinivasan	Independent Director
Mr. Padmanabh P. Vora	Independent Director	Mr. Ashwani Kumar	Independent Director
Mr. A.S. Chatha	Independent Director	Mrs. Kusum J. Gupta	Promoter Director

Auditors - Gupta Saharia & Co. Chartered Accountants

*\*as per latest annual report*

### Holding – Top 10

	Perc. Holding		Perc. Holding
Capital Research	9.71	HDFC AMC	5.46
Goldman Sachs	3.57	Blackrock Global	1.96
Wellington Trust Company	1.92	Birla Sun Life	1.74
Lekto Brosseau Emerging Markets	1.49	Reliance Capital	1.32
UTI Mutual Fund	1.01	IDFC Mutual Fund	0.96

*\*as per latest available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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No Data Available

*\*as per last available data*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
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No Data Available

*\*as per last available data*

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## Coverage group(s) of stocks by primary analyst(s): Infrastructure - Construction

Ahluwalia Contracts, Ashoka Buildcon, Hindustan Construction Co., J Kumar Infraprojects, KNR Constructions, NBCC, Nagarjuna Construction Co, PNC Infratech, Sadbhav Engineering, Simplex Infrastructures Ltd, Supreme Infrastructure

### Recent Research

Date	Company	Title	Price (INR)	Recos
30-May-18	<b>Sadbhav Engineering</b>	Strong growth potential; <i>Result Update</i>	349	Buy
30-May-18	<b>Ashoka Buildcon</b>	Improving growth outlook; <i>Result Update</i>	254	Buy
29-May-18	<b>NBCC</b>	Gearing up for strong growth; <i>Result Update</i>	95	Hold

### Distribution of Ratings / Market Cap

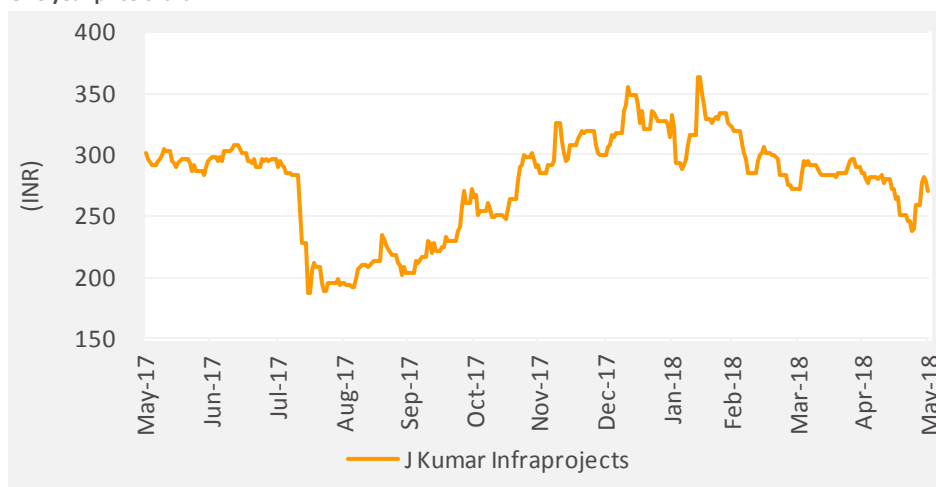
#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

#### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

One year price chart





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