

JMC Projects (India)

BUY

INDUSTRY INFRASTRUCTURE

CMP (as on 8 Aug 2018) Rs 546

Target Price Rs 844

Nifty 11,450

Sensex 37,888

KEY STOCK DATA

Bloomberg JMCP IN

No. of Shares (mn) 34

MCap (Rs bn) / (\$ mn) 18/266

6m avg traded value (Rs mn) 16

STOCK PERFORMANCE (%)

52 Week high / low Rs 710/322

3M 6M 12M

Absolute (%) (17.2) (8.4) 54.1

Relative (%) (24.8) (18.5) 35.7

SHAREHOLDING PATTERN (%)

Promoters 67.19

FIs & Local MFs 14.13

FPIs 1.23

Public & Others 17.45

Source : BSE

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In line performance

JMCP reported in line 1QFY19 revenue at Rs 6.9bn (+3.3% YoY, -4.7% QoQ). Growth was muted in 1QFY19 on account of labour availability issues due to festive season and West Bengal panchayat elections. EBITDA margins of 10.3% (+20bps higher than expected) and an effective tax rate of 23.4% led to a higher PAT of Rs 266mn (+13.9% than estimate).

JMC has been gradually increasing its presence in the infra space with private residential segment facing headwinds for some time now and JMCP being selective in bids for NBCC projects. Inflows have been especially strong in 1QFY19 (>Rs 34bn, largely infra) with order book now at Rs 98bn (ex L1 of Rs 10bn).

Execution will likely pick up from 2HFY19E. We do not think JMCP will face any major challenges to meet the 15% growth guidance. If the recent infra wins start as per timeline, there could be further upside to FY19/FY20E estimates. Maintain BUY with a SOTP of Rs 844/sh.

Financial Summary (Standalone)

Year Ending March (Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Sales	6,887	6,667	3.3	7,230	(4.7)	23,284	27,556	31,860	36,355
EBITDA	709	654	8.4	834	(15.0)	2,111	2,848	3,202	3,654
APAT	266	218	22.1	343	(22.4)	599	1,061	1,062	1,288
Diluted EPS (Rs)	7.9	6.5	22.1	10.2	(22.4)	17.8	31.6	31.6	38.4
P/E (x)						30.6	17.3	16.6	13.7
EV / EBITDA (x)						11.6	8.5	8.2	6.9
RoE (%)						9.0	14.4	13.0	13.9

Source: Company, HDFC sec Inst Research

Highlights of the Quarter

- **BOT projects now cash breakeven:** Avg. daily revenue increased from Rs 4.9mn YoY to Rs 5.5mn in 1QFY19 as a 13.2% revenue growth (excluding overloading) was witnessed aided by higher traffic. Loss funding would be required only for capex (~Rs 100-150mn) and debt repayment (~Rs 500-600mn). Further successful refinancing can ease the funding requirement.
- **Debt swelling:** 1QFY19 gross debt inched up to Rs 8.0bn from Rs 7.4bn QoQ (Net debt Rs 7.8bn vs Rs 5.9bn QoQ). Management has guided for debt to stabilize in the near term depending on the execution pace in 2HFY19E.
- **Near-term outlook:** Execution in some of the Infra projects (currently in design stage) would come only from 2HFY19E. The two state irrigation projects (worth Rs ~16bn) could see execution only from FY20E. Capex guidance is Rs 750-900mn for FY19E. We continue to monitor any monetization/ refinancing on the BOT segment and increase in debt as infrastructure share in revenue ramps up in 2HFY19E.

JMCP 1QFY19 net revenue came in at Rs 6.9bn (+3.3% YoY, -4.7% QoQ) and was in line with estimates

1QFY19 EBITDA was at Rs 709mn (+8.4% YoY, -15.0% QoQ)

EBITDA margins were as estimated at 10.3%

Tax rate was lower than estimated at 23.4%

Standalone Quarterly Financials

Particulars (Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Net Revenues	6,887	6,667	3.3	7,230	(4.7)
Material Expenses	(5,378)	(4,954)	8.6	(5,131)	4.8
Employee Expenses	(716)	(642)	11.4	(730)	(2.0)
Other Expenses	(85)	(418)	(79.8)	(535)	(84.2)
EBITDA	709	654	8.4	834	(15.0)
Depreciation	(185)	(160)	15.6	(214)	(13.8)
EBIT	524	494	6.1	620	(15.5)
Interest Cost	(241)	(201)	20.1	(214)	12.6
Other Income	64	39	63.3	39	62.4
EO Items	-	-	-	-	-
PBT	347	332	4.4	445	(22.1)
Tax	(81)	(115)	(29.2)	(103)	(20.9)
RPAT	266	218	22.1	343	(22.4)

Source: Company, HDFC sec Inst Research

Margin Analysis

MARGIN ANALYSIS	1QFY19	1QFY18	YoY (bps)	4QFY18	QoQ (bps)
Material Expenses % Net Sales	78.1	74.3	379.1	71.0	712.0
Employee Expenses % Net Sales	10.4	9.6	75.7	10.1	29.5
Other Operating Expenses % Net Sales	1.2	6.3	(503.5)	7.4	(616.8)
EBITDA Margin (%)	10.3	9.8	48.7	11.5	(124.7)
Tax Rate (%)	23.4	34.5	(1,110.5)	23.0	35.4
APAT Margin (%)	3.9	3.3	59.4	4.7	(88.0)

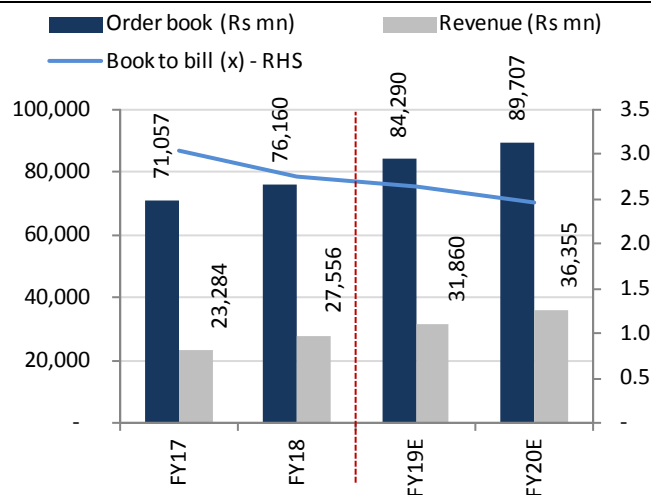
Source: Company, HDFC sec Inst Research

Despite a tepid 1QFY19, we expect a 14.9% revenue CAGR over FY18-20E as major execution will reflect only in 2HFY19E

We expect the double digit margins to sustain in the future given the order mix

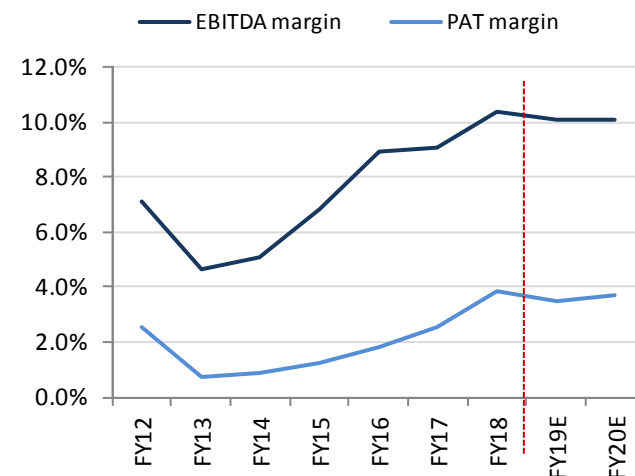
Strong CFO will be sufficient to provide support for BOT projects (in case debt refinancing gets delayed)

Order Book, Revenues, Book-to-bill Ratio



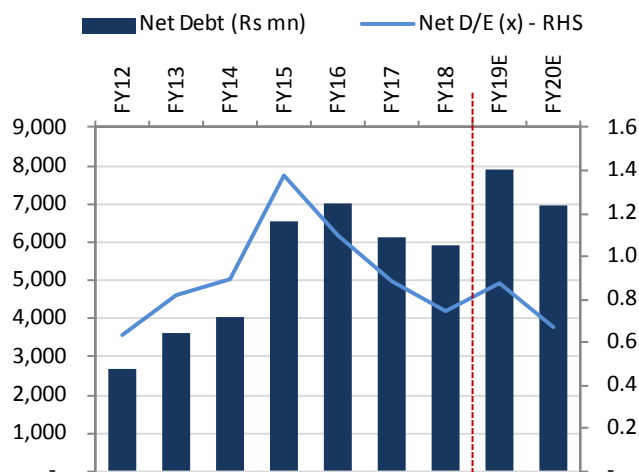
Source : Company, HDFC sec Inst Research

EBITDA And PAT Margins (%)



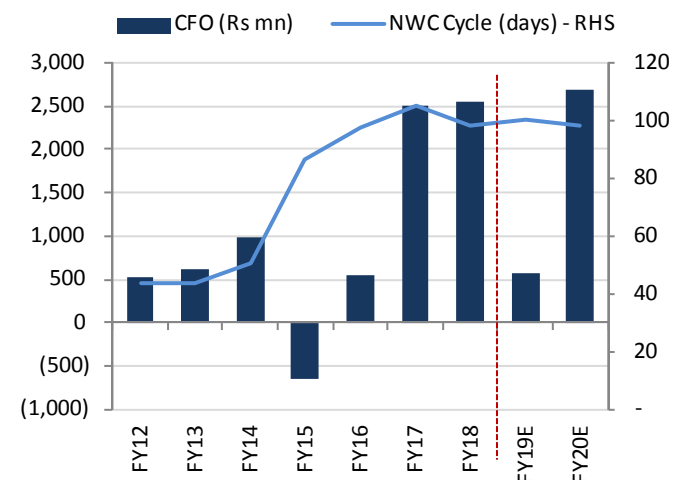
Source : Company, HDFC sec Inst Research

Net Debt And Net D/E



Source : Company, HDFC sec Inst Research

Cash Flow From Operations & NWC Cycle

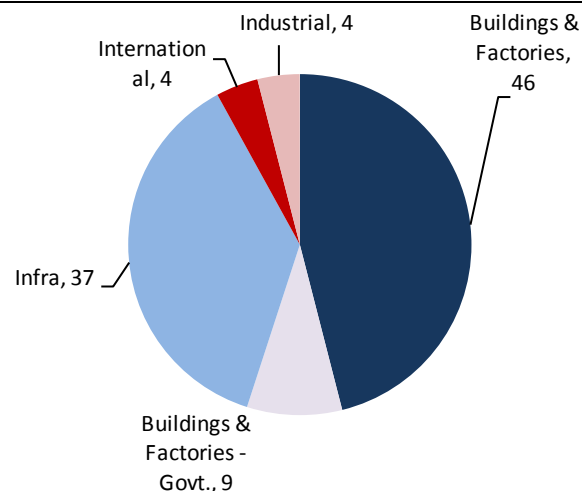


Source : Company, HDFC sec Inst Research

1QFY19 inflows of >34bn largely infra driven (87%)

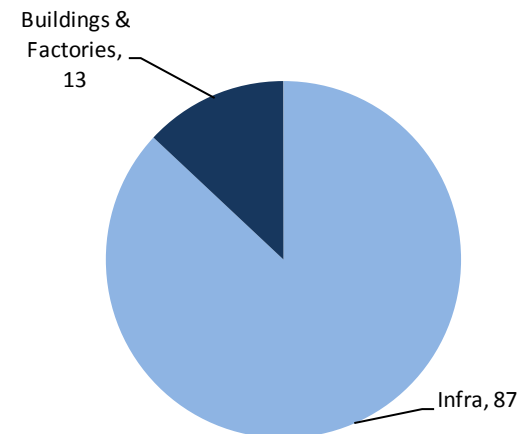
Despite achieving operational break even, if JMC is unable to refinance its project debt, loss funding could be <Rs 600mn in FY19E (including Rs 100-150mn for capex)

Order Book – 1QFY19 (%)



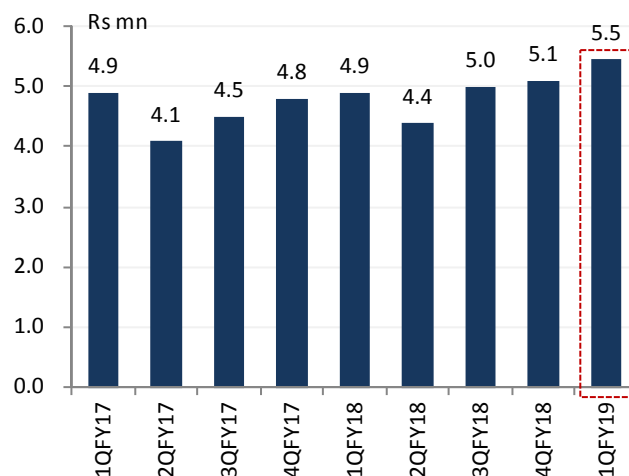
Source : Company, HDFC sec Inst Research

Inflows – 1QFY19 (%) – rapid shift towards Infra



Source : Company, HDFC sec Inst Research

BOT Projects' Revenue Trend: Improving



Source : Company, HDFC sec Inst Research

- Led by strong traffic growth, 1QFY19 revenues grew 13.2% YoY (excluding overloading). Avg collections improved to Rs 5.5mn/day in 1QFY19 (vs. Rs 4.9mn required for operational break even).
- Loss funding was Rs 70mn during 1QFY19, majorly for debt repayment.
- Despite achieving operational break even, if JMCP is unable to refinance its project debt, loss funding could be <Rs 600mn in FY19E (including Rs 100-150mn for capex).

Revenue to grow at a CAGR of 14.9% over FY18-20E aided by revival in private institutional capex

Double digit margins to continue over FY19-20E

APAT will grow by 12.4% CAGR over FY18-20E

Key Assumptions And Estimates (Standalone)

Key Assumptions (Rs mn)	FY19E	FY20E	Comments
Closing order book	84,290	89,707	Order book to grow at a CAGR of 8.5% over FY18-20E
Order book growth (%)	10.7	6.4	
New order booking	39,990	41,772	
Book to bill ratio	2.6	2.5	
Total Revenue	31,860	36,355	Revenue to grow at a CAGR of 14.9% over FY18-20E aided by revival in private institutional capex
Growth (%)	15.6	14.1	
EBIDTA	3,202	3,654	EBITDA to grow at a CAGR of 14.6% over FY18-20E
EBIDTA margin (%)	10.1	10.1	EBITDA margins will be stable around 10% range
Depreciation	789	871	Capex to increase depreciation charge
Financial Charges	896	933	
PBT	1,676	2,001	
PBT margin (%)	5.3	5.5	
Tax	553.2	660.4	
Tax rate (%)	33.0	33.0	Company is expected to operate at a full tax rate over FY19-20E
RPAT	1,123	1,341	
Net margin (%)	3.5	3.7	
Extraordinary	-	-	
Adjusted PAT	1,123	1,341	APAT will grow by 12.4% CAGR over FY18-20E
Gross Block Turnover	4.8	5.0	
Debtor days	90	90	
CFO - a	1,089	2,374	As debtor days stabilize to ~90 days over FY19-20E, CFO to increase significantly led by double digit EBITDA margins
CFI - b	(1,317)	(700)	
FCF - a+b	(228)	1,674	
CFF - c	(1,033)	(1,495)	
Total change in cash - a+b+c	(1,260)	179	

Source : HDFC sec Inst Research

We have valued the core construction business at 18x one-year forward Mar-20E EPS at Rs 719/share

We value BOT equity investments at a 40% discount at Rs 125/share

We arrive at a SOTP valuation of Rs 844/share)

Outlook And Valuation

Maintain BUY with Target Price Of Rs 844/Sh

Valuation methodology

- We have valued the core construction business at 18x one-year forward Mar-20E EPS at Rs 719/share. This is in line with other established players like Ahluwalia. Our rationale behind this is (1) Order book of ~Rs 98.1bn (3.1x FY19E revenue) provides near term visibility, (2) Amongst the top 5 players in the Buildings segment with robust execution credentials and (3) Balance sheet with net d/e of ~0.7x largely pertaining to BOT equity exposure of Rs 7.0bn).
- JMCP has been continually adding to its infra portfolio where opportunities are galore across diversified segments. Investment in the building

segment would remain robust on the back of institutional and industrial demand in addition to NBCC, CPWD and private capex in the segment (though JMCP has been selective here in recent times).

- BOT equity monetization remains crucial for further re-rating.

We maintain BUY rating with a TP of Rs 844. We value the core construction business at Rs 719/share (18x one-year forward Mar-20E EPS) and Equity invested in BOT at a 40% discount at Rs 125/share.

SOTP Valuation

Particulars	Segments	Value (Rs mn)	Value per share (Rs)	Rationale
Standalone	Core construction business	24,133	719	At 18x Mar-20E EPS in line with peers like Ahluwalia and PSP
BOT Assets	Roads toll	4,200	125	At 0.6x P/BV(x) of equity exposure
Total		28,333	844	

Source: HDFC sec Inst Research

Peer Set Comparison: Core EPC

COMPANY	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Dilip Buildcon	115.1	842	BUY	1,434	46.5	63.1	68.5	17.3	12.7	11.7	9.8	7.9	6.3	14.6	14.4	14.6
IRB Infra Developers	68.9	196	BUY	328	22.6	29.1	26.7	3.5	4.2	3.3	3.6	3.7	3.0	30.3	25.3	30.9
NCC	57.7	96	BUY	159	5.2	5.8	7.7	16.7	14.7	11.1	8.3	7.8	6.4	4.2	3.5	3.8
Sadbhav Engineering	47.2	275	BUY	438	12.9	15.4	16.6	10.1	8.4	7.8	8.9	6.9	5.4	11.8	12.5	12.0
PNC Infratech	42.8	167	BUY	322	4.1	8.7	10.5	27.0	11.2	7.6	11.1	7.4	4.9	6.2	13.2	16.9
Ashoka Buildcon	41.0	146	BUY	348	(5.9)	6.5	7.4	8.2	7.9	7.8	6.6	6.4	5.9	12.8	12.3	11.1
KNR Constructions	32.2	229	BUY	385	13.6	11.5	13.8	12.5	14.9	11.2	6.7	6.9	5.3	18.7	12.8	14.4
ITD Cementation*	23.5	137	BUY	211	6.1	10.8	12.3	22.4	15.2	11.7	10.0	7.0	5.9	16.2	17.9	16.8
Ahluwalia Contracts	21.6	323	BUY	486	17.3	22.2	25.3	18.0	13.9	12.3	9.0	7.3	6.3	20.5	21.4	19.9
J. Kumar Infraprojects	17.3	229	BUY	415	18.1	22.2	27.7	12.7	10.3	8.3	6.9	5.3	4.7	9.4	10.7	12.2
JMC Projects	18.3	546	BUY	844	31.6	33.4	39.9	13.3	12.6	10.5	7.0	6.6	5.6	14.4	13.3	14.0
PSP Projects	17.4	483	BUY	639	18.0	27.7	35.5	26.8	17.4	13.6	15.0	9.9	7.3	31.7	28.4	28.2
HG Infra	15.6	240	NR	NR	12.9	19.6	24.7	18.6	12.3	9.7	8.7	5.6	4.6	23.5	21.1	21.5
Average (Core EPC)					15.6	21.2	24.4	15.9	12.0	9.7	8.6	6.8	5.5	16.5	15.9	16.6

Source: Company, HDFC sec Inst Research *ITD Cementation FY19E/FY20E should be read as 15MFY19E/FY20E , 8th August 2018 Prices

Income Statement (Standalone)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	24,008	23,284	27,556	31,860	36,355
Growth (%)	0.0	(3.0)	18.3	15.6	14.1
Material Expenses (incl. construction cost)	18,454	17,365	20,525	23,485	26,834
Employee Expenses	2,256	2,357	2,664	3,250	3,672
Other Operating Expenses	1,162	1,450	1,520	1,924	2,195
EBIDTA	2,136	2,111	2,848	3,202	3,654
EBIDTA (%)	8.9	9.1	10.3	10.1	10.1
EBIDTA Growth (%)	30.7	(1.2)	34.9	12.4	14.1
Depreciation	517	574	717	789	844
EBIT	1,619	1,538	2,131	2,413	2,810
Other Income (Incl. EO Items)	82	137	176	161	150
Interest	1,043	832	858	930	962
PBT	659	843	1,450	1,644	1,998
Tax	217	244	388	543	659
RPAT	442	599	1,061	1,102	1,339
EO items (net of tax)	-	-	-	-	-
APAT	442	599	1,061	1,102	1,339
APAT Growth (%)	48.0	35.5	77.2	3.8	21.5
EPS	13.2	17.8	31.6	32.8	39.9
EPS Growth (%)	15.1	35.5	77.2	3.8	21.5

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

As at March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	336	336	336	336	336
Reserves	6,042	6,561	7,554	8,684	9,954
Total Shareholders Funds	6,378	6,897	7,890	9,020	10,290
Minority Interest	0	0	0	0	0
Long Term Debt	2,819	2,313	3,143	3,901	3,601
Short Term Debt	4,541	4,050	4,223	4,114	3,914
Total Debt	7,360	6,363	7,366	8,015	7,515
Other Non Current Liabilities	3,688	5,242	5,860	5,345	6,059
TOTAL SOURCES OF FUNDS	17,426	18,502	21,116	22,380	23,864
APPLICATION OF FUNDS					
Net Block (incl. CWIP)	3,496	3,714	4,222	4,635	4,521
Investments	5,692	6,401	7,036	7,649	7,783
Other Non Current Assets	1,476	1,397	979	1,224	1,224
Total Non-current Assets	10,664	11,513	12,237	13,508	13,528
Inventories	1,586	1,795	1,923	2,008	2,291
Debtors	6,688	6,576	7,358	7,856	8,964
Cash & Equivalents	345	260	1,460	125	572
ST Loans & Advances	145	81	222	80	84
Other Assets	7,643	8,110	10,957	13,075	14,175
Total Current Assets	16,407	16,822	21,920	23,144	26,086
Creditors	6,764	7,439	8,286	9,602	10,956
Other Current Liabilities & Provns	2,881	2,394	4,755	4,671	4,794
Total Current Liabilities	9,645	9,833	13,041	14,273	15,750
Net Current Assets	6,762	6,989	8,879	8,871	10,335
TOTAL APPLICATION OF FUNDS	17,426	18,502	21,116	22,380	23,864

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
PBT	659	843	1,450	1,644	1,998
Non-operating & EO items	(55)	(124)	470	(161)	(150)
Interest expenses	1,043	832	858	930	962
Depreciation	517	574	717	789	844
Working Capital Change	(1,098)	533	(713)	(2,087)	(303)
Tax paid	(512)	(158)	(223)	(543)	(659)
OPERATING CASH FLOW (a)	554	2,500	2,558	573	2,691
Capex	(817)	(771)	(899)	(1,202)	(730)
Free cash flow (FCF)	(262)	1,728	1,659	(630)	1,961
Investments + Interest income	(342)	96	(514)	(360)	10
INVESTING CASH FLOW (b)	(1,159)	(675)	(1,413)	(1,562)	(720)
Share capital Issuance	1,487	0	0	0	0
Debt Issuance	578	(2,589)	984	649	(500)
Others inc. Interest paid	(1,232)	721	(858)	(930)	(962)
Dividend + Misc	(31)	(40)	(72)	(63)	(63)
FINANCING CASH FLOW (c)	802	(1,909)	54	(344)	(1,524)
NET CASH FLOW (a+b+c)	197	(85)	1,199	(1,334)	447
Closing Cash & Equivalents	345	260	1,459	125	572

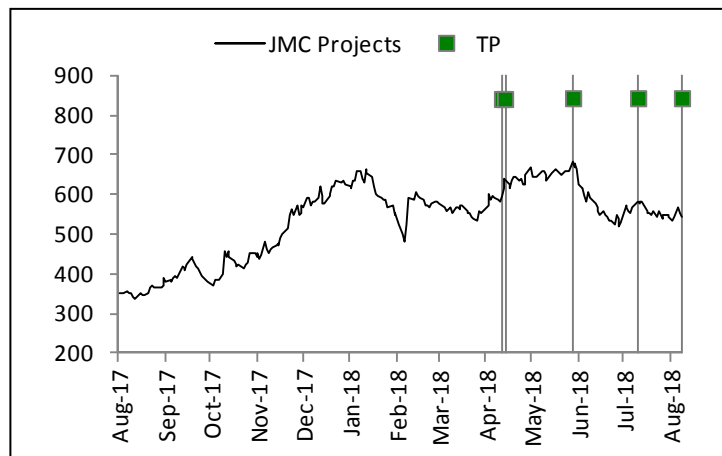
Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

Year ending March	FY16	FY17	FY18	FY19E	FY20E
PROFITABILITY (%)					
GPM	23.1	25.4	25.5	26.3	26.2
EBITDA Margin	8.9	9.1	10.3	10.1	10.1
EBIT Margin	6.7	6.6	7.7	7.6	7.7
APAT Margin	1.8	2.6	3.9	3.5	3.7
RoE	7.9	9.0	14.4	13.0	13.9
Core RoCE	14.1	16.6	23.1	17.5	19.9
RoCE	8.3	9.0	11.1	10.1	11.1
EFFICIENCY					
Tax Rate (%)	32.9	29.0	26.8	33.0	33.0
Asset Turnover (x)	6.1	5.2	5.1	4.8	5.0
Inventory (days)	24	28	25	23	23
Debtors (days)	102	103	97	90	90
Payables (days)	103	117	110	110	110
Other Current Assets (days)	118	128	148	151	143
Other Current Liab (days)	44	38	63	54	48
Net Working Capital Cycle (Days)	98	105	98	100	98
Debt/EBITDA (x)	3.4	3.0	2.6	2.5	2.1
Net D/E	1.1	0.9	0.7	0.9	0.7
Interest Coverage	1.6	1.8	2.5	2.6	2.9
PER SHARE DATA					
EPS (Rs/sh)	13.2	17.8	31.6	32.8	39.9
CEPS (Rs/sh)	28.5	34.9	52.9	56.3	65.0
DPS (Rs/sh)	0.0	0.0	0.1	0.1	0.1
BV (Rs/sh)	190	205	235	269	306
VALUATION					
P/E	41.5	30.6	17.3	16.6	13.7
P/BV	2.9	2.7	2.3	2.0	1.8
EV/EBITDA	11.9	11.6	8.5	8.2	6.9
OCF/EV (%)	2.2	0.1	0.1	0.0	0.1
FCF/EV (%)	(1.0)	7.1	6.8	(2.4)	7.8
FCFE/Market Cap (%)	(5.0)	(0.8)	9.7	(5.0)	2.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
12-Apr-18	615	BUY	842
14-Apr-18	640	BUY	842
28-May-18	685	BUY	844
10-Jul-18	578	BUY	844
8-Aug-18	546	BUY	844

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

Disclosure:

We, **Parikshit Kandpal, MBA** and **Kunal Bhandari, ACA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock –No

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