

Execution momentum to drive performance

JKIL Q1FY19 revenue grew 49.2% YoY to ₹6.2bn led by robust execution primarily in its metro and JNPT projects. It's JV revenue of ₹400mn added at standalone as per Ind AS 111 primarily from Delhi metro project. EBITDA margin up 89bps YoY to 16.2% (95bps below estimate) led by lower employee costs and other expenses which was partially offset by rise in raw material cost. PAT grew sharply 55.7% YoY to ₹402mn driven by better operating performance, despite sizeable rise in depreciation, interest cost and decline in other income.

Orderbook at 4.2x, enhances revenue visibility

JKIL has already started executing all Mumbai metro projects totaling ₹67.2bn in Mumbai. The revenue contribution from Metro segment stands at 67% (total ₹4.1bn: ₹400mn – Delhi metro, ₹1.0bn – Line 2 & 7, ₹2.5bn – Line 3) in Q1FY19. We believe metro revenue would contribute more than 60% share in FY19E and FY20E.

The current order book of ₹83.2bn provides multi-year revenue visibility. Moreover, JKIL won projects worth ₹28.1bn (includes ₹8.7bn - Mumbai Metro line-6, ₹6.1bn – Pune metro, ₹5.6bn – NBCC's South Delhi project) in YTD FY19 taking the orderbook to ₹97.5bn (4.2x TTM revenue). JKIL has bid for projects worth ₹30bn (including L1 of NHAI's Dwarka expressway EPC project) and has sizable opportunities in transportation segment. We factored ₹21.9bn (incl. L1)/ 30bn fresh inflow in FY19E/ FY20E.

Outlook and Valuation

We marginally upgrade our revenue and PAT estimates by 4.3%/ 5.1% and 2.2%/ 5.1% for FY19E/ FY20E, respectively. JKIL's healthy revenue growth (21.4% CAGR over FY18-20E) and EBITDA margin of 17.0% in FY19E/FY20E will drive a CAGR of 28.7% in its bottom line over FY18-20E. We, therefore, expect the RoCE and RoE to improve to 17.1%/ 12.8% in FY20E from 14%/ 9.4% in FY18. Moreover, it boasts of net D:E of 0.1x (over FY18-20E), 7.1% NPM and growth prospects.

The stock trades at attractive valuation of 7.6x FY20E EPS. We reiterate Buy on the stock with an upgraded TP of ₹448 (15x FY20E EPS) due to multi-year high order book coupled with start of pick up in execution particularly from metro and JNPT projects.

Q1FY19 Result (₹ Mn)

Particulars	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Total Revenue	6,184	4,145	49.2	9,023	(31.5)
Operating Expenditure	5,185	3,512	47.6	7,829	(33.8)
EBITDA	1,000	633	57.9	1,194	(16.3)
Depreciation	250	162	54.1	218	14.3
Operating Profit	750	471	59.3	976	(23.2)
Other Income	63	77	(17.3)	99	(35.9)
EBIT	813	547	48.6	1,075	(24.3)
Interest	215	154	39.7	212	1.3
EBT	598	393	52.0	863	(30.7)
Tax	196	135	45.1	315	(37.6)
Net income	402	258	55.7	548	(26.6)
			bps		bps
EBITDA Margin (ex. O.I.)	16.2	15.3	89	13.2	293
EBITDA Margin (in. O.I.)	17.2	17.1	7	14.3	286
NPM (%)	6.4	6.1	32	6.0	43
Tax/PBT (%)	32.8	34.4	(156)	36.5	(368)
Material Cost/Sales (%)	63.1	53.1	995	63.7	(69)

CMP	₹228
Target / Upside	₹ 448/97%
BSE Sensex	37,869
NSE Nifty	11,430

Script Details

Equity / FV	₹ 378/5
Market Cap	₹ 17bn
	USD 250mn
52-week High/Low	₹ 375/₹182
Avg. Volume (no)	150,510
NSE Symbol	JKIL
Bloomberg Code	JKIL IN

Shareholding Pattern Jun'18 (%)

Promoters	43.9
MF/Banks/FIs	10.8
FII's	22.9
Public / Others	22.4

Valuation (x)

	FY18	FY19E	FY20E
P/E	12.6	10.3	7.6
EV/EBITDA	5.3	4.6	3.8
ROE	9.4	10.6	12.8
ROCE	14.0	14.8	17.1

Estimates (₹ mn)

	FY18	FY19E	FY20E
Net Sales	20,507	24,098	30,226
EBITDA	3,212	4,097	5,138
PAT	1,366	1,671	2,261
EPS	18.0	22.1	29.9

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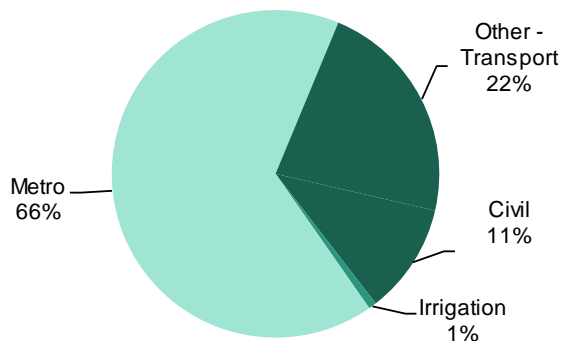
Downside risk to our valuation

Delay in execution in the transportation segment: More than 88% of JKIL's order book is concentrated in its transportation segment (primarily metro). Significant execution delays either from the client's end or due to regulatory bottlenecks could negatively impact the company's revenue and profitability.

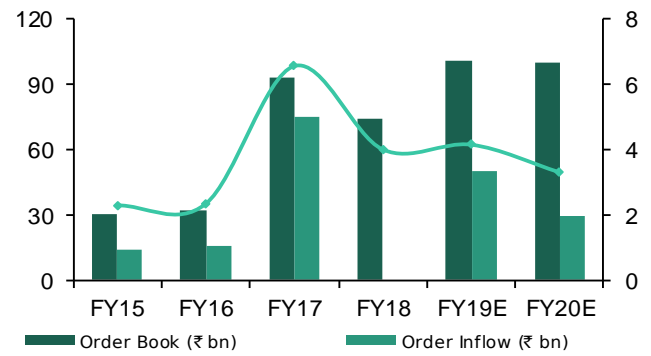
Exhibit 1: Q1FY19 Performance (Standalone)

Y/E Mar (₹ mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)	FY18	FY17	YoY (%)
Total revenue	6,184	4,145	49.2	9,023	(31.5)	20,507	16,043	27.8
(Inc)/dec in stock	153	(600)	-	(190)	-	(917)	(934)	-
Material consumption	3,746	2,801	33.8	5,942	(37.0)	13,004	10,594	22.8
Employees cost	505	379	33.3	677	(25.5)	1,971	1,267	55.6
Other Expenses	780	932	(16.3)	1,400	(44.2)	3,237	2,611	24.0
Operating expenditure	5,185	3,512	47.6	7,829	(33.8)	17,295	13,537	27.8
EBITDA	1,000	633	57.9	1,194	(16.3)	3,212	2,506	28.2
Depreciation	250	162	54.1	218	14.3	727	556	30.7
Operating profit	750	471	59.3	976	(23.2)	2,485	1,949	27.5
Other income	63	77	(17.3)	99	(35.9)	285	311	(8.3)
EBIT	813	547	48.6	1,075	(24.3)	2,770	2,260	22.5
Interest	215	154	39.7	212	1.3	703	662	6.3
EBT	598	393	52.0	863	(30.7)	2,067	1,598	29.3
Tax	196	135	45.1	315	(37.6)	701	525	33.5
Reported net income	402	258	55.7	548	(26.6)	1,366	1,073	27.2
EPS (₹)	5.3	3.4	55.7	7.2	(26.6)	18.0	14.2	27.2
			<i>bps</i>		<i>bps</i>			<i>bps</i>
EBIDTA Margin (excl. O.I.)	16.2	15.3	89	13.2	293	15.7	15.6	4
EBIDTA Margin (incl. O.I.)	17.2	17.1	7	14.3	286	17.1	17.6	(50)
NPM (%)	6.4	6.1	32	6.0	43	6.6	6.6	0
Tax/PBT (%)	32.8	34.4	(156)	36.5	(368)	33.9	32.9	107
Material cost/sales (%)	63.1	53.1	995	63.7	(69)	58.9	60.2	(127)

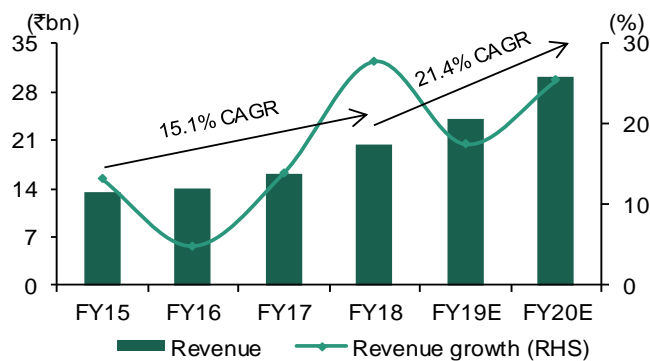
Source: Company, DART

Exhibit 2: ₹ 83.2bn order book break up


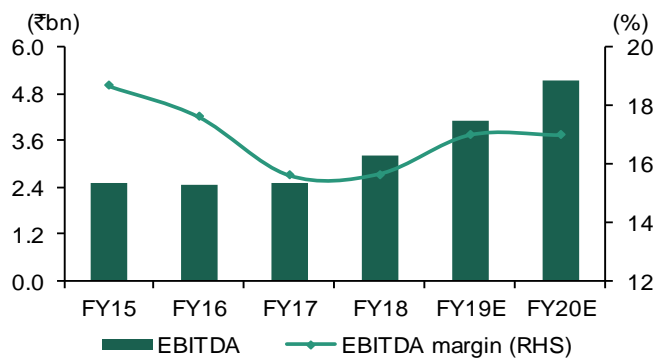
Source: Company, DART

Exhibit 3: Order book trend


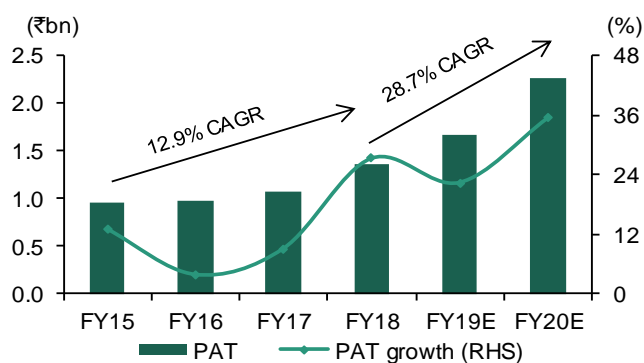
Source: Company, DART

Exhibit 4: 21.4% Revenue CAGR over FY18-20E


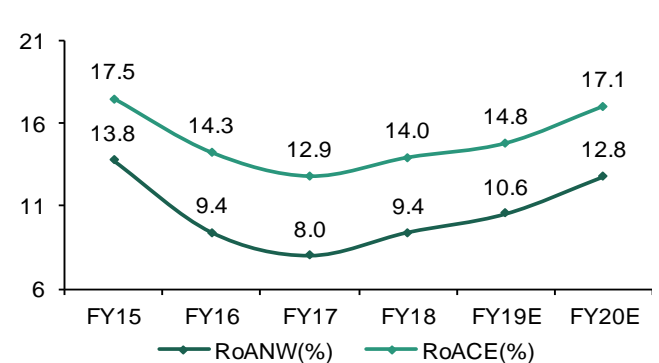
Source: Company, DART

Exhibit 5: Factored in lower EBITDA Margin


Source: Company, DART

Exhibit 6: PAT to grow at 28.7% CAGR over FY18-20E


Source: Company, DART

Exhibit 7: Rising ROE and ROCE


Source: Company, DART

Income Statement (Standalone)

Particulars (₹ mn)	Mar17	Mar18	Mar19E	Mar20E
Revenue	16,043	20,507	24,098	30,226
Growth (%)	13.9	27.8	17.5	25.4
Total Expenditure	13,537	17,295	20,002	25,088
Material consumption	9,659	12,087	14,025	17,833
Employees cost	1,267	1,971	2,362	2,871
Other Expenses	2,611	3,237	3,615	4,383
Other Income	311	285	243	206
EBIDTA (Excl. OI)	2,506	3,212	4,097	5,138
Growth (%)	0.9	28.2	27.5	25.4
EBIDTA (Incl. OI)	2,817	3,497	4,339	5,345
Depreciation	556	727	996	1,090
EBIT	2,260	2,770	3,344	4,255
Interest	662	703	850	880
Profit Before Tax	1,598	2,067	2,494	3,375
Tax	525	701	823	1,114
Net Profit	1,073	1,366	1,671	2,261
Adjustments	0	0	0	0
Adj. Net Profit	1,073	1,366	1,671	2,261
Growth (%)	9.0	27.2	22.4	35.3

Balance Sheet (Standalone)

Particulars (₹ mn)	Mar17	Mar18	Mar19E	Mar20E
Sources of Funds				
Equity Capital	378	378	378	378
Reserves	13,530	14,709	16,203	18,287
Net Worth	13,908	15,088	16,581	18,666
Long Term Loans	335	1,134	1,034	934
Short Term Loans	4,033	4,666	5,951	6,001
Loan Funds	4,368	5,800	6,985	6,935
Deferred Tax Liability	184	289	319	349
Total Capital Employed	18,461	21,176	23,885	25,949
Applications of Funds				
Gross Block	6,162	8,974	11,344	12,344
Less: Accumulated Dep.	1,048	1,813	2,809	3,898
Net Block	5,115	7,161	8,535	8,446
Capital Work in Progress	712	1,262	142	142
Investments	3	150	3	3
Current Assets, Loans & Advances				
Inventories	6,436	8,143	9,639	12,090
Sundry Debtors	4,861	5,288	6,266	7,859
Cash and Bank Balance	5,229	5,106	4,782	4,286
Loans and Advances	106	160	180	226
Other Current Assets	5,169	6,346	7,698	9,656
sub total	21,803	25,042	28,566	34,117
Less: Current Liabilities & Provisions				
Current Liabilities	9,169	12,439	13,361	16,759
Provisions	3	0	0	0
sub total	9,172	12,439	13,361	16,759
Net Current Assets	12,631	12,603	15,205	17,358
Total Assets	18,461	21,176	23,885	25,949

E – Estimates

Cash Flow (Standalone)

Particulars (₹ mn)	Mar17	Mar18E	Mar19E	Mar20E
Profit before tax	1,548	2,067	2,494	3,375
Depreciation	556	727	996	1,090
Finance cost	659	703	850	880
Other income	(226)	(285)	(243)	(206)
Others	(42)	27	0	0
Direct taxes paid	(509)	(597)	(793)	(1,084)
Change in Working Capital	623	(93)	(2,925)	(2,650)
(A) CF from Operations	2,610	2,549	379	1,404
Capex	(1,399)	(3,361)	(1,250)	(1,000)
Free Cash Flow to Firm	1,210	(813)	(871)	404
Inc./ (Dec.) in Investments	2,067	(147)	147	0
Others	226	285	243	206
(B) CF from Investments	893	(3,223)	(860)	(794)
Issue of Equity/ Preference	0	0	0	0
Inc./ (Dec.) in Debt	830	1,431	1,185	(50)
Interest exp net	(658)	(703)	(850)	(880)
Dividend Paid (Incl. Tax)	(182)	(177)	(177)	(177)
(C) CF from Financing	(10)	551	158	(1,107)
Net Change in Cash	3,493	(123)	(323)	(496)
Opening Cash balances	1,736	5,229	5,106	4,782
Closing Cash balances	5,229	5,106	4,782	4,286

Important Ratios

Particulars	Mar17	Mar18	Mar19E	Mar20E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	15.6	15.7	17.0	17.0
EBIDTA Margin (incl. O.I.)	17.6	17.1	18.0	17.7
EBIT Margin	14.1	13.5	13.9	14.1
Interest/EBIT	29.3	25.4	25.4	20.7
Tax/PBT	32.9	33.9	33.0	33.0
Net Profit Margin	6.7	6.7	6.9	7.5
(B) As Percentage of Net Sales				
Material consumption	60.2	58.9	58.2	59.0
Employees cost	7.9	9.6	9.8	9.5
Other Expenses	16.3	15.8	15.0	14.5
(C) Measures of Financial Status				
Debt / Equity (x)	0.3	0.4	0.4	0.4
Interest Coverage (x)	3.4	3.9	3.9	4.8
Average Cost of Debt (%)	16.7	16.7	0.0	0.0
Debtors Period (days)	111	94	95	95
Closing stock (days)	146	145	146	146
Working Capital (days)	287	227	230	210
Fixed Assets Turnover (x)	2.6	2.3	2.1	2.4
(D) Measures of Investment				
Diluted EPS (₹)	14.2	18.0	22.1	29.9
CEPS (₹)	58.6	75.3	95.9	120.5
DPS (₹)	2.0	2.0	2.0	2.0
Book Value (₹)	183.8	199.4	219.1	246.7
RoANW (%)	8.0	9.4	10.6	12.8
RoACE (%)	12.9	14.0	14.8	17.1
RoAIC (%)	17.1	19.0	19.1	20.9
(E) Valuation Ratios				
CMP (₹)	228	228	228	228
P/E (x)	16.1	12.6	10.3	7.6
Market Cap. (₹ Mn)	17,256	17,256	17,256	17,256
MCap/ Sales (x)	1.1	0.8	0.7	0.6
EV (₹ Mn)	17,726	17,172	18,704	19,681
EV/Sales (x)	1.1	0.8	0.8	0.7
EV/EBDITA (x)	7.1	5.3	4.6	3.8
P/BV (x)	1.2	1.1	1.0	0.9
FCFE Yield (%)	8.0	(0.5)	(3.1)	(3.0)
Dividend Yield (%)	0.9	0.9	0.9	0.9

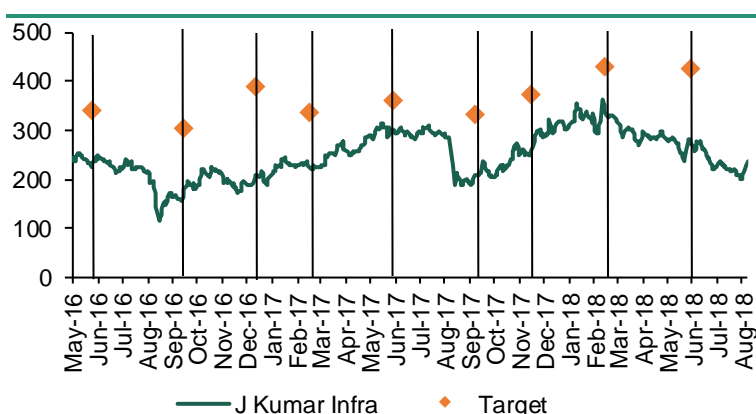
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
May-16	Buy	341	230
Sept-16	Buy	306	162
Dec-16	Buy	289	204
Feb-17	Buy	338	223
May-17	Buy	362	300
Sept-17	Buy	334	249
Nov-17	Buy	374	248
Feb-18	Buy	431	341
May-18	Buy	426	270

* As on Recommendation Date

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