

JMC Projects (India)

BUY

INDUSTRY INFRASTRUCTURE

CMP (as on 1 Feb 2019) Rs 93

Target Price Rs 175

Nifty 10,894

Sensex 36,469

KEY STOCK DATA

Bloomberg JMCP IN

No. of Shares (mn) 168

MCap (Rs bn) / (\$ mn) 16/219

6m avg traded value (Rs mn) 11

STOCK PERFORMANCE (%)

52 Week high / low Rs 142/67

3M 6M 12M

Absolute (%) 5.5 (13.4) (13.3)

Relative (%) (0.4) (10.6) (14.9)

SHAREHOLDING PATTERN (%)

Promoters 67.19

FIs & Local MFs 15.85

FPIs 1.06

Public & Others 15.90

Source : BSE

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Stable execution

JMC posted a strong revenue growth of 26.4% YoY to Rs 8.9bn. 3QFY19 EBITDA margins were robust at 10.2%. Higher than expected other Income (Rs 68mn) and a 100bps lower than expected tax rate (27.3%) contributed to a 21% APAT beat (at Rs 368mn). 9MFY19 revenue was Rs 23.2bn (+13.9%) despite a weak start to FY19 on account of labour related slowdown.

JMC bagged new orders worth Rs 11.1bn in 3QFY19 (Rs ~50.8bn wins in YTD FY19) with Infra segment contributing 56%. 3QFY19 Order book is at Rs 99.3bn excluding Rs 5.1bn won post 3QFY19 and L1 of Rs 7bn. It will continue to bid selectively for road - EPC projects while staying away completely from HAM. It continues to actively pursue international projects while focusing on water/flyover projects in the domestic infra segment.

JMC feels traction is visible on the commercial front in the B&F segment. With the MP irrigation order (Rs 16bn, 42 months period), having a better receivable cycle (~45days), expected to start from Apr-20, we **Financial Summary (Standalone)**

Year Ending March (Rs mn)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)	FY18	FY19E	FY20E	FY21E
Net Sales	8,930	7,066	26.4	7,336	21.7	27,556	32,213	36,947	40,247
EBITDA	911	703	29.7	774	17.7	2,848	3,337	3,732	4,065
APAT	368	238	54.9	301	22.4	1,061	1,238	1,353	1,416
Diluted EPS (Rs)	2.2	1.4	54.9	1.8	22.4	6.3	7.4	8.1	8.4
P/E (x)						14.7	12.6	11.5	11.0
EV / EBITDA (x)						7.6	6.7	5.9	5.3
RoE (%)						14.4	14.6	13.9	12.8

Source: Company, HDFC sec Inst Research

estimate a revenue CAGR of 13.5% over FY18-21E. Maintain BUY with a SOTP based TP of Rs 175/sh.

Highlights of the Quarter

- **BOT Assets:** Led by a strong 9.8% traffic growth, 9MFY19 revenues grew ~12.3% YoY (excluding overloading). Avg. collections improved to Rs 5.6mn/day in 3QFY19. Despite achieving operational cash break-even, if refinancing is not completed (received term sheet for 1 large project), loss funding could be Rs ~600mn (debt repayment) for FY20E.
- **Debt to remain under control:** Standalone net debt increased marginally to Rs 6.6bn (vs Rs 6.5bn in 2QFY19). With execution set to pick up, the gross debt is unlikely to reduce significantly from Rs 7.5bn currently. BOT assets refinancing will help partly recoup equity investment and aid deleveraging.
- **Near-term outlook:** backed by a strong order backlog and JMC not facing any significant challenges in kick starting the Rs 16bn irrigation project, we feel it is well poised to achieve 16.9/14.7% rev. growth in FY19/20E. Even as JMC's aims to exit the BOT projects in the long run, the outcome of refinancing for one large asset remains key trigger for further re-rating.

Revenue: Rs 8.9bn (+26/22% YoY/QoQ, 8% beat)

EBITDA: Rs 0.9bn (+30/18% YoY/QoQ, 6% beat)

Margins were at 10.2% (vs our estimate of 10.4%)

Other income: Rs 68mn (+122/21% YoY/QoQ)

Higher than expected other Income and a 100bps lower than expected tax rate (27.3%) contributed to a 21% PAT beat

We have increased our FY19/20 estimates marginally to factor in the robust 3QFY19 revenue trajectory

Standalone Quarterly Financials

Particulars (Rs mn)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)	9MFY19	9MFY18	YoY (%)
Net Revenues	8,930	7,066	26.4	7,336	21.7	23,153	20,326	13.9
Material Expenses	(6,945)	(5,462)	27.2	(5,590)	24.2	(17,914)	(15,394)	16.4
Employee Expenses	(780)	(654)	19.3	(752)	3.7	(2,248)	(1,934)	16.2
Other Expenses	(293)	(248)	18.4	(219)	33.8	(597)	(985)	(39.4)
EBITDA	911	703	29.7	774	17.7	2,395	2,013	19.0
Depreciation	(221)	(173)	28.1	(195)	13.2	(601)	(502)	19.7
EBIT	690	530	30.2	579	19.2	1,794	1,511	18.7
Interest Cost	(252)	(225)	12.1	(242)	4.3	(735)	(644)	14.2
Other Income	68	31	121.5	56	21.2	188	137	37.5
PBT	506	336	50.7	394	28.6	1,247	1,004	24.2
Tax	(139)	(99)	40.3	(93)	48.6	(313)	(297)	5.5
RPAT	368	238	54.9	301	22.4	935	708	32.0

Source: Company, HDFC sec Inst Research

Margin Analysis

MARGIN ANALYSIS	3QFY19	3QFY18	YoY (bps)	2QFY19	QoQ (bps)	9MFY19	9MFY18	YoY (%)
Material Expenses % Net Sales	77.8	77.3	47.6	76.2	157.3	77.4	75.7	163.4
Employee Expenses % Net Sales	8.7	9.3	(51.8)	10.3	(151.9)	9.7	9.5	19.4
Other Operating Expenses % Net Sales	3.3	3.5	(22.1)	3.0	29.7	2.6	4.8	(226.7)
EBITDA Margin (%)	10.2	9.9	26.3	10.6	(35.0)	10.3	9.9	43.9
Tax Rate (%)	27.3	29.4	(201.3)	23.7	367.8	25.1	29.5	(444.8)
APAT Margin (%)	4.1	3.4	76.0	4.1	2.3	4.0	3.5	55.4

Source: Company, HDFC sec Inst Research

Change In Estimate

Rs mn	FY19E Old	FY19E New	%/ (bps) Change	FY20E Old	FY20E NEW	%/ (bps) Change
Revenues	31,860	32,213	1.1	36,355	36,947	1.6
EBIDTA	3,313	3,337	0.7	3,672	3,732	1.6
EBIDTA Margins (%)	10.4	10.4	(4)	10.1	10.1	-
APAT	1,223	1,238	1.2	1,345	1,353	0.6

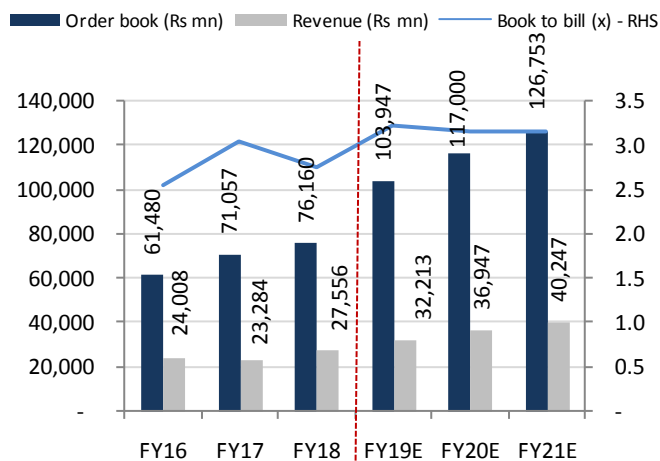
Source: Company, HDFC sec Inst Research

Execution will pick up from as Infra segment has picked up (contributing 35% now vs 25% earlier)

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

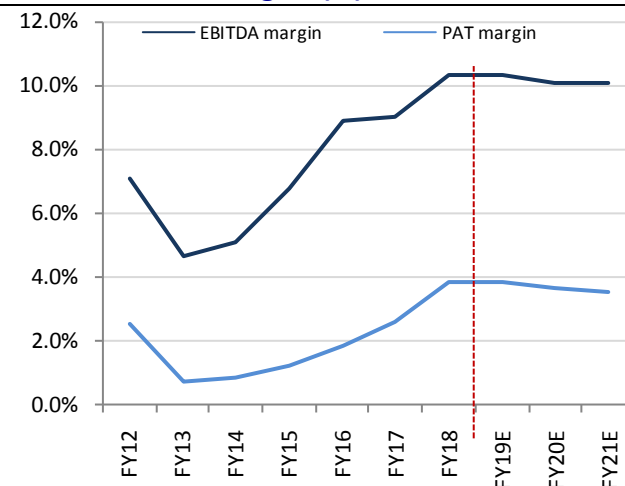
Strong CFO will be sufficient to provide support for BOT projects (in case debt refinancing gets delayed)

Order Book, Revenues, Book-to-bill Ratio



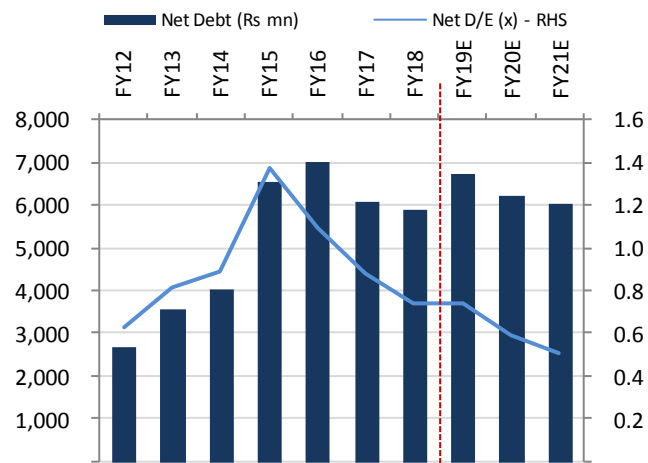
Source : Company, HDFC sec Inst Research

EBITDA And PAT Margins (%)



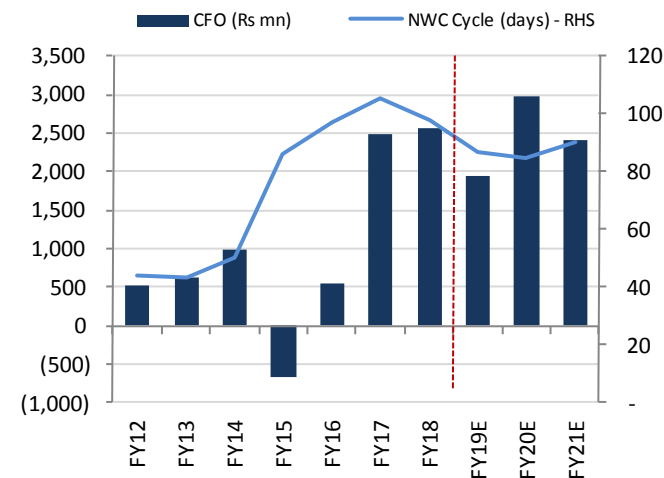
Source : Company, HDFC sec Inst Research

Net Debt And Net D/E



Source : Company, HDFC sec Inst Research

Cash Flow From Operations & NWC Cycle

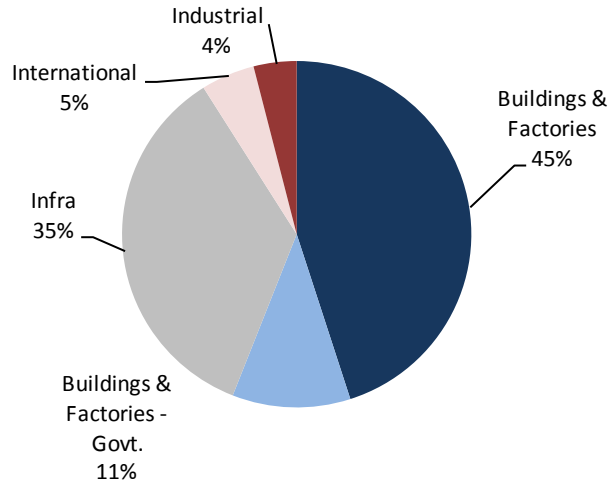


Source : Company, HDFC sec Inst Research

Post 3QFY19 inflows of Rs 5.1bn and L1 of Rs 7bn

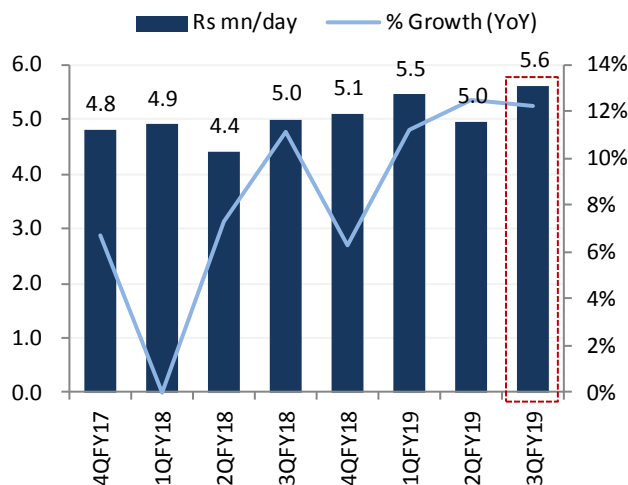
Despite achieving cash break even at BOT level, if refinancing for one large BOT asset doesn't materialize by Mar-19, loss funding could be ~Rs 600mn in FY20E for repayments alone

Order Book –3QFY19 split (%)



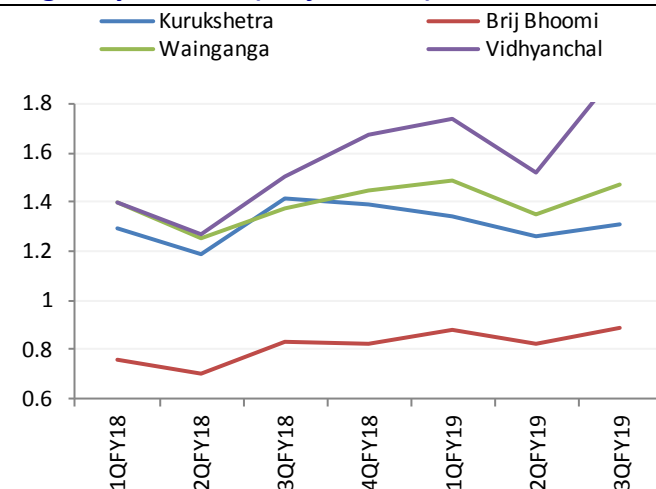
Source : Company, HDFC sec Inst Research

BOT Projects' Revenue Trend: Improving



Source : Company, HDFC sec Inst Research

Avg daily revenue (Project wise) - Rs mn



Source : Company, HDFC sec Inst Research

- Led by strong 9.8% traffic growth, 9MFY19 revenues grew ~12.3% YoY (excluding overloading). Avg collections improved to Rs 5.6mn/day in 3QFY19 (vs. Rs 4.9mn required for operational break even).
- Loss funding was Rs 330mn during 9MFY19 (Rs including Rs 280mn for debt repayment). Balance Rs ~180mn to be funded in 4QFY19E.
- Despite achieving cash break even, if refinancing is not completed (received term sheet for 1 large project), loss funding could be Rs ~600mn in FY20E.

Revenue to grow at a CAGR of 13.5% over FY18-20E aided by revival in building segment and increasing share of infrastructure projects in order book

Double digit margins to continue over FY19-20E

APAT will grow by 10.1% CAGR over FY18-20E

Key Assumptions And Estimates (Standalone)

Key Assumptions	FY19E	FY20E	FY21E	Comments
Closing order book	103,947	117,000	126,753	Order book to grow at a CAGR of 18.5% over FY18-21E
Order book growth (%)	36.5	12.6	8.3	
New order booking	60,000	50,000	50,000	Rs 50.8bn inflow already achieved in 9MFY19
Book to bill ratio	3.2	3.2	3.1	
Total Revenue	32,213	36,947	40,247	Revenue to grow at a CAGR of 13.5% over FY18-21E aided by revival in private institutional capex
Growth (%)	16.9	14.7	8.9	
EBIDTA	3,337	3,732	4,065	EBITDA to grow at a CAGR of 12.3% over FY18-20E
EBIDTA margin (%)	10.4	10.1	10.1	EBITDA margins will range between 10-10.5%
Depreciation	875	904	1,000	Incremental Capex to lead to increased depreciation
Financial Charges	1,007	1,094	1,120	
PBT	1,695	1,933	2,145	
PBT margin (%)	5.3	5.2	5.3	
Tax	457.7	579.9	729.3	
Tax rate (%)	27.0	30.0	34.0	Company is expected to operate at a full tax rate by FY-20E
RPAT	1,238	1,353	1,416	
Net margin (%)	3.8	3.7	3.5	
Extraordinary	-	-	-	
Adjusted PAT	1,238	1,353	1,416	APAT will grow by 10.1% CAGR over FY18-20E
Gross Block Turnover	4.8	4.9	4.9	
Debtor days	92	90	90	
CFO - a	1,937	2,983	2,403	
CFI - b	(1,708)	(1,306)	(1,030)	Includes Annual Capex of Rs 0.8-1bn and BOT loss funding
FCF - a+b	229	1,677	1,373	
CFF - c	(947)	(1,354)	(1,381)	
Total change in cash - a+b+c	(719)	323	(8)	

Source: HDFC sec Inst Research

We have valued the core construction business at 18x one-year forward Dec-20E EPS at Rs 150/share

We value BOT equity investments at a 40% discount at Rs 25/share

We arrive at SOTP valuation of Rs 175/share

Outlook And Valuation

Maintain BUY with Target Price Of Rs 175/Sh

Valuation methodology

- We have valued the core construction business at 18x one-year forward Dec-20E EPS at Rs 150/share. This is in line with other established players like Ahluwalia. Our rationale behind this is (1) 3QFY19 Order book of ~Rs 99.3bn (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 7.3bn).
- 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 175. We value the core construction business at Rs 150/share (18x one-year forward Dec-20E EPS) and Equity invested in BOT at a 40% discount at Rs 25/share.

SOTP Valuation

Particulars	Segments	Value (Rs mn)	Value per share (Rs)	Rationale
Standalone	Core construction business	25,257	150	At 18x Dec-20E EPS (adjusting for full tax rate) in line with peers like Ahluwalia and PSP
BOT Assets	Roads toll	4,200	25	At 0.6x P/BV(x) of equity exposure
Total		29,457	175	

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
NCC	47.5	79	BUY	175	8.0	8.8	9.3	8.8	7.9	7.5	5.1	4.6	4.3	10.8	10.8	10.3
IRB Infra Developers	51.0	145	BUY	284	14.5	17.2	22.2	1.2	1.0	0.8	2.3	2.1	1.4	22.0	24.4	29.0
Dilip Buildcon	44.7	327	BUY	831	52.5	52.1	54.4	4.6	4.6	4.1	3.9	3.2	3.0	25.5	20.2	17.5
Sadbhav Engineering	33.6	196	BUY	449	16.0	16.9	18.8	4.8	4.5	4.1	5.2	4.2	3.7	13.0	12.1	12.0
PNC Infratech	36.7	143	BUY	312	8.7	13.9	14.1	10.3	6.4	5.9	6.2	4.3	3.7	11.6	16.0	14.1
Ashoka Buildcon	33.9	121	BUY	262	10.2	10.4	10.6	4.8	4.8	4.3	4.3	3.8	3.4	14.0	12.6	11.6
KNR Constructions	29.1	207	BUY	336	11.6	15.0	15.4	12.7	9.8	9.5	6.0	4.7	4.0	13.0	14.3	12.8
Ahluwalia Contracts	18.4	275	BUY	487	21.1	25.1	26.8	12.4	10.4	9.8	6.0	5.0	4.3	20.4	19.9	17.7
ITD Cementation *	19.9	116	BUY	188	8.3	10.5	10.4	14.0	11.0	11.2	6.5	6.4	6.1	16.7	15.3	13.2
Capacite Infra	14.8	218	BUY	352	14.2	17.8	23.9	13.4	11.5	8.6	5.3	4.3	3.3	12.1	13.6	15.9
PSP Projects	13.9	385	BUY	608	24.0	32.0	34.3	16.0	12.0	11.2	9.1	6.5	5.6	25.6	27.4	23.8
JMC Projects	15.6	93	BUY	175	7.4	8.1	8.4	9.2	8.4	8.1	5.4	4.7	4.3	14.6	13.9	12.8
HG Infra	13.2	202	BUY	411	20.7	25.6	26.2	9.0	7.3	6.9	4.5	3.8	3.5	22.1	22.0	18.4
J. Kumar Infraprojects	8.1	107	BUY	298	20.3	23.7	25.2	5.3	4.5	4.3	3.1	2.7	2.5	9.8	10.6	10.4
Average					17.0	19.8	21.4	9.0	7.5	6.9	5.2	4.3	3.8	16.5	16.7	15.7

Source: Company, HDFC sec Inst Research *ITD Cementation FY19E should be read as 15MFY19E

Income Statement (Standalone)

Year ending March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues	23,284	27,556	32,213	36,947	40,247
Growth (%)	(3.0)	18.3	16.9	14.7	8.9
Material Expenses (incl. construction cost)	17,365	20,525	24,958	28,389	30,930
Employee Expenses	2,357	2,664	3,028	3,732	4,065
Other Operating Expenses	1,450	1,520	890	1,095	1,187
EBIDTA	2,111	2,848	3,337	3,732	4,065
EBIDTA (%)	9.1	10.3	10.4	10.1	10.1
EBIDTA Growth (%)	(1.2)	34.9	17.2	11.8	8.9
Depreciation	574	717	875	904	1,000
EBIT	1,538	2,131	2,462	2,828	3,065
Other Income (Incl. EO Items)	137	176	240	199	200
Interest	832	858	1,007	1,094	1,120
PBT	843	1,450	1,695	1,933	2,145
Tax	244	388	458	580	729
RPAT	599	1,061	1,238	1,353	1,416
EO items (net of tax)	-	-	-	-	-
APAT	599	1,061	1,238	1,353	1,416
APAT Growth (%)	35.5	77.2	16.6	9.3	4.6
EPS	3.6	6.3	7.4	8.1	8.4
EPS Growth (%)	35.5	77.2	16.6	9.3	4.6

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

As at March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	336	336	336	336	336
Reserves	6,561	7,554	8,731	10,024	11,379
Total Shareholders Funds	6,897	7,890	9,067	10,359	11,714
Minority Interest	0	0	0	0	0
Long Term Debt	2,313	3,143	2,993	2,993	2,993
Short Term Debt	4,050	4,223	4,493	4,293	4,093
Total Debt	6,363	7,366	7,486	7,286	7,086
Other Non Current Liabilities	5,242	5,860	5,477	6,194	6,714
TOTAL SOURCES OF FUNDS	18,502	21,116	22,030	23,839	25,514
APPLICATION OF FUNDS					
Net Block (incl. CWIP)	3,714	4,222	4,647	4,543	4,343
Investments	6,401	7,036	7,684	8,389	8,820
Other Non Current Assets	1,397	979	1,298	1,257	1,311
Total Non-current Assets	11,513	12,237	13,629	14,188	14,473
Inventories	1,795	1,923	2,250	2,328	2,536
Debtors	6,576	7,358	8,119	9,110	9,924
Cash & Equivalents	260	1,460	741	1,064	1,056
ST Loans & Advances	81	222	120	100	100
Other Assets	8,110	10,957	12,476	13,359	14,966
Total Current Assets	16,822	21,920	23,707	25,961	28,582
Creditors	7,439	8,286	9,708	11,135	12,129
Other Current Liabilities & Provns	2,394	4,755	5,599	5,175	5,412
Total Current Liabilities	9,833	13,041	15,307	16,310	17,541
Net Current Assets	6,989	8,879	8,400	9,651	11,041
TOTAL APPLICATION OF FUNDS	18,502	21,116	22,030	23,839	25,514

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

Year ending March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT	843	1,450	1,695	1,933	2,145
Non-operating & EO items	(124)	470	(240)	(199)	(200)
Interest expenses	832	858	1,007	1,094	1,120
Depreciation	574	717	875	904	1,000
Working Capital Change	533	(713)	(943)	(169)	(933)
Tax paid	(158)	(223)	(458)	(580)	(729)
OPERATING CASH FLOW (a)	2,499	2,558	1,937	2,983	2,403
Capex	(771)	(899)	(1,300)	(800)	(800)
Free cash flow (FCF)	1,728	1,659	637	2,183	1,603
Investments	0	(635)	(648)	(705)	(430)
Interest Income	96	121	240	199	200
INVESTING CASH FLOW (b)	(675)	(1,413)	(1,708)	(1,306)	(1,030)
Share capital Issuance	0	0	0	0	0
Debt Issuance	(2,589)	984	120	(200)	(200)
Others inc. Interest paid	721	(858)	(1,007)	(1,094)	(1,120)
Dividend + Misc	(40)	(72)	(61)	(61)	(61)
FINANCING CASH FLOW (c)	(1,909)	54	(947)	(1,354)	(1,381)
NET CASH FLOW (a+b+c)	(85)	1,199	(719)	323	(8)
Closing Cash & Equivalents	260	1,459	741	1,064	1,056

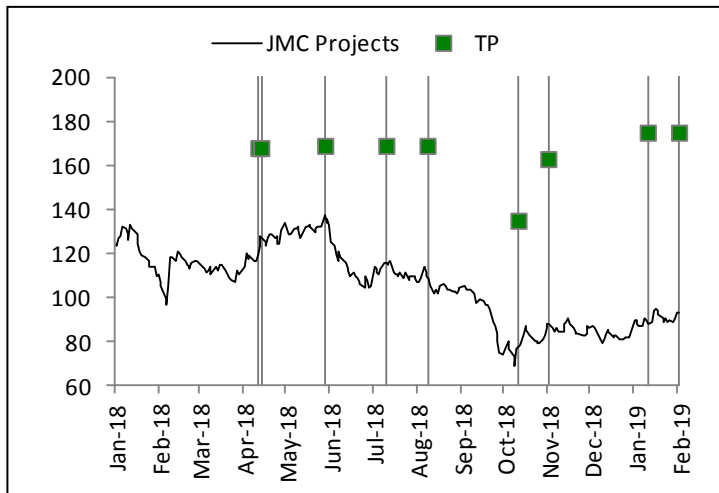
Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

Year ending March	FY17	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)					
GPM	25.4	25.5	22.5	23.2	23.1
EBITDA Margin	9.1	10.3	10.4	10.1	10.1
EBIT Margin	6.6	7.7	7.6	7.7	7.6
APAT Margin	2.6	3.9	3.8	3.7	3.5
RoE	9.0	14.4	14.6	13.9	12.8
Core RoCE	16.6	23.1	22.1	24.2	22.7
RoCE	9.0	11.1	11.9	12.0	11.5
EFFICIENCY					
Tax Rate (%)	29.0	26.8	27.0	30.0	34.0
Asset Turnover (x)	5.2	5.1	4.8	4.9	4.9
Inventory (days)	28	25	26	23	23
Debtors (days)	103	97	92	90	90
Payables (days)	117	110	110	110	110
Other Current Assets (days)	128	148	143	133	137
Other Current Liab (days)	38	63	63	51	49
Net Working Capital Cycle (Days)	105	98	87	85	91
Debt/EBITDA (x)	3.0	2.6	2.2	2.0	1.7
Net D/E	0.9	0.7	0.7	0.6	0.5
Interest Coverage	1.8	2.5	2.4	2.6	2.7
PER SHARE DATA					
EPS (Rs/sh)	3.6	6.3	7.4	8.1	8.4
CEPS (Rs/sh)	7.0	10.6	12.6	13.4	14.4
DPS (Rs/sh)	0.0	0.0	0.0	0.0	0.0
BV (Rs/sh)	41	47	54	62	70
VALUATION					
P/E	26.1	14.7	12.6	11.5	11.0
P/BV	2.3	2.0	1.7	1.5	1.3
EV/EBITDA	10.3	7.6	6.7	5.9	5.3
OCF/EV (%)	0.1	0.1	0.1	0.1	0.1
FCF/EV (%)	8.0	7.7	2.8	10.0	7.4
FCFE/Market Cap (%)	(0.9)	11.4	(1.6)	5.7	1.8
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	123	BUY	168
14-Apr-18	128	BUY	168
28-May-18	137	BUY	169
10-Jul-18	116	BUY	169
8-Aug-18	109	BUY	169
11-Oct-18	77	BUY	135
1-Nov-18	88	BUY	163
10-Jan-19	90	BUY	175
1-Feb-19	93	BUY	175

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:

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Any holding in stock –No

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