

J. Kumar Infraprojects

Migration headwinds

JKIL delivered 22/(6)/(24)% 4QFY20 Rev/EBIDTA/APAT beat/(miss) as margins collapsed owing to lockdown impact, esp. in urban centers like NCR/MMR (~90% of order book). Labor availability is ~20% and is gradually ramping up, expected to normalize by 3QFY21E. We expect about 35-40% execution for 1QFY21 and 45-50% during 2QFY21 (YoY). Whilst order backlog is robust at 4x FY20 book/bill, near term execution challenges have sprung up as Metro/Tier-1 cities are the worst impacted due to COVID-19 in terms of labor migration. We have revised our FY21/22E Rev estimates by (23)/(0.5)% and APAT by (85)/(3.8)%. At 4.1x FY22E EPS, 1HFY21 losses/execution disappointment is already priced in. We expect re-rating to happen in near term as 3QFY21 will see major turnaround on profitability. We maintain BUY. Key risks (1) Geographic concentration (2) Order conversion within estimated timelines (3) Extended lockdown (4) Prolonged monsoon.

- Execution severely impacted, margins under pressure:** JKIL 4QFY20 revenue at Rs 8.8bn was ahead of our estimates with EBIDTA at Rs 0.92bn (6% miss). EBITDA margins contracted 338/440 bps YoY/QoO to 10.5% (313bps miss) due to negative opelev with both fixed/variable expenses rising as % sales. 1HFY21 is expected to be significantly worse. However, EBITDA margins are expected to normalize at 15-16% range for FY22E as execution ramps up 3QFY21 onwards. APAT for the quarter came in at Rs 310mn (24% miss) due to higher int & dep expense. Execution efficiency/Labor availability is still at 15-20%. Skilled labor migration bigger challenge.
- Healthy order book; order inflows in-line with FY20 guidance:** Inflows for FY20 stood at Rs 43bn. The order backlog is robust at Rs 116bn (ex-L1 Rs 10bn, 4x FY20). Order inflow guidance for FY21 is Rs ~40-45bn, same as FY20. Dwarka Expressway Pkg-2 work started, AD for Pkg-1 awaited. Metros/Bridges & Flyovers contribute 54%/33% to the order book. Same is expected to continue going forward.
- Improvement in leverage:** The D/E as of 4QFY20 stands at 0.37x vs 0.39x as of 3QFY20. The gross debt for the company is Rs 6.7bn, marginally down from Rs 7/7.2bn at the end of 3Q/2QFY20. With no significant capex planned during the FY21E/FY22E (Rs 0.5bn in FY21), partial release of BGs by govt agencies, & utilization of mobilization advances, we expect D/E ratio to be maintained in 0.37-0.40x range.
- Order book exposed to geographic concentration risk:** Maharashtra accounts for over 70% of JKIL's order book which exposes it to local risks. However, we derive comfort from continuing payments from the new government in charge, diversification efforts and ongoing progress on all projects with no impending cancellations. ~91% book is exposed to urban centers, hence, most vulnerable to labor shortage.

Summary (Standalone)

Y/E March (Rs mn)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)	FY19	FY20	FY21E	FY22E
Net Sales	8,778	9,680	(9.3)	7,930	10.7	27,871	29,706	20,605	29,877
EBITDA	920	1,341	(31.4)	1,180	(22.1)	4,363	4,290	2,199	4,560
APAT	310	574	(46.0)	557	(44.3)	1,771	1,836	157	1,745
Diluted EPS (Rs)	4.1	7.6	(46.0)	7.4	(44.3)	23.4	24.3	2.1	23.1
P/E (x)						4.0	3.8	44.9	4.0
EV / EBITDA (x)						3.0	3.1	6.1	2.7
RoE (%)						11.1	10.5	0.9	9.2

Source: Company, HSIE Research

BUY

CMP (as on 29 June 2020)	Rs 94
Target Price	Rs 138
NIFTY	10,312

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 144	Rs 138
EPS %	FY21E	FY22E
	-85.40	-3.81

KEY STOCK DATA

Bloomberg code	JKIL IN
No. of Shares (mn)	76
MCap (Rs bn) / (\$ mn)	7/94
6m avg traded value (Rs mn)	26
52 Week high / low	Rs 180/65

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.7	(31.1)	(42.0)
Relative (%)	(0.6)	(15.2)	(30.7)

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	44.66	45.32
FIs & Local MFs	11.52	11.70
FPIs	10.73	9.64
Public & Others	33.10	33.34
Pledged Shares	10.57	10.57

Source : BSE

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Revenue: Rs 8.8bn (-9/+11% YoY/QoQ, 22% beat)

EBITDA: Rs 919mn (-31.5/-22 YoY/QoQ, 6% miss)

EBITDA margins: 10.5% (-338bps YoY, -440bps QoQ); FY20

Interest cost: Rs 247mn (-20% YoY, +13 QoQ)

APAT: Rs 311mn (-46/-44% YoY/QoQ, 24% miss)

As on Mar-20:

Unbilled rev – Rs 5.5bn

Mob. Adv – Rs 3.6bn

Ret Money – Rs 2.7bn

FY20 Capex – Rs 1.8bn

JKIL generated Rs 2.6bn CFO and had FCF of Rs 1.01bn in FY20

Fund-based/Non-fund based limits utilization remains high at ~70/80%.

Ex L1 of Rs 10bn (Worli / CIDCO Coastal Road), JKIL has bid for packages in Mumbai Metro Line 2B, Ahmedabad Metro, etc to the tune of Rs 10-20bn

Average order book execution duration is 3-4 years, given significant underground metro projects exposure

No political uncertainty overhang with change of Maharashtra govt.

Payments from the govt as well execution continues

Rs 5.6bn NBCC order has been withdrawn due to land acquisition issues; remaining order book is unwinding as envisaged

Quarterly Financials Snapshot – Standalone

Particulars (Rs mn)	4Q	4Q	YoY	3Q	QoQ	FY20	FY19	YoY (%)
	FY20	FY19	(%)	FY20	(%)			
Net Revenues	8,778	9,680	(9.3)	7,930	10.7	29,706	27,871	6.6
Material Expenses	(5,702)	(6,317)	(9.7)	(4,854)	17.5	(18,169)	(17,203)	5.6
Employee Expenses	(823)	(635)	29.7	(841)	(2.2)	(2,987)	(2,477)	20.6
Other Operating Expenses	(1,334)	(1,387)	(3.8)	(1,056)	26.4	(4,260)	(3,828)	11.3
EBITDA	920	1,341	(31.4)	1,180	(22.1)	4,290	4,363	(1.7)
Depreciation	(350)	(254)	37.8	(311)	12.5	(1,262)	(1,022)	23.5
EBIT	570	1,087	(47.6)	869	(34.4)	3,027	3,341	(9.4)
Other Income	80	96	(16.2)	89	(9.5)	283	281	0.6
Interest Cost	(247)	(308)	(19.8)	(218)	13.4	(977)	(939)	4.1
PBT	403	875	(54.0)	740	(45.5)	2,333	2,683	(13.0)
Tax	(93)	(302)	(69.2)	(183)	(49.1)	(497)	(912)	(45.5)
RPAT	310	574	(46.0)	557	(44.3)	1,836	1,771	3.7
EO Items			0.0		0.0	-	-	0.0
APAT	310	574	(46.0)	557	(44.3)	1,836	1,771	3.7

Source: Company, HSIE Research

Margin Analysis

MARGIN ANALYSIS	4Q	4Q	YoY	3Q	QoQ	FY20	FY19	YoY (bps)
	FY20	FY19	(bps)	FY20	(bps)			
Material Expenses % Net Sales	65.0	65.3	(30)	61.2	375	61.2	61.7	(56)
Employee Expenses % Net Sales	9.4	6.6	282	10.6	(123)	10.1	8.9	117
Other Operating Expenses % Net Sales	15.2	14.3	87	13.3	189	14.3	13.7	61
EBITDA Margin (%)	10.5	13.9	(338)	14.9	(440)	14.4	15.7	(121)
Tax Rate (%)	23.1	34.5	(1,140)	24.7	(162)	21.3	34.0	(1,268)
APAT Margin (%)	3.5	5.9	(239)	7.0	(349)	6.2	6.4	(17)

Source: Company, HSIE Research

Key Assumptions & Estimates

Key Assumptions	FY20	FY21E	FY22E	Comments
Closing order book	1,16,437	1,02,275	97,990	
Order book growth (%)	12.3	(12.2)	(4.2)	
New order booking	43,000	20,000	35,000	JKIL has guided for Rs 40bn of new orders for FY21E; we have assumed Rs 20bn on the conservative side
Book to bill ratio	3.9	5.0	3.3	
Total Revenue	29,706	20,605	29,877	We estimate significant de-growth in FY21E, with JKIL achieving pre-COVID levels in FY22E
Growth (%)	6.6	(30.6)	45.0	
EBIDTA	4,290	2,199	4,560	FY20-22E EBIDTA CAGR of 3.1%
EBIDTA margin (%)	14.4	10.7	15.3	Margins to bounce back to pre-COVID levels of 15-16% in FY22E
Depreciation	1,262	1,319	1,458	
Financial Charges	977	964	1,026	
PBT	2,333	212	2,358	FY20-22E PBT CAGR of 0.5%
PBT margin (%)	7.9	1.0	7.9	
Tax	497.3	55.1	613.0	
Tax rate (%)	21.3	26.0	26.0	JKIL has migrated to new corporate tax regime
APAT	1,836	157	1,745	Barely breaking even in FY21E, back to FY20 level in FY22E
Net margin (%)	6.2	0.8	5.8	
Gross Block Turnover	2.6	1.6	2.2	
Debtor days	79	122	84	
CFO - a	2,588	1,355	3,008	
CFI - b	(1,226)	(313)	(428)	
FCF - a+b	1,362	1,042	2,580	
CFF - c	(1,475)	(597)	(1,191)	
Total change in cash - a+b+c	(113)	445	1,390	

Source: HSIE Research

Outlook And Valuation

Maintain BUY with SOTP of Rs 138/share

- Valuation methodology:** We have valued JKIL on P/E at 6x Mar-22E EPS. Our investment thesis is premised on (1) Strong order backlog of Rs 116bn as of 4QFY20 (3.9x FY20 revenue), (2) Stable balance sheet, with 4QFY20 D/E at 0.37x (3) Continued focus on EPC model, and (4) Well-diversified presence across different infrastructure sub-segments viz. Metros, flyovers, roads, water transport etc.
- P/E discount is to factor in high order book exposure to Mumbai region and in Transportation segment.
- Investments in the transportation sector and urban MRTS segment would continue to drive stock performance, and JKIL, with strong segmental credentials, is likely to benefit from the pick-up in order execution post COVID-19 normalisation. **Maintain BUY.**

We value the standalone EPC business at Rs 138/share (6x Mar-22E EPS) vs. Rs 144/sh earlier

Maintain BUY with TP of Rs 138/sh

Valuation

Particulars	Segments	Value (Rs mn)	Value per share(Rs)	Rationale
EPC	Core construction business	10469	138	At 6x Mar-22E EPS
Total		10469	138	

Source: HSIE Research

Change in estimates

Standalone Rs Mn	FY21E			FY22E		
	Old	Revised	% Chg	Old	Revised	% Chg
Net Sales	26,686	20,605	-22.79	30,022	29,877	-0.48
EBITDA	3,511	2,199	-37.38	4,616	4,560	-1.21
EBIDTA Margin (%)	13.2	10.7	-248.63	15.4	15.3	-11.18
Adj PAT	1,075	157	-85.40	1,814	1,745	-3.81
AEPS (Rs)	14.2	2.1	-85.40	24.0	23.1	-3.81

Source: HSIE Research

We have revised our APAT estimates for FY21E/22E by (85.4)/(3.8)% to factor in worse than expected impact of COVID-19 given entire exposure to urban centres like MMR/NCR/Lucknow

Peer Set Comparison: Core EPC

Core EPC	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Dilip Buildcon	37.9	277	BUY	466	30.4	17.9	41.4	4.7	7.9	3.4	3.4	4.2	3.0	12.2	6.4	13.3
KNR	29.6	211	BUY	279	15.5	12.8	17.4	9.1	11.0	8.1	4.4	4.8	3.7	14.3	10.5	12.8
PNC Infratech	36.4	142	BUY	234	12.8	10.0	14.6	6.5	8.3	5.7	2.2	3.4	2.9	9.4	5.4	7.0
NCC	18.3	30	BUY	48	4.9	2.2	5.1	4.5	10.2	4.4	2.9	4.1	3.0	6.0	2.6	5.8
Ashoka Build	17.1	61	BUY	134	11.4	5.8	8.7	-0.9	-1.8	-1.2	-0.4	-0.3	0.0	16.1	8.4	10.2
PSP Projects	14.1	392	REDUCE	370	35.9	18.4	37.0	10.9	21.3	10.6	7.4	12.9	7.2	31.2	13.7	23.5
Ahluwalia Contracts	14.0	209	BUY	265	12.4	14.3	25.2	15.8	13.7	7.8	6.3	6.2	4.0	10.7	11.1	17.1
HG Infra	13.3	205	BUY	337	25.4	20.6	28.1	5.9	7.3	5.3	3.6	3.9	2.7	22.4	14.9	17.2
JMC Projects	8.6	51	BUY	69	9.4	4.3	7.6	4.5	9.8	5.6	3.6	4.4	3.1	16.7	7.3	11.8
Sadbhav Engineering	8.0	47	BUY	56	4.9	4.0	7.1	6.8	8.4	4.7	6.4	5.8	4.0	4.1	3.2	5.5
ITD Cementation	8.9	52	ADD	54	4.9	0.4	6.8	10.5	141.0	7.6	3.6	4.9	3.1	8.2	0.6	10.4
JKIL	7.1	94	BUY	138	24.3	2.1	23.1	3.9	45.1	4.1	2.9	5.8	2.5	10.5	0.9	9.2
Capacite Infraprojects	7.7	113	BUY	147	11.1	0.6	16.8	9.0	175.2	6.0	2.7	4.9	2.0	8.5	0.4	11.8
Average								6.8	33.2	5.6	3.7	4.9	3.2	13.1	6.6	12.0

Source: HSIE Research

Financials

Standalone Income Statement

Year ending March (Rs mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	14,086	16,043	20,507	27,871	29,706	20,605	29,877
<i>Growth (%)</i>	4.9	13.9	27.8	35.9	6.6	(30.6)	45.0
Material Expenses	8,859	9,660	12,087	17,203	18,169	12,870	18,405
Employee Expenses	783	1,267	1,971	2,477	2,987	2,503	2,878
Other Operating Expenses	1,960	2,611	3,237	3,828	4,260	3,033	4,034
EBIDTA	2,484	2,505	3,212	4,363	4,290	2,199	4,560
<i>EBIDTA (%)</i>	17.6	15.6	15.7	15.7	14.4	10.7	15.3
<i>EBIDTA Growth (%)</i>	(0.9)	0.9	28.2	35.8	(1.7)	(48.7)	107.4
Depreciation	512	556	727	1,022	1,262	1,319	1,458
EBIT	1,972	1,949	2,485	3,341	3,027	880	3,102
Other Income (Incl. EO Items)	177	311	285	281	283	297	282
Interest	611	662	704	939	977	964	1,026
PBT	1,538	1,598	2,066	2,683	2,333	212	2,358
Tax	506	525	701	912	497	55	613
RPAT	1,032	1,073	1,365	1,771	1,836	157	1,745
EO items (net of tax)	(2)	(50)	(37)	-	-	-	-
APAT	1,030	1,023	1,328	1,771	1,836	157	1,745
<i>APAT Growth (%)</i>	10.0	(0.7)	29.8	33.4	3.7	(91.4)	1,011.6
EPS	13.6	13.5	17.5	23.4	24.3	2.1	23.1
<i>EPS Growth (%)</i>	10.0	(0.7)	29.8	33.4	3.7	(91.4)	1,011.6

Source: Company, HSIE Research

Standalone Balance Sheet

Year ending March (Rs mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS							
Share Capital	378	378	378	378	378	378	378
Reserves	12,455	13,530	14,709	16,297	17,931	17,856	19,136
Total Shareholders Funds	12,833	13,908	15,087	16,675	18,310	18,234	19,514
Long Term Debt	3,540	530	2,153	2,286	978	978	978
Short Term Debt	-	3,838	3,651	4,625	5,762	6,362	6,662
Total Debt	3,540	4,368	5,804	6,911	6,740	7,340	7,640
Deferred Taxes	170	184	289	366	274	274	274
TOTAL SOURCES OF FUNDS	16,543	18,460	21,180	23,952	25,323	25,847	27,433
APPLICATION OF FUNDS							
Net Block	4,300	5,114	7,161	7,788	8,545	7,826	7,068
CWIP	675	712	1,262	798	987	987	987
Investments	-	3	150	316	12	22	32
Other Non Current Assets	1,797	2,481	2,717	3,357	3,487	3,835	4,219
Total Non-current Assets	6,773	8,310	11,290	12,259	13,031	12,671	12,306
Inventories	4,862	6,436	8,143	9,187	3,126	2,731	2,741
Debtors	2,956	4,861	5,288	4,986	6,448	6,892	6,915
Cash & Equivalents	1,736	1,006	975	704	591	1,036	2,425
ST Loans & Advances, Others	1,040	638	788	338	105	345	346
Other Current Assets	2,282	6,380	7,131	7,499	13,495	13,545	14,105
Total Current Assets	12,875	19,321	22,325	22,714	23,764	24,548	26,532
Creditors	1,140	1,803	3,292	3,976	4,604	5,169	4,841
Other Current Liabilities & Provns	1,966	7,368	9,143	7,046	6,868	6,203	6,558
Total Current Liabilities & Provns	3,105	9,171	12,435	11,022	11,472	11,372	11,404
Net Current Assets	9,770	10,150	9,890	11,692	12,292	13,177	15,128
TOTAL APPLICATION OF FUNDS	16,543	18,460	21,180	23,952	25,323	25,847	27,433

Source: Company, HSIE Research

Standalone Cash Flow

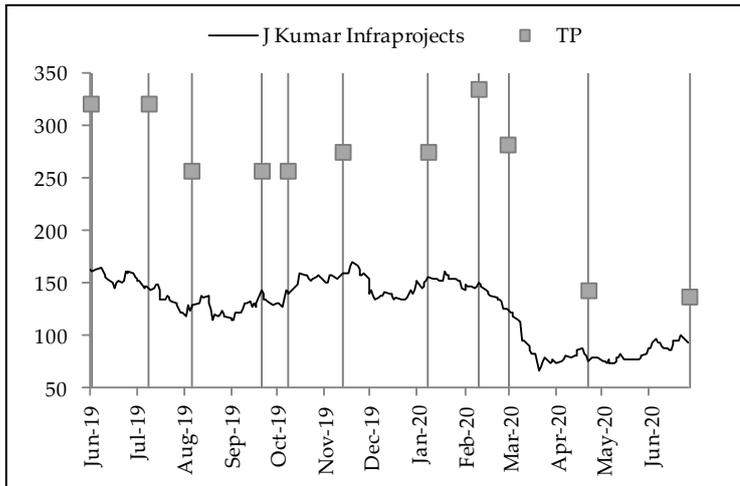
Year ending March (Rs mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	1,538	1,598	2,066	2,683	2,333	212	2,358
Non-operating & EO items	(0)	(9)	8	(16)	0	0	0
Interest expenses (Net)	478	429	455	686	977	668	744
Depreciation	512	556	727	1,022	1,262	1,319	1,458
Working Capital Change	(1,411)	(2,023)	77	(2,811)	(1,050)	(789)	(939)
Tax Paid	(435)	(746)	(685)	(738)	(934)	(55)	(613)
OPERATING CASH FLOW (a)	681	(195)	2,648	826	2,588	1,355	3,008
Capex	(553)	(1,400)	(3,328)	(1,096)	(1,577)	(600)	(700)
Free cash flow (FCF)	128	(1,595)	(680)	(270)	1,012	755	2,308
Investments + interest	(1,711)	2,048	99	14	351	287	272
INVESTING CASH FLOW (b)	(2,264)	648	(3,229)	(1,082)	(1,226)	(313)	(428)
Share capital Issuance	4,093	0	0	0	0	0	0
Debt Issuance	(1,615)	947	1,435	1,107	(173)	600	300
Interest expenses	(611)	(662)	(703)	(939)	(1,098)	(964)	(1,026)
Dividend	(155)	(182)	(182)	(182)	(205)	(232)	(465)
FINANCING CASH FLOW (c)	1,713	103	550	(15)	(1,475)	(597)	(1,191)
NET CASH FLOW (a+b+c)	130	556	(31)	(271)	(113)	445	1,390
Closing Cash & Equivalents	1,736	1,006	975	704	591	1,036	2,425

Key Ratios

	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)							
GPM	37.1	39.8	41.1	38.3	38.8	37.5	38.4
EBITDA Margin	17.6	15.6	15.7	15.7	14.4	10.7	15.3
EBIT Margin	14.0	12.1	12.1	12.0	10.2	4.3	10.4
APAT Margin	7.3	6.4	6.5	6.4	6.2	0.8	5.8
RoE	9.9	7.7	9.2	11.1	10.5	0.9	9.2
Core RoCE	15.1	13.7	14.4	17.1	14.3	4.0	13.7
RoCE	14.1	12.7	14.4	17.1	14.3	4.0	13.7
EFFICIENCY							
Tax Rate (%)	32.9	32.9	33.9	34.0	21.3	26.0	26.0
Asset Turnover (x)	2.9	2.6	2.3	2.6	2.4	1.6	1.3
Inventory (days)	126	146	145	120	38	48	33
Debtors (days)	77	111	94	65	79	122	84
Payables (days)	30	41	59	52	57	92	59
Cash Conversion Cycle (days)	173	216	180	134	61	79	59
Loans & Advances (days)	27	15	14	4	1	6	4
Other Assets (days)	59	145	127	98	166	240	172
Other Liab (days)	51	168	163	92	84	110	80
NWC (days)	208	208	159	144	144	215	155
Debt/EBITDA (x)	1.4	1.7	1.8	1.6	1.6	3.3	1.7
Net D/E	0.1	0.2	0.3	0.4	0.4	0.3	0.3
Interest Coverage	3.2	2.9	3.5	3.6	3.1	0.9	3.0
PER SHARE DATA							
EPS (Rs/sh)	13.6	13.5	17.5	23.4	24.3	2.1	23.1
CEPS (Rs/sh)	20.4	20.9	27.2	36.9	40.9	19.5	42.3
DPS (Rs/sh)	2.0	2.0	2.0	2.0	5.3	5.3	5.3
BV (Rs/sh)	169.6	183.8	199.4	220.4	242.0	241.0	257.9
VALUATION							
P/E	6.8	6.9	5.3	4.0	3.8	44.9	4.0
P/BV	0.5	0.5	0.5	0.4	0.4	0.4	0.4
EV/EBITDA	3.6	4.2	3.7	3.0	3.1	6.1	2.7
OCF/EV (%)	7.7	(1.9)	22.3	6.2	19.6	10.1	24.5
FCF/EV (%)	1.4	(15.3)	(5.7)	(2.0)	7.7	5.7	18.8
FCFE/Market Cap (%)	(29.8)	(18.6)	0.7	(1.5)	(3.7)	5.5	22.5
Dividend Yield (%)	2.1	2.1	2.1	2.1	5.6	5.6	5.6

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
3-Jun-19	164	BUY	322
11-Jul-19	145	BUY	322
8-Aug-19	127	BUY	258
22-Sep-19	131	BUY	258
10-Oct-19	143	BUY	258
18-Nov-19	160	BUY	276
10-Jan-20	156	BUY	276
12-Feb-20	149	BUY	269
2-Mar-20	126	BUY	283
24-Apr-20	76	BUY	144
30-Jun-20	94	BUY	138

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

Disclosure:

We, **Parikshit Kandpal, CFA & Rohan Rustagi, MBA**, 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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