



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✓	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✓
RQ	✗	↔	✗
RV	✗	↔	✗

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 69	
Price Target: Rs. 83	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

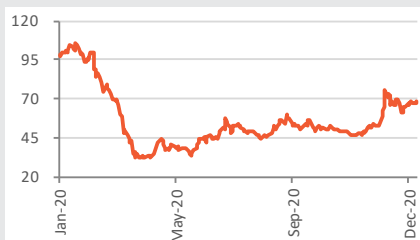
## Company details

Market cap:	Rs. 1,154 cr
52-week high/low:	Rs. 108 / 29
NSE volume: (No of shares)	1.7 lakh
BSE code:	522263
NSE code:	JMC
Free float: (No of shares)	5.4 cr

## Shareholding (%)

Promoters	67.8
FII	0.3
DII	17.1
Others	14.9

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-3.6	36.2	28.3	-30.6
Relative to Sensex	-9.6	15.4	-3.1	-48.4

Sharekhan Research, Bloomberg

## JMC Projects (India) Limited

## Beneficiary of positive sector outlook

## Capital Goods

## Sharekhan code: JMC

## Stock Update

## Summary

- We retain a Buy rating on JMC Projects with a revised price target of Rs. 83, considering a positive outlook for the sector and favorable valuation.
- Road project awarding and construction activities increased during November 2020. Toll project revenues are also rising robustly as reflected in FASTag and NHAI toll collections.
- Bank credit deployment to roads sector has started improving with a healthy y-o-y rise during September to November which should help execution of ongoing projects and financial closure of new projects.
- Management expects restructuring and refinancing of BOT road assets to conclude by FY2021-end, while asset divestment is expected to take time.

The improving outlook for the roads sector bodes well for companies such as JMC Projects (JMC). The sector saw a strong rise in project awarding activity for FY2021 till November with projects of 6764 km being awarded, up 2.1x y-o-y. Further, in November 2020, construction of projects grew 1.5x y-o-y to 1,251km. Additionally, December 2020 saw continued momentum in FASTag issuances with a 26% rise as compared to February 2020 while it was up 10.8% m-o-m. NHAI had also witnessed toll collections reaching 114% of pre-COVID levels in early November. The rising toll collections bode well for asset monetisation and faster churning of capital for companies like JMC Projects. Further, bank credit deployment in the roads sector has been rising since the start of FY2021 with November witnessing an 8.1% rise respectively. The higher deployment of bank credit to the road sector highlights easing of funding requirements for the sector and would help improve execution of under-construction projects and financial closure of newly-bagged projects. The government's investments worth Rs. 111 lakh crore envisaged over FY2020-FY2025 entails Rs. 20.3 lakh crore (18% share) investments in the road sector. Hence, going ahead, the roads sector is expected to continue to witness increasing tendering activity providing strong growth opportunities for companies like JMC Projects. The company's management remains optimistic on achieving upto 5% y-o-y revenue growth in FY2021 with 10.5-11% OPM. It is also confident of restructuring one of the two BOT road assets by March 2021 and hopeful to conclude thesecond one too, which would ease debt repayment support of Rs. 70-80 crore per annum Post restructuring of JMC road assets, its parent company KPTL may look to merge JMC with itself. JMC's order backlog was healthy at Rs. 14,227 crore translating to 4.5x its TTM standalone revenues as on Q2FY2021. After considering the loss-funding of its road assets, the standalone business is available at a P/E of 10.7x/9.3x on FY2022E/ FY2023E, which we believe provides further room for upside to investors. Hence, we continue to maintain a Buy on the stock with a revised price target of Rs. 83.

## Our Call

**Valuation –Retain Buy with a revised price target of Rs. 83:** JMC has rebounded well after being severely hit by the COVID-19 led lockdown during Q1FY2021. Further, despite H1 too suffering the impact of COVID-19 JMC is optimistic of achieving positive revenue growth in FY2021 and maintain a healthy OPM of 10.5-11%. The company also received strong order inflows for YTD leading to strong order backlog, which provides healthy revenue visibility. Improving road sector outlook bodes well for divestment of its BOT assets (remained a key hangover due to weak macro environment) and continued loss funding of assets. However, it has been able to reduce loss-funding of assets and has been actively looking for buyers, which should aid significant de-leveraging of consolidated and standalone balance sheet. After considering the loss-funding of its road assets, the standalone business is available at a P/E of 10.7x/9.3x on FY2022E/FY2023E, which we believe provides a further room for upside to investors. Hence, we continue to maintain a Buy on the stock with a revised price target of Rs. 83.

## Key Risks

Slowdown in domestic macroeconomic environment and higher loss-funding in the roads segment can affect business outlook and earnings growth.

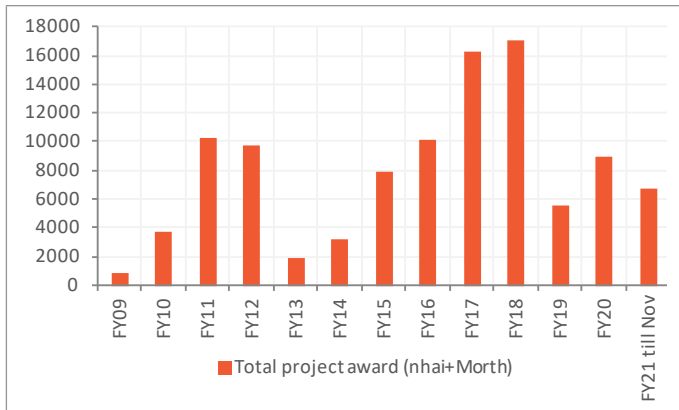
## Valuations (Standalone)

	Rs cr			
Particulars	FY20	FY21E	FY22E	FY23E
Revenue	3713	3855	4372	4825
OPM (%)	11.1	10.0	10.5	10.5
Adjusted PAT	158	106	151	173
% YoY growth	11.5	-32.9	41.8	14.8
Adjusted EPS (Rs.)	9.4	6.3	9.0	10.3
P/E (x)	7.3	10.8	7.6	6.7
P/B (x)	1.2	1.1	0.9	0.8
EV/EBITDA (x)	4.4	4.8	3.8	3.2
RoNW (%)	16.7	10.4	13.2	13.3
RoCE (%)	19.0	15.4	17.7	17.8

Source: Company Data; Sharekhan estimates

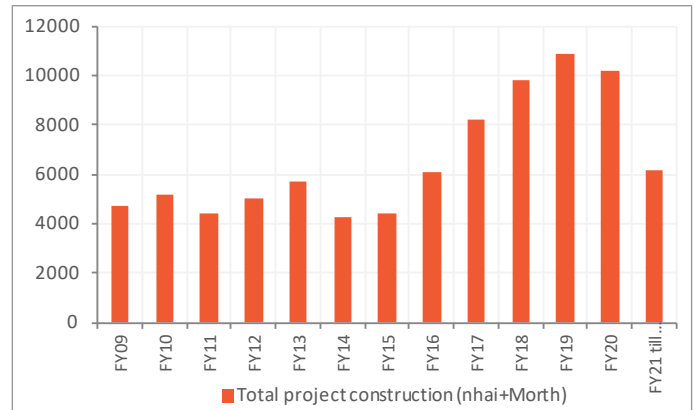
## Key indicators hint at better times ahead

### Project Award (MORTH+NHAH) trend



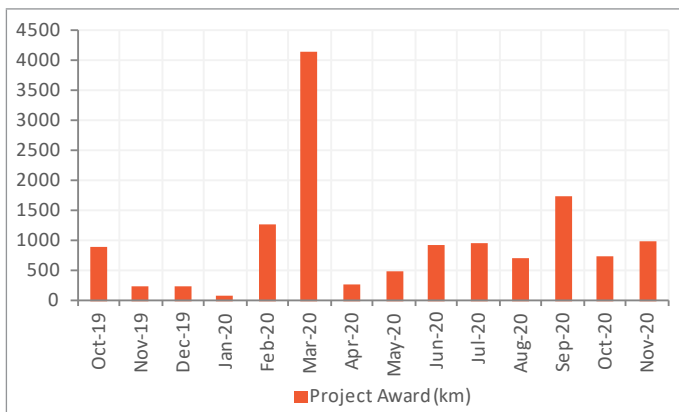
Source: Industry; Sharekhan Research

### Project Construction (MORTH+NHAH) trend



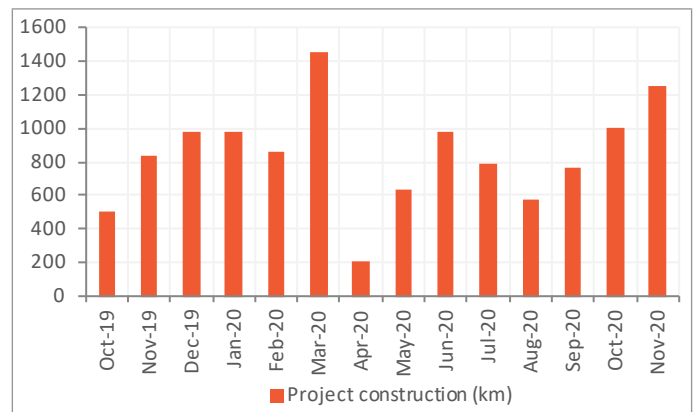
Source: Industry; Sharekhan Research

### Project Award Monthly trend



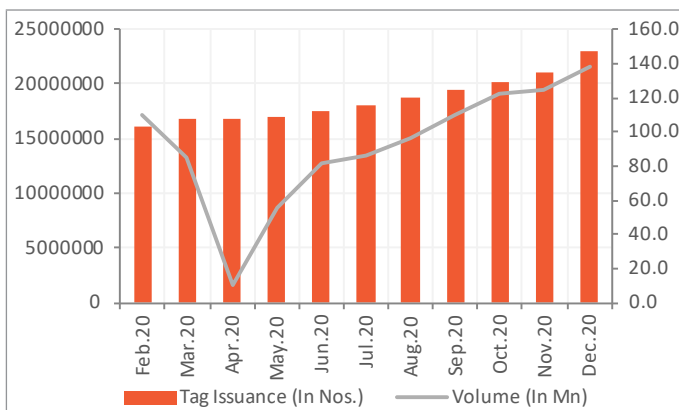
Source: Industry; Sharekhan Research

### Project Construction monthly trend



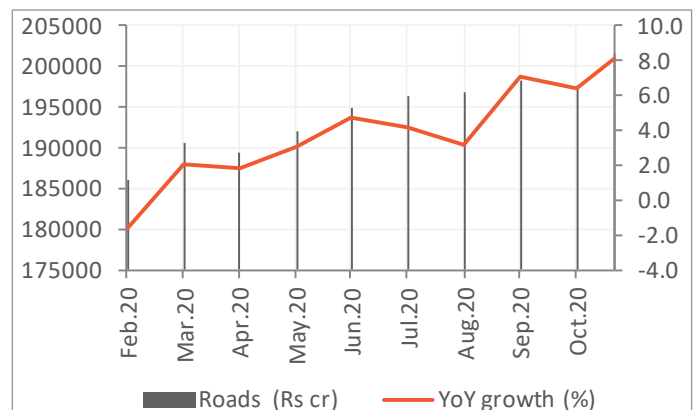
Source: Industry; Sharekhan Research

### FASTag trend



Source: Industry; Sharekhan Research

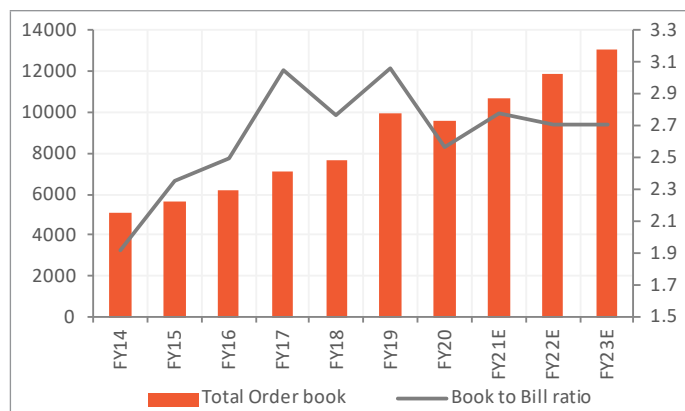
### Bank credit deployment in Roads



Source: Industry; Sharekhan Research

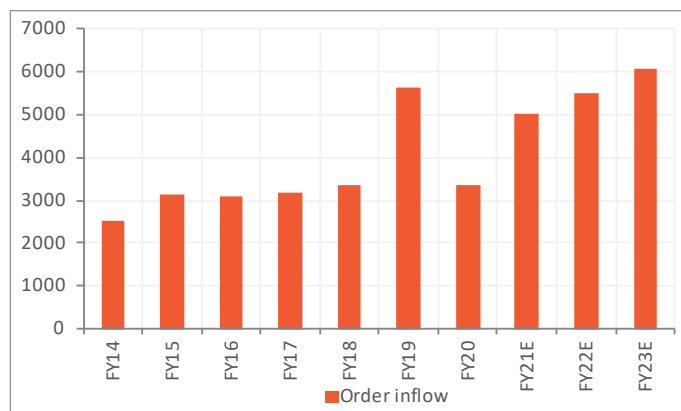
## Financials in charts

### Order Book trend



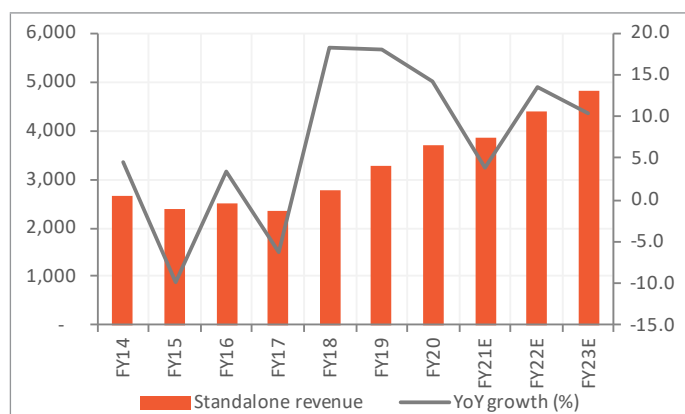
Source: Company, Sharekhan Research

### Order Inflow trend



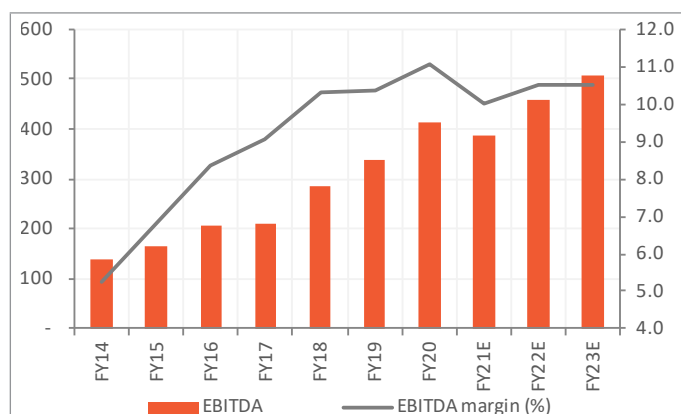
Source: Company, Sharekhan Research

### Standalone Revenue trend



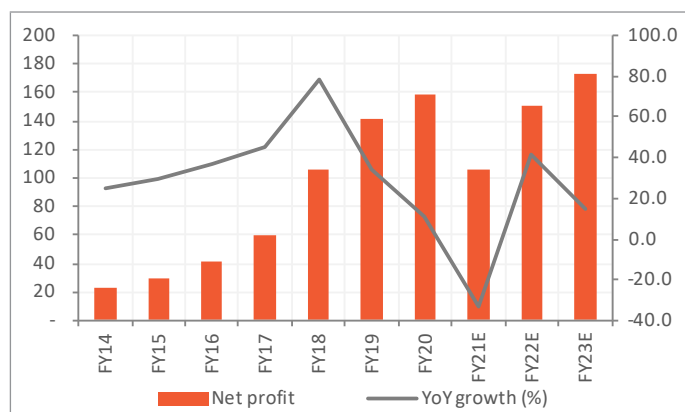
Source: Company, Sharekhan Research

### Standalone EBITDA trend



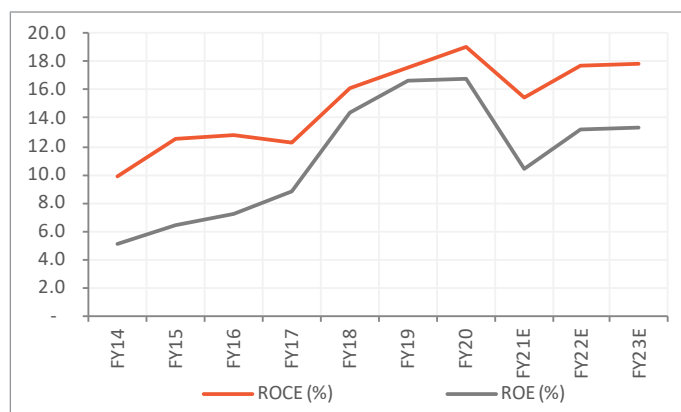
Source: Company, Sharekhan Research

### Standalone PAT trend



Source: Company, Sharekhan Research

### ROCE/ROE trend



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view – Roads to remain one of key focus areas in government's infrastructure spending

The government's infrastructure investment is pegged at Rs. 111 lakh crore over FY2020-FY2025. The roads sector is expected to witness Rs. 20 lakh crore investments in this period. Huge investments along with favourable government policies are expected to provide strong growth opportunities for industry players. The road sector is recovering with near pre-COVID level man-power strength and availability of materials post easing of restrictions after the COVID-19 pandemic led lockdown in the country. The industry is expected to see strong order inflows and an improvement in execution run-rate from Q3FY2021 onwards. Working capital issues of the companies have been handled by proactive payments from NHAI.

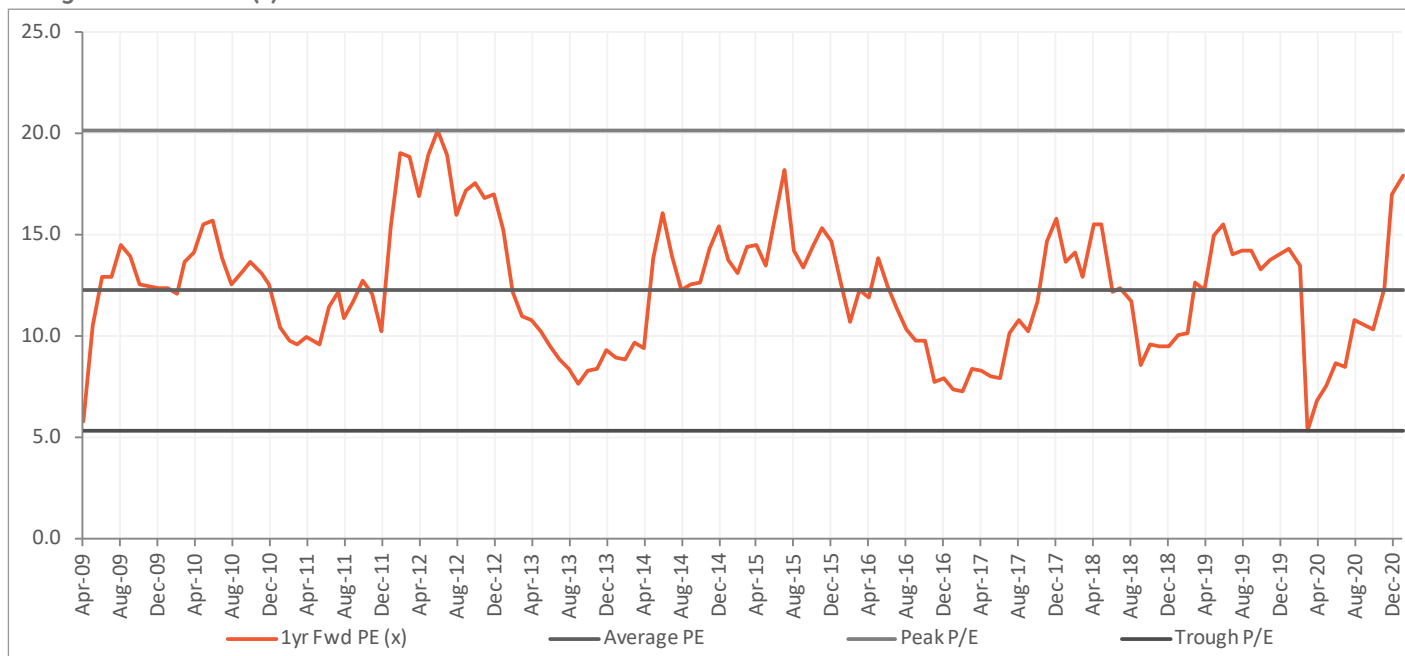
### ■ Company outlook - Optimistic for FY2021 but asset divestment to take time

The management remained optimistic on positive revenue growth guidance for FY2021 despite H1FY2021 getting affected by COVID-19. The management is confident of achieving 10-11% OPM for FY2021 while H1FY2021 OPM came in at 7.9%. Order inflows on aYTD basis remained strong. However, the company's BOT assets remain a key drag on valuation. The company has invested Rs. 821 crore in road assets as of Q2FY2021 and has been loss-funding assets aggregating to Rs. 180 crore during FY2018-FY2020 (H1FY2021 has been nil due to moratorium availed). The environment for divestment of road assets, especially non-profitable ones, has remained tough, which has led to company's inability to divest it and de-leverage the balance sheet. Hence, overall we see that though the standalone business is on improving trajectory, delay in asset divestment and loss-funding of assets remain a key hangover on the stock.

### ■ Valuation - Retain Buy with a revised price target of Rs. 83

JMC has rebounded well after being severely hit by the COVID-19 led lockdown during Q1FY2021. Further, despite H1 too suffering the impact of COVID-19 JMC is optimistic of achieving positive revenue growth in FY2021 and maintain a healthy OPM of 10.5-11%. The company also received strong order inflows for YTD leading to strong order backlog, which provides healthy revenue visibility. Improving road sector outlook bodes well for divestment of its BOT assets (remained a key hangover due to weak macro environment) and continued loss funding of assets. However, it has been able to reduce loss-funding of assets and has been actively looking for buyers, which should aid significant de-leveraging of consolidated and standalone balance sheet. After considering the loss-funding of its road assets, the standalone business is available at a P/E of 10.7x/9.3x on FY2022E/FY2023E, which we believe provides a further room for upside to investors. Hence, we continue to maintain a Buy on the stock with a revised price target of Rs. 83.

#### One-year forward P/E (x) band



Source: Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
PNC Infratech	12.7	10.8	6.2	5.4	1.4	1.5	11.7	12.3
JMC Projects	7.6	6.7	3.8	3.2	0.9	0.8	13.2	13.3
KNR Constructions	19.3	16.8	8.4	7.5	2.3	2.0	12.7	12.9

Source: Sharekhan Research

## About company

JMC is a subsidiary of Kalpataru Power Transmission (that has a 67.19% stake in JMC). Kalpataru Power itself is part of Kalpataru Group, a diversified conglomerate operating in businesses such as real estate, power generation and transmission, construction of roads, factories, buildings, oil and gas infrastructure and agri-logistics. JMC was incorporated in 1986, with its IPO hitting markets in 1994 and KPTL acquiring a controlling stake in 2005. JMC is an infrastructure EPC player operating in verticals such as buildings and factories, roads and flyovers, water and railways, industrial and power BOP. JMC also has four operational toll BoT road projects. As of FY2019, JMC's order book stood at Rs. 9,962 crore.

## Investment theme

JMC is expected to be one of the beneficiaries of expected government spending on infrastructure over the next five years. Strong order backlog of Rs. 9,702 crore, which amounts to 2.6x its TTM standalone revenue, is skewed towards the growing infrastructure and buildings and factories segments, which comprises over 80% of its order book. JMC has strong in-house execution capabilities, a quality balance sheet and healthy return ratios. The company's divestment of road BoT assets is a key positive, which will significantly deleverage its consolidated balance sheet and halt loss-funding from the standalone balance sheet.

## Key Risks

- ♦ Slowdown in the domestic macro-environment can reduce order inflows affecting earnings.
- ♦ Delay in exit from road BOT assets and increased loss funding can negatively affect valuations.

## Additional Data

### Key management personnel

Mr. S.K. Tripathi	Dy. Managing Director and Chief Executive Officer
Mr. Manoj Tulsian	Whole Time Director and Chief Financial Officer
Samir Raval	Company Secretary & Compliance Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Kalpataru Power Transmission Ltd	67.75
2	HDFC Asset Management Company Limited	9.19
3	Kotak Mahindra Asset Management Co	5.35
4	SHETH AJAY	3.93
5	SBI Funds Management Pvt Ltd	1.53
6	Arora Sanjeev	1.39
7	Edelweiss Asset Management Ltd	0.61
8	ICICI Prudential Asset Management	0.51
9	Dimensional Fund Advisors LP	0.09
10	Investor Education & Protection FD	0.08

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

# Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

**Disclaimer:** This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: [compliance@sharekhan.com](mailto:compliance@sharekhan.com);

For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com)

**Registered Office:** Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com); Investment in securities market are subject to market risks, read all the related documents carefully before investing.