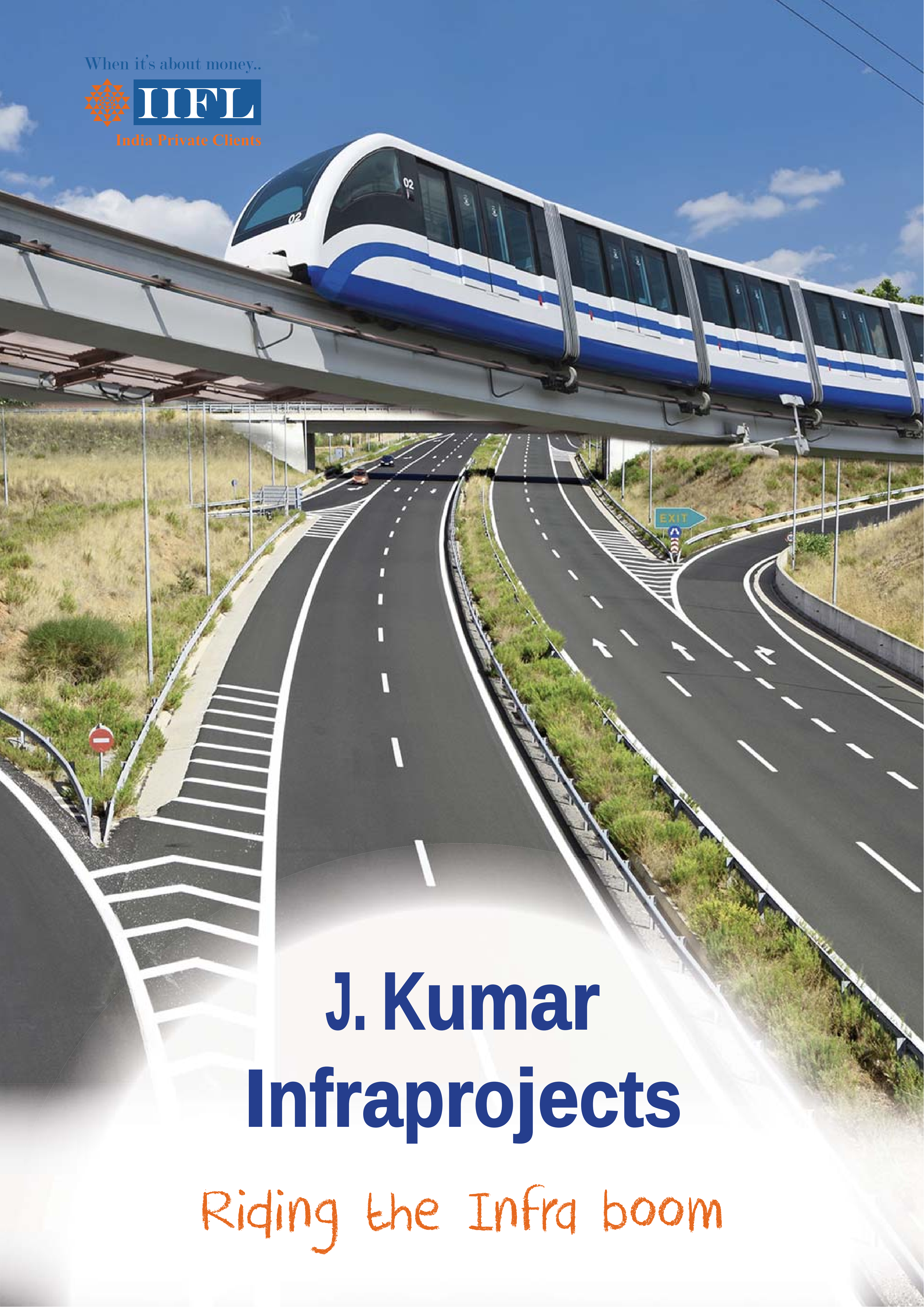
When it's about money..

IIFL

India Private Clients



J. Kumar Infraprojects

Riding the Infra boom

JKumar Infraprojects Ltd

Riding the Infra boom

JKumar Infraprojects Ltd (JKIL) will benefit from the huge opportunity about to unfold in the infrastructure sector, especially the transportation segment. Recently, company was declared L1 for the prestigious Mumbai Metro 3 (MM3) project worth Rs.5,200cr, which is ~4x its FY15 turnover. Additionally, JKIL already has an order book of Rs.3,600cr providing high revenue visibility for many years. The company's continued focus on an asset light EPC model has led to consistently higher margins as compared to peers. Margin boost also due to backward integration with major equipments owned (tunnel boring machines, RMC plants, transit mixers etc), allowing it to limit sub-contracting of jobs. JKIL has recently raised funds via QIP, which has improved its leverage position and would allow it to take on more projects without taking on significant leverage. Stock is trading at valuations of 13x its FY18E EPS. It is one of the few companies that did well during challenging period of last few years and stayed away from BOT model. JKIL therefore deserves premium multiple as compared to some of its peers. We initiate coverage on JKIL with BUY rating for target price of Rs.452 implying target P/E of 17x.

Healthy order book provides strong revenue visibility

JKIL is currently sitting on healthy order book of nearly Rs. 3,600 cr (excluding L1), which translates into 3x book-to-sales thereby providing comfort on high growth in revenues. Including L1, order book more than doubles to whopping Rs.9,200 cr. The Company has emerged as L1 in two packages of the Mumbai metro phase 3 (MM3) project worth nearly Rs.5,200 cr and letter of award for the same is expected to be received soon. JKIL being a strong player in urban infrastructure segment is also set to capitalize on the huge orders expected in the road sector. The Company has diversified from Maharashtra to other regions of Gujarat, Rajasthan, and Delhi, which would allow it to bid for more orders. We expect order inflow to the tune of nearly Rs.3,000 cr every year during the next couple of years.

Financial summary

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Revenues	1,346	1,544	1,877	2,337
yoy growth (%)	13.4	14.7	21.6	24.5
Operating profit	254	289	351	439
OPM (%)	18.8	18.7	18.7	18.8
Reported PAT	98	102	139	201
yoy growth (%)	15.5	5.0	35.7	44.7
EPS (Rs)	15.1	13.5	18.4	26.6
P/E (x)	22.8	25.5	18.8	13.0
Price/Book (x)	2.8	2.0	1.9	1.6
EV/EBITDA (x)	10.2	9.1	8.0	6.8
Debt/Equity (x)	0.7	0.4	0.4	0.3
RoE (%)	14.3	9.9	10.4	13.5
RoCE (%)	17.9	15.3	15.6	18.9

Source: Company, India Infoline Research

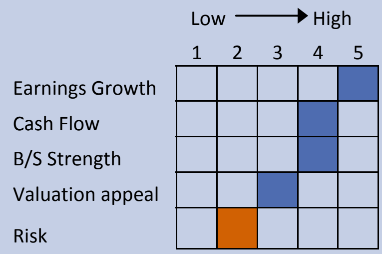
IIFL India Private Clients

Rating:	BUY
Target:	Rs452
CMP:	Rs345
Upside:	31%

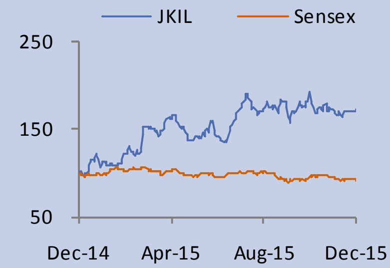
Sector:	INFRA
Sector view:	Positive
Sensex:	25,519
52 Week h/l (Rs):	450 / 208
Market cap (Rscr) :	2610
6m Avg vol ('000Nos):	57
Bloomberg code:	JKIL IN
BSE code:	532940
NSE code:	JKIL
FV (Re):	5

Price as on December 18, 2015

Company rating grid



Share price trend



Share holding pattern

%	Mar-15	Jun-15	Sep-15
Promoters	51.0	51.0	51.0
Insti	31.0	32.1	31.0
Others	18.0	16.9	18.0

Research Analyst:
Alok Deora
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December 21, 2015

Recent fund raising via QIP to control leverage, allow JKIL to bid for more projects

JKIL has recently raised funds via QIP of Rs.410 cr, which would help reduce debt and fund its capex plans over the next 2-3 years. This was the second QIP after it had raised Rs.137 cr through QIP route during July 2014. While the QIP would have near term dilution of EPS, over the long term it would be beneficial to the Company in terms of bidding for more projects as well as maintaining its leverage at comfortable levels.

Asset light model with focus on EPC projects only driving margins

Under EPC contract, the government funds the construction and the road developer is required to develop the project whereas under BOT route, the road developer is required to invest in the project and recover the investment through toll rights, which leads to increase in leverage. As a strategy, JKIL has abstained from bidding for asset heavy BOT projects. It has rather increased focus on EPC projects by diversifying to other regions. The strategy has helped JKIL in generating high margins during last many years. Going forward, we expect the Company to continue focusing on EPC segment and maintain its margin performance.

Set to benefit on expected pick up in order outflow by NHAI

The pace of order outflow has been very sluggish to say the least during the last 5 years by NHAI owing to issues related to land acquisition and lack of interest by private players towards the BOT projects. However, the situation is slowly reviving for the industry with nearly 5000 km of Road projects likely to be awarded this year itself by NHAI as against dismal 1400 km awarded in FY14. While the company, currently, has a very strong order book, it would tend to benefit significantly from the order awarding expected over next 2-3 years in the road sector.

Presence in metro segment paying strong dividends

JKIL's entry into the metro segment has opened up new growth avenues for the Company. Not only has the company been declared L1 in the prestigious Mumbai Metro project (MM3) worth Rs.5200 cr, it is also looking forward to bid for more projects like Nagpur metro. Also, for Mumbai metro project it is planning to use equipments like tunnel boring machines (TBM) from its Delhi project, which would allow it to save on costs and thereby maintain margin performance.

No major capex required in coming years; return ratios to improve

JKIL would not be required to incur major capex during the next 2-3 years. The capex, which would be incurred will be primarily for the MM3 projects where as per the rule, two new TBM would be required to be procured entailing a total capex of nearly Rs.200-250 cr. Low capex requirement would lead to Company executing big ticket projects without compromising on returns.

Investment Rationale

Awarding of MM3 Project can be game changer for JKIL

Nearly two years after Mumbai Metro Rail Corporation (MMRC) invited prequalification bids for construction of Mumbai metro line 3, MMRC opened financial bids in October to assess the lowest bidders for seven civil construction contracts of the 33.5 km line connecting Seepz in North Mumbai to Cuffe Parade in Colaba. J Kumar, which bid along with its JV partner China Railway has emerged as the lowest bidders for two of the seven packages (LnT only other player at L1 in two packages) which include the UGC - 05 and UGC – 06.

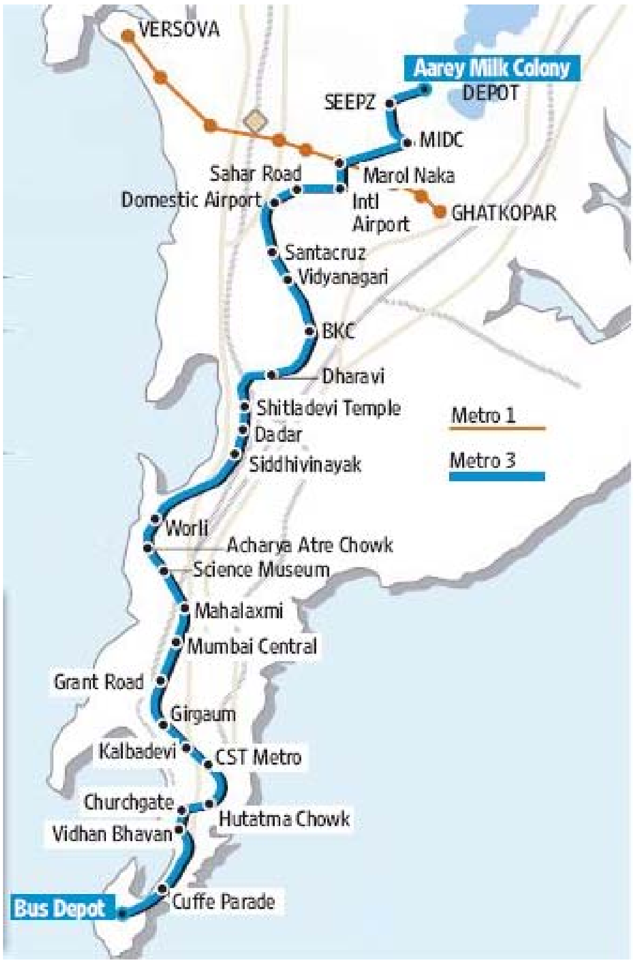
Package UGC-05 includes four underground stations and associated tunnels together with two tunnel sidings at B.K.C.
Locations of stations:

- Dharavi Station: Mahim Sion Link Road
- B.K.C Station: B.K.C. Road (IT Office)
- Vidyanagri Station: B.K.C. – F Block Road
- Santa Cruz Station: Western Express Highway (Wakola Flyover)

Package UGC-06 includes three underground stations and associated tunnels.
Locations of stations:

- CSIA Domestic Airport Station: CSIA Domestic Airport
- Sahar Road Station: Sahar Road (International Airport)
- CSIA International Airport Station: International Airport

Mumbai Metro Network



Packages under MM3

Package	Bidder (Shortlisted)	Scope of work
MM3-CBS-UGC-01	Larsen & Toubro Ltd/Shanghai Tunnel Engineering Co. Ltd	Four underground stations and associated bored tunnels together with two tunnel sidings at Cuffe Parade.
MM3-CBS-UGC-02	OSJC Moscow Metrostroy – Hindustan Construction Co.Ltd	Four underground stations and associated bored tunnels
MM3-CBS-UGC-03	DOGUS – SOMA	Five underground stations and associated bored tunnels
MM3-CBS-UGC-04	Continental Engineering Corporation – ITD Cementation India Ltd – Tata Projects Ltd	Three underground stations and associated bored tunnels
MM3-CBS-UGC-05	J.Kumar Infraprojects Ltd – China Railway No.3 Engineering Group Co. Ltd	Four underground stations and associated bored tunnels together with two tunnel sidings at B.K.C.
MM3-CBS-UGC-06	J.Kumar Infraprojects Ltd – China Railway No.3 Engineering Group Co. Ltd	Three underground stations and associated bored tunnels.
MM3-CBS-UGC-07	Larsen & Toubro Ltd/Shanghai Tunnel Engineering Co. Ltd	Three underground stations and associated bored tunnels together with a ramp for the depot connection.

Source: Industry, India Infoline Research

Project to be executed with minor capex

The combined value of the two packages is nearly Rs.5,200 cr. As per the terms and conditions laid down by MMRC, the players who would be awarded the packages would be required to use one new tunnel boring machine (TBM) per package. In all, the Company would require five TBMs to execute the whole project.

While the Company intends to procure two new TBMs, it plans to use the other three TBM machines from its Delhi Metro project and hence would not be required to incur significant capex. During the next two years, the Company expects to incur total capex of Rs.120-150 cr per year, which would be largely towards the procurement of the two new TBMs.

Tunnel Boring Machine

A tunnel boring machine is used to excavate tunnels with a circular cross section through a variety of soil and rocks.

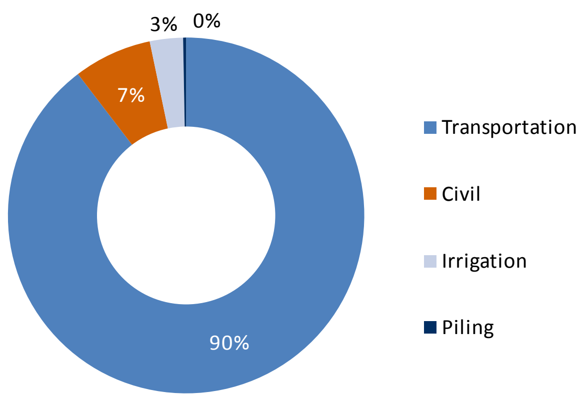
High growth transportation segment dominates order book; Diversification from Maharashtra to other states to strengthen order inflows

JKIL is primarily engaged in the construction of metro, roads, flyovers, skywalks, buildings and tunnels. The company has strongly evolved from starting as a maintenance contractor to being a complete EPC player. The Company has been recently declared L1 in the MM3 project of Rs.5,200 cr which falls under transportation segment. Additionally the current order book of JKIL stands at nearly Rs. 3,600 cr, which is dominated by the transportation segment with very miniscule proportion from irrigation, civil and piling projects. Going forward, the Company is likely to focus on the transportation segment owing to huge opportunity likely to unfold in this space.

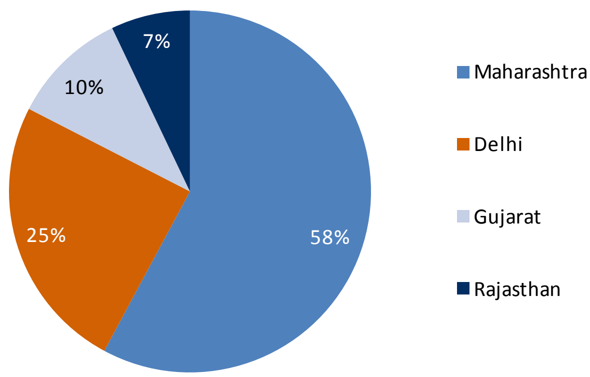
Although Maharashtra dominated the order book up to FY10, JKIL has diversified across geographies and currently more than 50% of the order book is outside Maharashtra. While many players with a view to diversify entered the asset heavy BOT space, JKIL focused on EPC projects. However, it diversified to other regions like Delhi and Gujarat. As of FY15, more than 40% of the order book is from outside the state, which has allowed the Company to increase its addressable market size significantly.

The Company has also clearly highlighted its intentions of not diversifying to more regions in the near to medium term. Large number of projects in transportation segment is expected to be given out across Maharashtra and Delhi. The Company has refrained from bidding for projects outside these four regions as they are able to find ample opportunity in these regions itself.

Order book segment-wise (FY15)



Order book geography-wise (FY15)



Source: Company, India Infoline Research

Transportation segment includes the following

Transportation segment	
Metro Rail (Underground and Elevated)	Pedestrian Subways
Flyover, Bridges and Roads	Airport Runways
Urban Infra	

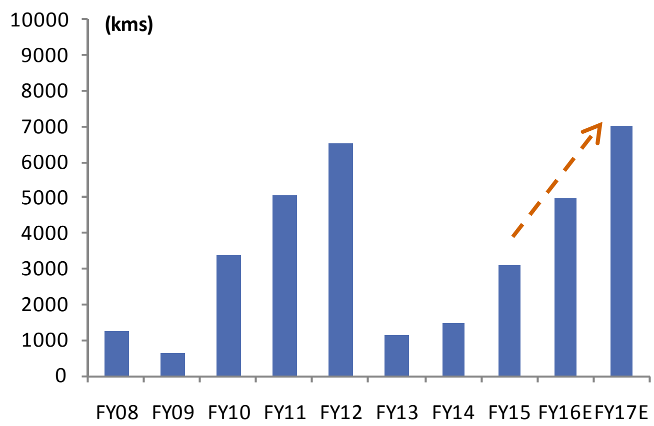
Awarding of road projects has been dismal during last 3 years; expected to improve drastically going forward

Issues related to land acquisition and achieving other requisite clearances during FY12 led to many problems in execution during the period thereby leading to slowdown in subsequent years. NHAI managed to award only 1,100 km and 1,400 km in FY13 and FY14 respectively as against 6,500 km in FY12. However situation is drastically improving now for the sector with nearly 3,100 km of projects awarded in FY15 and nearly 5,000 km expected to be awarded in FY16 by NHAI.

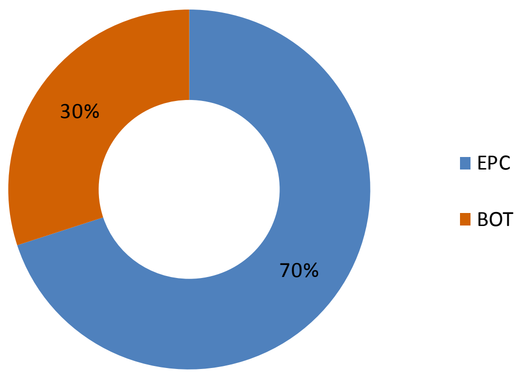
The Government plans to award 20,000 km of road projects during the next two years which would be signficantly beneficial to the industry. The Government plans to achieve a target of 30 km per day of construction by FY18. If the Government manages to reach even close to the target, the order awarding in the sector would increase drastically.

Also the orders awarded during the last few years were dominated by BOT route as against EPC. Due to high competition and slowdown in other sectors many EPC players ventured into asset heavy BOT projects thereby leading to stressed balance sheets and slower execution. However in next few years, nearly 70% of the projects are expected to be awarded through the EPC route as against BOT. JKIL which is only into EPC business is all set to capitalize on the opportunity.

NHAI road projects awarding on an uptrend



EPC route likely to dominate future Road awards



Source: NHAI, Company, India Infoline Research

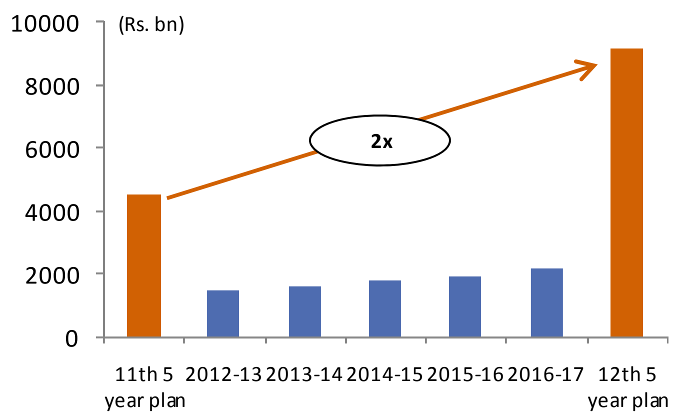
Twelfth plan projects huge investments in Road and MRTS as against the 11th plan

The 12th Five-year-plan projects cumulative investments of nearly Rs.9145 bn in Road and Bridges, which is more than double the investments projected during the 11th plan. While the share of the centre and state government is expected to decline, the share of private players is expected to increase drastically to 33% as against 20% during the last 5 year plan. Significant number of Private Public Partnerships (PPP) have been completed and many are under progress which should entail investments in the sector. Expected improvement in industrial activity, increase in number of two and four wheelers would be key support for growth in the road transport infrastructure projects.

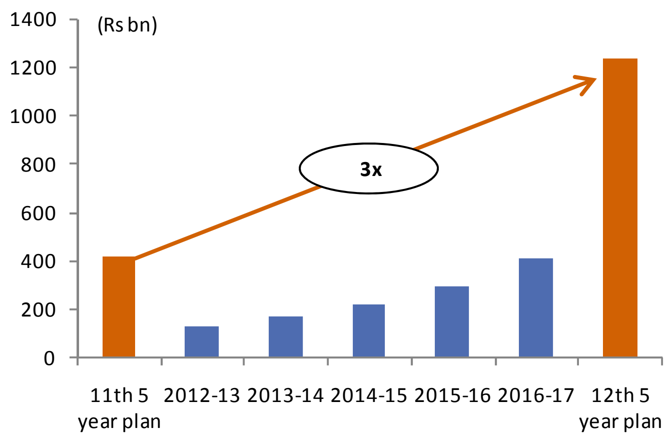
Similar is the case with Mass Rapid Transit System where more and more private participation is being encouraged. While the investments are projected to triple during the 12th Plan as against the 11th Plan, private participation would be nearly 42% as against 13% during the 11th plan. The success of the Delhi Metro has led to opportunity of more such projects in other regions like Nagpur.

While the investments in Roads by NHAI has not taken off as expected during the early part of the 12th Plan owing to issues related to land acquisition and clearances, the awarding pace has picked up off late. In case of MRTS, more projects are expected to be rolled out soon, which would be significant opportunity for players like JKIL. Post the recent tendering of Mumbai Metro 3 project, the Nagpur metro is expected to be rolled out soon. With the Governments thrust on infrastructure, the investments in Roads and Bridges as well as MRTS are expected to be robust.

Roads and Bridges to witness huge investments



MRTS investments to triple



Source: Planning Commission, India Infoline Research

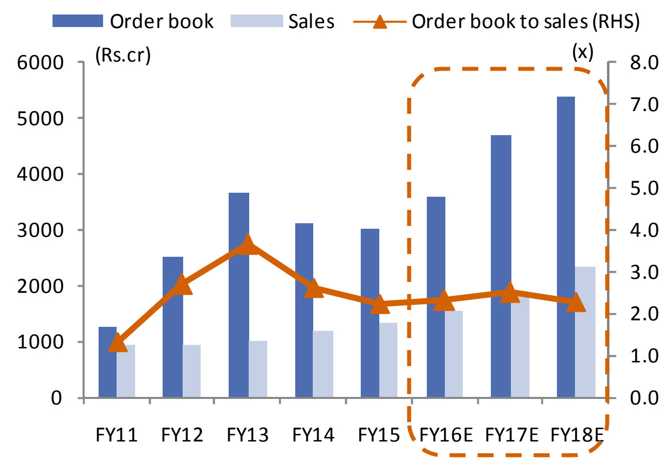
Revenue CAGR during FY15-18E to be much higher than past growth

Topline steady during last few years despite tough operating environment
Over FY11-15, JKIL managed to grow at a CAGR of nearly 10% despite weak operating environment and at a time when many infrastructure companies were struggling to grow. This outperformance can be attributed to its focus on EPC segment and diversifying to regions outside Maharashtra. Also the strong balance sheet of the Company with D/E of less than 1x meant the Company was able to bid for more projects while maintaining its profitability.

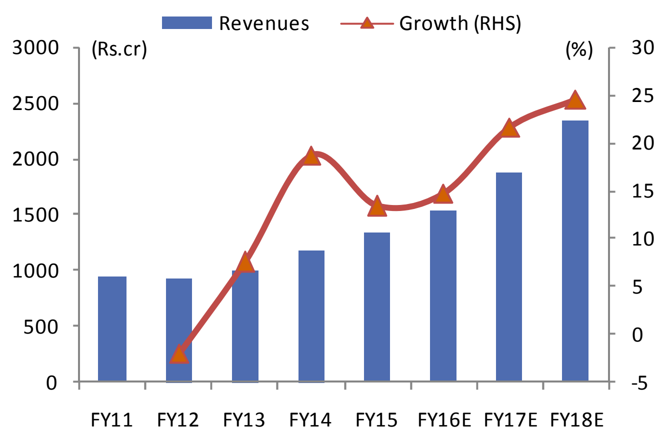
Strong order book and huge order outflow expected from Government agencies provide significant comfort on future topline growth
We expect JKIL to witness strong topline growth primarily on the back of existing strong order book. While the road segment orders during the last 5 years was dominated by the BOT segment, in coming years the EPC segment is likely to be the key driver. Many players had refrained from bidding aggressively for BOT projects owing to bad experience in the past. JKIL being engaged only in EPC segment would be in a strong position to capitalize on the opportunity.

Recent order wins by the Company especially from metro projects has created a solid platform for future growth. The Company expects to bid for more metro projects like the Nagpur metro. We envisage 20% revenue CAGR during FY15-18E primarily on the back of the strong order book and expected new order inflows across roads and metro segment.

Order book to sales



Revenues likely to witness strong growth



Source: Company, India Infoline Research, Order book excludes L1 orders worth Rs.5,600 cr

Major Projects under execution as of September 30, 2015

Unexecuted value	Client	Project details	Type of Project
Rs.474 cr	Delhi Metro Rail Corporation Limited	Design and Construction of Tunnel by Shied TBM, Tunnels, Stations and Ramp by Cut & Cover method between Lajpat Nagar and Hazrat Nizamuddin stations (Both Including) Mukundpur - Yamuna Vihar corridor of Delhi MRTS Project of PhaseIIfor underground works on CC-24	Metro – Underground
Rs.187 cr	Delhi Metro Rail Corporation Limited	Design and Construction of Tunnel by Shied TBM, Tunnels by Cut & Cover, Underground Station at Naraina Vihar & Ramps at Mayapuri and Delhi Canft for underground works corridor of Delhi MRTS Project of Phase-IIIon Mukundpur — Yamuna Vihar CC-20	Metro – Underground
Rs.274 cr	Metro Link Express for Gandhinagar and Ahmedabad Company Limited	Construction of Elevated Viaduct from Vastral Gam To Apparel Park - up to Ramp Start in Reach R-1 (excluding the portions of Metro Rail Stations) including Construction of Viaduct for portion leading up to interface location of Metro Depot (East-West Corridor) in Khokhra area from diverging point near Apparel Park Metro Rail Station	Metro – Elevated
Rs.184 cr	The Municipal Corporation of the City of Thane	Design and construction of New Creek Bridge between Thane and Kalwa over Thane Creek in Thane Municipal Limit by a joint venture entity ('Supreme-J. Kumar J.V.') formed pursuant to a joint venture agreement dated May 28, 2014 between the Company and M/s Supreme Infrastructure India Limited	Flyover
Rs.171 cr	RPS Infraprojects Private Limited K.R.Construction (JV)	W-271; improvement of various roads in cement concrete in K/East, P/South and P/North wards in western suburb area of Mumbai	Road
Rs.156 cr	Mumbai Metropolitan Region Development Authority	Design and construction of elevated connector between Bandra Kurla Complex 'G' Block and Eastern and Western Express Highways, Mumbai including ROB on the V.N Purav Marg at the level crossing near Chunabhatti Railway Station	Flyover
Rs.150 cr	Mumbai Metropolitan Region evelopment Authority	Design and construction of flyovers at Savita Chemical Junction, Ghanoli Naka junction Talavali Naka junction and vehicular underpass at Mahape junction on Thane Belapur Road	Flyover

Source: Company, India Infoline Research

Earnings to accelerate over FY15-18E led by strong operating performance and lower interest costs

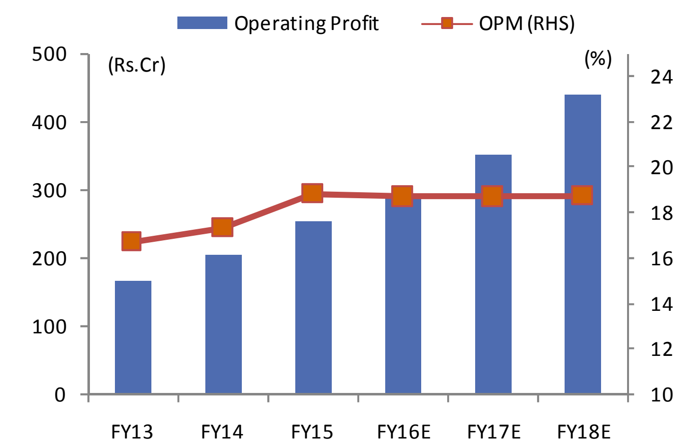
JKIL has managed to maintain operating margins despite tough operating environment. Strong balance sheet, focus on asset light EPC projects, targeting selected regions in India has led to Company delivering strong operating performance during the last many years. Margin boost also due to backward integration with major equipments owned (tunnel boring machines, RMC plants, transit mixers etc), allowing it to limit sub-contracting of jobs.

While JKIL has recently been declared L1 in two packages of the MM3 project based on competitive bidding, it is likely to maintain its operating margins owing to synergies in operations and expertise built over last many years. While we expect margins to be under pressure during FY16, we expect sharp improvement thereafter. Adverse product mix (Higher share of low margin Civil segment) impacted margin performance in Q2 FY16. We therefore expect PAT growth to be weak during FY16 and improve from FY17 onwards.

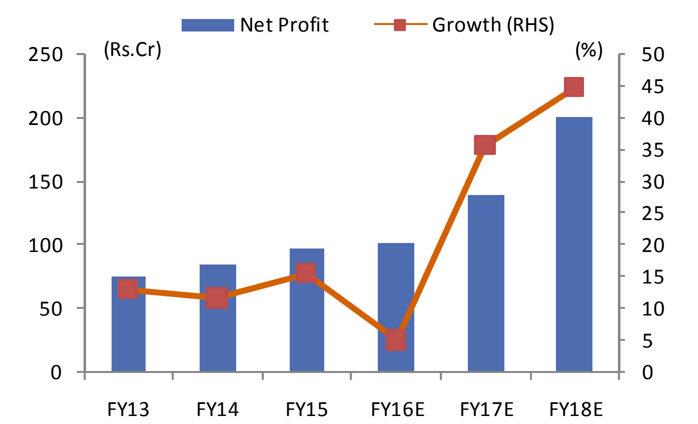
However, at the net level, the company is expected to witness a sharp upmove in profitability from FY17 onwards. JKIL recently raised funds via QIP worth Rs.410 cr. The Company expects to use these funds to pay off certain debt and also for capex requirement from FY17 onwards, which would be largely related to the MM3 project. The QIP would be EPS dilutive in the near term, however, it would significantly benefit the net performance over the long term as Company pays off portion of its debt.

While we expect operating profit to register ~20% CAGR during FY15-18E inline with topline growth, we expect the net profit to grow at a CAGR of 27% during the same period. No major capex requirement leading to lower rise in depreciation costs coupled with decline in interest costs would be the key drivers of net profit during the forecast period.

Operating performance to be steady



Net performance to witness strong growth



Source: Company, India Infoline Research

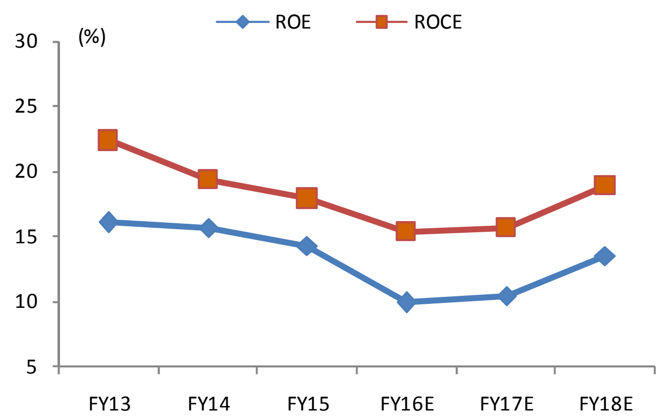
Return ratios to improve over the long term

The Company has witnessed decent return ratios on the back of low leverage and focus on asset light projects. Low debt to equity (less than 1x during last many years) also helped the Company to witness reasonable return ratios consistently over the years. The return ratios are expected to be low in FY16 owing to low profitability primarily due to execution of low margin civil orders during the year.

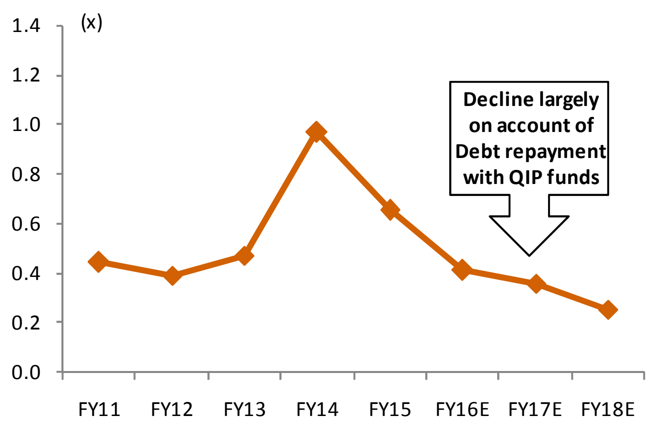
With a view to further reduce debt and bid for more large ticket projects, JKIL recently raised funds via QIP worth Rs.410 cr. This was the second QIP after it had raised Rs 137 crore through QIP route during July 2014. The Company expects to use these funds to pay off certain portion of the debt and also for capex requirement from FY17 onwards. The QIP would benefit the net performance significantly over the long term as Company pays off significant portion of its debt.

While the recent years witnessed some pressure on return ratios on the back of weak order flows in road sector leading to subdued profitability growth, the outlook remains promising. With strong order book, expected decline in debt from FY17 onwards, marginal capex requirement, we expect the return ratios to witness a strong upmove post FY16.

Return ratios to improve over long term



Debt Equity on declining trend



Source: Company, India Infoline Research

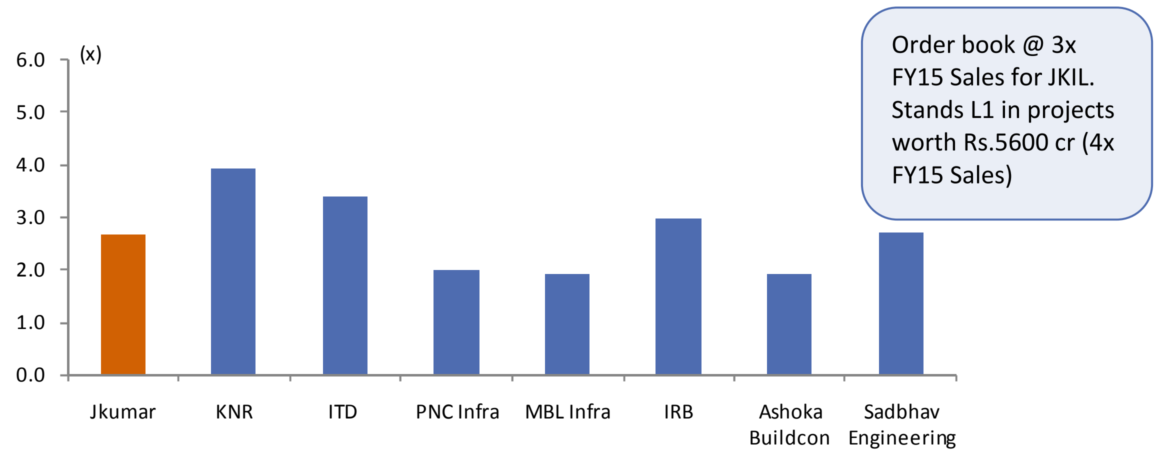
Robust earnings growth available at attractive valuation

We expect the surge of orders in transportation segment to translate JKIL into being one of the leading EPC players in the next three years with strong growth. Further strengthening of the balance sheet owing to recent QIP and consistently strong margin performance would translate into robust earnings growth and return ratios FY17 onwards.

The stock has surged sharply in the last twelve months and trades at 13.0x FY18E earnings, a significant premium to its historical average. However, with healthy order book, strong order inflow expected in coming years and strong execution capabilities, we believe Company could well be among the top infrastructure companies in coming period and enjoy strong earnings multiple. We believe re-rating is on the cards for the Company from the current levels.

Recent order wins places JKIL in a comfortable position; Awarding of L1 orders would more than double the order book

Strong Order book to sales among peers provides revenue visibility



Source: Company, Industry, India Infoline Research, Calculated on FY15 revenues, Excludes L1 orders

Recent order wins in the road segment has placed JKumar right at the top as compared to similar peers. This provides comfort in terms of the Company achieving strong revenue growth and profitability.

Also the Company stands L1 in whopping Rs.5,600 cr worth of orders including the MM3 orders (worth Rs.5,200 cr). Awarding of these orders would more than double the order book to Rs.9,200 cr.

Healthy topline growth, and stronger margins than comparable peers calls for re-rating

Comparative analysis

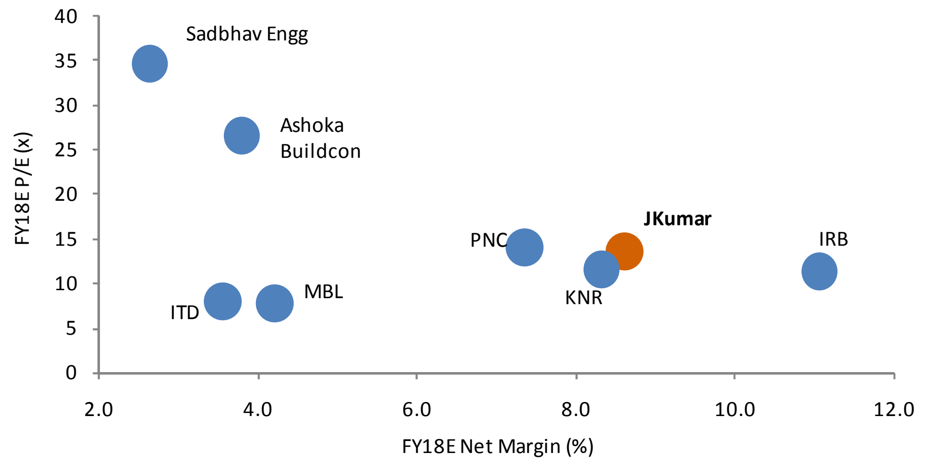
Company Name	Mkt Cap (Rs Bn)	Order book (Sep 15) (Rs Bn)	EBITDA Margin (%)				PAT (Rs.Bn)				CAGR (FY15-18E)		
			FY15	FY16E	FY17E	FY18E	FY15	FY16E	FY17E	FY18E	Sales	EBITDA	PAT
EPC Focused													
JKumar*	**26.1**	**36.0**	**18.8**	**18.7**	**18.7**	**18.8**	**1.0**	**1.0**	**1.4**	**2.0**	**20.2**	**20.0**	**27.3**
KNR	15.9	36.6	13.7	15.4	14.7	14.6	0.7	0.8	1.1	1.4	21.6	24.2	25.9
ITD	16.2	57.9	5.5	6.9	8.7	9.7	0.2	0.0	0.8	1.2	26.2	52.9	84.6
PNC Infra	27.7	35.8	15.5	10.9	13.3	13.7	0.9	1.3	1.6	2.0	14.0	9.4	29.3
MBL Infra	9.0	37.2	12.1	11.4	11.4	11.3	0.8	0.9	1.0	1.2	11.9	9.4	12.4
BOT focused													
IRB	85.5	115.0	58.1	54.8	54.9	56.1	5.4	6.1	6.9	7.4	20.1	18.7	10.7
Ashoka Buildcon	37.0	44.4	20.4	27.8	28.0	27.7	0.8	1.0	1.2	1.4	15.4	27.8	18.4
Sadbhav Engg	55.5	93.0	17.3	21.9	24.5	26.3	-1.8	0.0	0.7	1.7	22.2	40.6	NA

Company Name	P/E (x)		EV/EBITDA (x)		ROE %				D/E (x)	Promoter Holding (%)	Key Segments
	FY17E	FY18E	FY17E	FY18E	FY15	FY16E	FY17E	FY18E	FY15	As on Sep 30	
EPC Focused											
JKumar*	**18.8**	**13.0**	**8.0**	**6.8**	**14.3**	**9.9**	**10.4**	**13.5**	**0.7**	**51**	**Roads, Metro**
KNR	15.2	11.5	8.7	7.0	10.0	14.1	14.9	16.9	1.0	61	**Roads**
ITD	10.4	8.0	7.7	6.1	4.0	6.5	14	17.8	1.3	52	**Marine, Roads**
PNC Infra	16.8	14	NA	NA	11.5	12.4	11.6	13.6	1.9	57	**Roads**
MBL Infra	8.6	7.7	5.7	5.1	14.5	13.5	14	13.3	1.6	47	**Roads, Housing**
BOT focused											
IRB	12.2	11.4	6.1	5.2	13.7	12.9	13.4	13.1	2.6	58	**Roads**
Ashoka Buildcon	29.5	26.6	8.5	7.7	6.2	5.1	6	7	2.8	57	**Roads, Power**
Sadbhav Engg	80.5	34.7	9.4	7.6	-12.5	2.1	7.1	10.1	4.4	47	**Roads, Irrigation**

*Source: Bloomberg, India Infoline Research *IIFL estimate, Price as on 18 December 2015*

JKIL generates one of the best operating margins and return ratios as compared to other peers, which provide significant comfort in assigning relatively higher multiple. Even at the net level when compared to EPC companies as well as BOT focused companies, JKIL is likely to grow at strong pace during the next few years as compared to many other infra companies. This is also attributable the recent QIP, which is expected to reduce leverage for the Company.

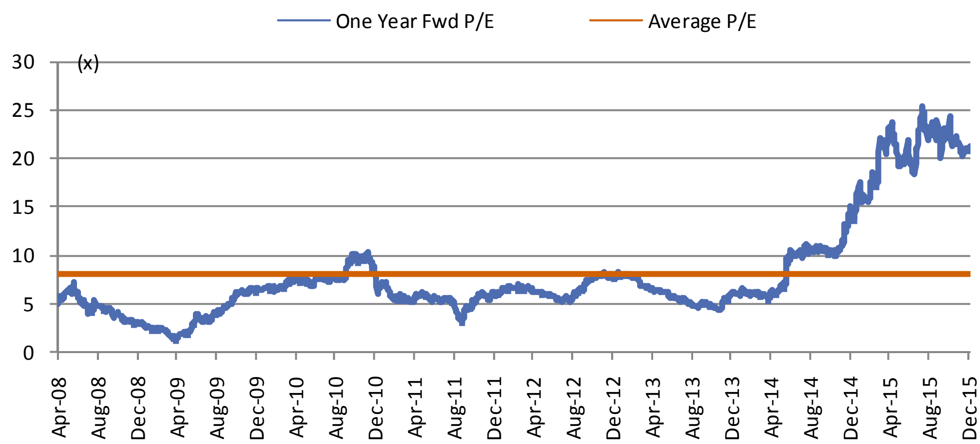
JKIL trading at comparable valuations to many peers despite better margins



Source: Bloomberg, India Infoline Research

JKIL is trading at comparable valuation to many of its peer group companies despite generating relatively better margins.

JKumar Forward P/E trend



Source: Bloomberg, India Infoline Research

JKIL is one of the few companies that did well during challenging period of last few years and stayed away from BOT model. It currently has a strong order book, healthy balance sheet and superior return profile as compared to many companies in its peer group.

JKIL therefore deserves premium multiple as compared to some of its peers. We value JKIL with BUY rating for target price of Rs.452 implying target P/E of 17x.

Key Risks

- **Significant dependence on transportation segment**

  JKILs order book is significantly tilted towards transportation segment. Any slowdown or rise in competition in this segment could affect JKIL's business in the medium to long term.

- **Execution delays**

  Regulatory bottlenecks related to clearances and land acquisition, which has impacted the industry in the past could impact JKIL's topline going forward.

- **Slowdown in NHAI ordering**

  While NHAI order flow has witnessed a revival off late, it has in the past miserably failed to get even close to its targeted order awarding. Any slowdown in order flow in future can have severe impact on business performance of JKIL.

- **Risk of maintaining Profitability**

  JKIL has bid competitively for the MM3 Project where it has been declared L1. While the management is confident of maintaining its existing EBITDA margins even in this project, there remains a risk of it being marginally lower and thereby impacting overall margin performance.

- **Dependence on Government projects**

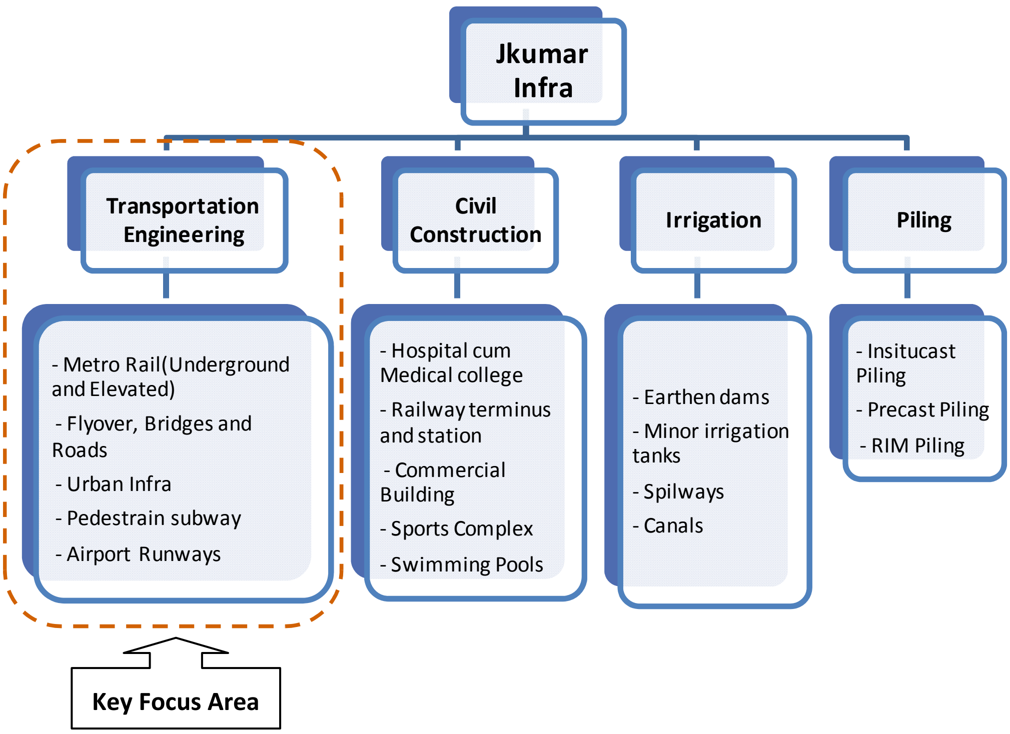
  The Company witnesses significant order inflows from Government agencies (>90%) and has negligible order inflows from private players. Any reduction in state budgetary allocation to infrastructure sector might therefore impact the Company significantly.

Company Background

JKIL is engaged in construction of roads, metro, flyovers, skywalks and tunnels. The Company has managed to create a strong foothold in the EPC space since its inception. The Company has maintained focus on EPC space and not ventured into asset heavy BOT projects in any significant way.

JKIL is run by experienced management team headed by Mr. Jagdish Gupta who is the chairman of the board. He has more than four decades of experience in the field of infrastructure. Mr. Nalin Gupta and Mr. Kamal Gupta are the Directors of the company and responsible for day to day activities.

The Company which started as a maintenance contractor has evolved to become a complete EPC player offering an array of services. While the Company has presence across multiple sectors as detailed below, it has primarily maintained its focus on the transportation space and has built strong expertise in building variety of structures.



The Company is significantly backward integrated with machineries such as Excavator, Loader, Dozer, Graders, Hydraulic Piling Rigs, Static Rollers, Concrete Pumps, Trucks /Tippers, Tankers, Trailers of heavy duty, Automatic Concrete Batching Plants, Transit Mixers, Boom placers, Vibratory Rollers, Tandem Rollers, Hot Mix Plants, Crushers, Sensor Pavers, Pre-stressing Jacks, Cranes of various capacity, Gantries Launching Trusses, Auto Launching Tower cranes, etc. With this they are able to take up various Infrastructural Projects of different specifications.

JKIL also has a work force that consists of nearly 2,400 employees including 300 Engineering staff on its rolls and it has a strong track record of completing projects on time. It has also been awarded with bonuses for early completion of certain projects.

List of Major projects executed by the Company during last one year

Contract value	Completion date	Project details
Rs.510 cr	January 06, 2015	Widening and improvement to Sion-Panvel Special State Highway from Uran Flyover Retaining wall end point Ch. 126/350 to B.A.R.C Junction Ch. 140/690 (Excluding 1.8 Km of Thane Creek Bridge Portion)
Rs.153 cr	June 30, 2015	CC-02 Package - Design and construction of viaduct and two elevated stations namely Rohini Sector-18 and Badli on Jahangir Puri-Badli Corridor (Extension of Line-2) of Delhi MRTS Phase-III project
Rs.189 cr	June 30, 2015	Construction of Kapurbawdi flyover located at Kapurbawdi Junction, Thane-Ghodbunder Road consisting of 3 km long, 4 Lane carriageways linking Mumbai to Ghodbunder, Ghodbunder to Nasik, Bhiwandi to Mumbai and Mumbai to Thane. This is precast segmental bridge with pile foundation.
Rs.46 cr	June 30, 2015	CC-09 Package - Design and construction of Badli Mor elevated metro station on Jahangir Puri-Badli Corridor of Delhi MRTS Ph-III Project. The elevated metro station Badli Mor consists of 230 running meter length with Phase 3 metro line connectivity.

Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Revenue	1,346	1,544	1,877	2,337
Operating profit	**254**	**289**	**351**	**439**
Depreciation	(47)	(62)	(73)	(82)
Interest expense	(77)	(90)	(87)	(74)
Other income	13	13	13	13
Profit before tax	**143**	**150**	**204**	**295**
Taxes	(45)	(48)	(65)	(94)
Adj. profit	**98**	**102**	**139**	**201**
Exceptional items	0	0	0	0
Net profit	**98**	**102**	**139**	**201**

Balance sheet

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Equity capital	32	38	38	38
Reserves	757	1,242	1,356	1.557
Net worth	**789**	**1,280**	**1,394**	**1,595**
Debt	515	525	500	400
Other LT Liabilities	0	0	0	0
Def.tax liability	13	13	13	13
Total liabilities	**1,318**	**1,819**	**1,907**	**2,009**
Fixed assets	493	521	634	748
Investments	1	1	1	1
Net working capital	**668**	**783**	**982**	**1,241**
Inventories	543	635	787	992
Sundry debtors	201	233	293	365
Other current assets	299	343	417	519
Sundry creditors	(355)	(407)	(494)	(615)
Other curr liabilities	(20)	(20)	(20)	(20)
Cash	155	514	289	19
Total assets	**1,318**	**1,819**	**1,907**	**2,009**

Cash flow statement

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Profit before tax	143	150	204	295
Depreciation	47	62	73	82
Tax paid	(45)	(48)	(65)	(94)
Working capital Δ	(153)	(115)	(199)	(258)
Operating cashflow	(8)	49	13	25
Capital expenditure	(40)	(89)	(187)	(196)
Free cash flow	**(48)**	**(40)**	**(174)**	**(171)**
Equity raised	134	409	-	37
Investments	1	-	-	-
Debt fin/disposal	(42)	10	(25)	(100)
Dividends paid	(17)	(20)	(25)	(37)
Other items	6	-	-	-
Net Δ in cash	**34**	**359**	**(224)**	**(271)**

Key ratios

Y/e 31 Mar	FY15	FY16E	FY17E	FY18E
Growth matrix (%)				
Revenue growth	13.4	14.7	21.6	24.5
Op profit growth	23.0	13.9	21.6	24.9
EBIT growth	20.4	9.4	21.3	26.9
Net profit growth	15.5	5.0	35.7	44.7
Profitability ratios (%)				
OPM	18.8	18.7	18.7	18.8
EBIT margin	16.3	15.6	15.5	15.8
Net profit margin	7.2	6.6	7.4	8.6
RoCE	17.9	15.3	15.6	18.9
RoNW	14.3	9.9	10.4	13.5
RoA	5.8	5.2	6.0	7.9
Per share ratios				
EPS	15.1	13.5	18.4	26.6
Dividend per share	2.3	2.3	2.9	4.1
Cash EPS	22.5	21.7	28.0	37.4
Book value per share	122.4	169.2	184.2	210.8
Valuation ratios (x)				
P/E	22.8	25.5	18.8	13.0
P/CEPS	15.3	15.9	12.3	9.2
P/B	2.8	2.0	1.9	1.6
EV/EBIDTA	10.2	9.1	8.0	6.8
Payout (%)				
Dividend payout	17.9	20.0	18.3	18.2
Tax payout	31.6	31.9	31.9	31.9
Liquidity ratios				
Debtor days	54	55	57	57
Inventory days	147	150	153	155
Creditor days	96	96	96	96
Leverage ratios				
Interest coverage	2.9	2.7	3.3	5.0
Net debt / equity	0.5	0.0	0.2	0.2
Net debt / op. profit	1.4	0.0	0.6	0.9

Du-Pont Analysis

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Tax burden (x)	0.68	0.68	0.68	0.68
Interest burden (x)	0.65	0.63	0.70	0.80
EBIT margin (x)	0.16	0.16	0.16	0.16
Asset turnover (x)	0.80	0.78	0.80	0.92
Financial leverage (x)	2.45	1.90	1.75	1.69
RoE (%)	**14.3**	**9.9**	**10.4**	**13.5**

‘Best Broker of the Year’ – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

Other awards

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Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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