



J. Kumar Infraprojects Ltd | On The **J** Curve



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## Key points

- 1) JKIL's operations have overhauled their traditional road & bridges infra projects to now being focused on metro infra, which we believe is a market with Rs. 4-5 lakh crore opportunity size and only a handful entities (<10) with this domain expertise.
- 2) Concentrated order book of ₹ 8,657 Cr as on 30<sup>th</sup> September, 2017 predominantly comprising of Mumbai metro projects aiding strong revenue visibility and possibility of better margins due to better logistics and operational efficiencies due to presence of all projects in JKIL's home city.
- 3) High Growth phase: initialization of metro projects yields relatively lower topline, however in the 2<sup>nd</sup> phase of construction revenue realizations increase substantially. Currently JKIL is at a sweet spot whereby Q3FY18 onwards most of its marquee projects shall be in the 2<sup>nd</sup> phase.
- 4) JKIL has no BOT (Built-Operate-Transfer) contracts, all contracts are EPC contracts (Engineering, Procurement, and Construction) with payments scheduled on monthly basis (RA Bill format) thus aiding better cash flow.
- 5) Recently SEBI had recognized JKIL as a shell company, alongside 330 other companies however, SEBI does not disclose on what basis the Ministry of Corporate Affairs (MCA) has classified these companies as 'shell companies' and we do not find anything dubious about JKIL's operations. Almost entire order book of JKIL is from government entities & all undertaken projects are being executed confirmed by our site visits at the construction sites.

### Rating

**BUY**

Target Price	444
CMP (Rs.)	282
Upside	57%

### Key Data

BSE Code	444
NSE Code	282
Bloomberg Code	57%
Reuters Code	JKIP.BO
Total o/s shares	JKIL IN
Market cap.	2,164.03
Face Value	5

### Share holding pattern

Promoters	43.94%
DII's	11.19%
FII's	23.77%
Others	21.11%

## Our take

We believe that JKIL is in a sweet spot right now with a strong order book, revenue visibility, large opportunity size, few peers, domain expertise and No BOT only EPC. Currently at a price of Rs. 320/Share JKIL is valued at 7.6x FY 20 estimate of a PAT of Rs.283 Crs. ie. EPS of ~Rs.37. We recommend to BUY this stock and assign a P/E multiple of 12 x FY20E earnings and arrive at a target price of Rs.444 / share implying an upside of 57% from current levels in 12-18 months time frame.

## Company Background

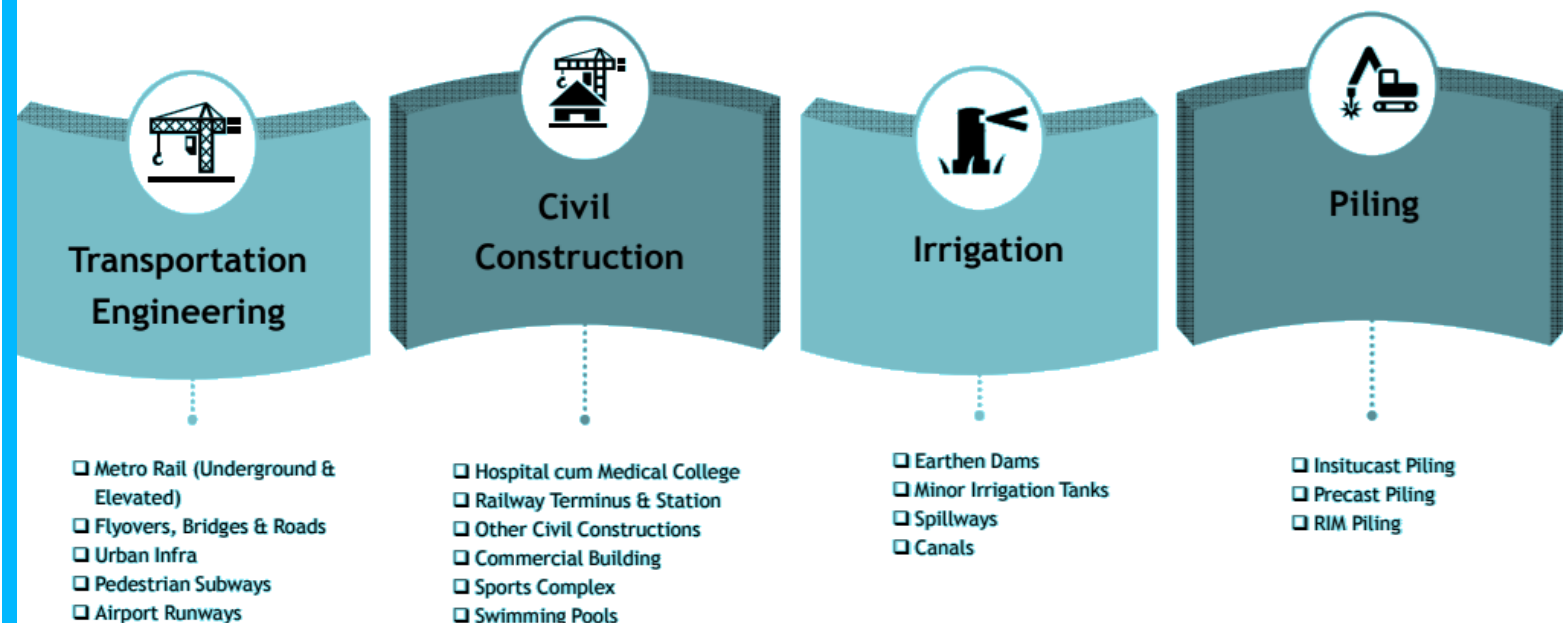
Started by Jagdishkumar Gupta as a PWD contractor, J. Kumar Infraprojects (JKIL) is an infrastructure development company with a primary focus on development of metros, roads, flyovers, bridges, irrigation projects and civil buildings. The company commenced its operations in 1980 with an order of ₹ 30,000 which has now grown into a major player in the transportation sector with an outstanding order book of ₹ 8,657 Cr as on 30<sup>th</sup> September, 2017.

JKIL has a good track record with execution of projects such as Mumbai – Monorail, Delhi Metro, Sion – Panvel Highway, Ahmedabad BRTS, Sabarmati River and various flyovers and skywalks in Mumbai to name a few.

With regards to the company's work ethics and culture, it has depicted a strong employee base of 3,429 permanent employees who have completed more than a decade with JKIL. A meeting with the CFO, Mr. Arvind Gupta and other operational personnel reinforced the same.

Some of the factors like key equipment ownership, limited sub-contracting and swift execution has helped JKIL to take a lead in the infrastructure space.

## Business Vertical



### 1. Transportation Engineering Segment(~ 95% of revenues)

With over two decades of experience in the transportation engineering segment, JKIL gets its majority revenue (~ 95%) from here. The company undertakes client specific requirements of their designs and construction projects on a turnkey basis with an average execution period of 2 to 5 years. JKIL is currently executing metro rail projects in Delhi, Mumbai, Ahmedabad and Navi Mumbai. The metro segment contributes 72% to the company's order book with Mumbai Metro solely contributing ~70%.

### 2. Civil Construction Segment

JKIL's offerings in this segment include both commercial and residential buildings. Some of the notable works include modernization of border check posts at 22 locations in Maharashtra, construction of swimming pool in HR Johnson Tile company, construction of Olympic size pool in Goregaon Sports Complex and many more. **The current outstanding order book from Uttar Pradesh is ₹ 176.79 Cr.**

### 3. Irrigation Segment

JKIL undertakes irrigation projects for various corporations like Vidharbh Irrigation Development Corporation, Pimpri Irrigation Division, Yavatmal Bambla Canal Division for construction of dams, canals, aqueducts & irrigation tanks, spillways etc. **The company's outstanding order book in this segment from Maharashtra is ₹ 75.90 Cr.**

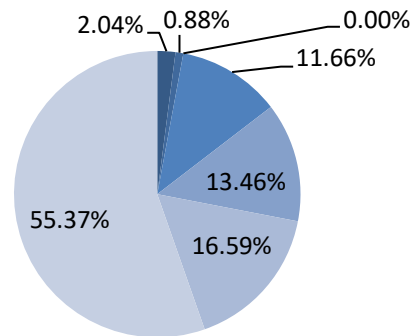
### 4. Piling Segment

JKIL entered this segment in FY06 by acquiring hydraulic piling rigs. Currently, it has 42 such rigs which are used to build pile foundations for buildings and flyovers, marine structures, offshore platforms etc. This segment caters to major real estate and infrastructure companies. **However, since all of the piling rigs are required by the company due to abundance of work, this segment has no outstanding order and shall marginally contributed to JKIL's revenue in FY18 (~1.5%).**

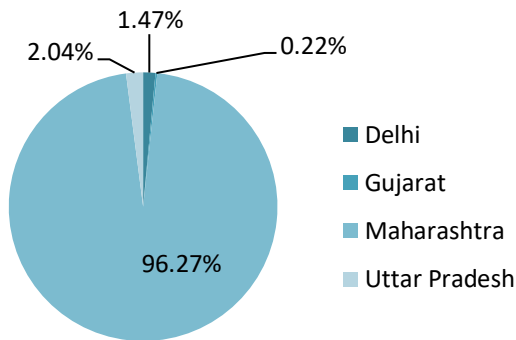
## Order Book Break-up

### Nature of Work

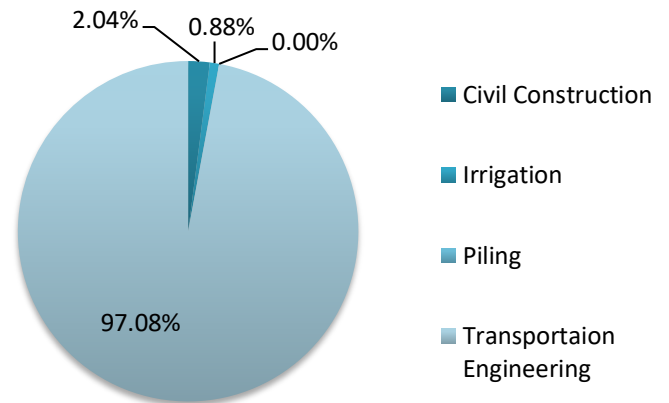
■ Civil ■ Irrigation ■ Piling ■ Flyover ■ Road ■ Metro - Elevated ■ Metro - Underground



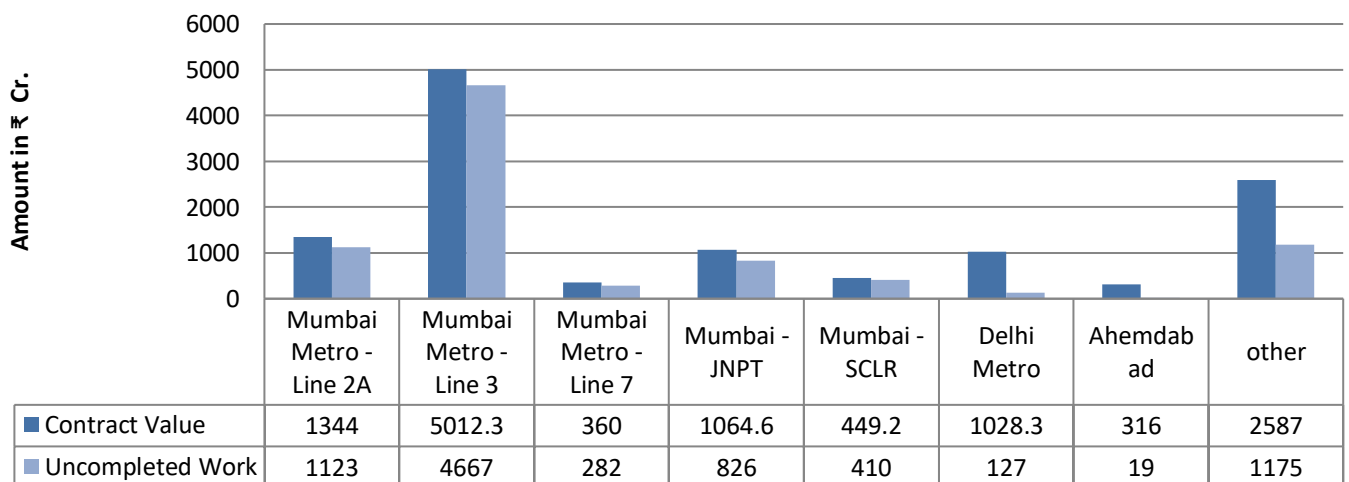
### Geographical Break-up



### Segmental Break-up



### Project Wise Break-up





## Investment Rationale

### 1. 4-5 Lakh crore opportunity size of Indian Metro and leadership of JKIL in the segment.

India has 8 metro rail networks covering a length of 370 km operational in the country and over 24 more projects lined up. The government policy requires every city with a population of above 1 million to be facilitated with a metro. This brings cities like Pune, Nagpur, Ahmedabad, Chennai, Vijayawada, Kozhikode, Indore, Bhopal, Patna, Guwahati, Kanpur and Varanasi under the urban development ministry to be accommodated with a metro.

Metro rail construction requires special expertise **with only 8 to 10 players in the market** capitalizing this opportunity namely, Simplex, L&T, NCC, JMC, TPL-CHEC and other small players. Companies taking up BOT (Built-Operate-Transfer) contracts have mismanaged their balance sheets and have high leverage due to delay in the project executions. JKIL traditionally has only taken up EPC contracts (Engineering, Procurement, and Construction) with payments scheduled on monthly basis (RA Bill format) and shall continue to do so. MMRDA grants 10% of the order value as an interest free advance to the constructor in order to enable smooth and timely commencement of the project.

With the successful completion of Delhi metro, most of the major cities in India have either announced or have already started building metro projects. With the commissioning of **19 new sections in 9 cities adding 330 km -370 km of metro rail networks before the parliamentary elections next year**, government plans to showcase their execution capabilities in metro rail as a major election pitch in urban areas. **The budgetary provision between 2012 and 2015 for metro projects was ₹16,565 cr, which has been increased to ₹ 42,696 Cr during 2015-18.**

Key metro rail projects in India

S.No.	State	City	Project Title	Cost (₹in crore)	Length (km)
1	NCT of Delhi	Delhi	Delhi MRTS Phase-I	10571	65
2	NCT of Delhi	Delhi & NCR	Delhi MRTS Phase-II	23175	102
3	NCT of Delhi	Delhi	N. Delhi Rly. Stn. To IGI Airport to Dwarka Sect-21	4373	23
4	NCT of Delhi	Delhi & NCR	Delhi MRTS Phase-III	35242	138
5	Maharashtra	Mumbai	Mumbai Metro Rail Line-1	2356	11
6	Maharashtra	Mumbai	Mumbai Metro Rail Line-2	7660	32
7	Maharashtra	Mumbai	Mumbai Metro Rail Line-3	23136	34
8	Karnataka	Bangalore	Bangalore Metro Rail Phase-I	11609	42
9	Karnataka	Bangalore	Bangalore Metro Rail Phase-II	26405	72
10	Tamil Nadu	Chennai	Chennai Metro Rail	14600	45
11	Kerala	Kochi	Kochi Metro Rail	5182	26
12	Rajasthan	Jaipur	Jaipur Metro Rail	3149	12
13	Andhra Pradesh	Hyderabad	Hyderabad Metro Rail	14132	71
14	NCRTC	Delhi & NCR	Regional Rapid Transit System (RRTS) Phase-1	72170	381
15	Uttar Pradesh	Lucknow	Lucknow Metro Rail Phase-1A	6880	23
16	Maharashtra	Pune	Pune Metro Rail Phase-1	10183	32
17	Maharashtra	Nagpur	Nagpur Metro Rail Phase-1	8680	38
18	Gujarat	Ahmedabad	Ahmedabad Metro Rail	10675	36
19	Delhi	Delhi & NCR	Extensions in NOIDA, Ghaziabad and Haryana	4141	19
20	Uttar Pradesh	NOIDA	NOIDA to Greater NOIDA	5533	30

## 2. Successful execution capabilities with healthy order book

JKIL went public in FY08 and became one of the leading transportation contractors in Mumbai by expanding into newer sub-segments, complex jobs and higher-value contracts. JKIL has largely operated in the Northern-Western belt viz. Maharashtra, Delhi, Gujarat, Rajasthan and Uttar Pradesh.

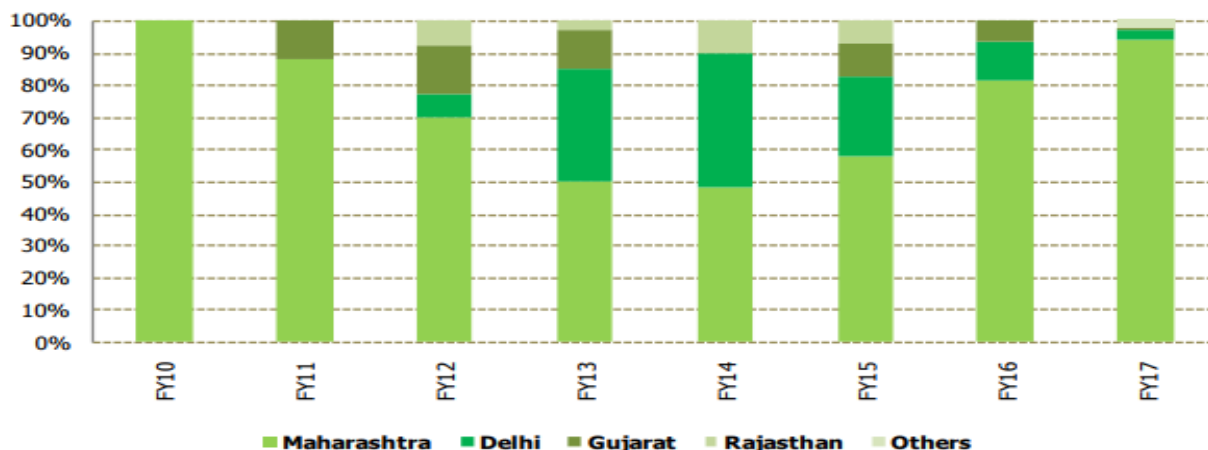
With the successful completion of the Delhi metro by JKIL, government has gained confidence in the JKILs execution capability and quality of work. Delhi metro which is located at the heart of the nation, passing through cramped areas like chandni chowk and noticed daily by the political leaders; was a huge challenge for the company.

When the government announced the Mumbai metro line 3, an underground metro rail project starting from Cuffe Parade to Aarey Depot, a total 33km stretch with a budget of ₹ 23,167 Cr **only 2 players (L&T and JKIL) were allowed to bid for 2 packages with the remaining players only allowed to bid for 1 package.** JKIL had bid for Package 5 & 6 & got an order worth ₹ 4,935 Cr dragging their order book growth by ~ 120% in FY17. Line 3 order is about to be executed in next 4 ½ years and company expects an addition of at least ₹ 1000 Cr worth of new orders every year. Given the companies past record, the current order book gives very strong revenue visibility.

Packages	Nature of Work	Name of Contractor	Rs mn	Status	Target for Contract Award
Package 1	Civil Works – Tunnels & Stations	L&T-STEC JV	29,885	Letter of Acceptance Issued	Awarded
Package 2	Civil Works – Tunnels & Stations	HCC-MMS JV	25,219	Letter of Acceptance Issued	Awarded
Package 3	Civil Works – Tunnels & Stations	M/S DOGUS-SOMA	25,578	Letter of Acceptance Issued	Awarded
Package 4	Civil Works – Tunnels & Stations	M/S CEC-ITD CEM-TPL JV	28,301	Letter of Acceptance Issued	Awarded
Package 5	Civil Works – Tunnels & Stations	M/S J. Kumar-CRTG	28,170	Letter of Acceptance Issued	Awarded
Package 6	Civil Works – Tunnels & Stations	M/S J.Kumar-CRTG	21,184	Letter of Acceptance Issued	Awarded
Package 7	Civil Works – Tunnels & Stations	L&T-STEC JV	22,815	Letter of Acceptance Issued	Awarded

Over the years, the company demonstrated strong financial discipline by keeping financial leverage under control, steadily increasing order ticket size and maintaining stable EBITDA margin by optimally utilizing its resources. Concentrating on region specific areas have helped maintain profitability and reduce debt. In FY09-10 when the revenue were restricted from the geographical regions of Maharashtra, company ventured into the North-Western belt which were able to suffice its revenue growth targets. **Now, when the company is getting most of its work for the home town, JKIL has a better proximity to resources in and around Mumbai translating into better utilization.**

### Regional concentration improves profitability and efficiency of resources



### 3. Mumbai Metro work line - 2A, 3 & 7 to be on a fast track

A tepid start in H1 FY18, contributing ~ ₹ 270 Cr by the Mumbai Metro Projects – line 2A, line 3 and line 7 due to quarries in the Thane-Turbhe region which led to shortage of raw material is all resolved. The issue has been solved by going 60km far from its plant, rather than sourcing it from Thurbe which was located 40km away, with a negligible impact on the cost.

Also when a metro project is awarded, the first 6 months of the operations are commenced at a slower rate with pace of work picking up later on. An elevated metro project takes around 30 months for completion while an underground metro can take up to 4 – 5 years from the date the projects are awarded to the company. A key risk includes execution and completion of these projects on a timely manner. While JKIL has done well over the past couple of years, it has yet to demonstrate its execution capabilities in new segments (Line 3 – underground metro rail) and geographies that the company is entering.

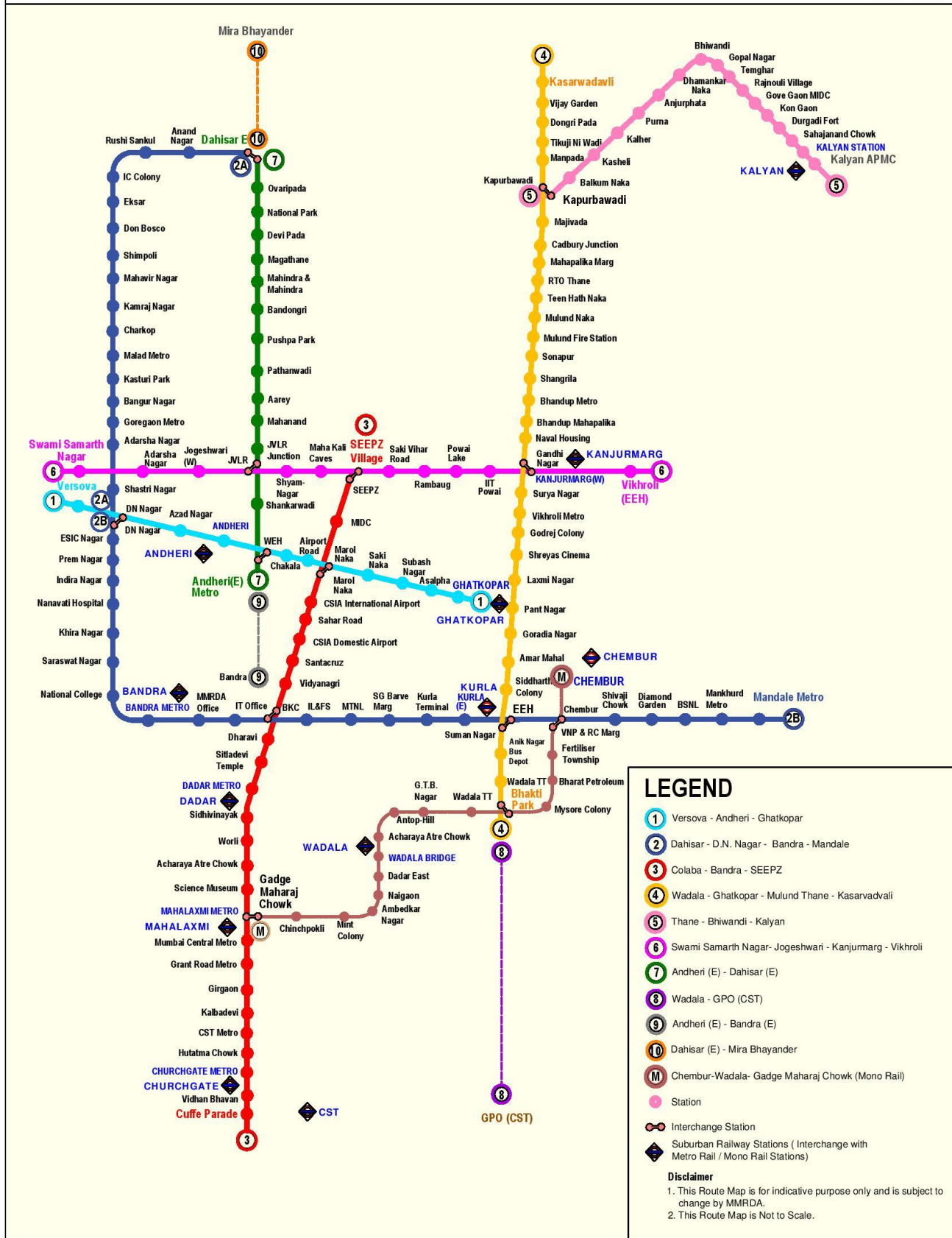
For Line 3, JKIL has recently increased its machinery to 6 TBMs (Tunnel Boring Machines) and is awaiting a delivery of one more TBM. TBM machine costs ~ 70-80 Cr per machine which has increased their debt to ~ ₹ 550 Cr as on September, 2017. For the metro order, JKIL expects to incur a capex of ~ ₹180 to 250 crores for TBMs which is less than 5% of the total project order. Capex of ₹ 108 Cr has been accounted for in H1 FY18. An operating track record of nearly 20 years coupled with a no-lease policy has enabled the company build an extensive machinery bank essential to carry out complex construction activities.

Revenue guidance by the management

Revenue Contribution (in ₹ Cr.)	H1 FY18	H2 FY18	FY18
Line 2A	₹ 108 Cr	₹ 220 Cr	₹ 328 Cr
Line 3	₹112 Cr	₹ 480 Cr	₹ 592 Cr
Line 7	₹ 50 Cr	₹ 70 Cr	₹ 12 Cr
Other	₹ 421 Cr	₹ 339 Cr	₹ 760 Cr
Total	₹ 691 Cr	₹ 1109 Cr	₹ 1800 Cr

### 4. Bidding for new projects in Mumbai Metro

JKIL had recently bid for line 2B (project cost of ₹ 10,986 Cr) and line 4 (project cost of ₹ 14,549 Cr) however, line 2B has been awarded to Simplex while the announcement for line 4 is expected in the coming few weeks. While the estimated cost of Line 1-4 and line 7 was ~ ₹ 64,000 Cr, the cost for line 5, line 6 and line 8 is yet to be decided. The ₹ 64,000 Cr. worth project tenders that the MMRDA is expected to float for Mumbai Metro alone is only a drop in the sea of infra spending that the Maharashtra State government has lined up.





## Financials

Profit & Loss Account (RS CR)	FY16	FY17	FY18	FY19	FY20
<b>Gross Sales</b>	1507.773	1572.807	1846.696	2605	3309.885
Other Income	18.2744	30.1798	30	30	30
<b>Total Income</b>	1526.048	1602.986	1876.696	2635	3339.885
<b>COGS</b>	898.7662	938.3802	1107.251	1554.65	1970.532
Employee Expenses	115.0909	125.1815	144.5056	200.26	250.4914
Other Expenses	247.4846	259.8919	304.0248	426.87	541.0614
<b>TOTAL EXPENSES</b>	1261.342	1323.454	1555.781	2181.78	2762.085
<b>EBIDTA (incl other income)</b>	264.7058	279.5328	320.9151	453.22	577.8001
<b>OPM (incl other income)</b>	17.35%	17.44%	17.10%	17.20%	17.30%
Depreciation	51.2097	55.6291	67	75	82
<b>PBIT</b>	213.4961	223.9037	253.9151	378.22	495.8001
Financial Expenses	63.4777	66.0677	70	70	70
<b>PBT including JV</b>	152.9788	157.7991	183.9151	308.22	425.8001
<b>Provision for Tax</b>	56.9143	52.2426	61.61155	103.2537	142.643
<b>PAT</b>	96.0645	105.5565	122.3035	204.9663	283.1571
<b>PAT Margin</b>	6.29%	6.58%	6.52%	7.78%	8.48%

Balance Sheet (in Rs Cr)	FY16	FY17
Equity Share Capital	37.83	37.83
Reserves & Surplus	1253.96	1351.21
<b>Net worth</b>	1291.79	1389.04
Long term debt	28.69	33.35
Short term debt	325.05	403.34
<b>Total debt</b>	353.74	436.69
<b>Total capital employed</b>	1645.53	1825.73
<b>D/E</b>	0.27	0.31
Fixed Assets	497.41	582.57
Current Assets	958.04	1456.31
Cash & Cash Equivalents	186.59	516.18
Non-Current Assets	375.42	213.84
Current Liabilities	345.13	924.46
Non-Current Liabilites	26.81	18.71
<b>Net Working Capital</b>	612.92	531.85
<b>Total Capital Deployed</b>	1645.53	1825.73

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Registered Office 701, PJ Tower, Dalal Street, Mumbai - 400023

Corporate Office 411 Atlantic Commercial Tower, R.B Mehta road, Ghatkopar (E), Mumbai – 400077

Get in touch: +91 (22) 2501-2333 | [info@pmsec.in](mailto:info@pmsec.in) | [www.pmsec.in](http://www.pmsec.in)

