

30 May 2013

J. Kumar Infraprojects

Strong operational performance; sturdy order book; Buy

Rating: **Buy**

Target Price: ₹295

Share Price: ₹177

Key takeaways

Strong operating margins. J. Kumar Infraprojects posted 10% yoy revenue growth (23% qoq), lower than our estimates since revenue from certain major projects had not been booked (it had not yet reached the threshold). The EBITDA margin, however, improved 120bps yoy to 16.5%, taking the FY13 margin to 16.7% (vs 16.1% in FY12). For FY14-15, we have built in a conservative 16%. Absolute EBITDA was in line with our estimate.

PAT higher than our estimate. PAT came in at ₹232m (up 2% yoy, 18% qoq), 4% better than we expected. Higher-than-estimated interest was nullified by a similar trend in other income. For FY13, PAT grew 11% yoy.

Strong revenue visibility led by robust order book. Supported by strong order inflows, management is aiming at over 30% top-line growth in FY14. We expect execution to pick up significantly in the next 2-3 quarters at some of its major projects (Sion-Panvel, building project in Alwar, DMRC) and hit the peak revenue-recognition stage. In FY13, orders of ₹21.3bn were bagged, taking the order book to ₹37bn (3.8x TTM revenue). Also, orders of ~₹7.5bn in the Mumbai water transport segment are at the L1 stage. A bid pipeline of over ₹60bn and a focus on cash contracts in urban infra are likely to raise inflows in FY14-15. In FY13, the company has significantly strengthened its position in Rajasthan, Gujarat and Delhi, besides Maharashtra.

Low gearing. The 0.3x gearing should support strong revenue growth in FY13-15. Although we expect the leverage in FY14 to rise to 0.6x, following the ₹2bn capex, the interest cost will not increase by a similar proportion (as the company had taken buyers' credit at significantly lower interest rates).

Our take. J. Kumar's strong revenue and PAT growth is likely to return in FY14-15. For FY13, it has declared dividend of ₹3.5 a share vs ₹2.3 in FY12, resulting in a rise in the dividend payout from 9% to 13%. We retain a Buy, with a target of ₹295, based on 8x FY14e PE. **Risk:** Project execution delays.

Key data	JKIL IN / JKIP.BO
52-week high / low	₹248 / ₹143
Sensex / Nifty	20147 / 6104
3-m average volume	US\$0.12m
Market cap	₹4.9bn / US\$90m
Shares outstanding	27.8m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	57.2	55.4	55.4
- of which, Pledged	14.4	14.4	14.4
Free Float	42.8	44.6	44.6
- Foreign Institutions	7.5	7.5	2.8
- Domestic Institutions	0.0	0.0	0.0
- Public	35.3	37.1	41.8

Year-end: Mar	FY14e	FY15e
Sales (₹m)	14,183	17,234
Net profit (₹m)	1,017	1,160
EPS (₹)	36.6	41.7
Growth (%)	34.2	14.1
PE (x)	4.8	4.2
P/B (x)	0.8	0.7
RoE (%)	18.5	18.0
RoCE (%)	21.5	20.8
Dividend yield (%)	2.1	2.4
Net gearing (%)	65	51

Source: Anand Rathi Research

Year-end: Mar	4QFY12	4QFY13	% yoy	FY12	FY13	% yoy
Sales (₹m)	2,901	3,179	9.6	9,316	10,007	7.4
EBITDA (₹m)	446	525	17.8	1,500	1,674	11.6
EBITDA margin (%)	15.4	16.5	116bps	16.1	16.7	63bps
Interest (₹m)	96	152	58.7	366	406	10.9
Depreciation (₹m)	54	74	35.4	189	244	29.3
Other income (₹m)	23	53	127.0	67	89	31.6
PBT (₹m)	318	352	10.5	1,012	1,112	9.9
Tax (₹m)	91	120	32.5	331	354	7.0
Tax rate (%)	28.5	34.1	57bps	32.7	31.9	(86)bps
Adj. PAT (₹m)	228	232	1.7	681	758	11.3

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	9,492	9,316	10,007	14,183	17,234
Revenue growth (%)	25.8	(1.9)	8.3	41.9	22.0
- Op. expenses	8,057	7,816	8,333	11,914	14,469
EBIDTA	1,434	1,500	1,674	2,269	2,765
EBITDA margins (%)	15.1	16.1	16.7	16.0	16.0
- Interest expenses	277	366	406	483	582
- Depreciation	159	189	244	388	577
+ Other income	71	67	89	75	75
- Tax	330	331	354	457	521
Effective tax rate (%)	30.9	32.7	31.9	31.0	31.0
Reported cons.PAT	739	681	758	1,017	1,160
+/- Extraordinary items	-	-	-	-	-
+/- Minority interest	-	-	-	-	-
Adjusted cons. PAT	739	681	758	1,017	1,160
Adj. FDEPS (₹/share)	26.6	24.5	27.3	36.6	41.7
Adj. FDEPS growth (%)	22.6	(7.9)	11.3	34.2	14.1

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	278	278	278	278	278
Reserves & Surplus	3,504	4,112	4,756	5,655	6,679
Net worth	3,747	4,390	5,034	5,933	6,957
Minority interest	-	-	-	-	-
Total Debt	1,674	1,706	2,362	4,056	3,956
Def. tax liab. (net)	36	42	51	51	51
Capital employed	5,457	6,138	7,448	10,040	10,965
Net Fixed assets	1,738	2,066	3,102	5,014	5,037
Investments	0.95	0.95	0.95	1.00	1.00
- of which, Liquid	0.95	0.95	0.95	1.00	1.00
Net Working capital	3,250	2,933	3,227	4,839	5,537
Cash and bank balance	468	1,139	1,119	186	390
Capital deployed	5,457	6,138	7,448	10,040	10,965
Net debt	1,749	2,215	2,361	3,555	3,659
WC (days)	111	141	144	127	124
Book value (₹/sh)	135	158	181	213	250

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

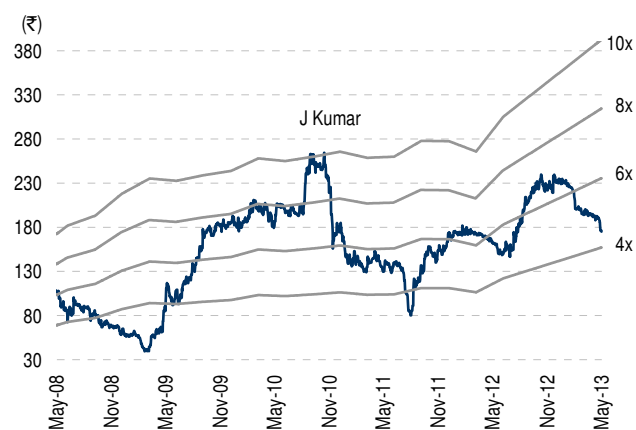
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	739	681	758	1,017	1,160
+Non-cash items	163	195	253	388	577
Cash profit	902	876	1,011	1,404	1,737
- Incr./Decr. in WC	1,410	(317)	294	1,611	698
Operating cash-flow	(508)	1,193	716	(207)	1,039
-Capex	868	516	1,280	2,300	600
Free cash-flow	(1,375)	676	(563)	(2,507)	439
-Dividend	73	75	113	119	135
+ Equity raised	(0)	2	0	-	-
+ Debt raised	1,109	32	656	1,694	(100)
-Investments	(9)	-	-	0	-
-Misc. items	(13)	(35)	-	-	-
Net cash-flow	(318)	670	(20)	(932)	204
+Opening cash	786	468	1,139	1,119	186
Closing cash	468	1,139	1,119	186	390

Source: Company, Anand Rathi Research

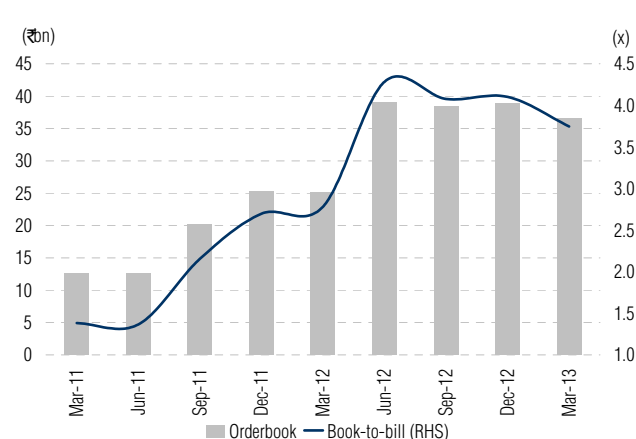
Fig 4 – Ratio analysis @ ₹177

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	6.7	7.2	6.5	4.8	4.2
P/E Core (x)	6.7	7.2	6.5	4.8	4.2
P/B (x)	1.3	1.1	1.0	0.8	0.7
EV/EBITDA (x)	4.5	4.1	4.4	4.2	3.3
RoE (%)	21.7	16.7	16.1	18.5	18.0
RoCE (%)	28.0	22.6	21.0	21.5	20.8
Fixed Asset turnover (x)	6.3	4.9	3.9	3.4	2.8
Dividend yield (%)	1.3	1.3	2.0	2.1	2.4
Dividend payout (%)	8.5	9.4	12.8	10.0	10.0
Interest exp./Sales	2.9	3.9	4.1	3.4	3.4
Debtors (days)	39	35	40	37	35
Revenue growth (%)	25.8	(1.9)	8.3	41.9	22.0
PAT growth (%)	22.6	(7.9)	11.3	34.2	14.1
EBITDA growth (%)	26.0	4.5	11.6	35.6	21.9
EPS growth (%)	22.6	(7.9)	11.3	34.2	14.1

Source: Company, Anand Rathi Research

Fig 5 – PE band


Source: Bloomberg, Anand Rathi Research

Fig 6 – Orderbook vs book-to-bill


Source: Company, Anand Rathi Research

Result highlights

Strong operating margins

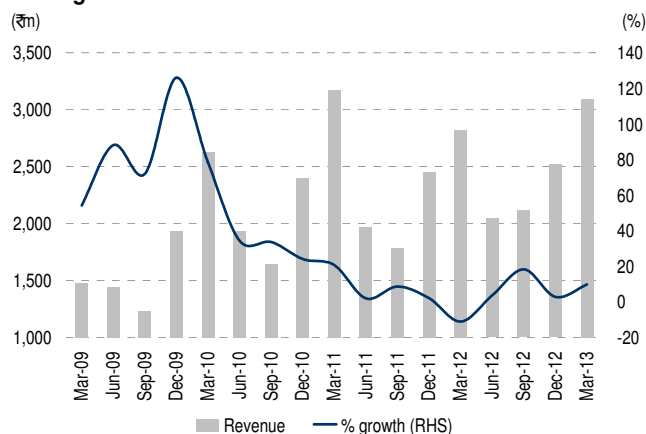
Fig 7 – 4QFY13 results vs expectations

Year end 31 Mar	4QFY13	4QFY13e	% var	4QFY12	% var	3QFY13	% qoq
Sales (₹m)	3,179	3,506	(9.3)	2,901	9.6	2,559	24.3
EBITDA (₹m)	525	526	(0.1)	446	17.8	432	21.4
EBITDA margin (%)	16.5	15.0	152bps	15.4	116bps	16.9	(38)bps
Interest (₹m)	152	120	27.1	96	58.7	109	40.0
Depreciation (₹m)	74	65	13.2	54	35.4	62	18.9
Other income (₹m)	53	14	271.6	23	127.0	11	360.4
PBT (₹m)	352	355	(0.9)	318	10.5	273	28.8
Tax (₹m)	120	132	(9.1)	91	32.5	76	56.9
Tax rate (%)	34.1	37.2	(305)bps	28.5	567bps	28.0	611bps
Adj. PAT (₹m)	232	223	3.9	228	1.7	197	17.9

Source: Company, Anand Rathi Research

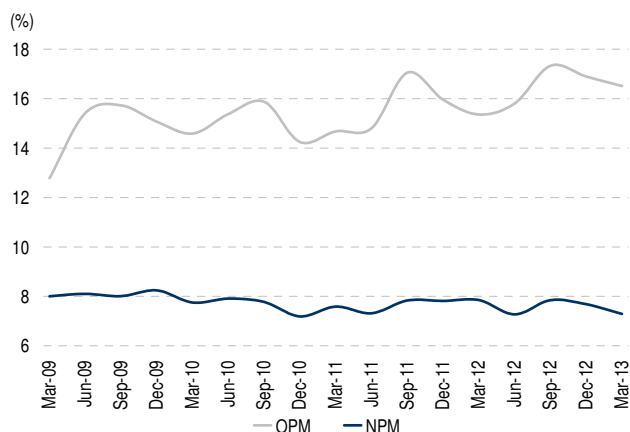
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Fig 8 – Revenue-growth trend



Source: Company, Anand Rathi Research

Fig 9 – OPM and NPM trend

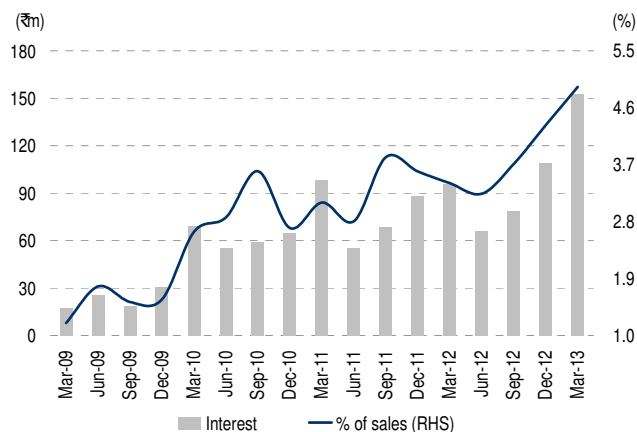


Source: Company, Anand Rathi Research

PAT higher than estimate

PAT came in at ₹232m (up 2% yoy, 18% qoq), 4% better than we expected. The higher-than-estimated interest was nullified by a similar trend in other income. For FY13, PAT grew 11% yoy.

Fig 10 – Interest-cost trend

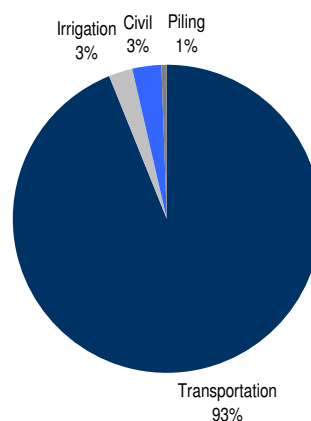


Source: Company, Anand Rathi Research

Robust orderbook

Supported by strong order inflows, management is aiming at over 30% top-line growth in FY14. We expect execution to pick up significantly in the next 2-3 quarters at some of its major projects (Sion-Panvel, building project in Alwar, DMRC) and hit the peak revenue-recognition stage. In FY13, orders of ₹21.3bn were bagged, taking the order book to ₹37bn (3.8x TTM revenue). Also, orders of ~₹7.5bn in the Mumbai water transport segment are at the L1 stage. A bid pipeline of over ₹60bn and a focus on cash contracts in urban infra are likely to raise inflows in FY14-15. In FY13, the company significantly strengthened its position in Rajasthan, Gujarat and Delhi, besides Maharashtra.

Fig 11 – Order-book break-up: Segment-wise



Source: Company, Anand Rathi Research

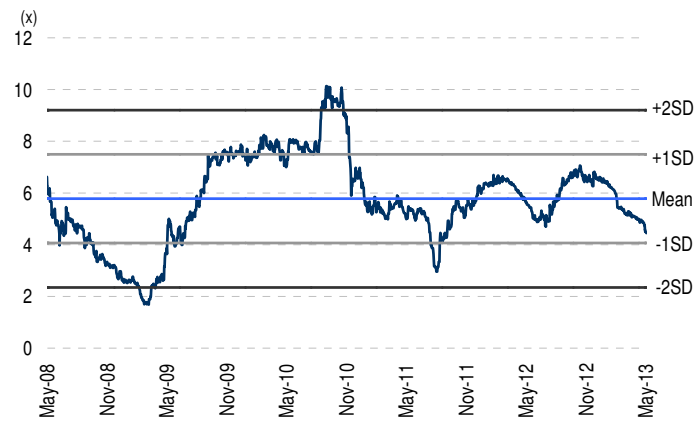
Low gearing

J. Kumar’s 0.3x gearing should support strong revenue growth in FY13-15. Although we expect the leverage in FY14 to rise to 0.6x, following the ₹2bn capex, the interest cost will not increase by a similar proportion (as the company had taken buyers’ credit at significantly lower interest rates).

Valuations

We retain a Buy, with a revised price target of ₹295. Our target is based on a PE of 8x FY14e and an EV/ EBITDA of 5.2x.

Fig 12 – 12-month-forward PE: Mean and Standard Deviation



Source: Bloomberg, Anand Rathi Research

Risks

- Delay in project execution.
- A significant rise in interest rates.
- Slowdown in order inflows.

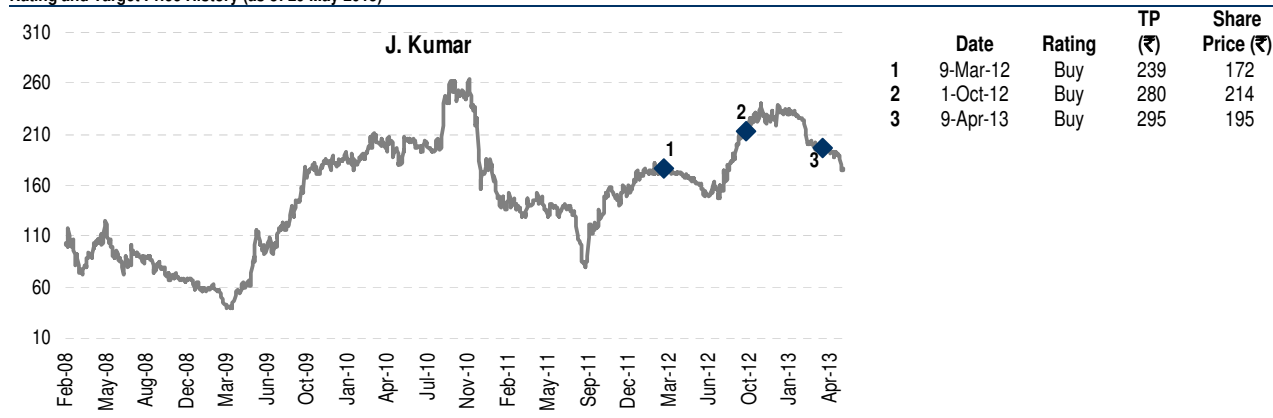
Appendix

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