

JKIL BOOK PROFIT

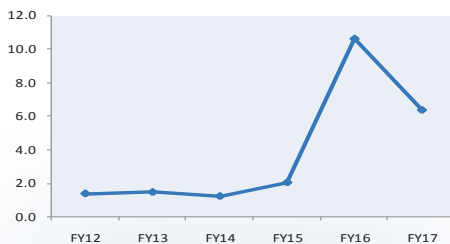
03-Jun-17

INDUSTRY - Eng. & Cons.
BSE Code - 532940
NSE Code - JKIL
NIFTY - 9653

Company Data

CMP	293
Target Price	NA
Previous Target Price	
Upside	
52wk Range H/L	321/105
Mkt Capital (Rs Cr)	2,264
Av. Volume (,000)	93

EV/EBITDA Trend

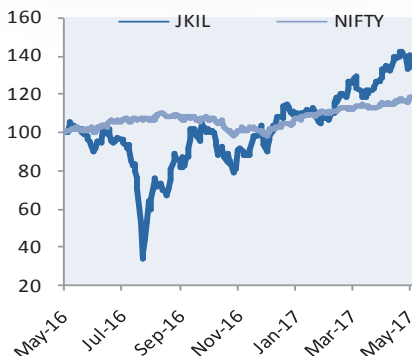


Shareholding patterns %

	4QFY17	3QFY17	2QFY17
Promoters	43.9	43.9	43.9
Public	56.1	56.1	56.1
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	0.8	31.7	18.3
Rel.to Nifty	(2.8)	23.2	0.3



Key Highlights of the Report:

- ✓ JKIL has posted negative top line growth of 12% to Rs.355 Cr well below our estimate of Rs. 458 Cr in Q4FY17 on account of unbilled revenue of Rs.125 Cr from three JNPT road projects.
- ✓ Debtors days has shoot up to 133 days in FY17 from 77 days at the end of the FY16 mainly on account of delayed payment from Mumbai metro line 3. Unbilled revenue of Rs. 125 Cr resulted into higher inventory days of 143 days.
- ✓ Currently stock is trading at 6.4x and 5.2x of EV/EBITDA of FY18 and FY19 respectively. Considering the elevated working capital requirement and increasing debt. We recommend our investors to Book profit at current price level.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	1,343	1,409	1,437	1,835	2,256
EBITDA	251	248	248	331	413
EBIT	203	197	192	271	330
PAT	94	99	106	135	168
EPS (Rs)	29	13	14	18	22
EPS growth (%)	-3%	-56%	7%	28%	24%
ROE (%)	12%	8%	8%	9%	10%
ROCE (%)	17%	12%	11%	13%	14%
BV	245	170	184	198	216
P/B (X)	0.8	2.1	1.2	1.5	1.4
P/E (x)	6.5	26.8	15.5	16.8	13.5

Recent Development:-

- ✓ Recently, Mumbai Metropolitan Region Development Authority (MMRDA) has invites bids for 10 packages aggregate amount of Rs.4600 Cr for Mumbai metro line 2B and 4.
- ✓ Mumbai metro Line 2B comprises 5 packages average value of Rs. 460 Cr each
- ✓ Mumbai metro Line 4 comprises 5 packages average value of Rs. 535 Cr each.
- ✓ JKIL has submitted bid for the 4 packages out of 10 packages.
- ✓ During the quarter BMC has issued show case notice to JKIL for irregularities in execution of three projects in O&M. If the liabilities are crystallized than JV has pay penalty of Rs. 21 Cr. JKIL share of liabilities is Rs.10 Cr and which will recover from subcontractor.

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Quarterly Performance

Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	404	403	310	369	355	-12%	-4%	1,409	1,437	2%
Other Income	9	6	6	6	10	18%	63%	17	29	64%
Total Income	413	409	316	375	366	-11%	-3%	1,426	1,466	3%
COGS	247	279	195	243	162	-34%	-33%	886	878	-1%
Employee Exp.	23	19	22	31	31	38%	2%	78	103	31%
Other Expenses	70	38	36	32	102	46%	217%	196	209	6%
Total Expenditure	339	335	253	306	295	-13%	-3%	1,160	1,190	3%
EBITDA	65	68	56	63	60	-7%	-5%	248	248	0%
Depreciation	13	13	13	14	15	13%	4%	51	56	9%
EBIT	51	55	43	49	45	-12%	-7%	197	192	-3%
Interest	14	18	17	15	15	8%	-1%	62	66	7%
PBT	46	43	32	40	40	-12%	2%	153	155	1%
Exceptional Item	-	-	-	-	-			-	-	
Tax	21	13	9	13	14	-34%	7%	54	49	-9%
PROFIT AFTER TAX	24	30	23	27	26	6%	-3%	99	106	7%

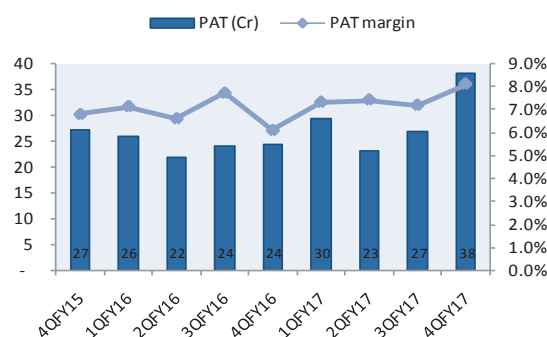
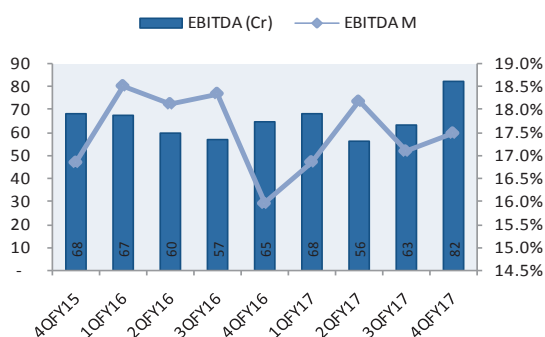
- ✓ JKIL has posted negative top line growth of 12% to Rs.355 Cr well below our estimate of Rs. 458 Cr in Q4FY17.
- ✓ Decline in top line mainly attribute by unbilled revenue of Rs.125 Cr from 3 JNPT road projects. JKIL was unable to raise bill from these three NHAI project due to change in payment cycle, proposed by the company.
- ✓ JKIL wants to pre-pone payment cycle which is under discussion at awarding authority. Hence, JKIL has accounted Rs.125 Cr as Inventory instead of Revenue.
- ✓ On a full year basis the top line of the company is marginally up by 2% to Rs. 1437 Cr as compared to Rs.1409 Cr last year but lower than our estimate.
- ✓ EBITDA during the quarter de grow by 6% to Rs. 60 Cr on account of lower revenue but PAT has shown positive growth of 6.8% to Rs. 26 Cr compared to Rs.24 Cr in last year. Lower tax rate has helped to post positive growth in PAT numbers.
- ✓ Order book stands at Rs.9335 Cr at the end of the year which is 6.4x of TTM revenue. In Q4FY17 JKIL does not received new order.
- ✓ Currently, management is not bidding for the new orders except Mumbai metro line 2A and 4 in order to focus on execution and management has guided for no significant order inflow in next couple of quarters.
- ✓ Working capital of the company has increased during the quarter as the Rs.125 Cr of unbilled revenue included in inventory and Rs.100 Cr of pending payment from Mumbai metro line3.
- ✓ Debtors days has shoot up to 133 days in FY17 from 77 days at the end of the FY16 mainly on account of delayed payment from Mumbai metro line 3. Unbilled revenue of Rs. 125 Cr resulted into higher inventory days of 143 days.
- ✓ Spike in working capital requirement resulted into Rs. 473 Cr of debt as against Rs.350-400 Cr of management expectation in FY17. Elevated working capital level will put pressure on the bottom line going ahead.

Profitability Matrix

Margin %	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	38.90	30.90	37.00	34.20	54.50	15.60	20.30	37.1	38.9	1.80
EBITDA Margin	16.00	16.90	18.20	17.10	16.90	0.90	-0.20	17.6	17.2	-0.40
PAT Margin	6.10	7.30	7.40	7.20	7.40	1.30	0.20	7.0	7.3	0.30

Margins are in line with our estimate

- ✓ EBITDA margin stood at 16.9% and 17.2% for the Q4FY17 and FY17 respectively, which is in line with our estimate.
- ✓ PAT margin has improved by 130 bps to 7.4% in Q4FY17 on account of lower tax rate (34.6% v/s 46.3%). For the full year FY17 PAT margin stood at 7.3% compared to 7% in corresponding period.



Concall Highlights:

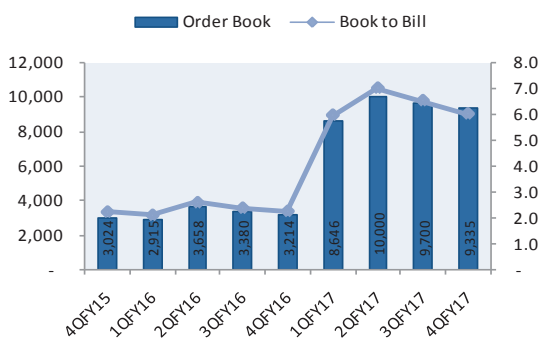
- ✓ Management expect top line of 1900 Cr and 2300 Cr in FY18 and FY19 respectively.
- ✓ Order book at the end of the Q4FY17 is 9335 Cr
- ✓ JKIL has submitted bid for Mumbai metro line 2 A and 4. Company has submitted bid for 4 packages out of 10.
- ✓ Lower topline because of unbilled revenue of Rs. 125 Cr from JNPT projects due to change in payment cycle
- ✓ High debtors at the end of the year due to 100 cr of payment is pending from Mumbai metro Line 3.
- ✓ Work on JNPT road project is progressing in full swing now but revenue during the Q4FY17.
- ✓ FY18E Revenue Breakup:- 650 Cr from Line 3, Line 2 & 7 :- 550-580 Cr, JNPT :- 400-450 Cr and rest from other projects. Management is confident to achieve revenue in FY18 .
- ✓ FY19E Expected Revenue Breakup:- Line 3 :- 900-1000 Cr, Line 2&7 :- 650-700 Cr and JNPT :- 500-550 Cr.
- ✓ Pending order book of 170 cr in Delhi metro project and which will be complete by FY18 end.
- ✓ Capex in FY18:- 250 Cr and FY19:- 30-35 Cr.
- ✓ Working Capital days will remain in range of 150-160 days.
- ✓ Debt in FY18:- 600 Cr and FY19:-400-450 Cr.
- ✓ Current liabilities is higher due to mobilization advances from Mumbai metro projects and it will remain similar in FY18 and after that it will come down as company start repaying.

Management expect top line of 1900 Cr and 2300 Cr in FY18 and FY19 respectively

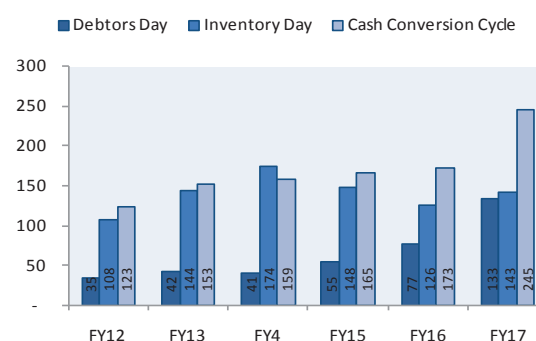
Investment Argument :-

- ✓ **Higher level of Working Capital cause of Concern:** - JKIL working capital requirement has shoot up in FY17 due to unbilled revenue of Rs. 125 Cr from three JNPT road projects. Inventory days have increased to 143 days at the end of FY17 compared to 126 days same period last year. Delayed in payment from Mumbai metro line 3 led to higher debtor's days of 133 as against 77 days in FY16. Spike in working capital requirement resulted into higher debt on the books. Delayed in payment from Mumbai metro projects and issue from JNPT road projects might hurt the bottom going ahead.
- ✓ **Strong Order Book:-** Company's order book continuous to remain at strong level, current order book stands at Rs.9335 Cr which is 6.4x of TTM revenue. Major orders are in full swing and we expect healthy top line of Rs.1700-1800 Cr and 2200-2250 Cr in FY18 and FY19 respectively. Around 35% and 40% in FY18 and FY19 respectively contribute by Mumbai metro line 3 alone, which might cause of concern for us from working capital point of view (stretched payment cycle period).

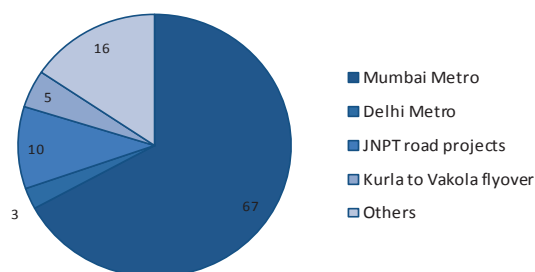
Strong Order book (6.4x TTM Revenue)



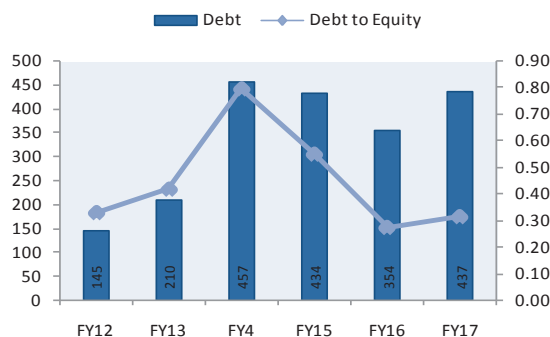
Spike in Working capital



Order Book Break up (%)



Debt to Equity



View and Valuation:-

JKIL has started FY17 with strong order book of Rs.8646 Cr, which is 6.3x TTM revenue. Despite the healthy order book JKIL is not able to post strong growth in top line during FY17. Slow progress at JNPT road projects causes the flattish revenue in FY17. Delayed in payment from Mumbai metro projects lead to spike in debtor's days from 77 days to 133 day at the end of the year with elevated inventory level. This is in conflict with guidance, management had been giving that Mumbai metro projects have better payment cycle. Increased working capital requirement led to higher debt. We expect healthy revenue growth in FY18 but the higher working capital requirement is a cause of concern for us. Considering the higher working capital due to higher debtors and increased inventory we downgrade the stock and reduce target price to Rs.290 from Rs.330 and advice our investors to book profit at this current price level.

Financials Snap Shot

Income Statement				
Rs in Crores				
Y/E March	FY16	FY17E	FY18E	FY19E
Revenue from Operation	1,409	1,437	1,835	2,256
Change (%)	5%	2%	28%	23%
EBITDA	248	248	331	413
Change (%)	(0)	(0)	0	0
Margin (%)	18%	17%	18%	18%
Dep & Amortization	51	56	60	83
EBIT	197	192	271	330
Interest & other finance cost	62	66	104	111
Other Income	17	29	32	27
EBT	153	155	199	246
Exceptional Item	-	-	-	-
Tax	54	49	64	79
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	99	106	135	168
Adjusted PAT	99	106	135	168
Change (%)	0	0	0	0
Margin(%)	7%	7%	7%	7%

Key Ratios				
Y/E March	FY16	FY17E	FY18E	FY19E
ROE	8%	8%	9%	10%
ROCE	12%	11%	13%	14%
Asset Turnover	0.7	0.5	0.6	0.7
Debtor Days	77	133	133	130
Inventory Days	126	143	143	140
Payable Days	30	30	30	30
Interest Coverage	3.20	2.91	2.61	2.97
P/E	27	15	17	14
Price / Book Value	2.1	1.2	1.5	1.4
EV/EBITDA	2	11	6	6
FCF per Share	15	(2)	28	12
Dividend Yield	0.01	0.01	0.01	0.01

Balance Sheet				
Rs in Crores				
Y/E March	FY16	FY17E	FY18E	FY19E
Share Capital	38	38	38	38
Reserves	1,254	1,351	1,461	1,598
Networth	1,292	1,389	1,499	1,636
Debt	354	437	623	673
Other Non Current Liab	27	19	19	19
Total Capital Employed	1,645	1,826	2,122	2,309
Net Fixed Assets (incl CWIP)	497	583	765	717
Non Current Investments	184	197	197	197
Other Non Current Assets	179	4	4	4
Non Current Assets	861	784	966	919
Inventory	486	562	719	865
Debtors	296	523	669	804
Cash & Bank	174	498	286	212
Other Current Assets	148	281	353	430
Current Assets	1,103	1,864	2,026	2,311
Creditors	114	119	152	188
Provisions	-	-	-	-
Other Current Liabilities	7	53	67	83
Curr Liabilities	291	804	851	902
Net Current Assets	812	1,061	1,175	1,409
Total Assets	1,964	2,648	2,993	3,230

Cash Flow Statement				
Rs in Crores				
Y/E March	FY16	FY17E	FY18E	FY19E
PBT	154	155	199	246
(inc)/Dec in Working Capital	(141)	(385)	(327)	(308)
Non Cash Op Exp	51	56	60	83
Interest Paid (+)	61	66	104	111
Tax Paid	43	49	64	79
others	44	66	104	111
CF from Op. Activities	64	(158)	(28)	53
(inc)/Dec in FA & CWIP	(55)	(141)	(242)	(35)
Free Cashflow	119	(17)	215	88
(Pur)/Sale of Investment	-	179	-	-
others	(171)	-	-	-
CF from Inv. Activities	(226)	38	(242)	(35)
inc/(dec) in NW	394	(19)	(25)	(31)
inc/(dec) in Debt	(161)	83	186	50
Interest Paid	16	19	25	31
Dividend Paid (inc tax)	0	38	-	-
others	171	36	57	(92)
CF from Fin. Activities	9	(84)	(213)	(73)
Inc(Dec) in Cash	20	174	498	286
Add: Opening Balance	29	89	286	213
Closing Balance				