ANANDRATHI

India I Equities

Infrastructure

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

16 May 2022

JMC Projects

Requisites in place for better scale ahead; retaining a Buy

Rating: **Buy**
Target Price: Rs.148
Share Price: Rs.75

Strong order addition, an inspiring pace of execution and efforts to contain BOT-toll bleed are some of the key positives from FY22. The future looks bright: the strong order backlog seems set to pave the way for healthy growth in core operations and operating profitability (a miss in FY22, largely on the BOT-toll ECL provisioning) is already on an uptrend. Success with restructuring/refinancing efforts (underway) combined with the gradually rising average daily collection at the road BOT portfolio would mean funding needs trend down. On the strong assurance, bright outlook and benign valuation, we retain our Buy rating.

Sturdy OB, ample assurance. Though order additions eased in Q4 FY22, good additions earlier in the year, led to its single year best FY22 additions of ~Rs101bn, and far exceeded works executed in the year. Hence, the end-FY22 ~Rs171bn OB is sturdy (~3.2x FY22 revenue), and turns sturdier on including ~Rs22bn added in Q1 FY23 and ~Rs27bn of L1 orders. Management sees the OB as good to deliver at least 15-20% y/y higher FY23 revenues, and spoke of potential if the generally disrupted supply-chain normalises at the earliest.

Leverage up, but mostly for non-core reasons. The ~Rs0.4bn q/q (~Rs1.3bn y/y) rise in net debt (~Rs6.4bn on 31st Mar'22) is mostly explained by the support extended to BOT-toll SPVs (~Rs0.3bn in Q4, ~Rs1.4bn for FY22). The operations otherwise were mostly good to take care of capex (Q4 ~Rs0.4bn-0.5bn, FY22 ~Rs1.8bn) as well as working capital needs for the greater scale. With core operations likely to stay healthy, success with restructuring/refinancing efforts for the BOT-toll SPVs (and consequent, lower funding needs), thus, would augur well.

KPP-JMC merged entity, likely by end-FY23. With the merger process going well, management expects it to be completed by Mar'23. The proposed merger is likely to bring complementary capabilities into play to win business in high-growth segments and emerging markets, heighten capabilities to bid for large/complex projects and bring efficiencies (procurement synergies and cost optimisation – finance and otherwise) to augment shareholder wealth.

Valuation. On the stronger-than-expected pace of execution but pruned margins (reflecting inflationary pressures), we raise our FY23e earnings ~6%, and ~7% for FY24. On our revised estimates, the stock (excl. investments) trades at PEs of 5.1x FY24e. **Risk.** Sharp surge in key inputs.

Key financials (YE Mar)	FY20	FY21	FY22P	FY23e	FY24e
Sales (Rs m)	37,130	36,888	53,529	63,515	73,553
Adj. Net profit (Rs m)	790	711	-421*	1,879	2,403
EPS (Rs)	4.7	4.2	-2.5	11.2	14.3
Growth (%)	-44.4	-9.9	-159.2	-	27.9
PE (x)	7.3	17.7	-	6.7	5.3
EV / EBITDA (x)	4.1	5.5	10.8	3.6	3.0
PBV (x)	1.3	1.2	1.4	1.2	1.0
RoE (%)	8.3	7.2	-0.4	19.5	20.7
RoCE (%)	14.2	12.3	2.3	13.7	14.7
Net debt / equity (x)	0.8	0.6	0.8	0.7	0.6

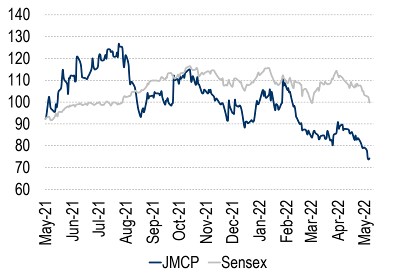
*Source: Company, Anand Rathi Research P – Provisional * Tax on exceptional item adjusted based on effective tax rate for the quarter with exceptional items*

Key data	JMCP IN / JMCP.BO
52-week high / low	Rs130 / 65
Sensex / Nifty	52974 / 15842
3-m average volume	$0.2m
Market cap	Rs13bn / $161.4m
Shares outstanding	168m

Shareholding pattern (%)	Mar-22	Dec-21	Sep-21
Promoters	67.8	67.8	67.8
- *of which, Pledged*	-	-	-
Free float	32.3	32.3	32.3
- Foreign institutions	1.0	1.1	0.9
- Domestic institutions	19.4	17.3	16.8
- Public	11.9	13.9	14.6

Estimates revision (%)	FY23e	FY24e
Sales	6.0	9.4
EBITDA	2.3	4.1
EPS	6.3	7.4

Relative price performance



Source: Bloomberg

Prem Khurana
Research Analyst

Meet Parikh
Research Associate

Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22P	FY23e	FY24e
Order inflows	33,640	79,160	101,390	95,273	95,619
Order backlog	95,460	140,090	171,390	203,148	225,214
Net revenues	**37,130**	**36,888**	**53,529**	**63,515**	**73,553**
Growth (%)	*14.1*	*-0.7*	*45.1*	*18.7*	*15.8*
Direct costs	20,998	19,576	31,337	37,035	42,681
SG&A	12,814	13,996	20,256	20,949	24,238
EBITDA	**3,319**	**3,315**	**1,936**	**5,531**	**6,635**
EBITDA margins (%)	*8.9*	*9.0*	*3.6*	*8.7*	*9.0*
Depreciation	1,173	1,424	1,672	1,887	2,130
Other income	274	268	330	334	312
Interest expenses	1,252	1,138	1,204	1,467	1,605
PBT	1,168	1,021	(610)	2,512	3,211
Effective tax rate (%)	*32.4*	*30.4*	*94.2*	*25.2*	*25.2*
+ Associates / (Minorities)	-	-	-	-	-
Net income	790	711	(1,570)	1,879	2,403
Adjusted income	790	711	(421)	1,879	2,403
WANS	168	168	168	168	168
FDEPS (Rs / sh)	4.7	4.2	-2.5	11.2	14.3

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22P	FY23e	FY24e
Share capital	336	336	336	336	336
Net worth	9,699	10,184	8,800	10,511	12,746
Debt	8,389	7,847	9,781	10,207	10,349
Minority interest	-	-	-	-	-
DTL / (Assets)	(475)	(562)	(1,524)	-1,524	-1,524
Capital employed	**17,614**	**17,470**	**17,057**	**19,194**	**21,571**
Net tangible assets	6,002	6,058	6,749	7,155	7,518
Net intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	107	151	164	164	164
Investments (strategic)	4,164	4,164	3,027	3,027	3,027
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	31,091	32,609	38,228	46,580	54,167
Cash	538	2,142	2,416	2,972	3,008
Current liabilities	24,289	27,654	33,526	40,704	46,313
Working capital	6,803	4,955	4,702	5,876	7,855
Capital deployed	**17,614**	**17,470**	**17,057**	**19,194**	**21,571**
Contingent liabilities	6,612	9,152	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22P	FY23e	FY24e
PBT + Net interest expense	2,145	1,892	264	3,644	4,504
+ Non-cash items	1,173	1,424	1,672	1,887	2,130
Oper. prof. before WC	3,319	3,315	1,936	5,531	6,635
- Incr. / (decr.) in WC	318	-1,848	-253	1,174	1,979
Others incl. taxes	487	400	416	632	808
Operating cash-flow	2,514	4,763	1,772	3,725	3,848
- Capex (tang. + intang.)	2,263	1,524	2,376	2,294	2,493
Free cash-flow	251	3,239	-604	1,431	1,355
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	142	118	118	168	168
+ Equity raised	-	-	-	-	-
+ Debt raised	710	-629	971	426	142
- Fin investments	-	-	-1,137	-	-
- Net interest expense + Misc.	1,051	889	1,114	1,132	1,293
Net cash-flow	-232	1,604	273	556	36

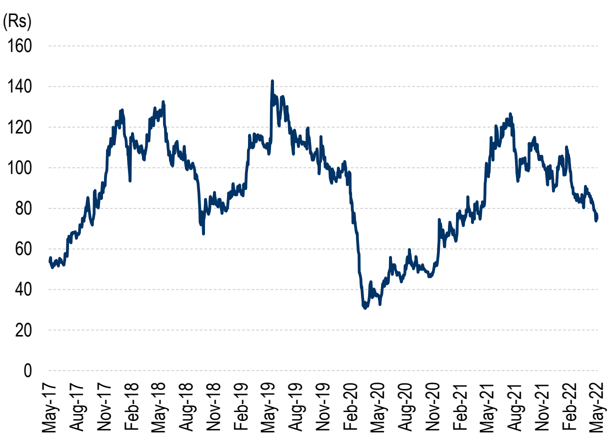
Source: Company, Anand Rathi Research P - Provisional

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22P	FY23e	FY24e
P/E (x)	7.3	17.7	-	6.7	5.3
EV / EBITDA (x)	4.1	5.5	10.8	3.6	3.0
EV / Sales (x)	0.4	0.5	0.4	0.3	0.3
P/B (x)	1.3	1.2	1.4	1.2	1.0
RoE (%)	8.3	7.2	-0.4	19.5	20.7
RoCE (%)	14.2	12.3	2.3	13.7	14.7
RoIC (%)	9.1	8.1	2.0	12.8	13.5
DPS (Rs / sh)	0.7	0.7	0.7	1.0	1.0
Dividend yield (%)	2.0	0.9	0.9	1.3	1.3
Dividend pay-out (%) - incl. DDT	17.9	16.5	-	8.9	7.0
Net debt / equity (x)	0.8	0.6	0.8	0.7	0.6
Receivables (days)	98	100	75	105	105
Inventory (days)	24	23	21	25	25
Payables (days)	128	145	113	126	128
CFO : PAT%	318.4	669.9	-	198.2	160.1

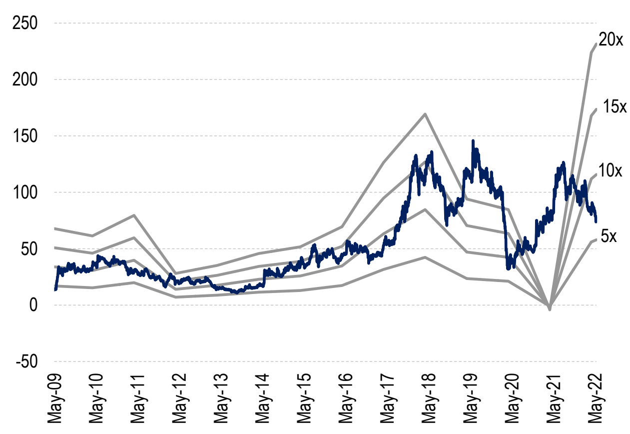
Source: Company, Anand Rathi Research * Tax on exceptional item adjusted based on effective tax rate for the quarter with exceptional items

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – PE Band



Source: Company

Operations update

- **Revenue, scaled a new high.** A sturdy OB and an inspiring pace of execution helped JMC Projects' Q4 and FY22 revenue from operations scale new highs, of ~Rs15.6bn and ~Rs53.5bn. Water orders, we believe, was the key to strong growth, but its mainstay, B&F, too, appears to have had an inspiring growth and remains the single largest contributor.
  - We estimate the B&F category to have grown in excess of 30% on a full-year basis, and Urban Infra & Water looks to have been ~60% higher y/y. The contribution from Water orders, in particular, is likely to have more than doubled during the year.
  - Ample revenue assurance already, the continuing sturdy order additions and healthy pace of execution set the stage for a further rise in scale of operations.
  - Though management sees potential for revenue from operations to grow in excess of 20% in FY23, citing supply-chain issues and the yet evolving geo-political situation, it considers it prudent to build some conservatism and, hence, guided to 15-20% higher revenues. It will review its guidance as the year progresses.

Fig 7 – Financial highlights

(Rs m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	% Y/Y	% Q/Q
Revenue from Operations	4,704	8,038	10,660	13,486	11,243	13,207	13,483	15,596	*15.6*	*15.7*
EBITDA	278	730	955	1,352	806	-929	740	1,319	*-2.5*	*78.2*
EBITDA margin (%)	*5.9*	*9.1*	*9.0*	*10.0*	*7.2*	*-7.0*	*5.5*	*8.5*	*-157bps*	*297bps*
Interest	286	305	268	279	269	278	319	338	*20.9*	*6.0*
Depreciation	343	345	356	379	396	418	434	423	*11.7*	*-2.6*
Other income	46	56	57	108	53	61	115	101	*-7.0*	*-12.6*
Exceptional Item				-	-	-1,137	-398	-	-	-
PBT	-305	136	388	802	194	-2,701	-296	658	*-18.0*	-
Tax	-87	64	131	201	32	-586	-103	83	*-58.8*	-
Reported. PAT	-218	72	257	601	162	-2,115	-193	575	*-4.3*	-
Adj. PAT*	-218	72	257	601	162	-1,225	66	575	*-4.3*	*767.6*

*Source: Company * Tax on exceptional item adjusted based on effective tax rate for the quarter*

- **Margin returning, but still sub-optimal.** The margin recovered from ECL provision (for the Rohtak-Bawal BOT-toll) impacted lows, but it, at ~8.5% for Q4 FY22, lagged the past mean. The not yet optimal margin appears mostly a result of the recent sharp run-up in key commodities, and some provisioning for the revised costs-to-completion.
  - For comparison, the margin compressed ~157bps y/y (largely due to the ~319bp contracted gross margin, on inflationary pressures) but q/q expanded ~297bps (on absence of ECL provisioning for the surrendered BOT-toll, Rohtak-Bawal; a ~354bp impact in Q3). The Q4 FY22 margin was aided by the greater-scale-effected benefits of operating leverage.
  - Citing the anticipated better scale of operations in FY23, recent moderation in some commodities and rising contribution from the newer projects (better reflecting the inflationary environment), management targets a 9% margin in FY23. It sees potential to this, and would review it as the year progresses.

- **Earnings, down y/y, but better q/q.** Y/y compressed operating profitability more than offset the healthy growth in revenue operations. Consequently, Q4 FY22 net income was down ~4% y/y to ~Rs575m. Had it not been for the lower effective tax rate (partly offset by higher finance costs, on the greater scale), the earnings decline would have been steeper. Sequentially, Q4 FY22 compares favourably to the Rohtak-Bawal ECL provisions (~Rs478m) / impairment (~Rs389m)-impacted Q3 FY22 net loss of ~Rs193m.

- **Consolidated financials.** With BOT-toll fee income accounting for a small portion of consolidated financials, the performance was largely dictated by standalone operations.

  - Largely mirroring standalone growth, consolidated revenues were up ~15% y/y and q/q to ~Rs16bn. This yielded net income of ~Rs585m, against a ~Rs414m profit a year back and a loss of ~Rs287m the previous quarter.

  - The consolidated earnings performance is not truly comparable as Q4 FY22 does not include any contribution from its JV road BOT-toll project, Rohtak-Bawal. The SPV served a termination notice on the NHAI during the year. The JV contributed a ~Rs100m loss in Q4 FY21, and ~Rs15m loss in Q3 FY22. With the termination notice served, the JV operations are no more consolidated.

  - Consolidated financials imply ~Rs452m subsidiaries' income (mostly BOT-toll) for the SPVs eligible for consolidation, and a derived EBITDA margin of ~66%.

  - The ~4% y/y higher revenues for the BOT-toll SPVs appear to have been mostly supported by the toll-fee hike effected in the year. Sequentially, seasonality pushed up toll-fee income ~6%.

Fig 8 – Snapshot of consolidated and subsidiaries' financials

(Rs m)	Consolidated			Subsidiaries / JVs		
	Q4 FY22	% Y/Y	% Q/Q	Q4 FY22	% Y/Y	% Q/Q
Revenue	16,048	*15.3*	*15.4*	452	*3.6*	*6.0*
EBITDA	1,616	*-5.3*	*48.9*	297	*-15.9*	*-14.0*
EBITDA margin (%)	*10.1*	*-218bps*	*227bps*	*65.8*	*-1523bps*	*-1525bps*
Interest	647	*4.5*	*1.1*	309	*-9.0*	*-3.7*
Exceptional Item	-	-	-	-	-	-
PBT	670	*-6.4*	-	12	-	-
PAT	585	*13.7*	-	10	-	-
PAT after Share of JV / Associates	585	*41.1*	-	9	-	-
Net debt	13,830	*1.2*	*0.3*	7,430	*-13.1*	*-4.3*

Source: Company, Anand Rathi Research

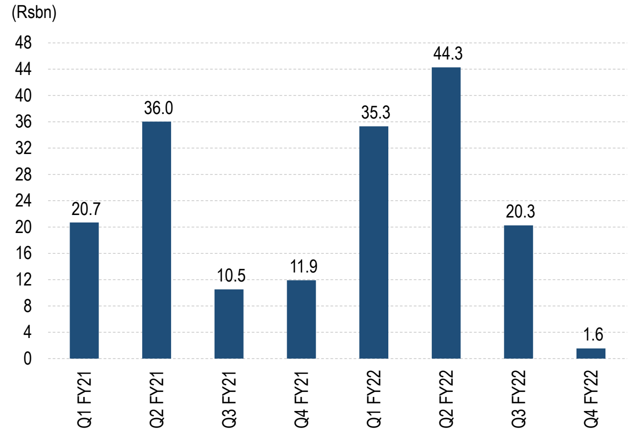
Order backlog / Revenue assurance

- With a lone order of ~Rs1.6bn, Q4 order addition was muted. Nevertheless, strong orders earlier in the year meant the full year additions were strong (and its single year best) at ~Rs101.4bn. Notwithstanding a blip in Q4, the momentum appears to have been sustained in FY23 with ~Rs21.9bn of firm orders already and L1 status for orders of ~Rs27bn.

  - FY22 additions were led by Urban Infra & Water (~58% of the total), and were very well supported by private B&F orders (~32%). Government B&F was the distant third.

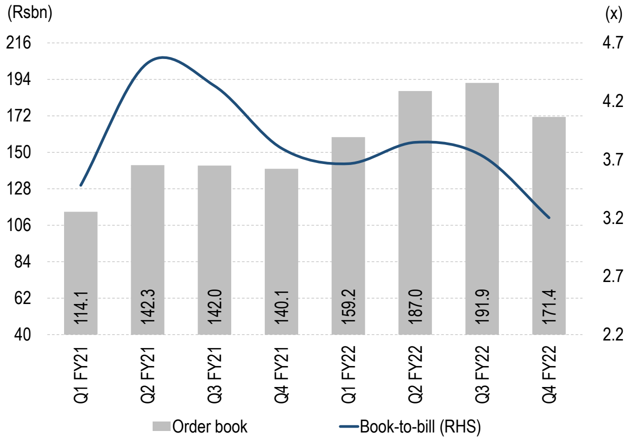
- True to its earlier shared intent, the additions were diversified geographically as well. International orders accounted for ~32% of the total, whereas domestic orders, of ~68%, continued to enjoy the lion's share.
- The L1 orders include an international airport project in Asia and an elevated metro-rail in India. Besides, the company earlier held L1 in a tunnelling job, but the order currently does not form a part of either its firm OB or the L1 orders (pending clearance from the government).

Fig 9 – Q4 additions at ~Rs1.6bn, FY22 at ~Rs101.4bn



Source: Company

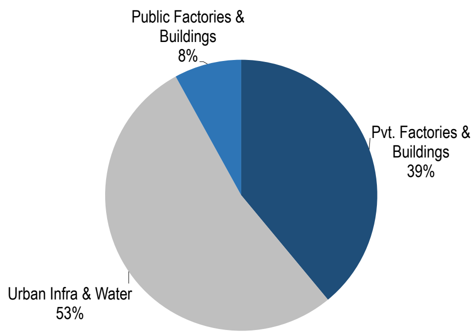
Fig 10 – Mar'22 firm OB: ~Rs171bn; BtB: ~3.2x TTM revenue



Source: Company Note: Figures denote quarter / year-end figures

- With Q4 inflows significantly lagging the works executed in the quarter, the end-Q4 OB was down ~Rs20.5bn q/q to ~Rs171.4bn. Though the OB declined, it still provides ample revenue assurance of ~3.2x FY22 standalone revenues.
  - Of the end-FY22 OB, ~53% pertains to Urban Infra & Water, ~39% to Private B&F and the balance to government B&F. Water orders comprise ~Rs70bn of the end-FY22 OB, and bought-out components account for ~70% of the potential.
  - Including the post-Q4 orders, the firm revenue potential rises to an all-time high of ~Rs193bn (~3.6x FY22 revenues). On inclusion of L1 orders, the potential rises further to ~Rs220bn, and the assurance turns even sturdier (at ~4.1x FY22 revenue).

Fig 11 – Urban Infra & Water at ~53% of the OB; B&F, the rest



Source: Company Note - For end-Q4 OB of ~Rs171bn

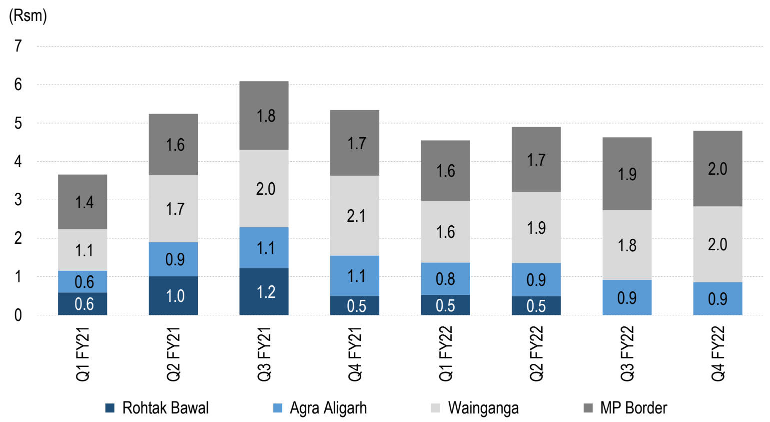
- With international orders forming ~32% of the FY22 additions (led by a B&F order in Maldives and an oil & gas order in the Middle-East), the share of international orders in the end-FY22 OB was ~22% (up from ~7% at end-FY21). Management continues to seek to diversify geographically, and a further rise in the share is not ruled out. Its L1 orders already have a large airport project in Asia.
- In order to reduce dependence on the vagaries of a single segment and broad-base growth opportunities, management continues to look at growth areas that fit its risk-return profile. Consequently, it has recently made a foray into international B&F (with an order in Maldives) and airports. It looks to use the recent airport order to build PQs, and look for more growth opportunities in this segment (Africa, on the radar). Underground metro-rail in India, too, is on its radar.
- Citing the healthy opportunity landscape and continued broad-basing, management is targeting order additions of ~Rs100bn-110bn for FY23. With order additions of ~Rs21.9bn post-Q4 and L1 status for an order of ~Rs27bn, the company is confident of achieving the year's order-inflow guidance.
- On its overall inflow strategy, management looks to continue to leverage its parent's credentials to secure more international orders. In India, it seeks to further bolster its leading position in its area of expertise.

BOT operations

- With a termination notice already served for its JV road BOT-toll project, Rohtak-Bawal, and project operations already taken over by the NHAI, the project is no more a part of its BOT-toll operations.
- Excl. Rohtak-Bawal, the other three BOT-toll assets averaged daily collections of ~Rs4.8m in Q4 FY22, up from ~Rs4.6m a quarter ago but y/y largely flat.
  - The steep y/y drop (~18%) at Agra-Aligarh and ~5% y/y drop at Nagpur-Wainganga were counter-balanced by the Vindhyachal Expressway. Sequentially, both Nagpur-Wainganga and Vindhyachal expressway improved, but Agra-Aligarh fell ~7%.
- On the recent toll-fee hike (linked to the WPI) and gradually returning traffic, the average daily collection has already scaled up to ~Rs5.8bn in Q1 FY23 (1st Apr'22 to 11th May'22 considered). Though this is good, it still falls short of portfolio-wide cash break-even level.
- Management pegs cash break-even for these three assets combined at ~Rs6.6m average daily collection. The break-even level does not consider any outlay on major maintenance.
  - During FY22, JMC extended support of ~Rs1.4bn to the SPVs. This includes ~Rs0.59bn extended to the surrendered Rohtak-Bawal BOT-toll project. Support for the balance three BOT-toll assets, thus, was ~Rs0.81bn in FY22.
  - Excluding Rohtak-Bawal, cumulative investments in its BOT-toll SPV portfolio were ~Rs6.05bn.
  - For FY23, the company has guided to support of ~Rs0.7bn-0.8bn, of which Rs0.2bn-0.25bn pertains to the major maintenance of the assets; the balance will be the loss funding provided to the SPVs.

- Management highlighted that the process for the restructuring of the Nagpur-Wainganga BOT-toll is underway. Once through, it will help bring down the loss funding. Refinancing efforts are underway for the Vindhyachal Expressway.

Fig 12 – Average daily collection, project-wise



Source: Company Note: Rohtak-Bawal surrendered to the NHAI in Q3 FY22

- **BOT-toll debt-restructuring/monetisation.** Restructuring effort for the Nagpur-Wainganga BOT-toll has been making progress, but the monetisation efforts for its Vindhyachal BOT-toll appear to have had a setback.
  - NOCs are already in place from most of the lenders for the debt-restructuring of the Nagpur-Wainganga BOT-toll project. Management hopes to soon secure an NOC from the remaining major lender, and approach the NHAI with a proposal. It envisages to complete this by end-H1 FY23.
  - Management has also started the process of refinancing the Vindhyachal Expressway and expects to complete the process by Q2 FY23. Monetisation of this asset is on the back-burner now. Management cites reduction in traction as the reason.
  - The Rohtak-Bawal SPV served a termination notice on the NHAI during Q3 FY22. This was done citing suspension of toll collection (due to farmer agitation) for more than 180 days, entitling the SPV to invoke the *force majeure* clause. During the year, JMC provided / impaired for the exposure (equity, quasi-debt/support) almost in entirety (incl. ~Rs0.59bn extended during FY22).

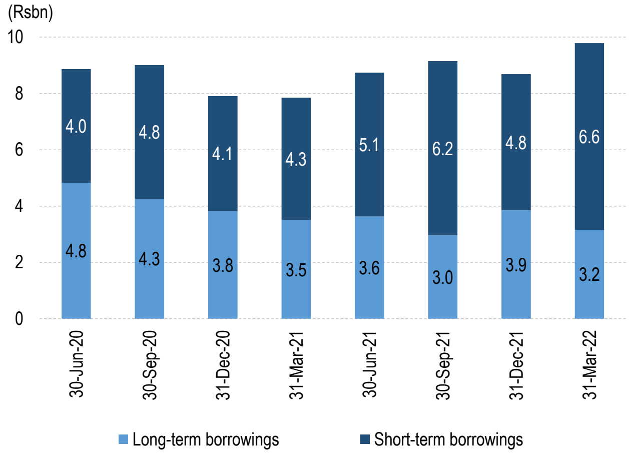
Balance sheet

- Standalone net debt rose ~Rs1.3bn y/y, ~Rs0.4bn q/q, to ~Rs6.4bn. Capex needs and support to the BOT-toll SPVs came together to push leverage up for JMC. The core operations, otherwise, were good to take care of the business needs.
  - During the year, JMC incurred ~Rs1.8bn capex (net of deletions); support to the road BOT SPVs followed with ~Rs1.4bn. These two imply that core operations could not only generate enough to take care of a large part of these two but also the working capital needs for the higher scale of operations.
  - The capex needs for Q4 FY22 are estimated at ~Rs0.4bn-0.5bn, and the support to the road BOT-toll was ~Rs0.3bn. These two

together entailed funding needs of ~Rs0.7bn-0.8bn, but the net debt rose ~Rs0.4bn q/q.

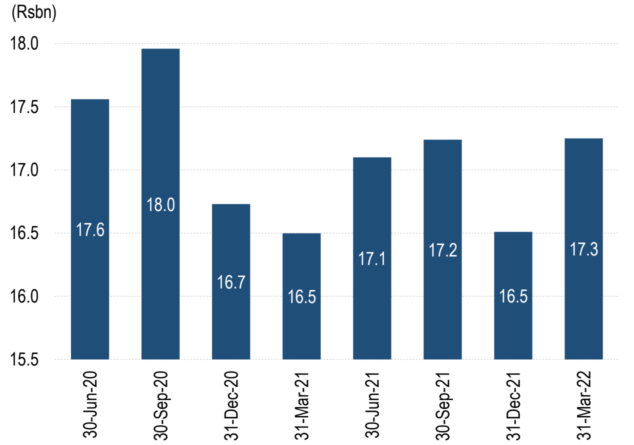
- On the risen net debt and lower net worth (impacted by ECL provisioning/impairment of Rohtak-Bawal), the net debt-to-equity rose from ~0.5x a year ago to ~0.73x. Sequentially, it declined from ~0.75x on account of profit accretion in Q4 FY22.

Fig 13 – Standalone debt rise on capex and support to BOT-toll SPVs



Source: Company Note: Short-term borrowings include current maturities of long-term debt

Fig 14 – Rise in consolidated debt lagged standalone, on repayment of SPV-level debt



Source: Company

- Helped by fewer receivable days (25 y/y) and inventory days (2), the reported working-capital cycle contracted 17 days to 32 (by 31st Mar'22). Adjusting for the support extended to the BOT-toll SPVs (loans reflected as part of working capital), the end-FY22 core working-capital cycle is estimated at 11-days). Compared to Sep'21, the reported cycle is eight days shorter but the core cycle lengthened 11 days (on fresh support extended).

- The rise in standalone net debt was partly offset by lower net debt for the three BOT-toll SPVs. Consequently, consolidated net debt was only ~Rs0.2bn higher y/y, ~Rs40m q/q, to ~Rs13.8bn.
  - The three BOT-toll SPVs appear to have had repayments of ~Rs0.35bn during Q4 FY22; repayments for the year are estimated at ~Rs1.2bn.
  - As a result of the above repayments, and movement in cash & equivalents, the net debt of the SPVs eligible for consolidation (combined) fell ~Rs1.1bn y/y, ~Rs0.3bn q/q, to ~Rs7.4bn.
- Management did not provide any de-leveraging targets for JMC in particular but expects the merged operations of Kalpataru and JMC to experience a reduction of Rs3bn-4bn in FY23.

Guidance

- Backed by strong revenue assurance, continuing healthy order additions and the envisaged healthy pace of execution, management looks to deliver 15-20% y/y higher revenue in FY23. Management sees potential to this, but identifies supply-chain issues and the yet evolving geo-political situation as key monitorables. It looks to review the guidance as the year progresses.
- With price-escalation clauses in place for most of its order backlog, and as revenue contribution rises from the recently added orders (better

reflecting the present inflationary environment), management expects a 9% EBITDA margin in FY23. It sees the recent moderation in commodity prices to also help attain the guidance. JMC recorded core EBITDA margin of ~7.8% in FY22, adjusting for the ECL provisions made for exposure to the surrendered BOT-toll project, Rohtak-Bawal.

- Citing the healthy opportunity landscape and its intent to further diversify into newer segments (airports, underground metro-rail), management looks at orders of Rs100bn-110bn in FY23. The guidance seems plausible as orders of ~Rs21.9bn have already been added in Q1 FY23, and it holds L1 status for orders of ~Rs27bn.
- Though it looks to diversify into newer segments (which would need more machines), management sees lower capex needs for the Water-orders to balance the spending required. Consequently, it does not see any material change in the annual capex run-rate. It incurred gross capex of ~Rs1.9bn in FY22.
- Funding needs for the BOT-toll SPVs have been envisaged at ~Rs0.7bn-0.8bn for FY22. The guidance assumes Rs0.35bn-0.4bn of support to meet finance obligations, and the balance mostly for major maintenance. Restructuring and refinancing efforts, management highlights, once fructified would help bring the requirement down.
- Management did not provide any de-leveraging targets for JMC in particular but expects the merged operations of Kalpataru and JMC to experience a reduction of Rs3bn-4bn in FY23.

Other Highlights

- **KPP-JMC merger.** The merger is going well and is expected to be completed by Q4 FY23. Management expects the merger to provide significant synergies and further strengthen the service offerings. Management believes the merger, once effected, would lead to operational and financial efficiencies and help enhance capabilities (thereby placing it aptly to bid for larger projects).
  - Management sees the merger to lead to annual savings of ~Rs1bn-1.5bn, mostly envisaged through savings in finance costs (on the bolstered balance sheet).
  - On operations, management envisages that the merged entity would be poised for even better growth and, thus, would need to augment resources even further (more employees, for greater growth). Thus, synergies in operations would mostly be on account of operating leverage (more than any significant cost cuttings) and procurement synergies.

Valuation

To account for the swifter-than-expected pace of execution, we raise the order-backlog-conversion ratio. We also raise FY23 order-inflow estimates on good additions early in FY23. As a result, FY23e revenue from operations are ~6% higher and FY24 is up ~9%. However, we prune FY23e EBITDA margin to ~8.7% (from ~9% earlier) and for FY24 to ~9% (earlier ~9.5%) to factor in the higher-cost context. On our raised revenue estimates but pruned margins, FY23e earnings are ~6% higher than earlier envisaged and FY24 is ~7% better.

We value the construction business at a PE multiple of 10x FY24e, and use the discounted-cash-flow (DCF)-driven valuation for the road assets. Consequently, the construction business is valued at Rs143 a share, and the BOT-toll contributes Rs5 a share. The two combined give us a target price of Rs148, raised from Rs139 earlier.

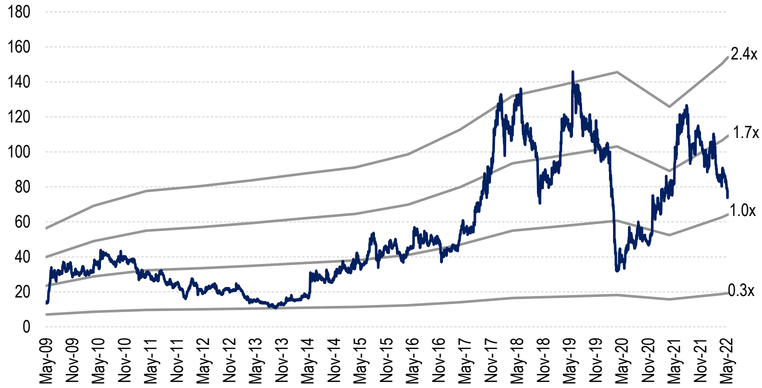
Fig 15 – Change in estimates

Rs m	Old		Revised		% change	
	FY23e	FY24e	FY23e	FY24e	FY23e	FY24e
Revenue	59,902	67,226	63,515	73,553	*6.0*	*9.4*
EBITDA	5,404	6,376	5,531	6,635	*2.3*	*4.1*
EPS (Rs)	10.5	13.3	11.2	14.3	*6.3*	*7.4*

Source: Anand Rathi Research

On our revised estimates, the stock is now available at PERs of 6.5x FY23e and 5.1x FY24e (excl. BOT-toll). On P/BV, it quotes at 1.2x FY23e and 1x FY24e, against the target-price-implied exit multiple of 1.9x FY24e.

Fig 16 – P/BV band



Source: Company, Anand Rathi Research

Risks

- Any sharp surge in key inputs.
- Any slower-than-expected pace of execution.
- More-than-anticipated cash-flow mismatch in BOT-toll SPVs.

Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

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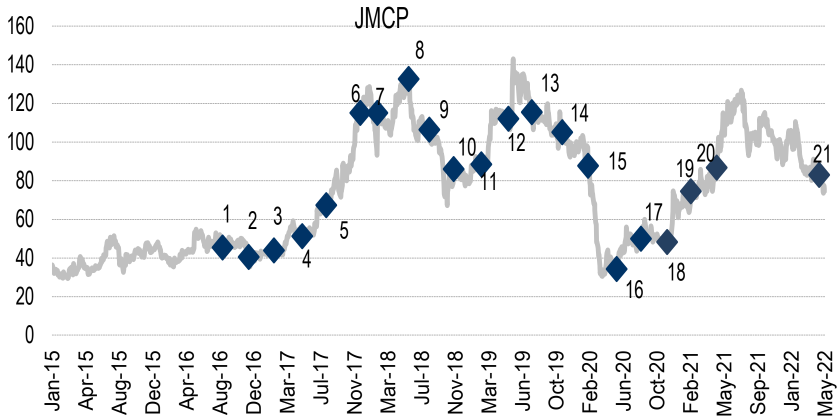

	Date	Rating	TP (Rs)	Share Price (Rs)
6	11-Dec-17	Buy	136	114
7	8-Feb-18	Buy	142	105
8	28-May-18	Buy	146	132
9	8-Aug-18	Buy	147	109
10	1-Nov-18	Buy	143	86
11	4-Feb-19	Buy	150	93
12	10-May-19	Buy	162	115
13	31-Jul-19	Buy	164	118
14	7-Nov-19	Buy	165	112
15	12-Feb-20	Buy	145	99
16	21-May-20	Buy	71	33
17	14-Aug-20	Buy	70	52
18	5-Nov-20	Buy	68	47
19	16-Feb-21	Buy	101	74
20	12-May-21	Buy	122	98
21	22-Apr-22	Buy	139	86

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