



JV CAPITAL SERVICES PVT. LTD

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JMC Projects(India) Ltd.

CMP: 180

BUY

INDUSTRY: Construction

RISK PROFILE: Medium

TARGET: 260

Data Table

CMP	180
Target price(Rs)	260
Upside (%)	44%
52 Week H/L (Rs)	211 /72
P/E Ratio	10.26
P/BV	1.73
Dividend Yield %	0.96%
Market cap (Rs. Cr)	376
No. of o/s shares (cr)	21.77
FV (Rs)	10.00
NSE code	JMC PROJECT

JMC Projects is a subsidiary of Kalpataru Power Transmission Ltd. It operates in three distinct business areas in the construction sector viz. buildings, infrastructure and industrial & power. JMC's strong project execution capabilities are reflected in its various projects undertaken in the past. JMC has executed various projects for reputed clienteles ranging from leading corporates (Maruti, Bajaj Auto, Hindustan Motors, Nirma, Oberoi Group, Wipro, Infosys, etc.), leading EPC companies like L&T & BHEL, leading realty companies, Central & State Governments and various Urban Local Bodies (ULBs) etc. JMC is one of the few construction companies certified under ISO 9001:2000 quality management system by TUV Management Services of Germany.

Key Investment Themes

Relative Performance Analysis



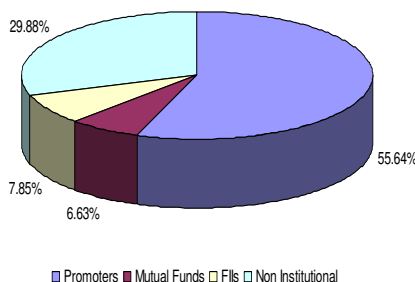
Strong growth in order book expected

After witnessing sluggish growth in order inflow last year, JMC Project's order inflow is likely to grow at a compounded growth rate in excess of 35% over the coming two-three years. This should result in better earnings visibility going forward. Fresh order inflow slowed in 2008-09, with the outstanding order book 15% lower at Rs 1,810 crore as of March 09 against the value in March 2008. Since then, however, order inflow has picked up, currently valued at approximately Rs.3, 000 crore.

Diversifying into newer areas

In the last few years JMC has started focusing on infrastructure and power projects. It now undertakes several projects to construct bridges & flyovers, roads & highways, railways stations, marine work, water supply & irrigation projects and construction of power plants.

Shareholding Pattern



Partnerships allow to bid for bigger projects

It also partners companies such as Sadbhav Engineering and SREI Infra, which could help it secure bigger contracts besides enhancing own track record and expertise. It recently won a project worth Rs.1000 crore in a consortium with SREI Infra.

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Strong operating performance

JMC more than doubled its revenues between FY07 and FY09. Even in FY9, the company reported net profit growth of 20%. On the margins front, operating margins for FY09 stood at 8%.. But as a result of high depreciation and interest costs, margins slipped to 3% at the net level. Increase in investments in plant and machinery, and higher rates charged on some machinery accounted for the spike in depreciation costs. Such investments would however ensure timely availability of equipment.

Construction is the second largest economic activity in the country. The sector accounts for about 5% of GDP.

Central, State and Local governments are undertaking various projects by direct funding as well as through Public Private Partnership.

The improvement in earnings is likely to be gradual rather than dramatic. Sector to benefit with improved access to the capital markets and fresh debt availability.

Interest costs doubled in 2008-09 over the previous year, following an increase in debt.

Sector Overview

Construction is the second largest economic activity in the country. The sector accounts for about 5% of GDP. Currently, it employs directly or indirectly a total of about 32 million workers. The growth of construction industry to a large extent is dependent on infrastructure development in the country. Infrastructure development is crucial for the economic growth of a country.

As development of infrastructure is a key for growth, Central, State and Local governments are undertaking various projects by direct funding as well as through Public Private Partnership (PPP) in the area of roads & highways, ports, power, water and sewage facilities. Proposed Government spending in the infrastructure in the budget have shown the optimism that the new government will push infrastructure spending aggressively.

However, the improvement in earnings is likely to be gradual rather than dramatic. The change in environment for construction is likely to improve corporate fund raising. Infrastructure being a capital intensive sector will benefit with improved access to the capital markets and fresh debt availability. Biggest concern for the construction sector has been negative cash flows generated primarily due to an increasing working capital cycle. The working capital cycle is expected to remain stretched, resulting in low or negative cash flows; rising debt and low interest coverage.

The companies which will perform better in such an environment are one who has the ability to improve margins through better control over costs and timely project execution. Ability to augment its project designing skills so as to enter the high margin segments of infrastructure sector would also be an added benefit.

Infrastructure- A humungous opportunity of US\$500 bn

Given acute shortage of infrastructure capacity in India, investment in infrastructure space is an area of significant importance for the country. Indian infrastructure investments are expected to grow at over 15% in the 11th and 12th Five Year Plans. Power and Transport sectors will witness the highest allocation, comprising 40% and 25% of the total expected investment.

The government has been dismantling stiff barriers and is actively encouraging private investment in big public works projects. Private companies are operating airports. The government is also helping private sector developers by lowering their risk in road projects. To benefit from the efficiencies that the private sector brings to the designing and construction of infrastructure projects, the Planning Commission is targeting that at least 75% of new investment into infrastructure will arise from the private sector - some in the form of fully private ventures, others as public private partnerships (PPPs).

Sector	Rs(000 Crore)
Railway	219.70
Roads	236.20
Shipping	13.40
Ports	70.80
Civil Aviation	142.80
Power	840.00
E&P, Refining	213.50
Renewable Energy	15.80
Urban Infra	128.50
JNNURM	75.00
Irrigation	231.30
Total	2187.00

Source: Planning Commission

Until the global crisis, the growth rate of the consumption sector was higher than the GDP growth rate

Power, Railways and Urban Infrastructure segments have more or less remained unaffected primarily due to the fact that funds for these sectors came mainly from Government spending

Bagged a project worth Rs 355cr from Provident Housing Ltd. Also bagged a project from the National Highway Authority Of India (NHAI) on BOOT basis.

JMC has started focusing on infrastructure and power projects.

Company Analysis

Strong Growth in Order book Expected

Until the global crisis, the growth rate of the Construction sector was higher than the GDP growth rate. However, the situation changed drastically in the second half of the year FY09. The growth rate for the sector fell sharply as the overall crisis has impacted the Construction Sector to a great extent. Private industrial investment is witnessed a slow down and the Real Estate sector went in a slump due to squeeze in liquidity and decline in demand for consumption of goods and housing. Road segment has also witnessed a slowdown.

However, Power, Railways and Urban Infrastructure segments have more or less remained unaffected primarily due to the fact that funds for these sectors came mainly from Government spending. After witnessing sluggish growth in order inflow last year, as per our estimates, JMC Project's order inflow is likely to grow at a compounded growth rate in excess of 35% over the coming two-three years. This should result in better earnings visibility going forward.

Increased outlay on the part of the Government to develop urban infrastructure will help order inflow. The company plans to move into the rather less competitive north-east regions, which may help it secure more orders at perhaps superior profit margins.

Bagged big and prestigious projects in past few months

The company bagged a project worth Rs.355 crore from Provident Housing Ltd (Purvankara Group). As part of the order, JMC Projects will undertake construction of buildings for residential projects at Bangalore. The project is scheduled to be completed in 30 months in three phases. It also bagged a project from the National Highway Authority of India (NHAI) to construct a four-lane highway between Rohtak and Bawal in Haryana. This is the first build own operate transfer (BOOT) project bagged by JMC and is expected to be operational in the next 36 months. The project has been won along with SREI Infrastructure as a consortium partner. The total project cost will be in the range of Rs.1,000 crore. The project will be executed on a design, build, finance, operate and transfer (toll) basis with a concession period of 27 years, including the construction period.

Diversifying into newer areas

In the last few years JMC has started focusing on infrastructure and power projects. It now undertakes several projects to construct bridges & flyovers, roads & highways, railways stations, marine work, water supply & irrigation projects and construction of power plants. It is aggressively bidding for government contracts and is even executing big road projects for NHAI. Because of its excellent track record, technological & execution capabilities and strong backing by the parent company, Kalpataru Power Transmission Limited, JMC has been successful in getting some major orders from prestigious clients.

Power projects account for 24% of the order book. The order book is a tad more than twice the revenues clocked in 2008-09, and with an execution period of 24 to 30 months, provide medium-term earnings visibility. In its bid to increase focus on infrastructure, JMC, in consortium with SREI Infrastructure, has won a road construction contract from NHAI on a build-

own- operate basis. With a cost of Rs 1,000 crore and an execution period of 36 months, the project is located in Haryana.

Valuation

JMC more than doubled its revenues between FY07 and FY09. Even in FY9, the company reported net profit growth of 20%. On the margins front, operating margins for FY09 stood at 8%. But as a result of high depreciation and interest costs, margins slipped to 3% at the net level. Increase in investments in plant and machinery, and higher rates charged on some machinery accounted for the spike in depreciation costs. Such investments would however ensure timely availability of equipment. Interest costs doubled in 2008-09 over the previous year, following an increase in debt.

Having recorded impressive revenue growth in 2008-09, JMC suffered a delayed effect of the slowdown. With order inflow slipping, the half-year period ending September 2009 saw a dip in sales by about 6%. This, coupled with higher interest and depreciation outgo, led to a 17% decrease in profits. Improvement came about in the December 2009 quarter, which saw a 9% increase in sales and a 43% increase in profits on the backs of sustained reduction in interest costs. With a higher interest rate cycle in the offing, increase in interest costs is quite likely. This remains a key risk. The debt-equity ratio is relatively high at 0.8x. Interest and debt, therefore, remain key monitorables. However, interest cover at 4x is rather comfortable. As a percentage of sales too, interest costs account for a relatively low proportion of 2%.

We value the stock on a relative valuation method. We expect the company to report an EPS of Rs.26 for FY11. Combining this with a target P/E ratio of 10x, gives us a target price of Rs.260.

FY 11 ESTIMATES

Revenues (Rs. cr)	16,180.00
PAT (Rs. cr)	565.00
EPS (Rs/Share)	26.00
ROCE (%)	14.80

Source: Company, JVCS

Disclaimer Appendix

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Risk Profile

Low Risk: Fundamentally sound companies, with low beta. Expected market out-performance is 0-10%

Medium Risk: Expected market out-performance is 10 - 20%. Preferably for the Investors with a maximum time frame of 12 months.

High Risk: High Beta Stocks, expected market out-performance is more than 20%, Preferably for the investors willing to take advantage of market momentum and are aggressive in nature.