

RETAIL EQUITY RESEARCH

JNK India Ltd.

Capital Goods

SENSEX: 73,649

NIFTY: 22,336

SUBSCRIBE

Price Range Rs.395- Rs.415

A Niche Player in the Heating Equipment Segment.....

JNK India Ltd. (JIL) specializes in manufacturing heating equipment for various process industries such as oil & gas refineries, petrochemicals, and fertilizers. Incorporated in 2010, the company is one of the well-recognized heater companies in India, having a market share of approximately 27% in the segment, in terms of new order booking as of FY23. The company has successfully executed projects in India, Mexico, and Nigeria, with ongoing ventures across various Indian states and overseas locations. JIL's key clientele includes organizations such as Indian Oil Corporation, Tata Projects, and Rashtirya Chemicals & Fertilisers. As of December 31, 2023, the company has provided services to 21 customers in India and 8 customers abroad.

- The projected demand for heating equipment from Indian refineries, petrochemicals, and fertilizer sectors between FY24 and FY29 is estimated at ₹27,089cr, averaging approximately ₹4,500cr annually, signalling favourable prospects for the company.
- JNK India collaborates closely with its corporate promoter, JNK Global, a KOSDAQ-listed entity with a 25.8% share.
- Between FY21 and FY23, the company achieved a 72% CAGR in revenue, reaching ₹407cr, and a 68% CAGR in PAT, totalling ₹46cr. It also maintained an average EBITDA Margin of 18% and a PAT Margin of 12% during this period.
- The company boasts a return on equity (RoE) and return on capital employed (RoCE) of 38% and 39%, respectively, for FY23.
- By December 2023, JIL held an order book of about ₹845cr, with 86% of orders from India and 14% from overseas, leading to a robust order book/sales ratio of 2.5x annually, highlighting strong revenue visibility.
- The company seeks to expand its reach into additional product segments while solidifying its position in designated markets. JIL is focused on expanding its clientele in pivotal global regions such as Europe and is actively developing renewable energy capabilities, including on-site hydrogen generation, hydrogen refuelling infrastructure, and solar photovoltaic systems.
- At the upper price band of ₹415, JIL is available at a P/E of 37x (FY24 EPS annualized), which appears to be reasonably priced compared to peers. With India's thriving oil & gas and hydrogen industries, coupled with the company's strong financial track record, impressive clientele, and ambitious expansion plans, it's poised for substantial growth. We assign a "Subscribe" rating on a long term basis.

Purpose of IPO

The offering includes both a fresh issue of ₹300cr and an Offer-for-Sale (OFS) component of up to 84.21 lakh equity shares valued at Rs.349cr. Out of the Net Proceeds, the company plans to allocate ₹262.7cr to support its working capital needs for business operations in FY24, FY25, and FY26.

Key Risks

- The company's heavy reliance on JNK Global (54% of FY23 revenues) may pose financial risks without new projects. Yet, this dependence has dropped to 27% in 9MFY24.
- Capex downturns in the oil, gas, petrochemicals, or fertilizer sectors could heavily impact revenue, cash flows, and financial stability.

Peer Valuation

Company	MCap(₹ cr)	Sales (₹ cr)	EBITDA(%)	PAT (%)	EPS(₹)	RoE (%)	Mcap/Sales (x)	P/E(x)	EV/EBITDA(x)	P/BV(x)	CMP
JNK India	2,308	407	17.0	11.4	8.3	37.9	5.7	49.8	34.0	18.9	415
BHEL	89,506	22,136	3.2	2.2	1.3	1.8	4.0	195.9	32.4	3.3	255
Thermax	56,714	8,040	7.5	5.6	37.4	12.2	7.1	128.5	42.1	14.8	4,812

Source: Geojit Research, Bloomberg; Valuations of JIL are based on upper end of the price band (post issue), Financials as per FY23 consolidated.

Issue Details	
Date of opening	April 23, 2024
Date of closing	April 25, 2024
Total No. of shares offered (cr.)	1.56
Post Issue No. of shares (cr)	5.6
Price Band	₹395- ₹415
Face Value	₹2
Bid Lot	36 Shares
Minimum application for retail (upper price band for 1 lot)	₹ 14,940
Maximum application for retail (upper price band for 13 lot)	₹ 1,94,220
Listing	BSE,NSE
Lead Managers	ICICI Securities Ltd , IIFL Securities Ltd

Registrar Link Intime India Pvt. Ltd

Issue size (upper price)	Rs.cr
Fresh Issue	300.0
OFS	349.0
Total Issue	649.0

Shareholding (%)	Pre-Issue	Post Issue
Promoter & Promo. Group.	94.6	67.9
Public & Others	5.4	33.1
Total	100.0	100.0

Issue structure	Allocation (%)	Size Rs.cr
Retail	35	227.3
Non-Institutional	15	97.4
QIB	50	324.7
	-	
Total	100	649

Y.E March (Rs cr) Consol.	FY22	FY23	9MFY24
Sales	296.4	407.3	253.4
Growth (%)	115.2	37.4	-
EBITDA	53.8	69.3	66.9
Margin(%)	18.2	17.0	26.4
PAT Adj.	36.0	46.4	46.2
Growth (%)	118.5	28.8	-
EPS	6.5	8.3	8.3
P/E(x)	64.1	49.8	37*
EV/EBITDA (x)	43.2	34.0	26.6*
RoE (%)	49.9	37.9	27.4

*Annualised

Business Description

The company has developed a wide range of products to meet the evolving requirements of its customers. It offers a wide range of products primarily categorised under two segments – (a) Heating Equipment and (b) Flares, incinerators and others.

Heating Equipment

- ◆ **Process fired heaters:** A process fired heater is a type of industrial heater used to heat fluids or gases directly by burning a fuel source such as natural gas or propane. In a process fired heater, the fuel is burned in a combustion chamber, and the heat is transferred to the fluid or gas being heated through direct contact.
- ◆ **Reformers:** Reformers are devices used to convert hydrocarbons, such as natural gas or naphtha, into synthesis gas or syngas, which is a mixture of hydrogen and carbon monoxide.
- ◆ **Cracking furnaces:** Cracking furnaces are used to break down large hydrocarbon molecules into smaller ones, which can then be used to produce a variety of products, including fuels, chemicals, and plastics.

Flares, incinerators and others

- ◆ **Flares:** Flare system is a gas combustion device used in industrial plants such as petroleum refineries, chemical plants, natural gas processing plants, at oil or gas production sites with oil wells, gas wells, offshore oil and gas rigs, and landfills.
- ◆ **Incinerators systems:** All Sulphur recovery units (SRUs) have thermal incinerators to treat the tail gas effluent from the SRUs prior to emitting the waste gas to the atmosphere.
- ◆ **Others-- renewables energy systems:** Under renewables energy systems the company offers components of hydrogen supply chain, through HRS and Solar PVEPC.
- **Hydrogen Supply Chain** is a station to refill hydrogen. Hydrogen fuel cell vehicles can be refuelled quickly at a refuelling station – just like a petrol or diesel vehicle.
- **Solar PV-EPC** refers to design, procurement, and construction of solar power plants. EPC companies are responsible for the end-to-end execution of solar projects. The company has the capability to offer customized Solar PV systems with capabilities above 100KW.

Key strengths

- **Established track record with a diverse customer base**

JNK commenced operations in 2010 and has a successful project completion track record of 10+ years. The company has successfully completed projects including domestic projects at Numaligarh, Assam; Kochi, Kerala; Barauni, Bihar and overseas projects at Lagos, Nigeria. Moreover, the company has been awarded incentives by its customers for early completion of projects in India and overseas. As of December 31, 2023, the company have served 21 Customers in India and 8 Customer overseas. Further, 7 out of the 12 oil refining companies in India, are JNK's Customers and the company has supplied or are in the process of supplying Heating Equipment to 11 of the 24 operating oil refineries across India.

- **Well-positioned to capture industry tailwinds through its demonstrated capabilities over time.**

The Heating Equipment account for 3.3% of the total capital expenditure of a refinery project, hence, demand for Heating Equipment from the refineries in between CY2023 - 2028 would be ₹ 49,045 Cr which is approximately ₹ 8,175 Cr on annualized basis. The company plans to leverage its knowledge of the industry, and engineering capabilities, and through its extensive experience, established product portfolio and proven track record, the company believes it is well positioned to capitalise on the upcoming demand of Heating Equipment.

- **Diversifying product portfolio to cater to varied industries.**

The company has recently diversified into waste gas handling systems which includes flares and incinerators systems. A Flare system is a gas combustion device, used for the safe disposal of gaseous wastes. Similarly, the company has started with renewable energy systems in Fiscal 2022. The company is building capabilities in renewable sector with onsite hydrogen production and Solar PV-EPC, and in doing so the company plans to leverage the technical know-how of JNK Global to capitalize on future growth opportunities in renewable energy systems in India.

- **Demonstrated financial performance with a robust Order Book reflecting revenue visibility for last three Fiscals**

The company's revenue from operations, EBITDA and profit after tax had grown at a CAGR of 71.97%, 68.09% and 67.75%, respectively, for Fiscals 2021 – 2023, demonstrating growth in the financial performance in recent years. Further, the company's Order Book to sales ratio has doubled from 1.04 times for Fiscal 2021 to 2.13 times for Fiscal 2023. The company's Order Book value was ₹ 845.03 Cr on December 31, 2023, out of which ₹ 729.20 Cr or 86.29% was from the Indian market and ₹ 115.83 Cr or 13.71% was from the overseas market. With a robust Order Book amounting to ₹ 845.03 Cr as of December 31, 2023, which represents 2.50 times of the revenue from operations for December 31, 2023.



Key strategies

- **Geographical expansion with focus on high growth markets to capitalise on the industry tailwinds**

As of December 31, 2023, the company had served 21 Customers in India and 8 Customers overseas. The company intends on accelerating and expanding to new geographies such as expanding to European countries and opening sales offices in the Middle East and Africa. Further, in this pursuit, the company has a Co-operation Agreement with JNK Global, which governs its relationship in relation to, amongst others, marketing, and geography of operations. For certain projects the company will partner with JNK Global as a global joint engineering and implementation partner.

- **Enhance the diversified offerings including renewables**

The company have recently also diversified into waste gas handling systems which includes flares and incinerators systems. The company designs, engineers, installs and services flares and incinerators systems. The company's order book for flares, incinerators and others as of December 31, 2023, was of ₹ 13.27 Cr. The Company is in process of licensing or acquiring companies in this segment to capture the growing global demand.

Further, through its subsidiary JNK Renewable Energy Pvt. Ltd the company is working on building capabilities in renewable sector with green hydrogen as well. Presently, the company supplies grey hydrogen through onsite and offsite production and storage systems and further propose to foray into engineering solution for hydrogen or green energy industry. As of December 31, 2023, the company has installed 1 hydrogen refuelling station, at Indian Oil R&D Centre, Faridabad, Haryana. The company plans to leverage the technical know-how of JNK Global to capitalize on future growth opportunities in the hydrogen refuelling station systems ("HRS") in India. Apart from HRS, the company also plans on expanding into Solar PV-EPC market. The company has the capability to offer customized Solar PV systems of capabilities above 100KW. The company completed its 1st order in Fiscal 2023 generating a revenue of ₹ 1.96 Cr and is in discussions with multiple prospective customers for systems cumulating to over 16 MW.

- **Pursue strategic investment, partnerships and acquisition opportunities and integrate them with business operations**

The company may further expand its operations overseas. The company's acquisition strategy will primarily focus on strengthening the flares and incinerators systems segment and providing access to newer technologies industries and geographies. The company plans to expand its customer network in some of the overseas markets including Europe to capitalise on the untapped opportunities. The company plans to pursue inorganic growth opportunities in relatively larger markets such as Italy, Middle East and Africa. Further, the Company is also evaluating tie-ups / arrangements with players having technology know-how in areas such as flares and incinerators systems and electrolyser technology for hydrogen generation.

Industry outlook

India is the third largest oil consumer in the world and the oil demand is expected to reach 11 million barrels per day by calendar year 2045. Demand for Heating Equipment from Indian refineries, petrochemicals and fertilizer (urea) segments between Fiscals 2024 and 2029 is estimated at ₹ 270,890 million i.e., approximately ₹ 45,000 million on an annualized basis. Further, 61%, 37% and 2% of this demand would come from petrochemicals, refineries and fertilizers (urea), respectively. Furthermore, 46%, 24%, 16% and 14% of this demand would come from cracking furnaces, low capital expenditure heaters, high capital expenditure heaters and reformers, respectively (Source: F&S Report).

Promoter and promoter group

Mascot Capital and Marketing Pvt Ltd, JNK Heaters Co Ltd, Arvind Kamath, Goutam Rampelli, and Dipak Kacharulal Bharuka are the promoters of the company. The promoters currently hold a pre-issue shareholding stake of 94.56 per cent in the company.

Brief Biographies of directors

- **Arvind Kamath** is the Promoter and the Chairperson & Whole Time Director of the company. He has been associated with the Company since August 16, 2010. He was previously associated with Sulzer Pumps India Pvt. Ltd, Chetra Seals Pvt. Ltd, Mascot Flowtech Pvt. Ltd and Mascot Global Pvt. Ltd.
- **Goutam Rampelli** is the Promoter and the Whole Time Director of the Company. He has been associated with the company since August 31, 2015. He was previously associated with Larsen and Toubro Ltd and L&T Hydrocarbon Engineering Ltd.
- **Dipak Kacharulal Bharuka** is the Promoter, Whole Time Director & Chief Executive Officer of the company. He has been associated with the company since March 14, 2011. He is also associated as a designated partner in NIAA Ventures LLP. He was previously associated with Larsen and Toubro Ltd.
- **Bang Hee Kim** is the Non-Executive Director of the Company. He has been associated with the company since August 16, 2010. He is also a member of Gas Safety Technology Deliberation Committee in Korea Gas Safety Corporation.
- **Balraj Kishor Namdeo** is an Independent Director of the Company. He has been associated with the company since June 3, 2023. He has experience in the oil and gas industry and the petrochemical industry, and was previously associated with HPCL and Ratnagiri Refinery and Petrochemicals Ltd.
- **Sudha Bhushan** is an Independent Director of the Company. She has been associated with the Company since June 3, 2023.
- **Raman Govind Rajan** is an Independent Director of the Company. He has been associated with the Company since June 3, 2023.
- **Mohammad Habibulla** is an Independent Director of the Company. He has been associated with the Company since July 19, 2023. He is currently the director of engineering with NPCC Engineering Pvt. Ltd and was previously associated with L&T - Chiyoda Ltd, Larsen and Toubro Ltd and L&T Hydrocarbon Engineering Ltd.
- **Pravin Vyankatesh Sathe** is the Chief Financial Officer of the Company. He has been associated with the Company since March 20, 2023. He was previously associated with Sankalpan Infrastructure Private Limited and AT&F India Fabrication Pvt. Ltd.
- **Ashish Soni** is the Company Secretary and Compliance Officer of the Company. He has been associated with the company since February 1, 2023.



CONSOLIDATED FINANCIALS

PROFIT & LOSS

Y.E March (Rs cr)	FY22	FY23	9MFY24
Sales	296.4	407.3	253.4
% change	115.2	37.4	-
EBITDA	53.8	69.3	66.9
% change	113	29	-
Depreciation	3.0	6.6	4.0
EBIT	50.9	62.7	62.8
Interest	3.8	4.2	5.5
Other Income	0.7	4.2	3.4
Exceptional items	-	-	-
PBT	47.8	62.7	60.7
% change	110	31.1	-
Tax	11.8	16.3	14.5
Tax Rate (%)	25	26	24
Reported PAT	36.0	46.4	46.2
Adj	-	-	-
Adj. PAT	36.0	46.4	46.2
% change	118	29	-
Post issue No. of shares (cr)	5.6	5.6	5.6
Adj EPS (Rs)	6.5	8.3	8.3
% change	118	29	-

BALANCE SHEET

Y.E March (Rs cr)	FY22	FY23	9MFY24
Cash	25.7	47.2	36.6
Accounts Receivable	110	114.4	136.2
Inventories	62.4	82.1	107.2
Other Cur. Assets	25.1	49.6	74.7
Investments	24.0	21.1	69.3
Deff. Tax Assets	0.8	2.5	2.2
Net Fixed Assets	19.7	20.4	23.8
CWIP	-	-	1.4
Intangible Assets	0.4	0.4	0.3
Other Assets	0.2	0.3	1.7
Total Assets	268	338	453
Current Liabilities	153	124.2	166.6
Provisions	6.4	25.2	20.2
Debt Funds	15.0	44.1	68.0
Other Fin. Liabilities	18.6	15.9	16.8
Deferred Tax liability	3.2	6.2	13.3
Equity Capital	9.6	9.6	9.7
Reserves & Surplus	62.6	112.6	158.9
Shareholder's Fund	72.2	122.2	168.6
Total Liabilities	268	338	453
BVPS (Rs)	13.0	22.0	30.3

CASH FLOW

Y.E March (Rs cr)	FY22	FY23	9MFY24
PBT Adj.	47.8	62.7	60.7
Non-operating & non cash adj.	8.0	13.0	9.0
Changes in W.C	-17	-83	-79
C.F.Operating	38.8	-7.3	-9.3
Capital expenditure	-20.0	-7.0	-9.0
Change in investment	6.0	-29.0	3.0
Sale of investment	-11.0	11.0	-
Other invest.CF	-	-	-
C.F - investing	-25.0	-25.0	-6.0
Issue of equity	-	-	0
Issue/repay debt	1.1	26.6	20.0
Dividends paid	-0.6	-1.4	-1
Other finance.CF	-	-	-
C.F - Financing	0.5	25.1	18.7
Change. in cash	14.4	-7.2	3.4
Opening Cash	8.0	22.5	15.4
Closing cash	22.4	15.3	18.8

RATIOS

Y.E March	FY22	FY23	9MFY24
Profitab. & Return			
EBITDA margin (%)	18.2	17.0	26.4
EBIT margin (%)	17.2	15.4	24.8
Net profit mgn.(%)	12.1	11.4	18.2
ROE (%)	49.9	37.9	27.4
ROCE (%)	57.2	39.1	42.6
W.C & Liquidity			
Receivables (days)	101	101	74
Inventory (days)	75	105	68
Payables (days)	56	36	66
Current ratio (x)	1.6	2.1	2.3
Quick ratio (x)	0.9	1.3	1.0
Turnover & Levq.			
Net asset T.O (x)	25.7	20.4	10.7
Total asset T.O (x)	1.5	1.3	1.1
Int. covge. ratio (x)	13.5	14.9	11.4
Adj. debt/equity (x)	0.2	0.4	0.4
Valuation ratios			
EV/Sales (x)	7.8	5.8	9.4
EV/EBITDA (x)	43.2	34.0	26.6*
P/E (x)	64.1	49.8	37*
P/BV (x)	32.0	18.9	13.7

*Annualised

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