

Recommendation	Subscribe
Price Band	Rs. 395-415
Bidding Date	23 – 25 April
Book Running Lead Manager	IIFL Securities Limited, ICICI Securities Limited.
Registrar	Link Intime
Sector	Cap. Goods

Minimum Retail Application- Detail At Cut off Price		
Number of Shares	36	
Minimum Application Money	14,940	
Payment Mode	ASBA	
Consolidated Financials (Rs Cr)	FY22	FY23
Total Income	296	407
EBITDA	54	69
PAT	36	46

Valuations (H1FY24 Ann.)	Upper Band
Market Cap (Rs Cr)	2308
Adj EPS	8.3
PE	49.8
EV/ EBITDA	32.1
Enterprise Value (Rs Cr)	2223

Post Issue Shareholding Pattern	
Promoters	68.0%
Public	32.0%

Offer structure for different categories	
QIB (Including Mutual Fund)	50%
Non-Institutional	15%
Retail	35%
Post Issue Equity (Rs Cr)	11.12
Issue Size (Rs Cr)	649
Face Value (Rs)	2

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BACKGROUND

JNK (JNK India) manufactures Heating Equipment (process fired heaters, reformers and cracking furnaces) that is required in process industries such as oil and gas refineries, petrochemicals and fertilizers. Over the years, JNK has diversified into flares and incinerator systems and has been developing capabilities in the renewable sector with green hydrogen.

Objects and Details of the Issue:

Total issue size is Rs. 649 Cr comprising of Rs. 300 Cr from Fresh Issue and Rs. 349 Cr from Offer For Sale. Net Proceeds from the Fresh Issue shall be utilized towards funding working capital requirements.

Investment Rationale:

- High entry barriers in the process fired heaters market
- Support from JNK Global aids JNK India
- Well-positioned to capture industry tailwinds through its demonstrated capabilities over time
- Diversifying product portfolio to cater to varied industries
- Healthy order booking and robust ROCE

Valuation and Recommendation:-

JNK is well placed to capitalize on the Global as well as Indian capex unfolding in the oil and gas, petrochemicals and fertilizer industries. With the heating equipment industry having limited players due to high entry barriers, JNK has been able to command strong EBITDA margins of 17% and generate ROCE of 40% in FY23. JNK has delivered growth and return ratios which are superior to comparable companies while its valuation is at the lower end of the range. Based on favourable industry structure with limited competition and strong pipeline of orders, we are positive on JNK and recommend to Subscribe to the IPO.

Financials (Rs Cr)	FY21	FY22	FY23	H1FY24 Ann.
Net Revenues	138	296	407	388
Growth	-	115%	37%	-17%
EBIDTA	25	54	69	89
EBITDA Margins	18%	18%	17%	26%
PAT	16	36	46	62
Diluted EPS	3	6	8	11
ROCE	50%	59%	40%	37%
EV/Sales	16	7	5	7
EV/EBITDA	88	41	32	25
P/E	140	64	50	37

Source: NBRR

Company Background

JNK commenced operations in 2010 and manufactures Heating Equipment (process fired heaters, reformers and cracking furnaces) that is required in process industries such as oil and gas refineries, petrochemicals, fertilizers, hydrogen and methanol plants. Over the years, JNK has diversified into flares and incinerator systems and has been developing capabilities in the renewable sector with green hydrogen.

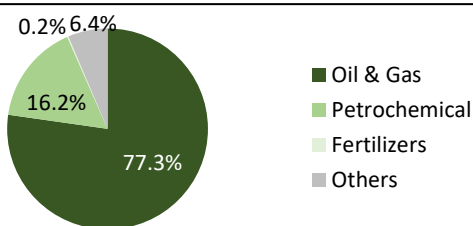
Heating Equipment constitutes of three parts –

- 1) Process fired heater is used to heat fluids or gases directly by burning natural gas or propane.
- 2) 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.
- 3) 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. Cracking (breaking down of hydrocarbons) typically involves heating the hydrocarbon feedstock in the presence of a catalyst.

As of December 31, 2023, JNK has served 21 customers in India and 8 customers overseas. Further, 7 out of the 12 oil refining companies in India, are its customers. Some of its domestic customers include Indian Oil Corporation Limited, Tata Projects Limited, Rashtriya Chemicals & Fertilizers Limited and Numaligarh Refinery Limited. Further JNK has catered to overseas customers such as a leading EPC company in Europe, a leading oil & gas exploration & production company in Oman and a middle east arm of European EPC company in oil and gas.

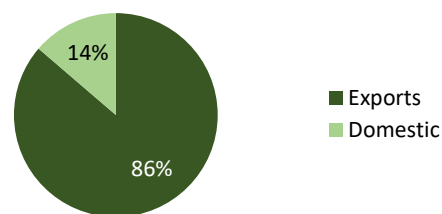
JNK has built a diverse customer base with over more than a decade of presence in the Heating Equipment industry. Due to JNK’s long-standing experience with its customers and its capability to provide customized solutions with a proven track record in product development and execution catering to the diverse needs of its customer base, it gives JNK a competitive advantage, since there are very few competitors with similar capabilities.

Revenue mix by industry (FY23)



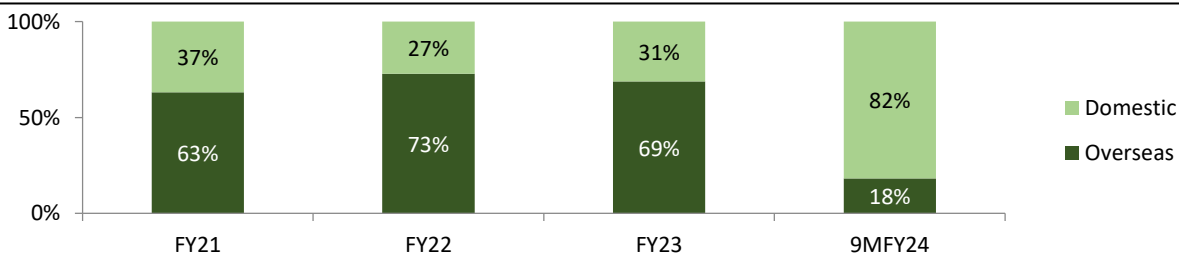
Source: Company, NBRR

Order book mix by geography (as on Dec 2023)



Source: Company, NBRR

Revenue mix by geography



Source: Company, NBRR

Investment Rationale

High entry barriers in the process fired heaters market

The process fired heaters market has high barriers to entry and there are only a handful of suppliers, despite surge in demand. The process fired heaters market has high entry barriers as the engineering of industrial process fired heaters requires a complex understanding of various oil products. If the operation of a process fired heater is interrupted even for one day, users could incur significant losses, which is why suppliers undergo a thorough selection process. Since energy efficiency is one of the key aspects of any refinery, petrochemical and fertilizers plant and is determined by the efficiency of the process fired heaters, the process fired heaters become a critical aspect for customers and hence selection of suppliers for process fired heater requires strong credentials and references. Besides, there are certain regulatory standards to be mandatorily adhered to in the industry. Therefore, there are limited suppliers of this critical equipment. Customers from the oil and gas, petrochemical and fertilizers industries typically follow extremely stringent selection criteria for supplies of such Heating Equipment.

Support from JNK Global aids JNK India

Since inception, JNK(India) has been working closely with JNK Global (one of JNK's promoters). JNK Global (CY23 revenue of USD 120 Mn) is involved in the design, manufacturing, installation of process fired heaters since early 1980s. **JNK Global is the only industrial-use process fired heater producer in Korea and is ranked amongst the top three industrial use process fired heater producers globally.** Rise in global oil and gas refinery and petrochemical capacities are the key factors driving the growth in the global process fired heaters market. JNK India is able to leverage JNK Global's global position, to bid for larger projects in collaboration with JNK Global. 54% of JNK's FY23 revenue accrued from sub-contracting work provided by JNK Global. JNK is gradually reducing its dependence on JNK Global. Its order book in relation to JNK Global has reduced from 77% of total in FY22 to 18% in FY23.

Well-positioned to capture industry tailwinds through demonstrated capabilities

Growing demand for transportation fuels and petrochemical feedstock are the primary growth enablers of the Indian refinery industry. There are 18 refinery projects expected to be commissioned by FY31 with a cumulative capacity of 124.0 MMTPA. Driven by increased domestic consumption and global demand, the Indian petrochemical sector has invested in capacity additions to benefit from the market opportunities. There are 15 petrochemical projects expected to be commissioned by FY31 with a cumulative capacity of 23.0 MMTPA. Similarly, given that urea is the major fertilizer used in India and accounts for about 60% of the total fertilizer consumption in India. Local production of urea is not able to meet the domestic demand and about 30% of the demand is met through imports. India is planning capacity additions in the segment to reduce its import dependency and has a target to become self-reliant by CY25. There are about four urea projects expected to be commissioned by FY26. Thus, the **overall demand for Heating Equipment from Indian refineries, petrochemicals and fertilizer (urea) segments between FY24-29 is estimated at Rs. 27,089 Cr i.e., approximately Rs. 4,500 Cr on annualized basis.** Of this, 61% of this demand would come from petrochemicals followed by 37% from refineries and 2% from fertilizers (urea). Further, 46% of this demand would come from cracking furnaces followed by 24% from low capex process fired heaters, 16% from high capex process fired heaters, and 14% from reformers. This potential is based on the projects announced till date and may go up if more projects are commissioned during the forecast period.

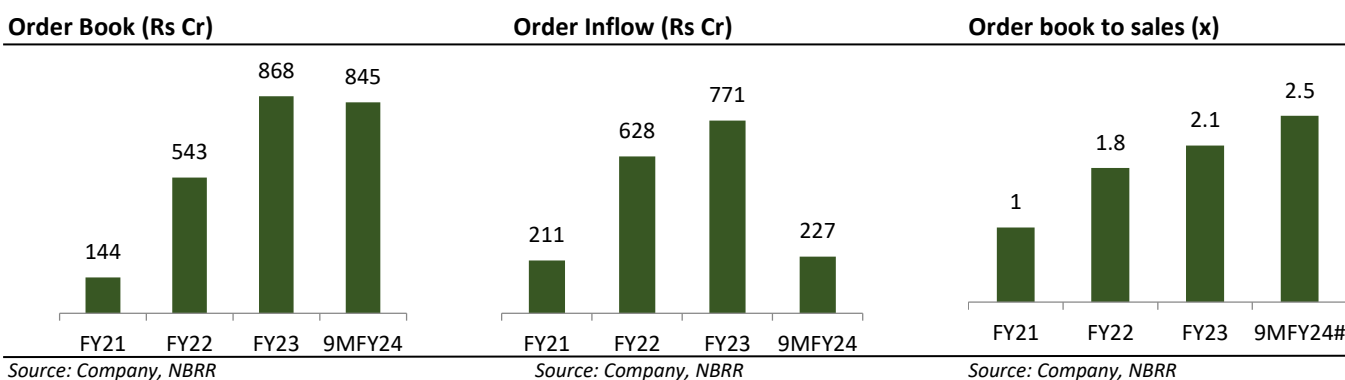
Diversifying product portfolio to cater to varied industries

JNK has recently diversified into waste gas handling systems which includes flares and incinerators systems as well. 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. Flare systems provide for the safe disposal of gaseous wastes. Flaring of gasses is intermittent in nature and is required whenever there is excess pressure in the system. While flaring systems are used across the segments of interest i.e., refinery, petrochemical and fertilizer plants, incinerators are primarily used in the refinery in the SRU for tail gas incineration. **Globally, the demand for waste gas handling systems which includes flares and incinerators, from the refineries in the countries of interest between CY23-28 would be Rs. 6,453 Cr which is approximately Rs. 1,075 Cr on an annualized basis.** This potential is based on the projects announced till date and may go up if more projects are announced in the coming years. Further, **overall demand for waste gas handling system from Indian refineries, petrochemicals and fertilizer (urea) segments between FY24-29 is estimated at Rs. 2,154 Cr which is approximately Rs. 360 Cr on annualized basis.**

Similarly, JNK started with renewable energy systems in FY22. India’s installed cumulative solar energy capacity stood at approximately 66.8 GW at the end of FY22, representing 53% of the overall installed renewable energy capacity of 125.2 GW in the country. India is targeting an ambitious 500 GW of installed renewable energy capacity by CY30 of which about 300 GW (over 60%) is expected from solar. **JNK is building capabilities in renewable sector with onsite hydrogen production and Solar PV-EPC, in doing so it will also leverage the technical know-how of JNK Global to capitalize on future growth opportunities in renewable energy systems in India.**

Healthy order booking and robust ROCE

JNK’s order book has increased almost 6x within last three years from Rs. 144 Cr in FY21 to Rs. 845 Cr in 9MFY24. The order book to sales ratio stands at a robust 2.5x upon annualising 9MFY24 sales. JNK’s successful efforts to meet the rising prequalification requirements of some of its customers has enhanced its competitiveness and has enabled it to maintain the momentum in its order book.



Concerns

Dependence on JNK Global, company's corporate promoter

54% of JNK's FY23 revenue accrued from sub-contracting work provided by JNK Global. Both companies have signed co-operation agreement whereby both shall exclusively market the products and execute the contracts in India and South Korea, respectively, and for markets, other than India and South Korea, the participation in bids and tender process would be based on technical and commercial eligibilities. The Cooperation Agreement also contemplates a situation where JNK needs to consult JNK Global prior to participation in bids. JNK is required to pay a fee of three percent of the revenue of a project, or lesser as may be mutually agreed to JNK Global as an engineering and support partner in case of projects being implemented in markets across the world.

Dependence on Oil & Gas industry

77% of JNK's FY23 revenue accrued from the Oil & Gas industry. A steep decline in crude oil and gas prices could result in a slowdown in capital expansion plans by oil refineries which could impact JNK's growth prospects.

Valuation and Recommendation

JNK is well placed to capitalize on the Global as well as Indian capex unfolding in the oil and gas, petrochemicals and fertilizer industries. With the heating equipment industry having limited players due to high entry barriers, JNK has been able to command strong EBITDA margins of 17% and generate ROCE of 40% in FY23.

Although Thermax and BHEL manufacture heating equipment, they are far more diversified players with interests in other products as well. Thus there is no direct comparable peer for JNK. We include Anup Engineering for comparison sake as the company has similar margin profile and caters to the same user industries. We also include Elecon Engineering as it has a high margin profile along with high market share and limited competition in its respective sphere.

We observe that JNK has delivered growth and return ratios which are superior to comparable companies while its valuation is at the lower end of the range. Based on favorable industry structure with limited competition and strong pipeline of orders, we are positive on JNK and thus we recommend to Subscribe to the IPO.

Listed Comparable Companies

FY23 Figures (Standalone)	Cos. With Overlapping Products		High Margin Cos. in Cap Goods		Avg	JNK
	Thermax	BHEL	Anup	Elecon		
Revenue	8,090	23,365	411	1,530	8349	407
CAGR (FY21-FY23)	30%	16%	21%	21%	22%	72%
EBITDA Margin	7.4%	3.5%	20.4%	22.3%	13.4%	17.0%
Asset Turns (x)	1.0	0.4	0.7	0.9	0.8	2.5
ROCE	15%	3%	18%	25%	15%	40%
EV/EBITDA	94.2	113.8	39.2	33.9	70.3	32.1
P/E 9MFY24 Ann.	92.5	Loss	40.5	37.2	56.8	37.5

Source: NBRR

Financials

P&L (Rs. Cr)	FY21	FY22	FY23	9MFY24	FY24 A nn
Net Revenue	138	296	407	253	338
% Growth	-	115%	37%		-17%
Raw Materials	53	163	250	142	190
% of Revenues	38.8%	55.2%	61.4%	56.1%	56.1%
Employee Cost	33	41	53	26	34
% of Revenues	23.7%	14.0%	13.1%	10.1%	10.1%
Other expenses	26	38	35	19	25
% of Revenues	19.2%	12.7%	8.5%	7.4%	7.4%
EBITDA	25	54	69	67	89
EBITDA Margin	18.4%	18.2%	17.0%	26.4%	26.4%
Depreciation	2	3	7	4	5
Other Income	1	1	4	3	4
Interest	1	4	4	6	7
Exceptional item					
PBT	23	48	63	61	81
Tax	6	12	16	14	19
Tax rate	27.8%	24.8%	26.1%	23.9%	23.9%
Adj PAT	16	36	46	46	62
% Growth	-	118%	29%	0%	33%
Margin	12.0%	12.1%	11.4%	18.2%	18.2%
PATEST					
EPS (Post Issue)	3.0	6.5	8.3	8.3	11.1

Ratios & Others	FY21	FY22	FY23	9MFY24	FY24 A nn
EBITDA Margin (%)	18.4%	18.2%	17.0%	26.4%	26.4%
PAT Margin (%)	12.0%	12.1%	11.4%	18.2%	18.2%
ROE (%)	45%	50%	38%	-	37%
ROCE (%)	50%	59%	40%	-	37%

Turnover Ratios	FY21	FY22	FY23	9MFY24	FY24 A nn
Debtors Days	143	135	102		
Inventory Days	14	77	74		
Creditor Days	66	56	36		
W.Cap Days	91	157	140		
Asset Turnover (x)	2.8	3.4	2.5		

Valuation Ratios	FY21	FY22	FY23	9MFY24	FY24 A nn
Price/Earnings (x)	140.1	64.1	49.8		37.5
EV/EBITDA (x)	87.9	41.3	32.1		24.9
EV/Sales (x)	16.1	7.5	5.5		6.6
Price/BV (x)	62.7	32.0	18.9		13.7

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY21	FY22	FY23	9MFY24
Share Capital	0.6	9.6	9.6	9.7
Reserve & Surplus	36	63	113	159
Networth	37	72	122	169
Total Loans	12	15	44	68
Deferred tax liability	0.20	-	-	-
Other Non current Liab	2.89	2	17	4
Trade payable	25	45	40	61
Other Current Liab	49	134	114	151
Total Current Liab.	74	180	154	212
Total Equity & Liab.	125	268	338	453
Gross Block	7	26	32	38
Depreciation	3	6	11	14
Net Block	3	20	20	24
Intangible Assets & CWIP	0	0	0	2
Investments	-	11	-	-
Other Curr. assets	35	29	61	122
Other Non Curr. Assets	0.49	9	12	24
Inventories	5	62	82	107
Bank balance	19	3	32	18
Cash	8	23	15	19
Trade Receivable	54	110	114	136
Other Loans & Advances	0	1	0	2
Total Assets	125	268	338	453

Cash Flow (Rs. Cr)	FY21	FY22	FY23	9MFY24
PBT	23	48	63	61
Provisions & Others	6	8	13	9
Op. profit before WC	29	56	76	70
Change in WC	(13)	(5)	(68)	(71)
Less: Tax	(5)	(12)	(15)	(8)
CF from operations	11	39	(7)	(9)
Sale / (Purchase) of Propert	(4)	(31)	4	(9)
Interest on Deposits	0	1	1	2
Fixed Deposits placed	(13)	5	(29)	1
CF from Investing	(17)	(25)	(25)	(6)
Addition/(Repayment) of Lo	8	(3)	28	23
Finance Charges Incurred	(1)	(2)	(3)	(4)
Increase in Lease Liabilitie:	2	6	1	1
Dividend Paid	(1)	(1)	(1)	(1)
CF from Financing	8	1	25	19
Net Change in cash	3	15	(7)	3
Cash at beginning	5	8	23	15
Cash at end	8	23	15	19

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