JNK INDIA LIMITED

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Engineering Heat. Delivering Excellence.

JNK India Limited, founded in 2010, have capabilities & specializes in thermal designing, engineering, manufacturing, supplying, installing and commissioning process-fired heaters, reformers, and cracking furnaces, which are essential components in various industrial sectors including oil and gas refineries, petrochemical plants, and fertilizers. With a notable market share of approximately 27% in India's Heating Equipment market, the company competes closely with other major players in the industry. It has successfully executed projects across different states in India as well as internationally in countries like Nigeria and Mexico, establishing its presence in the global market.

The company has a diverse clientele, serving over 21 clients domestically and 8 overseas. Among its domestic clients are prominent names such as Indian Oil Corporation Limited, Tata Projects Limited, Rashtriya Chemicals & Fertilizers Limited, and Numaligarh Refinery Limited. Notably, JNK India Limited counts seven out of the 12 oil refining companies in India among its customers, indicating its strong foothold in the sector.Overseas,It serves 8 diversified customers including Leading EPC company in Europe, Leading Oil & Gas exploration & production company in Oman , Middle East arm of European EPC company in Oil and Gas. Installed its Process Fired Heaters for its customer in Lagos, Nigeria, where one of the biggest refineries in the world (Dangote Refinery) is operated, having a capacity of 32.7 MMTPA. In terms of revenue distribution for the fiscal year 2023, the majority of its revenue came from the oil and gas sector, followed by petrochemicals, with minor contributions from fertilizers and other sectors.

Aside from its core business, JNK India Limited is also venturing into the renewable energy sector, focusing on green hydrogen production, hydrogen fuel stations, and solar photovoltaic projects. Furthermore, the company has recently diversified its portfolio by entering the waste gas handling systems segment, encompassing the design, engineering, installation, and servicing of flares and incinerator systems. As part of its growth strategy, JNK India Limited is planning to raise funds through an Initial Public Offering (IPO), with a portion allocated for working capital requirements and general corporate purposes, reflecting its commitment to expansion and innovation.

Industry	Capital Goods

Issue Details	
Listing	BSE & NSE
Open Date	23rd April 2024
Close Date	25th April 2024
Price Band	INR 395 - 415
Face Value	INR 2
Lot Size	36 shares
Minimum Lot	1 Lot

Issue Structure	
Fresh Issue	46.19 %
OFS	53.81 %
Issue Size (Amt)	INR 649.47 cr
Issue Size (Shares)	16,015,988
QIB Share (%)	≤ 50%
Non-Inst Share (%)	≥ 15%
Retail Share (%)	≥ 35%
Pre issue sh (nos)	48,392,000
Post issue sh (nos)	55,986,936

Key Financial Data (INR Cr, unless specified)

	Revenue	EBITDA	PAT	EBITDA (%)	PAT (%)	Adj. EPS (Rs.)	Adj BVPS (Rs.)	RoE (%)	RoIC (%)	EV/EBITDA (X)	P/BV (X)	P/E (X)
FY21	137.7	25.3	16.5	18.4	12.0	10.3	23.0	44.8	126.4	25.5	18.0	40.3
FY22	296.4	53.6	35.9	18.2	12.1	22.5	45.1	49.9	122.8	11.8	9.2	18.5
FY23	407.3	70.2	46.4	17.0	11.4	29.0	76.4	37.9	57.6	9.4	5.4	14.3

Source: Ventura Research

Industry Analysis

India Macro-economic Overview
The Indian economy concluded FY22 on a positive note, surpassing many other major economies as the impact of the pandemic diminished. The government has been advocating structural reforms, as outlined in the FY22 budget, including disinvestment focus, higher FDI limits, and the development of a national logistics policy. These reforms are crucial for accelerating post-pandemic economic recovery, aligned with the budget's 'Saptarishi' objectives, encompassing inclusive development, infrastructure, investment, green growth, youth empowerment, and strengthening the financial sector.

In CY2019, the Indian government set a goal of achieving a USD 5 trillion economy and global powerhouse status by FY25. Due to the COVID pandemic, this timeline was adjusted by 18–24 months. However, achieving this target remains feasible with a GDP growth of 8 - 8.5%. The FY24 budget proposes a total capex outlay of INR 10 trillion, reflecting a 33% year-on-year increase and constituting 3.3% of the total GDP. Additionally, the budget emphasizes seven priorities, in line with the 'Saptarishi' vision, focusing on inclusive development, infrastructure enhancement, investment promotion, environmental sustainability, youth empowerment, and financial sector strengthening.

Key government policies and schemes driving manufacturing in India:
The Indian government is actively promoting domestic manufacturing through various policies and initiatives aimed at fostering overall development in the ecosystem and creating opportunities for companies, vendors, and distributors. These efforts include incentives for local manufacturing, support through government procurement, import duties, and the simplification of operations through measures like GST. Key initiatives driving the electronics industry in India include:

1. Atmanirbhar Bharat (Make in India initiative): Launched in 2014, this initiative aims to establish India as a global manufacturing hub by encouraging both domestic and international companies to set up manufacturing facilities in the country. Special funds have been allocated to boost local manufacturing, along with initiatives to promote foreign direct investment, protect intellectual property rights, and develop the manufacturing sector.

2. Atmanirbhar Bharat Abhiyaan (Self-reliant India campaign): Introduced in May 2020 in response to the COVID-19 pandemic, this campaign envisions a self-reliant India and includes a comprehensive economic package worth 10% of India's GDP. It focuses on sectors such as CAPEX and R&D, with the Make in India initiative being part of it. The goal is to reduce reliance on imports of low-technology products and stimulate demand for local manufacturing. The campaign is divided into two phases :

1.Targeting segments like medical, textiles, electronics, plastics, and toys
2. Focusing on products like gems and jewellery, pharmaceuticals, and steel.

Sectoral Analysis – Refinery:

In the past decade, India has experienced significant growth in its refining industry, achieving self-sufficiency in refining demand and emerging as a major exporter of refined petroleum products. With a current installed capacity of 251 million metric tons per annum (MMTPA), India ranks as the world's fourth-largest refining capacity holder, following the USA, China, and Russia. The installed capacity has seen a compound annual growth rate (CAGR) of 2.4% between FY11 and FY23.

In FY23, the capacity utilization reached approximately 96% of the installed capacity, with crude oil processing in Indian refineries witnessing a 6% increase from 241.7 MMT in FY22 to 255.2

MMT in FY23. The country hosts a total of 23 refineries, with 18 in the public sector, 2 in joint ventures, and 3 in the private sector. Projections indicate that oil demand in India will double, reaching 11 million barrels per day by CY2045. By FY30, diesel demand is expected to hit 163 MT, with diesel and gasoline comprising 58% of India's oil demand by CY2045.

To promote the Make in India campaign in the oil and gas sector, the government introduced a policy in CY2017 to offer "Purchase Preference linked with Local Content (PP-LC)" in all public sector plants under the Ministry of Petroleum & Natural Gas. This policy aims to incentivize the growth of local content in oil and gas projects in India by granting purchase preference to manufacturers/consumers meeting the specified local content targets in oil and gas business activities.

To meet the rising demand for oil and refining, the Government has implemented various policies. It permits 100% foreign direct investment (FDI) in several sectors, including natural gas, petroleum products, and refineries. The FDI limit for public sector refining projects has been increased to 49% without any disinvestment or dilution of domestic equity in existing PSUs. This has attracted both domestic and foreign investment, with companies like Reliance Industries Ltd (RIL) and Cairn India investing in the sector.

The robust economic growth is driving increased demand for oil production, refining, and transportation. In January 2023, crude oil processing peaked at 5.39 million barrels per day, the highest since CY2009, largely due to increased exports to western countries that previously sourced from Russia. India's oil consumption is expected to reach 7.2 MBPD (360 MMTPA) by CY2030 and 9.2 MBPD (460 MMTPA) by CY2050. To meet this growing demand, India aims to double its oil refining capacity to 450-500 MMTPA by CY2030.

Sectoral Analysis - Petrochemicals:

The petrochemical market in India is currently valued at around USD 190 billion and holds significant growth potential, primarily due to the comparatively lower per capita consumption in comparison to developed economies. With a production volume of 42.2 million metric tonnes per annum (MMTPA) in FY21, it is projected to increase to 53.8 MMPTA by FY27, showcasing a compound annual growth rate (CAGR) of approximately 4%. This growth trajectory is supported by India's large population and the increasing adoption of petrochemical products across various sectors. Projections indicate that India is poised to add approximately 158 MMTPA of petrochemical capacity by the year 2030, constituting roughly 20% of the anticipated global capacity expansions.

Sectoral Analysis - Fertilizers:

Fertilizers have played a crucial role in India's agricultural transformation, particularly during the green revolution, which contributed to the nation's self-sufficiency in food-grain production. This period of growth spurred significant expansion in the fertilizers industry. Despite this growth, India still ranks among the lower consumers of fertilizers compared to both emerging and developed nations. However, driven by factors such as population growth, urbanization, and diminishing arable land, the demand for fertilizers is expected to rise in the long term. India currently hosts 56 fertilizer manufacturing units, with 33 of them specializing in urea production. Total fertilizer production reached 42.6 million metric tonnes (MMT) in FY22, reflecting a modest compound annual growth rate (CAGR) of 0.7% from FY18 to FY22.

To enhance fertilizer adoption, marketing and promotional efforts play a crucial role. Various governmental and non-governmental initiatives aim to educate farmers about the benefits of fertilizers through awareness campaigns. Employing a multi-modal approach involving television, radio, and tailored rural workshops is expected to bolster fertilizer consumption in the foreseeable future. Moreover, factors such as rising rural incomes and improved access to

loans are anticipated to positively influence fertilizer demand over the long term. Among various fertilizer types, urea, a key variant, witnessed manufacturing totaling 26.4 MMT in FY22, reflecting a CAGR of 2.4% from FY18 to FY22.
Government initiatives such as the Urea Subsidy Scheme, Nutrient Based Subsidy Scheme (NBS), and Direct Benefit Transfer (DBT) projects for fertilizer subsidy payments, implemented across India, are poised to stimulate demand within the fertilizer industry. These nationwide initiatives aim to streamline subsidy distribution and encourage the efficient use of fertilizers. By offering financial incentives and facilitating direct subsidy transfers to beneficiaries, these schemes are anticipated to boost industry demand and facilitate additional capacity expansions over time.

Sectoral Analysis – Chemicals:
The country holds a significant presence in the production of various chemical products, including basic organic chemicals, pesticides, paints, dyestuffs, intermediates, and fine and specialty chemicals. The chemical industry is a crucial sector of the Indian economy, contributing approximately 7.0% to the GDP in FY23 and offering a vast array of over 80,000 commercial products.

Diverse in nature, the chemical industry in India can be segmented into bulk, specialty, agrochemicals, polymers, and other categories. Despite challenges posed by the COVID-19 pandemic, the chemical sector has demonstrated resilience and remarkable growth. Increasing demand for chemicals across various end-user segments such as agriculture, consumer durables, retail, infrastructure, automotive, electronics, and healthcare is expected to drive further demand for chemicals, necessitating additional capacity expansions in the long term. Notable chemical clusters in India are located in states including Gujarat, Maharashtra, Odisha, Tamil Nadu, Andhra Pradesh, and Uttar Pradesh.

Key Growth Drivers & Outlook of Refinery sector in India

India ranks as the world's third-largest oil consumer, with oil demand forecasted to double to 11 million barrels per day by CY2045, marking a twofold increase from CY2022. The primary drivers of growth in the Indian refinery industry are the rising demands for transportation fuels and petrochemical feedstock. India is projected to be among the leading contributors to non-OECD petroleum consumption globally. The Ministry of Petroleum and Natural Gas (MoPNG) reports that the country's consumption of petroleum products in FY23 grew by 10% compared to FY22, totaling nearly 223 million metric tonnes. Additionally, there are expectations for 18 refinery projects to commence by FY31, collectively adding a capacity of 124.0 million metric tonnes per annum (MMTPA).

Key Growth Drivers & Outlook of Petrochemical sector in India

Petrochemicals play a vital role in India's industrial sector and are significant drivers of economic growth. In CY2020, India's per capita consumption of polymers stood at approximately 12 kilograms, notably lower than the global average of 37 kilograms. With the country's progressive GDP growth, there is a substantial expectation for the demand for petrochemical products to rise significantly over the medium to long term. Fueled by both domestic consumption and global demand, the Indian petrochemical sector is witnessing increased investments to capitalize on market opportunities. The government's ongoing initiatives to promote economic development, such as Make in India, Aatmanirbhar Bharat Abhiyan, and the Production-Linked Incentive (PLI) Scheme, play a pivotal role in driving the growth of the petrochemical industry.

The Department of Chemicals and Petrochemicals (DCPC) of the Government of India (GoI) has implemented various measures to enhance the industry's competitiveness, quality, and output. These initiatives include setting mandatory standards through the Bureau of Indian Standards (BIS), public procurement policies for chemicals and petrochemicals, establishment of plastic parks, and support for research and innovation through centers of excellence. Policy incentives, coupled with the favorable manufacturing costs and manpower availability, along with the overall demand scenario, are bolstering business confidence to strategize for larger petrochemical complexes in India. To further incentivize investment in the petrochemicals sector, active efforts are underway to amend the Petroleum, Chemicals, and Petrochemicals Investment Region (PCPIR) policy. The proposed new PCPIR policy, expected to be implemented between CY2020 and CY2035, aims to attract an approximate combined investment exceeding INR 34,000 billion (USD 420 billion) for the sector. Additionally, there are plans for the commissioning of 15 petrochemical projects by FY31, with a cumulative capacity of 23.0 million metric tonnes per annum (MMTPA).

Key Growth Drivers & Outlook of Fertilizer sector in India

India, primarily an agrarian economy, relies heavily on agriculture, with approximately 80% of its population dependent on it. In CY2023, India surpassed China to become the world's most populous country. With the population continuing to grow, there is an imperative to enhance agricultural productivity and broaden the agricultural base. The government is emphasizing initiatives such as irrigation improvement, adoption of modern agricultural technologies, provision of credit facilities to farmers, and utilization of superior quality seeds, as well as judicious and balanced application of fertilizers and insecticides to augment crop yields. Fertilizers play a pivotal role as agricultural inputs in boosting food grain production and enriching soil fertility.

Chemical fertilizers are extensively utilized in India, categorized into types such as Urea, Diammonium Phosphate (DAP), Single Super Phosphate (SSP), Muriate of Potash (MOP), and other complex fertilizers like Calcium Ammonium Nitrate (CAN) and various grades of NPK Fertilizers. Urea constitutes the majority of fertilizer consumption in India, accounting for approximately 60% of the total. However, domestic urea production falls short of meeting the domestic demand, with around 30% of the demand being fulfilled through imports. India aims to bolster its domestic production capacity in the urea segment to lessen import reliance and achieve self-sufficiency by CY2025. There are expectations for the commissioning of around four urea projects by FY26 to contribute toward this goal.

Company Highlights

- JNK India holds a significant 27% market share in the heating equipment market in India.
- The company has achieved a robust domestic revenue growth rate of 59.19% CAGR.
- They have successfully completed projects across India and are currently executing projects in Gujarat, Odisha, Haryana, and Rajasthan.
- JNK India caters to a diverse customer base in the oil refining sector.
- Key strengths include their end-to-end capabilities in supplying, engineering, installing, manufacturing, and commissioning thermal equipment.
- The company is known for its product leadership and is strategically positioned to capture industry tailwinds.
- Their order book exceeded INR 8,682.70 million in FY22, reflecting strong revenue visibility.
- Financially, JNK India achieved a Profit After Tax (PAT) of INR 463.62 million in FY23.
- They maintained healthy EBITDA margins of around 18% throughout FY21 to FY23.
- With a Return on Equity (ROE) of 47.71% in FY23, JNK India exhibits a robust return profile.
- The company's diversified product portfolio and skilled management team position them for continued success in the heating equipment market.

Growth Strategy

- Expansion Plans:
- Geographical Expansion: The company plans to target high-growth markets in European countries and the Middle East and Africa.
- Capability Strengthening:
- Focus Areas: JNK India aims to enhance its capabilities in flares, incinerators, and renewable energy systems.
- Strategic Investments: They intend to achieve this through strategic investments and acquisitions.
- Entry into Green Energy Industry:
- Partnerships with Technology Players: The company is evaluating tie-ups with technology players to facilitate its entry into the green energy industry.
- Focus on Green Hydrogen: JNK India aims to particularly focus on the green hydrogen sector as part of its expansion into green energy.

Investment Rationale

- JNK India benefits from support provided by JNK Global
- JNK India is known for its product leadership in the industry and is well positioned to capture industry tailwinds
- High entry barriers due to a highly regulated heating equipment market in India, technically complex product and high capex requirements. Hence, competition is lower in the sector
- Favorable government policies like Make in India have and will continue to benefit JNK India by helping them land contracts

Key Concerns

- **Dependence on Specific Sectors**: JNK India caters primarily to oil & gas refineries, petrochemicals, fertilizers, hydrogen, and methanol plants. If there's a downturn in any of these sectors, it could significantly impact JNK India's order book and revenue
- **Fluctuations in Raw Material Prices**: The cost of raw materials used in manufacturing heating equipment can fluctuate. If these costs rise unexpectedly, JNK India might struggle to maintain profitability unless they can effectively pass on the cost increase to customers
- Changes in Government regulations
- Natural disasters

Issue Structure and Offer Details

JNK India IPO is a book built issue of Rs 649.47 crores. The issue is a combination of fresh issue of 0.76 crore shares aggregating to Rs 300.00 crores and offer for sale of 0.84 crore shares aggregating to Rs 349.47 crores..

Issue Structure

Investor Category	Allocation
QIB	Not more than 50% of the Offer
NIB	Not less than 15% of the Offer
Retail	Not less than 30% of the Offer

Source: Company Reports

Objects of the Issue

Objects	Estimated Amount (in INR cr)
Working Capital Requirements	262.7
General Corporate purposes	386.8

JNK INDIA financial summary and analysis

Fig in INR Cr (unless specified)	FY21	FY22	FY23
Income Statement			
Revenue	137.7	296.4	407.3
YoY Growth (%)	*#N/A*	*115.2*	*37.4*
Raw Material Cost	25.5	93.0	140.6
RM Cost to Sales (%)	*18.5*	*31.4*	*34.5*
Employee Cost	19.1	26.3	37.9
Employee Cost to Sales (%)	*13.8*	*8.9*	*9.3*
Other Expenses	67.9	123.2	159.6
Other Exp to Sales (%)	*49.3*	*41.6*	*39.2*
EBITDA	25.3	53.8	69.3
Margin (%)	*18.4*	*18.2*	*17.0*
YoY Growth (%)	*#N/A*	*113.0*	*28.7*
Depreciation & Amortization	1.9	3.0	6.6
EBIT	23.4	50.9	62.7
Margin (%)	*17.0*	*17.2*	*15.4*
YoY Growth (%)	*#N/A*	*117.1*	*23.3*
Other Income	0.7	0.7	4.2
Bill discounting & other charges	1.3	3.8	4.2
Fin Charges Coverage (X)	17.4	13.5	14.9
Exceptional Item	0.0	0.0	0.0
PBT	22.8	47.8	62.7
Margin (%)	*16.6*	*16.1*	*15.4*
YoY Growth (%)	*#N/A*	*109.7*	*31.1*
Tax Expense	6.3	11.8	16.3
Tax Rate (%)	*27.8*	*24.8*	*26.1*
PAT	16.5	36.0	46.4
Margin (%)	*12.0*	*12.1*	*11.4*
YoY Growth (%)	*#N/A*	*118.4*	*28.8*
Min Int/Sh of Assoc	0.0	0.0	0.0
Net Profit	16.5	36.0	46.4
Margin (%)	*12.0*	*12.1*	*11.4*
YoY Growth (%)	*#N/A*	*118.4*	*28.8*
Balance Sheet			
Share Capital	0.6	9.6	9.6
Total Reserves	36.2	62.6	112.6
Shareholders Fund	36.8	72.2	122.2
Long Term Borrowings	0.3	2.7	3.2
Deferred Tax Assets / Liabilities	0.2	(0.8)	(2.5)
Other Long Term Liabilities	4.6	9.0	24.0
Long Term Trade Payables	0.0	0.0	0.0
Long Term Provisions	0.1	0.0	1.5
Total Liabilities	41.9	83.1	148.4
Net Block	3.5	20.1	20.7
Capital Work in Progress	0.0	0.0	0.0
Intangible assets under developme	0.0	0.0	0.0
Non Current Investments	0.0	0.0	0.0
Long Term Loans & Advances	0.4	6.0	9.1
Other Non Current Assets	0.1	2.3	0.1
Net Current Assets	38.0	54.7	118.5
Total Assets	41.9	83.1	148.4

Fig in INR Cr (unless specified)	FY21	FY22	FY23
Per share data & Yields			
Adjusted EPS (INR)	10.3	22.5	29.0
Adjusted Cash EPS (INR)	11.5	24.4	33.1
Adjusted BVPS (INR)	23.0	45.1	76.4
Adjusted CFO per share (INR)	#N/A	20.9	12.5
CFO Yield (%)	#N/A	5.0	3.0
Adjusted FCF per share (INR)	10.6	10.5	9.8
FCF Yield (%)	2.5	2.5	2.4
Solvency Ratio (X)			
Total Debt to Equity	0.2	0.1	0.3
Net Debt to Equity	(0.5)	(0.4)	(0.1)
Net Debt to EBITDA	(0.7)	(0.6)	(0.2)
Return Ratios (%)			
Return on Equity	44.8	49.9	37.9
Return on Capital Employed	37.0	48.9	29.7
Return on Invested Capital	126.4	122.8	57.6
Working Capital Ratios			
Payable Days (Nos)	66	56	36
Inventory Days (Nos)	14	77	74
Receivable Days (Nos)	143	135	102
Net Working Capital Days (Nos)	91	157	140
Net Working Capital to Sales (%)	24.9	42.9	38.5
Valuation (X)			
P/E	40.3	18.5	14.3
P/BV	18.0	9.2	5.4
EV/EBITDA	25.5	11.8	9.4
EV/Sales	4.7	2.1	1.6
Cash Flow Statement			
PBT	22.8	47.8	62.7
Adjustments	#N/A	90.4	3.1
Change in Working Capital	#N/A	(92.9)	(29.5)
Less: Tax Paid	(6.3)	(11.8)	(16.3)
Cash Flow from Operations	#N/A	33.5	20.0
Net Capital Expenditure	(4.0)	(19.6)	(7.5)
Change in Investments	(12.7)	(5.3)	(17.5)
Cash Flow from Investing	(16.7)	(24.9)	(25.0)
Change in Borrowings	1.6	10.3	3.5
Less: Finance Cost	(1.3)	(3.8)	(4.2)
Proceeds from Equity	0.0	0.0	0.0
Buyback of Shares	0.0	0.0	0.0
Dividend Paid	(0.6)	(0.6)	(1.4)
Cash flow from Financing	(0.3)	5.9	(2.1)
Net Cash Flow	#N/A	14.5	(7.1)
Forex Effect	0.0	0.0	(0.0)
Opening Balance of Cash	#N/A	8.0	22.5
Closing Balance of Cash	#N/A	22.5	15.4

Source: Ventura Research

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