

25th April 2024

JNK India – SUBSCRIBE

Investment Thesis

JNK India Ltd. (JNK India) is coming out with an initial public offering (IPO) on April 23, 2024. The issue comprises of fresh issue of 7,594,936 equity shares at highest price band worth Rs.3,000mn and offer for sale of 8,421,052 equity share worth Rs.3,494.7mn. Objective of the issue is to funding working capital requirements and general corporate purposes.

JNK India is one of the leading manufacturers of heating equipments, which mainly finds application in the oil refineries and petrochemical plants. Over the last 13 years, JNK India has expanded its expertise in thermal design, engineering, manufacturing, supplying, installing, and commissioning Heating Equipment in both domestic and international markets. As of December 31, 2023, it had serviced 21 clients in India and eight customers in the international market. Heating Equipment's customers include seven of the twelve domestic oil refineries. JNK India's marquee clientele include Indian Oil Corporation, Tata Projects, Rashtriya Chemicals & Fertilizers, and Numaligarh Refinery. JNK India has performed 17 projects for JNK Global across Europe and the Middle East. With the help of JNK Global, the firm plans to grow into new areas in Europe, the Middle East, and Africa.

JNK India had diversified into waste gas treatment systems with the help of flares and incinerators systems. Flare systems are utilized in industrial facilities such as petroleum refineries, chemical and fertilizer industries and natural gas processing plants whereas incinerator systems are primarily utilized in refineries for tail gas incineration. Global demand for waste gas handling systems is anticipated to be over Rs.6,500Cr from CY23-28 while domestic demand is projected at ~Rs.2,200cr over FY24-29.

In FY22, JNK India entered the Indian renewable energy market and established one hydrogen refueling station at the Indian Oil R&D Centre in Haryana. It supplies grey hydrogen through both on-site and off-site manufacturing and storage methods. Going ahead, JNK India hopes to use JNK Global's technical expertise to capitalize on prospects in hydrogen refueling systems in India. Also, JNK India plans to develop into the Solar-EPC sector.

Financials

- During the past 2 years, revenue of JNK India grew at a CAGR of 72.0% while PAT grew at CAGR of 67.7% in same period.

Consol. (Rs.Mn.)	FY21	FY22	FY23	H1FY24
Revenue	1,377	2,964	4,073	2,534
EBITDA	253	538	693	669
EBITDA Margin(%)	18.4%	18.2%	17.0%	26.4%
PAT	165	360	464	462
EPS (Rs.) #	2.9	6.4	8.3	8.3
P/E (x) *#	140.9	64.6	50.1	
RoE (%) #	34.8%	48.8%	39.1%	

* At highest price band # Post listing

IPO Details

Issue Open Date	23 April 2024
Issue Close Date	25 April 2024
Price Band (Rs.)	Rs.395 – Rs. 415
Issue Size*	Rs. 6,494.7 Mn
Issue Size (Shares)	16,015,988
Market Lot	36 Shares
Listing Exchanges	BSE and NSE
Face Value (Rs.)	Rs. 2/-

* At highest price band

Key Details

Fresh Issue*	Rs. 3,000.0 Mn
Issue Type	Book Building
Book Running Lead Manager	IIFL Securities and ICICI Securities
Issue structure	QIB: 20% Non Institutional: 15% Retail: 35% Anchor Investors: 30%
Credit of Shares to Demat Account	29 April 2024
Issue Listing Date	30 April 2024

* At highest price band

Key Business Highlights

- JNK India is in the business of manufacturing the process fired heaters, reformers and cracking furnaces (Heating Equipment) that are required in process industries such as for oil and gas refineries, petrochemical and fertilizer industries. It has capabilities in thermal designing, engineering, manufacturing, supplying, installing and commissioning Heating Equipment and cater to both domestic and overseas market.
- As of December 31, 2023, JNK India served 21 customers in India and 8 Customers overseas. Also, 7 out of the 12 oil refining companies in India, are its customers and it has supplied or are in the process of supplying Heating Equipment to 11 of the 24 operating oil refineries across India.
- JNK India has successfully completed projects which were based in far-reaching locations such as at Numaligarh in Assam, Kochi in Kerala and Barauni in Bihar in domestic market and Lagos in Nigeria in international market.

Valuation

- JNK India executes its projects from a leased fabrication facility located in Mundra, Gujarat, as well as from third-party fabricators. Mundra facility spread across ~20,250 square meters of area and has a fabrication capacity of 5,000 tonnes per annum. It mostly executes projects from the premise of third party fabricator, operating under an asset light business strategy.
- Orderbook of JNK India grew by ~146% during FY21-23 to Rs.863Cr, translating into orderbook to sales of 2.1x in FY23 as against 1.0x in FY21. Its domestic business constitutes 89% of the orderbook while rest is from international business. Its 64.8% of the orders are directly from the end customers, while 17.5% and 17.7% are from JNK Group and other contracting customers, respectively.
- Growing demand for transportation fuels and petrochemical feedstock is the key growth driver of the worldwide refinery industry. Around 18 refineries and 15 petrochemical projects are scheduled to be operational in India by FY31. Furthermore, to reduce urea imports, the Indian government intends to enhance local urea output by constructing four urea plants by FY26. Thus, the total domestic demand for heating equipment from refineries, petrochemicals, and the urea sector is expected to be roughly Rs.27,000Cr over FY24-29. Similarly, with the worldwide increase of refinery and petrochemical facilities, the potential demand for Heating Equipment is estimated to be over Rs.49,000Cr between CY23-28.
- With leading manufacturers of heating equipments, diversified into waste gas treatment systems, entered the Indian renewable energy market and established one hydrogen refueling station, orderbook grew by ~146% during FY21-23 to Rs.863Cr and operating under an asset light business strategy, we are recommending **SUBSCRIBE** rating to the IPO of JNK India Ltd. (JNK India) for medium to long term perspective.

Risk & Concern

- JNK India has derived majority of its revenues from JNK Global and use their experience and technology support for select projects. Any kind of dissociation with JNK Global may have an adverse impact on future growth of the company.
- Any downside in the capital expenditure of oil and gas, petrochemical and fertilizers industry may have adverse impact on business of JNK India going ahead.
- Raw material availability and cost of raw materials may adversely affect the margin of the JNK India as it has not entered into any long-term contracts with its suppliers.

Graphs & Charts

Figure 1: Net Sales Trend

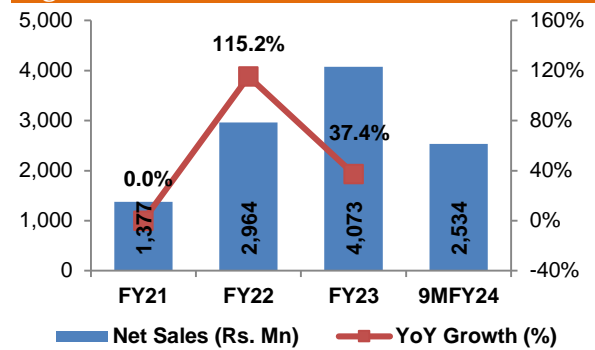


Figure 2: EBITDA & EBITDA Margin Trend

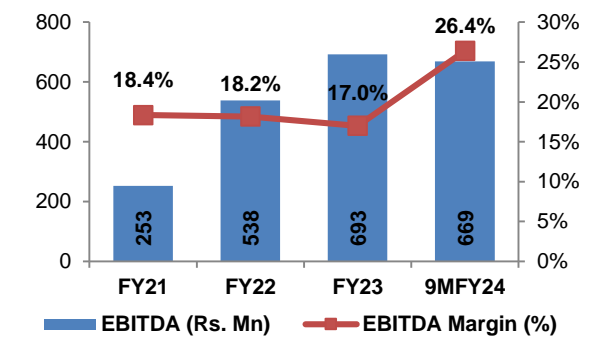


Figure 3: PAT & PAT Margins

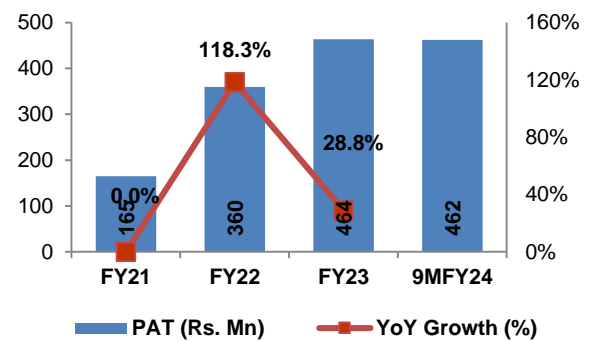
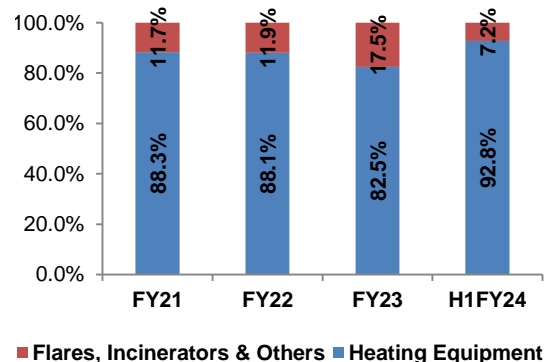


Figure 4: Segment-wise Revenue Trend



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