



IPO Report

20th April '24

Snapshot

JNK India Ltd is in the business of manufacturing the process fired heaters, reformers and cracking furnaces (together, the “Heating Equipment”) that are required in process industries such as for oil and gas refineries, petrochemical and fertilizer industries. Company have capabilities in thermal designing, engineering, manufacturing, supplying, installing and commissioning Heating Equipment and cater to both domestic and overseas market. The Indian heating equipment market is closely competed among seven companies with Company and Thermax Limited being the most prominent and comparable players. Over the years company have diversified into flares and incinerator systems and have been developing capabilities in the renewable sector with green hydrogen.

VALUATION

Company is bringing the issue at price band of Rs 395-415 per share at p/e multiple of 37x on FY23 PAT basis. Company has established track record with a diverse customer base .Company is well-positioned to capture industry tailwinds through its demonstrated capabilities over time. Company’s diversifying product portfolio to cater to varied industries Y&U demonstrated financial performance with a robust Order Book reflecting revenue visibility for last three Fiscals . Company has Skilled and experienced Promoters and management team with committed employee base Hence ,looking after all above we recommend “Subscribe” on issue.

Price Band (Rs./Share)	395-415
Opening date of the issue	23rd April '2024
Closing Date of the issue	25th April '2024
No of shares pre issue	4,83,92000 Eq Shares
Issue Size	Rs 633-649 Cr
No of shares	1,60,15,988-1,56,49,967 Eq Shares
Fresh issue	Rs 300 Cr
Offer For Sale	8,421,052 Eq Shares
Face Value (Rs/ share)	Rs 2/share
Bid Lot	36

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 78,24,982 Eq Shares)
Non-Institutional	15% of the offer (Approx 23,47,496 Eq Shares)
Retail	35 % of the offer (Approx 54,77,489 Eq Shares)
Lead managers	IIFL Securities Ltd, ICICI Securities Ltd
Registrar to the issue	Link Intime India Pvt. Ltd

WHAT WE LIKE

Established track record with a diverse customer base

Company commenced operations in 2010 and have a successful project completion track record of over 10 years. Company have successfully completed projects which were based in far-reaching locations, which included company’s projects in India at Numaligarh, Assam; Kochi, Kerala; Barauni, Bihar; and overseas at Lagos, Nigeria. In recognition of Company’s efforts, company have been accorded incentives by its Customers for early completion of projects in India and overseas. Further, in March 2022, company was recognised for its safety compliance by one of the private refinery companies of a multinational industrial conglomerate from Nigeria and were awarded a certificate of appreciation towards ‘Safety Compliance and Campaign Performance’.

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

For Fiscals 2021 to 2023, company’s revenue from operations, EBITDA and profit after tax had grown at a CAGR of 71.97%, 68.09% and 67.75%, respectively, demonstrating growth in company’s financial performance in recent years. Company’s Order Book value was ₹ 8,450.27 million on December 31, 2023, out of which ₹ 7,292.02 million or 86.29%, was from the Indian market and ₹ 1,158.25 million or 13.71% was from the overseas market. With a robust Order Book amounting to ₹ 8,450.27 million as of December 31, 2023, which represents 2.50 times of the revenue from operations for December 31, 2023 calculated on an annualised basis, and a pipeline of prospective projects for which the contracts are currently at various stages of negotiation, reflect clear revenue visibility

Diversifying product portfolio to cater to varied industries

Company receives orders from domestic and overseas oil and gas refining, petrochemical and fertilizers companies. Company’s diversified Customer base has helped in expanding company’s markets and improve profitability. Company’s Customers are primarily from, amongst others, the oil and gas, petrochemical and fertilizers industries.



COMPANY BACKGROUND

Since its inception, company have been working closely with JNK Global a KOSDAQ listed company. The relationship between Company and JNK Global is both independent and collaborative in nature. While for certain projects Company is able to participate independently and acquire projects in Heating Equipment, for certain projects company partner as a global joint engineering and implementing partner for JNK Global. JNK Global is also one of the Corporate Promoters of company with a shareholding of 25.79% as of the date.

Heating equipment such as process fired heaters and reformers are used in a typical refinery and are also an effective heating solution for a wide range of industrial applications, but proper design, installation, and operation are critical to ensure safe and reliable performance. Process fired heaters are the critical equipment in a refinery. Around 10 - 20 process fired heaters are used in any typical refinery. Of all the process fired heaters, four applications such as the crude distillation unit ("CDU"), vacuum distillation unit ("VDU"), delayed coker unit and catalytic reforming units are the most critical and the capex for these heaters is also high when compared with the other heater application areas in the refinery. Other applications for process fired heaters are hydrotreaters, hydrocrackers, fluid catalytic cracker ("FCC"), etc. Key processes where process fired heaters are used in a refinery are CDU, VDU, fluid catalytic cracker unit ("FCCU"), hydrocracker unit, visbreaker unit, delayed coker unit, catalytic reforming unit, hydrotreating unit and bitumen blowing unit. Further, various Heating Equipment such as process fired heaters, reformers and cracking furnaces are used in a petrochemical plant as well. Reformers and cracking furnaces are the equipment in a petrochemical plant Process fired heaters and reformers are also used in the ammonia plant of an integrated urea plant. Reformers are used in ammonia production, which is later converted into urea.

Considering that company is manufacturing process fired heaters for oil and gas refineries and petrochemical industries already, in order to cater to the increased demand for flares and incinerators systems both in domestic as well as overseas market due to emission control norms getting stricter, company have diversified into flares and incinerators systems as well. Flare systems are important safety devices used in refinery and petrochemical facilities to burn excess hydrocarbon gases which cannot be removed or recycled. 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. Further, 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. (Source: F&S Report) While flaring systems are used across refinery, petrochemical and fertilizer plants, incinerators are primarily used in the refinery in the SRU for tail gas incineration. (Source: F&S Report).

Further, in pursuit of inorganic initiatives company keep evaluating opportunities in acquiring technology and knowhow with an aim to enhance its presence in newer product categories and deepen its penetration in the target markets. Company intend to expand its Customer network in some of the overseas markets including Europe for company to capitalise on the untapped opportunities. Company propose to continue to pursue inorganic growth opportunities in relatively larger markets such as Italy, Middle East and Africa. Further, 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.

Company is also working on building capabilities in renewable sector with green hydrogen. Company is building capabilities in renewable sector with onsite hydrogen production, hydrogen fuel stations and solar photovoltaic – EPC ("Solar PV-EPC") which forms part of green hydrogen value chain.

All of company's products are fabricated as per the Customer's requirements in accordance with applicable standards. Fabrication is undertaken in company's in-house fabrication facilities and/or through third party fabricators. One of company's premises is situated at multi-product special economic zone at Mundra, Gujarat, where fabrication is undertaken for export purposes only. It spreads over approximately 20,243 square meters with an installed capacity of 5,000 metric tonnes of fabrication and modularization per annum. Further, on situational basis and based on the requirement of company's projects, company take certain facilities on lease basis and once the project is completed the facility is shut down and all the equipment and machinery is shifted to other facilities for other projects. This ensures 178 project optimisation while providing company with logistical efficiency. One such facility was situated at Jajpur, Odisha, where fabrication was undertaken for one of company's Customer's refinery. It was spread, over approximately 16,187 square meters with a capacity of 1,000 metric tonnes of fabrication and modularization per annum. Company terminated the facility pursuant to a termination letter dated April 1, 2024, due to commercial reasons



INVESTMENT RATIONALE

<p><i>Well-positioned to capture industry tailwinds through company's demonstrated capabilities over time.</i></p>	<p>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 Fiscal 2031 with a cumulative capacity of 124.0 MMTPA. Further, with the progressive GDP growth, the petrochemical products demand is expected to grow significantly over medium to long-term. 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 Fiscal 2031 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 calendar year 2025. There are about four urea projects expected to be commissioned by Fiscal 2026 . Thus, the overall demand for Heating Equipment from Indian refineries, petrochemicals and fertilizer (urea) segments between Fiscal 2024 and Fiscal 2029 is estimated at ₹ 270,890 million i.e., approximately ₹ 45,000 million 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 commissioned during the forecast period .</p>
<p><i>Diversifying product portfolio to cater to varied industries</i></p>	<p>Company's Heating Equipment are required in process industries such as oil and gas refineries, petrochemicals, fertilizers, hydrogen and methanol plants etc. Company receives orders from domestic and overseas oil and gas refining, petrochemical and fertilizers companies. Company's diversified Customer base has helped it in expanding its markets and improve profitability. Company's Customers are primarily from, amongst others, the oil and gas, petrochemical and fertilizers industries.</p>
<p><i>Skilled and experienced Promoters and management team with committed employee base</i></p>	<p>Company is led by a qualified and experienced management team, with a deep understanding of the industry and company's Customers' preferences and requirements. Company's Promoters and Directors, Arvind Kamath, Goutam Rampelli and Dipak Kacharulal Bharuka and its Director Bang Hee Kim have an extensive experience in the Heating Equipment industry and have been instrumental in the growth of company's business. Company's Promoters are supported by an experienced management team comprising Deepak Sake (vice president engineering with an experience of over 21 years, Mohsin Shaikh (assistant vice president projects) with an experience of over 15 years, and Vallathur Ravikumar Mudali (general manager, procurement department) with an experience of over one year, in the development and execution of projects in process fired heaters industry. Company's qualified and experienced team enables it to identify new avenues of growth and helps it to implement its business strategies in an efficient manner.</p>



OBJECTS OF OFFER

The Offer for Sale

Each of the Selling Shareholders will be entitled to its respective portion of the proceeds of the Offer for Sale after deducting its proportion of the Offer related expenses and relevant taxes thereon. Company will not receive any proceeds from the Offer for Sale

Fresh Issue

Company proposes to utilize the Net Proceeds towards funding the following objects (collectively, the “Objects”):

1. Funding working capital requirements; and
2. General corporate purposes

RISKS

Company derive a significant portion of its revenue from orders which are contracted to company by Contracting Customers, any failure to obtain new contracts may impact company’s revenue from operations, cash flows and financial conditions materially and adversely.

Source:RHP

INDUSTRY OVERVIEW

Brief competitive landscape

The process fired heaters market has high barriers to entry and there are only a handful of suppliers, despite surge in demand. The 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 for even one day, users could incur significant losses, which is why suppliers undergo a thorough selection process. Since energy efficiency is one of the key performance indicators of any refinery, petrochemicals and, fertilizer plants 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 who can supply these critical equipment. Further, 7 out of the 12 oil refining companies in India are customers of JNK India, and the company has supplied or are in the process of supplying heating equipment to 11 of the 24 operating oil refineries across India. The Indian heating equipment market is closely competed among seven companies with JNK India and Thermax being the most prominent and comparable players. Bharat Heavy Electricals Limited is also a participant however, its revenue from heating equipment is comparatively lower compared to its other flagship businesses. Other participants in the Indian heating equipment market are, Esteem Projects, Heurtey Petrochem Solutions, TR Engineering, and ITT Engineering India.

Since its inception, JNK India has been working closely with JNK Heaters (to be referred as JNK Global), a KOSDAQ listed company. JNK Global was established in 1998 and has been engaged in the design, manufacturing, installation, and maintenance of industrial furnaces. In terms of revenue from heating equipment, JNK India is the largest company in India with a revenue of more than ₹ 4,000 million in Fiscal 2023. In terms of volume, the company is currently installing 25 units, which is higher than any of its competitors currently executing in the Indian market. JNK India is a well-recognized process fired heater company among the Oil & Gas downstream companies, and has capabilities in thermal designing, engineering, manufacturing, supplying, installing and commissioning process fired heaters, reformers, and cracking furnaces to companies forming part of some highly regulated industries, acts as a significant entry barrier to new entrants. JNK India has one of the largest workforces among its competitors in India. The company has 190 design, execution, and R&D engineers for process fired heaters in India with capabilities of detailed engineering in process, mechanical, structural, electrical, instrumentation, piping, and civil engineering. (Source: F&S Report)

Market size and market share analysis

Based on discussion held with the leading heating equipment suppliers, approximately ₹ 22,000 million of heating equipment have been ordered in Fiscal 2023. There is a boost in the order booking in the last few years with most of the suppliers reported their order booking has significantly increased in the last 2-3 years. Majority of these orders have come from PSU refineries. With strong pipeline of Oil & Gas downstream projects till calendar year 2030, the order booking is likely to increase in the coming years.



Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23	9months ended FY24
Total Revenue (A)	1377.21	2963.96	4073.02	2533.93
Total Expenditure (B)	1124.43	2425.59	3380.4	1865.19
EBIDTA	252.78	538.37	692.62	668.74
EBIDTA Margin	18.35	18.16	17.01	26.39
Other Income	7.32	7.40	42.43	33.69
Depreciation	18.59	29.86	65.82	40.48
EBIT	241.51	515.91	669.23	661.95
Interest	13.47	37.65	42.12	55.05
PBT	228.04	478.26	627.11	606.90
Exceptional	0.05	0.00	0.00	0.00
PBT	227.99	478.26	627.11	606.90
Tax	63.33	118.43	163.49	144.79
PAT	164.66	359.83	463.62	462.11
NPM	11.96	12.14	11.38	18.24
ROE%	56.96	66.03	47.71	31.79
EPS	3.43	7.50	9.66	9.55
Eq Cap	6.00	96.00	96.00	96.78
Net Worth	368.17	721.80	1,221.70	1,685.61

(Source: RHP)

Peer Comparison

Company Name	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
<i>JNK India Limited</i>	NA	4073.02	9.51	25.45	47.71
Peers					
Thermax Limited	112.9	80898.10	39.98	343.67	12.24
Bharat Heavy Electricals Limited*	186.02	233649.40	1.37	77.05	1.79

(Source: RHP)



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