NIRMA UNIVERSITY

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SUMMER INTERNSHIP PROJECT REPORT

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MWH HOLDINGS

yaswanth karedla

Title

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COMPANY NAME	: MWH Holdings
PROJECT TITLE	: “QIP raising for an Infrastructure firm”
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ORGANIZATIONAL MENTOR	: Mr. CHETAN PATEL (FOUNDER & CEO)
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EXECUTIVE SUMMARY

MWH Holdings is an Investment banking firm with 152 FII clients at its disposal is operating from Mumbai with registered office in Singapore and presence in countries like USA, Dubai, Hong Kong etc. The firm is Founded by **Mr. Chetan Patel** an alumnus of JBIMS Mumbai and currently he is also the CEO of the company. The firm offers a wide array of IB (Investment Banking) services like Investment management advisory, deleveraging, structured solutions and other extended services like HR outsourcing, legal advisory, audit etc.

The aim of the project is to raise an investment of 250 crores through QIP mode for ABC Infraprojects Limited which is an Infra structure company based in Mumbai and specialized in dealing with metro engineering and civil engineering works with government as its major client.

Through this project I got a chance to explore various finance concepts like Financial modelling, forecasting, valuation, equity research and financial analysis which are actually applied by me during the course of this internship.

This internship equipped me with necessary skills and practices that are essential and can be applied in my future endeavours.

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1. INTRODUCTION

Throughout the report I am masking the company with pseudo name ABC Infraprojects limited due to the NDC agreement signed with the company

Nature of the problem:

ABC Infraprojects Limited is a listed company in BSE, NSE and is based in Mumbai, Maharashtra. The Company is in the infrastructure sector mainly dealing with the Transport engineering, Civil construction and irrigations projects. Their order book mainly constitutes of metro engineering works particularly in the cities of Mumbai, Delhi and Ahmedabad. Majority of their order book consists of the projects either from government or PPP mode. Due to the infrastructure boom that is going to happen due to the government's concentration on the Infrastructure development of the country in the form of prestigious projects like Sagarmala, Bharatmala etc there will be an tremendous opportunity for Infrastructure companies particularly for the companies like ABC Infraprojects which has associated and proved itself as the trustworthy partner to the government in many prestigious projects like Dwarka Express Highway. In order to seize this opportunity and fund the future projects the company is looking for raising a capital of Rs 250 crores through different types of investment options available to them.

Objective of the study:

Through this study we will evaluate the firm's financial performance and do valuation with the help of proper forecasting and financial modelling techniques which will be presented to the prospective investors for raising Rs.250 Crores.

Expected Benefits:

Through this capital raising the company will be able to meet the expenses of the ongoing projects whose delay otherwise will lead to consequences like downgrade of reputation among the clients in the long term and delay in receiving the balance payments due to non-completion of the projects which will affect the operational cycle of the company in the short term.

The part of the capital raised can be used to deployed in the future projects that would be acquired/ received by the company in the upcoming years. The unavailability of this capital will result in restraining the company from participating in more bids in the future creating opportunity loss for the company despite of the tremendous growth for Infra sector in the country

2. METHODOLOGY

I. SOURCE OF INFORMATION:

The information for the project is sourced through various authentic sources ranging from annual reports released by the company to the information available on the company website. Annual reports are very handy for all the types of information like ongoing projects, future interests of the company and the financial performance of the company across various quarters and years. The working notes gave elaborated information about the different elements of the statements for knowing the individual breakup of the expenses and incomes.

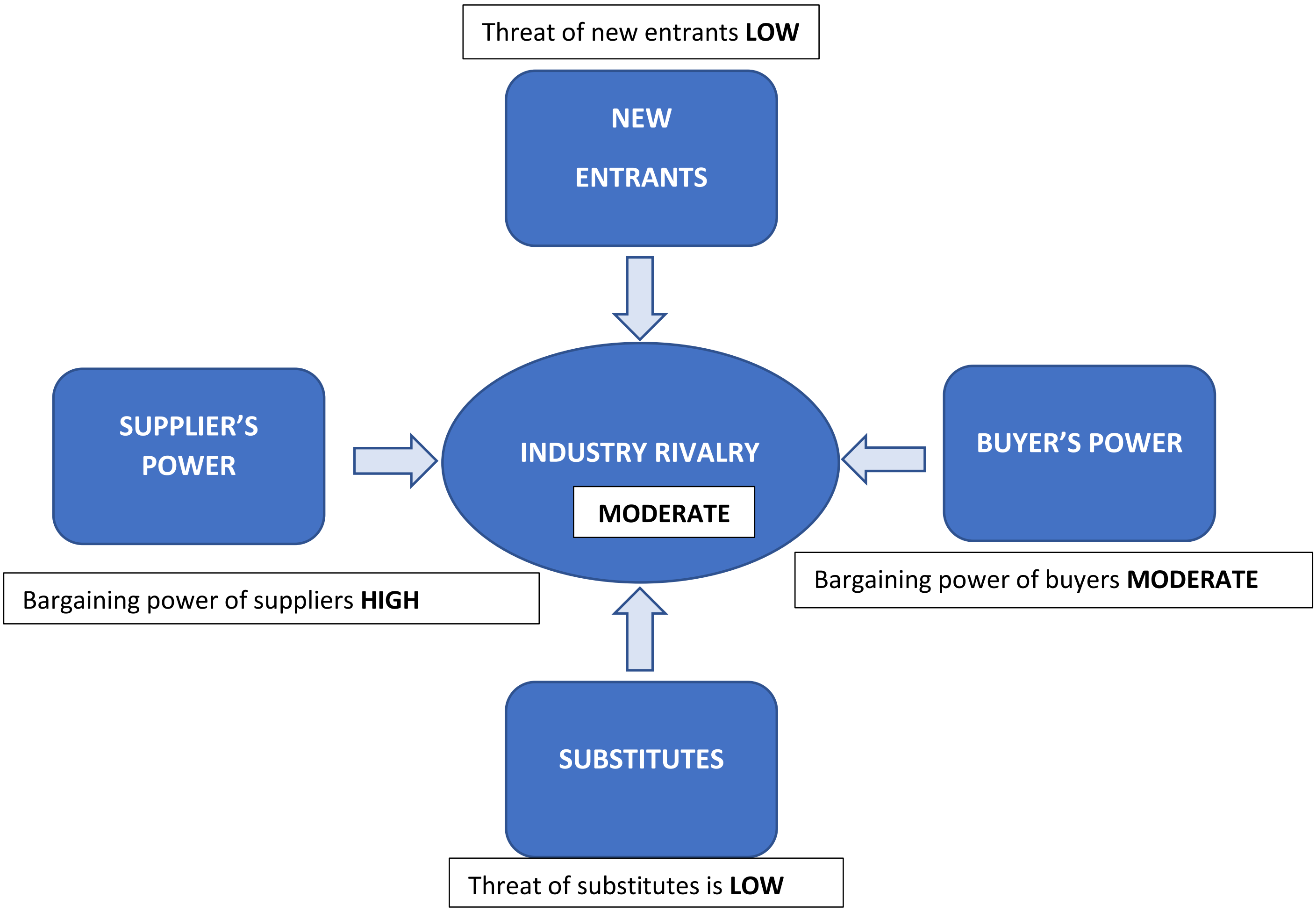
On the other site websites like screener and trendline reduced the task of manual input of data by enabling to download the excel file that re already inputted with data for performing further analysis of the company. Company website provide updated information about the latest developments like new orders, achievements achieved and any key changes in the top management etc.

II. ANALYSIS OF THE INFORMATION:

Using the information obtained I have performed financial analysis of the data to know the current performance of the company. Ratio analysis played a major role in comparing the performance of the company with the peers of the industry.

Proper forecasting of the company financials and the apt valuation techniques helped in making the accurate financial model of the future performance of the company. Along with the tracking of financial, analysis also done by me on the fundamentals and environment that the company is operating with the help tools like Blue Ocean strategy, Porter's forces, SWOT analysis etc.

- **PORTER'S FIVE FORCES:**



THREAT OF NEW ENTRANTS: → LOW

Broadly the threat of new entrant is low because of the huge capital requirements and the downtrend the Infrastructure sector if facing.

a. ECONOMIES OF SCALE:

It is not that easy for a new entrant to play with economies of scale because of the huge costs that are involved and less availability of financing from the financial institutions for the new companies.

b. PRODUCT DIFFERENTIATION:

As the designs and structures undertaken by ABC Infra are mostly pre-determined during the contract by the issuer, there is no much chance for a new entrant to make an impact with product differentiation unless it involves cost reduction with those designs.

c. CAPITAL REQUIREMENTS:

As the capital requirements are huge most of it is sourced through the financing option, it will be a difficult task for a new comer without any credit history to borrow such amount of money at reasonable rate of interest unlike ABC Infra which has a decades of experience and good credit terms with the financers.

d. EXPERIENCE& PROPRIETARY KNOWLEDGE:

Projects procurement and handling comes with the contacts and experience a company or a director possess. The experience of the management of ABC Infra and their proven record for timely and successful execution of projects is something that a new entrant might lack.

e. GOVERNMENT POLICIES:

Strong entry and exist barriers from government side in terms of policies and regulations might act as road blocker for the new players.

2. **BARGAINING POWER OF THE SUPPLIERS: → HIGH**

Being in a business which requires procurement of multiple inputs like cement, steel, sand, construction equipment etc. makes them vulnerable to threats from suppliers.

a. CONCENTRATION OF THE SUPPLIERS:

The high concentration of the buyers (Infra Companies) is an advantage for the suppliers (of cement, sand, steel and other raw materials) resulting in the high bargain power of them.

b. DIFFERENTIATION OF THE INPUT AND SWITCHING COSTS:

Absence of major differentiation and less switching costs of the inputs procured form the suppliers make them (ABC Infra) have a higher hand over the suppliers.

c. THREAT OF FARWARD INTEGRATION FROM THE BUYERS:

The threat of forward integration is very low as the business requires a variety of inputs to complete a project. There is no chance that suppliers (of ABC Infra) can pose a threat to the business by diverting their resources from their core business as they will be more effected when a crisis occurs for the industry.

d. IMPORTANCE OF THE INDUSTRY TO THE SUPPLIER GROUP:

The segment of business ABC Infra is in (Metros, civil, Highways) is not the only part of their(suppliers) business as they have customers from residential housing, commercial and other entities. This place the suppliers in a non-bargaining position.

3.BARGAINING POWER OF THE BUYERS: → MODERATE

The competition involves in the procurement of the contracts (as ABC Infra mostly deals with public projects) often through closed bids places ABC Infra in a tough spot but the bargaining power is moderate because of constraints like differentiation and innovation offered.

a. OFFERING DIFFERENTIATION:

Offering differentiation in terms of innovation in design and inputs used for the projects they are undertaking can place ABC Infra in a position to bargain and the vice versa can also happen.

b. IMPORTANCE OF QUALITY TO THE BUYER:

As the quality is of utmost important to the buyer of the services form the ABC Infra as the major projects under taken involve handling of public and critical resources like water in case of irrigation projects, this places them in green zone to negotiate.

c. THREAT OF BACKWARD INTEGRATION:

Because of the limited resources, lack of innovation and time constraint many public and other projects (like metro that happen through PPP mode) are given to companies like ABC Infra though they (buyers like government) have their own infrastructure units.

4.THREAT FROM SUBSTITUTES: → LOW

Though there are no near substitutes that can replace the services offered by firms like ABC Infra, Only possible threat is from 3D printing technology that has in recent times shown its ability to construct houses but the threat is far from reality as of now since these projects (like metro, civil) involves custom designs and hand finishing because of their life and resource critical aspects.

5.INDUSTRY RIVALRY: → MODERATE

ABC Infra is having a pretty much competition in Infrastructure sector but when it comes to rivalry in the area of business and size, the list reduces to fewer number of opponents. Offering of almost standard products by the industry players with no much differentiation except in design aspects makes the rivalry less intense. Also, the importance given by the government for infrastructure development in recent times (including the recent Covid 19 relief policies) will increase the growth rate of the industry there by decreasing the competition among the players.

- **SWOT ANALYSIS:**

STRENGTHS:

1. Promoters confidence in the company's performance is reflected in the intention to increase/decrease of their shareholding in the company. The increase in the shareholdings of the promoters by approximately 1% from the last quarter is a positive sign.

2. Good order book including the projects worth Rs 4500Crores secured in the last financial year.

3.Two-digit compounded growth of profit at 21.42% during the last 3 years.

4.Low P/E ratio of 2.8 among its peers compared to the industry average of 8.01.

5.low debt compared to the peer companies with borrowing of the ABC Infra in the last FY stood at 623 crores.

6.Lowest Debt to equity ratio 0f 0.36 indicating there is a lot of scope for funds procurement through debt.

7.Quarterly variance of sales at 15.60% when other companies are registering negative figures.

8.Highest Return on Assets (ROA) of 7.93% among the peer set.

9. EPS nearly doubles in the past 3 years.

WEAKNESSES:

1.Though the yearly profit is showing a rise there was a decline in QoQ profit in the last FY.

2.Decrease in the net cash flow because of the cash outflow due to the investment activity.

3.Decrease in the debtor days indicating that the firm is incurring opportunity costs.

OPPORTUNITIES:

1.Low PE ratio indicating that the firm can opt for debt rather than equity which is slightly costly.

2. Huge infrastructure spending from the government to address logistical and connectivity indicating that the company can have more opportunities to increase its orderbook.

3. Can leverage their brand name to bag projects of housing initiated by the government through various schemes.

THREATS:

1.Increasing interest expenses which soared by 50% in the past 2 years.

2.More percent increase in expense compared to the percent increase in sales in the last 2 years.

3.Decrease in the spending on the Infra sector by the government which is the major source of projects for the company

- **BLUE OCEAN STRATEGY:**

Through this strategy companies can make use of differentiation and low cost for opening the new markets where there is almost zero presence of the competition and much potential for growth unlike the conventional markets where the competition will fight against one another for the market that is having almost stagnant growth.

I have applied this strategy to ABC Infra Projects that can place it ahead of the competition with vast market opportunity and limited competition. Below are the tools of the Blue Ocean strategy that are being used.

VALUE INNOVATION:

This is offering of the low cost along with differentiation for creating potential new markets which are untouched. There must be an alignment of cost, value and price because the value for the customers means {offering's utility value minus price} and for the companies it is {offerings price minus cost of the offering}.

An REIT is an opportunity for ABC Infra for value creation to its customers who are interested in investing in the infra and real estate sectors and unable to pursue their investment goals because of the huge capital requirements that are needed to completely own the properties. On the other hand, ABC Infra can generate good profits as it cut costs because of the negligible competition in this sector.

4 ACTION FRAMEWORKS:

This particular tool helps in identifying trade-off between the differentiation & the low cost with the use of 4 questions.

1. The factors which can be raised above the standard of the Industry:

This will include eliminating the compromises made by the customer like not investing into particular real estate though he /she thinks is having good growth because of the large capital requirement. Through this offering ABC Infra can provide an opportunity for customers who want to take advantage of the economy uptrend even with small investments.

2.Factors which industry takes as granted must be eliminated:

Factors like high brokerage charges experienced by the customers can be eliminated since through this opportunity the ABC Infra will get a direct opportunity to deal with the clients.

3. Factors that must be created that industry has never offered:

Factors like providing transparency to the buyers about the financing and operations. offering advantage like economies of scale to the customers, fixed income from the rentals etc.

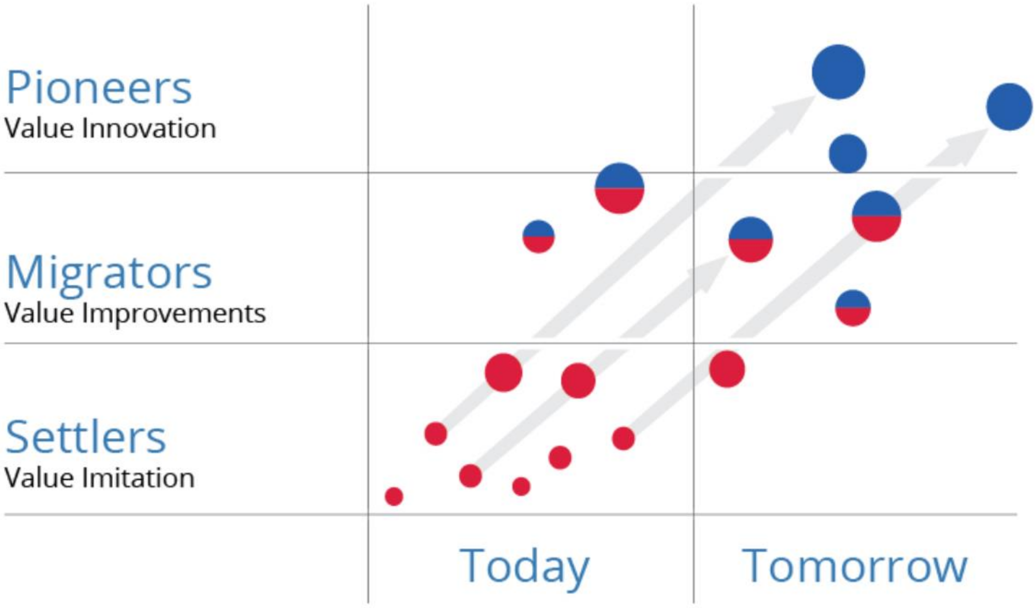
4.Factors that must be decreased below the standards of the industry:

Huge promotional and advertising costs that are significant part of any firm that is into real estate business. J Kumar Infra can reduce these costs significantly for this new offering because going public that is listing on exchanges increases its visibility

PIONEER-MIGRATOR-SETTLER:

Settlers with me too concept tries to do the business in the existing market that is limited/bounded and competitive in nature. Though explores tries to bring some differentiation by providing improved products than the existing players, they fail to show innovation in the value they provide to the customers. Whereas pioneers do value innovation and thereby fixing their place in the vast and non-competitive markets.

ABC Infra should be a pioneer rather than merely improving or proving existing value to the customers. Though it will be difficult initially because of the non-existence of a concept like REIT in India, but can get the mover advantage because of their value innovation to the customers of the industry. Below is the graph that depicts the types of firms and their acceptance by the customers across the timeline of the industry.



Source: Blue ocean strategy website

THREE TIERS OF NON-CUSTOMERS:

First tier are the customers who will rarely buy the services/products out of necessity. Second tier customers are the one who will refuse to buy the offering because they feel that industry's current product at that point cannot satisfy their need. 3rd tier of customers who are non-customers who have never considered the option of choosing for the industry's offering.

ABC Infar could use this opportunity to offer the product to customers of the three tiers. Here tier 1 customers are the one who invest in the properties for anticipating profits, tier 2 customers are people who don't invest in properties because of the unattractive prices of the offerings and tier 3 people are the one who don't see real estate as an option to invest. Non customers are the huge potential for the firm and ABC Infra can convince them to invest as this REIT option will generate regular income with small investment.

- **Financial forecasting and modelling for ABC Infarprojects:**

As the results of the 3 quarters of the FY 20 are already out we have forecasted the financials of the JKIL for the Quarter 4 i.e. ending on the March 2020.In order to do the fare estimation of the 4th quarter we have taken the quarterly results of the KNR Construction(KNRC) and identified the trend in the growth of both the companies. The reason for choosing KNRC is because of its presence in the same line of business as JKIL (in Roadways, Flyovers, Bridges, Irrigation etc.) and its revenue pattern that is in the range of JKIL. We have estimated the growth based on the correlation of their growth and forecasted the revenue for the quarter 4 for JKIL and similarly we have estimated the expenses, interest, depreciation and tax based on our conclusions and facts of the previous quarter's financials of JKIL. We have not considered the impact of the Covid19 pandemic in the FY2020 a s it is only in the last week of March there is an impact on the operation due to lockdown.

Forecasting for the Financial Years (FY) 2021 & 2022:

We have considered the impact of the pandemic in the FY2021 in the operation of the company. Based on the analysis and facts mentioned in the various reports of some organizations like CRISIL and KPMG that highlighted the impact of the current crisis on the Infra sector, we have taken the impact as negative 15% growth of the revenue in the next financial year i.e. FY2021.

Assumptions	2020	2021	2022
Sales		85%	120.00%
Material Expenses of Sales		52%	52%
Employee Expenses		210.3	293.31
Other Expenses		630.37296	678.503
Tax	25%	25%	25%
Net Block		786	
		16%	
		112.8611755	
Total Debt	701.1	721.1	
Rate	13.5%	12.5%	

The above snapshot shows the key assumptions we have taken while making the forecast for the next 3 years.

For FY22 we have assumed that the infra sector will take a 'V' shaped recovery irrespective of others sectors due to the push from the government in the form of new infra projects as this is the sector which creates income for many people who are in the poverty or below poverty line of the society.

We have taken the percent of material expenses out of sales for the previous years and found it in the range of the 52% of the sales. For calculating the employee expense, we have considered the individual breakup that includes salary and wages, staff welfare funds, contributions to PF etc. With reference to the government order stating that the contributions to the pF will be reduced to 10% from the existing 12%, we have reduced the contributions by the same amount and changed the salary and wages amount by the same amount that is used for growth forecast that is negative 15%.

Key Estimates &Assumptions				
		FY -2020E	**FY-2021E**	**FY- 2022E**
Closing order book		12085.3	13551.2375	15010.3625
Order book growth (%)		16.51%	12.13%	10.77%
New order booking		4500	4000	4500
Book to bill ratio		4.05376939	5.347633494	4.936198463
Total Revenue		2981.2500	2534.0625	3040.8750
Growth (%)		6.97%	-15.00%	20.00%
EBIDTA		479.77	375.68	471.34
Material expense		1,550.92	1,317.71	1,581.26
Employee expenses		250.15	210.30	293.31
EBIDTA margin (%)		16.09%	14.83%	15.50%
Depreciation		122.3900	96.04061712	117.2058226
Financial Charges		94.7900	120.6419637	140.8941934
PBT		291.7200	188.1245	242.3656
PBT Margin(%)		9.79%	7.42%	7.97%
Tax		72.9300	47.0311	60.5914
Tax Rate(%)		25%	25%	25%
PAT		218.7900	141.0933	181.7742
Net Margin(%)		7.34%	5.57%	5.98%

The above picture represents the key assumptions and estimates we have considered while forecasting the rest of the financials for the next 3 years till FY 2022.

Though the EBITDA margin for FY2021 is decreased to 14.83% from 16.09% in FY2020, it again rebounded to 15.50% in FY2022. Whereas the profit margin slumped to 7.42% in the FY2021 and soured to 7.97 in the FY2022.

For calculating the reserves and the retained earning we have considered that he company has paid the divided to the shareholders based on the divided payout ratio of the previosu years. After the dividend the rest of the earnings are added to the retained earnings.

For calualating the debt we have used the ratio of short term and long term debt concept and have forecatsed the debt for te hnext 3 years by keeping the ratio as 7:3.

	17	18	19	20	21	22
Depreciation	55.65	72.74	102.22	122.3900	96.04061712	117.2058226
Gross block	616	893	1057	1191.191312	1025.675691	1199.691192
Depreciation rate	9.03%	8.15%	9.67%	10.27%	9.36%	9.77%
sales	1604.26	2050.72	2787.09	2981.2500	2534.0625	3040.8750
	38.40%	43.55%	37.92%	39.96%	40.48%	39.45%

Above is calulation and forecasting of Gross Block and depreciation

For forecasting the depreciation expenses first we have forecasted the grossblock for the future based on the asset to turnover ratio of the previous years and then we have calcualted the depreciation of the forecasted gross block based on the average rate of depreciation of the previous 3 years.

Balance Sheet							
Year ending March (Rs Crores)	**FY 2016**	**FY 2017**	**FY-2018**	**FY-2019**	**FY-2020E**	**FY-2021E**	**FY-2022E**
SOURCES OF FUNDS							
Share Capital		37.8	37.8	37.8	37.8	37.8	37.8
Reserves		1353	1470.9	1629.7	1,817.99	1,949.97	2,116.32
Total Shareholders Funds		**1390.8**	**1508.7**	**1667.5**	**1,855.79**	**1,987.77**	**2,154.12**
Long Term Debt		53	215.3	228.6	269.53	258.90	312.00
Short Term Debt		383.8	365.1	462.5	628.9	604.10	728.00
Total Debt		**436.8**	**580.4**	**691.1**	**898.43**	**863.00**	**1,040.00**
Deferred Taxes		18.4	28.9	36.6	36.60	36.60	36.60
TOTAL SOURCES OF FUNDS		**1846**	**2118**	**2395**	**2791**	**2887**	**3231**
APPLICATION OF FUNDS							
Net Block		511.4	716.1	778.8	1,068.80	929.64	1,082.49
CWIP		71.2	126.2	79.8	87.78	96.56	106.21
Investments		0.3	15	31.6	33.60	33.60	33.60
Other Non Current Assets		248.1	271.7	335.7	411.69	488.13	593.49
Total Non-current Assets		**831**	**1129**	**1225.9**	**1,601.87**	**1,547.92**	**1,815.79**
Inventories	486.2	643.6	814.3	918.7	968.80	804.86	932.67
Debtors	295.6	486.1	528.8	498.6	661.6	692.66	662.16
Cash & Equivalents	173.6	100.6	97.5	70.4	175.00	149.00	189.00
ST Loans & Advances, Others	104	63.8	78.8	33.8	33.80	33.80	33.80
Other Current Assets	228.2	638	713.1	749.9	587.87	758.22	785.47
Total Current Assets		**1932.1**	**2232.5**	**2271.4**	**2,427.09**	**2,438.53**	**2,603.10**
Creditors	114	180.3	329.2	397.6	428.13	342.40	404.28
Other Current Liabilities & Provns	196.4	736.8	914.3	704.6	809.45	757.03	783.24
Total Current Liabilities & Provns		**917.1**	**1243.5**	**1102.2**	**1,237.58**	**1,099.42**	**1,187.52**
Net Current Assets		**1015**	**989**	**1169.2**	**1,189.5**	**1,339.11**	**1,415.58**

The above image of the Balancesheet shows the actual and forecatsed finacials of the financial years from 2017 to 2022.

Some elements like the Defererd tax, CWIP,investments are kept constant as previous years as these depend on the various actual scenarios making them almost impossible to forecast.

For calculating the inventory of the future years we have caluated the inventory as the percent of the material expenses and forecasted by taking the moving average for the previous 3 financial years.

For forecasting the debtors of the next years we have calculated the percent of debtor amount out of the total revenue for the previous years and have taken the moving average of the previous 3 years of this percentage.

	2017	2018	2019	2020	2021	2022
Inventory	643.6	814.3	918.7	968.7994785	804.85699	932.67454
Inventory% of expenses	66.63%	67.37%	53.40%	62.47%	61.08%	58.98%
Debtors	486.1	528.8	498.6	735.1335061	577.21252	662.16347
%sales	30.30%	25.79%	17.89%	24.66%	22.78%	21.78%
Creditors	180.3	329.2	397.6	356.7767934	322.19107	371.94951
Creditors % of Material Expenses	18.66%	27.24%	23.11%	23.00%	24.45%	23.52%

The above image shows the calculations of the different elements of the balance sheet

To estimate the creditors amount we have calculated the proportion of the creditors amount out of the material expenses of that year and have taken the moving average of the previous 3 years to calculate the proportion and there by the creditors amount of that financial year.

Income Statement						
Year ending March(Rs Crores)	**FY 2017**	**FY-2018**	**FY-2019**	**FY-2020E**	**FY-2021E**	**FY-2022E**
Net Sales	1,604.30	2,050.70	2,787.10	2,981.25	2,534.06	3,040.88
Growth (%)	13.86%	27.83%	35.91%	6.97%	-15.00%	20.00%
Material Expenses	966	1208.7	1720.3	1,550.92	1,317.71	1,581.26
Employee Expenses	126.7	197.1	247.7	250.15	210.30	293.31
Other Operating Expenses	261.1	323.7	382.8	700.41	630.37	694.97
EBIDTA	250.5	321.2	436.3	479.77	375.68	471.34
EBIDTA(%)	15.6	15.7	15.7	16.09%	14.83%	15.50%
Depreciation	55.6	72.7	102.2	122.39	96.04	117.21
EBIT	194.9	248.5	334.1	357.38	279.64	354.13
Other Income	31.1	28.5	28.1	29.13	29.13	29.1300
Interest	66.2	70.4	93.9	94.79	124.58	146.93
PBT	159.8	206.6	268.3	291.72	184.19	236.33
Tax	52.5	70.1	91.2	72.93	46.05	59.08
RPAT	107.3	136.5	177.1	218.79	138.14	177.25
PAT	102.3	132.8	177.1	218.79	138.14	177.25
EPS	13.51	17.54	23.39	28.90	18.25	23.41
EPS Growth(%)	3.79%	29.81%	33.36%	23.54%	-36.86%	28.31%

Above is the income statement till FY2022

- **RATIOS:**

Profitabilty(%)		FY 2017	FY 2018	FY 2019	FY 2020E	FY 2021E	FY 2022E
GPM	(Revenue-COGS)/Revenue	39.80%	41.10%	38.30%	47.98%	48.00%	48.00%
EBITDA Margin	EBITDA/REVENUE	15.61%	15.66%	15.65%	16.09%	14.83%	15.50%
EBIT Margin	EBIT/REVENUE	12.15%	12.12%	11.99%	11.99%	11.04%	11.65%
PAT Margin	PAT/REVENUE	6.38%	6.48%	6.35%	7.34%	6.05%	6.36%
RoE	RPAT/TOTAL EQUITY	7.71%	9.05%	10.62%	11.79%	7.71%	8.97%
Efficiency(%)							
Tax Rate		32.9	33.9	34	25	25	25
Asset Turnover	REVENUE/TOTAL ASSETS	0.83	0.92	1.23	1.23	1.04	1.17
Inventory days	365*INVENTORY/COGS	243.18	245.90	194.92	228.00	222.94	215.29
Debtor days	365*RECEIVABLES/REVENUE	110.59	94.12	65.30	81.00	99.77	79.48
Payable days	365*PAYABLES/REVENUE	41.02	58.59	52.07	52.42	49.32	48.53
Solvency							
D/E	DEBT/EQUITY	0.05	0.16	0.16	0.16	0.15	0.16
Interest Coverage	EBIT/INTEREST	2.94	3.53	3.56	3.77	2.68	2.82
EPS	EARNINGS/SAHRE PRICE	13.51	17.54	23.39	28.90	20.25	25.53
Valuation							
P/E	SHARE PRICE/EPS	6.99	5.39	4.04	3.27	4.67	3.70
DIVIDEND YIELD RATIO	DIVIDEND PER SHARE /SHARE PRICE	2.55%	2.55%	2.55%	4.26%	2.99%	3.77%

The above snapshot depicts the key ratios of the JKIL from FY2017 to FY2022

From the above image we can say that the gross profit margin is increased over the years.Though there is reduction in EBITDA and EBIT in the FY2021 they have rebounded in the FY2022.The reduction in th tax rate also responsible for the increase in the PAT of the company.The debt to equity ratios is raisng over the years indicating that the company is increasing its debt over these years.The PE ratios is decreasing indicating that the earning are improving comapred to the price.

- **EQUITY RESEARCH REPORT:**

We have prepared an equity research report for JKIL using the financial forecasting we have done by us for the company. We have put BUY call for JKIL based upon our valuation that is done using the 5GP10NP model of valuation.

MONEY WORK HERE

RESULTS REVIEW 3QFY20

ABC Infarprojects

HIGHLIGHTS OF THE QUARTER

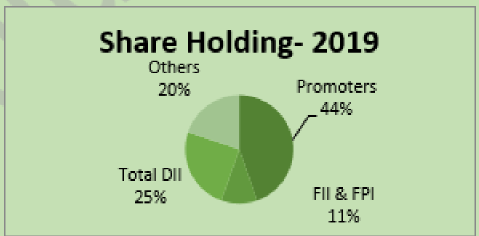
Robust execution continues, marginal miss on EBITDA/APAT: 3QFY20 revenue at Rs 8.01 bn was in line with our estimates with EBIDTA at Rs 3.18bn. EBITDA margins contracted at 0.4 bn YoY to 16 % with 32.29 %/29.72 % YoY/QoQ decrease in employee expenses due to recruitment at higher managerial positions. However, EBIDTA margins are expected to normalize at 14-16% range for FY20E FY21E/FY22/ as recently awarded projects, in preparatory stage, start contributing to revenue as well as margins. APAT for the quarter came in at Rs 21.879 Cr.

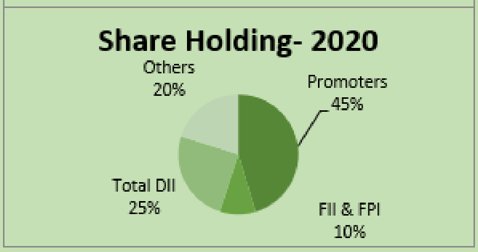
. The gross debt for the company is Rs 6.23 bn, marginally down from Rs 7 bn at the end of 3QFY20. With no significant capex planned during the FY21E/FY22E, Fund-based/Non-fund-based limits utilization remains moderate at 70%. On the flip side, it has ₹4.95b in cash leading to net debt of about ₹1.28b

INDUSTRY	**INFRASTRUCTURE**
CMP ***(as on 23 Jun 2020)***	**Rs 95.15**
Target Price	**Rs 311**
Nifty	10,470
Sensex	35,430
KEY STOCK DATA	
Bloomberg	JKIL IN
No. of Shares(mn)	76
MCap (Rs.)	723.36

STOCK PERFORMANCE

52 Week high/low	**Rs179/65**		
	3M	6M	12M
Absolute (%)	**25.2**	**(25.9)**	**(33.7)**





Y/E

The above image is from the equity report we have prepared for the ABC

	FY20	FY21	FY22
SALES	2,981.25	2,534.06	3,040.88
EBDITA	479.77	375.68	471.34
PAT	218.79	153.33	193.26
VALUATION BENCH MARK			
5*EBITDA	2398.85	1878.3852	2356.678125
10*PAT	2187.9	1533.282724	1932.553319
WHICHEVER IS HIGHER	2398.85	1878.3852	2356.678125
NO. OF SHARES	7.56	7.56	7.56
VALUE PER SHARE	317.3082011	248.4636508	311.7299107
Current price	94.45	94.45	94.45
Call	BUY	BUY	BUY

The above figure shows the valuation we have done for the ABC Infra using the model recommended by the organisation we are interning with that is MWH Holdings. In this model after doing the financial modelling the valuation of the infra firm is done using the net profit and gross profit of the company. The valuation is estimated as 5 times of gross profit or 10 times of net profit whichever is higher (referred as 5GP10NP model).

Using the 5GP10NP valuation method we have arrived at a market price of Rs. 31/ share in FY2022. We got the share price which is 12 Times of the EPS of the FY 2022E.

MONEY WORK HERE

RESULTS REVIEW 3QFY20

ABC Infarprojects

We value the standalone EPC business at Rs 311/share (12x two-year forward Mar-22E EPS)

Maintain BUY with TP of Rs Rs.311/share

We have based our estimates by considering the impact of Covid-19 on the operations of the company

- **Valuation methodology:** We have value ABC on P/E at 12x Mar-21E EPS. Our investment thesis is premised on (1) Strong order backlog of Rs 124.4bn as of 3QFY20 (3.9x FY20 revenue), (2) Stable balance sheet and Well- diversified presence across different infrastructure sub-segments viz. Metros, flyovers, roads, water transport etc.
- **We have valued the company by using the 5GP10NP model where the company is valued as % times of Gross Profit or 10 times of Net profit Whichever is higher.**

Peer Set Comparison

Company	ABC	NCC Ltd	IRB INFRA Development Ltd	KNRCON	DILIPBUILDCON
Market Capitalization	723.36 Cr.	1912 Cr.	2495 Cr.	3118cr.	3791 Cr.
Current Share Price	₹95.64	₹31.35	₹71	₹221.75	₹277.2
Book Value	₹230.35	₹80.45	₹190.15	₹110.99	₹233.16
52 Week High/Low	₹ 179.8/65.05	₹102.95/15.85	₹120/45.6	₹311.8/171	₹511/190
Eps	₹27.73	$5.59	₹19.29	₹18.88	₹29.64
Dividend Yield	2.35%	4.78%	7.04%	0.23%	0.36%
Stock P/E	3.45	5.3	3.65	11.4	12.55
ROCE	16.24%	22.32%	12.20%	19.23%	16.63%
Debt Equity Ratio	0.36	0.38	1.28	0.53	2.62
BUY/SELL	BUY	BUY	BUY	SELL	SELL

3. EXPLORATION OF ALTERNATE SOURCES

There are many types of financing a firm may opt for with short term, midterm and long term as timeline. The below are the various alternatives of financing that can be availed by the firm

1.Bank Loans

2.FPO

3.QIP

4.Preferenetial allotment

1. Banks:

Banks are an easy source of financing if there is a collateral along with the good credit history of the company. There are less legal obligations for this type of financing as long as there are proper documentations and compliances are met by the receiver and borrow of the loans. They show a variable interest based on the credit reputation of the company; this will be difficult for the companies which are having a mark on their loan repayment history. But on the contrary if the organizations pay their dues on time along with the cordial relationships they maintain with the banks their relationships can make a win-win situation for both of the partners with companies getting more encouragement in the form of fresh and fast loans for any of their future projects/endeavors. With the raising NPAs the banks may become vigilant while financing and this may result in not being liberal while providing credit for eth company. If the interest rates offered are linked to the lending rates of the central banks this may result in fluctuation of the financial cost depending on the increase/decrease in the repo rate by the central banks. The other downsides may be are the banks interest in the expenditure of the company while sanctioning loans and not giving finance unless previous loan accounts are closed etc.

2. FPO (Further Public Offering):

This type of offering often happens only after the IPO is a lengthy process as it involves documentation works and many compliances to be met. With the fresh issue of the equity there will be change in the ownership of the company considerably. Unlike rights issue these are opened to people other than current shareholders, so there is chance of oversubscribing and they will be listed at a discount price in order to provide a advantage to the existing shareholders. With the increase in the shareholders the profit earned by the existing shareholders may decrease if the return on the capital employed form FPO is not good.

3. QIP (Qualified Institutional Placement):

This type of financing often popular in India made to encourage the investments that are raised domestically rather than internationally. This involves less paperwork unlike the FPO as there will be no need of submitting preissue fillings to the regulators like SEBI. This is a perfect option for the already listed companies that want to raise the capital only through the issue securities.

This is will be an advantage to the existing shareholders as the earnings shared with them will not be eaten away which happens in the FPO financing.

4. Preferential allotment:

With this type of financing the firms may opt to allot the shares to the persons or the firms whom it wants to be on board of the company. This will reduce time and money as there are no brokering costs involved because of the direct involvement of the company with the investors. Through this option the financers (preferential shareholders) gets the preferential treatments like receiving their investments first than anybody in case the companies goes bankrupt and option to claim the divided in that year if it is unpaid in the previous year’s etc.

4. CRETERIA FOR EVALUATING THE OPTIONS

The Capital-Intensive nature of the Infra structure industry makes it more susceptible to profit variations any changes in the financing costs. It is better to keeps the eggs (Financing) in different baskets rather than going only for a single type of debt or equity instruments that are attractive and easily available in the market. With the current pandemic situation resulting in the high operating costs, increased creditor days, the company should opt for long term sources of financing rather than opting for short term types which are usually costly and timebound. Any Financing option chosen should be in such a way that the earning of the existing shareholders should not be affected particularly in this situation where the stock price is already eroding due to the Covid -19 impact on the economy. Any step taken for opting the credit from the available financing options should be aimed in creating the wealth to the shareholders in the long-term.

5. EVALUATION OF THE ALTERNATIVES

Apart from the financing costs that the firm may incur from opting a financing option available from the pool of alternatives, the firm must also look into other consequences that may arise for choosing that particular alternative. Consequences can be the credit rating of the firm, proportion of debt to equity, impact of the option on the earnings of the existing shareholders, time and cost (Legal costs, brokerage costs etc.) that will be put into exercising that option, its effect on further borrowings for future projects and the ability of the company to repay the credit as per the terms of the contract between them and the shareholders. Considering the average execution period of 2-5 years for the company for its existing and previous projects, it will better if the firm opts the option that better suits this time horizon. Bank loan may appear to be an option handy but the regulations like keeping collateral, and the condition to disclose the details of the investments that will be made using the credit taken may be difficult for the firm in doing as required by the bank. Where as an FPO seems like a good option for raising capital from the new /existing investors, this will not only involve time and cost but the firm need to adhere to a lot of regulations and legal work before going public. Also, any undersubscription of the shares will result in listing the shares at a discounted price there by reducing the morale of the existing as well as new shareholders of the company. Preferential allotment of shares is an attractive option for the company as it will reduce the compliances and costs since it involves directly inviting the already know creditors to be preferential shareholders. This kind of allotment will be useful if the company wants particular persons/institutions to be part of its company. Though The current equity level is not high opting for equity will increase the WACC of the company there by increasing the cost of capital so it will be better to opt for debt which is less costly than equity type of financing. For listed companies which wanted to raise the capital through domestic investors and with less or zero compliances QIP is the most preferable option of all the alternatives available to them. Through this QIP option the company should raise the capital completely using the securities as per the norms of the SEBI.

6. CONCLUSION

Nature of the solution:

After analyzing the various alternatives of the financing available and considering the industry nature and structure, the option that best suits and helps the organization in meeting its long-term goals is the option to finance through QIP mode. This will not only reduce the legal fee and other costs that are related to documentation, human resources involved in following the compliances of the market regulator but also saves the time and helps the firm in getting the finance when it is needed for its current and future endeavors.

Recommendations and action plan:

After choosing the right type of financing option that is QIP, the company should look into the various forums and networking sites where it can find the pool of investors listed their services online. It should select and choose the investors whom it feels can align with the strategy and goals of the company. Finding an investor may be possible but choosing a right one who can see the future of the company with the eyes of the shareholders and the management is a difficult one. This can be achieved with a little bit of background work like tracking their previous investment and their nature of involvement in the day to day functioning and decision making of the company, analyzing whether their expectations are about the long-term performance or short-term gains etc. After this screening the terms of the contract must be discussed and must convey the expectations of both the sides. Because without knowing the real expectations any discussions and negotiations that will happens will meet a dead end. After reaching the common grounds with the terms of the contract they can proceed with the legal work like MOU, NDA, NCA and other documents that are involved in the process of fundraising.

Contingency plan:

If the company is not able to raise the funds through the QIP option then it can use the equity type of financing as a backup. Since the promotors area already having 45% of shareholding in the company there wont be much variation in the control of the company if a dilution of their shares happens. As already discussed in the above sections the FPO is not a better option in this situation like this where there is certainty in the future of the industry as well as of the economy. Preferential share allotment seems like a decent option as the company can bring people or the institutions that it wants to have on the board of the company.

7. LEARNINGS

Who actually an Investment Banker is and what does he/she do:

As an engineer with non-financial background initially I thought that an investment banker is the one who helps only in raising the funds from various types of investors but through this induction program I came to know that the responsibilities goes beyond capital raising. It includes financial advisory solutions, underwriting, assisting and completing the Mergers and Acquisitions etc.

Career prospects in Investment Banking:

Typically, the career of an investment banker starts as an analyst or as an associate and it moves through various positions like Vice President, Director and MD with the level of experience and expertise in closing the deals in a short time. It offers a lucrative package but it only comes with countless days and nights of hardworking and dedication along with the passion in the IB.

Skills and Responsibilities:

An Investment banker should be at the top of the learning curve when it comes to acquiring the skills with high level of quantitative and communication skills. He/she should be proficient in advance excel operation or any statistical softwares like SAS/R/Python for Financial Analysis, must be aware of the different valuation techniques and methods along with a strong hold on the fundamentals of the ratios and ability to do deep research in the equity markets.

I-Banking Functions:

Functions of an I-Banking firm can be categorized as 3 segments: -

1.CORE BUSINESS- The money maker of the business with task including underwriting, advising and M&A(Mergers and Acquisitions) activities.

2.BACK OFFICE- This part of the organization helps in assisting various operational and technical aspects of the business like protecting the systems against various threats including cyber and employee thefts, handling of MIS systems etc.

3.MIDDLE OFFICE- It is the crucial part of the firm in handling the tasks like risk managements, Corporate treasury, strategy execution along with compliance management

Mergers and acquisitions:

Mergers and Acquisitions appear to be same but they are different in terms of the deal offering and the control obtained by the buyer or the takeover company. Through the resources in the internship and some research, I obtained reasonable information on the M&A activities like the types of mergers and acquisitions, advantages and disadvantages of each of the activity. Firms do such activities for competitive advantage, to gain market share, to monetize the economy of scale and scope, to multiply growth and they can also get a chance to list in the stock exchanges without going through tedious procedures involved in the IPO process by opting for a reverse merger.

6MT Matrix of the MWH Holdings:

	MARKET	MONEY	MACHINE	METHOD	MATERIAL	MAN	TIME
WHAT							
WHY							
WHEN							
HOW							
WHICH							
WHERE							

The above Matrix which is the copy righted tool that will be used to get as many questions that may arise during the process of an M&A or any other investment activity has heled me in exploring the possible hurdles and multiple facets of a situation that one may face during the execution of various projects.

How a successful planning can turnaround a company that has gone into NCLT process:

Through this case I came to know how a company's business can be affected irrespective of its performance because of the downtrend in the business of its customer companies. Identifying core problems and bringing solutions that area win-win situation both to the company and the investor should be the motto of the IB professional.

Good analysis and forecasting techniques can play a crucial role in attracting and boosting the confidence of the investors. In this case the turnaround happened because of the successful execution along with the reputation and market strength of the company in that particular business.

Listed company Acquisition:

There will be many reasons why a listed business want to sell its company, it can be due to losses or non interest in business by the next generation of the family or due to the compliances that a listed company should follow as mentioned by the regulator authorities like SEBI in India.

I have learnt how a private equity firm like NHIL can participate in a takeover process and the compliances it should follow due to the listing status of the target company. The process includes activities like appointment of a manager (Essentially a merchant banker) to oversee the process, public announcements at various stages of the process, creation of the escrow account, along with preparation, filing and revision of open offer as per the guidelines.

Hospital + Real Estate Combination:

Healthcare is a promising sector with heavy returns because of the non-bargainable nature of the customers while opting for health care as it is essential and crucial to them. But the skyrocketing land prices along with the huge material costs is increasing the turnaround period form 8year to 12-15 years. So, hospitals are either opting for heavy financing from banks or going for a lease route.

The innovative solution given by the MWH Holdings is definitely a break through to the problems faced by the Real Estate sector and high construction costs for the hospitals and other organizations that are in need for commercial space for their business activities.

With the option of leasing and chance to own the property anytime when the firms need will make a win -win situation to the Hospital as well as to the Real estate developers.

QIP case:

Through this case I have learned that:

- QIP is an important tool and a life line for the companies that want to raise funds without an IPO and FPO which are usually time consuming and involves a large set of rules and regulations.

- A QIP also helps in reducing the debt burden on the books as it is an equity mode of financing.
- QIB’s can also include pension funds, insurance companies, state industrial corporations apart from commercial banks, Foreign venture capitalists and mutual funds.
- How pricing cannot be less than the average of the highest or lowest prices of the equity shares that are trading in the exchanges in the week prior to 2 weeks of the relevant date.
- Through the case I came to know about the timeline of different activities starting from preparation to negotiating and closing of the deal that should be followed for successful execution of the QIB for the company provided in the resources of the company.

Leverage Buy Out (LBO):

The leverage LBO appears to be an easy solution for buying firms with debt raised from the financial institution by using the assets as the collateral, It also has its own advantages like tax benefits that a firm can enjoy by showing the interest burden obtained by the buyout, no opportunity cost as we are not using the cash of the acquiring firm entirely that could have used somewhere else and disadvantages are like huge debt burden on the books of the acquiring company and the probable catastrophe that can occur if the buyout turns out to be a loss making machine.

I have also learned about the different stages and regulations that will be there in a LBO along with the steps must be followed in a LBO in order to make a successful LBO without any chance of buying out a firm that has no synergy and future prospects. Though there are some regulations for foreign firms to make a LBO, Indian companies like Tata group, Suzlon Energy, Vedanta Group and Aditya Birla group have performed some good LBO’s in foreign markets.

Convertible bonds and Structured equities:

Convertible bonds often termed as the financial products with hybrid risk as the risk of the equity is covered partly by the coupon rate offered. Unlike the common equity holders, they are provided with priority in case of the solvency of the company.

Though these are costly companies opt for this type of fund raising as there are limited restriction on the utilization of the funds raised unlike with debt raised from banks where banks are cautious about the purpose of the expenditure.

This case study also gave me insights about various strategies IB professional should follow while planning a fund rising like the Dish TV which successfully satisfied the investors with its innovative issue of partially paid up shares

8. SKILLS DEVELOPED

- Through this internship I have learnt how to do financial analysis of a company and what parameters must be kept for the same for making a rational judgement about the performance of the company.
- I have learnt how to do forecasting of the financial of the company using appropriate assumptions that may vary for different elements of the balance sheet.
- I have learnt how to make proper financial models that are accurate and can estimate the future cash flows of the company
- This internship equipped me with skills that will be necessary for doing a valuation of a company depending on the type of the business and the sector it is operating in.
- I have learnt how to make Equity reports, Investor presentation and pitches that are necessary for an IB professional.
- Through this internship I got an opportunity to work in team which gave an experience of team management and dealing with situations involving conflicts among the team members.
- Apart from the above-mentioned skills through this training I have developed verbal and non-verbal skill that are required for progressing oneself in the corporate world.

9. REFERENCES

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UNDERTAKING

To Whom It May Concern:

I Yaswanth Sai Krishna Karedla, hereby declare that this report is original work of mine and is not copied from anywhere/anyone. If found similar to other sources, I shall take the complete responsibility of the action, taken thereof by my mentor Prof. Tripura Sundari Joshi mam and the program office of the Institute of management, Nirma University.

Yaswanth Sai Krishna Karedla- 191165

Section: A

Batch: MBA – FT (2019 – 2021)

Date of Submission: 05th July, 2020