JK Cement

BSE Sensex	S&P CNX
19,640	5,959

Bloomberg	JKCE IN
Equity Shares (m)	69.9
M.Cap. (INR b)/(USD b)	22.2/0.4
52-Week Range (INR)	370/123
1,6,12 Rel. Perf. (%)	-5/22/119

CMP: INR317 | **TP: INR580** | **Buy**

- Net sales improved by 11.7% YoY (-3.6% QoQ) to INR6.7b, while EBITDA stood at INR1.3b (+11.8% YoY, 3.2% QoQ) and margin at 19.5% (+1.3pp QoQ, 0.1pp YoY). PAT was at INR544m (+25% YoY, 0.5% QoQ), moderated by higher interest expense, which includes a forex loss of ~INR37m and interest on sales tax liability of ~INR20m.
- Grey cement volumes grew marginally by 1.9% YoY (-8% QoQ) to 1.3MT, while White cement (including Putty) continues a healthy growth to 0.19mt (+40% YoY, 20% QoQ). Grey cement realizations stood at INR3,782/ton (down INR189/ton QoQ), while blended White realizations (including Putty) were up by INR476/ton QoQ to INR11,099/ton.
- Blended realizations were up 7.1% YoY/2.9% QoQ, led by (1) uptick in White cement realizations and (2) higher revenue mix from White cement (31% v/s 24% in 2QFY13).
- Grey cement EBITDA/ton deteriorated by INR49 YoY (-INR11 QoQ) to INR632. This is largely attributable to (1) QoQ decline in realizations, (2) higher freight cost and (3) negative operating leverage. EBITDA/ton at North India plants stood at INR537, while South plants enjoyed profitability of INR861/ton. White cement (incl Putty) EBITDA/ton improved INR182 QoQ to INR2,909.
- We are upgrading EPS estimates for FY13E/14E/15E by 10/2/3% to INR33.8/43.8/62.1 to factor: (1) lower volume growth in Grey cement business of 10% in FY13E (v/s 13% earlier) and 8%/10% for FY14E/15E and (2) higher realizations in White cement business, with YoY increase of ~INR1,900/ton in FY13E (v/s INR1,300/ton earlier). This translates into an SOTP upgrade of ~4% to INR580.
- JKCE trades at 4.2x FY15E EBITDA and USD75/ton. Our SOTP-based target price is INR580, which offers 83% upside. Maintain **Buy**.

Valuation summary (INR b)

Y/E March	2013E	2014E	2015E
Sales	30.8	37.1	47.9
EBITDA	6.2	8.2	11.2
NP	2.4	3.1	4.3
Adj EPS (INR)	33.8	43.8	62.1
EPS Gr. (%)	31.7	29.6	41.9
BV/Sh. (INR)	245.1	281.8	335.7
RoE (%)	14.6	16.6	19.7
RoCE (%)	17.1	17.3	19.3
Payout (%)	18.9	15.9	11.2
Valuations			
P/E (x)	9.4	7.2	5.1
P/BV (x)	1.3	1.1	0.9
EV/EBITDA (x)	4.6	4.2	4.2
EV/Ton (USD)	67	75	75

Quarterly Performance (Standalone) (INR Million)

Y/E March	FY12				FY13				FY12	FY13E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales Dispatches (m ton)	1.40	1.24	1.32	1.82	1.59	1.47	1.38	1.87	5.78	6.30
YoY Change (%)	4.5	3.3	3.9	10.3	13.2	18.5	4.3	2.7	5.9	9.0
Realization (INR/ton)	4,325	4,125	4,659	4,428	4,640	4,852	4,990	5,053	4,391	4,888
YoY Change (%)	10.7	17.8	25.0	9.7	7.3	17.6	7.1	14.1	15.1	11.3
QoQ Change (%)	7.1	-4.6	12.9	-5.0	4.8	4.6	2.9	1.3		
Net Sales	6,055	5,115	6,150	8,059	7,356	7,127	6,869	9,445	25,379	30,797
YoY Change (%)	15.6	21.8	29.9	21.0	21.5	39.3	11.7	17.2	21.8	21.4
EBITDA	1,287	603	1,195	1,992	1,565	1,295	1,337	2,003	5,077	6,201
Margins (%)	21.3	11.8	19.4	24.7	21.3	18.2	19.5	21.2	20.0	20.1
Depreciation	305	309	315	327	314	319	318	331	1,256	1,282
Interest	340	374	335	393	375	290	410	363	1,443	1,438
Other Income	97	133	101	227	143	144	166	157	558	610
PBT before EO expense	739	53	646	1,499	1,019	830	776	1,466	2,936	4,092
Extra-Ord expense	0	0	0	78	0	0	0	0	78	0
PBT	739	53	646	1,421	1,019	830	776	1,466	2,858	4,092
Tax	240	17	211	617	331	289	232	499	1,085	1,350
Rate (%)	32.4	32.5	32.6	43.4	32.4	34.8	29.9	34.0	37.9	33.0
Reported PAT	499	36	435	804	689	541	544	968	1,773	2,741
Adj PAT	499	36	435	848	689	541	544	968	1,822	2,741
YoY Change (%)	69.2	-117.1	2,277.9	77.2	38.0	1,421.5	25.0	14.1	211.5	50.5
Margins (%)	8.2	0.7	7.1	10.5	9.4	7.6	7.9	10.2	7.2	8.9

E: MOSL Estimates

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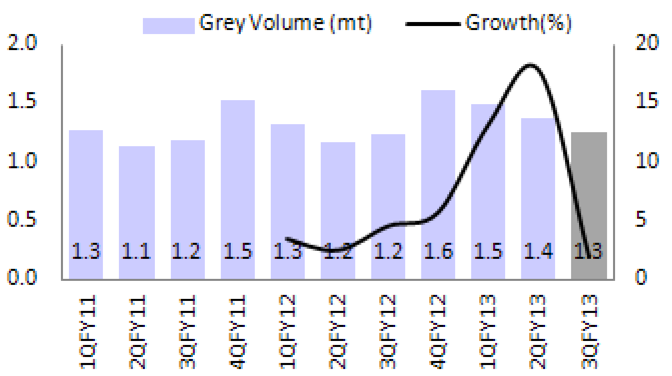
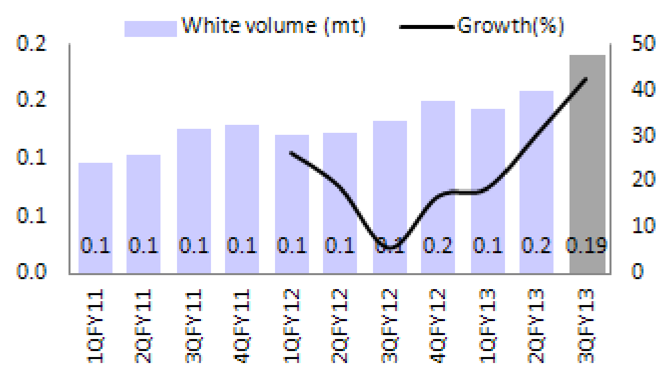
Healthy growth in White cement segment drove sales; Grey cement witnessed flattish YoY volume growth

- Grey cement volumes grew marginally by 1.9% YoY (-8% QoQ) to 1.3MT, while White cement (including Putty) continues a healthy growth to 0.19mt (+40% YoY, 20% QoQ).
- Based on regional volume mix, South India plants operated at 49% utilization in 3QFY13, while North operated at 79%.
- Grey cement realizations stood at INR3,782/ton (down INR189/ton QoQ), while blended White realizations (including Putty) were up by INR476/ton QoQ to INR11,099/ton.
- Average realizations at North plants stood at INR3,602/ton, while South enjoyed realizations of INR4,211/ton. Blended realizations were up 7.1% YoY/2.9% QoQ, led by (1) uptick in White cement realizations and (2) higher revenue mix from White cement (31% v/s 24% in 2QFY13).
- Net sales improved by 11.7% YoY (-3.6% QoQ) to INR6.7b.

Marginal YoY growth in Grey cement volume

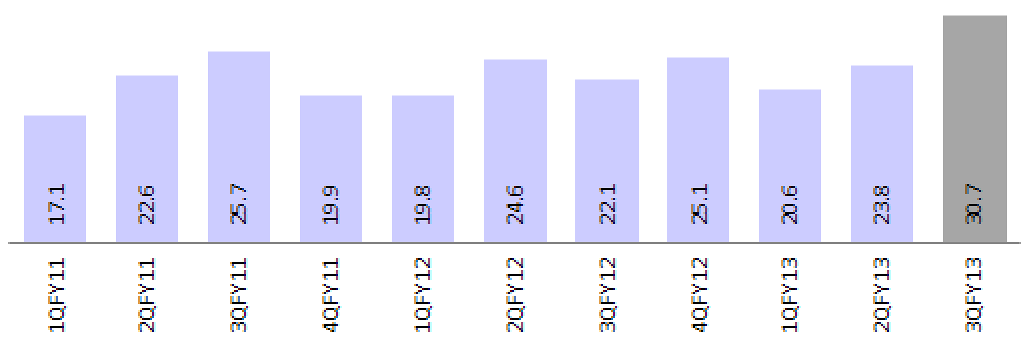


White cement maintained robust growth



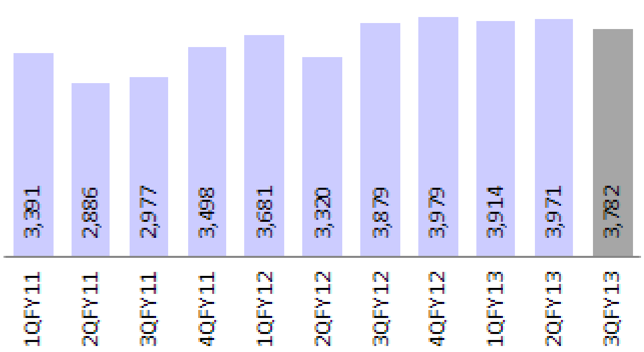
Source: Company, MOSL

Net sales contribution by White cement up significantly (%)

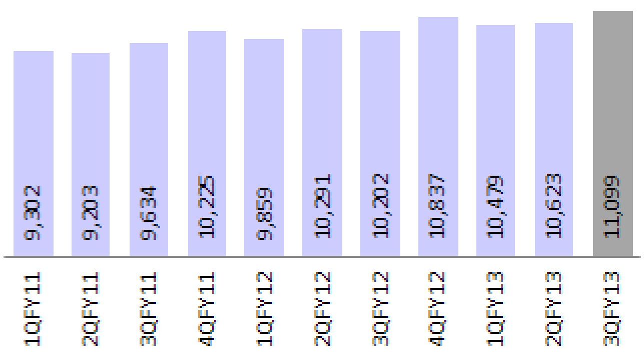


Source: Company, MOSL

Average realizations trend (Grey cement) INR/ton



Average realizations trend (White cement incl. Putty) INR/ton

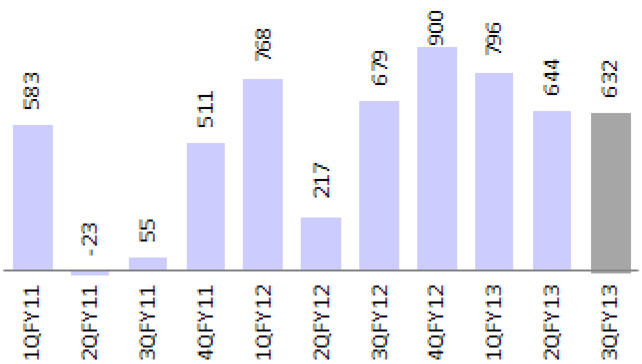


Source: Company, MOSL

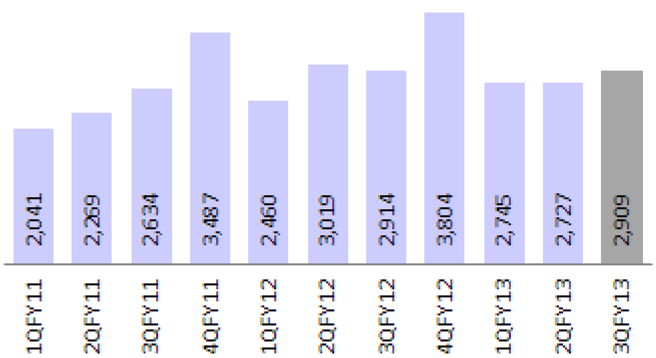
Higher freight, negative operating leverage dent profitability despite realizations being ahead of estimates

- EBITDA stood at INR1.3b (+11.8% YoY, 3.2% QoQ), while margin was at 19.5% (+1.3pp QoQ, 0.1pp YoY).
- Grey cement EBITDA/ton deteriorated by INR49 YoY (-INR11 QoQ) to INR632. This is largely attributable to (1) QoQ decline in realizations, (2) higher freight cost and (3) negative operating leverage. EBITDA/ton at North plants stood at INR537, while South plants enjoyed profitability of INR861/ton.
- White cement EBITDA/ton improved INR182 QoQ to INR2,909.
- Higher contribution from White cement business (41% EBITDA mix v/s 33% in 2QFY13), with superior profitability led to sequential uptick in profitability, despite a decline in EBITDA/ton in Grey cement business.
- PAT at INR544m (+25% YoY, 0.5% QoQ) was moderated by higher interest expense, which includes a forex loss of ~INR37m and interest on sales tax liability of ~INR20m.

Decline in EBITDA/ton in Grey cement business (INR)



Steady uptick in profitability in White cement segment



Source: Company, MOSL

Upgrading estimates

- We are upgrading EPS estimates for FY13E/14E/15E by 10/2/3% to INR33.8/43.8/62.1 to factor: (1) lower volume growth in Grey cement business of 10% in FY13E (v/s 13% earlier) and 8%/10% for FY14E/15E and (2) higher realizations in White cement business, with YoY increase of ~INR1,900/ton in FY13E (v/s INR1,300/ton earlier).
- This translates into an SOTP upgrade of ~4% to INR580.

Revised forecast (INR m)

	FY13E			FY14E			FY15E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Volumes (mt)	6.3	6.4	-2.0	6.9	7.2	-3.6	7.9	8.1	-3.4
Net Sales	30,797	30,648	0.5	37,097	37,534	-1.2	47,927	48,300	-0.8
EBITDA	6,201	5,874	5.6	8,170	8,068	1.3	11,175	10,983	1.7
Net Profit	2,363	2,139	10.4	3,062	2,995	2.2	4,346	4,218	3.0
EPS (INR)	33.8	30.6	10.4	43.8	42.8	2.2	62.1	60.3	3.0

Source: Company, MOSL

Valuation and view

- JKCE has a favorable market mix, with North and West India accounting for ~70% of dispatches. It has no exposure to the underperforming Andhra Pradesh market.
- Its North India plants are operating at over 90% capacity and ongoing brownfield capacity expansion, which is likely to be completed by 2Q/3QFY15, would aid volume growth.
- Company's White cement business is a cash cow. The stable operating income of INR2.5b-3b per year from White cement would render meaningful cushion to its debt servicing during the capex cycle.
- We estimate 26% revenue CAGR over FY13E-15E and expect an uptick in Grey cement profitability with (1) increasing contribution from new plants and (2) improving operating leverage.
- JKCE trades at 4.2x FY15E EBITDA and USD75/ton. Our SOTP-based target price is INR580, which offers 83% upside. Maintain **Buy**.

JK Cement: an investment profile

Company description

JKCE is one of India's leading cement producers, with 7.5mtpa of gray cement capacity -4.5mtpa in the North (Rajasthan) and 3mtpa in the South (Karnataka). It is the second largest white cement manufacturer in India, with a capacity of 0.4mtpa (0.6mtpa by FY14). Its ongoing 3mtpa split grinding expansion in the North would take its gray cement capacity to 10.5mtpa by FY15. JKCE is also expanding its international footprint through a 0.6mtpa Greenfield white cement plant in UAE to address rising international demand.

Key investment argument

- JK Cement (JKCE) has a favorable market mix, with North and West India accounting for ~70% of dispatches. It has no exposure to the underperforming Andhra Pradesh market.
- Its North India plants are operating at over 90% capacity and ongoing brownfield capacity expansion, which is likely to be completed by 2Q/3QFY15, would aid volume growth.
- Its white cement business is a cash cow. The stable operating income of INR2.5b-3b per year from white cement would render meaningful cushion to JKCE's debt servicing during the capex cycle.

Recent development

- Planning to raise up to INR2b through QIB issue for funding its long-term growth plan, including capital expenditure.

Valuation and view

- We are upgrading EPS estimates for FY13E/14E/15E by 10/2/3% to INR33.8/43.8/62.1 to factor: (1) lower volume growth in Grey cement business of 10% in FY13E (v/s 13% earlier) and 8%/10% for FY14E/15E and (2) higher realizations in White cement business, with YoY increase of ~INR1,900/ton in FY13E (v/s INR1,300/ton earlier). This translates into an SOTP upgrade of ~4% to INR580.
- JKCE trades at 4.2x FY15E EBITDA and USD75/ton. **Buy**.

Sector view

- We have already witnessed bottom-of-the-cycle utilization & profitability, and it should gradually improve hereon given sustainable demand drivers.
- Structural increase in cost base would necessitate higher cement prices.
- Revival in cement demand would be key catalyst for the stock performance.

Comparative valuations

		J K Cement	India Cements	Shree Cement
P/E (x)	FY13E	9.4	9.4	3.6
	FY14E	7.2	7.2	5.0
P/BV (x)	FY13E	1.3	1.3	0.9
	FY14E	1.1	1.1	0.7
EV/Ton ($)	FY13E	67	67	65
	FY14E	75	75	48
EV/EBITDA (x)	FY13E	4.6	4.6	2.9
	FY14E	4.2	4.2	3.4

Shareholding pattern (%)

	Dec-12	Sep-12	Dec-11
Promoter	66.7	66.6	66.2
Domestic Inst	10.3	9.1	7.0
Foreign	10.9	12.4	12.8
Others	12.2	11.9	13.9

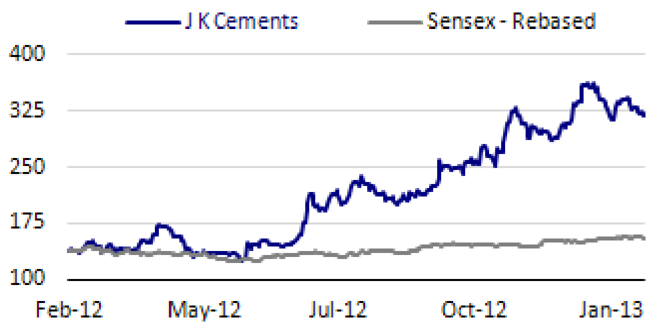
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	33.8	34.7	-2.6
FY14	43.8	46.0	-4.8

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
317	580	83	Buy

Stock performance (1 year)



Financials and Valuation

Income Statement (INR Million)

Y/E March	2012	2013E	2014E	2015E
Net Sales	25,379	30,797	37,097	47,927
Change (%)	21.8	21.4	20.5	29.2
Total Expenditure	20,329	24,596	28,927	36,751
% of Sales	80.1	79.9	78.0	76.7
EBITDA	5,050	6,201	8,170	11,175
Margin (%)	19.9	20.1	22.0	23.3
Depreciation	1,256	1,328	1,583	2,196
EBIT	3,794	4,873	6,587	8,979
Int. and Finance Charges	1,443	1,966	2,611	3,269
Other Income - Rec.	558	567	527	681
PBT bef. EO Exp.	2,908	3,474	4,502	6,391
EO Expense/(Income)	78	0	0	0
PBT after EO Exp.	2,830	3,474	4,502	6,391
Current Tax	902	1,112	1,441	2,045
Deferred Tax	182	0	0	0
Tax Rate (%)	38.3	32.0	32.0	32.0
Reported PAT	1,746	2,363	3,062	4,346
PAT Adj for EO items	1,794	2,363	3,062	4,346
Change (%)	214.2	31.7	29.6	41.9
Margin (%)	7.1	7.7	8.3	9.1
Less: Mionrity Interest	0	0	2	90
Net Profit	1,794	2,363	3,060	4,256

Balance Sheet (INR Million)

Y/E March	2012	2013E	2014E	2015E
Equity Share Capital	699	699	699	699
Total Reserves	14,522	16,437	19,009	22,778
Net Worth	15,221	17,137	19,709	23,477
Deferred Liabilities	2,291	2,291	2,291	2,291
Total Loans	12,963	18,488	26,928	29,928
Capital Employed	30,475	37,916	48,928	55,696
Gross Block	29,013	30,667	40,502	58,202
Less: Accum. Deprn.	5,845	7,173	8,756	10,952
Net Fixed Assets	23,167	23,494	31,745	47,249
Capital WIP	904	8,800	12,500	800
Total Investments	92	92	92	92
Curr. Assets, Loans&Adv.	11,596	11,970	12,509	17,808
Inventory	3,628	4,491	5,271	6,729
Account Receivables	837	1,035	1,171	1,495
Cash and Bank Balance	4,332	3,223	2,202	4,650
Loans and Advances	2,799	3,222	3,865	4,934
Curr. Liability & Prov.	2,916	3,512	4,405	5,768
Account Payables	2,286	2,734	3,397	4,336
Provisions	630	778	1,009	1,432
Net Current Assets	8,680	8,459	8,104	12,040
Appl. of Funds	32,844	40,845	52,442	60,182

E: MOSL Estimates; * Adjusted for treasury stocks

Ratios

Y/E March	2012	2013E	2014E	2015E
Basic (INR) *				
Consol EPS	25.7	33.8	43.8	62.1
Cash EPS	43.6	52.8	66.4	93.5
BV/Share	217.7	245.1	281.8	335.7
DPS	5.0	5.5	6.0	6.0
Payout (%)	23.3	18.9	15.9	11.2
Valuation (x) *				
P/E	12.4	9.4	7.2	5.1
Cash P/E	7.3	6.0	4.8	3.4
P/BV	1.5	1.3	1.1	0.9
EV/Sales	1.2	0.9	0.9	1.0
EV/EBITDA	5.9	4.6	4.2	4.2
EV/Ton (US$)	71	67	75	75
Dividend Yield (%)	1.6	1.7	1.9	1.9
Return Ratios (%)				
RoE	12.3	14.6	16.6	19.7
RoCE	15.6	17.1	17.3	19.3
Working Capital Ratios				
Asset Turnover (x)	0.8	0.8	0.7	0.8
Inventory (Days)	52.2	53.2	51.9	51.2
Debtor (Days)	11	11	10	10
Leverage Ratio (x)				
Current Ratio	4.0	3.4	2.8	3.1
Debt/Equity	0.9	1.1	1.4	1.3

* Adjusted for treasury stocks

Cash Flow Statement (INR Million)

Y/E March	2012	2013E	2014E	2015E
Oper. Profit/(Loss) before T	3,794	4,873	6,587	8,979
Interest/Dividends Recd.	558	567	527	681
Depreciation	1,256	1,328	1,583	2,196
Direct Taxes Paid	-902	-1,112	-1,441	-2,045
(Inc)/Dec in WC	633	-327	-82	-516
CF from Operations	5,338	5,329	7,175	9,295
EO expense	29	-1	4	-81
CF from Operating incl EO	5,368	5,328	7,179	9,214
(inc)/dec in FA	-1,439	-9,550	-13,535	-6,000
(Pur)/Sale of Investments	-50	0	0	0
CF from investments	-1,489	-9,550	-13,535	-6,000
Issue of Shares	-68	0	0	0
(Inc)/Dec in Debt	-845	5,525	8,440	3,000
Interest Paid	-1,443	-1,966	-2,611	-3,269
Dividend Paid	-406	-447	-488	-488
CF from Fin. Activity	-2,761	3,112	5,341	-757
Inc/Dec of Cash	1,117	-1,109	-1,015	2,457
Add: Beginning Balance	3,215	4,332	3,223	2,202
Closing Balance	4,332	3,223	2,208	4,659

N O T E S

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3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	Yes

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