

KCP

24 May 2017

Reuters: KCP.BO; Bloomberg: KCPL IN

Good Results; Consolidated Earnings Impacted By Weak Sugar Sales

We have downgraded KCP from buy to Accumulate post 4QFY17 results as we believe that the recent uptick in stock price leaves limited room for further upside. While both sugar and cement business earnings momentum is likely to continue, we believe that Engineering and Hotel businesses will remain a drag on the company for some time. KCP reported decent set of numbers on standalone basis for 4QFY17, on account of better volumes in cement business. The company reported volumes of 0.5 mnmt, a growth 14% YoY on account of increased construction activities in its key market. Net Revenues stood at Rs2,297mn, much ahead of our estimate of Rs1,826mn. Realisation declined by 8.5% QoQ due to volatility in cement prices in South India seen in quarter, but on YoY basis pricing was flat. The operating costs were controlled and as a result, the company reported EBITDA of Rs359mn, ahead of our expectations of Rs320mn. EBITDA/mt for cement business stood at Rs694, which is a minor 0.8% decline YoY. The engineering division reported revenues of Rs298mn with EBIT loss of Rs19mn. The order book in Engineering division is at Rs920mn with higher proportion of orders coming from defense segment which we believe is a mild positive. KCP had commenced its hotel operations at Hyderabad in 1QFY17. During 4Q, the company reported revenue of Rs38mn in hotel segment with EBIT loss of Rs25mn because of higher fixed costs and below average occupancy. The management expects the hotel segment to be EBITDA positive in FY18 and PAT positive by next year. Despite incurring losses in engineering and hotel businesses, KCP reported PAT of Rs97mn post extraordinary expenses. The Vietnam sugar business of the company disappointed despite the realisations going up by 10% YoY. The availability of cane for crushing was an issue which impacted sales volumes which were lower by 9.4% YoY. Going forward, we expect the cane availability to normalize with expectation of better weather. Moreover, the company already has very high sugar inventory which will be used to increase sales going forward. We have raised our target price from 122 to Rs126 to account for higher cement earnings. We maintain our target multiples on the stock at FY19 EV/EBITDA of 7.0x and FY19 target EV/mt at US\$90. We have an ACCUMULATE rating on the stock.

Cement business profitability improves on better volumes in Andhra Pradesh: KCP reported 14.4% YoY increase in cement revenue on higher volumes in its key markets. Cement division's EBITDA/mt fell to Rs694 compared with Rs1000 in 3QFY17, while being flattish on a YoY basis. The company posted an EBITDA margin of 15.6% which is lower than 20.1% in 3QFY17 as well as our estimates of 17.5%. We continue to believe that KCP is a strong franchise to play the Southern cement growth story on account of better balance sheet and quality of management. The management gave a conservative guidance for growth of cement business. We are factoring a growth of 7-8% in cement volumes as the company has higher exposure to growing regions like Andhra Pradesh and Telangana.

Sugar business down due to lower cane availability, Engineering business losses trimmed: The consolidated earnings were much lower compared with our estimates as the sugar business performance was weak due to lower production. Engineering business reported revenue of Rs135mn, with EBIT loss of Rs51mn. Slowdown in corporate capex cycle resulted in slower execution rate for this division. The power sector performance was lackluster as the hydro plant could not operate at ideal capacity due to lower water levels in catchment level. KCP commissioned its hotel operations at Hyderabad from April 2016. This segment generated revenues of Rs38mn with EBIT loss of Rs25mn due to higher initial marketing costs and depreciation. We expect the hotel business to achieve break-even at EBITDA level from FY18 onwards once the occupancy ratio starts improving.

Outlook: With expected stability in hotel operations and increasing cement demand from Andhra Pradesh and Telangana, we have raised our target price from Rs122 to Rs126. We maintain our target multiples at FY19E EV/EBITDA of 7.0x and FY19E target EV/mt at US\$90. As the stock has run up over the last few months, we have an ACCUMULATE rating.

ACCUMULATE

Sector: Cement

CMP: Rs112

Target Price: Rs126

Upside: 12.1%

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Key Data

Current Shares O/S (mn)	128.9
Mkt Cap (Rsbn/US\$m)	14.4/222.1
52 Wk H / L (Rs)	138/76
Daily Vol. (3M NSE Avg.)	466,852

Price Performance (%)

	1 M	6 M	1 Yr
KCP	(12.9)	39.9	43.0
Nifty Index	2.9	16.8	21.4

Source: Bloomberg

Y/E March (Rsmn) (Standalone)	4QFY16	3QFY17	4QFY17	YoY (%)	QoQ (%)
Net sales	1,905	2,024	2,297	20.5	13.5
Total expenses	1,625	1,617	1,938	19.2	19.9
EBITDA	280	407	359	28.2	(11.9)
EBITDA margin (%)	14.7	20.1	15.6	93	(450.4)
Other income	17	7	19	12.1	185.3
Interest costs	106	117	108	2.5	(7.6)
Depreciation	100	127	131	30.6	3.6
PBT	91	170	139	52.3	(18.5)
Tax	103	69	42	(59.0)	(38.2)
Tax rate (%)	113	40	31	-	-
PAT	(12)	102	97	(897.5)	(5.2)
Adjusted profit	(18)	102	97	(648.3)	(5.2)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Detailed financials

(Rsmn)	4QFY16	3QFY17	4QFY17	YoY (%)	QoQ (%)
Net sales	1,905	2,024	2,297	20.5	13.5
Expenditure					
Raw material costs	592	536	573	(3.3)	6.9
Chg. in stock	61	(14)	69	14.2	-
Stores and spares	96	101	129	34.9	28.5
Employee costs	163	176	238	46.4	34.9
Power and fuel costs	330	357	478	44.8	34.1
Freight costs	235	262	289	22.9	10.5
Other expenses	149	199	162	8.7	(18.8)
Total expenses	1,625	1,617	1,938	19.2	19.9
EBITDA	280	407	359	28.2	(11.9)
EBITDA margin %	14.7	20.1	15.6	-	-
Other income	17	7	19	12.1	185.3
Interest costs	106	117	108	2.5	(7.6)
Depreciation	100	127	131	30.6	3.6
Exceptional Items	(6)	-	-	-	-
PBT	91	170	139	52.3	(18.5)
Tax	103	69	42	-	-
Tax rate	113	40	31	-	-
PAT	(12)	102	97	-	(5.2)
Adjusted profit	(18)	102	97	-	(5.2)

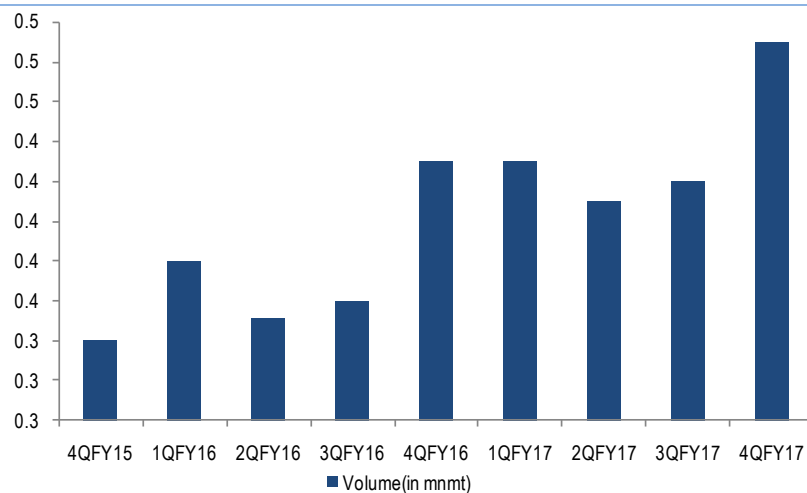
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segmental performance in 4QFY17

(Rsmn)	Revenues	EBIT	Margins (%)
Engineering	298	(19)	(6.3)
Cement	2,312	269	11.6
Power	204	26	12.9
Hotel	38	(25)	(66.1)
Others	5	(1)	(26)
Total	2,858	249	8.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Volume growth remains impressive



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Target price of Rs126 offers 12% upside from current market price

Particulars	(Rsmn)
Value of cement business	19,412
Value of 67% stake in sugar business	2,890
Value of hotel business	540
Total enterprise value	22,842
Less: Net debt	6,655
Total equity value	16,187
No. of shares (mn)	129
Target price (Rs)	126
CMP (Rs)	112
Upside (%)	12.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Consolidated financials

Y/E March (Rsmn) (Consolidated)	FY14	FY15	FY16	FY17	YoY(%)
Net sales	10,606	11,877	12,960	12,822	(1.1)
Total expenses	9,337	10,202	10,585	10,600	0.1
EBITDA	1,269	1,674	2,375	2,223	(6.4)
EBITDA margin (%)	12.0	14.1	18.3	17.3	(5.4)
Other income	208	145	48	107	124.4
Interest costs	463	515	523	497	(5.1)
Depreciation	471	482	483	647	34.0
PBT	542	823	1,416	1,186	(16.3)
Tax	43	131	236	202	(14.5)
Tax rate (%)	8	16	17	17	2.1
PAT	345	503	934	728	(22.1)
EPS	2.7	3.9	7.2	5.6	(22.1)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Change in our estimates

(Rsmn)	Old		New		Deviation (%)	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Net sales	9,305	11,095	9,179	10,610	(1.4)	(4.4)
Operating profit	1,635	2,027	1,601	1,971	(2.1)	(2.8)
Net profit	427	549	403	509	(5.6)	(7.3)
EPS (Rs)	3.3	4.3	3.1	3.9	(6.1)	(9.3)
Target price (Rs)		122		126		2.9
Rating		BUY		Accumulate		

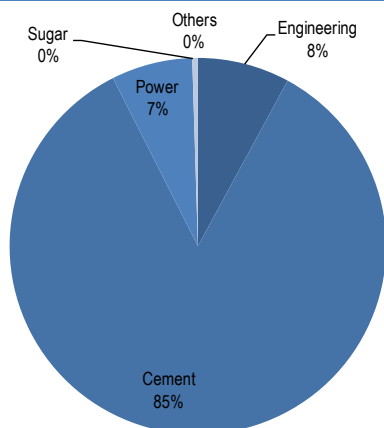
Source: Nirmal Bang Institutional Equities Research

Exhibit 7: Deviation from our estimates

4QFY17 (Rsmn)	Actual	Our estimates	Deviation (%)
Net sales	2,297	1,826	25.8
Operating expenses	1,938	1,507	28.6
EBITDA	359	320	12.3
EBITDA margin (%)	15.6	17.5	(18.7)
Adjusted PAT	97	60	60.8
NPM (%)	4.2	3.3	91
EPS (Rs)	0.75	0.47	60.8

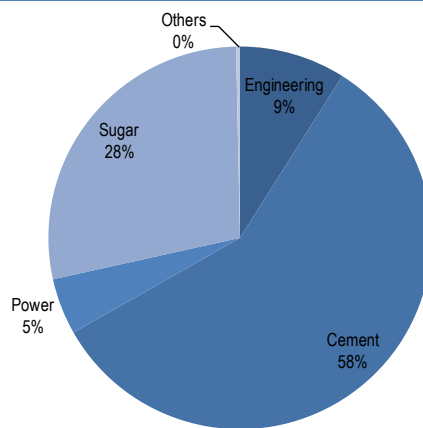
Source: Nirmal Bang Institutional Equities Research

Exhibit 8: FY17 Standalone Revenues



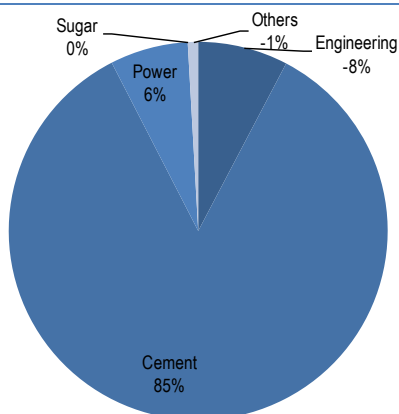
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: FY17 Consolidated Revenues



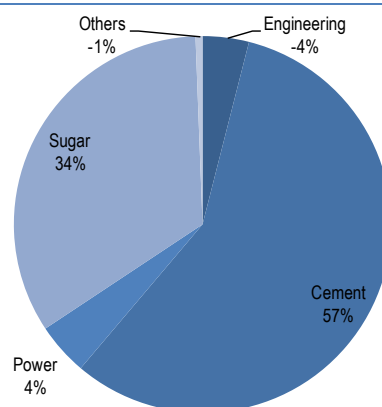
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: FY17 Standalone EBIT



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: FY17 Consolidated EBIT



Source: Company, Nirmal Bang Institutional Equities Research

Standalone financials

Exhibit 12: Income statement

Y/E March (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
Net sales	6,072	7,498	8,219	9,179	10,610
Raw material costs	1,368	2,075	2,291	2,603	3,028
Employee costs	526	663	703	745	790
Selling & distribution	962	987	1,204	1,348	1,548
Power and fuel costs	1,437	1,191	1,554	1,807	2,112
Other expenses	298	387	307	316	326
Total expenses	5,096	6,031	6,763	7,577	8,639
Operating profit	976	1,467	1,456	1,601	1,971
Operating profit margin (%)	16.1	19.6	17.7	17.4	18.6
Other income	122	38	42	46	51
Interest costs	499	454	454	609	729
Depreciation	343	391	463	479	587
PBT	257	660	581	559	707
Exceptional items	(12)	(6)	-	-	-
PBT post exc. items	245	654	581	559	707
Tax	80	226	163	157	198
Tax rate (%)	33	34	28	28	28
PAT	164	428	418	403	509
EPS (Rs)	1.3	3.3	3.2	3.1	3.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Balance sheet

Y/E March (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
Equity capital	129	129	129	129	129
Reserves and surplus	3,459	3,745	4,035	4,309	4,689
Net worth	3,588	3,874	4,164	4,438	4,818
Total debt	4,491	3,908	4,708	6,858	7,658
Deferred tax liability	660	872	872	872	872
Current liabilities	1,346	1,421	1,645	1,839	2,089
Other liabilities	431	428	446	464	484
Total liabilities	10,516	10,502	11,834	14,471	15,920
Gross block	8,564	10,087	10,487	10,787	15,287
Acc. Depr.	2,640	3,031	3,494	3,973	4,559
Net block	5,924	7,056	6,993	6,814	10,728
CWIP	1,025	105	750	3,250	50
Investment	289	289	289	289	289
Current assets less cash	2,430	2,126	2,775	3,101	3,519
Cash	328	189	252	203	481
Total assets	10,516	10,502	11,834	14,471	15,920

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Cash flow

Y/E March (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
PAT	164	428	418	403	509
Add: Depreciation	343	391	463	479	587
Chg. in NWC	378	161	(462)	(170)	(209)
Cash flow from operations	885	981	419	711	887
Capex	(646)	(604)	(1,045)	(2,800)	(1,300)
Chg. in Investment	(0)	-	-	-	-
Cash flow from investing	(646)	(604)	(1,045)	(2,800)	(1,300)
Issue of shares	-	-	-	-	-
Issue of pref stock	(80)	-	-	-	-
Inc. in debt	(51)	(583)	800	2,150	800
Inc. in DTL	50	199	-	-	-
Dividend paid	(97)	(129)	(129)	(129)	(129)
Cash flow from financing	(108)	(516)	689	2,040	691
Net cash flow	131	(139)	63	(49)	278
Opening cash balance	197	328	189	252	203
Closing cash balance	328	189	252	203	481

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Key ratios

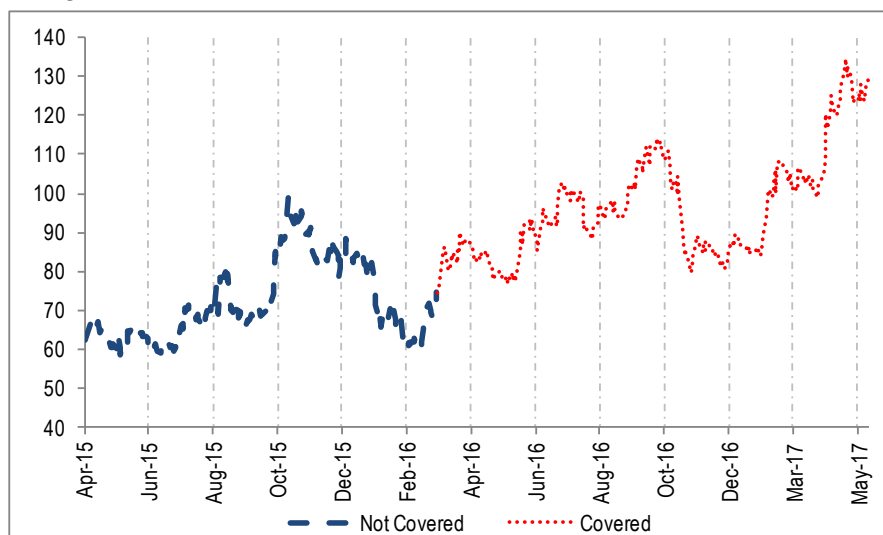
Y/E March (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
Growth (%)					
Sales	(4.7)	23.5	9.6	11.7	15.6
Operating profit	57.4	50.2	(0.7)	10.0	23.1
Net profit	-	161.0	(2.3)	(3.8)	26.4
Leverage (x)					
Debt:equity	1.3	1.0	1.1	1.5	1.6
Net debt:equity	1.2	1.0	1.1	1.5	1.5
Profitability (%)					
OPM	16.1	19.6	17.7	17.4	18.6
NPM	2.7	5.7	5.1	4.4	4.8
RoE	4.5	11.5	10.4	9.4	11.0
RoCE	8.3	12.2	10.7	10.2	10.9
Valuation (x)					
P/E	43.0	33.7	34.5	35.8	28.4
P/BV	2.0	3.7	3.5	3.3	3.0
EV/EBITDA	11.5	12.4	13.0	13.2	11.0

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
17 March 2016	Buy	74	103
31 May 2016	Buy	79	122
10 August 2016	Buy	90	122
16 November 2016	Buy	90	125
8 February 2017	Buy	100	126
24 May 2017	Accumulate	112	126

Rating Track Graph



Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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