

Institutional Equity Research

J.K. Cement

Cement | India

Company Update | January 08, 2019

CMP (Rs)	702
Upside/ (Downside) (%)	42
Bloomberg Ticker	JKCE IN
Market Cap. (Rs bn)	54
Free Float (%)	42
Shares O/S (mn)	77.3

BUY 

Target Price: Rs1,000

Capacity Expansion on Track; Ease of Funding Concern Augurs Well

We have interacted with the senior management of J.K. Cement (JKCE) to understand its current status of business and general financial synergy after QIP, which was mainly done to meet funding requirement (~Rs20bn) for its ongoing capacity programme. Post completion of QIP issue, J.K. Cement (JKCE) is set to witness a healthy traction ahead mainly led by ease of concern over possible increase in leverage, decent progress on capacity expansion programme, healthy earnings in subsequent quarters and likely improvement in the UAE operations. We believe that QIP proceed of Rs5.1bn provides necessary capital to JKCE, which will prevent from further leveraging and thereby will aid the Company to save in incremental interest cost. **Maintaining our positive view on the stock and upgrading our earnings estimates for forward years, we reiterate our BUY rating on the stock with a revised Target Price of Rs1,000 (earlier Rs820).**

QIP Bodes Well for JKCE: A successful fund raising of Rs5.1bn through QIP @ Rs696 offers comfort to JKCE's balance-sheet. We note that JKCE was in need to Rs20bn for its ongoing capex programme till FY21E. Further, capex requirement for FY19-FY20E was estimated at ~Rs18bn and considering its operating cash flow generation of Rs10bn (interest adjusted), we believe JKCE will require less debt than earlier estimate. JKCE expects its gross debt to peak out at Rs30bn in FY20E. Promoter's holding post QIP still stands at 58%, which appears to be decent.

Ongoing Expansion – As per Schedule: **(1) Mangrol integrated unit** (single line kiln of 7,500TPD): Plant and machinery order has been finalised and the basic construction work has already started. It is expected to be commissioned by Sept'19. **(2) Nimbahera GU (1mnT):** The unit is also expected to be commissioned in Sept'19. **(3) Split GUs at Aligarh (1.5mnT) & Silvasa (0.7mnT):** Lands have been acquired and environment clearance (EC) for Aligarh unit is obtained recently and EC for Silvasa is expected to be obtained in current month. Orders for grinding equipments have been placed too. These units are expected to come on stream by FY20-end. Post completion of ongoing expansion programme, JKCE's clinker and cement capacity will reach at 10mnT and 13.7mnT, respectively.

Outlook & Valuation

We believe overhang of likely high debt has eased now with the completion of QIP issue. Further, likely improvement in its grey cement business performance owing to new kiln at Mangrol will result in improvement in its grey cement performance and hence may entail further re-rating of the stock. We increase our EBITDA estimate by ~7% and ~5% for FY19E and FY20E, respectively mainly to factor in recent reduction in fuel and diesel prices. JKCE currently trades at 8.2x and 7.0x EBITDA of FY20E and FY21E, respectively, which is attractive, in our view. **Rolling over our earnings estimates to FY21E, we reiterate our BUY recommendation on the stock with an upwardly revised Target Price of Rs1,000 (9x FY21 EBITDA).**

Key Financials (Rs mn)	FY18	FY19E	FY20E	FY21E
Sales	45,426	48,728	53,345	58,601
EBITDA	7,120	7,376	9,381	10,594
PAT	3,419	3,283	4,331	4,830
EPS (Rs)	48.9	42.5	56.1	62.5
DPS (Rs)	8.0	10.0	5.0	5.0
P/E (x)	14.4	16.5	12.5	11.2
P/B (x)	2.3	1.9	1.7	1.5
EV/EBITDA (x)	9.4	9.4	8.2	7.0
RoE (%)	17.0	13.0	14.0	13.8
Divi. Yield (%)	1.1	1.4	0.7	0.7

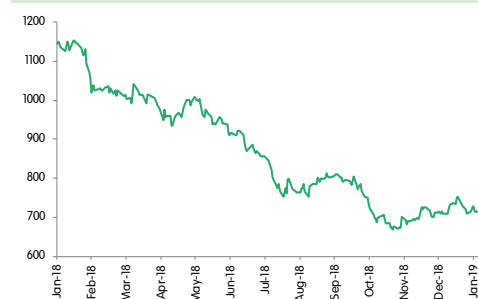
Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(1.0)	(0.6)	(38.6)
Relative to Nifty	(1.7)	(10.1)	(39.4)

Shareholding Pattern (%)	*Dec'18	Sept'18
Promoter	58.1	64.2
Public	41.9	35.8

Note: *RSec Research

1 Year Stock Price Performance



Note: *CMP as on January 08, 2019

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Synergies from New Kiln at Mangrol to Aid Grey Cement Performance: Dismal performance of its grey cement division has been a major hindrance for JKCE's valuation re-rating as grey cement unitary EBITDA has been below par compared to its peers. We believe that operating synergies from new Mangrol clinker unit is likely to aid JKCE to save on energy and repair & maintenance costs compared to current vintage units. The Management expects operating cost savings in Rs80-100/tonne range in its Northern units with the optimum utilisation of new 7,500 TPD kiln at Mangrol. We conservatively calculate its grey cement unitary EBITDA to improve from Rs400 in FY18 and Rs360 in 1HFY19 to Rs590 in FY21E.

Production Flow from UAE Unit to Southern Market Augurs Well: Lower utilisation and higher fixed cost were the key overhangs on its UAE operation. Notably, JKCE has started catering to the Southern white cement market via shipment from the UAE units from Nov'18 onwards and selling ~4,000tonne per month. JKCE expects the run rate to continue in subsequent quarters as well, which will lead to better utilisation. Average utilisation for the unit stood at 59% in 9MCY18 vs. 61% CY17. We understand that 4,000tonne/month run rate in India can result in improvement in utilisation up to an additional ~7-8% considering the existing production at par.

Premium Cement Gaining Traction: JKCE had launched its premium cement 'JK Super Power' in 2QFY19 especially in the Southern markets, which is slowly gaining traction and it expects it to launch the same in the Northern markets in ensuing quarters. While we are not factoring this in our model, we believe this will result in improvement in blended realisation of grey cement with the sizeable increase its volume, going forward.

Risks to the View

- ▶ Government's failure to revive infrastructure projects.
- ▶ A substantial increase in operating cost.

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Exhibit 1: A Snapshot of Cost/tonne Scenario and Assumption

Rs/tonne	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Volume (Incl White Cement)- mnT	5.5	5.9	6.4	6.2	7.2	7.8	7.9	9.4	9.7	10.4	11.3
Raw Materials	775	832	929	1,033	1,110	1,177	1,148	1,159	1,094	1,091	1,122
Employee Cost	233	239	248	272	282	300	349	347	376	390	403
Power & Fuel	1,014	1,113	1,124	1,094	1,106	949	793	947	1,110	1,100	1,090
Transportation and Stores	1,038	1,005	1,113	1,221	1,223	1,144	1,179	1,315	1,295	1,273	1,276
Others	264	261	288	307	305	298	405	302	368	372	338
Total Operating Cost	3,324	3,450	3,702	3,927	4,027	3,867	3,873	4,070	4,243	4,226	4,230
EBIDTA/tonne (Rs)	488	863	869	586	619	620	813	758	758	904	935

Source: RSec Research

Exhibit 2: Revised v/s Old Estimates

	FY19E			FY20E			FY21E
	Old	Revised	% change	Old	Revised	% change	Introduction
Grey Cement Realization/tonne- (Rs)	4,018	4,007	(0.3)	4,179	4,134	(1.1)	4,189
Grey- Volume (mnT)	8.42	8.44	0.3	9.22	9.01	(2.3)	9.87
Sales (Rs mn)	48,723	48,728	0.0	54,827	53,345	(2.7)	58,601
EBIDTA (Rs mn)	6,895	7,376	7.0	8,939	9,381	5.0	10,594
EBIDTA margins (%)	14.2	15.1		16.3	17.6		18.1
PAT (Rs mn)	3,156	3,283	4.0	4,002	4,331	8.2	4,830
PAT margins (%)	6.5	6.7		7.3	8.1		8.2
EPS (Rs)	45.1	42.5	(5.9)	57.2	56.1	(2.1)	62.5

Source: RSec Research

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Profit & Loss

Y/E Mar (Rs mn)	FY18	FY19E	FY20E	FY21E
Net sales	45,426	48,728	53,345	58,601
% yoy growth	22.7	7.3	9.5	9.9
Total Cost	38,305	41,353	43,963	48,007
Raw Materials Cost	10,888	10,645	11,328	12,708
Employee Costs	3,255	3,655	4,054	4,571
Power & Fuel	8,897	10,797	11,421	12,349
Selling and Distribution	12,349	12,600	13,212	14,457
Other Exp.	2,840	3,576	3,864	3,833
EBITDA	7,120	7,376	9,381	10,594
EBITDA Margin (%)	15.7	15.1	17.6	18.1
Depreciation	1,863	1,951	2,243	2,661
Interest	2,454	2,359	2,632	2,565
Other Income	1,763	1,624	1,680	1,531
Exceptional item	170	-	-	-
PBT	4,398	4,690	6,187	6,900
Tax	979	1,407	1,856	2,070
Net Profit	3,419	3,283	4,331	4,830
YoY Growth (%)	62.2	(4.0)	31.9	11.5
Net Margin (%)	7.5	6.7	8.1	8.2

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Balance Sheet

Y/E Mar (Rs mn)	FY18	FY19E	FY20E	FY21E
Shareholders Fund				
Share Capital	699	773	773	773
Reserve and Surplus	20,775	28,162	32,028	36,393
	21,474	28,934	32,800	37,165
Long Term Borrowings	20,697	21,295	24,295	21,295
Deferred Tax Liability (Net)	2,672	2,672	2,672	2,672
Other Long Term Liabilities	2,991	3,141	3,352	3,591
Long Term Provisions	251	269	294	323
	26,611	27,378	30,613	27,881
Short Term Borrowings	1,135	1,635	1,835	1,335
Trade Payables	4,136	5,261	5,759	6,327
Other Current Liabilities	6,270	6,769	7,196	7,858
Short Term Provisions	188	203	216	236
	11,730	13,869	15,007	15,757
TOTAL	59,814	70,181	78,421	80,803
ASSETS				
Tangible Assets	35,923	34,973	49,730	52,070
Intangible Assets	44	44	44	44
CWIP	878	6,000	2,000	1,000
Non Current Investments	5,569	4,704	4,704	4,704
Long Term Loans and Advances	501	1,582	1,732	1,902
Other Non Current Assets	1,149	1,312	1,422	1,560
	44,065	48,614	59,632	61,279
Current Investments	776	776	776	776
Inventories	5,316	6,008	6,869	7,706
Trade Receivables	1,880	2,403	3,215	3,211
Cash and Cash Equivalent	5,430	9,861	5,172	4,801
Other Current Assets	2,348	2,519	2,757	3,029
	15,749	21,567	18,789	19,524
TOTAL	59,814	70,181	78,421	80,803

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Cash Flow Statement

Y/E Mar (Rs mn)	FY18	FY19E	FY20E	FY21E
PBT	4,398	4,690	6,187	6,900
Depreciation	1,863	1,951	2,243	2,661
Interests	2,389	2,359	2,632	2,565
Others	(276)	-	-	-
Operating Profit before WC changes	8,373	8,999	11,061	12,125
Change in Working Capital	548	(990)	(1,234)	(164)
Tax Paid	(1,025)	(1,407)	(1,856)	(2,070)
Net Cash from Operating activities	7,896	6,603	7,971	9,891
Purchase of FA including capital advances	(1,775)	(6,122)	(13,000)	(4,000)
Sale of Fixed Assets	575	-	-	-
Purchase of Investments	(7,354)	866	-	-
Sale of Investments	6,207	-	-	-
Others	1,029	-	-	-
Net Cash from Investing activities	(1,318)	(5,256)	(13,000)	(4,000)
Net Borrowings	(2,932)	1,098	3,200	(3,500)
Interest paid	(2,411)	(2,359)	(2,632)	(2,565)
Others	(633)	(761)	(229)	(197)
Net Cash from Financing activities	(5,976)	(2,022)	339	(6,261)
Net Increase / (decrease) in cash	601	(676)	(4,690)	(370)

Key Ratio

Y/E Mar	FY18	FY19E	FY20E	FY21E
Valuation Ratio (x)				
P/E	14.4	16.5	12.5	11.2
P/CEPS	9.3	10.4	8.3	7.2
P/BV	2.3	1.9	1.7	1.5
EV/EBIDTA	9.4	9.4	8.2	7.0
EV/Sales	1.5	1.4	1.4	1.3
EV/tonne (USD)	82	83	85	69
Dividend Payout (%)	16.4	23.5	8.9	8.0
Dividend Yield (%)	1.1	1.4	0.7	0.7
OCF Yield (%)	16.0	12.1	14.7	18.2
Per Share Data (Rs)				
EPS (Basic)	48.9	42.5	56.1	62.5
EPS (Diluted)	48.9	42.5	56.1	62.5
CEPS	75.5	67.7	85.1	96.9
DPS	8.0	10.0	5.0	5.0
Book Value	307	374	425	481
EBIDTA/tonne (Blended)	758	758	904	935
Returns (%)				
RoCE	15.8	14.8	15.9	15.9
RoE	17.0	13.0	14.0	13.8
Turnover ratios (x)				
Asset Turnover (Gross block)	9.2	9.6	7.9	8.1
Inventory (days)	43	45	47	48
Receivables (days)	15	18	22	20
Payables (days)	39	39	39	39
WCC (days)	18	24	30	29

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Rating History

Date	Reco	CMP	TP
09-Nov-18	BUY	691	820
31-July-18	BUY	768	880
16-May-18	BUY	975	1180
7-Feb-18	BUY	1054	1235
15-Nov-17	BUY	1075	1300
17-Aug-17	BUY	1029	1270
17-May-17	BUY	1123	1260
6-Feb-17	BUY	801	1000

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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