

JK Cement

Strong all-round performance; retaining a Buy

Rating: **Buy**

Target Price: ₹1,394

Share Price: ₹1,180

Benefitting from healthy realisations and cost savings, JK Cement reported an all-round good performance, with revenue/EBITDA/PAT growing 14%, 50%/68% y/y. Its expansion plan is on track, and would further aid volume growth, though keeping leverage elevated. More white cement sales and input-cost softening would further boost its operating performance. We maintain our Buy rating, with a higher target price of ₹1,394 (earlier ₹1,204).

Strong performance. The y/y realisation and volume rise (10% and 4%) drove revenue 14% y/y to ₹12.5bn. Stable prices in the North and more white cement sales contributed to the rise in realisations. Falling power & fuel cost/ton (10% y/y) and freight cost/ton (5% y/y) further aided EBITDA/ton to strong 44% y/y grow to ₹1,135.

Expansion update. The 4.2m-ton capacity expansion is on track, though delayed by 2-3 months by the protracted monsoon. In Q2, the 1m-ton GU at Nimbahera was commissioned, and the 8,000tpd clinker line at Mangrol. Plans are on for a further 1,000tpd by de-bottlenecking the Nimbahera clinker capacity, and to acquire land at Panna (Central India) besides the wall putty 200,000-ton expansion. We expect the ongoing expansion to keep leverage high.

Business outlook. Management said cement demand would improve in H2 FY20 and talked of an additional 0.8m-1m tons from the expanded capacity in FY20. Management expects further savings of ₹20-30/ton in logistics and ~₹100/ton in power cost from the new kiln and easing pet-coke prices. We estimate volume/revenue CAGR of 7%/14% over FY19-21 and EBITDA/ton of ₹1,188 by FY21 backed by improving demand, the ramping-up of the newly commissioned capacities and easing cost pressures.

Valuation. We maintain our Buy rating, with a higher TP of ₹1,394 (10x FY21e EV/EBITDA) implying PE of 16.2x and EV of \$125/ton. **Risk:** High pet-coke and diesel prices.

Key financials (YE Mar)	FY17	FY18	FY19	FY20e	FY21e
Sales (₹m)	37,036	45,426	49,192	57,844	64,815
Net profit (₹m)	2,301	3,588	3,249	6,275	6,653
EPS (₹)	32.9	51.3	42.0	81.2	86.1
PE (x)	28.4	19.8	20.5	14.5	13.7
EV / EBITDA (x)	13.8	12.7	11.2	9.7	8.8
EV / ton (\$)	114.4	116.7	106.1	110.1	109.3
RoE (%)	12.9	17.9	12.9	20.0	18.4
RoCE (%)	6.3	8.2	7.0	10.9	10.7
Dividend yield (%)	0.9	1.0	1.2	1.4	1.5
Net debt/equity (x)	1.2	0.9	0.6	0.8	0.7

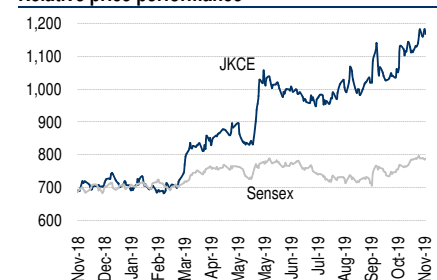
Source: Company, Anand Rathi Research

Key data	JKCE IN / JKCE.BO
52-week high / low	₹1198 / 656
Sensex / Nifty	40245 / 11859
3-m average volume	\$0.8m
Market cap	₹90bn / \$1252.3m
Shares outstanding	77m

Shareholding pattern (%)	Sept '19	Jun '19	Mar '19
Promoters	58.1	58.1	58.1
- of which, Pledged	-	-	-
Free float	41.9	41.9	41.9
- Foreign institutions	11.9	10.7	10.0
- Domestic institutions	23.5	24.4	24.7
- Public	6.5	6.9	7.2

Estimates revision (%)	FY20e	FY21e
Sales	2.2	(0.3)
EBITDA	22.3	14.8
PAT	35.2	25.4

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
Sales volumes (m tons)	7.9	9.4	9.9	10.2	11.2
Net revenues	37,036	45,426	49,192	57,844	64,815
Growth (%)	5.2	22.7	8.3	17.6	12.1
Direct costs	23,101	30,509	33,049	35,094	39,286
SG&A	7,520	7,796	8,663	10,661	12,180
EBITDA	6,414	7,120	7,480	12,089	13,349
EBITDA margins (%)	17	16	15	21	21
- Depreciation	1,761	1,863	1,944	2,186	2,654
Other income	1,513	1,763	1,420	1,449	1,364
Interest expenses	2,729	2,454	2,221	2,390	2,556
PBT	3,437	4,567	4,736	8,964	9,504
Effective tax rate (%)	35	22	31	30	30
+ Associates / (Minorities)	-	-	-	-	-
Net income	2,108	3,419	3,249	6,275	6,653
Adjusted income	2,301	3,588	3,249	6,275	6,653
WANS	70	70	77	77	77
FDEPS (₹/ sh)	33	51	42	81	86
FDEPS growth (%)	123	56	-18	93	6

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
PBT	3,437	4,567	4,736	8,964	9,504
+ Non-cash items	1,761	1,863	1,944	2,186	2,654
Oper. prof. before WC	5,198	6,430	6,679	11,149	12,158
- Incr./(decr.) in WC	-28	-940	208	207	-200
Others incl. taxes	704	941	1,037	2,489	2,651
Operating cash-flow	4,522	6,428	5,435	8,453	9,707
- Capex (tang. +intang.)	2,860	859	6,891	12,700	7,050
Free cash-flow	1,662	5,569	-1,456	-4,247	2,657
Acquisitions					
- Div.(incl. buyback & taxes)	673	843	932	1,520	1,612
+ Equity raised	0	0	5,108	0	0
+ Debt raised	371	-2,591	371	6,000	-3,000
- Fin investments	990	989	3,702	0	0
- Misc. (CFI + CFF)	-215	-20	-33	200	200
Net cash-flow	585	1,166	-579	33	-2,155

Source: Company, AnandRathi Research

Fig 5 – Price movement


Source: Bloomberg

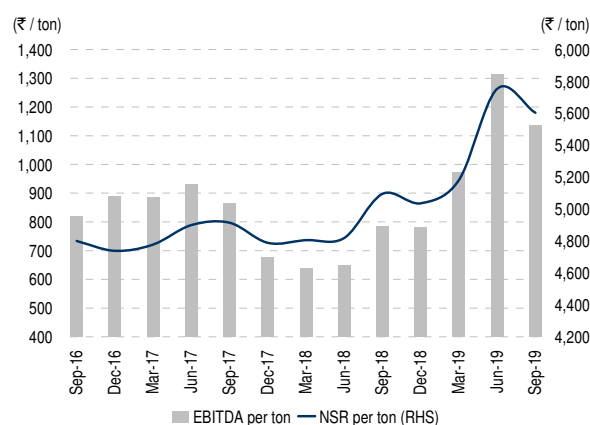
Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
Share capital	699	699	773	773	773
Net worth	18,715	21,473	28,928	33,682	38,723
Debt	28,196	25,605	25,975	31,975	28,975
Minority interest					
DTL/(Assets)	2,628	2,672	3,125	3,125	3,125
Capital employed	49,539	49,750	58,028	68,782	70,823
Net tangible assets	36,745	35,905	36,250	51,202	55,598
Net intangible assets	56	62	105	105	105
Goodwill	0	0	0	0	0
CWIP (tang. &intang.)	1,048	878	5,438	1,000	1,000
Investments (strategic)	4,554	5,157	5,665	5,665	5,665
Investments (financial)	802	1,189	4,382	4,382	4,382
Current assets (ex cash)	10,957	11,213	12,827	14,566	16,166
Cash	4,269	5,435	4,857	4,889	2,734
Current liabilities	8,892	10,088	11,495	13,026	14,826
Working capital	2,065	1,125	1,332	1,539	1,339
Capital deployed	49,539	49,750	58,028	68,782	70,823
Contingent liabilities	10,972	11,219	11,458	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
P/E (x)	28.4	19.8	20.5	14.5	13.7
EV / EBITDA (x)	13.8	12.7	11.2	9.7	8.8
EV / Sales (x)	2.4	2.0	1.7	2.0	1.8
P/B (x)	3.5	3.3	2.3	2.7	2.4
RoE (%)	12.9	17.9	12.9	20.0	18.4
RoCE (%) - after tax	6.3	8.2	7.0	10.9	10.7
DPS (₹ / sh)	8.0	10.0	10.0	16.3	17.3
Dividend payout (%) - incl. DDT	31.9	24.7	28.7	24.2	24.2
Net debt / equity (x)	1.2	0.9	0.6	0.8	0.7
WC days	20.3	9.0	9.9	9.7	7.5
EV / ton (\$)	114.4	116.7	106.1	110.1	109.3
NSR / ton (₹)	4,701	4,836	4,994	5,644	5,769
EBITDA / ton (₹)	814	758	759	1,179	1,188
Volumes (m tons)	7.88	9.39	9.85	10.25	11.24
CFO : PAT %	196.5	179.1	167.3	134.7	145.9

Source: Company, AnandRathi Research

Fig 6 – Quarterly per-ton NSR and EBITDA trends


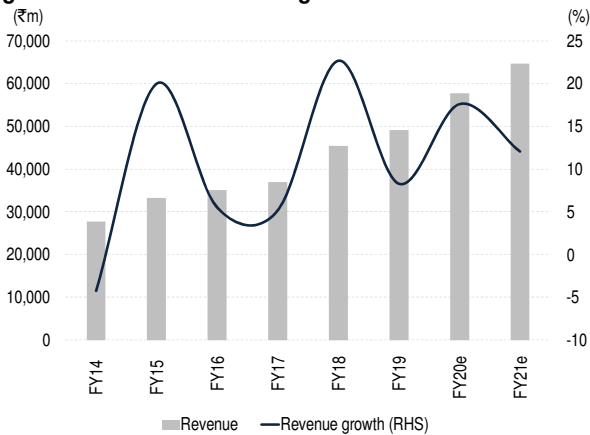
Source: Company

Other key highlights

Revenue growth

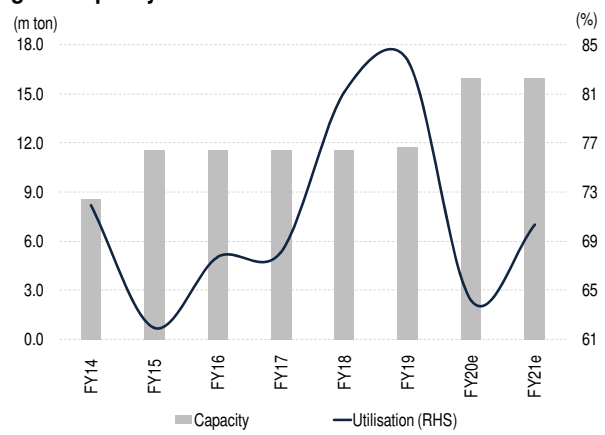
Boosted by strong (10% y/y) realisation growth to ₹5,604/ton and 3.6% y/y volume gain to 2.24m tons, J K Cement’s Q2 FY20 revenue stepped up 14% y/y to ₹12.5bn. Stable cement prices and more sales of white cement along with the efforts toward improving the sales-mix and various internal actions resulted in the better realisations. Grey cement volumes increased 2.1% y/y to 1.91m tons, while NSR/ton rose a huge 11.5% y/y. White cement volumes climbed 13.2% y/y to 0.33m tons, with realisations rose 0.7% y/y.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



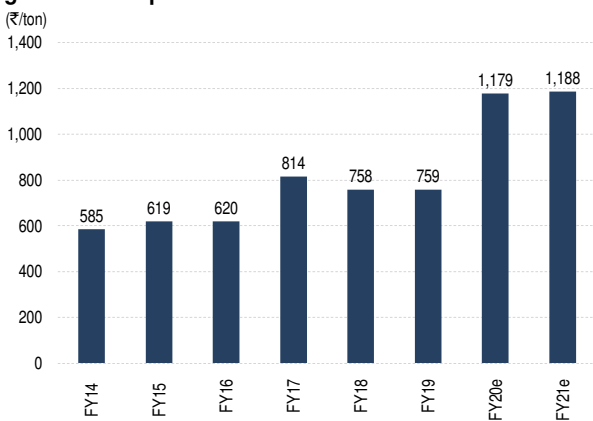
Source: Company, Anand Rathi Research

Operating performance

On the good revenue growth and lower power & fuel cost (down 10% y/y) and freight cost/ton (down 5% y/y), the company reported EBITDA/ton, of ₹1,135, up 44% y/y. Other expenditure, raw material cost and staff cost/ton rose respectively 14%, 11% and 3% y/y. Other expenditure increased due to higher branding expenses and consultancy charges, which management said would continue in FY21.

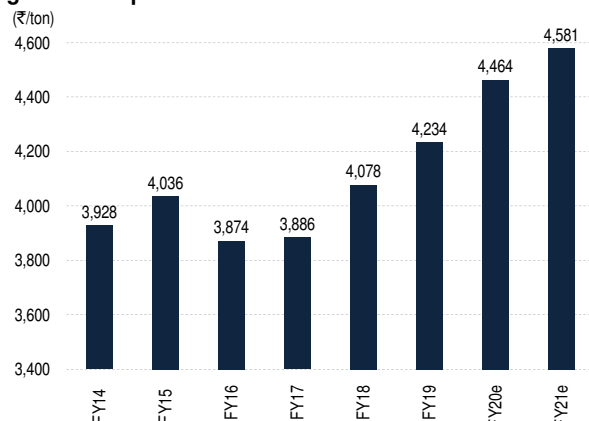
Adj. net profit shot up 68% y/y to ₹1,088m on the better operating performance and falling interest cost, partially countered by the higher tax expense (up 243% y/y) and depreciation (up 6% y/y).

Fig 9 – EBITDA-per-ton trend



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend



Source: Company, Anand Rathi Research

Expansion update

The 4.2m-ton cement capacity expansion is on track. Of the ₹20bn planned capex, till 30th Sep'19 the company had spent ₹11.9bn.

On 29th Sep'19 it commissioned a 1m-ton grey cement grinding unit at the J K Cement Works, Nimbahera (Rajasthan), and 2.64m tonsof clinker atthe J K Cement Works, Mangrol (Gujarat).

The 1m-ton cement grinding capacity at Mangrol is atan advanced stage and likely to be commissioned in the quarter ending Dec'19.

Work on the 1.5m-ton grinding unit at Aligarh and the 0.7m-ton grinding unit at Balasinor is on in full swing, and is expected to be completed by Dec'19 and Mar'20 respectively.

Result highlights

Fig 11 – Quarterly trend

(₹ m)	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	% Y/Y	% Q/Q
Sales	10,282	10,415	10,928	11,129	13,074	11,156	11,006	12,580	14,919	13,280	12,542	14.0	(5.6)
EBITDA	1,908	1,977	1,924	1,571	1,734	1,504	1,698	1,954	2,795	3,035	2,540	49.6	(16.3)
EBITDA margins (%)	18.6	19.0	17.6	14.1	13.3	13.5	15.4	15.5	18.7	22.9	20.3	483bps	-260bps
EBITDA per ton (₹)	886	930	865	676	637	650	786	782	971	1,315	1,135	44.4	(13.7)
Interest	701	680	633	578	562	547	583	564	533	534	561	(3.6)	5.1
Depreciation	452	450	492	451	470	474	487	486	497	494	518	6.4	4.8
Other income	506	186	492	381	618	158	180	270	349	172	180	(0.2)	4.4
PBT	1,172	1,033	1,213	922	1,230	640	808	1,173	2,114	2,179	1,641	103.0	(24.7)
Tax	746	240	281	193	265	147	161	564	614	641	553	242.6	(13.7)
Adj. PAT	515	793	1,009	731	1,055	493	647	609	1,500	1,538	1,088	68.2	(29.3)

Source: Company, Anand Rathi Research

Fig 12– Per-ton analysis

(₹)	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	%Y/Y	%Q/Q
Realisations	4,778	4,900	4,915	4,789	4,806	4,819	5,096	5,037	5,182	5,753	5,604	10.0	(2.6)
EBITDA	886	930	865	676	637	650	786	782	971	1,315	1,135	44.4	(13.7)
Sales volumes (m tons)	2.15	2.13	2.22	2.32	2.72	2.31	2.16	2.50	2.88	2.31	2.24	3.6	(3.0)
Costs													
Raw material	830	790	860	798	750	838	873	901	818	991	971	11.3	(2.0)
Power & Fuel	836	906	960	948	1,041	1,065	1,116	1,047	1,054	1,136	1,003	(10.1)	(11.7)
Stores & spares	352	354	385	314	329	-	-	327	-	-	-	-	-
Freight	960	1,095	1,121	1,128	1,207	1,141	1,092	1,111	1,058	1,072	1,038	(4.9)	(3.2)
Staff	338	389	365	341	332	392	418	357	290	420	430	2.9	2.4
Other expenditure	585	604	435	522	452	807	903	503	890	1,021	1,031	14.1	1.0

Source: Company, Anand Rathi Research

Change in estimates

Factoring in the H1 FY20 performance, the various cost-optimisation steps and the new capacity commissioning, we raise our FY20e and FY21e EBITDA 22% and 14.8% respectively, and PAT 35% and 25%.

Fig 13 – Change in estimates

(₹ m)	Old		New		Variance	
	FY20e	FY21e	FY20e	FY21e	%chg	%chg
Sales	56,572	64,979	57,844	64,815	2.2	(0.3)
EBITDA	9,888	11,630	12,089	13,349	22.3	14.8
PAT	4,643	5,305	6,275	6,653	35.2	25.4

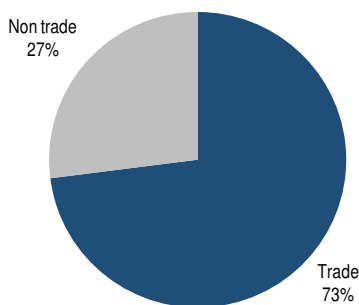
Source: Anand Rathi Research

Concall highlights

Financial and Operational highlights

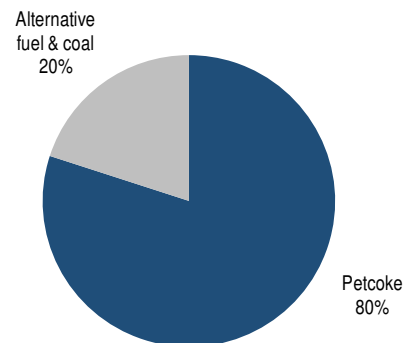
- Management will continue to focus on increasing its share in wall putty.
- Grey cement sales volumes were up 2.1% y/y, to 1.91m tons. White cement sales volumes were up 13% y/y, to 0.33m tons.
- Management said the full-year effective tax rate would be 30%
- The trade-nontrade mix for Q2 FY20 was 73:22.
- The company uses 75%-80% petcoke as fuel.
- Other expenses increased y/y on the rise in branding expenses (for the new capacities and white cement) and consultancy charges. The company will avail of such services in FY21, also. Management said other expenditure would come down from Q3FY21.
- The company has already saved ₹80/ton in logistics costs. Management expects further savings of ₹20-30/ton in FY20. Further savings from lower petcoke prices will come from Q4FY20 as the company has high-cost petcoke inventory for Q3.
- In Q3 CY20, the UAE unit sold 94,000 tons, and 311,000 in 9M CY20, of cement and clinker. Revenue and EBITDA for Q3 CY20 were AED35m and AED2m; for 9M CY20 they were AED115m and AED11m.
- The company's has a commanding ~45% of the white cement market (1.3--1.5m tons) and ~25% of the wall putty market of 3--3.5m tons. (Management expects the white cement market to grow 3--5% and wall putty, 6%.
- The company recently launched a premium product in the North.
- It imported 4000 tons of white cement a month from the UAE to India and plans to increasethis to 6,000 tons a month.

Fig 14 – Trade and Non-Trade mix



Source: Company, Anand Rathi Research

Fig 15 – Fuel mix



Source: Company, Anand Rathi Research

Capex and Debt

- The gross debt was ₹24.64 vs ₹21.99bn and Net debt at ₹16.01bn vs ₹12.61bn
- Of the ₹20bn estimated capex, by Q2FY20 ₹11.9bn had been incurred. Management expects a ₹2.5bn-3bn capex spillover to FY21.
- Besides the ₹1bn maintenance capex and the ₹2.5-3bn capex spillover, the company will expend ₹2.75bn in FY21 (of the total ₹3bn capex) toward upgrading the Nimbahera clinker-line.
- On 29th Sep'19 it commissioned a 1m-ton grey cement grinding unit at the J K Cement Works, Nimbahera (Rajasthan), and 2.64m tons of clinker at the J K Cement Works, Mangrol (Gujarat). The grinding units in UP and Mangrol are expected to be commissioned in Q3 FY20 and the grinding unit at Balasinor, in Q4FY20.
- The protracted monsoon delayed the Mangrol grinding unit by two months.
- Also, the company plans to expand the wall-putty capacity at Katni by 200,000 tons at ₹250m-300m capex, expected to be complete by Q1FY21.

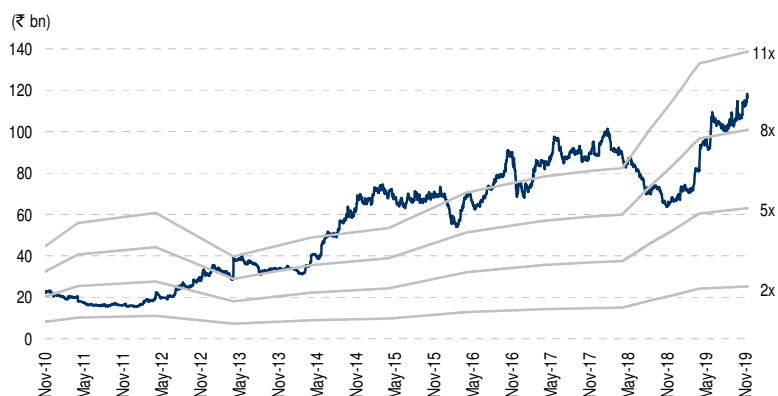
Others

- White cement margins can decline to below 26% owing to the rebranding exercise and to intense competition.
- Management expects savings of ₹100/ton in power & fuel cost at its northern operations (grey cement) from Q1FY21 due to the newly commissioned kiln and softening petcoke prices.
- It expects demand to improve in H2FY20 and to have grey cement sales of ~8.5m tons in FY20. Also, from the new capacities it expects 800,000-1m tons of sales in FY20.
- The de-bottlenecking of the 5,000 tpd Nimbahera plant would mean a 45-/60-day shutdown, and lead to clinker capacity increasing by 1,000 tpd, with cost savings of ~₹125/ton (from power [~12 units] and in fuel [~40-50 Kcal]) at ₹3.25bn capex. Besides, management expects government subsidies for this plant.
- It expects land acquisition and environmental clearance to be received by end-FY20.
- It expects the benefits of lower pet-coke prices only in Q4 FY20 as it still has high-cost inventory.
- In the south, prices increased in November; in the north, however, prices held. Management expects prices to improve with rising demand sentiment.

Valuations

The expansions and pick-up in demand, besides the anticipated better pricing situation in the northern markets, about which we are upbeat, would improve the company's performance, overall. We maintain our Buy recommendation with a higher TP of ₹1,304 (on 10x FY21e EV/EBITDA), implying a PE of 16.2x and an EV/ton of \$125.

Fig 16 – EV/EBITDA band



Source: Bloomberg, Anand Rathi Research

Fig 17 – Peer comparison- valuations

	CMP (₹)	P / E		EV / EBITDA		EV / ton (\$)	
		FY20e	FY21e	FY20e	FY21e	FY20e	FY21e
JK Cement	1,180	14.5	13.7	9.7	8.8	110	109
Birla Corp.	656	10.5	10.9	6.2	6.0	67	67
Dalmia Bharat	821	33.4	28.9	7.6	6.8	101	70
Deccan Cement	350	6.7	5.3	4.1	3.0	31	27
Heidelberg Cement	189	14.5	12.4	7.6	6.5	115	104
India Cement	83	12.0	10.3	6.8	6.4	56	56
JK Lakshmi	300	18.4	11.0	8.6	6.2	60	54
Mangalam Cement	288	13.9	9.3	6.8	5.0	45	43
NCL Indus	82	5.4	4.0	3.3	2.5	28	25
Orient Cement	75	16.5	11.8	7.0	6.7	51	58
Prism Johnson	69	21.5	15.2	9.1	7.4	75	70
Ramco Cement	790	24.9	19.7	15.4	12.4	187	155
Sagar Cement	565	17.5	12.5	8.2	7.2	52	40
Sanghi Industries	40	13.3	11.4	10.4	7.6	75	38
Star Cement	93	13.2	11.1	8.4	6.9	101	101

Source: Bloomberg

Risk

- High prices of pet-coke and diesel.

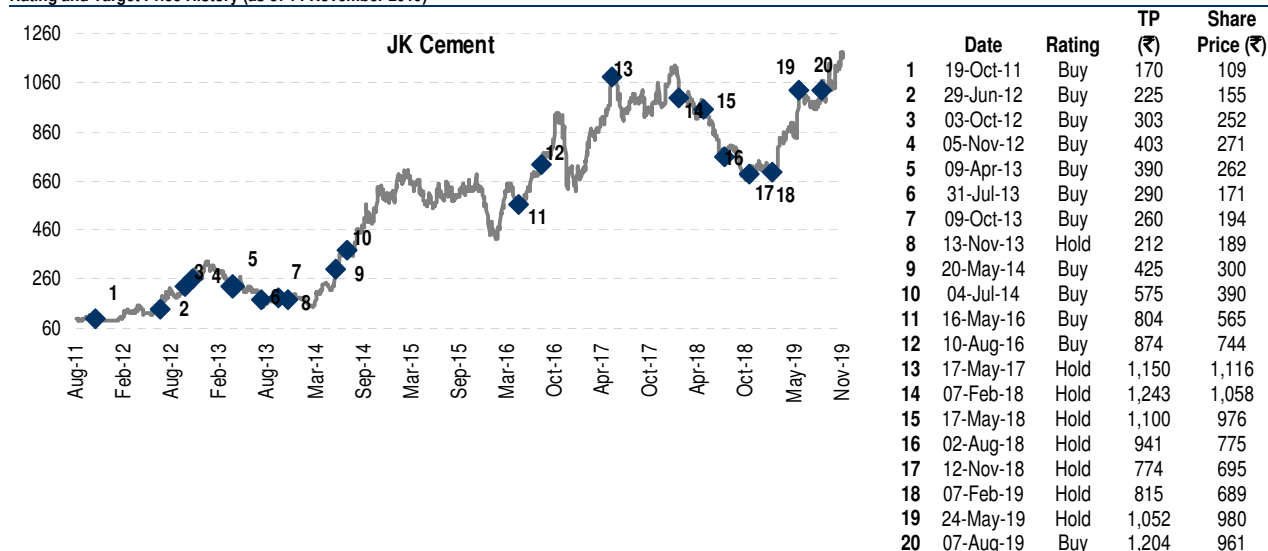
Appendix

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Rating and Target Price History (as of 14 November 2019)



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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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