

12 February 2020

## JK Cements

*Continues to outperform; retaining a Buy*

Rating: **Buy**

Target Price: ₹1,692

Share Price: ₹1,418

With revenue/EBITDA/PAT rising 10%/32%/126% y/y, JK Cements outperformed. It is set to further benefit from ongoing expansions, boosted by revived demand. White cement gives it an edge over others. BCG Consulting Services is expected to rationalise costs further, and falling petcoke prices would add to savings. Leverage is expected to shrink on capacity-expansion completion. We retain our Buy rating, with a higher target of ₹1,692 (earlier ₹1,394).

**Realisation up 7.7% y/y.** The 7.7% y/y rise in realisation (grey cement up ~10%, white cement up ~4.3%) and 2.4% y/y volume growth to 2.56m tons (grey cement ~ up 2.8%; white cement, flat) resulted in revenue rising 10.3% y/y to ₹14bn. Prices were hiked by ₹8-10/bag in Jan-Feb'20. Management talked of industry growth of 6% in FY21 and JK's volumes growing in double digits, backed by the new capacity commissioning. We expect volume/revenue CAGRs over FY19-22 of 9%/13.5%.

**Firm operating performance.** Higher realisations and cost savings (P&F cost ~down 5.3%, freight cost ~down 4.8% y/y) led to EBITDA/ton rising 28.8% y/y to ₹1,086. Absolute EBITDA grew 32% y/y to ₹2.8bn. Higher advertising and packing expenses led to other expenses rising 20% y/y. Management said BCG Consulting Services would continue in FY21, and Q4 FY20 savings in P&F costs would be ₹50/ton. We expect EBITDA/ton of ₹1,153 by FY22.

**Business outlook, Valuation.** Of the 4.2m-ton capacity expansion, 3.5m has been commissioned and the 0.7m-ton Balasinor expansion will be completed by Q1 FY21. Management talked of ₹12bn capex in FY20 and ₹7bn for FY21 (the Nimbahera clinker line, wall-putty expansion, 13MW WHRS). Land acquisition and environment clearances at MP are expected to be done by Q3 FY21, and the 300,000-ton wall-putty expansion by Q1 FY21. Management expects incentives of ~100m for UP GU in FY21. We introduce FY22e and maintain our Buy rating, with a higher TP of ₹1,692 (10x FY22e EV/EBITDA) implying EV of \$136/ton. **Risk:** High pet-coke & diesel prices.

Key financials (YE Mar)	FY18	FY19	FY20e	FY21e	FY22e
Sales (₹m)	45,426	49,192	56,506	63,894	73,081
Net profit (₹m)	3,588	3,249	5,829	6,311	7,587
EPS (₹)	51.3	42.0	75.4	81.7	98.2
PE (x)	19.8	20.5	18.8	17.4	14.4
EV / EBITDA (x)	12.7	11.2	11.3	10.1	8.5
EV / ton (\$)	116.7	106.1	130.3	123.6	116.1
RoE (%)	17.9	12.9	18.6	17.3	18.0
RoCE (%)	8.2	7.0	10.8	10.9	12.1
Dividend yield (%)	1.0	1.2	0.7	0.8	0.8
Net debt/equity (x)	0.9	0.6	0.7	0.6	0.3

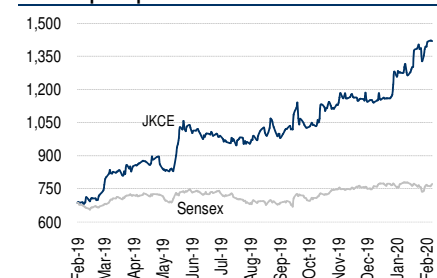
Source: Company, Anand Rathi Research

Key data	JKCE IN / JKCE.BO
52-week high / low	₹1480 / 682
Sensex / Nifty	41566 / 12201
3-m average volume	\$1.6m
Market cap	₹110bn / \$1537m
Shares outstanding	77m

Shareholding pattern (%)	Dec '19	Sept '19	Jun '19
Promoters	58.1	58.1	58.1
- of which, Pledged	-	-	-
Free float	41.9	41.9	41.9
- Foreign institutions	12.1	11.9	10.7
- Domestic institutions	23.6	23.5	24.4
- Public	6.3	6.5	6.9

Estimates revision (%)	FY20e	FY21e
Sales	(2.3)	(1.4)
EBITDA	(2.5)	(2.1)
PAT	(7.1)	(5.1)

### Relative price performance



Source: Bloomberg

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## Quick Glance – Financials and Valuations

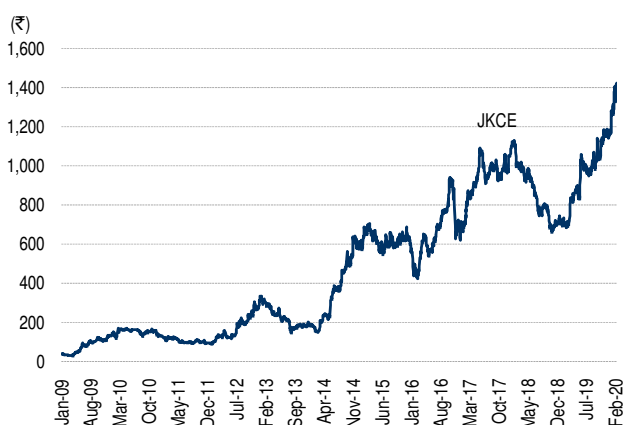
**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY18	FY19	FY20e	FY21e	FY22e
Sales volumes (m tons)	9.4	9.9	10.1	11.2	12.6
Net revenues	45,426	49,192	56,506	63,894	73,081
Growth (%)	22.7	8.3	14.9	13.1	14.4
Direct costs	30,509	33,049	34,166	38,760	45,138
SG&A	7,796	8,663	10,555	12,060	13,398
<b>EBITDA</b>	<b>7,120</b>	<b>7,480</b>	<b>11,785</b>	<b>13,074</b>	<b>14,545</b>
EBITDA margins (%)	15.7	15.2	20.9	20.5	19.9
- Depreciation	1,863	1,944	2,232	2,680	2,848
Other income	1,763	1,420	954	894	944
Interest expenses	2,454	2,221	2,180	2,274	1,804
PBT	4,567	4,736	8,327	9,015	10,838
Effective tax rate (%)	22	31	30	30	30
+ Associates / (Minorities)					
Net income	3,419	3,249	5,829	6,311	7,587
Adjusted income	3,588	3,249	5,829	6,311	7,587
WANS	70	77	77	77	77
FDEPS (₹/ sh)	51	42	75	82	98
FDEPS growth (%)	55.9	-18.1	79.4	8.3	20.2

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY18	FY19	FY20e	FY21e	FY22e
PBT	4,567	4,736	8,327	9,015	10,838
+ Non-cash items	1,863	1,944	2,232	2,680	2,848
Oper. prof. before WC	6,430	6,679	10,559	11,695	13,686
- Incr./ (decr.) in WC	-940	208	207	-200	-220
Others incl. taxes	941	1,037	2,298	2,505	3,051
Operating cash-flow	6,428	5,435	8,054	9,390	10,855
- Capex (tang. +intang.)	859	6,891	12,700	7,050	1,550
Free cash-flow	5,569	-1,456	-4,646	2,340	9,305
Acquisitions					
- Div. (incl. buyback & taxes)	843	932	932	1,118	1,118
+ Equity raised	0	5,108	0	0	0
+ Debt raised	-2,591	371	2,500	-2,000	-8,000
- Fin investments	989	3,702	-2,734	0	0
- Misc. (CFI + CFF)	-20	-33	200	200	200
Net cash-flow	1,166	-579	-543	-977	-13

Source: Company, AnandRathi Research

**Fig 5 – Price movement**


Source: Bloomberg

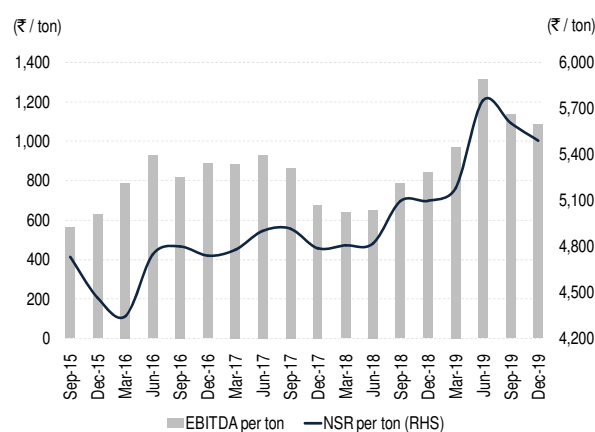
**Fig 2 – Balance sheet (₹ m)**

Year-end: Mar	FY18	FY19	FY20e	FY21e	FY22e
Share capital	699	773	773	773	773
Net worth	21,473	28,928	33,825	39,018	45,487
Debt	25,605	25,975	28,475	26,475	18,475
Minority interest					
DTL/(Assets)	2,672	3,125	3,125	3,125	3,125
<b>Capital employed</b>	<b>49,750</b>	<b>58,028</b>	<b>65,425</b>	<b>68,618</b>	<b>67,087</b>
Net tangible assets	35,905	36,250	51,155	55,525	54,727
Net intangible assets	62	105	105	105	105
Goodwill	0	0	0	0	0
CWIP (tang. &intang.)	878	5,438	1,000	1,000	500
Investments (strategic)	5,157	5,665	6,870	6,870	6,870
Investments (financial)	1,189	4,382	443	443	443
Current assets (ex cash)	11,213	12,827	14,566	16,166	17,566
Cash	5,435	4,857	4,313	3,336	3,323
Current liabilities	10,088	11,495	13,026	14,826	16,446
Working capital	1,125	1,332	1,539	1,339	1,119
<b>Capital deployed</b>	<b>49,750</b>	<b>58,028</b>	<b>65,425</b>	<b>68,618</b>	<b>67,087</b>
Contingent liabilities	11,219	11,458	-	-	-

**Fig 4 – Ratio analysis**

Year-end: Mar	FY18	FY19	FY20e	FY21e	FY22e
P/E (x)	19.8	20.5	18.8	17.4	14.4
EV / EBITDA (x)	12.7	11.2	11.3	10.1	8.5
EV / Sales (x)	2.0	1.7	2.4	2.1	1.7
P/B (x)	3.3	2.3	3.2	2.8	2.4
RoE (%)	17.9	12.9	18.6	17.3	18.0
RoCE (%) - after tax	8.2	7.0	10.8	10.9	12.1
DPS (₹ / sh)	10.0	10.0	10.0	12.0	12.0
Dividend payout (%) - incl. DDT	24.7	28.7	16.0	17.7	14.7
Net debt / equity (x)	0.9	0.6	0.7	0.6	0.3
WC days	9.0	9.9	9.9	7.7	5.6
EV / ton (\$)	116.7	106.1	130.3	123.6	116.1
NSR / ton (₹)	4,836	4,994	5,594	5,694	5,794
EBITDA / ton (₹)	758	759	1,167	1,165	1,153
Volumes (m tons)	9.39	9.85	10.10	11.22	12.61
CFO : PAT %	179.1	167.3	138.2	148.8	143.1

Source: Company, AnandRathi Research

**Fig 6 – Quarterly per-ton NSR and EBITDA trends**


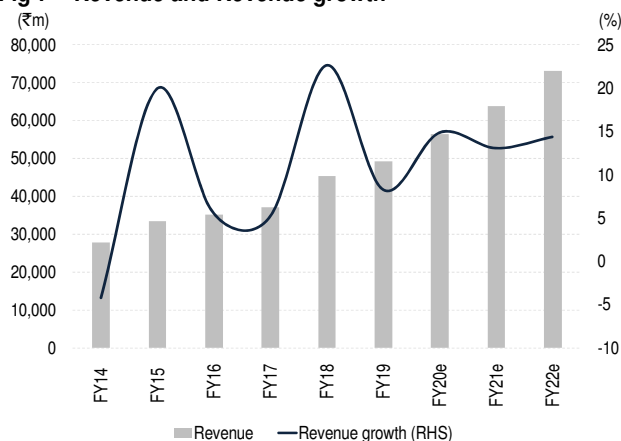
Source: Company

## Other key highlights

### Revenue growth

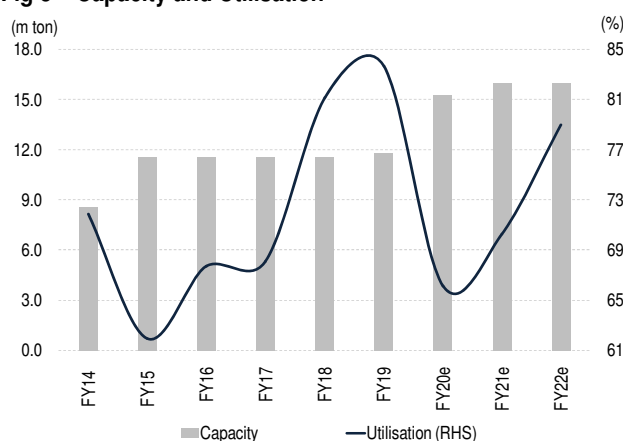
Boosted by firm (7.7% y/y) realisation growth to ₹5,490/ton and 2.4% y/y volume gain to 2.56m tons, J K Cement's Q3 FY20 revenue stepped up 10% y/y to ₹14bn. Grey cement volumes increased 2.8% y/y to 2.2m tons, while NSR/ton rose a huge 10.1% y/y. White cement volumes were flat y/y to 0.35m tons, with realisations rising 4.3% y/y.

**Fig 7 – Revenue and Revenue growth**



Source: Company, Anand Rathi Research

**Fig 8 – Capacity and Utilisation**



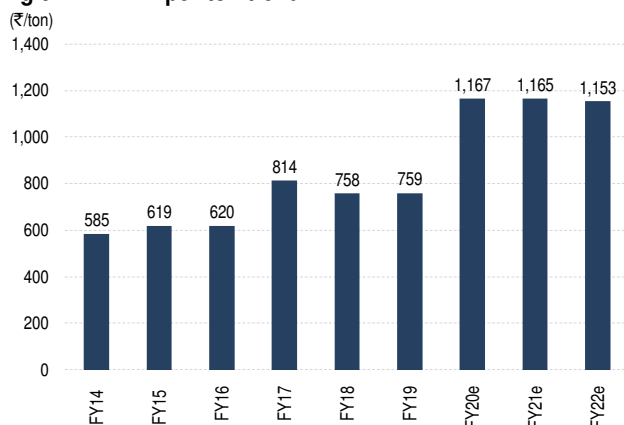
Source: Company, Anand Rathi Research

### Operating performance

On the good revenue growth and lower power & fuel cost (down 5.3% y/y) and freight cost/ton (down 4.8% y/y), the company reported EBITDA/ton, of ₹1,086, up 28.8% y/y. Other expenditure, raw material cost and staff cost/ton rose respectively 17%, 6% and 8.7% y/y. Other expenditure increased due to higher branding expenses (due to the new capacity commencement) and packing expenses (due to higher sales volumes).

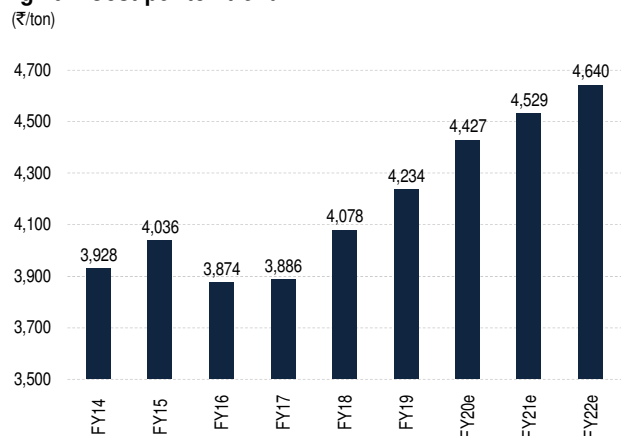
Adj. net profit shot up 125.8% y/y to ₹1,376m on the better operating performance and higher other income, partially countered by higher depreciation (up 14% y/y).

**Fig 9 – EBITDA-per-ton trend**



Source: Company, Anand Rathi Research

**Fig 10 – Cost-per-ton trend**



Source: Company, Anand Rathi Research

## Result highlights

**Fig 11 – Quarterly trend**

(₹ m)	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	% Y/Y	% Q/Q
Sales	10,415	10,928	11,129	13,074	11,156	11,006	12,732	14,919	13,280	12,542	14,042	10.3	12.0
EBITDA	1,977	1,924	1,571	1,734	1,504	1,698	2,105	2,795	3,035	2,540	2,777	31.9	9.3
EBITDA margins (%)	19.0	17.6	14.1	13.3	13.5	15.4	16.5	18.7	22.9	20.3	19.8	324bps	-48bps
EBITDA per ton (₹)	930	865	676	637	650	786	843	971	1,315	1,135	1,086	28.8	(4.3)
Interest	680	633	578	562	547	583	564	533	534	561	561	(0.4)	(0.0)
Depreciation	450	492	451	470	474	487	486	497	494	518	556	14.3	7.4
Other income	186	492	381	618	158	180	118	349	172	180	237	100.5	31.7
PBT	1,033	1,213	922	1,230	640	808	1,173	2,114	2,179	1,641	1,897	61.7	15.6
Tax	240	281	193	265	147	161	564	614	641	553	521	(7.6)	(5.7)
Adj. PAT	793	1,009	731	1,055	493	647	609	1,500	1,538	1,088	1,376	125.8	26.4

Source: Company, Anand Rathi Research

**Fig 12– Per-ton analysis**

(₹)	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	%Y/Y	%Q/Q
Realisations	4,900	4,915	4,789	4,806	4,819	5,096	5,098	5,182	5,753	5,604	5,490	7.7	(2.0)
EBITDA	930	865	676	637	650	786	843	971	1,315	1,135	1,086	28.8	(4.3)
Sales volumes (m tons)	2.13	2.22	2.32	2.72	2.31	2.16	2.50	2.88	2.31	2.24	2.56	2.4	14.3
<b>Costs</b>													
Raw material	790	860	798	750	838	873	901	818	991	971	956	6.1	(1.6)
Power & Fuel	906	960	948	1,041	1,065	1,116	1,047	1,054	1,136	1,003	992	(5.3)	(1.1)
Stores & spares	354	385	314	329	-	-	-	-	-	-	-	#DIV/0!	#DIV/0!
Freight	1,095	1,121	1,128	1,207	1,141	1,092	1,111	1,058	1,072	1,038	1,058	(4.8)	1.9
Staff	389	365	341	332	392	418	357	290	420	430	388	8.7	(9.8)
Other expenditure	604	435	522	452	807	903	830	890	1,021	1,031	971	17.0	(5.8)

Source: Company, Anand Rathi Research

### Change in estimates

Factoring in the 9M FY20 performance, we lower our FY20e and FY21e revenue 2.3% and 1.4% respectively, and EBITDA 2.5% and 2.1%. Correspondingly, we reduce PAT 7.1% and 5.1%.

**Fig 13 – Change in estimates**

(₹ m)	Old		New		Variance	
	FY20e	FY21e	FY20e	FY21e	%chg	%chg
Sales	57,844	64,815	56,506	63,894	(2.3)	(1.4)
EBITDA	12,089	13,349	11,785	13,074	(2.5)	(2.1)
PAT	6,275	6,653	5,829	6,311	(7.1)	(5.1)

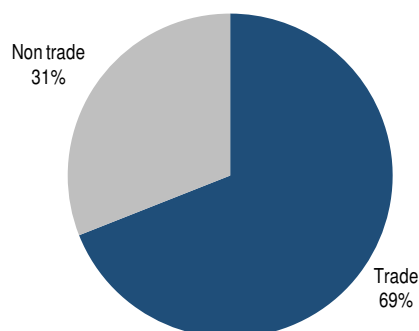
Source: Anand Rathi Research

## Concall highlights

### Financial and Operational highlights

- Grey cement sales volumes were up 2.8% y/y, to 2.2m tons. White cement sales volumes were flat y/y, to 0.35m tons impacted by extended monsoon.
- The trade-nontrade mix for Q3 FY20 was 69:31.
- Other expenses increased y/y on the rise in advertising and packing expense (due to greater sales volumes).
- The company will continue to avail of BCG Consulting Services in FY21, also. The annual spend is ₹600m.
- Further savings (₹50/ton) from lower petcoke prices will come from Q4FY20 as the company has high-cost petcoke inventory for Q3.
- In Q4 CY20, the UAE unit sold 76,000 tons of cement, and 37,000 of clinker. In CY20, the UAE unit sold 275,000 tons of cement, and 149,000 of clinker.
- Revenue and EBITDA for Q4 CY20 were ₹670m and ₹120m; for CY20 they were ₹2.7bn and ₹260m.

Fig 14 – Trade and Non-Trade mix



Source:

### Capex and Debt

- Gross debt was ₹25.75bn (₹21.99bn at end-Mar'19) and net debt, ₹15.77bn (₹12.61bn).
- Of the ₹20bn estimated capex, by Q3FY20 ₹14.15bn had been incurred. Management talked of capex of ₹12bn in FY20 and ₹7bn in FY21 (for the Nimbahera clinker line, wall-putty expansion, 13MW WHRS and capex spillover for the ongoing expansion).
- On 3rd Feb'20, the company commissioned a 1m-ton grey cement grinding unit at Mangrol, and 1.5m tons at Aligarh. The grinding unit at Balasinor will be commissioned in Q1 FY21.
- Also, the company plans to expand the wall-putty capacity at Katni by 300,000 tons at ₹250m-300m capex, expected to be complete by Q1 FY21.
- The company will spend ₹300m-400m on the Nimbahera clinker expansion in Q4 FY20.

- At Penna (MP), the company has acquired 425 acres at ₹900m. Management expects environment clearances and balance 75 acres to be completed by Dec'20. The company has already acquired 500 acres of mining land.
- The wall putty sector has grown 7% whereas JK Cements' volumes grew 10.8% in 9M FY20.
- The difference between trade and non-trade prices was ₹25/bag in the North and ₹25-40 in the South.
- The OPC share of total volumes was 58%.

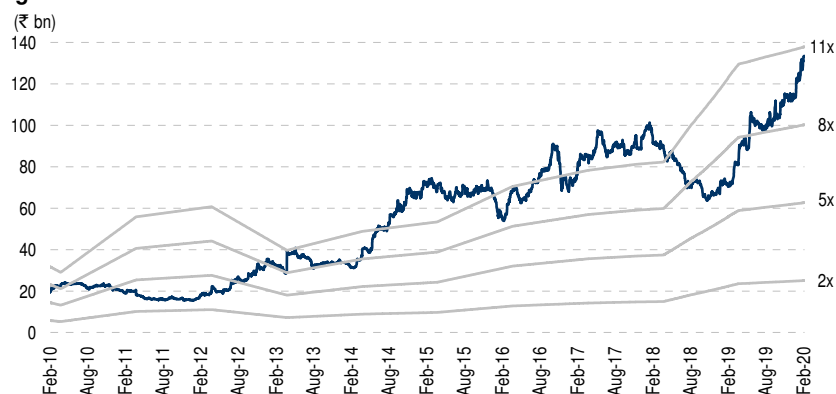
**Outlook**

- Management expects the industry to grow 6% in FY21 and JK Cements' volumes to grow in double digits.
- It expects ~4-5% volume growth in Q4 FY20.
- It expects incentives of ₹100m for UP GU in FY21 and expects it to increase with a rise in sales volumes.
- It intends to increase the share of the premium cement brand from 10% (of trade sales).
- In Jan/Feb, prices were hiked by of ₹8-10/bag.

## 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 introduce FY22e and maintain our Buy recommendation with a higher TP of ₹1,692 (on 10x FY22e EV/EBITDA), implying a PE of 17.2x and an EV/ton of \$136.

**Fig 15– EV/EBITDA band**



Source: Bloomberg, Anand Rathi Research

**Fig 16 – Peer comparison- valuations**

	CMP (₹)	P / E		EV / EBITDA		EV / ton (\$)	
		FY20e	FY21e	FY20e	FY21e	FY20e	FY21e
JK Cement	1,418	18.8	17.4	11.3	10.1	130	124
Birla Corp.	750	12.0	12.2	6.8	6.6	73	72
Dalmia Bharat	894	45.0	36.7	8.6	7.6	107	78
Deccan Cement	295	5.6	4.5	3.4	2.4	26	21
Heidelberg Cement	198	15.2	13.0	8.0	6.9	121	109
India Cement	74	18.5	14.8	7.7	7.1	54	54
JK Lakshmi	350	15.0	12.0	7.8	6.6	66	62
Mangalam Cement	282	8.0	6.3	5.5	4.3	47	42
NCL Indus	87	6.7	5.2	4.4	3.5	34	32
Orient Cement	80	24.8	13.8	8.1	6.7	54	55
Prism Johnson	66	20.3	14.4	8.7	7.1	72	67
Ramco Cement	779	31.4	25.2	19.0	15.2	150	129
Sagar Cement	516	26.2	19.8	8.8	8.4	44	41
Sanghi Industries	35	17.0	11.7	10.5	7.8	69	47
Star Cement	89	12.6	10.5	8.0	6.5	96	97

Source: Bloomberg

### Risk

- High prices of pet-coke and diesel.

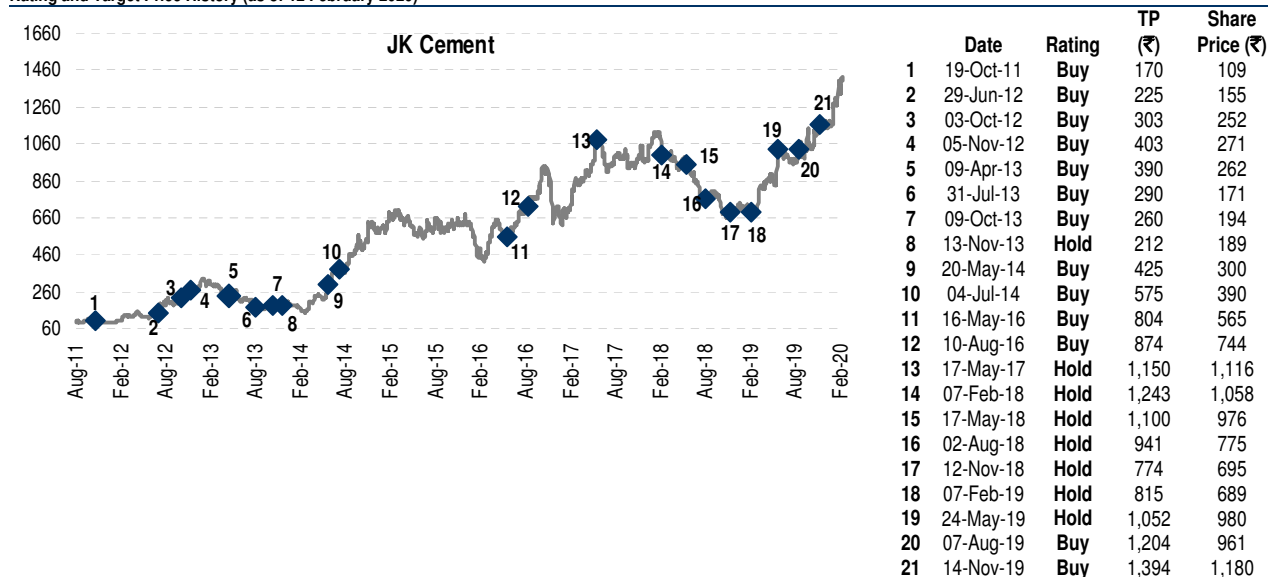
## Appendix

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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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