

## Cement

Target price Rs1,725

## Earnings revision

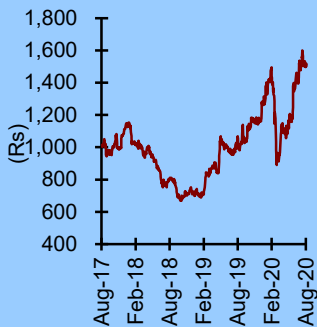
(%)	FY21E	FY22E
Sales	↓ 0.7	↓ 1.3
EBITDA	-	-
PAT	-	-

## Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	58.1	58.1	58.1
Institutional investors	35.6	36.2	36.7
MFs and other	21.3	21.4	21.2
Insurance Cos.	2.2	2.3	2.1
FIs	12.1	12.5	13.4
Others	6.3	5.7	5.2

Source: CMIE

## Price chart



## JK Cement

**BUY**  
**Maintained**  
**Rs1,490**

Volume / profitability to improve with expansion

JK Cement's (JKCE) Q1FY21 standalone EBITDA declined 29% YoY to Rs2.15bn, marginally better than our/consensus estimates of Rs1.96bn owing to lower costs. Total cost/te declined 4% YoY (I-Sec: 1% YoY) owing to reduction / deferment of discretionary costs. Hence, blended EBITDA/te was down only 7% YoY to Rs1,219/te (I-Sec: Rs1,125/te). We believe ramping-up of new capacity at Mangrol would not only provide additional volumes but also improve cost structure / profitability. Consolidated net debt is likely to peak out at Rs24bn in FY21E as JKCE could generate OCF of >Rs10bn p.a. from FY22E which would be sufficient for its future capex requirements. We maintain our FY21E-FY22E EBITDA with target price unchanged at Rs1,725/share (10x FY22E EV/E). Maintain BUY.

Conference call on Sep 2 (Wed) at 16:00hrs IST, (022 6280 1143)

- ▶ **Standalone revenue declined 28% YoY at Rs9.5bn, in-line with estimates.** Grey cement volume (including clinker) decline was lower than industry average at 19% YoY to 1.59mnte owing to better growth in North markets also aided by expansion. Grey cement realisation increase of 0.7% QoQ (down 0.5% YoY) to Rs4,648/te was lower than our expectations owing to increasing share of North region volumes. White cement and wall care putty volumes declined 48% YoY to 0.18mnte.
- ▶ **Standalone EBITDA declined 29% YoY to Rs2.15bn (I-Sec: Rs1.96bn).** Blended cost/te declined 4% YoY (flat QoQ) owing to 45% YoY decline in other expenses from Rs2.3bn to Rs1.3bn led by likely reduction / deferment of discretionary costs. Raw material and power & fuel cost/te increased 2% YoY/ 11% QoQ led by higher inventory adjustment; while freight cost/te declined 7% YoY/ 6% QoQ led by better logistic optimisation. PAT declined 50% YoY to Rs777mn (I-Sec: Rs678mn). Consolidated EBITDA declined 31% YoY to Rs2.13bn. UAE subsidiary registered EBITDA loss of Rs27mn vs EBITDA of Rs48mn YoY and Rs58mn QoQ respectively.
- ▶ **Remaining small part of expansion getting delayed owing to Covid-19:** JKCE commissioned 2.6mnte clinker unit at Mangrol and 3.5mnte grinding capacity in H2FY20, while commissioning of 0.7mnte grinding unit at Balasinor and modernisation of 0.3mnte line-3 at Nimbahera has been delayed by 6-9 months to Q3FY21 and Q2FY22 respectively, due to Covid-19 outbreak. JKCE has already spent Rs15.1bn (out of planned Rs20bn) on the Mangrol expansion project.
- ▶ **Consolidated net debt likely declined by Rs2.8bn QoQ to Rs20.5bn as of Jun'20-end** with capex spend of just Rs140mn in Q1FY21. JKCE would incur capex of Rs4bn for ongoing expansion projects and Rs2.5bn for line-3 Nimbahera modernisation in FY21. Net debt to EBITDA ratio may decline from 1.9x in FY20 to 1.3x in FY22E. JKCE is likely to generate OCF of >Rs10bn p.a. from FY22E which would be sufficient for its future capex requirements.

Market Cap	Rs115bn/US\$1.6bn
Reuters/Bloomberg	JKCE.BO/JKCE IN
Shares Outstanding (mn)	77.3
52-week Range (Rs)	1600/891
Free Float (%)	41.9
FII (%)	13.4
Daily Volume (US\$'000)	1,714
Absolute Return 3m (%)	27.5
Absolute Return 12m (%)	45.6
Sensex Return 3m (%)	19.8
Sensex Return 12m (%)	4.6

Year to Mar	2019	2020	2021E	2022E
Revenue (Rs mn)	52,587	58,016	57,665	67,943
EBITDA (Rs mn)	8,345	12,134	12,400	15,320
Net Income (Rs mn)	2,958	4,964	4,980	6,941
% Chg YoY	(9.0)	67.8	0.3	39.4
P/E (x)	22.7	23.2	23.1	16.6
CEPS (Rs)	69.5	101.5	104.7	133.1
EV/E (x)	10.5	11.4	11.2	8.8
Dividend Yield	0.7	0.5	0.9	1.1
RoCE (%)	8.5	11.0	10.3	12.3
RoE (%)	12.7	17.3	15.5	18.7

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- **Key management changes post the recent demise of Mr. Yadupati Singhania, CMD in Aug'20:** Mrs. Sushila Devi Singhania (Non-executive Non Independent Director) has been appointed as the Chairperson of the Board; while Mrs Kavita Y Singhania has been appointed as an Additional Director (Non-executive Non Independent). Mr Raghavpat Singhania has been appointed /redesignated from ED (Corporate Affairs & White Cement) to MD; while Mr Madhavkrishna Singhania has been appointed /redesignated from ED (Grey Cement) to Dy. MD and CEO and Mr Ajay Kumar Saraogi has been appointed /redesignated from ED and CFO to Dy. MD and CFO.

**Table 1: Q1FY21 result review – standalone***(Rs mn, year ending March 31)*

	Q1FY21	Q1FY20	% chg (YoY)	Q4FY20	% chg (QoQ)	I-Sec estimates	(%) Var
Volume	1.77	2.31	(23.5)	2.67	(33.8)	1.74	1.6
Blended realisation	5,375	5,678	(5.3)	5,468	(1.7)	5,445	(1.3)
<b>Net Sales</b>	<b>9,494</b>	<b>13,113</b>	<b>(27.6)</b>	<b>14,587</b>	<b>(34.9)</b>	<b>9,469</b>	<b>0.3</b>
Other Operating income	155	167	(6.7)	187	(16.9)	117	33.3
Raw Materials	1,953	1,824	7.0	2,071	(5.7)	1,236	57.9
Personnel Cost	950	968	(1.8)	987	(3.7)	939	1.2
Power & fuel costs	1,531	2,621	(41.6)	2,690	(43.1)	1,737	(11.8)
Freight	1,755	2,474	(29.1)	2,818	(37.7)	1,853	(5.3)
Other Expenses	1,307	2,357	(44.5)	2,745	(52.4)	1,863	(29.8)
<b>Total Expenses</b>	<b>7,497</b>	<b>10,245</b>	<b>(26.8)</b>	<b>11,312</b>	<b>(33.7)</b>	<b>7,629</b>	<b>(1.7)</b>
<b>EBITDA</b>	<b>2,153</b>	<b>3,035</b>	<b>(29.1)</b>	<b>3,463</b>	<b>(37.8)</b>	<b>1,956</b>	<b>10.0</b>
<b>EBITDA/te</b>	<b>1,219</b>	<b>1,314</b>	<b>(7.3)</b>	<b>1,298</b>	<b>(6.1)</b>	<b>1,125</b>	<b>8.3</b>
Interest	572	534	7.0	572	0.0	572	0.0
Depreciation	580	494	17.4	577	0.6	588	(1.4)
Other Income	203	172	18.2	271	(24.9)	172	18.2
<b>Recurring pre-tax income</b>	<b>1,204</b>	<b>2,179</b>	<b>(44.7)</b>	<b>2,585</b>	<b>(53.4)</b>	<b>968</b>	<b>24.4</b>
Extraordinary income/ (exps)	-	-		(1,782)		-	
Taxation	427	641	(33.3)	801	(46.6)	291	47.1
<b>Reported Net Income</b>	<b>777</b>	<b>1,538</b>	<b>(49.5)</b>	<b>2</b>	<b>NA</b>	<b>678</b>	<b>14.6</b>
<b>Recurring Net Income</b>	<b>777</b>	<b>1,538</b>	<b>(49.5)</b>	<b>1,784</b>	<b>(56.4)</b>	<b>678</b>	<b>14.6</b>
<b>Ratios (%)</b>							
EBITDA margins	22.7	23.1		23.7		20.7	
Net profit margins	8.2	11.7		12.2		7.2	

Source: Company data, I-Sec research

**Table 2: Historical quarterly analysis**

(Rs/te)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Blended realisations</b>	<b>5,681</b>	<b>5,535</b>	<b>5,424</b>	<b>5,468</b>	<b>5,375</b>
Growth % (YoY)	19.3	9.9	9.9	7.0	(5.3)
Raw materials	790	967	995	776	1,105
Staff costs	290	429	388	370	538
Power & fuel costs	1,136	1,002	992	1,008	867
Outward freight	1,072	1,037	1,058	1,056	994
Other expenditure	1,021	1,030	971	1,029	740
<b>Total</b>	<b>4,439</b>	<b>4,466</b>	<b>4,404</b>	<b>4,240</b>	<b>4,244</b>
Other operating income	72	65	65	70	88
<b>EBITDA-blended</b>	<b>1,315</b>	<b>1,134</b>	<b>1,086</b>	<b>1,298</b>	<b>1,219</b>

Source: Company data, I-Sec research

**Table 3: Segmental analysis**

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Grey Cement</b>					
Revenue (Rs mn)	9,203	8,523	9,599	10,916	7,394
Realisation (Rs/te)	4,670	4,467	4,355	4,618	4,648
Volumes (mnte)	2.0	1.9	2.2	2.4	1.6
<b>White Cement</b>					
Revenue (Rs mn)	3,911	3,873	4,276	3,671	2,101
Realisation (Rs/te)	11,591	11,687	12,095	12,086	11,953
Volumes (mnte)	0.34	0.33	0.35	0.30	0.18

Source: Company data, I-Sec research

**Table 4: Q1FY21 result review – consolidated***(Rs mn, year ending March 31)*

	Q1FY21	Q1FY20	% chg (YoY)	Q4FY20	% chg (QoQ)
<b>Net Sales</b>	<b>10,048</b>	<b>13,939</b>	<b>(27.9)</b>	<b>15,457</b>	<b>(35.0)</b>
Raw Materials	2,047	1,849	10.7	2,104	(2.7)
Personnel Cost	1,047	1,106	(5.4)	1,123	(6.8)
Power fuel costs	1,577	2,772	(43.1)	2,826	(44.2)
Freight	1,835	2,617	(29.9)	2,970	(38.2)
Other Expenses	1,418	2,512	(43.6)	2,913	(51.3)
<b>Total Expenses</b>	<b>7,923</b>	<b>10,857</b>	<b>(27.0)</b>	<b>11,936</b>	<b>(33.6)</b>
<b>EBITDA</b>	<b>2,126</b>	<b>3,083</b>	<b>(31.0)</b>	<b>3,521</b>	<b>(39.6)</b>
Interest	665	649	2.5	661	0.6
Depreciation	737	643	14.6	725	1.5
Other Income	201	173	16.1	273	(26.2)
<b>Recurring pre-tax income</b>	<b>925</b>	<b>1,965</b>	<b>(52.9)</b>	<b>2,407</b>	<b>(61.6)</b>
Extraordinary income/ (exps)	-	-		-	
Taxation	426	642		799	(46.7)
<b>Reported Net Income</b>	<b>499</b>	<b>1,323</b>	<b>(62.2)</b>	<b>1,608</b>	<b>(68.9)</b>
<b>Recurring Net Income</b>	<b>499</b>	<b>1,323</b>	<b>(62.2)</b>	<b>1,608</b>	<b>(68.9)</b>
<b>Ratios (%)</b>					
EBITDA margins	21.2	22.1		22.8	
Net profit margins	5.0	9.5		10.4	

Source: Company data, I-Sec research

**Table 5: Performance trend and assumptions**

	FY18	FY19	FY20	FY21E	FY22E
<b>Grey cement ('000 te)</b>					
Capacity	10,472	10,472	14,672	14,672	14,672
Production	7,890	8,578	8,447	8,954	10,297
Capacity utilisation (%)	<b>79</b>	<b>86</b>	<b>79</b>	<b>64</b>	<b>74</b>
Growth (%)	20.4	4.3	(1.5)	6.0	15.0
Realisation (Rs/te)	3,906	4,001	4,527	4,527	4,595
Growth (%)	7.2	2.4	13.2	-	1.5
<b>White cement ('000 te)</b>					
Capacity	1,200	1,200	1,200	1,200	1,200
Production	919	938	1,021	796	921
Capacity utilisation (%)	<b>77</b>	<b>78</b>	<b>85</b>	<b>66</b>	<b>77</b>
Growth (%)	4.4	2.1	8.8	(22.0)	15.6
Realisation (Rs/te)	10,325	10,668	10,686	11,106	11,280
Growth (%)	(1.0)	3.3	0.2	3.9	1.6

Source: Company data, I-Sec research

**Table 6: Segment-wise estimates***(Rs mn)*

	FY18	FY19	FY20	FY21E	FY22E
<b>Revenue</b>					
White cement	15,859	17,513	19,110	16,510	20,041
--India	13,310	14,872	15,731	14,139	17,286
--Fujairah	2,549	2,641	3,379	2,371	2,754
Grey Cement	32,117	34,320	38,240	40,535	47,314
<b>Total</b>	<b>47,975</b>	<b>51,833</b>	<b>57,350</b>	<b>57,045</b>	<b>67,355</b>
<b>EBITDA</b>					
White cement	4,091	4,286	4,223	3,552	4,360
--India	3,823	4,057	3,832	3,366	4,103
--Fujairah	268	228	391	186	256
Grey Cement	3,783	4,059	7,911	8,848	10,960
<b>Total</b>	<b>7,875</b>	<b>8,345</b>	<b>12,134</b>	<b>12,400</b>	<b>15,320</b>

Source: Company data, I-Sec research

**Table 7: Per-tonne estimate analysis**

(Rs/te)	FY18	FY19	FY20	FY21E	FY22E
Net realisation – Grey cement	3,906	4,001	4,527	4,527	4,595
Net realisation – White cement	10,325	10,668	10,686	11,106	11,280
<b>Blended realisation</b>	<b>4,916</b>	<b>5,072</b>	<b>5,603</b>	<b>5,464</b>	<b>5,579</b>
Raw materials consumed	821	865	851	981	967
Power and fuel	976	1,083	1,069	973	997
Freight	1,133	1,100	1,077	1,065	1,074
Others	1,229	1,280	1,485	1,316	1,320
<b>Total operating expenses</b>	<b>4,159</b>	<b>4,329</b>	<b>4,483</b>	<b>4,335</b>	<b>4,358</b>
Other operating income	50	74	65	59	49
EBITDA/te – Grey cement	460	473	937	988	1,064
EBITDA/te – White cement	2,664	2,611	2,362	2,389	2,454
<b>EBITDA/te – blended</b>	<b>807</b>	<b>817</b>	<b>1,186</b>	<b>1,188</b>	<b>1,269</b>

Source: Company data, I-Sec research

### Valuation methodology and key risks

We broadly maintain our FY21E-FY22E EBITDA with target price unchanged at Rs1,725/share (10x FY22E EV/E). Maintain BUY.

**Table 8: Valuations based on 10x FY22E EV/E**

(Rs.mn)	
Target EV/ EBITDA multiple (x)	10
Target EV (Rs mn)	153,198
Net debt / (cash) (Rs mn)	19,964
<b>Target value (Rs mn)</b>	<b>133,234</b>
No. of shares (mn)	77
<b>Target price per share (Rs)</b>	<b>1,725</b>

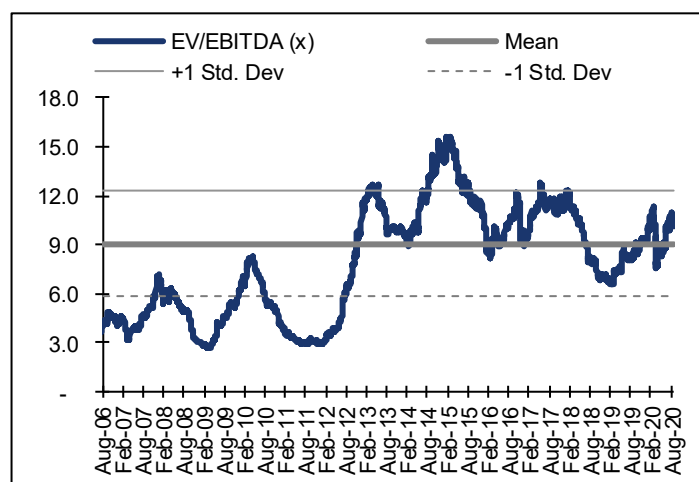
Source: I-Sec research

**Table 9: Earnings revision**

(Rs mn)	FY21E			FY22E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	57,665	58,085	(0.7)	67,943	68,850	(1.3)
EBITDA	12,400	12,398	0.0	15,320	15,320	(0.0)
PAT	4,980	4,979	0.0	6,941	6,942	(0.0)

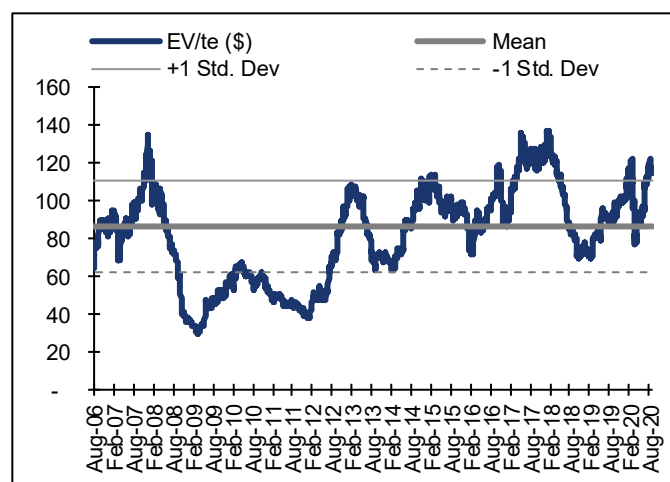
Source: Company data, I-Sec research

**Chart 1: Rolling EV/EBITDA**



Source: I-Sec research

**Chart 2: Rolling EV/te**



## Financial summary (consolidated)

Table 10: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Income (Sales)</b>	<b>51,833</b>	<b>57,350</b>	<b>57,045</b>	<b>67,355</b>
of which				
Grey cement	34,320	38,240	40,535	47,314
White cement	17,513	19,110	16,510	20,041
Other operating income	754	666	620	589
<b>Operating Expenses</b>	<b>44,242</b>	<b>45,882</b>	<b>45,265</b>	<b>52,623</b>
<b>EBITDA</b>	<b>8,345</b>	<b>12,134</b>	<b>12,400</b>	<b>15,320</b>
% margin	16.1	21.2	21.7	22.7
Depreciation & Amortisation	2,413	2,880	3,110	3,344
Gross Interest	2,611	2,764	2,737	2,662
Other Income	804	853	773	773
<b>Recurring PBT</b>	<b>4,124</b>	<b>7,344</b>	<b>7,325</b>	<b>10,086</b>
Add: Extraordinaries	(254)	-	-	-
Less: Taxes	1,234	2,511	2,475	3,275
<b>Net Income (Reported)</b>	<b>2,703</b>	<b>4,964</b>	<b>4,980</b>	<b>6,941</b>
<b>Recurring Net Income</b>	<b>2,958</b>	<b>4,964</b>	<b>4,980</b>	<b>6,941</b>

Source: Company data, I-Sec research

Table 11: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	18,808	24,122	23,033	27,869
Current Liab. & Prov.	14,374	21,481	19,742	21,160
<b>Net Current Assets</b>	<b>4,434</b>	<b>2,641</b>	<b>3,291</b>	<b>6,709</b>
<b>Investments of which</b>	<b>4,383</b>	<b>458</b>	<b>458</b>	<b>458</b>
Strategic/Group	440	448	448	448
Marketable	3,943	10	10	10
<b>Net Fixed Assets*</b>	<b>50,987</b>	<b>60,840</b>	<b>64,780</b>	<b>66,487</b>
of which				
Capital Work-in-Progress	5,618	5,295	4,295	5,295
<b>Total Assets</b>	<b>59,803</b>	<b>63,940</b>	<b>68,530</b>	<b>73,654</b>
of which cash & cash equivalents	9,059	6,355	5,807	8,229
<b>Liabilities</b>				
<b>Borrowings</b>	<b>29,731</b>	<b>29,693</b>	<b>29,693</b>	<b>28,193</b>
<b>Deferred Tax Liability</b>	<b>3,123</b>	<b>4,173</b>	<b>4,915</b>	<b>5,898</b>
<b>Minority Interest</b>	<b>-</b>	<b>(203)</b>	<b>(253)</b>	<b>(317)</b>
Equity Share Capital	773	773	773	773
Face value per share (Rs)	10	10	10	10
Reserves & Surplus	26,177	29,504	33,402	39,107
<b>Net Worth</b>	<b>26,950</b>	<b>30,277</b>	<b>34,175</b>	<b>39,880</b>
<b>Total Liabilities</b>	<b>59,803</b>	<b>63,940</b>	<b>68,530</b>	<b>73,654</b>

Source: Company data, I-Sec research

Table 12: Quarterly trend

(Rs mn, year ending March 31)

	Sep-19	Dec-19	Mar-20	Jun-20
<b>Net sales</b>	<b>12,396</b>	<b>13,875</b>	<b>14,587</b>	<b>9,494</b>
% growth (YoY)	13.9	10.3	(0.8)	(27.6)
<b>Recurring EBITDA</b>	<b>2,540</b>	<b>2,778</b>	<b>3,463</b>	<b>2,153</b>
Margin (%)	20.5	20.0	23.7	22.7
Other income	180	237	271	203
Extra ordinaries Inc / (Loss)	-	-	-	-
<b>Recurring Net Income</b>	<b>1,088</b>	<b>1,376</b>	<b>1,784</b>	<b>777</b>

Source: Company data

Table 13: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Cashflow</b>	<b>5,288</b>	<b>8,569</b>	<b>7,533</b>	<b>10,650</b>
Working Capital changes	(681)	2,820	(671)	(1,151)
Capital Commitments	(6,313)	(12,428)	(7,000)	(5,000)
<b>Net Operating FCF</b>	<b>(1,706)</b>	<b>(1,039)</b>	<b>(138)</b>	<b>4,498</b>
<b>Investing Activities</b>	<b>(2,077)</b>	<b>(2,622)</b>	<b>773</b>	<b>773</b>
Issue of Share Capital	5,043	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	325	3,109	-	(1,500)
Dividend paid	(841)	(1,627)	(1,082)	(1,236)
Others	-	-	(101)	(114)
Extraordinary Items	-	-	-	-
<b>Chg. in Cash &amp; Bank</b>	<b>744</b>	<b>(2,179)</b>	<b>(548)</b>	<b>2,421</b>

Source: Company data, I-Sec research

Table 14: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Per Share Data (Rs)</b>				
EPS(Basic)	35.0	64.2	64.5	89.8
Diluted Recurring EPS	38.3	64.2	64.5	89.8
Diluted Recurring CEPS	69.5	101.5	104.7	133.1
Dividend per share	10.0	7.5	14.0	16.0
Book Value	349	392	442	516
<b>Growth Ratios (% YoY)</b>				
Operating Income	8.0	10.6	(0.5)	18.1
EBITDA	6.0	45.4	2.2	23.6
Recurring Net Income	0.5	67.8	0.3	39.4
Diluted Recurring EPS	(9.0)	67.8	0.3	39.4
Diluted Recurring CEPS	(7.5)	46.1	3.1	27.1
<b>Valuation Ratios (x)</b>				
P/E	22.7	23.2	23.1	16.6
P/CEPS	21.4	14.7	14.2	11.2
P/BV	4.3	3.8	3.4	2.9
EV / EBITDA	10.5	11.4	11.2	8.8
EV / te (US\$)	109	116	117	113
EV / Operating Income	1.7	2.4	2.4	2.0
EV / Operating FCF	21.3	12.8	20.2	14.2
<b>Operating Ratios (%)</b>				
Raw Material / Sales	17	15	18	17
SG&A expenses / Sales	39	38	36	36
Other Income / PBT	19	12	11	8
Effective Tax Rate	32	34	34	32
NWC / Total Assets	(0.0)	(0.1)	(0.0)	(0.0)
Inventory (x)	3.2	3.0	3.0	3.3
Receivables (days)	17	17	17	15
Payable (days)	48	48	38	32
D/E Ratio (x)	0.9	0.9	0.8	0.6
<b>Profitability Ratios (%)</b>				
Rec. Net Income Margins	5.6	8.5	8.6	10.2
RoCE	8.5	11.0	10.3	12.3
RoNW	12.7	17.3	15.5	18.7
Dividend Payout	26.1	11.7	21.7	17.8

Source: Company data, I-Sec research

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