

Valuations beat earnings; Downgrade to REDUCE

JK Cement (JKCE) 1QFY21 grey cement volume decline of 19.3% YoY was relatively lower aided by new capacity addition in FY20. Grey cement realization was flat at Rs4,648/tn YoY and white cement realization grew by 3% YoY though volume nearly halved. JKCE's revenues effectively fell by 27% to ~Rs9.65bn (Rs13.28bn in 1QFY20). The overall cost inflation was contained with 4% decline helped by newer plant operations and lower other expenses. EBITDA fell by ~29% to Rs2.15bn and EBITDA margin were steady at 22.3% versus 22.9% in 1QFY20. The aggregate EBITDA/tn fell to Rs1,219/tn versus Rs1,315 in 1QFY20. The APAT growth slid by 49% to Rs777mn compared to Rs1.54bn YoY. We have maintained our FY21e/22e earnings at Rs49.9/Rs70.3. However, the premium valuations add discomfort. We downgrade JKCE to Reduce rating with a target price of Rs1,310/sh (earlier Rs1,234) valuing the stock at a replacement cost of Rs8.8bn. At our TP the stock trades at an EV/EBITDA of ~9.8x FY22e earnings.

Volume decline restricted by new capacity additions

JKCE reported grey cement volume fall of 19.3% YoY to 1.59mn tonnes (relatively better) helped by new capacity addition in FY20. Grey cement realization were listless YoY at Rs4,648/t despite higher trade sales mix at 75% in 1QFY21 (70% in 1QFY20) indicating pricing pressure in it key regions. Grey cement revenues fell by ~20% YoY to Rs7.39bn. The white cement segment volumes fell sharply by 48% YoY at 0.18mn tonnes dragging down the white cement segment revenues by ~46% YoY to Rs2.1bn as realisation grew by 3% YoY.

Cost inflation contained by new efficient capacities

Operating costs fell by ~4.4% at Rs4,244/tn, other expenditure was well controlled aided by new operating efficiencies following the commissioning of new capacities. Energy cost YoY (adjusted to the raw material cost) grew by 3.5% due to lower contribution by WHRS while other expenditure was well controlled with a 29% decline at Rs1.05bn. The logistic cost fell by 7% YoY to Rs994/t due to near distance sales. However flat realisation gain offset the cost control benefits and effectively EBITDA fell 29% YoY to Rs2.15bn and helped EBITDA margins stay flat at gain to 22.3% (22.9% in 1QFY20). The aggregate EBITDA/tn fell by 7% to Rs1,219/tn.

Appointment of new board members following the demise of Mr. Yadupati Singhania

Following the demise of Mr. Yadupati Singhania, Mrs. Sushiladevi Singhania was appointed as chairperson and Mr. Raghavpat Singhania as Managing Director while Mr. Madhav K Singhania as Deputy MD and CEO of JK Cement. We feel the transition is likely to be smoother but keenly watch the new management development. Mr. Raghavpat was driving the business in absence of Mr. Yadupati Singhania due to the latter's ill healthy for previous nearly 12 months.

Earnings, Valuation and risks – Downgrade to Reduce from ADD

We have maintained our EPS estimates for FY21e/FY22e at Rs49.9/Rs70.3. We feel operating efficiencies to moderate as older kilns also comeback to operations following demand revival (currently only new kilns are operational). Higher capacity would mean pricing pressure to prevail for JKCE. Additionally, deferred cost will be normalized in next few quarters. The current quick upward movement of JKCE has further added to our discomfort. Following the same we have downgraded the stock to Reduce (earlier ADD) with a revise target price of Rs1,310/sh (earlier Rs1,234) valuing the stock at 8.8bn/mn tonne. At our TP the stock trades at 9.8x FY22 earnings.

Financial and valuation summary

YE Mar (Rs mn)	1QFY21A	1QFY20A	YoY (%)	4QFY20A	QoQ (%)	FY20A	FY21E	FY22E
Revenues	9,650	13,280	(27.3)	14,587	(33.8)	54,638	56,126	66,523
EBITDA	2,153	3,035	(29.1)	3,462	(37.8)	11,815	10,216	13,255
EBITDA margin (%)	22.3	22.9	(2.4)	23.4	(4.8)	21.6	18.2	19.9
Adj. Net profit	777	1,538	(49.5)	1,784	(56.4)	5,784	3,856	5,434
Adj. EPS (Rs)	10.1	19.9	(49.5)	23.1	(56.4)	74.9	49.9	70.3
EPS growth (%)						78.0	(33.3)	40.9
PE (x)						19.6	29.4	20.9
EV/EBITDA (x)						11.3	14.3	10.7
PBV (x)						3.6	3.3	2.9
RoE (%)						18.8	11.6	14.6
RoCE (%)						17.6	12.2	13.8

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India I Cement

09 September, 2020

REDUCE

Price: Rs1,467

Target Price: Rs1,310

Forecast return: -10.7%

Institutional Research

Market Data

Bloomberg:	JKCE IN
52 week H/L:	1,615/795
Market cap:	Rs115.1bn
Shares Outstanding:	77.3mn
Free float:	41.6%
Avg. daily vol. 3mth:	98,879

Source: Bloomberg

Changes in the report

Rating:	Downgrade to Reduce
Target price:	Rs1,310 (Rs1,234)
EPS:	No change

Source: Centrum Broking

Shareholding pattern

	Jun-20	Mar-20	Dec-19	Sep-19
Promoter	58.1	58.1	58.1	58.1
FIIs	13.4	12.4	12.1	11.9
DIIIs	21.2	21.4	21.3	21.3
Public/other	7.3	8.2	8.5	8.8

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY21	Actual Q1FY21	Variance (%)
Revenue	9,517	9,650	1.4%
EBITDA	1,855	2,153	16.0%
EBITDA	19.3	22.3	305bps
Adj. PAT	625	777	24.3%
Diluted EPS	8.1	10.1	24.3%

Source: Bloomberg, Centrum Broking



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Cement

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY21E New	FY21E Old	% chg	FY22E New	FY22E Old	% chg
Net Sales	56,126	56,126	0.0	66,523	66,523	0.0
EBITDA	10,216	10,216	0.0	13,255	13,255	0.0
EBITDA margin %	18.2	18	0bps	19.9	20	0bps
Adj. PAT	3,856	3,856	0.0	5,434	5,434	0.0
Diluted EPS	49.9	49.9	0.0	70.3	70.3	0.0

Source: Centrum Broking

JKCE versus Nifty Midcap 100

	1m	6m	1 year
JKCE IN	(8.3)	11.2	46.9
Nifty Midcap 100	2.7	1.0	6.0

Source: Bloomberg, NSE

Key Assumptions

	FY18	FY19	FY20E	FY21E	FY22E
Cement Capacity(mn MT)	10.48	10.48	13.98	14.68	14.68
Sales Volume(mn MT)	7.30	8.36	8.50	8.98	10.43
YoY change - %	7.5	14.5	1.6	5.7	16.2
Utilisation - %	70%	80%	61%	61%	71%

Per tonne data(in Rs/mMT)

	FY18	FY19	FY20E	FY21E	FY22E
Grey Cement Realisation	3,775	3,841	4,417	4,506	4,596
YoY change - %	4.0	1.8	15.0	2.0	2.0
Power & fuel	1,126	1,174	1,109	951	899
Freight cost	1,106	1,151	1,162	1,197	1,281
Operating cost	4,849	4,655	4,708	4,843	4,872
EBITDA/tonne	901	835	1,299	1,078	1,212

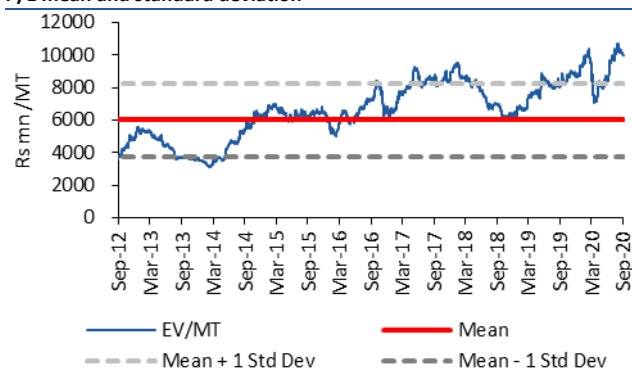
Source: Company, Centrum Research estimates

Valuations

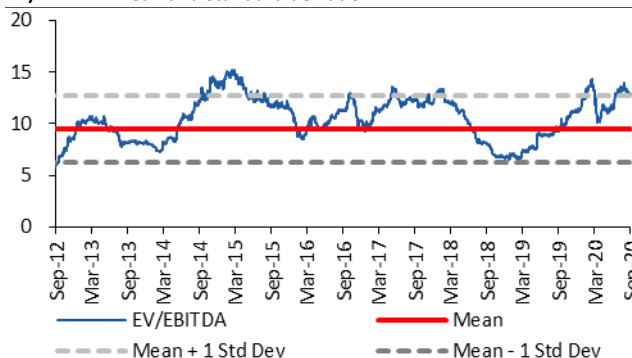
we have downgraded the stock to Reduce (earlier ADD) with a revise target price of Rs1,310/sh (earlier Rs,1,234) valuing the stock at 8.8bn/mn tonne. At our TP the stock trades at 9.8x FY22 earnings.

Target Valuations	FY22E
Target Replacement Cost (\$)	118
Currency Assumption (Rs/\$)	75
Target Replacement Cost (Rs)	8,880
Total Capacity (Mn Tonnes)	14.68
Target EV (Rs mn)	130,329
Total Net Debt (Rs mn)	29,090
Target M-cap (Rs mn)	101,239
Total Equity Shares O/S (mn)	77.3
Target Price	1,310

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



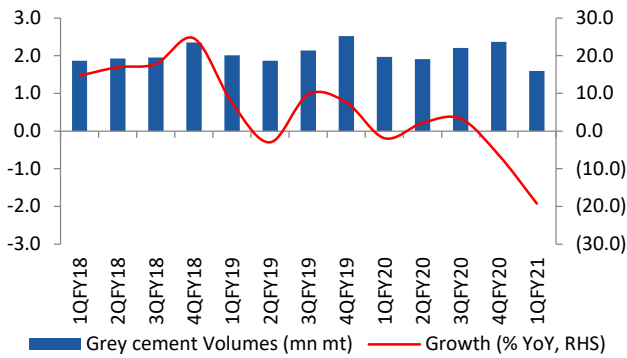
Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap Rs mn	CAGR FY20-FY22E (%)			EBITDA Margin(%)			EV/EBITDA (x)			EV/t (Rs mn/t)	RoE (%)			ROCE (%)		
		Rev	EBIDTA	PAT	FY20	FY21E	FY22E	FY20	FY21E	FY22E		FY20	FY21E	FY22E	FY20	FY21E	FY22E
JK Cement	114,743	10.6	21.0	19.0	21.6	18.2	19.9	11.5	14.6	11.0	10,180	12.6	11.6	14.9	17.6	12.2	13.8
JK Lakshmi Cement	27,777	7.6	12.7	39.7	16.6	13.8	13.7	5.2	8.2	7.0	3,559	15.8	8.7	11.3	18.6	12.3	14.1
Ramco Cement	159,501	10.2	15.7	16.9	21.2	23.1	22.9	16.3	18.3	12.1	8,669	12.8	8.9	14.3	11.3	8.1	12.6
India Cement	35,018	1.7	6.3	29.4	11.6	12.5	13.0	11.4	12.4	9.6	4,640	1.2	0.6	2.8	4.0	3.9	5.7

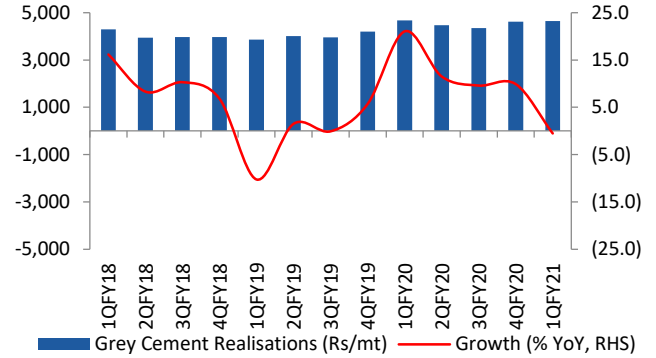
Source: Company, Centrum Broking

Fig 1: Volume fall lower aided by new capacities



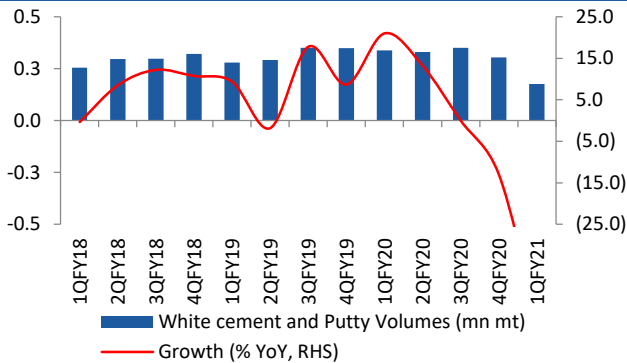
Source: Company, Centrum Broking

Fig 2: Pricing tepid despite higher trade sales



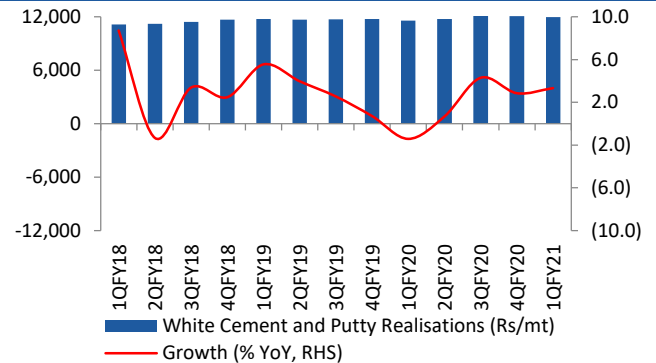
Source: Company, Centrum Broking

Fig 3: Sharp fall in white cement segment as expected....



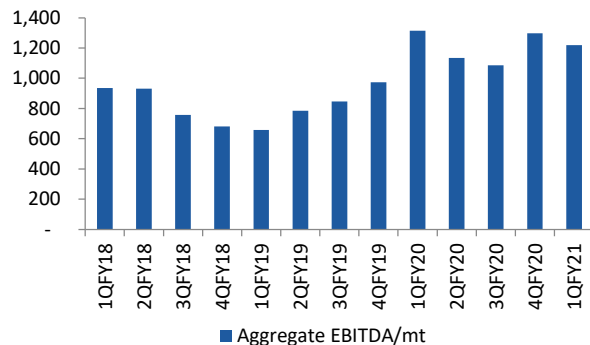
Source: Company, Centrum Broking

Fig 4:Limited pricing gains in 1Q



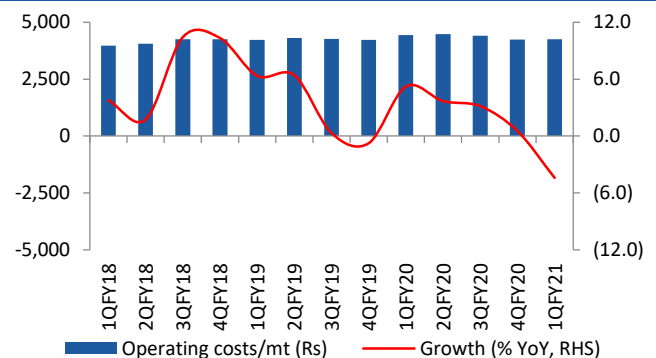
Source: Company, Centrum Broking

Fig 5: Cost control key driver in pushing EBITDA/tn



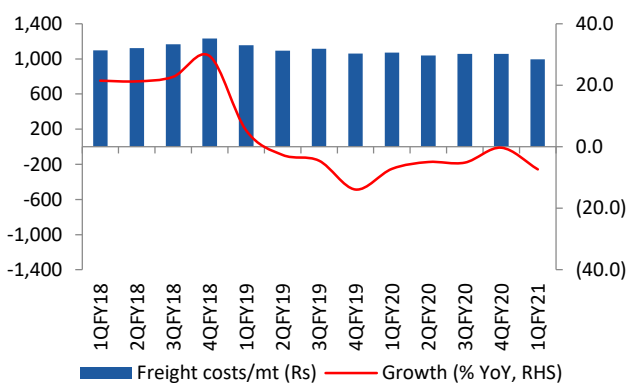
Source: Company, Centrum Research

Fig 6: Lower other expenditure assists cost decline



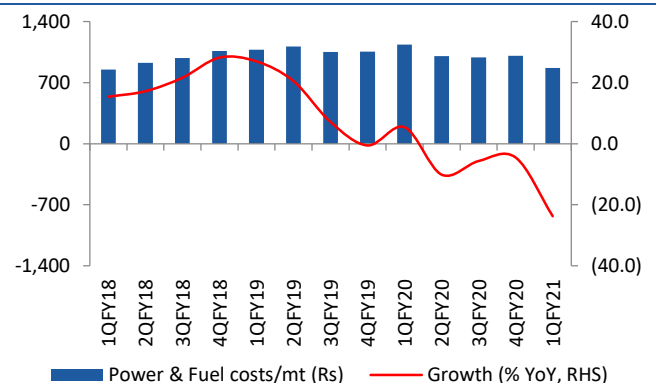
Source: Company, Centrum Research

Fig 7: Freight savings led by higher near market sales



Source: Company, Centrum Broking

Fig 8: Raw material adjusted cost savings limited due to lower contribution from WHRS



Source: Company, Centrum Broking

Centrum Con-call Monitor

Centrum Quarterly monitor	Q1FY21	Q4FY20	Our Views
Volume guidance	JKCE has witnessed a 20% volume growth in July and August. The new capacity commissioned in 4QFY20 is stabilising steadily while capacities commissioned in early/mid-FY20 are currently at 70-80% capacity utilisation.	FY21 will be impacted by COVID-19 pandemic, however capacity addition will boost volume in FY22	Volume growth will be aided by new capacities in 2HFY21/FY22
Sales Mix	Trade mix has been 75%/25% trade/non-trade for Q1FY21. (75%/25% yoy). The trade proportion has been 65-70% in July and August. Blended cement sales were 69% in 1QFY21.	Focus on higher trade sales, current mix 69%/31% trade/non-trade.	It will be a challenge to maintain the same mix as infra related demand comes back.
Power & Fuel cost	Currently fuel (pet-coke) inventory available for next three months. Pet coke CMP is higher than inventory value. CMP of ~\$93/tn vs \$60/tn in the previous quarter. Low cost inventory (\$83/tn) will keep the cost in 2Q lower. However, JKCE will buy future shipments at either the high market prices or will look to switch to coal which-ever is cost effective.	Currently fuel (pet-coke) inventory available for next three months. Average coal cost in 4QFY20 was Rs7,500/tn	Limited respite from the energy cost inflation in the medium term.
Other expenses	Other Expenses like branding, promotion, consultancy were down in Q1. Will see a reversal in Q2 as business activity picks up.	Other expenses were higher due to professional management advisory fees expected to be Rs680mn in FY21	Annual consulting fees will continue in FY21 adding to the other expenditure. This is guided at Rs680mn in FY21.
Debt	Peak debt expected at Rs35bn	Peak debt expected at Rs35bn and net debt at Rs26bn in FY21	It will be challenging to maintain the debt as guided in current weak conditions.
Capital expenditure	New site Madhya Pradesh have received additional clearances. Putty Capacity Expansion: JKCEM management expects the 0.3mnmt plant to be commissioned by 2QFY21-end. Capex: Management estimated capex of ~Rs7 bn in FY21, ~Rs6 bn attributed to expansion capex and ~Rs1bn towards maintenance capex.	Nimbahera line 3 expansion, capex spend of Rs2.3bn in FY21 Balasinor Grinding unit and other residual capex spend at Rs4bn in FY21. Expansion plan in Madhya Pradesh; Company is still acquiring land and in process of acquiring clearances. Maintenance Capex – Rs500mn (FY21)	Capacity expansion is delayed due to the impact of COVID 19 pandemic.

Source: Company, Centrum Broking

Quarterly financial analysis

Fig 9: Quarterly financials

(Rs mn)	1QFY21	1QFY20	YoY %	4QFY20	QoQ %	1QFY21E	Deviation %
Net Sales	9,650	13,280	(27.3)	14,774	(34.7)	9,517	1.4
Expenditure							
Change in stock	684.4	(462.0)		(298.0)		(110.0)	
Raw material	1,171	2,117	(44.7)	2,204	(46.9)	1,470	(20.3)
Stores and Spares	250	850	(70.6)	850	(70.6)	546	(54.2)
purchased products	98	169	(42.3)	165	(40.9)	115	(15.0)
Power & fuel	1,531	2,621	(41.6)	2,690	(43.1)	1,751	(12.6)
Freight	1,755	2,474	(29.1)	2,818	(37.7)	1,839	(4.6)
Employee costs	950	968	(1.8)	987	(3.7)	970	(2.0)
Other exp	1,057	1,507	(29.8)	1,895	(44.2)	1,196	(11.6)
Total Operating Expenses	7,497	10,245	(26.8)	11,312	(33.7)	7,777	(3.6)
EBITDA	2,153	3,035	(29.1)	3,462	(37.8)	1,855	16.0
EBITDA margin (%)	22.3	22.9	-55bps	23.4	-113bps	19.3	305bps
Other Income	203	172	18.2	271	(24.9)	211	(3.7)
Interest	572	534	7.0	572	0.0	599	(4.6)
Depreciation	580	494	17.4	577	0.6	587	(1.2)
PBT	1,204	2,179	(44.7)	2,585	(53.4)	880	36.8
Non-recurring items	0.0	0.0	-	(1,781.5)	-	0.0	-
PBT (after non recurring items)	1,204	2,179	(44.7)	803	49.9	880	36.8
Tax	427.4	640.8	(33.3)	801.2	(46.6)	255.3	67.5
Reported PAT	777	1,538	(49.5)	2	36,015.1	625	24.3
Adjusted PAT	777	1,538	(49.5)	1,784	(56.4)	625	24.3
NPM (%)	8.1	11.6	-353bps	12.1	-402bps	6.6	148bps
Adjusted EPS (Rs)	10.1	19.9	(49.5)	23.1	(56.4)	8.1	24.3

Source: Company, Centrum Broking

P&L					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenues	45,426	49,192	54,638	56,126	66,523
Operating Expense	33,125	35,841	35,810	39,064	45,704
Employee cost	3,255	3,535	3,909	3,586	4,239
Others	1,926	2,335	3,104	3,259	3,324
EBITDA	7,120	7,481	11,815	10,216	13,255
Depreciation & Amortisation	1,863	1,944	2,144	2,905	3,453
EBIT	5,258	5,537	9,671	7,312	9,802
Interest expenses	2,454	2,221	2,229	2,905	2,948
Other income	1,721	1,382	859	1,102	909
PBT	4,567	4,737	8,300	5,509	7,763
Taxes	979	1,487	2,516	1,653	2,329
Effective tax rate (%)	21.4	31.4	30.3	30.0	30.0
PAT	3,588	3,250	5,784	3,856	5,434
Minority/Associates	0	0	0	0	0
Recurring PAT	3,588	3,250	5,784	3,856	5,434
Extraordinary items	(170)	0	(1,782)	0	0
Reported PAT	3,419	3,250	4,002	3,856	5,434

Ratios					
YE Mar	FY18A	FY19A	FY20A	FY21E	FY22E
Growth (%)					
Revenue	22.7	8.3	11.1	2.7	18.5
EBITDA	11.0	5.1	57.9	(13.5)	29.7
Adj. EPS	28.7	(18.0)	78.0	(33.3)	40.9
Margins (%)					
Gross	83.0	83.0	84.2	79.6	79.9
EBITDA	15.7	15.2	21.6	18.2	19.9
EBIT	11.6	11.3	17.7	13.0	14.7
Adjusted PAT	7.9	6.6	10.6	6.9	8.2
Returns (%)					
ROE	17.4	12.6	18.8	11.6	14.6
ROCE	14.5	13.2	17.6	12.2	13.8
ROIC	14.3	12.1	13.9	9.7	10.6
Turnover (days)					
Gross block turnover ratio (x)	0.9	1.0	0.9	0.7	0.8
Debtors	14	15	14	17	18
Inventory	243	240	254	206	200
Creditors	273	332	367	263	252
Net working capital	46	34	53	16	45
Solvency (x)					
Net debt-equity	0.8	0.6	0.6	0.9	0.7
Interest coverage ratio	2.9	3.4	5.3	3.5	4.5
Net debt/EBITDA	2.6	2.5	1.7	3.2	2.2
Per share (Rs)					
Adjusted EPS	51.3	42.1	74.9	49.9	70.3
BVPS	314.6	381.7	412.7	449.1	511.3
CEPS	78.0	70.6	102.6	87.5	115.0
DPS	8.0	4.7	7.0	5.0	7.0
Dividend payout (%)	16.4	10.7	13.5	10.0	10.0
Valuation (x)					
P/E	28.6	34.9	19.6	29.4	20.9
P/BV	4.7	3.8	3.6	3.3	2.9
EV/EBITDA	18.5	17.7	11.3	14.3	10.7
Dividend yield (%)	0.5	0.3	0.5	0.3	0.5

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Equity share capital	699	773	773	773	773
Reserves & surplus	20,775	28,464	30,516	33,927	38,736
Shareholders fund	21,997	29,497	31,888	34,700	39,508
Minority Interest	0	0	0	0	0
Total debt	23,977	23,589	26,913	34,987	36,487
Non Current Liabilities	316	259	234	700	600
Def tax liab. (net)	2,672	3,125	4,181	3,880	3,880
Total liabilities	48,963	56,470	63,216	74,267	80,475
Gross block	49,429	51,673	59,694	84,503	85,698
Less: acc. Depreciation	(13,546)	(15,413)	(16,798)	(19,514)	(22,778)
Net block	35,883	36,260	42,895	64,989	62,920
Capital WIP	878	5,438	6,615	5,000	7,000
Net fixed assets	36,845	41,791	49,612	70,094	70,027
Non Current Assets	0	0	0	0	0
Investments	6,345	10,047	5,662	1,778	2,337
Inventories	5,316	5,705	6,272	6,612	8,019
Sundry debtors	1,880	2,056	2,234	2,922	3,463
Cash & Cash Equivalents	5,435	4,857	6,311	2,268	7,397
Loans & advances	3,999	5,066	8,298	5,358	5,761
Other current assets	0	0	0	0	0
Trade payables	5,840	9,406	7,900	8,553	9,924
Other current liab.	4,578	3,197	5,763	4,550	4,777
Provisions	439	449	1,511	1,662	1,828
Net current assets	5,772	4,632	7,941	2,395	8,111
Total assets	48,963	56,470	63,216	74,267	80,475

Cashflow					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Profit Before Tax	4,397	4,737	6,519	5,509	7,763
Depreciation & Amortisation	1,410	1,866	1,386	2,716	3,264
Net Interest	0	0	0	0	0
Net Change – WC	90	505	(1,879)	1,968	(687)
Direct taxes	(447)	(1,034)	(1,460)	(1,954)	(2,329)
Net cash from operations	5,450	6,074	4,565	8,239	8,012
Capital expenditure	(406)	(6,812)	(9,207)	(23,197)	(3,198)
Acquisitions, net	0	0	0	0	0
Investments	(989)	(3,702)	4,385	3,885	(559)
Others	0	0	0	0	0
Net cash from investing	(1,395)	(10,514)	(4,823)	(19,312)	(3,757)
FCF	4,055	(4,440)	(257)	(11,074)	4,255
Issue of share capital	523	4,780	339	(599)	0
Increase/(decrease) in debt	(2,185)	(388)	3,324	8,074	1,500
Dividend paid	(673)	(407)	(633)	(452)	(633)
Interest paid	0	0	0	0	0
Others	(474)	(123)	(1,318)	7	7
Net cash from financing	(2,809)	3,861	1,712	7,030	874
Net change in Cash	1,246	(579)	1,455	(4,044)	5,129

Source: Company, Centrum Broking

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JK Cement



Source: Bloomberg

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