

JK Cement | BUY

Mixed operating trends; white cement margins key monitorable

JK Cement (JKCE) reported revenue growth of 16% YoY during 1QFY18 on the grey cement segment's volume/realisations growth of 15%/7.7% YoY. Grey cement volumes stood at 1.9MnT. White cement volume/realisations were flat YoY. The company's blended EBITDA/t was flat during the quarter at Rs930/t as the grey cement segment's improved profitability was offset by muted performance by the white cement segment. JKCE reduced its gross debt by Rs950mn to Rs25.1bn and net debt by Rs770mn to Rs19.5bn during the quarter. We value stock at 9x EVE to arrive at a TP of Rs1,170 (Sep'18). Maintain BUY.

- Grey cement volume/realisations drive revenues:** JKCE's revenue, at Rs10.4bn, grew 16% YoY on a rise in grey cement volume/realisations. Grey cement volumes, at 1.87MnT, grew 15% YoY (remained sequentially flat) on a lower base and incremental clinker sale of 0.1MT in Nepal during 1QFY18. Grey cement realisations, at Rs3,991/t (7.7%/7.3% YoY/QoQ growth), drove the company's blended realisations' growth 3.3%/2.4% YoY/QoQ. The grey cement segment's revenue, at Rs7.5bn, grew 23.5% YoY. White cement registered flat volumes at 0.26MnT (a sequential decline of 13%) and flat realisations at Rs11,079/t (a sequential decline of 2.7%), leading to flat white cement revenues for the quarter at Rs2.84bn. White cement volumes during the quarter were impacted on GST implementation.
- Grey cement drives profitability; offset by muted white cement performance:** JKCE's EBITDA was Rs2bn and grew 13% YoY. Blended EBITDA/t for the quarter was flat YoY at Rs930/t (sequentially higher by 4%). Grey cement EBITDA/t improved 12% YoY at Rs686/t. However, improved profitability of the grey cement segment was offset by the white cement segment's muted performance. White cement EBITDA/t, at Rs2,711/t, registered a decline of 9.3%/23.4% YoY/QoQ primarily on decline in utilisation and commodity price escalation. Management has taken price increase to improve margins in the segment. The growth in realisations (Rs155/t impact) and lower raw material costs (Rs63/t impact) was offset by higher power and fuel costs (-Rs113/t impact) and higher freight costs (-Rs121/t impact). Higher petcoke/coal costs led to power/fuel cost escalations. Additionally, higher diesel prices and a busy season surcharge applicable during the quarter led to freight-cost escalations.
- Other details:** i) Net debt declined Rs770mn from Rs20.3bn on 31Mar'17 to Rs19.5bn on 30Jun'17; cost of debt is 10%; UAE operations have a debt of USD90mn ; ii) Operations in UAE sold 75KT white cement realising a revenue of AED32mn and EBITDA of AED5mn; iii) Northern plants are operating at an average of 75% and southern plant is operating at 57-58%; iv) Kilns are using petcoke in majority while the TPP has started using domestic coal; v) Average cost of petcoke during 1QFY18 was Rs7,600/t and the average cost during the 6 weeks in 2QFY18 was around Rs7,800/t;
- Maintain BUY:** The stock is currently trading at 8.4/6.6x times FY19/20 EVE. We value stock at 9x EVE to arrive at a TP of Rs1,170 (Sep'18). We maintain BUY.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,170
Upside/(Downside)	12.8%
Previous Price Target	800
Change	46.3%

Key Data – JKCE IN

Current Market Price	Rs1,037
Market cap (bn)	Rs72.5/US\$1.1
Free Float	34%
Shares in issue (mn)	69.9
Diluted share (mn)	69.9
3-mon avg daily val (mn)	Rs39.6/US\$0.0
52-week range	1,196/628
Sensex/Nifty	31,449/9,794
Rs/US\$	64.1

Price Performance

%	1M	6M	12M
Absolute	7.8	23.3	38.5
Relative*	9.7	11.1	24.0

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

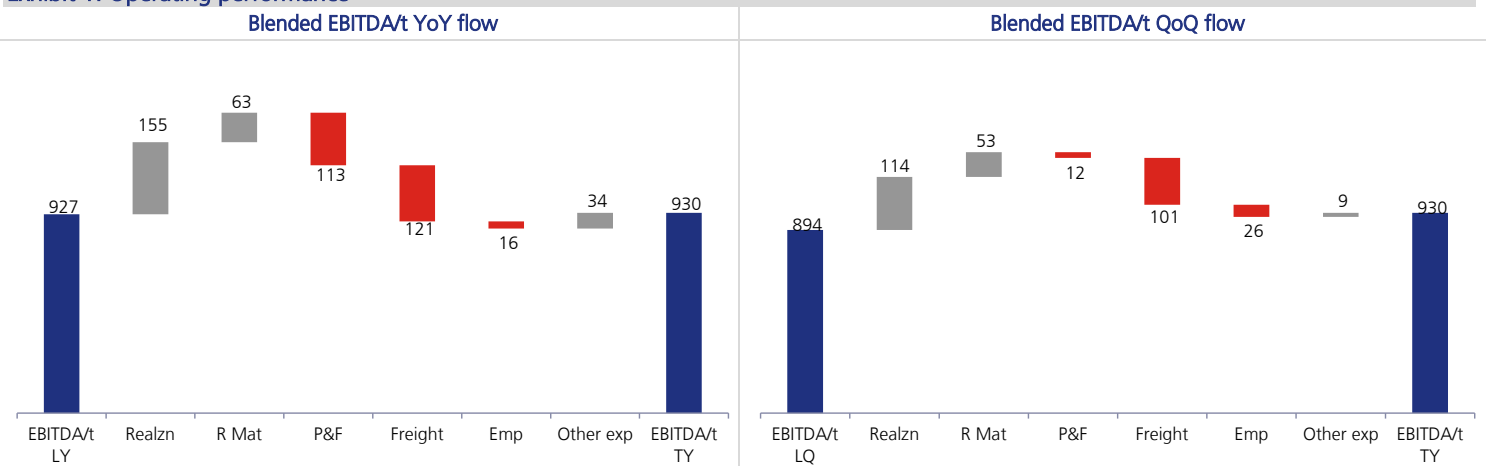
Financial Summary	(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	35,212	37,036	41,192	47,937	55,280
Sales Growth (%)	5.5	5.2	11.2	16.4	15.3
EBITDA	5,199	7,343	8,513	10,553	12,551
EBITDA Margin (%)	14.6	19.3	20.5	21.8	22.5
Adjusted Net Profit	645	2,789	3,397	4,649	6,299
Diluted EPS (INR)	9.2	39.9	48.6	66.5	90.1
Diluted EPS Growth (%)	-58.9	332.3	21.8	36.8	35.5
ROIC (%)	4.6	12.6	14.5	16.5	20.4
ROE (%)	3.9	15.4	16.6	19.7	22.4
P/E (x)	112.4	26.0	21.3	15.6	11.5
P/B (x)	4.3	3.8	3.3	2.8	2.4
EV/EBITDA (x)	18.2	12.9	10.9	8.4	6.6
Dividend Yield (%)	0.4	0.4	1.0	1.0	1.4

Source: Company data, JM Financial. Note: Valuations as of 14/Aug/2017

Concal highlights

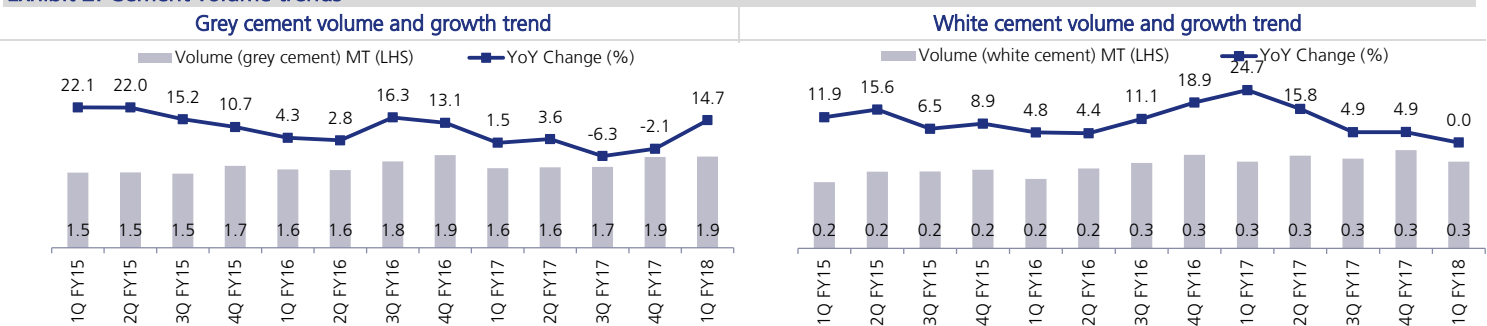
- Company plans to incur a capex of Rs2-2.5bn during FY18
 - Rs250mn on putty expansion in Katni; to be commissioned by June'18
 - Rs300-400mn on the mining land acquisition
 - Rs1.75bn on maintenance capex in the existing plants
- Company has sufficient limestone mines to last more than 30 years of operations
- There is a potential of 2.5-3MTPA capacity expansion with split grinding units in North which would take around 21-24 months for brownfield expansion and 24-28 months for greenfield expansion with the capex requirement of Rs15-20bn
- Company sells 65% of PPC and 35% OPC
- 0.2MTPA Putty expansion in Katni is currently operating at 75-90% utilisation and management further expects the utilisation level to reach 100% by the time by June'18

Exhibit 1. Operating performance



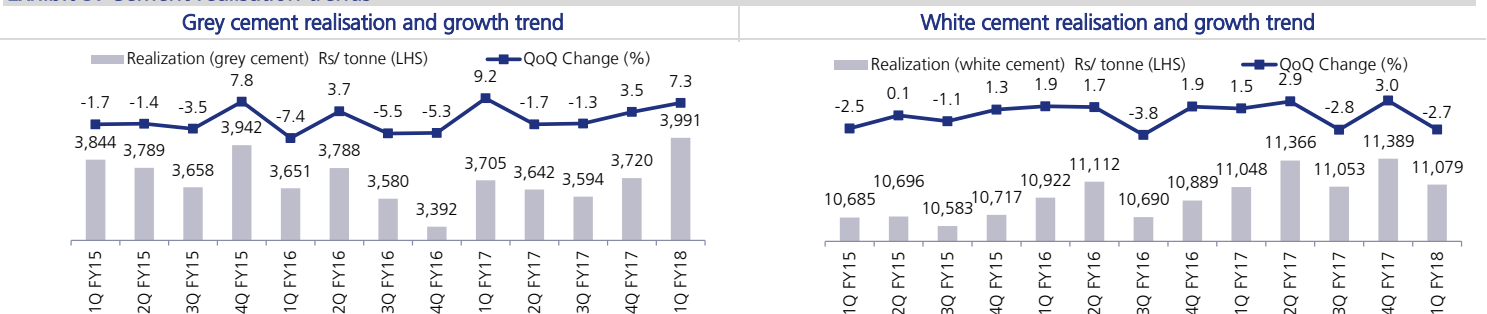
Source: Company, JM Financial

Exhibit 2. Cement volume trends



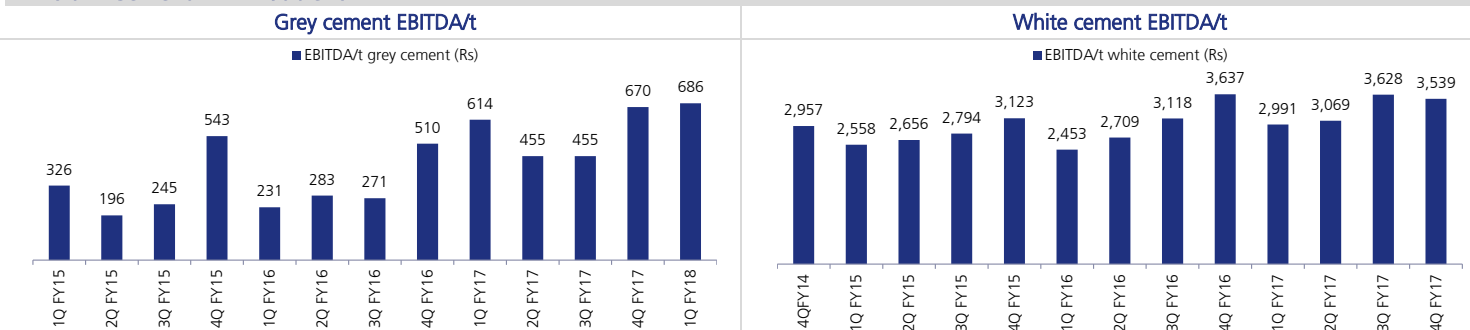
Source: Company, JM Financial

Exhibit 3. Cement realisation trends



Source: Company, JM Financial

Exhibit 4. Cement EBITDA/t trend



Source: Company, JM Financial

Exhibit 5. Standalone results in brief

	1Q FY18	1Q FY17	%YoY	4Q FY17	%QoQ	FY18E	FY17	%YoY
Net Sales(excluding excise)	10,415	8,951	16.4	10,297	1.1	41,192	37,036	11.2
Other Operating Income	0	0		0		412	359	14.8
Total Revenues	10,415	8,951	16.4	10,297	1.1	41,604	37,394	11.3
Expenditure	8,438	7,202	17.2	8,374	0.8	32,884	30,621	7.4
EBITDA	1,977	1,749	13.1	1,923	2.8	8,720	6,773	28.7
% margin	19.0	19.5	-55 bps	18.7	31 bps	21.0	18.1	285 bps
Other income	186	191	-2.7	418	-55.5	591	881	-32.9
Interest	680	675	0.8	628	8.3	3,003	2,656	13.0
Depreciation	450	425	5.9	452	-0.4	1,855	1,761	5.4
PBT	1,033	840	22.9	1,261	-18.1	4,453	3,237	37.6
Tax	240	121		258	-7.1	891	672	32.5
% tax rate	23.2	14.3	885 bps	20.5		20.0	20.8	
PAT (Adjusted)	793	720	10.3	1,003	-20.9	3,563	2,564	38.9
Extraordinary items	0	-111		-89		0	-193	
PAT (Reported)	793	609	30.4	914	-13.2	3,563	2,371	50.3
EPS (Rs)	11.3	10.3	10.3	14.3	-20.9	50.9	36.7	38.9

Source: Company, JM Financial

Exhibit 6. Key operational metrics

	1Q FY18	1Q FY17	%YoY	4Q FY17	%QoQ	FY18E	FY17	%YoY
Blended								
Blended avg. realisation (Rs/t)	4,901	4,746	3.3	4,787	2.4	4,775	4,701	1.6
Blended EBITDA (Rs/t)	930	927	0.3	894	4.1	963	814	18.3
Grey Cement								
Volumes (MT)	1.87	1.63	14.7	1.86	0.4	7.15	6.79	5.3
Realisation (Rs/t)	3,991	3,705	7.7	3,720	7.3	3,775	3,667	3.0
EBITDA Rs/t	686	614	11.7	670	2.5	554	538	3.0
White Cement+Wall Putty								
Cement sales (MT)	0.26	0.26	0.0	0.29	-11.7	1.22	1.08	12.4
Realisation (Rs/t)	11,079	11,048	0.3	11,389	-2.7	12,960	12,471	3.9
EBITDA Rs/t	2,711	2,991	-9.3	3,539	-23.4	3,966	3,777	5.0

Source: Company, JM Financial

Exhibit 7. Expense breakdown

	1Q FY18	1Q FY17	%YoY	4Q FY17	%QoQ	FY18E	FY17	%YoY
Raw material	1,728	1,772	-2.5	1,870	-7.6	7,613	6,965	9.3
Rs/tonne	811	940	-13.7	868	-6.5	881	883	-0.2
Power and fuel	1,803	1,387	30.0	1,800	0.2	7,034	6,253	12.5
Rs/tonne	849	736	15.4	837	1.4	815	794	2.7
Freight	2,172	1,700	27.7	1,982	9.6	8,039	7,283	10.4
Rs/tonne	1,022	902	13.4	921	10.9	932	924	0.8
(Inc)/dec in stock	52	-73	-170.8	45	15.8	-36	-33	9.3
Rs/tonne	28	42	-33.7	21	33.3	-5	-5	3.8
Total Variable cost	5,755	4,787	20.2	5,697	1.0	22,651	20,467	10.7
Rs/tonne	2,708	2,538	6.7	2,648	2.3	2,706	2,598	4.2
Staff cost	775	658	17.7	728	6.5	3,070	2,755	11.4
Rs/tonne	365	349	4.5	338	7.8	356	350	1.8
Other expenditure	1,907	1,757	8.6	1,950	-2.2	7,128	7,399	-3.7
Rs/tonne	898	932	-3.6	906	-1.0	826	939	-12.0
Total fixed cost	2,682	2,415	11.1	2,677	0.2	10,198	10,154	0.4
Rs/tonne	1,262	1,281	-1.4	1,245	1.4	1,218	1,289	-5.5
Tot expenditure excluding excise	8,438	7,202	17.2	8,374	0.8	32,848	30,621	7.3
Cost Rs/tonne	3,971	3,819	4.0	3,893	2.0	3,924	3,887	1.0

Source: Company, JM Financial

Company background

- Established since 1975, JK Cements is a leading cement player of North India with annual turnover of Rs38bn (FY17). It has grey cement capacity of 10.5MTPA currently (7.5MTPA in north and 3MTPA in South) and captive power capacity 140.7MW (includes 23.2MW of WHR). Company has the second largest white cement capacity of 1.3MTPA in India (White cement capacity of 0.6MTPA and Wall Putty capacity of 0.7MTPA); Ultratech and Travancore cement being the other major players. It is also 3rd largest producer of white cement in the world with 0.6MT capacity in Fujairah, UAE (cumulative white cement capacity of 1.9MT). It sells grey cement under the brand JK Cement & JK Super Cement.

Key investment arguments

- White cement to provide stability and growth to earnings:** The white cement segment commands higher realization and has better operating margins than grey cement. White cement segment has increased steadily with EBITDA contribution at 50% for FY17. Management indicated a sustainable margin of 30% for white cement segment (30.3% EBITDA margin in FY17). Going forward we expect the contribution from the segment to go up.
- Improvement in the operating environment to benefit the company:** With exposure primarily in North market (70% of the total capacity), expected improvement in regions operating environment will benefit JK Cement.
- Improvement in the Balance sheet expected:** We expect the company to generate an operating free cash flow of Rs21.8bn over FY18-20E, with limited capex in the near term; balance sheet is likely to improve going forward.

Key Risks

- i) Delayed pick up in cement demand; ii) Government's action on cement prices is a significant risk; iii) Costs are highly commodity dependent; any adverse movement in the petcoke/coal and diesel prices would impact profitability

Valuation and View

- JK Cements is trading at 8.4/6.6x EV/EBITDA based on FY19/20E. We value company at 9x EV/EBITDA to arrive at our TP of Rs1,170. We maintain our BUY rating on the stock.

Exhibit 8. Key assumptions

	FY16	FY17	FY18E	FY19E	FY20E
Grey Cement Sales (mn tonnes)	6.9	6.8	7.2	7.8	8.6
YoY Growth (%)	9.2	-1.0	5.3	9.7	9.7
White Cement Sales (mn tonnes)	0.9	1.0	1.1	1.2	1.4
YoY Growth (%)	10.2	10.5	12.2	11.7	11.8
Grey Cement Net Realisations (Rs/tonne)	3,582	3,665	3,775	3,964	4,122
YoY Growth (%)	-6.0	2.3	3.0	5.0	4.0
White Cement Net Realisations (Rs/tonne)	12,143	12,471	12,960	13,755	14,458
YoY Growth (%)	3.5	2.7	3.9	6.1	5.1
Grey Cement EBITDA/t (Rs/tonne)	325	538	554	665	732
YoY Growth (%)	3.3	65.7	3.0	20.0	10.0
White Cement EBITDA/t (Rs/tonne)	3,370	3,777	3,777	3,966	4,164
YoY Growth (%)	9.7	12.1	0.0	5.0	5.0

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement		(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Sales	35,212	37,036	41,192	47,937	55,280	
Sales Growth	5.5%	5.2%	11.2%	16.4%	15.3%	
Other Operating Income	342	929	412	479	553	
Total Revenue	35,554	37,964	41,604	48,417	55,833	
Cost of Goods Sold/Op. Exp	6,741	6,923	7,568	8,323	9,156	
Personnel Cost	2,349	2,755	3,070	3,546	4,096	
Other Expenses	21,266	20,944	22,453	25,995	30,030	
EBITDA	5,199	7,343	8,513	10,553	12,551	
EBITDA Margin	14.6%	19.3%	20.5%	21.8%	22.5%	
EBITDA Growth	12.1%	41.2%	15.9%	24.0%	18.9%	
Depn. & Amort.	1,641	1,761	1,855	1,930	2,004	
EBIT	3,558	5,582	6,658	8,623	10,547	
Other Income	571	512	591	639	691	
Finance Cost	2,707	2,656	3,003	2,621	2,240	
PBT before Excep. & Forex	1,421	3,437	4,246	6,641	8,998	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	1,421	3,437	4,246	6,641	8,998	
Taxes	776	649	849	1,992	2,699	
Extraordinary Inc./Loss(-)	0	193	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	645	2,982	3,397	4,649	6,299	
Adjusted Net Profit	645	2,789	3,397	4,649	6,299	
Net Margin	1.8%	7.3%	8.2%	9.6%	11.3%	
Diluted Share Cap. (mn)	69.9	69.9	69.9	69.9	69.9	
Diluted EPS (INR)	9.2	39.9	48.6	66.5	90.1	
Diluted EPS Growth	-58.9%	332.3%	21.8%	36.8%	35.5%	
Total Dividend + Tax	337	337	874	870	1,179	
Dividend Per Share (INR)	4.0	4.0	10.7	10.6	14.4	

Source: Company, JM Financial

Balance Sheet		(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Shareholders' Fund	16,903	19,203	21,726	25,505	30,624	
Share Capital	699	699	699	699	699	
Reserves & Surplus	16,204	18,504	21,027	24,805	29,925	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	26,427	26,774	23,274	19,774	16,274	
Def. Tax Liab. / Assets (-)	2,165	2,140	2,140	2,140	2,140	
Total - Equity & Liab.	45,495	48,117	47,140	47,419	49,038	
Net Fixed Assets	36,750	37,849	37,993	38,064	38,060	
Gross Fixed Assets	45,862	48,936	50,936	52,936	54,936	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	10,636	12,136	13,991	15,921	17,924	
Capital WIP	1,524	1,048	1,048	1,048	1,048	
Investments	4,366	5,356	5,356	5,356	5,356	
Current Assets	14,522	15,144	15,127	17,129	20,704	
Inventories	4,289	4,981	6,207	7,223	8,330	
Sundry Debtors	1,657	1,481	1,648	1,917	2,211	
Cash & Bank Balances	3,673	4,179	2,769	3,485	5,660	
Loans & Advances	0	0	0	0	0	
Other Current Assets	4,902	4,503	4,503	4,503	4,503	
Current Liab. & Prov.	10,143	10,231	11,337	13,130	15,083	
Current Liabilities	2,806	2,052	3,157	4,951	6,903	
Provisions & Others	7,336	8,180	8,180	8,180	8,180	
Net Current Assets	4,379	4,912	3,790	3,999	5,622	
Total - Assets	45,495	48,117	47,140	47,419	49,038	

Source: Company, JM Financial

Cash Flow Statement		(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Profit before Tax	1,421	3,244	4,246	6,641	8,998	
Depn. & Amort.	1,641	1,761	1,855	1,930	2,004	
Net Interest Exp. / Inc. (-)	2,672	2,676	3,003	2,621	2,240	
Inc (-) / Dec in WCap.	1,097	1,079	-287	507	552	
Others	-639	-607	-591	-639	-691	
Taxes Paid	-306	-603	-849	-1,992	-2,699	
Operating Cash Flow	5,887	7,551	7,376	9,067	10,404	
Capex	-3,163	-3,131	-2,000	-2,000	-2,000	
Free Cash Flow	2,724	4,420	5,376	7,067	8,404	
Inc (-) / Dec in Investments	-1,156	-966	0	0	0	
Others	422	210	591	639	691	
Investing Cash Flow	-3,897	-3,887	-1,409	-1,361	-1,309	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-337	-337	-874	-870	-1,179	
Inc / Dec (-) in Loans	832	-130	-3,500	-3,500	-3,500	
Others	-2,647	-2,692	-3,003	-2,621	-2,240	
Financing Cash Flow	-2,152	-3,159	-7,377	-6,991	-6,919	
Inc / Dec (-) in Cash	-162	505	-1,409	716	2,175	
Opening Cash Balance	4,077	3,673	4,179	2,769	3,485	
Closing Cash Balance	3,915	4,179	2,769	3,485	5,660	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Margin	1.8%	7.3%	8.2%	9.6%	11.3%	
Asset Turnover (x)	0.8	0.8	0.9	1.0	1.2	
Leverage Factor (x)	2.7	2.6	2.3	2.0	1.7	
RoE	3.9%	15.4%	16.6%	19.7%	22.4%	

Key Ratios

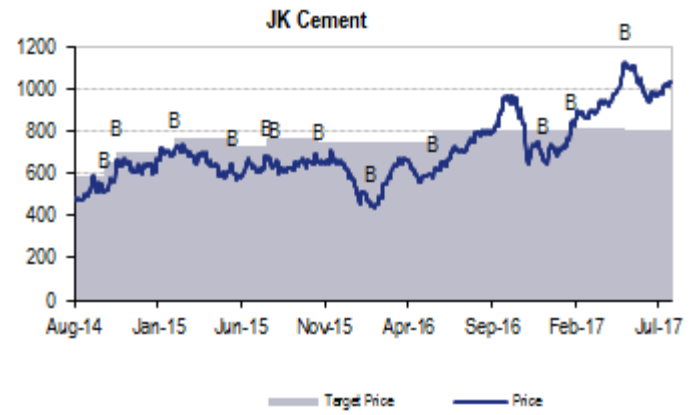
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (INR)	241.7	274.6	310.7	364.7	437.9
ROIC	4.6%	12.6%	14.5%	16.5%	20.4%
ROE	3.9%	15.4%	16.6%	19.7%	22.4%
Net Debt/Equity (x)	1.3	1.1	0.9	0.6	0.3
P/E (x)	112.4	26.0	21.3	15.6	11.5
P/B (x)	4.3	3.8	3.3	2.8	2.4
EV/EBITDA (x)	18.2	12.9	10.9	8.4	6.6
EV/Sales (x)	2.7	2.5	2.2	1.8	1.5
Debtor days	17	14	14	14	14
Inventory days	44	48	54	54	54
Creditor days	34	24	35	48	58

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (Rs)	% Chg.	FY19E EPS (Rs)	% Chg.	Target Price	% Chg.
6-Jun-14					530	
10-Jul-14					530	0.0
18-Jul-14					585	10.4
30-Jul-14					585	0.0
10-Oct-14					650	11.1
3-Nov-14					700	7.7
16-Feb-15					770	10.0
1-Jun-15					730	-5.2
3-Aug-15	65.7				770	5.5
19-Aug-15	65.7	0.0			770	0.0
4-Nov-15	66.2	0.8			750	-2.6
10-Feb-16	59.3	-10.4			750	0.0
1-Jun-16	57.0	-3.9			800	6.7
19-Dec-16	35.6	-37.5	61.2		800	0.0
7-Feb-17	35.6	0.0	61.2	0.0	810	1.3
16-May-17	35.6	0.0	61.2	0.0	800	-1.2

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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