

JK Cement

22 May 2019

Reuters: JKCE.BO; Bloomberg: JKCE IN

Healthy Performance; Valuation Factors In The Same

JK Cement (JKCE) reported a healthy set of numbers for 4QFY19, aided by a combination of grey cement realisation gain and volume growth. Additionally, cost inflation controlled well helped improve performance. JKCE's grey cement volume (including clinker sales) grew ~8% YoY to 2.53mt. Grey cement realisation also rose by a healthy 5.5%YoY/5.8%QoQ to Rs4,193/tn. White cement segment's (including putty) volume also posted a healthy growth of ~19% at 0.35mt. White cement segment's realisation, however, was flat YoY/QoQ at Rs11,751/tn (combined putty and white cement). Overall revenues grew ~12.0 YoY to ~Rs14.7bn (in line with our estimate of ~Rs14.5bn). JKCE's operating costs were well controlled as they remained flat YoY at Rs4,212/tn on account of falling energy and logistic costs, but higher other expenditure growth capped further benefits. Effectively, JKCE reported 53% YoY overall EBITDA growth to Rs2.8bn (above our estimate of Rs2.12bn). EBITDA margin improved ~500bps to 18.7% (from 13.8% in 4QFY18). Following better cost control, overall EBITDA/tn increased to Rs971 from Rs682 in 4QFY18 (contribution from grey cement improved). Effectively, APAT stood at Rs1.5bn, up from Rs965mn YoY. JKCE stock currently trades around Rs6.88bn/mt or ~20% discount to the replacement cost of Rs8bn/mt (higher because of white cement capacity). We believe the stock is fairly valued at the current level (valued the stock at ~20% discount to replacement cost based on March FY21E capacity). We have retained Accumulate rating on the stock with a revised target price of Rs928 (from Rs837 earlier). At our target price, the stock trades at an EV/EBITDA of 9.5x March FY21E earnings.

Grey cement volume growth supported by realisation growth: Grey cement volume, including clinker sales, grew ~8.0% to 2.53mt in 4QFY19. Capacity utilisation rose to 96% from 90% in 4QFY18. JKCE had regained volume growth following better demand prospects. However, this was also supported by grey cement realisation gain of 5.5% YoY/QoQ which came as a positive surprise. White cement volume increased ~17%, while realisation was flat YoY.

Effectively EBITDA margin jumps sharply, also aided by controlled cost inflation: JKCE's operating cost inflation was well under control with costs remaining flat YoY at Rs4,212/tn, largely because of declining energy and logistic costs. Power & fuel costs were flat at Rs1,054/tn following higher contribution of alternate fuel (JKCE uses 85% of pet coke in its kiln). Logistic costs fell 14% to Rs1,058/tn following the benefits of higher truck axle load limit and other cost control initiatives. Other expenditure, however, grew 29% to Rs1.58bn which negated the benefit of energy and logistic cost savings. Controlled operating cost inflation and improved realisation helped strong improvement in EBITDA margin to 18.7% from 13.8% in 4QFY18.

We retain our earnings estimates: We have retained our FY20/FY21 EPS estimates at Rs53.7/57.4 (optically lower because of an expanded equity base), respectively, factoring in FY19 performance. We believe the white cement segment will continue to guard the earnings growth for JKCE. The revival in northern markets and Rajasthan, in particular, will help JKCE gain further revenue and earnings traction. Grey cement volume and realisation pick-up adds to the comfort. However, cost inflation will continue to be challenging (despite the benefit in 4QFY19), although JKCE has taken initiatives to curtail rising costs.

Retain Buy rating: JKCE stock currently trades around Rs6.88bn/mt or ~20% discount to the replacement cost of Rs8bn/mt (higher because of white cement capacity). We believe the stock is fairly valued at the current level (valued the stock at ~20% discount to replacement cost based on March FY21E capacity). We have retained Accumulate rating on the stock with a revised target price of Rs928 (from Rs837 earlier). At our target price, the stock trades at an EV/EBITDA of 9.5x March FY21E earnings.

ACCUMULATE

Sector: Cement

CMP: Rs944

Target Price: Rs928

Downside: 1%

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Key Data

Current Shares O/S (mn)	77.3
Mkt Cap (Rsbn/US\$bn)	73.2/1.1
52 Wk H / L (Rs)	995/650
Daily Vol. (3M NSE Avg.)	71,085

Price Performance (%)

	1 M	6 M	1 Yr
JK Cement	9.0	30.6	0.9
Nifty Index	1.0	11.2	11.1

Source: Bloomberg

Y/E March (Rsmn)	4QFY19	4QFY18	YoY %	3QFY19	QoQ %
Net sales	14,707	13,160	11.8	12,580	16.9
Operating expenses	12,124	11,340	6.9	10,622	14.1
EBITDA	2,795	1,819	53.6	2,105	32.7
EBITDA margin (%)	18.7	13.8	491bps	16.5	220bps
Other income	349	533	(34.4)	118	196.2
Interest costs	533	562	(5.1)	564	(5.4)
Depreciation	497	470	5.7	486	2.1
PBT	2,114	1,321	60.1	1,173	80.2
Non-recurring items	-	91	-	-	-
PBT (after non-recurring items)	2,114	1,230	71.9	1,173	80.2
Tax	614	265	131.6	564	8.9
Reported PAT	1,500	965	55.5	609	146.2
Adjusted PAT	1,500	1,055	42.1	609	146.2
NPM (%)	10.2	8.0	218bps	4.8	536bps
Adjusted EPS (Rs)	21.4	15.1	42.1	8.7	146.2

Source: Company, Nirmal Bang Institutional Equities Research

Key conference-call highlights

- JKCE's trade and non-trade mix stood at 68:32 maintained over 3QFY19. JKCE's management is judiciously trying to increase the company's presence in the trade segment. This has benefited in terms of better volume and realisation for JKCE in 2HFY19.
- Grey cement volume gain was because of the increased push in non-trade segment. Despite this, grey cement realisation was maintained. However, the company will be delicately maintaining the balance between market share and pricing.
- JKCE's logistic costs reflect the benefits of the higher truck axle load limit in 4QFY19. The management has set a target to reduce logistic costs and target additional savings of around Rs50/tn-Rs60/tn.
- Brownfield expansion planned in Rajasthan will be a key focus area for JKCE in the next two years. Capital expenditure for FY19 is Rs6bn. Major orders for equipment have been placed and some key equipment have already reached the plant site. The company will spend another ~Rs12bn in FY20. Further, the company has acquired land and mining leases in Central India. However, this will be a focus area only after the completion of the existing project in Rajasthan.
- The UAE operation of JKCE has sold 0.25mt of cement and 0.1mt of clinker in CY18. The overseas operations incurred a loss of ~Rs37mn AED from the UAE operations in CY18.

Exhibit 1: Operational details

Operational details	4QFY19	4QFY18	YoY %	3QFY19	QoQ %	4QFY19E	Deviation %
Aggregate volume (mnmt)	2.86	2.67	7.4	2.49	15.0	2.89	(0.9)
Grey cement (mnmt)	2.53	2.35	7.8	2.14	18.2	2.53	-
White cement and putty (mnmt)	0.33	0.32	4.2	0.35	(4.4)	0.36	(7.1)
Grey cement realisation (Rs/mt)	4,193	3,974	5.5	3,963	5.8	4,043	3.7
White cement realisation (Rs/mt)	11,751	11,670	0.7	11,715	0.3	11,833	(0.7)
Operating costs (Rs/mt)	4,212	4,250	(0.9)	4,266	(1.3)	4,320	(2.5)
Aggregate EBITDA (Rs/mt)	971	682	42.4	845	14.8	737	31.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Detailed quarterly financials

(Rsmn)	4QFY19	4QFY18	YoY %	3QFY19	QoQ %	4QFY19E	Deviation %
Net sales	14,707	13,160	11.8	12,580	16.9	14,487	1.5
Expenditure							
Change in stock	294.9	156.0	89.0	23.1	1,177.1	85.0	247.0
Raw material costs	2,143	2,041	5.0	2,246	(4.6)	2,644	(19.0)
Stores and spare parts	982	896	9.6	817	20.1	968	1.4
Purchased products	211	-	-	5	-	4	-
Power & fuel expenses	3,034	2,832	7.1	2,615	16.0	3,121	(2.8)
Freight costs	3,045	3,282	(7.2)	2,774	9.8	3,367	(9.6)
Employee costs	836	903	(7.5)	891	(6.2)	900	(7.1)
Other expenses	1,580	1,230	28.5	1,257	25.7	1,399	12.9
Total operating expenses	12,124	11,340	6.9	10,622	14.1	12,485	(2.9)
EBITDA	2,795	1,819	53.6	2,105	32.7	2,129	31.3
EBITDA margin (%)	18.7	13.8	491bps	16.5	220bps	14.6	417bps
Other income	349	533	(34.4)	118	196	455	(23.2)
Interest costs	533	562	(5.1)	564	(5)	520	2.6
Depreciation	497	470	5.7	486	2	490	1.3
PBT	2,114	1,321	60.1	1,173	80	1,574	34.3
Non-recurring items	-	90.7	-	-	-	-	-
PBT (after non-recurring items)	2,114	1,230	71.9	1,173	80	1,574	34.3
Tax	614.4	265.3	131.6	564.1	9	519.3	18.3
Reported PAT	1,500	965	55.5	609	146	1,054	42.2
Adjusted PAT	1,500	1,055	42.1	609	146	1,054	42.2
NPM (%)	10.2	8.0	218bps	4.8	536bps	7.3	292bps
Adjusted EPS (Rs)	21.4	15.1	42.1	8.7	146	15.1	42.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Trend in operating costs/mt

Costs per mt (Rs)	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ %
Consumption of raw material	811	763	860	888	823	774	782	911	847	2.9	(7.1)
Stores and spares	286	286	286	286	286	361	340	335	335	17.1	0.0
Power and fuel costs	828	849	926	980	1,061	1,078	1,115	1,050	1,054	(0.7)	0.4
Freight costs	950	1,096	1,121	1,166	1,230	1,155	1,092	1,114	1,058	(14.0)	(5.1)
Total costs per mt	3,852	3,968	4,051	4,253	4,250	4,220	4,310	4,266	4,212	(0.9)	(1.3)

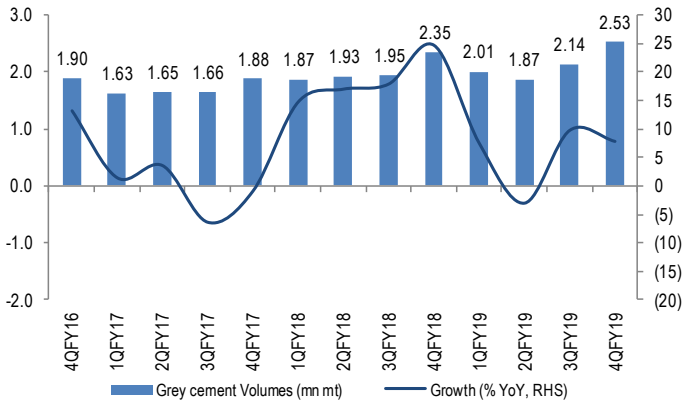
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Earning estimates maintained

(Rsmn)	Old		New		Variance (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net sales	51,252	57,854	51,252	57,854	-	-
Operating profit	8,133	9,044	8,133	9,044	-	-
Net profit	4,109	4,437	4,109	4,437	-	-
EPS (Rs)	53.74	57.42	53.18	57.42	(1.0)	-
Target price (Rs)		837		928		
Rating		Accumulate		Accumulate		

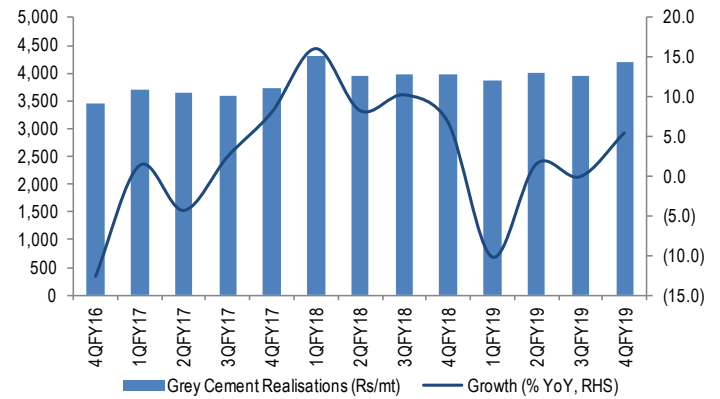
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Steady volume growth in grey cement



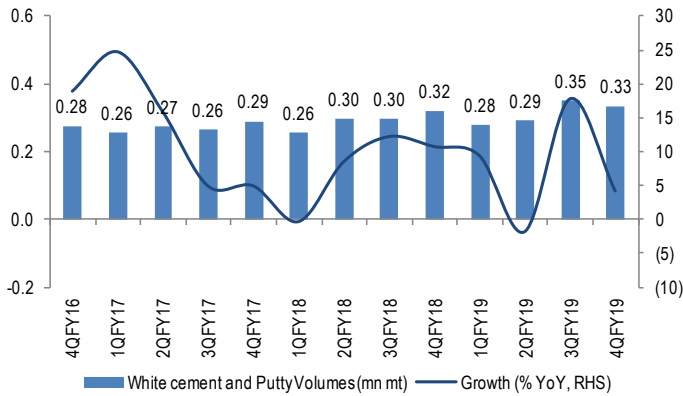
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Grey cement realisation gain despite volume gain was a positive surprise



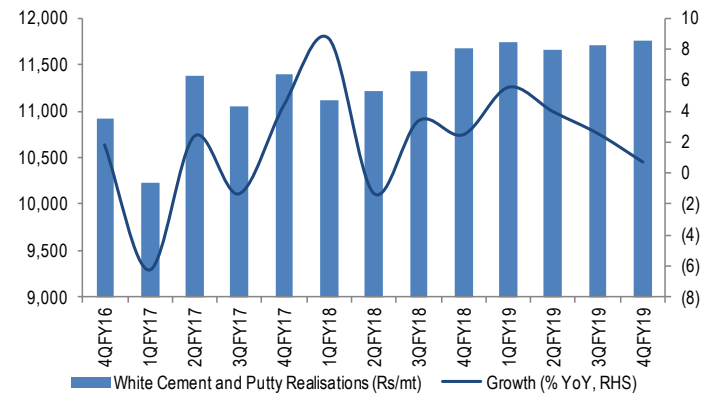
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Volume growth in white cement segment healthy



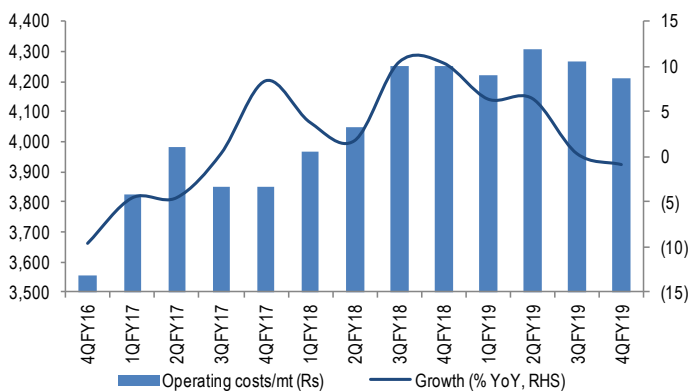
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: White cement realisation remains unchanged YoY/QuoQ



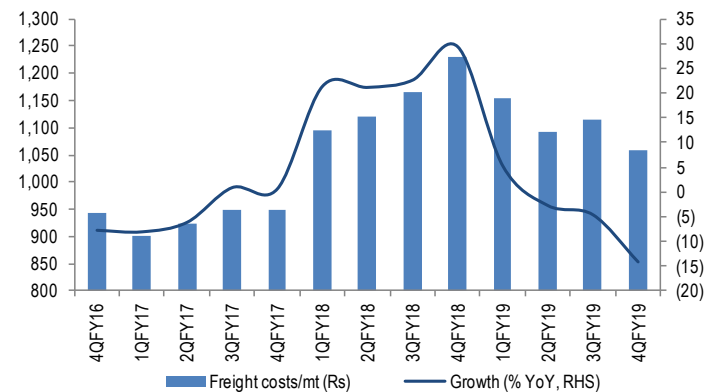
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Operating costs control helps EBITDA margin gain



Source: Company, Nirmal Bang Institutional Equities Research

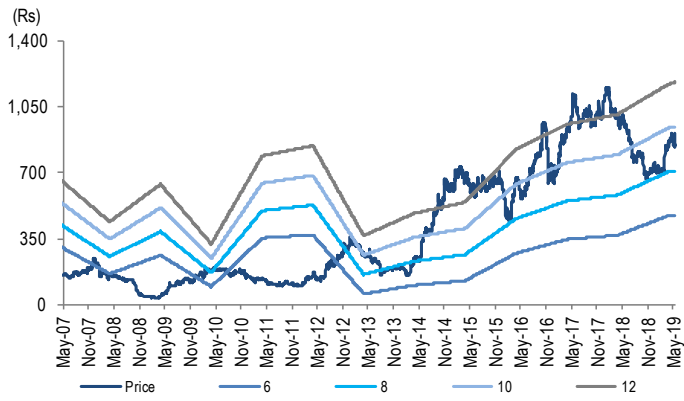
Exhibit 10: Logistics cost savings aided by higher axle load permit



Source: Company, Nirmal Bang Institutional Equities Research

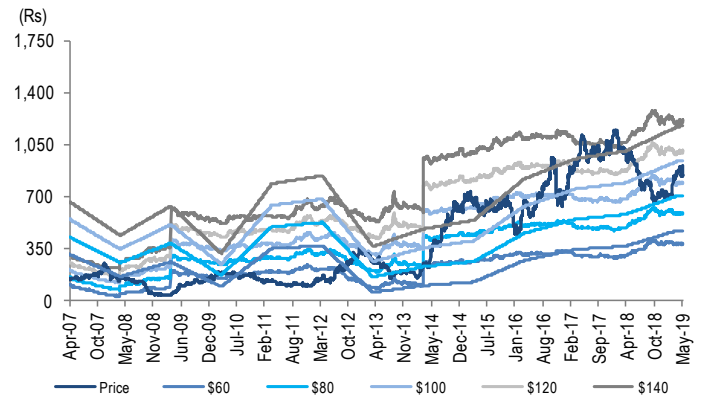
Exhibit 11: Valuation charts

EV/EBITDA



Source: Company, Nirmal Bang Institutional Equities Research

EV/tn



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 12: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	37,036	45,426	49,192	51,252	57,854
Growth (%)	5.2	22.7	8.3	4.2	12.9
Operating expenses	(30,621)	(38,305)	(41,712)	(43,119)	(48,810)
EBITDA	6,414	7,120	7,480	8,133	9,044
Growth (%)	32.1	11.0	5.1	8.7	11.2
Depreciation & amortisation	(1,761)	(1,863)	(1,944)	(2,002)	(2,355)
EBIT	6,094	7,020	6,957	7,420	8,169
Other income	1,441	1,763	1,420	1,289	1,480
Interest paid	(2,656)	(2,454)	(2,032)	(2,378)	(2,726)
Extraordinary/exceptional items					
PBT	3,404	4,397	4,925	5,041	5,444
Tax	(648.6)	(978.5)	(1,486.8)	(932.7)	(1,007.1)
Effective tax rate (%)	(19.1)	(22.3)	(30.2)	(18.5)	(18.5)
Net profit	2,756	3,419	3,438	4,109	4,437
Minority interest	-	-	-	-	-
Reported net profit	2,756	3,419	3,438	4,109	4,437
Non-recurring items	(33)	(170)	-	-	-
Adjusted net profit	2,789	3,588	3,438	4,109	4,437
Growth (%)	169.9	28.7	(4.2)	19.5	8.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Cash & bank balances	4,188	5,435	5,817	11,164	10,208
Other current assets	10,971	11,195	9,369	10,116	12,257
Investments	5,356	6,345	7,022	7,644	9,274
Net fixed assets	37,606	36,761	43,250	46,932	53,946
Goodwill & intangible assets	243	84	87	90	93
Other non-current assets	(528)	-	-	-	-
Total assets	57,837	59,820	65,544	75,946	85,778
Current liabilities	9,885	10,858	13,917	12,203	13,498
Borrowings	26,162	23,977	24,997	26,966	30,936
Other non-current liabilities	2,588	2,988	3,475	4,050	4,580
Total liabilities	38,634	37,823	42,390	43,219	49,014
Share capital	699	699	773	773	773
Reserves & surplus	18,504	20,775	28,245	31,954	35,990
Shareholders' funds	19,203	21,997	23,155	32,727	36,763
Minority interest	-	-	-	-	-
Total equity & liabilities	57,837	59,820	65,544	75,946	85,778

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Pre-tax profit	3,404	4,397	4,925	5,041	5,444
Depreciation	1,499	1,410	1,904	2,002	2,355
Chg. in working capital	103	90	4,919	(2,311)	(646)
Total tax paid	(674)	(447)	(1,034)	(508)	(677)
Other operating activities	-	-	-	-	-
Operating CF	4,333	5,450	10,715	4,225	6,476
Capital expenditure	(2,598)	(406)	(8,396)	(5,687)	(9,373)
Chg. in investments	(990)	(989)	(676)	(623)	(1,629)
	-	-	-	-	-
Investing CF	(3,588)	(1,395)	(9,072)	(6,310)	(11,002)
FCF	744	4,055	1,643	(2,085)	(4,526)
Equity raised/(repaid)	215	(2,185)	1,020	1,969	3,970
Debt raised/(repaid)	(654)	(673)	(407)	(407)	(407)
Dividend (incl. tax)	199	(474)	4,439	7	7
Other financing activities	(240)	(2,809)	(1,260)	7,432	3,570
Financing CF	(240)	(2,809)	(1,260)	7,432	3,570
Net chg. in cash & bank bal.	504	1,246	382	5,347	(956)
Closing cash & bank bal.	4,188	5,435	5,817	11,164	10,208

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Key ratios

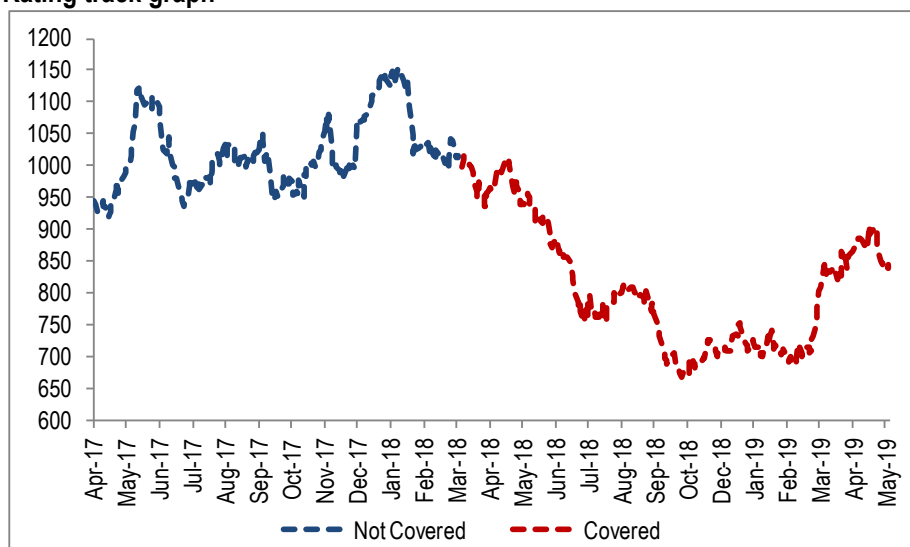
Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Profitability and return ratios (%)					
EBITDAM	17.3	15.7	15.2	15.9	15.6
EBITM	16.5	15.5	14.1	14.5	14.1
NPM	7.5	7.9	7.0	8.0	7.7
RoE	15.4	17.4	15.2	14.7	12.8
RoCE	13.1	14.5	13.8	12.9	12.0
RoIC	12.8	14.3	12.8	14.4	13.6
Per share data (Rs)					
O/s shares	69.9	69.9	77.3	77.3	77.3
EPS	39.9	51.3	46.7	53.2	57.4
FDEPS	39.9	51.3	44.5	53.2	57.4
CEPS	65.1	78.0	73.1	79.1	87.9
BV	274.3	314.6	314.6	423.5	475.8
DPS	8.0	8.0	4.7	4.5	4.5
Valuation ratios (x)					
PE	23.7	18.4	20.2	17.8	16.4
P/BV	3.4	3.0	3.0	2.2	2.0
EV/EBITDA	13.7	11.9	11.4	10.1	9.6
EV/Sales	2.4	1.9	1.7	1.6	1.5
Other key ratios					
D/E (x)	1.1	0.8	0.8	0.5	0.6
DSO (days)	15	15	15	17	19
DuPont analysis - RoE					
NPM (%)	7.5	7.9	7.0	8.0	7.7
Asset turnover (x)	0.7	0.8	0.8	0.7	0.7
Equity multiplier(x)	0.7	0.8	0.8	0.7	0.7
RoE (%)	15.4	17.4	15.2	14.7	12.8

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Buy	1,014	1,179
17 May 2018	Buy	987	1,141
1 August 2018	Buy	768	1,043
6 November 2018	Buy	700	862
5 February 2019	Buy	688	837
9 April 2019	Accumulate	703	837
22 May 2019	Accumulate	944	928

Rating track graph



DISCLOSURES

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ACCUMULATE -5% to 15%

SELL < -5%

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