

# KCP

5 December 2017

Reuters: KCP.BO; Bloomberg: KCPL IN

## Other Income Drives PAT; High International Coal Price Is Cause For Concern

KCP reported a weak set of numbers for 2QFY18 on account of high operating costs and low realisation. KCP posted volume of 0.5mnmt, a growth of 20% YoY on account of increased construction activity in its addressable market. Revenues stood at Rs2,503mn, above our estimate of Rs2,280mn. However, realisation declined 11% YoY. Operating costs increased 17% QoQ and 30% YoY on account of high freight, employee and power & fuel costs. At the conference call, KCP also stated that the rise in international coal prices affected the bottom-line of cement business. As a result, KCP reported EBITDA of Rs341mn, below our expectation of Rs366mn. The engineering division reported revenues of Rs254mn with EBIT loss of Rs45mn. The order book of engineering division increased to Rs1,000mn versus Rs800mn in the previous quarter. At the conference call, the management stated that hotel operations started improving and the occupancy rate increased substantially which helped the company to report hotel segment revenues of Rs34.4mn, up 4% QoQ, and EBIT loss of Rs23mn against EBIT loss of Rs25mn in the previous quarter. Despite incurring losses in engineering and hotel businesses, KCP reported PAT of Rs360mn, mostly on account of higher other income of Rs386mn, which includes dividend received amounting to Rs380mn from its subsidiary in Vietnam. KCP has planned brownfield expansion with a capex of Rs5bn, out of which Rs1.3bn has been incurred which will increase its Muktyla plant capacity from 1.8mnmt to 3.3mnmt and overall capacity to 4.2mnmt. However, the management at the conference call stated that international coal prices have increased substantially which is a cause for concern and may hurt the power business and affect bottom-line of cement business. Also, the company may not be able to pass on the increase in operating costs to consumers because of the rise in international coal prices which may hurt profitability in near future. Therefore, we have introduced our FY20 estimates with sales/EBITDA/PAT estimates at Rs12.3bn/Rs2.4bn/Rs0.7bn, respectively. We have maintained our target multiples on the stock at 1HFY20 EV/EBITDA of 7.0x and 1HFY20 target EV/mt of US\$90. We have retained Accumulate rating on the stock with a target price of Rs126.

**Conference-call highlights:** The management stated at the conference call that KCP is going for brownfield expansion with a capital expenditure of Rs 5bn, which will be financed partly with debt of Rs2bn to Rs2.5bn and the rest with own generated funds. However, the management didn't disclose about whether this is for clinker capacity expansion or grinding unit capacity expansion. On cement demand outlook, the company stated that the outlook is good in Andhra Pradesh and Telangana, but it does not expect realisation growth like it was in 1QFY18. As regards sugar business, the management stated that KCP will go for further capex of Rs650mn-Rs700mn which will be completed by 3QFY19 (which is just bottlenecking of certain facilities) but also stated that sugar prices are easing in the market which may affect profitability on a consolidated basis. The management stated that the company is only concerned about international coal prices which have increased substantially. Therefore, the increase in international coal prices may hurt the bottom-line of cement industry and KCP may not be able to pass them to the consumer.

**Outlook:** With a capacity expansion plan and increase in operating costs because of the rise in international coal prices, we have retained our target price of Rs126 on AAL. We have also retained our target multiples on the stock at 1HFY20E EV/EBITDA of 7.0x and 1HFY20 target EV/mt of US\$90. We have retained Accumulate rating on KCP with a target price Rs126.

## ACCUMULATE

Sector: Cement

CMP: Rs120

Target Price: Rs126

Upside: 5%

Harshit Dhoot

harshit.dhoot@nirmalbang.com  
+91-22-3926 8111

### Key Data

Current Shares O/S (mn)	128.9
Mkt Cap (Rsbn/US\$m)	15.4/239.5
52 Wk H / L (Rs)	138/80
Daily Vol. (3M NSE Avg.)	257,182

### Price Performance (%)

	1 M	6 M	1 Yr
KCP	(2.3)	13.9	40.8
Nifty Index	(3.1)	4.7	24.6

Source: Bloomberg

Y/E March (Rsmn) (standalone)	2QFY17	1QFY18	2QFY18	YoY (%)	QoQ (%)
<b>Net sales</b>	<b>2,038</b>	<b>2,368</b>	<b>2,503</b>	<b>5.7</b>	<b>5.7</b>
Total expenses	1,667	1,849	2,162	16.9	16.9
<b>EBITDA</b>	<b>371</b>	<b>519</b>	<b>341</b>	<b>(34.2)</b>	<b>(34.2)</b>
EBITDA margin (%)	18.2	21.9	13.6	(827)	(37.8)
Net other income	12	14	376	2,512.5	2,512.5
Interest costs	120	104	91	(12.4)	(12.4)
Depreciation	130	120	117	(2.8)	(2.8)
PBT	133	309	509	65.0	65.0
Tax	47	85	149	75.7	75.7
Tax rate (%)	36	28	-	-	-
PAT	86	224	360	61.0	61.0
<b>Adjusted profit</b>	<b>73</b>	<b>224</b>	<b>360</b>	<b>61.0</b>	<b>61.0</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Detailed financials

(Rsmn)	2QFY17	1QFY18	2QFY18	YoY (%)	QoQ (%)
<b>Net sales</b>	<b>2,038</b>	<b>2,368</b>	<b>2,503</b>	<b>22.8</b>	<b>5.7</b>
Expenditure					
Raw material costs	500	428	359	(28.2)	(16.1)
Chg. in stock	111	(65)	204	84.0	(412.9)
Stores and spares	114	-	-	(100.0)	-
Employee costs	192	212	295	53.5	39.2
Power and fuel costs	302	614	546	80.4	(11.1)
Freight costs	263	316	472	79.0	49.1
Other expenses	185	344	287	55.6	(16.6)
Total expenses	1,667	1,849	2,162	29.7	16.9
<b>EBITDA</b>	<b>371</b>	<b>519</b>	<b>341</b>	<b>(8.1)</b>	<b>(34.2)</b>
<b>EBITDA margin %</b>	<b>18.2</b>	<b>21.9</b>	<b>13.6</b>	<b>(457.8)</b>	<b>(827.1)</b>
Other income	12	14	376	3,115.4	2,512.5
Interest costs	120	104	91	(24.0)	(12.4)
Depreciation	130	120	117	(10.0)	(2.8)
Exceptional items	(13)	-	-	-	-
PBT	133	309	509	283.0	65.0
Tax	47	85	149	-	-
Tax rate	36	28	-	-	-
PAT	86	224	360	320.8	61.0
<b>Adjusted profit</b>	<b>73</b>	<b>224</b>	<b>360</b>	<b>394.1</b>	<b>61.0</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Segmental performance in 2QFY17

(Rsmn)	Revenues	EBIT	Margin (%)
Engineering	254	(45)	(18)
Cement	2,191	269	12
Power	188	7	4
Hotel	34	(23)	(67)
Others	393	404	103
<b>Total</b>	<b>3,060</b>	<b>611</b>	<b>20</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Change in our estimates

(Rsmn)	Old		New			Deviation (%)	
	FY18E	FY19E	FY18E	FY19E	FY20E	FY18E	FY19E
Net sales	9,179	10,610	9,179	10,610	12,288	-	-
Operating profit	7,577	8,639	7,577	8,639	9,901	-	-
Net profit	403	509	403	509	2,387	-	-
EPS (Rs)	3.1	3.9	3.1	3.9	5.6	-	-
<b>Target price (Rs)</b>		<b>126</b>			<b>126</b>	-	-
Rating		Accumulate			Accumulate	-	-

Source: Nirmal Bang Institutional Equities Research

## Exhibit 4: Deviation from our estimates

2QFY18 (Rsmn)	Actual	Our estimate	Deviation (%)
<b>Net sales</b>	<b>2,503</b>	<b>2,280</b>	<b>10</b>
Operating expenses	2,162	1,849	13
<b>EBITDA</b>	<b>341</b>	<b>366</b>	<b>(7)</b>
EBITDA margin (%)	16.0	13.6	240bps
Adjusted PAT	360	102	253
NPM (%)	14.4	4.5	91
<b>EPS (Rs)</b>	<b>2.79</b>	<b>0.79</b>	<b>253</b>

Source: Nirmal Bang Institutional Equities Research

**Exhibit 5: Target price of Rs126 offers 5% upside from current market price**

Particulars	(Rsmn)
Value of cement business	20,181
Value of 67% stake in sugar business	2,565
Value of hotel business	540
<b>Total enterprise value</b>	<b>23,286</b>
Less: Net debt	7,026
Total equity value	16,259
No. of shares (mn)	129
<b>Target price (Rs)</b>	<b>126</b>
CMP (Rs)	120
<b>Upside (%)</b>	<b>5.1</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Standalone financials

### Exhibit 6: Income statement

Y/E March (Rsmn)	FY16	FY17E	FY18E	FY19E	FY20E
<b>Net sales</b>	<b>7,498</b>	<b>8,219</b>	<b>9,179</b>	<b>10,610</b>	<b>12,288</b>
Raw material costs	2,075	2,291	2,603	3,028	3,522
Employee costs	663	703	745	790	845
Selling & distribution	987	1,204	1,348	1,548	1,793
Power and fuel costs	1,191	1,554	1,807	2,112	2,485
Other expenses	387	307	316	326	336
Total expenses	6,031	6,763	7,577	8,639	9,901
<b>Operating profit</b>	<b>1,467</b>	<b>1,456</b>	<b>1,601</b>	<b>1,971</b>	<b>2,387</b>
Operating profit margin (%)	19.6	17.7	17.4	18.6	19.4
Other income	38	42	46	51	56
Interest costs	454	454	609	729	730
Depreciation	391	463	479	587	706
PBT	660	581	559	707	1,006
Exceptional items	(6)	-	-	-	-
PBT post exc. items	654	581	559	707	1,006
Tax	226	163	157	198	282
Tax rate (%)	34	28	28	28	28
<b>PAT</b>	<b>428</b>	<b>418</b>	<b>403</b>	<b>509</b>	<b>725</b>
<b>EPS (Rs)</b>	<b>3.3</b>	<b>3.2</b>	<b>3.1</b>	<b>3.9</b>	<b>5.6</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 8: Balance sheet

Y/E March (Rsmn)	FY16	FY17E	FY18E	FY19E	FY20E
Equity capital	129	129	129	129	129
Reserves and surplus	3,745	4,035	4,309	4,689	5,285
Net worth	3,874	4,164	4,438	4,818	5,414
Total debt	3,908	4,708	6,858	7,658	7,658
Deferred tax liability	872	872	872	872	872
Current liabilities	1,421	1,645	1,839	2,089	2,384
Other liabilities	428	446	464	484	504
<b>Total liabilities</b>	<b>10,502</b>	<b>11,834</b>	<b>14,471</b>	<b>15,920</b>	<b>16,832</b>
Gross block	10,087	10,487	10,787	15,287	16,087
Acc. Depr.	3,031	3,494	3,973	4,559	5,265
Net block	7,056	6,993	6,814	10,728	10,822
CWIP	105	750	3,250	50	50
Investment	289	289	289	289	289
Current assets less cash	2,126	2,775	3,101	3,519	4,013
Cash	189	252	203	481	762
<b>Total assets</b>	<b>10,502</b>	<b>11,834</b>	<b>14,471</b>	<b>15,920</b>	<b>16,832</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 7: Cash flow

Y/E March (Rsmn)	FY16	FY17E	FY18E	FY19E	FY19E
PAT	428	418	403	509	725
Add: Depreciation	391	463	479	587	706
Chg. in NWC	161	(462)	(170)	(209)	(241)
<b>Cash flow from operations</b>	<b>981</b>	<b>419</b>	<b>711</b>	<b>887</b>	<b>1,189</b>
Capex	(604)	(1,045)	(2,800)	(1,300)	(800)
Chg. in Investment	-	-	-	-	-
<b>Cash flow from investing</b>	<b>(604)</b>	<b>(1,045)</b>	<b>(2,800)</b>	<b>(1,300)</b>	<b>(800)</b>
Issue of shares	-	-	-	-	-
Issue of pref. stock	-	-	-	-	-
Inc. in debt	(583)	800	2,150	800	-
Inc. in DTL	199	-	-	-	-
Dividend paid	(129)	(129)	(129)	(129)	(129)
<b>Cash flow from financing</b>	<b>(516)</b>	<b>689</b>	<b>2,040</b>	<b>691</b>	<b>(108)</b>
Net cash flow	(139)	63	(49)	278	281
Opening cash balance	328	189	252	203	481
<b>Closing cash balance</b>	<b>189</b>	<b>252</b>	<b>203</b>	<b>481</b>	<b>762</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 9: Key ratios

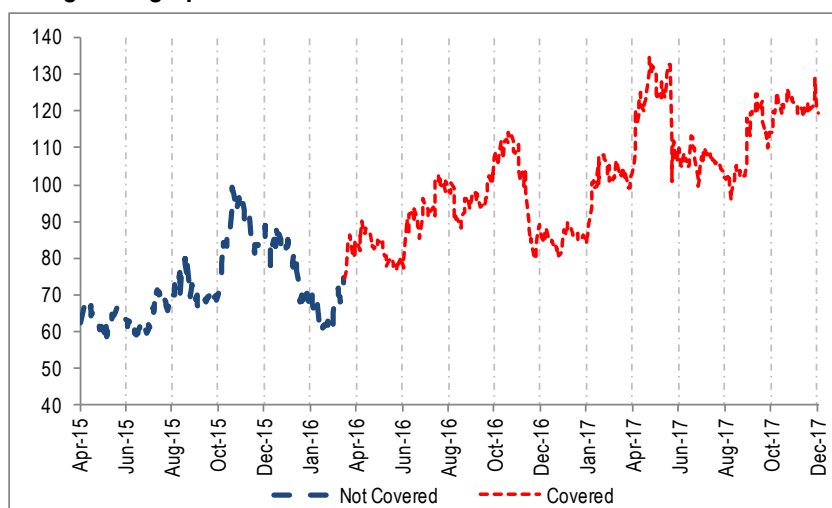
Y/E March (Rsmn)	FY16	FY17E	FY18E	FY19E	FY20E
<b>Growth (%)</b>					
Sales	23.5	9.6	11.7	15.6	15.8
Operating profit	50.2	(0.7)	10.0	23.1	21.1
Net profit	161.0	(2.3)	(3.8)	26.4	42.3
<b>Leverage (x)</b>					
Debt:equity	1.0	1.1	1.5	1.6	1.4
Net debt:equity	1.0	1.1	1.5	1.5	1.3
<b>Profitability (%)</b>					
OPM	19.6	17.7	17.4	18.6	19.4
NPM	5.7	5.1	4.4	4.8	5.9
RoE	11.5	10.4	9.4	11.0	14.2
RoCE	12.2	10.7	10.2	10.9	12.3
<b>Valuation (x)</b>					
P/E	34.3	35.1	38.4	30.4	21.4
P/BV	3.8	3.5	3.5	3.2	2.9
EV/EBITDA	12.6	13.2	13.8	11.5	9.4

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
17 March 2016	Buy	74	103
31 May 2016	Buy	79	122
10 August 2016	Buy	90	122
16 November 2016	Buy	90	125
8 February 2017	Buy	100	126
23 May 2017	Accumulate	112	126
5 December 2017	Accumulate	120	126

## Rating track graph



## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is published by Nirmal Bang's Institutional Equities Research desk. Nirmal Bang group has other business units with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets. Reports based on technical and derivative analysis may not match with reports based on a company's fundamental analysis. This report is for the personal information of the authorised recipient and is not for public distribution. This should not be reproduced or redistributed to any other person or in any form. This report is for the general information for the clients of Nirmal Bang Equities Pvt. Ltd., a division of Nirmal Bang, and should not be construed as an offer or solicitation of an offer to buy/sell any securities.

We have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

Nirmal Bang or any persons connected with it do not accept any liability arising from the use of this document or the information contained therein. The recipients of this material should rely on their own judgment and take their own professional advice before acting on this information. Nirmal Bang or any of its connected persons including its directors or subsidiaries or associates or employees or agents shall not be in any way responsible for any loss or damage that may arise to any person/s from any inadvertent error in the information contained, views and opinions expressed in this publication.

*Nirmal Bang Equities Private Limited (hereinafter referred to as "NBEPL") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited. NBEPL has registered with SEBI as a Research Entity in terms of SEBI (Research Analyst) Regulations, 2014. (Registration No: INH000001436 - 19.08.2015 to 18.08.2020).*

*NBEPL or its associates including its relatives/analyst do not hold any financial interest/beneficial ownership of more than 1% in the company covered by Analyst.*

*NBEPL or its associates/analyst has not received any compensation from the company covered by Analyst during the past twelve months. NBEPL /analyst has not served as an officer, director or employee of company covered by Analyst and has not been engaged in market-making activity of the company covered by Analyst.*

*The views expressed are based solely on information available publicly and believed to be true. Investors are advised to independently evaluate the market conditions/risks involved before making any investment decision.*

**Access all our reports on Bloomberg, Thomson Reuters and Factset.**

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 3926 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 3926 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8830

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,  
 Nr. Peninsula Corporate Park,  
 Lower Parel (W), Mumbai-400013.  
 Board No. : 91 22 3926 8000/1; Fax. : 022 3926 8010