

BSE SENSEX	S&P CNX
30,583	9,512
Bloomberg	JKCE IN
Equity Shares (m)	70
M.Cap.(INRb)/(USDb)	78.1 / 1.2
52-Week Range (INR)	1194 / 574
1, 6, 12 Rel. Per (%)	16/28/73
Avg Val, INRm	39
Free float (%)	35.8

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	39.7	44.8	50.5
EBITDA	6.7	8.3	9.8
PAT	2.4	3.2	4.2
EPS (INR)	33.7	46.4	59.5
Gr. (%)	329.9	37.7	28.2
BV/Sh (INR)	251.6	293.5	347.0
RoE (%)	14.4	17.0	18.6
RoCE (%)	9.7	10.6	11.6
P/E (x)	33.2	24.1	18.8
P/BV (x)	4.4	3.8	3.2

Estimate change



TP change



Rating change



CMP: INR1,118 TP: INR1,322 (+18%)

Buy

Realization improvement drives profits

- **Grey cement profitability improvement led by better pricing:** 4QFY17 revenue increased 7.7% YoY to INR10.2b (est. of INR9.8b). Grey cement revenue rose 6% YoY to INR6.9b (est. of INR6.5b) due to higher realization in north operations. White cement revenue increased 10% YoY to INR3.3b, led by growth of 5% YoY in volumes and 4% YoY in realizations. Grey cement volumes declined 2% YoY to 1.86mt (est. of 1.79mt) due to lower volumes in north operations. White cement (incl. putty) volumes growth was strong at 5% YoY to 0.29mt. Blended realizations increased 3% QoQ (+9% YoY) to INR4,736/t (est. of INR4,698) due to better realizations in north markets. Adj. PAT rose 40% YoY to INR983m (est. of INR496m), led by lower tax outgo and higher other income on account of certain provisions written back in 4QFY17.
- **Margin expansion led by price increase:** EBITDA grew 6% YoY (+22% QoQ) to INR1.81b (est. of INR1.57b), translating into margin of 17.8% (+1.1pp QoQ, -0.4pp YoY). Grey cement margin stood at 18.0% (+5pp QoQ; +3pp YoY) on account of higher realizations. White cement margin stood at 31.1% (-1.6pp QoQ; -4.0pp YoY). Blended EBITDA/ton stood at INR846 v/s est. of INR755 (+7% YoY, +10% QoQ), led by higher realizations and lower-than-expected cost increase due to low-cost inventory.
- **FY17 performance:** Volumes at 7.9mt grew 1% YoY as volumes in south operations declined by 7% YoY. Realizations increased 5% YoY to INR4697/t, led by a rise in both grey cement and white cement realizations. Hence, revenue of INR37b rose 5% YoY. EBITDA/t increased 31% YoY to INR814, and thus, EBITDA rose 32% YoY to INR6.4b. Additionally, a lower tax rate of 20% v/s 27% in FY16 resulted in PAT growth of 166% YoY to INR2.75b.
- **Preferred play on north markets and white cement:** With lower immediate capex and FCFE of INR4-5b over FY17-FY19, there remains visibility of deleveraging from FY17 peak of INR31b. We maintain **Buy** with TP of INR1,322 (14x FY19E white cement EBITDA and 10x FY19E grey cement EBITDA).

Quarterly Performance (Standalone)

Y/E March	FY16				FY17				FY16	FY17	(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			Var (%)	4QE
Sales Dispatches (m ton)	1.81	1.83	2.02	2.18	1.89	1.92	1.93	2.15	7.84	7.88	2.1	3
YoY Change (%)	4.4	3.0	15.6	13.8	4.1	5.1	-4.5	-1.2	9.4	0.6	-4.1	
Realization (INR/ton)	4,482	4,733	4,466	4,344	4,698	4,743	4,601	4,736	4,491	4,697	4,698	1
YoY Change (%)	-2.9	1.4	-2.0	-8.8	4.8	0.2	3.0	9.0	-3.5	4.6	7.4	
QoQ Change (%)	-6.0	5.6	-5.6	-2.7	8.2	0.9	-3.0	2.9			2.1	
Net Sales	8,121	8,647	9,022	9,457	8,859	9,110	8,878	10,189	35,212	37,036	9,806	4
YoY Change (%)	1.3	4.4	13.2	3.8	9.1	5.4	-1.6	7.7	5.5	5.2	3.0	
EBITDA	849	1,024	1,265	1,718	1,657	1,462	1,482	1,814	4,857	6,414	1,575	15
Margins (%)	10.5	11.8	14.0	18.2	18.7	16.0	16.7	17.8	13.8	17.3	16.1	
Depreciation	386	402	415	438	425	437	447	452	1,641	1,761	423	7
Interest	664	694	664	686	675	691	662	628	2,707	2,656	671	-6
Other Income	190	220	137	365	284	188	441	527	913	1,441	195	171
PBT	-10	148	324	959	729	522	822	1,172	1,421	3,244	675	73
Tax	-21	3	147	259	121	112	158	258	388	649	180	
Rate (%)	203.9	1.9	45.4	27.0	16.5	21.6	19.2	22.0	27.3	20.0	26.6	
Reported PAT	11	145	177	701	609	409	664	914	1,033	2,596	496	84
Adj PAT	11	145	177	701	609	409	659	983	1,033	2,750	496	98
YoY Change (%)	-97.2	-55.0	5.6	0.3	5,656.5	181.4	272.7	40.4	-34.2	166.2	-27.4	

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Valuation and views

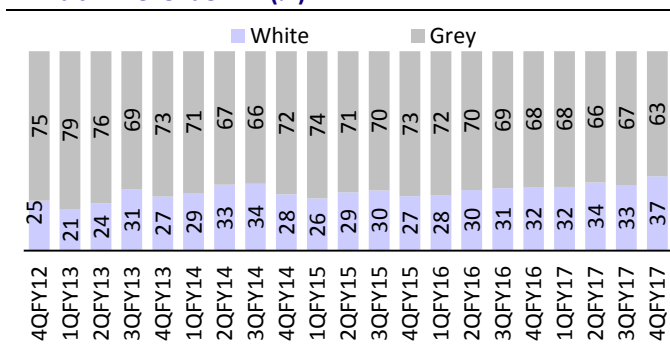
- **Medium-term growth levers strong:** Post 3mt expansion, JKCE's North capacity is operating at ~66% utilization (new plant at near maximum and older units at ~50%). This coupled with 55 to 60% utilization in the South plant provides headroom to outperform industry growth. Market mix is healthy, with North & West India accounting for ~70% of its dispatches and likely to benefit from incremental demand from mega infrastructure projects. JKCE has limestone reserve of 375mt to add a further 5-6mt in its North line with low incremental capex.
- **Vintage issues partially offset by induced efficiencies:** JKCE's grey cement profitability lagged peers in the past due to (a) older plants (low operating efficiency) and (b) higher lead distance/freight cost (absence of split grinding). New plants at Mangrol and Jhajjar offer better cost structure (energy/total cost lower by INR150/300 per ton); railway siding enables savings on in-bound logistics. While blended operating efficiency may be diluted, its grey cement cost structure would remain better than past, with induced efficiencies and economies of scale.
- **White cement a cash cow:** It is the second largest player in the duopolistic white cement industry in India, with 40% market share. Moderation in white cement growth (owing to lower exports to the Middle East) would be offset by healthy growth in putty and 0.2mt expansion in Katni (Madhya Pradesh) by FY16-end. With INR3b-3.5b of steady EBITDA cushion, white cement business remains a cash cow.
- **Preferred play on north markets and white cement:** With lower immediate capex and FCFE of INR4-5b over FY17-FY19, there remains visibility of deleveraging from the FY17 peak of INR31b. We maintain our **Buy** rating with a target price of INR1322 (14x FY19E white cement EBITDA and 10x FY19E grey cement EBITDA).

Exhibit 1: Key performance indicators (blended)

INR/Ton	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Net realization	4,736	4,344	9.0	4,601	2.9
RM Cost	890	753	18.2	804	11
Employee Expenses	338	258	31.1	355	-5
Power, Oil & Fuel	837	863	-3.0	802	4
Freight	921	943	-2.3	946	-3
Other Expenses	907	738	22.8	926	-2
Total Exp	3,893	3,555	9.5	3,833	2
EBITDA	843	789	6.8	768	10

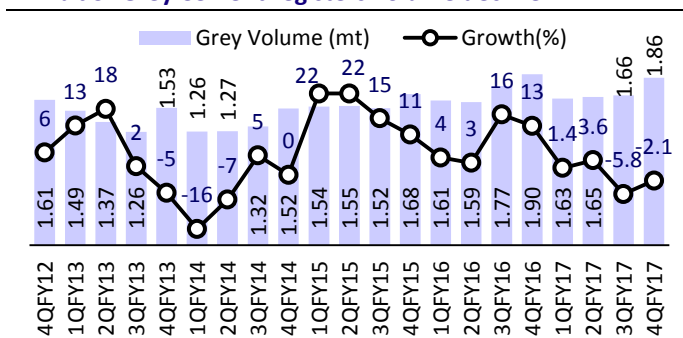
Source: Company, MOSL

Exhibit 2: Revenue mix (%)

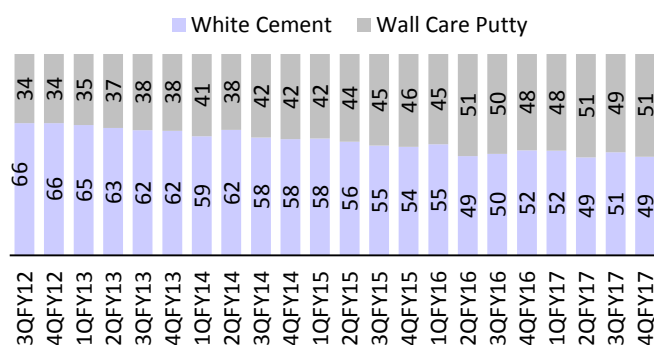


Source: Company, MOSL

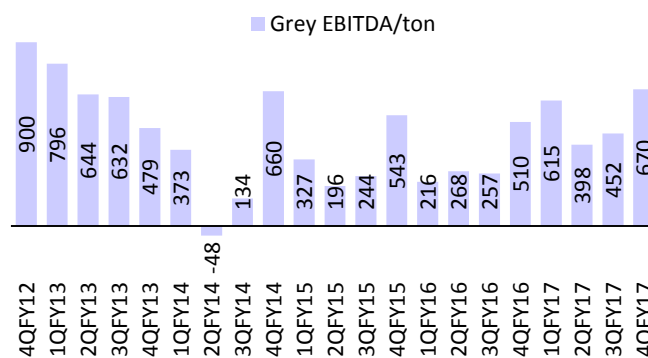
Exhibit 3: Grey Cement registers volume decline



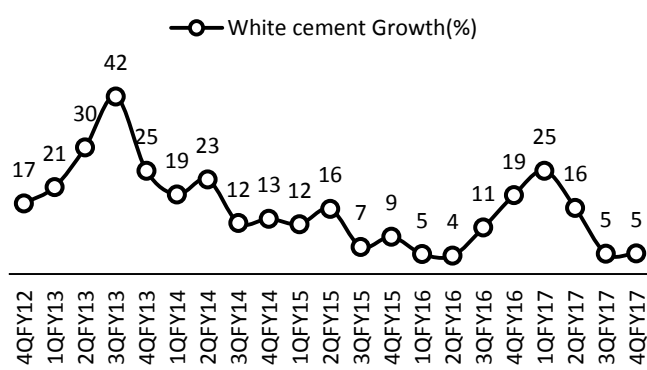
Source: Company, MOSL

Exhibit 4: White cement mix (%)

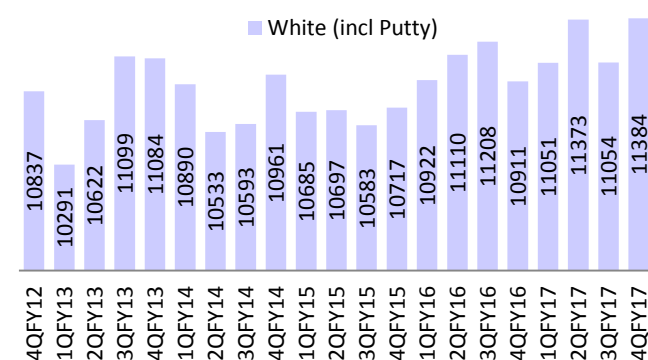
Source: Company, MOSL

Exhibit 5: Grey Cement EBITDA/ton (INR/tonne) increased by 48% QoQ

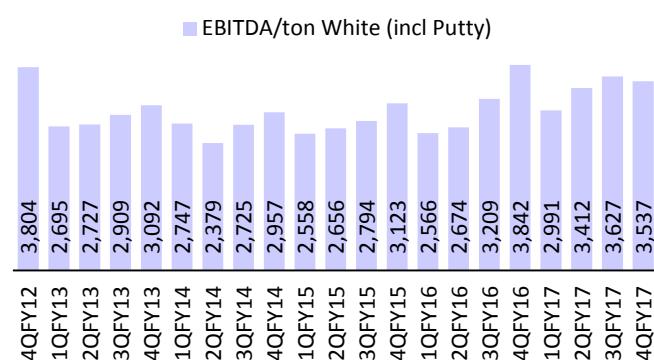
Source: Company, MOSL

Exhibit 6: White cement volume growth steady at 5% YoY

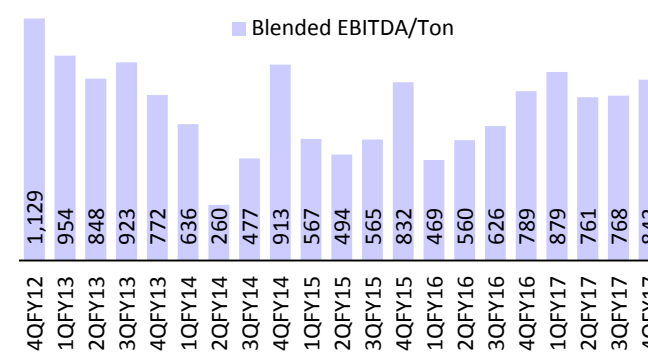
Source: Company, MOSL

Exhibit 7: White cement realizations increased QoQ (INR/ton)

Source: Company, MOSL

Exhibit 8: White cement EBITDA/t trend

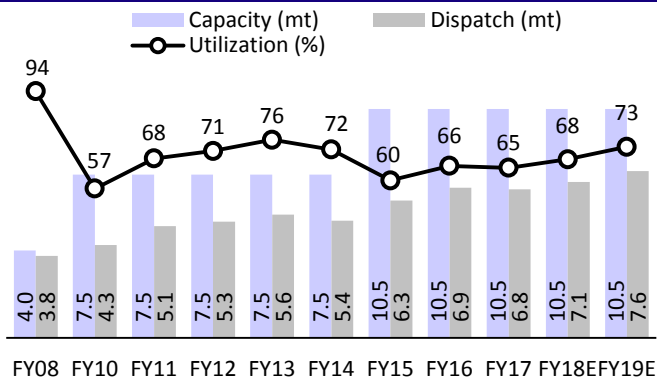
Source: Company, MOSL

Exhibit 9: Blended EBITDA/ton (INR/tonne) trend

Source: Company, MOSL

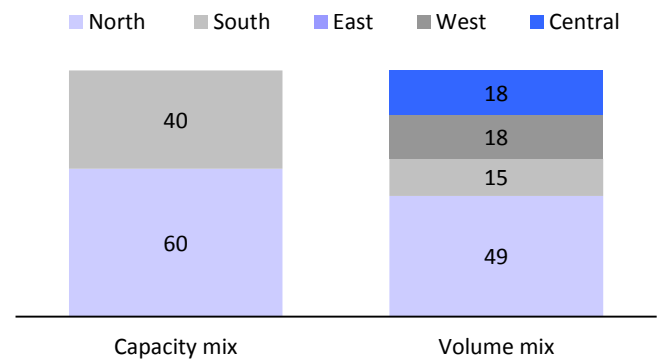
Story in charts

Exhibit 10: Strong volume lever in place with expanded capacity



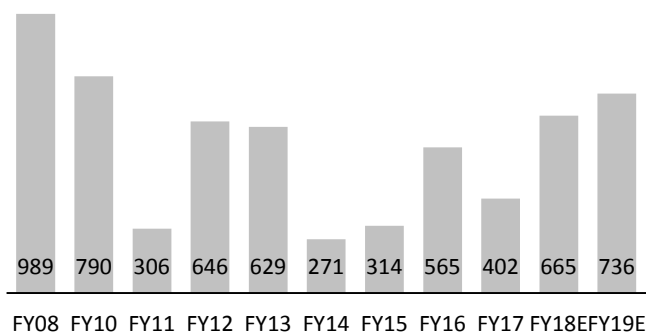
Source: Company, MOSL

Exhibit 11: Market mix getting better (%)



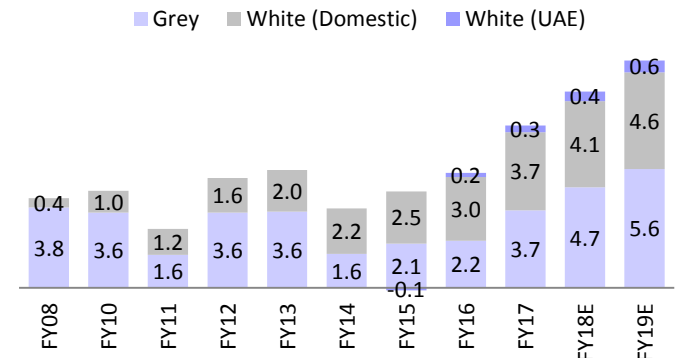
Source: Company, MOSL

Exhibit 12: Trend in Grey Cement EBITDA/Tonne (INR/t)



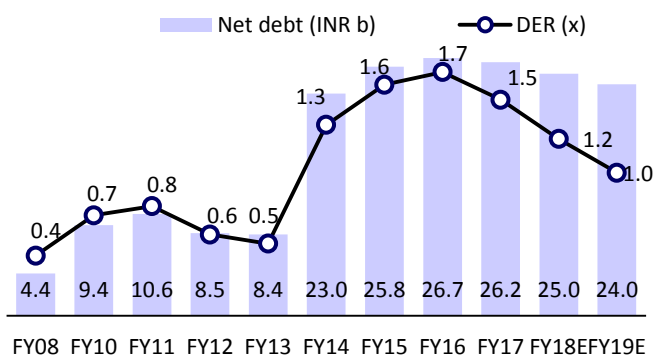
Source: Company, MOSL

Exhibit 13: Trend in EBITDA (INR b)



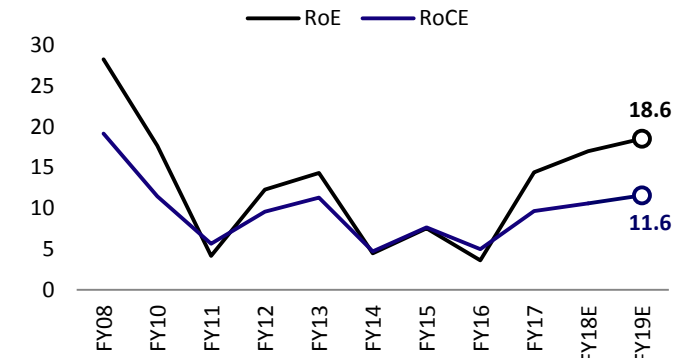
Source: Company, MOSL

Exhibit 14: Gearing peaked out



Source: Company, MOSL

Exhibit 15: RoE and RoCE Trend (%)



Source: Company, MOSL

Financials and Valuations

Income Statement						(INR Million)	
Y/E March	2013	2014	2015	2016	2017	2018E	2019E
Net Sales	29,040	27,815	33,874	37,463	39,694	44,834	50,484
Change (%)	14.4	-4.2	21.8	10.6	6.0	12.9	12.6
Total Expenditure	23,547	24,431	29,566	32,399	32,953	36,498	40,686
% of Sales	81.1	87.8	87.3	86.5	83.0	81.4	80.6
EBITDA	5,493	3,384	4,308	5,065	6,741	8,336	9,798
Margin (%)	18.9	12.2	12.7	13.5	17.0	18.6	19.4
Depreciation	1,287	1,342	1,461	1,974	2,169	2,157	2,220
EBIT	4,206	2,042	2,847	3,091	4,572	6,180	7,578
Int. and Finance Charges	1,398	1,526	2,291	3,049	2,954	2,702	2,702
Other Income - Rec.	567	626	713	895	1,432	813	879
PBT bef. EO Exp.	3,375	1,142	1,269	936	3,049	4,292	5,756
EO Expense/(Income)	0	0	-172	0	193	0	0
PBT after EO Exp.	3,375	1,142	1,441	936	2,856	4,292	5,756
Current Tax	1,071	392	22	388	649	1,365	1,773
Deferred Tax	0	0	0	0	0	-319	-177
Tax Rate (%)	31.7	34.4	1.5	41.4	22.7	24.4	27.7
Reported PAT	2,305	749	1,419	548	2,208	3,245	4,161
PAT Adj for EO items	2,305	749	1,250	548	2,357	3,245	4,161
Change (%)	28.5	-67.5	66.8	-56.1	329.9	37.7	28.2
Margin (%)	7.9	2.7	3.7	1.5	5.9	7.2	8.2
Less: Mionrity Interest	-3.083	-22.1	-17.2	-30.2	-57.7	0.0	0.0
Net Profit	2,308	772	1,267	578	2,415	3,245	4,161

Balance Sheet						(INR Million)	
Y/E March	2013	2014	2015	2016	2017	2018E	2019E
Equity Share Capital	699	699	699	699	699	699	699
Total Reserves	16,206	16,762	15,470	15,171	16,896	19,827	23,568
Net Worth	16,905	17,462	16,170	15,870	17,595	20,526	24,267
Deferred Liabilities	2,490	2,685	2,798	2,165	2,111	1,792	1,615
Total Loans	12,482	27,750	30,308	31,204	31,306	30,306	30,306
Capital Employed	31,925	48,041	49,404	49,337	51,052	52,665	56,229
Gross Block	30,822	31,743	50,671	54,444	58,388	60,388	65,388
Less: Accum. Deprn.	7,132	8,474	9,935	11,909	14,078	16,235	18,455
Net Fixed Assets	23,690	23,269	40,736	42,535	44,309	44,153	46,933
Capital WIP	2,546	17,875	3,373	3,211	1,267	1,267	1,267
Total Investments	324	675	365	786	803	803	803
Curr. Assets, Loans&Adv.	13,518	15,814	16,027	15,261	16,555	17,649	19,120
Inventory	4,614	5,420	5,415	4,931	5,609	5,541	5,601
Account Receivables	1,153	1,117	1,771	2,113	2,019	2,532	2,852
Cash and Bank Balance	3,753	4,086	4,171	3,731	4,272	4,462	5,546
Loans and Advances	3,998	5,191	4,670	4,486	4,655	5,114	5,121
Curr. Liability & Prov.	8,152	9,592	11,097	12,511	12,991	11,207	11,894
Account Payables	1,966	4,401	3,071	3,047	2,337	3,410	3,841
Provisions	799	497	673	370	434	410	532
Net Current Assets	5,365	6,222	4,929	2,750	3,565	6,442	7,226
Appl. of Funds	31,925	48,041	49,404	49,282	49,944	52,665	56,229

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018E	2019E
Basic (INR) *							
Consol EPS	33.0	10.7	17.9	7.8	33.7	46.4	59.5
Cash EPS	51.4	29.9	38.8	36.1	64.7	77.2	91.2
BV/Share	241.7	249.7	231.2	227.0	251.6	293.5	347.0
DPS	6.5	3.0	4.0	4.0	8.0	7.0	7.0
Payout (%)	23.1	32.7	23.1	59.7	29.6	17.6	13.8
Valuation (x) *							
P/E	33.9	104.3	62.6	142.6	33.2	24.1	18.8
Cash P/E	21.8	37.4	28.8	31.0	17.3	14.5	12.3
P/BV	4.6	4.5	4.8	4.9	4.4	3.8	3.2
EV/Sales	2.9	3.0	3.0	2.7	2.6	2.3	2.0
EV/EBITDA	15.3	24.6	23.3	20.1	15.3	12.2	10.3
EV/Ton (US\$)	162	149	133	135	136	134	133
Dividend Yield (%)	0.6	0.3	0.4	0.4	0.7	0.6	0.6
Return Ratios (%)							
RoIC	11.4	5.3	8.4	4.4	8.2	10.3	11.6
RoE	14.4	4.5	7.5	3.6	14.4	17.0	18.6
RoCE	11.3	4.7	7.6	5.0	9.7	10.6	11.6
Working Capital Ratios							
Asset Turnover (x)	0.9	0.6	0.7	0.8	0.8	0.9	0.9
Inventory (Days)	58.0	71.1	58.3	48.0	51.6	45.1	40.5
Debtor (Days)	13	13	17	18	16	18	18
Leverage Ratio (x)							
Current Ratio	1.7	1.6	1.4	1.2	1.3	1.6	1.6
Debt/Equity	0.7	1.6	1.9	2.0	1.8	1.5	1.2

Cash Flow Statement

(INR Million)

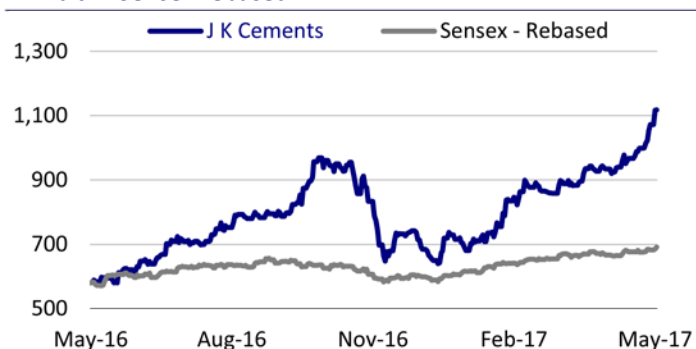
Y/E March	2013	2014	2015	2016	2017	2018E	2019E
Oper. Profit/(Loss) before Tax	4,206	2,042	2,847	3,091	4,572	6,180	7,578
Interest/Dividends Recd.	567	626	713	895	1,432	813	879
Depreciation	1,287	1,342	1,461	1,974	2,169	2,157	2,220
Direct Taxes Paid	-872	-198	91	-1,076	-648	-1,365	-1,773
(Inc)/Dec in WC	419	-528	1,550	1,739	-274	-2,688	300
CF from Operations	5,608	3,284	6,662	6,623	7,251	5,097	9,205
EO expense	-1	4	0	0	0	-193	0
CF from Operating incl EO	5,607	3,288	6,662	6,623	7,251	4,904	9,205
(inc)/dec in FA	-3,451	-16,250	-4,426	-3,611	-2,000	-2,000	-5,000
Free Cash Flow	2,156	-12,962	2,237	3,012	5,251	2,904	4,205
(Pur)/Sale of Investments	-232	-351	310	-421	-16	0	0
CF from investments	-3,683	-16,601	-4,116	-4,032	-2,016	-2,000	-5,000
Issue of Shares	-91	30	-2,401	-551	114	0	0
(Inc)/Dec in Debt	-481	15,268	2,558	896	102	-1,000	0
Interest Paid	-1,398	-1,526	-2,291	-3,049	-2,954	-2,702	-2,702
Dividend Paid	-532	-245	-327	-327	-655	-573	-573
CF from Fin. Activity	-2,503	13,527	-2,462	-3,031	-3,393	-4,274	-3,274
Inc/Dec of Cash	-579	214	85	-440	1,842	-1,371	930
Add: Beginning Balance	4,332	3,753	4,086	4,171	3,731	4,272	4,462
Closing Balance	3,753	3,967	4,171	3,731	5,573	2,902	5,393

Corporate profile

Company description

JKCE is one of India's leading cement producers, with 10.5mtpa of gray cement capacity, 1.2mt white cement capacity (including 0.6mt in UAE) and 0.7mt Wall Putty capacity. JKCE has 141MW captive power capacity its North (Rajasthan) and South (Karnataka) locations.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-17	Dec-16	Mar-16
Promoter	64.2	67.0	67.0
DII	16.7	15.3	24.0
FII	11.3	10.1	1.3
Others	7.9	7.6	7.8

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Fidellity Investment Trust Fidelity Series	4.6
HDFC Standard Life Insurance Co.Ltd	3.8
Franklin Templeton Investment Funds	3.2
Franklin Templeton Mutual Fund A/c	1.8
Templeton Global Investment Trust-TEM	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Yadupati Singhania	Chairman & Managing Director
Shambhu Singh	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Achintya Karati	J N Godbole
K B Agarwal	Kailash Nath Khandelwal
Paul Hugentobler	R K Lohia
Suparas Bhandari	Sushila Devi Singhania
S L Bansal	

*Independent

Exhibit 6: Auditors

Name	Type
K G Goyal & Co	Cost Auditor
P L Tandon & Co	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	46.4	45.1	3.0
FY19	59.5	65.3	-8.9

Source: Bloomberg

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