

JK CEMENT

CEMENT

HOLD

Target Price: Rs 1,025

Steady show

JK Cement (JKCE) reported Q4FY17EBITDA at Rs 2.0 bn (flat YoY), which is in line with our estimate but 23% ahead of the street's estimate.

Operational performance: Grey cement volumes declined 2% YoY. Average realization increased Rs 60/ton QoQ at Rs 3,780/ton. Average cost/ton was flat. Power & fuel cost was marginally up 4% QoQ. Grey cement EBITDA/ton was Rs 510 (vs. Rs 450 in Q3FY17). White cement business EBITDA at Rs 1,030 mn (flat YoY). White cement and putty volumes were up 5% YoY at 290 KT.

Dividend: The company declared dividend of Rs 8 per share (Rs 4/share in FY16).

CMP : Rs 1,118
Potential Upside : -8%

MARKET DATA

No. of Shares : 70mn
Free Float : 36%
Market Cap : Rs 78 bn
52-week High / Low : Rs 1,194 / Rs 574
Avg. Daily vol. (6mth) : 67,559 shares
Bloomberg Code : JKCE IB Equity
Promoters Holding : 64%
FII / DII : 11% / 17%

Other highlights

- ♦ **Capacity expansion:** The Board has decided to expand the wall putty capacity at Katni plant in Madhya Pradesh to 0.4 mnt per annum from 0.2 mnt (capex of Rs 250 mn). The company has also expanded clinker capacity in Rajasthan by 0.33 mnt to 5.5 mnt through debottlenecking (capex of Rs 500 mn)
- ♦ **Outlook:** As per the management, cement prices moved up by Rs 15 per bag in JKCE's market (Rs 10 per bag in North region and Rs 25 per bag in South region) since end of April 2017. The company believes the price rise to sustain. However, volumes have de-grown in Q1FY18 till date mainly on weak demand in the housing sector. The company expects the volumes to recover and JKCE's volumes to grow by 6-7% in FY18

Valuation: We roll over the target price to FY19 and value the company at 9x EV/EBITDA. Our revised target price stands at Rs 1,025 (8% downside from CMP of Rs 1,118) and, we maintain **HOLD** rating. We revise our EPS estimates for FY18E/19E to Rs 44/62 (Rs 38/55 earlier) mainly due to higher volume assumptions.

Financial summary (Consolidated)

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|-----------------|--------|--------|--------|--------|
| Sales (Rs mn) | 37,904 | 40,323 | 45,798 | 50,654 |
| EBITDA (Rs mn) | 5,453 | 7,370 | 8,783 | 10,338 |
| Adj PAT (Rs mn) | 564 | 2,101 | 3,048 | 4,310 |
| EPS (Rs) | 8 | 30 | 44 | 62 |
| Change YOY (%) | (55) | 273 | 45 | 41 |
| P/E (x) | 139 | 37 | 26 | 18 |
| P/B (x) | 5 | 4 | 4 | 3 |
| RoE (%) | 3 | 12 | 16 | 20 |
| EV/E (x) | 19.4 | 14.5 | 12.1 | 10.1 |
| DPS (Rs) | 4 | 8 | 10 | 12 |

Source: Company, Axis Capital

Key drivers

| | FY17 | FY18E | FY19E |
|----------------------|-------|-------|-------|
| Grey volumes (mnt) | 6.8 | 7.3 | 7.9 |
| Grey realn/ton (Rs) | 3,665 | 3,830 | 4,022 |
| Grey EBITDA/ton (Rs) | 538 | 609 | 704 |
| White EBITDA (Rs bn) | 3.7 | 3.9 | 4.0 |

Price performance

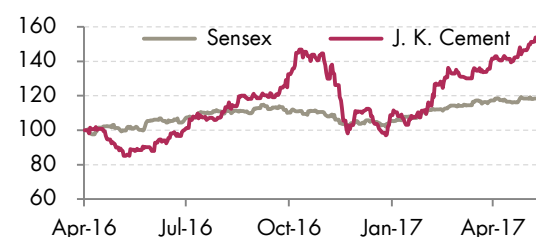


Exhibit 1: Results update

| (Rs mn) | Quarter ended | | | | | 12 months ended | | |
|-------------------------------|---------------|--------------|--------------|--------------|-------------|-----------------|----------------|---------------|
| | Mar-17 | Mar-16 | % Chg | Dec-16 | % Chg | FY18E | FY17 | % Chg |
| Net Sales | 10,348 | 9,726 | 6.4 | 9,110 | 13.6 | 48,607 | 40,323 | 20.5 |
| EBITDA | 1,973 | 1,960 | 0.7 | 1,714 | 15.1 | (2,720) | (3,361) | (19.1) |
| Other income | 68 | 117 | (42.0) | 210 | (67.7) | 310 | 503 | (38.4) |
| PBIDT | 2,041 | 2,077 | (1.7) | 1,924 | 6.1 | (2,410) | (2,858) | (15.7) |
| Depreciation | 452 | 419 | 7.8 | 447 | 1.0 | 2,164 | 2,169 | (0.3) |
| Interest | 628 | 683 | (8.0) | 662 | (5.1) | 2,843 | 2,954 | (3.8) |
| PBT | 961 | 975 | (1.4) | 815 | 17.9 | (7,417) | (7,981) | (7.1) |
| Tax | 258 | 269 | (4.1) | 158 | 63.2 | 1,188 | 649 | 83.2 |
| Adjusted PAT | 703 | 706 | (0.4) | 657 | 7.0 | (8,605) | (8,630) | (0.3) |
| No. of shares (mn) | 70 | 70 | - | 70 | - | 70 | 70 | - |
| EBITDA margin (%) | 19.1 | 20.1 | - | 18.8 | - | (5.6) | (8.3) | - |
| PBIDT margin (%) | 19.7 | 21.4 | - | 21.1 | - | (5.0) | (7.1) | - |
| EPS - annualized (Rs.) | 40.2 | 40.4 | (0.4) | 37.6 | 7.0 | (123.1) | (123.4) | (0.3) |

Source: Company, Axis Capital

Financial summary (Consolidated)

Profit & loss (Rs mn)

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|--------------------------------|---------------|---------------|---------------|---------------|
| Net sales | 37,904 | 40,323 | 45,798 | 50,654 |
| Other operating income | - | - | - | - |
| Total operating income | 37,904 | 40,323 | 45,798 | 50,654 |
| Cost of goods sold | (26,587) | (25,672) | (28,927) | (31,590) |
| Contribution | 11,317 | 14,650 | 16,871 | 19,064 |
| <i>Contribution margin (%)</i> | <i>30</i> | <i>36</i> | <i>37</i> | <i>38</i> |
| Total operating expenses | (5,865) | (7,280) | (8,088) | (8,726) |
| EBITDA | 5,453 | 7,370 | 8,783 | 10,338 |
| <i>EBITDA margin (%)</i> | <i>14</i> | <i>18</i> | <i>19</i> | <i>20</i> |
| Depreciation | (1,896) | (2,169) | (2,164) | (2,251) |
| EBIT | 3,557 | 5,200 | 6,619 | 8,087 |
| Net interest | (3,038) | (2,954) | (2,843) | (2,732) |
| Other income | 500 | 503 | 288 | 392 |
| Profit before tax | 1,020 | 2,749 | 4,064 | 5,747 |
| Total taxation | (456) | (649) | (1,016) | (1,437) |
| <i>Tax rate (%)</i> | <i>45</i> | <i>24</i> | <i>25</i> | <i>25</i> |
| Profit after tax | 564 | 2,101 | 3,048 | 4,310 |
| Minorities | - | - | - | - |
| Profit/ Loss associate co(s) | - | - | - | - |
| Adjusted net profit | 564 | 2,101 | 3,048 | 4,310 |
| <i>Adj. PAT margin (%)</i> | <i>1</i> | <i>5</i> | <i>7</i> | <i>9</i> |
| Net non-recurring items | 70 | 107 | - | - |
| Reported net profit | 634 | 2,208 | 3,048 | 4,310 |

Balance sheet (Rs mn)

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Paid-up capital | 699 | 699 | 699 | 699 |
| Reserves & surplus | 15,653 | 16,935 | 19,175 | 22,516 |
| Net worth | 16,353 | 17,635 | 19,874 | 23,215 |
| Borrowing | 33,296 | 33,306 | 32,056 | 30,806 |
| Other non-current liabilities | 3,284 | 2,111 | 2,111 | 2,111 |
| Total liabilities | 52,933 | 53,052 | 54,042 | 56,132 |
| Gross fixed assets | 53,182 | 58,551 | 61,817 | 64,317 |
| Less: Depreciation | (10,964) | (13,134) | (15,297) | (17,549) |
| Net fixed assets | 42,218 | 45,417 | 46,520 | 46,769 |
| Add: Capital WIP | 4,504 | 1,267 | 501 | 501 |
| Total fixed assets | 46,722 | 46,685 | 47,021 | 47,270 |
| Total Investment | 191 | 150 | 150 | 150 |
| Inventory | 5,384 | 5,609 | 6,901 | 7,633 |
| Debtors | 2,113 | 2,019 | 2,509 | 2,776 |
| Cash & bank | 5,422 | 4,925 | 3,596 | 4,903 |
| Loans & advances | 3,311 | 4,655 | 5,019 | 5,551 |
| Current liabilities | 10,211 | 10,991 | 11,155 | 12,150 |
| Net current assets | 6,019 | 6,217 | 6,871 | 8,712 |
| Other non-current assets | - | - | - | - |
| Total assets | 52,933 | 53,052 | 54,042 | 56,132 |

Source: Company, Axis Capital

Cash flow (Rs mn)

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|----------------------------------|----------------|----------------|----------------|----------------|
| Profit before tax | 1,020 | 2,749 | 4,064 | 5,747 |
| Depreciation & Amortisation | 1,896 | 2,169 | 2,164 | 2,251 |
| <i>Chg in working capital</i> | <i>1,023</i> | <i>(695)</i> | <i>(1,982)</i> | <i>(535)</i> |
| Cash flow from operations | 6,831 | 5,210 | 6,073 | 8,758 |
| <i>Capital expenditure</i> | <i>(3,387)</i> | <i>(2,132)</i> | <i>(2,500)</i> | <i>(2,500)</i> |
| Cash flow from investing | (3,518) | (2,090) | (2,500) | (2,500) |
| <i>Equity raised/ (repaid)</i> | <i>-</i> | <i>-</i> | <i>-</i> | <i>-</i> |
| <i>Debt raised/ (repaid)</i> | <i>1,006</i> | <i>10</i> | <i>(1,250)</i> | <i>(1,250)</i> |
| <i>Dividend paid</i> | <i>(337)</i> | <i>(673)</i> | <i>(808)</i> | <i>(970)</i> |
| Cash flow from financing | (2,368) | (3,617) | (4,901) | (4,952) |
| Net chg in cash | 945 | (497) | (1,329) | 1,306 |

Key ratios

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|----------------------------|------|------|-------|-------|
| OPERATIONAL | | | | |
| FDEPS (Rs) | 8 | 30 | 44 | 62 |
| CEPS (Rs) | 36 | 63 | 75 | 94 |
| DPS (Rs) | 4 | 8 | 10 | 12 |
| Dividend payout ratio (%) | 46 | 26 | 23 | 19 |
| GROWTH | | | | |
| Net sales (%) | 12 | 6 | 14 | 11 |
| EBITDA (%) | 23 | 35 | 19 | 18 |
| Adj net profit (%) | (55) | 273 | 45 | 41 |
| FDEPS (%) | (55) | 273 | 45 | 41 |
| PERFORMANCE | | | | |
| RoE (%) | 3 | 12 | 16 | 20 |
| RoCE (%) | 8 | 11 | 13 | 15 |
| EFFICIENCY | | | | |
| Asset turnover (x) | 0.9 | 0.9 | 1.0 | 1.0 |
| Sales/ total assets (x) | 0.6 | 0.6 | 0.7 | 0.8 |
| Working capital/ sales (x) | - | - | - | 0.1 |
| Receivable days | 20 | 18 | 20 | 20 |
| Inventory days | 61 | 62 | 68 | 69 |
| Payable days | 91 | 117 | 110 | 110 |
| FINANCIAL STABILITY | | | | |
| Total debt/ equity (x) | 2.0 | 2.0 | 1.7 | 1.4 |
| Net debt/ equity (x) | 1.7 | 1.7 | 1.5 | 1.2 |
| Current ratio (x) | 1.6 | 1.6 | 1.6 | 1.7 |
| Interest cover (x) | 1.2 | 1.8 | 2.3 | 3.0 |
| VALUATION | | | | |
| PE (x) | 139 | 37 | 26 | 18 |
| EV/ EBITDA (x) | 19.4 | 14.5 | 12.1 | 10.1 |
| EV/ Net sales (x) | 2.8 | 2.6 | 2.3 | 2.1 |
| PB (x) | 4.8 | 4.4 | 3.9 | 3.4 |
| Dividend yield (%) | - | 1 | 1 | 1 |
| Free cash flow yield (%) | 4 | 4 | 5 | 8 |

Source: Company, Axis Capital

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| Sr. No | Name | Designation | E-mail |
|--------|--------------|------------------|--|
| 1 | Bunty Chawla | Research Analyst | bunty.chawla@axissecurities.in |
| 2 | Kiran Gawle | Associate | kiran.gawle@axissecurities.in |

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| HOLD | Between 10% and -10% |
| SELL | Less than -10% |

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