

JK CEMENT

Fund raising, a timely contemplation

India Equity Research | Cement

The Board of Directors of JK Cement (JKCE) recently approved raising funds of up to INR10bn and will seek shareholders' approval at the upcoming AGM. Details of intended fund usage (including expansion projects) are yet to be finalised and will be made public post appropriate approvals. Given headroom to grow volumes only for next 3 years at its facilities in North (assuming 8% growth p.a) and lead time of a similar 2.5-3 years for commissioning new capacities, contemplating an expansion is timely in our view. With a positive stance on the grey cement sector and factoring steady growth in JKCE's niche white cement business, we maintain 'BUY' with TP of INR1,175, implying 10.5x FY19E EBITDA.

Board approves fund raising; enabling resolution for future growth

JKCE's Board of Directors has approved fund raising up to INR10bn and will seek shareholders' approval at its AGM to be held on July 29, 2017. This enabling resolution is to drive future growth even as details of the exact project and its cost are still in the works and will have to be approved by the Board before being made public. In our view, JKCE has room to grow volumes for next 3 years in North (assuming growth of ~8% p.a.), beyond which it might need further expansion. We would like to highlight that any expansion (whether green- or brown-field) takes ~2.5-3 years to get commissioned and hence contemplating an expansion is timely.

Business optimism intact; would gauge GST hiccups, if any

In our recent interaction, JKCE maintained its FY18 guidance of 7-8% volume growth in grey cement and 12-15% in its white cement business even as in near term, there could be a marginal impact on volumes owing to GST implementation. However, the company remains optimistic on sharp recovery in H2FY18 and is hopeful that GST may not lead to demand hiccups post the initial few weeks.

Outlook and valuations: Eying growth; maintain 'BUY'

JKCE will be a beneficiary of the estimated recovery in cement demand and prices, while steady growth in white cement will cushion volatility in grey cement, if any. In our view, the stock has corrected in the past few sessions, factoring combined impact of potential equity dilution and onset of a seasonally weak quarter (owing to monsoon). With a long term view, we maintain 'BUY/SO'.

Financials

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Revenues (INR mn)	43,688	46,949	53,600	60,949
EBITDA (INR mn)	5,462	7,670	8,691	10,516
Net profit (INR mn)	579	2,265	3,337	4,836
Diluted EPS (INR)	8.3	34.5	47.7	69.2
Diluted P/E (x)	114.4	27.4	19.8	13.7
EV/EBITDA (x)	17.9	12.7	10.8	8.5
ROAE (%)	3.6	14.4	17.6	21.7

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: JKCE.BO, B: JKCE IN)

CMP	: INR 944
Target Price	: INR 1175
52-week range (INR)	: 1,196 / 628
Share in issue (mn)	: 69.9
M cap (INR bn/USD mn)	: 66 / 1,022
Avg. Daily Vol.BSE/NSE('000)	: 50.9

SHARE HOLDING PATTERN (%)

	Current	Q2FY17	Q1FY17
Promoters *	64.2	67.0	67.0
MF's, FI's & BK's	16.7	15.3	14.1
FII's	11.3	10.1	11.2
Others	7.9	7.6	7.6
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Construction Material Index
1 month	(14.1)	(1.1)	(1.3)
3 months	4.8	4.3	4.2
12 months	43.1	16.8	35.3

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Company Description

JKCE is one of the leading cement manufacturers in India and also the second-largest white cement manufacturer in the country. It is an affiliate of the JK Group, which was founded by Mr. Lala Kamlapat Singhania. Currently, the company has grey cement installed capacity of 10.5mtpa with manufacturing plants at Nimbahera, Mangrol and Gotan in Rajasthan and Muddapur in Karnataka. JKCE is second largest producers of white cement in India with a capacity of 0.6mtpa.

Investment Theme

JKCE will be one of the biggest beneficiaries of price and demand uptick in North. Steady volumes and EBITDA growth in white cement cushion downside risks, if any, from price volatility in grey cement. With RoE of ~20% in FY19E, we value the stock at an implied 17x FY19E EPS (in line with mid-cap cement peers). We maintain 'BUY/SO' with a revised target price of INR1,175 (earlier INR955), which implies exit EV/T of USD137/t and exit EV/EBITDA 10.5x FY19E.

Key Risks

Sharp decline in cement prices/demand and/or sharp increase in input cost.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.3	6.3	6.3
USD/INR (Avg)	65.0	67.5	67.0	67.0
Sector				
All Ind Cem demand (mt)	281	278	298	325
Demand growth (%)	5.2	(1.0)	7.0	9.0
Ind Capac util (%)	73.0	72.5	76.9	84.2
Ind avg price (INR/50kg)	297.0	302.7	314.4	346.2
Company				
Inst capacity (mtpa)	12	12	12	13
Capacity Utilisation (%)	65	65	69	75
Grey Cem Sales Vol (mt)	6.9	6.8	7.3	7.9
White Cem Sales Vol (mt)	1.0	0.8	1.1	1.2
Grey Cem realiztn(INR/t)	3,579	3,661	3,899	4,132
Wht Cem realiztn (INR/t)	11,037	11,223	11,532	11,849
RM cost per tonne	853	920	947	976
P&F cost per tonne	1,014	804	917	1,009
Freight cost per tonne	954	922	968	1,016
Employee cost per tonne	329	382	376	371
Other expenses per tonne	1,528	1,727	1,888	1,911
Total expenses per tonne	4,678	4,754	5,096	5,282
Grey Cmt EBITDA/t (INR)	319	538	587	696
White Cmt EBITDA/t (INR)	3,121	3,399	2,881	2,990
Effective tax rate (%)	41.4	22.7	25.0	25.0
Debtor days	16	16	15	14
Inventory days	82	88	81	77
Payable days	48	45	45	57

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Income from operations	43,688	46,949	53,600	60,949
Materials costs	6,968	7,599	8,349	9,316
Power and fuel	8,286	6,645	8,081	9,629
Freight	7,797	7,615	8,529	9,701
Employee costs	2,687	3,155	3,313	3,545
Other Expenses	28,571	28,524	33,247	37,572
EBITDA	5,462	7,670	8,691	10,516
Depreciation	1,974	2,169	2,068	2,182
EBIT	3,488	5,500	6,623	8,335
Add: Other income	498.08	502.94	598.59	748.59
Less: Interest Expense	3,049	2,954	2,772	2,635
Profit Before Tax	936	2,856	4,449	6,449
Less: Provision for Tax	388	649	1,112	1,612
Less: Minority Interest	(30)	(58)	-	-
Reported Profit	579	2,265	3,337	4,836
Adjusted Profit	579	2,415	3,337	4,836
Shares o/s (mn)	70	70	70	70
Adjusted Basic EPS	8.3	34.5	47.7	69.2
Diluted shares o/s (mn)	70	70	70	70
Adjusted Diluted EPS	8.3	34.5	47.7	69.2
Adjusted Cash EPS	36.5	65.6	77.3	100.4
Dividend per share (DPS)	4.0	8.0	8.0	10.0
Dividend Payout Ratio(%)	58.2	28.9	19.6	16.9

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	87.5	83.7	83.8	82.7
EBITDA margins	12.5	16.3	16.2	17.3
Net Profit margins	1.3	5.0	6.2	7.9

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	11.7	7.5	14.2	13.7
EBITDA	26.8	40.4	13.3	21.0
Adjusted Profit	(54.3)	317.4	38.2	44.9
EPS	(54.3)	317.4	38.2	44.9

Balance sheet (INR mn)				
As on 31st March	FY16	FY17	FY18E	FY19E
Share capital	699	699	699	699
Reserves & Surplus	15,171	16,896	19,578	23,596
Shareholders' funds	15,870	17,595	20,277	24,295
Minority Interest	98	40	40	40
Short term borrowings	4,517	4,268	4,268	4,268
Long term borrowings	30,876	31,053	29,803	27,803
Total Borrowings	35,393	35,321	34,071	32,071
Def. Tax Liability (net)	2,165	2,638	2,638	2,638
Sources of funds	53,525	55,593	57,025	59,043
Gross Block	54,437	59,488	60,988	62,488
Net Block	42,333	45,184	44,616	43,934
Intangible Assets	202	233	233	233
CWIP (incl. intangible)	3,211	1,267	2,267	2,767
Total Fixed Assets	45,746	46,685	47,117	46,936
Non current investments	786	803	803	803
Cash and Equivalents	3,730	4,271	6,599	8,860
Inventories	4,931	5,609	5,470	6,543
Trade receivables	2,113	2,019	2,278	2,463
Loans & Advances	1,861	2,251	2,251	2,251
Other Current Assets	2,679	2,404	2,404	2,404
Current Assets (ex cash)	11,585	12,283	12,402	13,661
Trade payable	3,047	2,337	3,783	5,103
Other Current Liab	5,276	6,112	6,112	6,112
Total Current Liab	8,323	8,449	9,895	11,215
Net Curr Assets-ex cash	3,262	3,834	2,507	2,446
Uses of funds	53,525	55,593	57,025	59,043
BVPS (INR)	227.0	251.6	290.0	347.4

Free cash flow (INR mn)				
Year to March	FY16	FY17	FY18E	FY19E
Reported Profit	579	2,265	3,337	4,836
Add: Depreciation	1,974	2,169	2,068	2,182
Interest (Net of Tax)	1,786	2,283	2,079	1,976
Others	1,932	(2,134)	(2,079)	(1,976)
Less: Changes in WC	294	572	(1,328)	(60)
Operating cash flow	5,976	4,012	6,733	7,078
Less: Capex	3,442	3,153	2,500	2,000
Free Cash Flow	2,534	859	4,233	5,078

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
JK Cement	1,022	19.8	13.6	10.8	8.5	17.6	21.7
ACC	4,596	37.6	26.9	15.7	12.1	9.0	12.3
Ambuja Cement Ltd	7,555	41.0	31.9	23.5	19.0	6.2	7.8
India Cements	912	21.8	14.1	8.8	6.9	5.2	7.6
Shree Cements	8,955	32.1	22.6	20.7	13.1	21.2	24.3
UltraTech Cement	16,830	31.8	23.0	16.8	12.7	13.4	16.2

Source: Edelweiss research

Cash flow metrics				
Year to March	FY16	FY17	FY18E	FY19E
Operating cash flow	5,976	4,012	6,733	7,078
Investing cash flow	(4,754)	(3,217)	(2,500)	(2,000)
Financing cash flow	(1,662)	(254)	(1,905)	(2,818)
Net cash Flow	(440)	541	2,328	2,260
Capex	(3,442)	(3,153)	(2,500)	(2,000)
Dividend paid	(337)	(655)	(655)	(818)

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	3.6	14.4	17.6	21.7
ROACE (%)	7.9	11.5	13.5	16.4
Inventory Days	82	88	81	77
Debtors Days	16	16	15	14
Payable Days	48	45	45	57
Cash Conversion Cycle	50	59	51	34
Current Ratio	1.8	2.0	1.9	2.0
Gross Debt/EBITDA	6.5	4.6	3.9	3.0
Gross Debt/Equity	2.2	2.0	1.7	1.3
Adjusted Debt/Equity	2.2	2.0	1.7	1.3
Interest Coverage Ratio	1.1	1.9	2.4	3.2

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	0.8	0.9	1.0	1.1
Fixed Asset Turnover	1.0	1.1	1.2	1.4
Equity Turnover	2.7	2.8	2.8	2.7

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	8.3	34.5	47.7	69.2
Y-o-Y growth (%)	(54.3)	317.4	38.2	44.9
Adjusted Cash EPS (INR)	36.5	65.6	77.3	100.4
Diluted P/E (x)	114.1	27.3	19.8	13.6
P/B (x)	4.2	3.8	3.3	2.7
EV/tonne (USD/tonne)	124	116	113	106
EV / Sales (x)	2.2	2.1	1.7	1.5
EV / EBITDA (x)	17.9	12.7	10.8	8.5
EV/EBITDA (x)+1 yr fwd.	12.8	11.2	8.9	-
Dividend Yield (%)	0.4	0.8	0.8	1.1

Additional Data

Directors Data

Dr. K.B Agarwal	Independent, Non Executive (Chairman)	Shri Yadupati Singhania	Managing Director & CEO
Mr. Paul Heinz Hugentobler	Additional Director	Shri Achintya Karati	Independent
Smt Sushila Devi Singhania	Non-Independent	Shri J.N.Godbole	Independent
Shri Shyam Lal Bansal	Independent	Shri K.N. Khandelwal	Independent
Shri R.K. Lohia	Independent	Shri Suparas Bhandari	Independent

Auditors - P.L. TANDON & CO.

**as per last annual report*

Holding – Top 10

	Perc. Holding		Perc. Holding
Franklin Resources	9.43	FMR LLC	5.02
HDFC Life Insurance Co Ltd	3.74	Templeton Asset Mgmt	2.87
DSP Blackrock Investment Manager	1.55	Sundaram Asset Management Co Ltd	1.32
General Ins Corp of Ind	1.03	Tata Asset Management Ltd	1.00
Dimensional Fund Advisors LP	0.91	Reliance Capital Trustee Co Ltd	0.84

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
25 Jan 2017	Yadupati Gaur Singhania	Sell	2000000	705.35
25 Jan 2017	Reliance Mutual Fund - Reliance Small Cap Fund	Buy	586000	705.45
25 Jan 2017	Dsp Blackrock Mutual Fund - Dsp Blackrock Micro Cap Fund	Buy	533019	705.00

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
30 Jan 2017	Shri Yadupati Singhania	Sell	2000000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ACC	BUY	SP	M	Ambuja Cement Ltd	HOLD	SU	M
Grasim Industries	BUY	SO	M	India Cements	BUY	SP	H
JK Cement	BUY	SO	M	Shree Cements	BUY	SO	M
UltraTech Cement	BUY	SO	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Cement

ACC, Ambuja Cement Ltd, Grasim Industries, India Cements, JK Cement, Shree Cements, UltraTech Cement

Recent Research

Date	Company	Title	Price (INR)	Recos
22-Jun-17	Cement	North India: Channel check takeaways ; <i>Sector Update</i>		
12-Jun-17	Cement	Good beginning is half job done!!; Sector Update		
29-May-17	India Cements	A decent quarter: shifting focus to core assets; <i>Result Update</i>	189	Buy

Distribution of Ratings / Market Cap

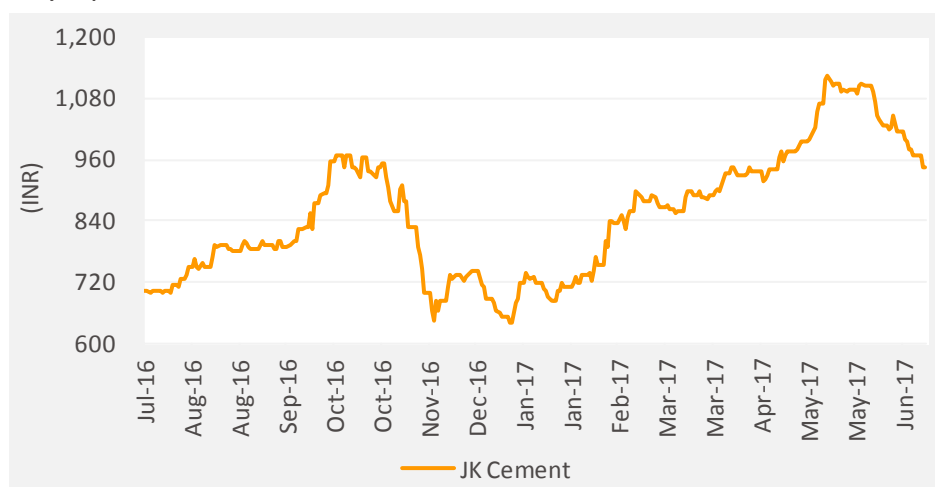
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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