23 AUG 2017 Quarterly Update

JK CEMENT

CEMENT

BUY

Target Price: Rs 1,144

Grey cement performs, white to follow

JK Cement's (JKCE) Q1FY18 EBITDA at Rs 2.0 bn (up 12% YoY) was in line with our estimates.

Operational performance: Grey cement blended volume increased 15% YoY despite company hiking grey cement prices since Apr'17. Average realization surged by Rs 320/t QoQ at Rs 4,060/ton due to strong cement prices in the North region. Average cost/ton increased by Rs130/ton due to high fuel and freight cost. Grey cement EBITDA/ton was Rs 690 (vs. Rs 500 in Q4FY17).

White cement business reported EBITDA at Rs 700 mn (down 9% YoY) mainly on higher costs. White cement and putty volumes were flat YoY at 256 KT.

CMP	: Rs 1,033
Potential Upside	: 11%

MARKET DATA

No. of Shares	: 70 mn
Free Float	: 36%
Market Cap	: Rs 72 bn
52-week High / Low	: Rs 1,195 / Rs 630
Avg. Daily vol. (6mth)	: 40,030 shares
Bloomberg Code	: JKCE IB Equity
Promoters Holding	: 64%
FII / DII	: 11% / 13%

Other highlights

- **White cement and wall putty business:** Lower volumes due to GST hurt the performance. Also, prices of wall putty and white cement increased in the later part of Q1; hence, the EBITDA margin recovery did not come in the numbers. The company expects the margin to improve to 30% level in Q2FY18 from 24% in Q1FY18
- **Capacity expansion:** The company is evaluating expansion of grey cement capacity in the North region. Currently, it is expanding (1) wall putty capacity at Katni plant in Madhya Pradesh to 0.4 mnt per annum from 0.2 mnt (capex of Rs 250 mn) and (2) Clinker capacity in Rajasthan by 0.33 mnt at 5.5 mnt through debottlenecking (capex of Rs 500 mn). Capex for FY18 is Rs 2.2 bn

Valuation: We maintain our FY18E/19E EPS estimate at Rs 46/64. We retain our target price at Rs 1,144 (11% upside from CMP of Rs 1,033), based on 9x FY19E EV/EBITDA. Maintain **BUY**.

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	37,860	40,323	47,079	52,340
EBITDA (Rs mn)	5,624	7,638	8,858	10,387
Adj PAT (Rs mn)	710	2,368	3,183	4,453
EPS (Rs)	10	34	46	64
Change YOY (%)	(44)	233	34	40
P/E (x)	102	30	23	16
P/B (x)	5	4	4	3
RoE (%)	4	14	17	20
EV/E (x)	18.0	13.2	11.2	9.3
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	3,850	4,040
Grey EBITDA/ton (Rs)	493	565	660
White EBITDA (Rs bn)	3.7	4.1	4.4

Price performance

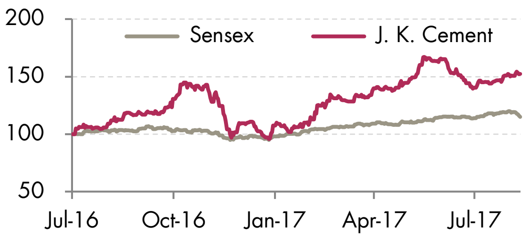

Exhibit 1: Results update

	Quarter ended					12 months ended		
(Rs mn)	Jun-17	Jun-16	% Chg	Mar-17	% Chg	FY18E	FY17	% Chg
Net Sales	**10,415**	**8,978**	**16.0**	**10,348**	**0.6**	**47,079**	**40,323**	**16.8**
EBITDA	1,977	1,767	11.9	1,973	0.2	(4,275)	(4,622)	(7.5)
Other income	186	173	7.7	68	174.6	447	503	(11.1)
PBIDT	**2,163**	**1,940**	**11.5**	**2,041**	**6.0**	**(3,827)**	**(4,119)**	**(7.1)**
Depreciation	450	425	5.9	452	(0.4)	2,160	2,169	(0.4)
Interest	680	675	0.8	628	8.3	2,844	2,954	(3.7)
PBT	**1,033**	**840**	**22.9**	**961**	**7.5**	**(8,832)**	**(9,242)**	**(4.4)**
Tax	240	121	98.8	258	(7.1)	1,118	649	72.4
Adjusted PAT	**793**	**720**	**10.3**	**703**	**12.9**	**(9,950)**	**(9,891)**	**0.6**
No. of shares (mn)	70	70	-	70	-	70	70	-
EBITDA margin (%)	19.0	19.7	-	19.1	-	(9.1)	(11.5)	-
PBIDT margin (%)	20.8	21.6	-	19.7	-	(8.1)	(10.2)	-
EPS - annualized (Rs)	**45.4**	**41.2**	**10.3**	**40.2**	**12.9**	**(142.3)**	**(141.4)**	**0.6**

Source: Company, Axis Capital

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	37,860	40,323	47,079	52,340
Other operating income	-	-	-	-
Total operating income	**37,860**	**40,323**	**47,079**	**52,340**
Cost of goods sold	(25,750)	(24,774)	(29,244)	(32,180)
Contribution	12,110	15,549	17,835	20,160
Contribution margin (%)	*32*	*39*	*38*	*39*
Total operating expenses	(6,487)	(7,911)	(8,977)	(9,773)
EBITDA	**5,624**	**7,638**	**8,858**	**10,387**
EBITDA margin (%)	*15*	*19*	*19*	*20*
Depreciation	(1,974)	(2,169)	(2,160)	(2,248)
EBIT	**3,650**	**5,468**	**6,698**	**8,140**
Net interest	(3,049)	(2,954)	(2,844)	(2,734)
Other income	498	503	447	531
Profit before tax	**1,098**	**3,017**	**4,301**	**5,937**
Total taxation	(388)	(649)	(1,118)	(1,484)
Tax rate (%)	*35*	*21*	*26*	*25*
Profit after tax	710	2,368	3,183	4,453
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	710	2,368	3,183	4,453
Adj. PAT margin (%)	*2*	*6*	*7*	*9*
Net non-recurring items	(162)	(161)	-	-
Reported net profit	548	2,208	3,183	4,453

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	699	699	699	699
Reserves & surplus	15,269	16,935	19,310	22,793
Net worth	15,968	17,635	20,010	23,493
Borrowing	33,228	33,517	32,267	31,017
Other non-current liabilities	2,165	2,111	2,111	2,111
Total liabilities	**51,361**	**53,262**	**54,387**	**56,620**
Gross fixed assets	53,636	58,456	61,723	64,223
Less: Depreciation	(11,100)	(13,039)	(15,199)	(17,447)
Net fixed assets	42,535	45,417	46,523	46,775
Add: Capital WIP	3,211	1,267	501	501
Total fixed assets	45,746	46,685	47,024	47,276
Total Investment	153	150	150	150
Inventory	4,931	5,609	6,449	7,170
Debtors	2,113	2,019	2,580	2,868
Cash & bank	4,365	4,925	5,590	6,638
Loans & advances	4,540	4,655	5,159	5,736
Current liabilities	10,488	10,780	12,566	13,218
Net current assets	5,462	6,428	7,213	9,194
Other non-current assets	-	-	-	-
Total assets	**51,361**	**53,262**	**54,387**	**56,620**

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	1,098	3,017	4,301	5,937
Depreciation & Amortisation	1,974	2,169	2,160	2,248
Chg in working capital	*523*	*(405)*	*(120)*	*(933)*
Cash flow from operations	**6,242**	**7,344**	**8,067**	**8,501**
Capital expenditure	*(3,813)*	*(3,447)*	*(2,500)*	*(2,500)*
Cash flow from investing	**(3,905)**	**(3,445)**	**(2,500)**	**(2,500)**
Equity raised/ (repaid)	-	-	-	-
Debt raised/ (repaid)	*938*	*289*	*(1,250)*	*(1,250)*
Dividend paid	*(337)*	*(673)*	*(808)*	*(970)*
Cash flow from financing	**(2,448)**	**(3,338)**	**(4,902)**	**(4,953)**
Net chg in cash	(111)	560	665	1,048

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	10	34	46	64
CEPS (Rs)	36	63	76	96
DPS (Rs)	4	8	10	12
Dividend payout ratio (%)	53	26	22	19
GROWTH				
Net sales (%)	11	7	17	11
EBITDA (%)	27	36	16	17
Adj net profit (%)	(44)	233	34	40
FDEPS (%)	(44)	233	34	40
PERFORMANCE				
RoE (%)	4	14	17	20
RoCE (%)	8	11	13	16
EFFICIENCY				
Asset turnover (x)	0.9	0.9	1.0	1.1
Sales/ total assets (x)	0.6	0.6	0.7	0.8
Working capital/ sales (x)	-	-	-	-
Receivable days	20	18	20	20
Inventory days	56	63	62	62
Payable days	115	116	120	115
FINANCIAL STABILITY				
Total debt/ equity (x)	2.1	2.0	1.7	1.4
Net debt/ equity (x)	1.8	1.7	1.4	1.1
Current ratio (x)	1.5	1.6	1.6	1.7
Interest cover (x)	1.2	1.9	2.4	3.0
VALUATION				
PE (x)	102	30	23	16
EV/ EBITDA (x)	18.0	13.2	11.2	9.3
EV/ Net sales (x)	2.7	2.5	2.1	1.8
PB (x)	4.5	4.1	3.6	3.1
Dividend yield (%)	-	1	1	1
Free cash flow yield (%)	-	-	-	-

Source: Company, Axis Capital

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