

BSE SENSEX

31,771

S&P CNX

9,897

Motilal Oswal values your support in the Asiamoney Brokers Poll 2017 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	JKCE IN
Equity Shares (m)	70
M.Cap.(INRb)/(USDb)	72.2 / 1.1
52-Week Range (INR)	1195 / 630
1, 6, 12 Rel. Per (%)	8/10/21
Avg. Val, INRm	41
Free float (%)	35.8

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	39.7	44.4	50.1
EBITDA	6.7	7.8	9.0
PAT	2.4	2.8	3.8
EPS (INR)	33.7	39.7	54.4
Gr. (%)	329.9	17.9	36.9
BV/Sh (INR)	251.6	286.9	335.3
RoE (%)	14.4	14.8	17.5
RoCE (%)	9.7	9.8	11.2
P/E (x)	30.6	26.0	19.0
P/BV (x)	4.1	3.6	3.1

Estimate change



TP change



Rating change


CMP: INR1,033
TP: INR1,277(+24%)
Buy

Improvement in grey cement profitability offsets weakness in white cement

- **Price improvement drives grey cement profitability:** 1QFY18 revenue increased 16.4% YoY to INR10.4b (est. of INR9.8b). Grey cement volumes increased 15% YoY on account of higher clinker exports to Nepal. Growth was higher in southern operations due to a favorable base. White cement volumes were flat YoY due to GST-led destocking, the impact of which was offset by higher wall putty volumes due to ramp-up of operations in Katni. Blended realizations increased 2% QoQ (+3% YoY) to INR4,902/t (est. of INR4,861) due to better realizations from grey cement on account of price hikes in Maharashtra. Adj. PAT increased 13% YoY to INR793m (est. of INR796m), led by higher EBITDA.
- **Margin expansion led by price increase:** EBITDA grew 13% YoY to INR1.98b (est. of INR1.85b), translating into a margin of 19% (+0.32pp QoQ, -0.56pp YoY). Freight cost increased 11% QoQ due to overloading restrictions and also clinker exports entailing higher lead distances. Blended EBITDA/ton stood at INR931 (est. of INR922, +4% QoQ), with grey cement EBITDA/t at INR686.
- **Other key highlights:** 1) Estimated capex of INR2.5b in FY18, inclusive of putty expansion. 2) Net debt at INR19.5b in standalone operations. 3) UAE profitability not seeing meaningful improvement. 4) White cement volumes normalized in August due to GST impact.
- **Preferred play on north markets and white cement:** With lower immediate capex and annual FCFE of INR3-4b over FY18-FY20, there remains visibility of deleveraging from the FY17 peak of INR31b. We maintain **Buy** with a TP of INR1,277 (12x FY20E white cement EV/EBITDA and 8x FY20E grey cement EV/EBITDA).

Quarterly Performance (Standalone)

(INR Million)

Y/E March	FY17				FY18				FY17	FY18E	FY18	Var (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
Sales Dispatches (m ton)	1.89	1.92	1.93	2.15	2.12	2.01	2.06	2.14	7.88	8.34	2.0	6
YoY Change (%)	4.1	5.1	-4.5	-1.2	12.7	4.9	6.6	-0.4	0.6	5.8	6.7	
Realization (INR/ton)	4,747	4,743	4,601	4,787	4,902	4,802	4,952	5,033	4,697	4,945	4,861	1
YoY Change (%)	5.9	0.2	3.0	10.2	3.3	1.3	7.6	5.1	4.6	5.3	3.5	
Net Sales	8,951	9,110	8,878	10,297	10,415	9,658	10,385	10,783	37,036	41,241	9,807	6
YoY Change (%)	10.2	5.4	-1.6	8.9	16.4	6.0	17.0	4.7	5.2	11.4	10.7	
Total Expenditure	7,202	7,648	7,396	8,375	8,438	8,293	8,428	8,745	30,621	33,904	7,953	6
EBITDA	1,749	1,462	1,482	1,922	1,977	1,365	1,956	2,038	6,414	7,336	1,854	7
Margins (%)	19.5	16.0	16.7	18.7	19.0	14.1	18.8	18.9	17.3	17.8	18.9	
Depreciation	425	437	447	452	450	440	440	418	1,761	1,748	440	2
Interest	675	691	662	628	680	600	600	570	2,656	2,451	600	13
Other Income	191	188	441	418	186	220	220	182	1,441	808	220	-15
PBT before EO expense	840	522	815	1,260	1,033	545	1,136	1,232	3,437	3,946	1,034	0
Extra-Ord expense	111	0	-7	89	0	0	0	0	193	0	0	
PBT	729	522	822	1,171	1,033	545	1,136	1,232	3,244	3,946	1,034	0
Tax	121	112	158	258	240	125	261	300	649	908	238	
Rate (%)	16.5	21.6	19.2	22.0	23.2	23.0	23.0	24.4	20.0	23.0	23.0	
Reported PAT	609	409	664	913	793	420	875	932	2,596	3,038	796	0
Adj PAT	702	409	659	983	793	420	875	932	2,750	3,038	796	0
YoY Change (%)	6,536.2	181.4	272.7	40.3	13.1	2.6	32.9	-5.2	166.2	10.5	30.9	

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Key takeaways from the concall

- 1QFY18 saw clinker sale of 0.12mt to Nepal, which led to higher grey cement volumes.
- White cement margins were impacted by low volumes on account of destocking led by GST and increase in petcoke prices. Accordingly, management has guided for an increase in white cement prices for 2QFY18 to offset the input costs. Also, volumes have normalized in August.
- North is operating at 75% utilization, while south is operating at 60%.
- Katni expansion will be completed by June 2018, post which capacity of putty will be 0.9mt. Utilization level at Katni is more than 75%.
- Net debt for the company stands at INR19.53b, with D/E ratio of 0.98.
- Company plans to incur capex of INR2-2.5b, of which INR250m will be utilized for putty expansion, INR300-400m for acquiring mining land and remaining INR1050m for maintenance and environmental capex in existing plants.
- Prices have lowered by INR8-10/bag compared to 1QFY18 average prices.
- UAE operations are not seeing improvement in profitability due to demand weakness.
- Fuel prices have increased by INR200/t QoQ.
- There is a sequential increase in interest cost due to exchange-related fluctuations.

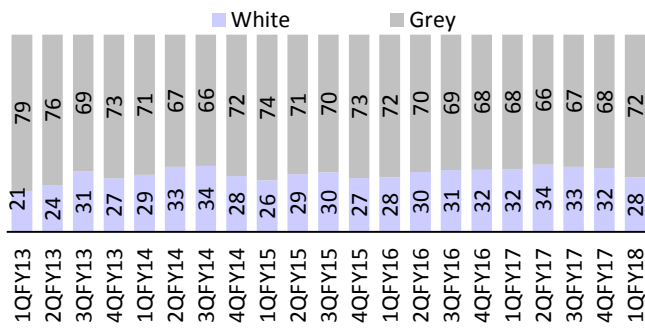
Valuation and views

With lower immediate capex and annual FCFE of INR3-4b over FY18-FY20, there remains visibility of deleveraging from the FY17 peak of INR31b. We maintain our **Buy** rating with a target price of INR1277 (12x FY20E white cement EBITDA and 8x FY20E grey cement EBITDA).

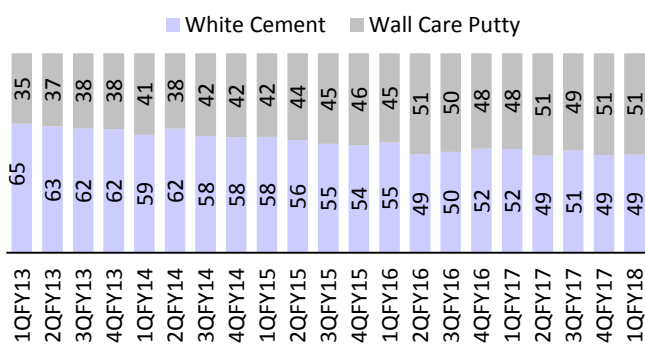
Exhibit 1: Key performance indicators (blended)

INR/Ton	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Net realization	4,902	4,747	3.3	4,787	2.4
RM Cost	838	901	-7.0	890	-6
Employee Expenses	365	349	4.5	338	8
Power, Oil & Fuel	849	736	15.4	837	1
Freight	1,022	902	13.4	921	11
Other Expenses	898	932	-3.6	907	-1
Total Exp.	3,972	3,820	4.0	3,893	2
EBITDA	931	928	0.3	893	4

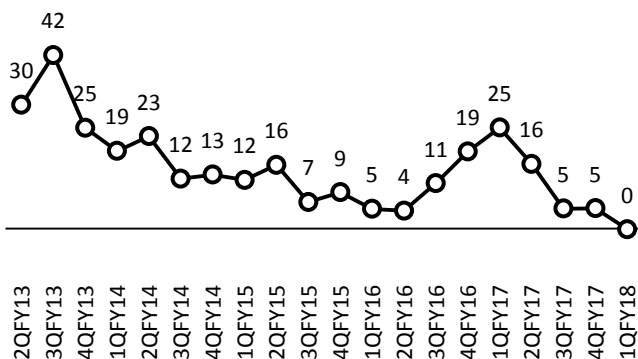
Source: Company, MOSL

Exhibit 2: Revenue mix (%)

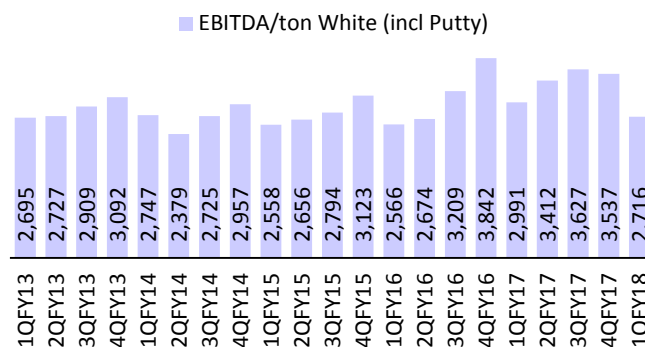
Source: Company, MOSL

Exhibit 4: White cement mix (%)

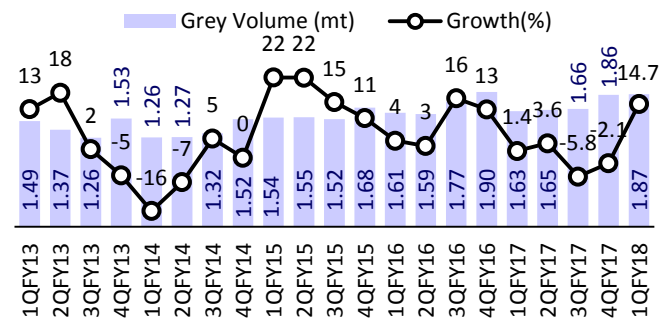
Source: Company, MOSL

Exhibit 6: White cement volume growth flat YoY

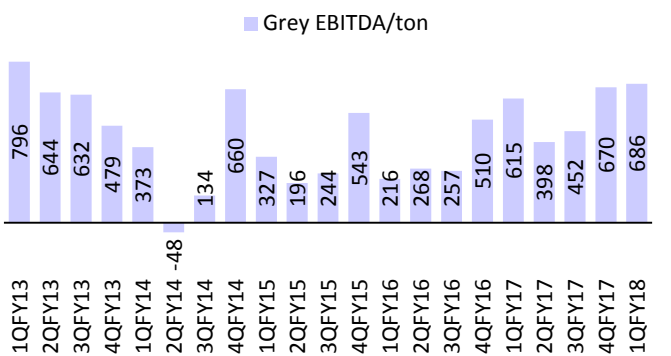
Source: Company, MOSL

Exhibit 8: Trend in white cement EBITDA/t (INR/t)

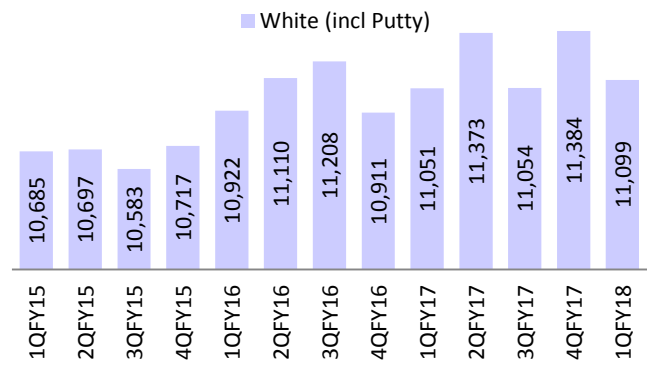
Source: Company, MOSL

Exhibit 3: Grey cement registers continuous growth

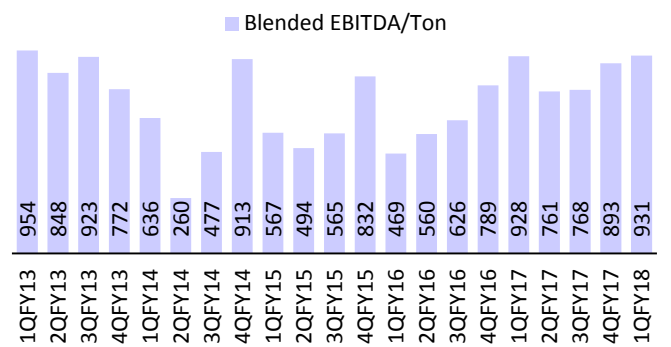
Source: Company, MOSL

Exhibit 5: Grey cement EBITDA/ton (INR/tonne) increased by 11.5% YoY

Source: Company, MOSL

Exhibit 7: White cement realizations decrease 2.5%QoQ

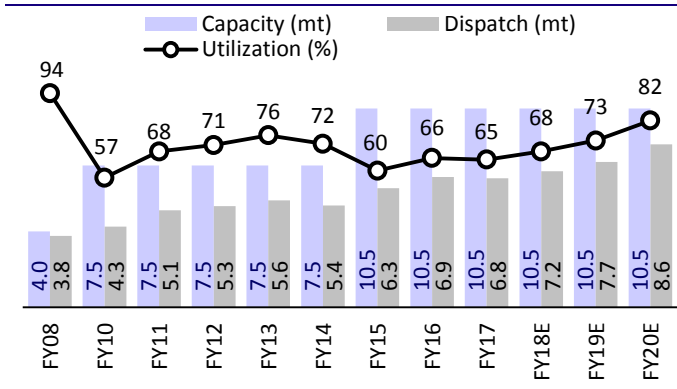
Source: Company, MOSL

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

Source: Company, MOSL

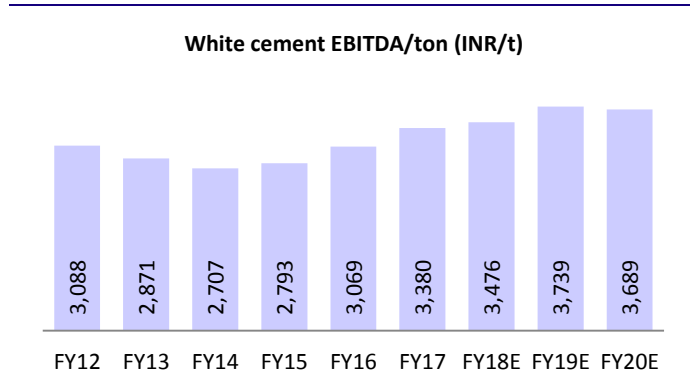
Story in charts

Exhibit 10: Strong volume lever in place with expanded capacity



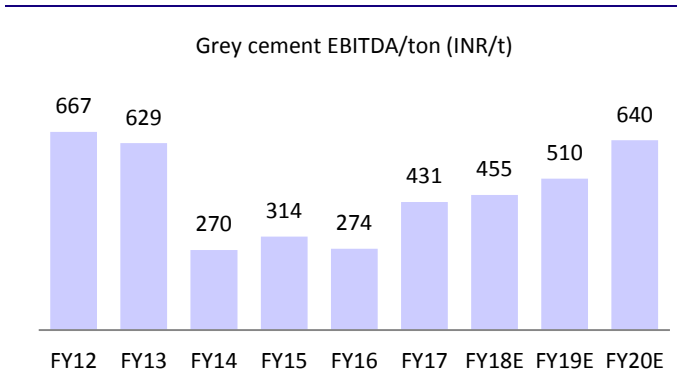
Source: Company, MOSL

Exhibit 11: Trend in white cement EBITDA/t (INR/t)



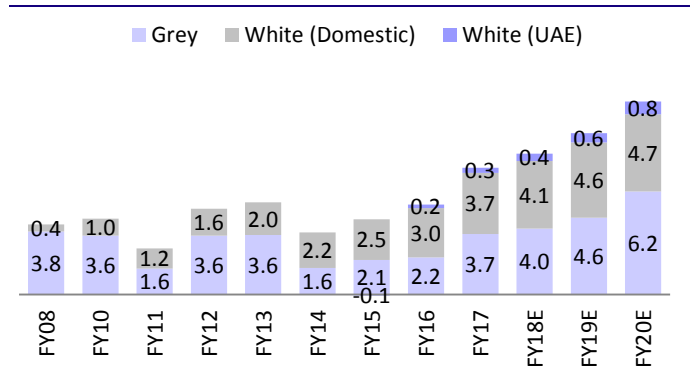
Source: Company, MOSL

Exhibit 12: Trend in grey cement EBITDA/tonne (INR/t)



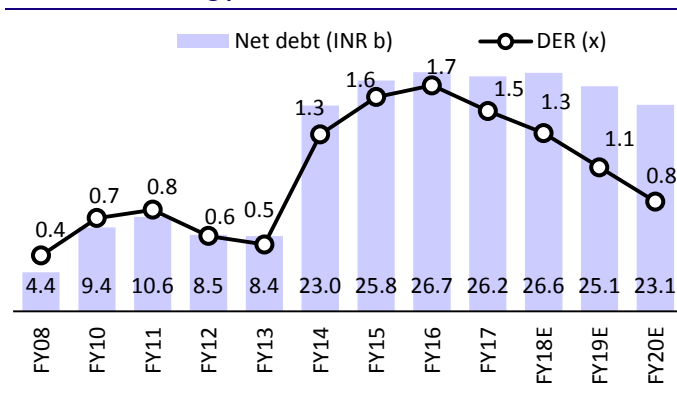
Source: Company, MOSL

Exhibit 13: Trend in EBITDA (INR b)



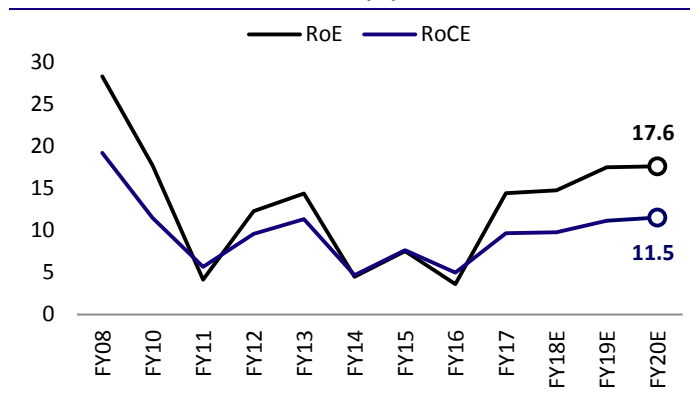
Source: Company, MOSL

Exhibit 14: Gearing peaked out



Source: Company, MOSL

Exhibit 15: RoE and RoCE trend (%)



Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Net Sales	29,040	27,815	33,874	37,463	39,694	44,431	50,065	53,843
Change (%)	14.4	-4.2	21.8	10.6	6.0	11.9	12.7	7.5
Total Expenditure	23,547	24,431	29,566	32,399	32,953	36,648	41,043	43,671
% of Sales	81.1	87.8	87.3	86.5	83.0	82.5	82.0	81.1
EBITDA	5,493	3,384	4,308	5,065	6,741	7,783	9,021	10,172
Margin (%)	18.9	12.2	12.7	13.5	17.0	17.5	18.0	18.9
Depreciation	1,287	1,342	1,461	1,974	2,169	2,157	2,070	2,129
EBIT	4,206	2,042	2,847	3,091	4,572	5,627	6,952	8,043
Int. and Finance Charges	1,398	1,526	2,291	3,049	2,954	2,748	2,702	2,664
Other Income - Rec.	567	626	713	895	1,432	808	874	961
PBT bef. EO Exp.	3,375	1,142	1,269	936	3,049	3,686	5,124	6,340
EO Expense/(Income)	0	0	-172	0	193	0	0	0
PBT after EO Exp.	3,375	1,142	1,441	936	2,856	3,686	5,124	6,340
Current Tax	1,071	392	22	388	649	1,184	1,583	2,145
Deferred Tax	0	0	0	0	0	-276	-264	-358
Tax Rate (%)	31.7	34.4	1.5	41.4	22.7	24.6	25.7	28.2
Reported PAT	2,305	749	1,419	548.3	2,207.6	2,779	3,805	4,553
PAT Adj for EO items	2,305	749	1,250	548	2,357	2,779	3,805	4,553
Change (%)	28.5	-67.5	66.8	-56.1	329.9	17.9	36.9	19.7
Margin (%)	7.9	2.7	3.7	1.5	5.9	6.3	7.6	8.5
Less: Minority Interest	-3.083	-22.1	-17.2	-30.2	-57.7	0.0	0.0	0.0
Net Profit	2,308	772	1,267	578	2,415	2,779	3,805	4,553

Consolidated - Balance Sheet

(INR Million)

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Equity Share Capital	699	699	699	699	699	699	699	699
Total Reserves	16,206	16,762	15,470	15,171	16,896	19,361	22,747	27,537
Net Worth	16,905	17,462	16,170	15,870	17,595	20,060	23,446	28,236
Deferred Liabilities	2,490	2,685	2,798	2,165	2,111	1,835	1,571	1,213
Total Loans	12,482	27,750	30,308	31,204	31,306	30,306	30,306	30,306
Capital Employed	31,925	48,041	49,404	49,337	51,052	52,241	55,363	59,796
Gross Block	30,822	31,743	50,671	53,636	58,456	60,456	64,456	70,456
Less: Accum. Deprn.	7,132	8,474	9,935	11,100	13,039	15,196	17,265	19,394
Net Fixed Assets	23,690	23,269	40,736	42,535	45,417	45,261	47,191	51,062
Capital WIP	2,546	17,875	3,373	3,211	1,267	1,267	1,267	267
Total Investments	324	675	365	786	803	803	803	803
Curr. Assets, Loans&Adv.	13,518	15,814	16,027	15,261	16,555	15,965	17,844	20,201
Inventory	4,614	5,420	5,415	4,931	5,609	5,490	5,554	5,516
Account Receivables	1,153	1,117	1,771	2,113	2,019	2,509	2,828	3,072
Cash and Bank Balance	3,753	4,086	4,171	3,731	4,272	2,898	4,384	6,442
Loans and Advances	3,998	5,191	4,670	4,486	4,655	5,068	5,078	5,171
Curr. Liability & Prov.	8,152	9,592	11,097	12,511	12,991	11,054	11,742	12,538
Account Payables	1,966	4,401	3,071	3,047	2,337	3,379	3,809	4,137
Provisions	799	497	673	370	434	355	475	644
Net Current Assets	5,365	6,222	4,929	2,750	3,565	4,911	6,102	7,663
Appl. of Funds	31,925	48,041	49,404	49,282	51,052	52,241	55,363	59,796

Financials and Valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Basic (INR) *								
Consol. EPS	33.0	10.7	17.9	7.8	33.7	39.7	54.4	65.1
Cash EPS	51.4	29.9	38.8	36.1	64.7	70.6	84.0	95.6
BV/Share	241.7	249.7	231.2	227.0	251.6	286.9	335.3	403.8
DPS	6.5	3.0	4.0	4.0	8.0	7.0	7.0	7.0
Payout (%)	23.1	32.7	23.1	59.7	29.6	20.6	15.1	12.6
Valuation (x) *								
P/E	31.3	96.3	57.7	131.6	30.6	26.0	19.0	15.9
Cash P/E	20.1	34.5	26.6	28.6	15.9	14.6	12.3	10.8
P/BV	4.3	4.1	4.5	4.5	4.1	3.6	3.1	2.6
EV/Sales	2.7	2.8	2.8	2.6	2.4	2.2	1.9	1.8
EV/EBITDA	14.2	22.8	22.0	18.9	14.4	12.5	10.6	9.3
EV/Ton (US\$)	151	138	125	127	128	128	126	125
Dividend Yield (%)	0.6	0.3	0.4	0.4	0.8	0.7	0.7	0.7
Return Ratios (%)								
RoIC	11.4	5.3	8.4	4.4	8.2	9.2	10.7	11.4
RoE	14.4	4.5	7.5	3.6	14.4	14.8	17.5	17.6
RoCE	11.3	4.7	7.6	5.0	9.7	9.8	11.2	11.5
Working Capital Ratios								
Asset Turnover (x)	0.9	0.6	0.7	0.8	0.8	0.9	0.9	0.9
Inventory (Days)	58.0	71.1	58.3	48.0	51.6	45.1	40.5	37.4
Debtor (Days)	13	13	17	18	16	18	18	18
Creditor (Days)	25	58	33	30	21	28	28	28
Working Capital Turnover (Days)	20	28	8	-10	-7	17	13	8
Leverage Ratio (x)								
Current Ratio	1.7	1.6	1.4	1.2	1.3	1.4	1.5	1.6
Debt/Equity	0.7	1.6	1.9	2.0	1.8	1.5	1.3	1.1

Consolidated - Cash Flow Statement

(INR Million)

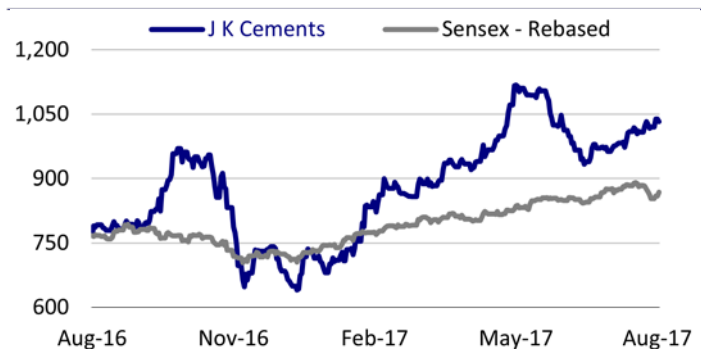
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Oper. Profit/(Loss) before Tax	4,206	2,042	2,847	3,091	4,572	5,627	6,952	8,043
Interest/Dividends Recd.	567	626	713	895	1,432	808	874	961
Depreciation	1,287	1,342	1,461	1,974	2,169	2,157	2,070	2,129
Direct Taxes Paid	-872	-198	91	-1,076	-648	-1,184	-1,583	-2,145
(Inc)/Dec in WC	419	-528	1,550	1,739	-274	-2,720	295	496
CF from Operations	5,608	3,284	6,662	6,623	7,251	4,687	8,607	9,485
EO expense	-1	4	0	0	0	-193	0	0
CF from Operating incl. EO	5,607	3,288	6,662	6,623	7,251	4,494	8,607	9,485
(inc)/dec in FA	-3,451	-16,250	-4,426	-2,802	-2,877	-2,000	-4,000	-5,000
Free Cash Flow	2,156	-12,962	2,237	3,820	4,374	2,494	4,607	4,485
(Pur)/Sale of Investments	-232	-351	310	-421	-16	0	0	0
CF from investments	-3,683	-16,601	-4,116	-3,224	-2,894	-2,000	-4,000	-5,000
Issue of Shares	-91	30	-2,401	-551	114	0	0	0
(Inc)/Dec in Debt	-481	15,268	2,558	896	102	-1,000	0	0
Interest Paid	-1,398	-1,526	-2,291	-3,049	-2,954	-2,748	-2,702	-2,664
Dividend Paid	-532	-245	-327	-327	-654	-573	-573	-573
CF from Fin. Activity	-2,503	13,527	-2,462	-3,031	-3,393	-4,321	-3,274	-3,237
Inc/Dec of Cash	-579	214	85	368	965	-1,827	1,333	1,248
Add: Beginning Balance	4,332	3,753	4,086	4,171	3,731	4,272	2,898	4,384
Closing Balance	3,753	3,967	4,171	4,540	4,696	2,445	4,231	5,632

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 (%)

	Jun-17	Mar-17	Jun-16
Promoter	64.2	64.2	67.0
DII	13.1	16.7	13.7
FII	11.4	11.3	11.3
Others	11.3	7.9	7.9

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Fidelity Investment Trust Fidelity Series	4.4
Franklin Templeton Investment Funds	3.2
Franklin Templeton Mutual Fund A/c	1.7
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	39.7	48.8	-18.6
FY19	54.4	70.5	-22.9
FY20	65.1	115.0	-43.4

Source: Bloomberg

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