

# JK Cements (JKCE)

**Buy**

Sector: Cement /Small Cap | Earnings Update – 2QFY18

15 November 2017

**Background:** JK Cements is one of the largest cement players in North India. It manufactures grey cement, white cement and white cement based wall putty. Currently the grey cement capacity is 10.5MTPA. Domestic white cement capacity is 0.4MTPA (second only to UltraTech, which has capacity of 0.55MTPA). The company also manufactures putty and has an installed capacity of 0.3MTPA. The company has also installed a grey cum white cement plant with an installed capacity of 0.6MTPA (white cement) and 1.02MTPA (grey cement) in Fujairah (UAE) in a 90:10 JV with the Government of Fujairah. It has also expanded its grey cement capacity by 3 MTPA through two split grinding units (1.5 MTPA each), one at Mangrol (Rajasthan) and another at Jhajjar (Haryana).

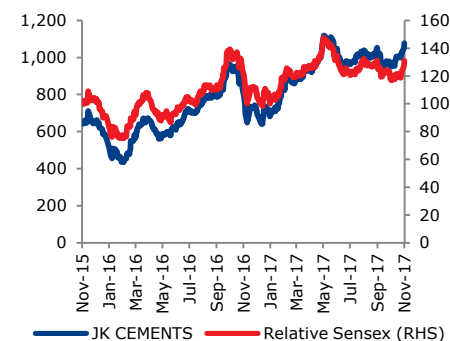
Sensex	32,856
Nifty	10,156
Price	INR 1069
Target Price	INR 1260
Recommendation	Buy
52 Week High/Low	INR 1195/630
Bloomberg / Reuters	JKCE IN/JKCE.BO
Equity (shares in mn)	69.9
Mkt. Cap in bn	INR 75.2 / \$1.2
Avg. Daily Vol. ('000)	39.1
Avg. Daily Vol. (mn)	INR 42.0/\$0.6

Shareholding	Sep-16	Jun-17	Sep-17
Promoters (%)	67.02	64.16	64.16
FII (%)	2.36	11.25	11.16
DII (%)	23.02	13.28	16.39
Others (%)	7.6	11.31	8.29
Pledge (% of promoter holding)	0.00	0.00	0.00

## Valuation Summary (INR bn)

Y/E March	2017	2018E	2019E
Revenue	39.7	47.7	54.9
EBITDA	7.7	9.4	11.2
Adj PAT	2.4	4.0	5.9
Adj EPS	34.3	57.2	84.4
% growth	278	67	48
PE	31.4	18.8	12.8
P/BV	4.3	4.1	3.4
EV/EBITDA	12.0	9.9	8.3
EV/Sales	2.3	1.9	1.7
Div Yield (%)	0.7	0.7	0.8
ROE (%)	13.5	20.0	25.1
Net Debt/Equity	1.5	1.3	1.0

Performance %	1M	3M	12M
JK Cement	12.8	3.7	44.6
Sensex	1.6	4.7	25.6



## Robust quarter; driven by better realization in Grey Cement

- JKCE posted a revenue growth of 20%YoY to INR 11.1bn led by higher volume and realization in the Grey cement.
- Grey cement volume grew by 16.8% YoY to 1.93mt, led by 18.6% YoY growth in North region. Realization was up by 8.4% YoY at INR 3,943/tn. For FY18, Management guided for volume growth of ~7-8% in grey cement.
- Company's white cement (including wall putty) segment volume grew by 8.5% YoY (Wall putty volume was up 11.3% YoY, White cement volume grew by 5.5% YoY). Realization fell by 1.3% YoY/(+1.1% QoQ) at INR 11,220/tn.
- Raw material costs increased by 12.2%YoY to INR 2,736mn (Blended Raw material cost/ton declined by 3.8%YoY to INR 828). Freight costs increased sharply by 40% YoY to INR 2,493mn (Blended Freight cost/ton increased by 21.4%YoY to INR 1,121).
- Power & fuel costs increased by 35.6%YoY to INR 2,058mn (Power cost/ton increased by 17.3%YoY to INR 926) due to increase in pet coke prices. Fuel mix for the company is 80% pet coke and 20% Coal linkage for Grey cement; 100% pet coke for White cement. For 2QFY18 average cost of pet coke stood at INR 7,100/ton.
- EBITDA rose 32% YoY to INR 2.1bn led by improved performance in Grey cement segment. Blended EBITDA/tn rose 15.3% YoY to INR 876, driven by improvement in realization. PAT grew by 128% YoY to 931mn due to higher operating margins and other income (driven by reversal of (District Mineral Foundation) DMF provisions ~INR 124mn).
- Management guided for further capex of 2.5bn till FY18E. New capex includes land acquisition INR 750mn, installation of new equipment INR 750mn, Maintenance cost INR 750mn and clinker tank INR 250mn etc.
- Management guided for the expansion in Katni plant to increase the capacity of wall putty from 0.7mtpa to 0.9mtpa, which would be completed in June 2018.
- Management guided for consolidated Debt reduction by ~INR 2.5bn each in FY18E & FY19E.

**Valuation:** Increased capacity coupled with higher capacity utilization (due to expected improvement in Industry's demand-supply dynamics mainly led by increase in infrastructure spending and affordable housing under Pradhan Mantri Awas Yojna) and strong margins from Grey cement business augurs well for JKCE going ahead. At CMP the stock trades at EV/EBITDA 9.9X and 8.3X FY18E&19E respectively. We rate the stock **Buy** with a price target of INR 1260 based on EV/EBITDA multiple of 10X FY2019E.

**Risks:** Delay in commissioning of the capacity, adverse movement in coal/pet coke prices.

## Results Summary 2QFY18

Y/E March ( INR mn)	2QFY18	2QFY17	YoY Growth	1QFY18	QoQ Growth
<b>Revenue</b>	11,077	9,221	20.1%	10,415	6.4%
<b>EBIDTA</b>	2,072	1,573	31.8%	1,977	4.8%
<b>Depreciation</b>	492	437	12.6%	450	9.4%
<b>Other Income</b>	344	78	342.8%	186	84.4%
<b>PBT</b>	1,213	522	132.5%	1,033	17.4%
<b>Tax</b>	281	112	150.0%	240	17.3%
<b>PAT</b>	931	409	127.7%	793	17.4%
<b>Adjusted PAT*</b>	931	409	127.7%	793	17.4%
<b>EBIDTA Margin</b>	18.7%	17.1%		19.0%	
<b>Tax Incidence</b>	23.2%	21.6%		23.2%	
<b>Adj PAT Margin</b>	8.4%	4.4%		7.62%	

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