

JK CEMENT

CEMENT

20 NOV 2017

Quarterly Update

BUY

Target Price: Rs 1,220

White cement steals the show

JK Cement's (JKCE) Q2FY18 EBITDA at Rs 2.1 bn (up 30% YoY) was higher than our and consensus estimates, mainly due to strong volumes.

Operational performance: Grey cement continued its strong volume growth (17% YoY and 3% QoQ) despite monsoon – seasonally weak quarter). Average realization broadly flat QoQ at Rs 4,020/t. However, average cost/ton increased by Rs 230/ton due to high fuel and freight cost. Grey cement EBITDA/ton was Rs 550 (vs. Rs 690 in Q1FY18 and Rs 400 in Q2FY17).

White cement business reported EBITDA at Rs 1 bn (up 9% YoY) on higher volumes at 297 KT, up 9% YoY and 16% QoQ.

CMP : Rs 1,077
Potential Upside : 13%

MARKET DATA

No. of Shares : 70 mn
Free Float : 36%
Market Cap : Rs 75 bn
52-week High / Low : Rs 1,195 / Rs 630
Avg. Daily vol. (6mth) : 39,432 shares
Bloomberg Code : JKCE IB Equity
Promoters Holding : 64%
FII / DII : 11% / 16%

Other highlights

- ♦ **White cement and wall putty business:** Volumes witnessed rebound post weak Q1 which was impacted due to GST. Margin reached FY17 levels of 30%+ against 24% in Q1, as the company gained both on realization and cost (mainly due to operating leverage)
- ♦ **Capacity expansion:** The company is evaluating expansion of grey cement capacity in the North region. Company expects to finalize this in next 3 months. 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). Total capex for FY18 is Rs 2.2 bn

Valuation: We increase our FY18E/ FY19E EPS to Rs 52/71 (vs. Rs 46/64 earlier) to factor in strong sales volumes. Maintain **BUY** with revised target price of Rs 1,220 (13% upside to CMP of Rs 1,077) vs. Rs 1,144 earlier based on 10x FY19E EV/EBITDA.

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	37,860	40,323	48,313	54,735
EBITDA (Rs mn)	5,624	7,638	8,978	10,838
Adj PAT (Rs mn)	710	2,368	3,623	4,945
EPS (Rs)	10	34	52	71
Change YOY (%)	(44)	233	53	36
P/E (x)	106	32	21	15
P/B (x)	5	4	4	3
RoE (%)	4	14	19	22
EV/E (x)	18.5	13.6	11.3	9.1
DPS (Rs)	4	8	10	12

Source: Company, Axis Capital

Key drivers

	FY17	FY18E	FY19E
Grey volumes (mnt)	6.8	7.8	8.4
Grey realn/ton (Rs)	3,665	3,885	4,080
Grey EBITDA/ton (Rs)	493	601	697
White EBITDA (Rs bn)	3.7	3.8	4.2

Price performance

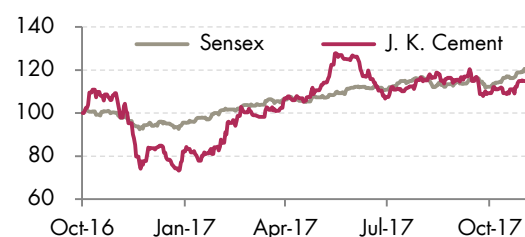


Exhibit 1: Results update

(Rs mn)	Quarter ended					12 months ended		
	Sep-17	Sep-16	% Chg	Jun-17	% Chg	FY18E	FY17	% Chg
Net Sales	11,077	9,238	19.9	10,415	6.4	48,313	40,323	19.8
EBITDA	2,072	1,589	30.4	1,977	4.8	(4,611)	(4,622)	(0.2)
Other income	220	61	261.5	186	18.2	728	503	44.7
PBITD	2,292	1,650	38.9	2,163	6.0	(3,883)	(4,119)	(5.7)
Depreciation	492	437	12.6	450	9.4	2,160	2,169	(0.4)
Interest	633	691	(8.4)	680	(6.9)	2,778	2,954	(6.0)
PBT	1,167	522	123.7	1,033	12.9	(8,821)	(9,242)	(4.6)
Tax	281	112	150.0	240	17.3	1,144	649	76.4
Adjusted PAT	886	409	116.4	793	11.6	(9,966)	(9,891)	0.8
No. of shares (mn)	70	70	-	70	-	70	70	-
EBITDA margin (%)	18.7	17.2	-	19.0	-	(9.5)	(11.5)	-
PBITD margin (%)	20.7	17.9	-	20.8	-	(8.0)	(10.2)	-
EPS - annualized (Rs)	50.7	23.4	116.4	45.4	11.6	(142.5)	(141.4)	0.8

Source: Company, Axis Capital

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	37,860	40,323	48,313	54,735
Other operating income	-	-	-	-
Total operating income	37,860	40,323	48,313	54,735
Cost of goods sold	(25,750)	(24,774)	(30,080)	(33,668)
Contribution	12,110	15,549	18,233	21,067
<i>Contribution margin (%)</i>	<i>32</i>	<i>39</i>	<i>38</i>	<i>38</i>
Total operating expenses	(6,487)	(7,911)	(9,255)	(10,229)
EBITDA	5,624	7,638	8,978	10,838
<i>EBITDA margin (%)</i>	<i>15</i>	<i>19</i>	<i>19</i>	<i>20</i>
Depreciation	(1,974)	(2,169)	(2,160)	(2,248)
EBIT	3,650	5,468	6,818	8,590
Net interest	(3,049)	(2,954)	(2,778)	(2,668)
Other income	498	503	728	671
Profit before tax	1,098	3,017	4,768	6,594
Total taxation	(388)	(649)	(1,144)	(1,648)
<i>Tax rate (%)</i>	<i>35</i>	<i>21</i>	<i>24</i>	<i>25</i>
Profit after tax	710	2,368	3,623	4,945
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	710	2,368	3,623	4,945
<i>Adj. PAT margin (%)</i>	<i>2</i>	<i>6</i>	<i>7</i>	<i>9</i>
Net non-recurring items	(162)	(161)	-	-
Reported net profit	548	2,208	3,623	4,945

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	699	699	699	699
Reserves & surplus	15,269	16,935	19,751	23,727
Net worth	15,968	17,635	20,450	24,426
Borrowing	33,228	33,517	31,517	30,267
Other non-current liabilities	2,165	2,111	2,111	2,111
Total liabilities	51,361	53,262	54,078	56,804
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	6,618	7,498
Debtors	2,113	2,019	2,647	2,999
Cash & bank	4,365	4,925	5,275	6,712
Loans & advances	4,540	4,655	5,295	5,998
Current liabilities	10,488	10,780	12,932	13,830
Net current assets	5,462	6,428	6,903	9,377
Other non-current assets	-	-	-	-
Total assets	51,361	53,262	54,078	56,804

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	1,098	3,017	4,768	6,594
Depreciation & Amortisation	1,974	2,169	2,160	2,248
<i>Chg in working capital</i>	<i>523</i>	<i>(405)</i>	<i>(126)</i>	<i>(1,037)</i>
Cash flow from operations	6,242	7,344	8,436	8,824
<i>Capital expenditure</i>	<i>(3,813)</i>	<i>(3,447)</i>	<i>(2,500)</i>	<i>(2,500)</i>
Cash flow from investing	(3,905)	(3,445)	(2,500)	(2,500)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>938</i>	<i>289</i>	<i>(2,000)</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	(2,448)	(3,338)	(5,586)	(4,887)
Net chg in cash	(111)	560	350	1,437

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	10	34	52	71
CEPS (Rs)	36	63	83	103
DPS (Rs)	4	8	10	12
Dividend payout ratio (%)	53	26	19	17
GROWTH				
Net sales (%)	11	7	20	13
EBITDA (%)	27	36	18	21
Adj net profit (%)	(44)	233	53	36
FDEPS (%)	(44)	233	53	36
PERFORMANCE				
RoE (%)	4	14	19	22
RoCE (%)	8	11	14	17
EFFICIENCY				
Asset turnover (x)	0.9	0.9	1.0	1.2
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	61	62
Payable days	115	116	120	115
FINANCIAL STABILITY				
Total debt/ equity (x)	2.1	2.0	1.7	1.3
Net debt/ equity (x)	1.8	1.7	1.4	1.0
Current ratio (x)	1.5	1.6	1.5	1.7
Interest cover (x)	1.2	1.9	2.5	3.2
VALUATION				
PE (x)	106	32	21	15
EV/ EBITDA (x)	18.5	13.6	11.3	9.1
EV/ Net sales (x)	2.8	2.6	2.1	1.8
PB (x)	4.7	4.3	3.7	3.1
Dividend yield (%)	-	1	1	1
Free cash flow yield (%)	3	5	8	8

Source: Company, Axis Capital

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

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