

Volume growth supports top-line

JK Cement reported a revenue of ₹ 11.2bn (+26.8% YoY, +1.7% QoQ), 2% higher than D'est. The cement dispatches during the quarter rose by 20.3% YoY (+4.5% QoQ). Grey Cement dispatches increased by 21.5% YoY (+5.1% QoQ). The white cement & wall putty sales during the quarter stood at 0.3Mt (+12.5% YoY, flat on QoQ). The blended realisation for the quarter increased by 5.4% YoY (-2.7% QoQ), Grey Cement realisation increased by 6.9% YoY (-3.2% QoQ), and white cement realisation registered rise of 3.1% YoY (2.0% QoQ).

Cost stress weighs on EBITDA

Cost/ton during the quarter increased by 7.4% YoY (+1.6% QoQ), led by rise in Freight & P&F cost. Blended EBITDA/ton at Rs 733/ton down 4.5% YoY (-21.3% QoQ). Division wise, Grey Cement EBITDA/ton came in at Rs 376/ton (+2.3% YoY) whereas increase in P&F cost resulted in White Cement division EBITDA/ton to decline by 12.9% YoY to Rs3169/ton. EBITDA margin trimmed by 158bps YoY to 15.1%, (-359bps QoQ). JK Cement reported EBITDA growth of 14.8% YoY to ` 1.7bn (-17.8%QoQ), 10% lower than D'est. Freight cost/ton and P&F cost/ton registered an increase of 19.4% & 18.3% YoY respectively.

Dip in interest cost enhance PAT

12.7% YoY drop in interest cost coupled with an 14.1% YoY rise in other income helped JK Cement report PAT of ` 730mn (+10.9% YoY, -26.3% QoQ), PAT came in 5% lower than our estimates.

Road Ahead...

JK Cement announced brownfield capacity expansion at its Mangrol Unit with split grinding unit in Uttar Pradesh and Gujarat. The proposed expansion of 4.2Mnt at a cost of ` 20bn will increase the Grey cement capacity of JK Cement from 10.5Mt to 14.7Mt post expansion. The expansion will enable JK Cement to penetrate deeper into the market of Gujarat and Uttar Pradesh.

Q3FY18 Result (₹ Mn)

Particulars	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
Net Sales	11,261	8,878	26.8	11,077	1.7
Total Expenditure	9,559	7,396	29.2	9,005	6.2
PBIDT	1,702	1,482	14.8	2,072	(17.8)
Other Op. Income	0	223	(100.0)	0	NA
Depreciation	451	447	0.8	492	(8.4)
EBIT	1,252	1,258	(0.5)	1,580	(20.8)
Other Income	249	218	14.1	344	(27.5)
Interest	578	662	(12.7)	633	(8.8)
PBT	922	822	12.1	1,213	(24.0)
Tax	193	158	22.1	281	(31.5)
RPAT	729	664	9.8	931	(21.7)
APAT	730	659	10.9	991	(26.3)
EPS (₹)	10.4	9.4	10.9	14.2	(26.3)
Volume (MnT)	2.3	1.9	20.3	2.2	4.5
Realisation/tonne	4,848	4,598	5.4	4,981	(2.7)
Cost/tonne	4,115	3,830	7.4	4,049	1.6
EBITDA/tonne	733	768	(4.5)	932	(21.3)
EBITDA Margin (%)	15.1	16.7	(158) bps	18.7	(359) bps

CMP	₹ 1030
Target / Upside	₹ 1234/20%
BSE Sensex	33,775
NSE Nifty	10,378

Script Details

Equity / FV	₹ 699.3mn/ 10/-
Market Cap	₹ 72bn
	USD 1.12bn
52-week High/Low	₹ 1195/810
Avg. Volume (no)	42,255
NSE Symbol	JKCEMENT
Bloomberg Code	JKCE IN

Shareholding Pattern Dec'17(%)

Promoters	64.2
MF/Banks/FIs	16.7
FIIIs	10.9
Public / Others	8.2

Valuation (x)

	FY18E	FY19E	FY20E
P/E	23.3	16.0	12.9
EV/EBITDA	12.5	10.1	8.8
ROE	16.4	20.2	20.6
ROCE	10.9	13.8	14.8

Estimates (₹ mn)

	FY18E	FY19E	FY20E
Net Sales	47,004	52,772	61,227
EBITDA	7,821	9,815	11,889
PAT	3,092	4,510	5,573
EPS (₹)	44.2	64.5	79.7

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Exhibit 1: JK's Quarterly & Nine-month Performance Snapshot

Particulars	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)	9MFY18	9MFY17	YoY (%)
Net Sales	11,261	8,878	26.8	11,077	1.7	32,753	27,273	20.1
Total Expenditure	9,559	7,396	29.2	9,005	6.2	26,965	22,247	21.2
PBITD	1,702	1,482	14.8	2,072	(17.8)	5,787	5,027	15.1
Other Op. Income	0	223	(100.0)	0	NA	0	0	NA
Depreciation	451	447	0.8	492	(8.4)	1,393	1,309	6.4
EBIT	1,252	1,258	(0.5)	1,580	(20.8)	4,394	3,717	18.2
Other Income	249	218	14.1	344	(27.5)	743	487	52.5
Interest	578	662	(12.7)	633	(8.8)	1,891	2,028	(6.7)
PBT	922	822	12.1	1,213	(24.0)	3,167	2,073	52.8
Tax	193	158	22.1	281	(31.5)	713	391	82.6
RPAT	729	664	9.8	931	(21.7)	2,454	1,682	45.9
APAT	730	659	10.9	991	(26.3)	2,515	1,766	42.4
EPS (₹)	10.4	9.4	10.9	14.2	(26.3)	36.0	25.3	42.4
Volume (MnT)	2.3	1.9	20.3	2.2	4.5	6.7	5.7	16.2
Realisation/tonne	4,848	4,598	5.4	4,981	(2.7)	4,909	4,752	3.3
Cost/tonne	4,115	3,830	7.4	4,049	1.6	4,042	3,876	4.3
EBITDA/tonne	733	768	(4.5)	932	(21.3)	867	876	(1.0)
EBITDA Margin (%)	15.1	16.7	(158) bps	18.7	(359) bps	17.7	18.4	(76) bps

Source: DART, Company

Exhibit 2: JK's per tonne matrix

Particulars	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
Net Sales per tonne	4,848	4,598	5.4	4,981	(2.7)
Cost per tonne	4,115	3,830	7.4	4,049	1.6
Cost of Material Consumed	798	862	(7.4)	828	(3.6)
Purchase of Stock in trade	1	1	(21.3)	1	(60.8)
Change in Inventories	61	(59)	(202.7)	32	90.5
Raw Material Cost	859	803	7.0	861	(0.2)
Employee benefit expenses	341	354	(3.6)	352	(3.0)
Power and Fuels	949	802	18.3	925	2.5
Freight and forwarding expenses	1,129	945	19.4	1,121	0.7
Other expenses	837	926	(9.6)	790	6.0
EBITDA per tonne	733	768	(4.5)	932	(21.3)

Source: DART, Company

Exhibit 3: JK's cost as a % of Net Sales

Particulars	Q3FY18	Q3FY17	YoY (bps)	Q2FY18	QoQ (bps)
Cost of Material Consumed	16	18	(183)	17	(15)
Purchase of Stock in trade	0	0	(0)	0	(2)
Change in Inventories	1	(1)	251	1	61
Raw Material Cost	18	17	68	17	45
Employee benefit expenses	7	8	(47)	7	(2)
Power and Fuels	20	17	256	19	99
Freight and forwarding exp.	23	20	323	23	78
Other expenses	17	20	(238)	16	141

Source: DART, Company

Exhibit 4: JK's Sales metrics (Million tonnes)

Particulars	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
Grey Cement	2.03	1.67	21.5	1.93	5.1
White Cement and Wall Putty	0.30	0.26	12.5	0.30	0.0
Total Cement Sales	2.32	1.93	20.3	2.22	4.5

Source: DART, Company

Exhibit 5: Segment Matrix (₹. in Millions)

Grey Cement	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
Grey Cement Revenue	7,733	5,950	30.0	7,598	1.8
Grey Cement Realisation (₹/ton)	3,817	3,569	6.9	3,943	(3.2)
Grey Cement Cost	6,972	5,205	33.9	6,544	6.5
Grey Cement EBITDA	761	744	2.3	1,053	(27.7)
Grey Cement EBITDA Margin (%)	10	13	(267) bps	14	(402) bps
Grey Cement EBITDA (₹/ton)	376	447	(15.9)	547	(31.2)
White Cement	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
White Cement Revenue	3,396	2,928	16.0	3,331	2.0
White Cement Realisation (₹/ton)	11,434	11,092	3.1	11,215	2.0
White Cement Cost	2,455	1,968	24.8	2,312	6.2
White Cement EBITDA	941	961	(2.0)	1,019	(7.6)
White Cement EBITDA Margin (%)	28	33	(510) bps	31	(287) bps
White Cement EBITDA (₹/ton)	3,169	3,639	(12.9)	3,431	(7.6)

Source: DART, Company

Key Concall Highlights

Management Commentary on Quarterly Performance

- JKCEM reported grey cement volumes of 1.945 MnT against 1.674 MnT on YoY basis. During the quarter, the kiln utilisation in Northern region and Southern region stood at around 80% and 65% respectively. Production at its South plant stands at 0.465MnT taking the utilisations levels to 60-62%.
- In case of white cement, the production in this quarter remained almost flat at 139,000 tonnes vis-à-vis 138,700 tonnes in Q3FY17. The putty production upturned by 19% to 0.154 MnT for this quarter.
- The management commented that reduction in debt and renegotiations of interest rate has led to lower finance cost for this quarter.
- During the quarter, white cement margins were impacted due to the usage of LDO as fuel. It is to be noted that cost of LDO is 2.5x higher than Petcoke prices.
- The company currently sells 30,000 tonnes of cement in Gujarat which it expects to reach 50,000-60,000 tonnes in coming time.
- The management expects a revival in demand in Northern parts of India considering the plant in North remained at 100% utilisation levels in Jan'18. Prices in North region have remained almost flat with a drop of about ₹ 5-10 in Q3FY18.

- In South, the pricing difference between Category A and Category B cement players is about ₹ 15-25 per bag in recent time. The management commented that per tonne realisation in Maharashtra is lower than in Karnataka or Kerala by ₹ 600-700.
- In South, the average share of traded and non-traded cement sales of the company stands at 65:35 whereas in North it pegs at 66:34. The management commented that since the housing demand is at a slow pace, the share of traded cement sales could go down in coming time.
- The average lead distance of the company (mainly considering traded sales) in Northern and Southern region pegs at 650 km and 450-500 km respectively.
- The management stated that Reliance sells Petcoke at lower rates as compared to the international market by ₹ 300 / tonne and it is to be noted that current international Petcoke prices pegs at USD 105 / tonne.
- Current capacity addition as well as proposed ones in northern region are namely by players like Ultratech at Pali of about 3 MnT (commissioning by Jun'20), Wonder cement planning to add third line and expected expansion by Ambuja in Rajasthan.

Capex Commentary

- JKCEM has initiated Brownfield expansion in North with a capacity addition of 4.2 MnT with a total outlay of about ₹ 20bn. The expansion will be in two phases and work on expansion project would commence from Q1FY19E.
- Phase 1 will be the addition of 1 MnT at existing Mangrol (new line) and 1Mt upgradation at Nimbahera plant. Expected to be commissioned in Q3FY20E.
- Phase 2 will be grinding unit addition of 1.5 MnT and 0.7 MnT in Western UP (closer to Aligarh) and Gujarat (Silvassa) respectively. Expected to be commissioned in Q4FY20E.
- Clinker capacity of 7500 TPD and 13 MW WHR plant will be commissioned in Mangrol. The management also commented that no plans have been made for captive power plant installation, however, the company contemplates in shifting the captive plant from Karnataka (25 MW) to Mangrol.
- The break-up for Brownfield capex are: ₹ 1,750mn and ₹ 275 crores will be spent towards the installation of grinding unit in Gujarat and UP respectively, upgradation of the mill in Nimbahera at the cost of ₹ 100 crores, around ₹ 125 crores aggregate land and mining area cost with remaining capex to be spent at Mangrol.
- The management stated that ₹ 200 crores (excl. brownfield expansion) will be spent each year till FY20. It is to be noted that the capex will be relating to environmental clearance, side row in South, mining land, putty expansion (which will be completed in June'18) and on-going maintenance capex.
- The company has done Capex of ₹ 1,000mn till Q3FY18 and expects to spend additional ₹ 500mn by FY18, total ₹ 1,500mn for FY18.
- The expansion of white cement putty by 0.2 MnT is under progress in Katni and it is expected to be commissioned by June'18. The company has dual process plant in Gotan which has the capability to produce both white clinkers as well as grey cement to the tune of 0.2 MnT and 0.5 MnT respectively.

- The management expressed that brownfield expansion worth 12000-13000 Mn will be funded via raising debt and balance amount through internal accruals. The company has not made any plans for QIP.

Management Commentary on Fujairah Plant

- Fujairah plant saw a 55-60% increase in clinker production, however, clinker dispatches climbed by 100% in this qtr. It is to be noted that cement volumes for Fujairah plant remained flat with production pegging at 0.285 MnT vis-à-vis 0.29MnT, taking the total sales (cement + clinker) to 0.365MnT, an increase of 10% YoY.
- Construction activity in Saudi (focus market for JK) has remained stalled in 2017 which in turn had some impact on Fujairah performance, however, growth in volumes was supported by revenue generation from South Africa and other regions. Going ahead, the management expects Fujairah performance to remain flattish considering demand in Saudi will remain flat till FY19.
- On white cement front, the Fujairah plant has applied for BIA's approval and post-Apr'18, the company plans to test the Indian market by importing some amount of white cement to India. The management commented that going ahead, the company plans to substitute some states, especially in South for White cement sales. It is to be noted that India currently imports around 50,000 tonnes / annum from UAE.

Management commentary on Debt

- As on Q3FY18, the gross debt stands at ₹ 23bn on a standalone basis and Rs29bn on a consolidated basis. Net debt stands at ₹ 17bn on a standalone basis and ₹ 23bn on a consolidated basis
- JKCEM will be paying a debt to the tune of ₹ 2.2bn by FY19 and ₹ 3bn in FY20 which is likely to peg Gross Debt at around ` 30,000mn on a standalone basis.

Other details

- The management stated that no tax benefit is provided by Gujarat govt. whereas in western U.P. the company enjoys tax benefit to the extent of 100% of investment for a period of 7 years.
- It is to be noted that no subsidy has been released by GOI post GST. Jhajjar plant accumulated incentives till Q3FY18 stands at ₹. 550-600 Mn. However, incentives for other plants in North and South India is accrued for this fiscal year, which pegs at ₹ 270-300mn.

View

JK Cement announced brownfield expansion of 4.2Mnt Grey cement and therefore we have tweaked our volume and cost estimates while introducing FY20 estimates. We expect JK Cement to report Domestic Volume CAGR of 12.8% to 11.3 MnT (Grey + White Cement) over FY17-20E and Revenue CAGR of 15.5% to ₹ 61.2bn over FY17-20E. These would drive operating and Net earnings CAGR by 20.8% & 35.6% respectively. At CMP JK Cement is trading at 10.1x/8.8x, FY19E/20E EV/EBITDA. We roll over to FY20E and raise our target price to ₹ 1,234/share.

Exhibit 6: Change in estimates

Estimate Change	FY18			FY19			FY20
	New	Old	Chg (%)	New	Old	Chg (%)	New
Revenue	47,004	47,211	-0.4%	52,772	54,002	-2.3%	61,227
EBITDA	7,821	8,445	-7.4%	9,815	9,937	-1.2%	11,889
PAT	3,092	3,393	-8.9%	4,510	4,287	5.2%	5,573
EPS	44.2	48.5	-8.9%	64.5	61.3	5.2%	79.7

Source: DART, Company,

Income Statement (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Net Sales	39,694	47,004	52,772	61,227
Total Expenditure	32,953	39,183	42,957	49,338
Raw Materials Consumed	7,599	8,200	8,746	9,968
Employees Cost	3,155	3,440	3,796	4,328
Power and fuel	6,645	8,890	9,899	11,501
Freight and Forwarding exp	7,615	10,535	11,624	13,379
Other expenses	7,939	8,117	8,892	10,162
EBIDTA	6,741	7,821	9,815	11,889
Depreciation	2,169	2,225	2,299	2,653
Other Operating Income	929	450	470	500
EBIT	5,500	6,046	7,986	9,736
Interest	2,954	2,548	2,593	2,959
Other Income	503	520	540	560
PBT & EO Items	3,049	4,019	5,934	7,338
Extra Ordinary Exps/(Inc)	193	79	0	0
Profit Before Tax	2,856	3,940	5,934	7,338
Tax	649	985	1,483	1,834
PAT before minority int.	2,208	2,955	4,450	5,503
PAT after minority int.	2,265	3,013	4,510	5,573
Adjusted PAT	2,411	3,072	4,510	5,573

Balance Sheet (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Sources of Funds				
Equity Capital	699	699	699	699
Reserves & Surplus	16,896	19,514	23,711	28,962
Net Worth	17,595	20,213	24,411	29,661
Minority Interest	40	40	40	40
Long Term Borrowings	29,062	26,062	26,562	32,562
Short Term Borrowings	4,455	4,455	4,455	4,455
Loan Funds	33,517	30,517	31,017	37,017
Long-term provisions	224	224	224	224
Net Deferred Tax Liability	2,111	2,111	2,111	2,111
Other Long-term liabilities	2,294	2,294	2,294	2,294
Total Capital Employed	55,780	55,398	60,096	71,347
Applications of Funds				
Gross Block	58,026	59,526	61,526	79,026
Less: Accumulated Dep	12,842	15,044	17,321	19,958
Net Block	45,184	44,481	44,205	59,068
Capital WIP	1,267	600	6,000	1,200
Intangible Assets	233	211	188	172
Non-Current Investments	150	150	150	150
Other Non-current Assets	2,404	2,404	2,404	2,404
Current Assets, Loans & Advances				
Current Investments	653	653	653	653
Inventories	5,609	6,642	7,229	8,052
Sundry Debtors	2,019	2,391	2,685	3,115
Cash and Bank Balance	4,272	4,206	3,303	3,820
Short Term Loans and Adv	493	493	493	493
Other Current Assets	1,758	1,758	1,758	1,758
sub total	14,804	16,143	16,120	17,890
Less: Current Liabilities & Provisions				
Other Current Liabilities	5,730	5,885	6,007	6,185
Trade payable	2,337	2,511	2,770	3,157
Provisions	195	195	195	195
sub total	8,262	8,590	8,971	9,537
Net Current Assets	6,542	7,553	7,149	8,353
Total Assets	55,780	55,398	60,096	71,347

E – Estimates

Cash Flow (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Profit before tax and EOI	2,800	3,940	5,934	7,338
Net Interest Exp	2,957	2,548	2,593	2,959
Depreciation & w.o.	2,169	2,225	2,299	2,653
Direct taxes paid	(603)	(985)	(1,483)	(1,834)
Chg. in Working Capital	809	280	(500)	(687)
Other	(538)	0	0	0
(A) CF from Opt Activities	7,595	8,008	8,842	10,428
Capex	(3,447)	(833)	(7,400)	(12,700)
Free Cash Flow	4,147	7,175	1,442	(2,272)
(Inc.)/ Dec. in Investments	8	0	0	0
Other	111	(3,905)	(2,593)	(2,959)
(B) CF from Inv. Activities	(3,329)	(4,737)	(9,993)	(15,659)
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	(318)	(3,000)	500	6,000
Interest exp net	(2,977)	0	0	0
Dividend Paid (Incl. Tax)	(337)	(337)	(253)	(253)
Other	(92)	0	0	0
(C) CF from Fin. Activities	(3,724)	(3,337)	247	5,747
Net Change in Cash	542	(66)	(903)	517
Opening Cash balances	3,720	4,262	4,196	3,293
Closing Cash balances	4,262	4,196	3,293	3,810

Important Ratios

Particulars	Mar17	Mar18E	Mar19E	Mar20E
(A) Measures of Performance (%)				
EBIDTA Margin	17.0	16.6	18.6	19.4
EBIT Margin	13.9	12.9	15.1	15.9
Gross Profit Margin	80.9	82.6	83.4	83.7
Tax/PBT	24.7	25.0	25.0	25.0
Net Profit Margin	5.7	6.4	8.5	9.1
Adj. Net Profit Margin	6.1	6.5	8.5	9.1
(B) As Percentage of Net Sales				
Raw Materials Consumed	19.1	17.4	16.6	16.3
Employees Cost	7.9	7.3	7.2	7.1
Manufacturing & Other exp	55.9	58.6	57.6	57.2
(C) Measures of Financial Status				
Debt / Equity (x)	1.9	1.5	1.3	1.2
Interest Coverage (x)	1.9	2.4	3.1	3.3
Average Cost of Debt (%)	8.9	8.0	8.4	8.7
Debtors Period (days)	19	19	19	19
Closing stock (days)	52	52	50	48
Creditor (days)	112	112	116	116
Fixed Assets Turnover (x)	0.9	1.1	1.2	1.0
Working Capital Turnover(x)	6.1	6.2	7.4	7.3
(D) Measures of Investment				
EPS (₹.)	32.4	43.1	64.5	79.7
Adj. EPS (₹.)	34.5	43.9	64.5	79.7
CEPS (₹.)	65.5	75.8	97.4	117.6
DPS (₹.)	4.0	4.0	3.0	3.0
Dividend Payout (%)	12.3	9.3	4.7	3.8
BV / share (₹.)	251.6	289.1	349.1	424.2
RoE (%)	14.4	16.3	20.2	20.6
RoCE (%)	10.1	10.9	13.8	14.8
RoACI (%)	4.6	6.1	8.4	8.6
(E) Valuation Ratios				
CMP (₹.)	1,030.0	1,030.0	1,030.0	1,030.0
P/E (x)	29.9	23.4	16.0	12.9
Market Cap. (₹. Mn.)	72,025	72,025	72,025	72,025
MCap/ Sales (x)	1.8	1.5	1.4	1.2
EV (₹. Mn.)	100,617	97,683	99,086	104,570
EV/Sales (x)	2.5	2.1	1.9	1.7
EV/EBDITA (x)	14.9	12.5	10.1	8.8
P/BV (x)	4.1	3.6	3.0	2.4
Dividend Yield (%)	0.4	0.4	0.3	0.3

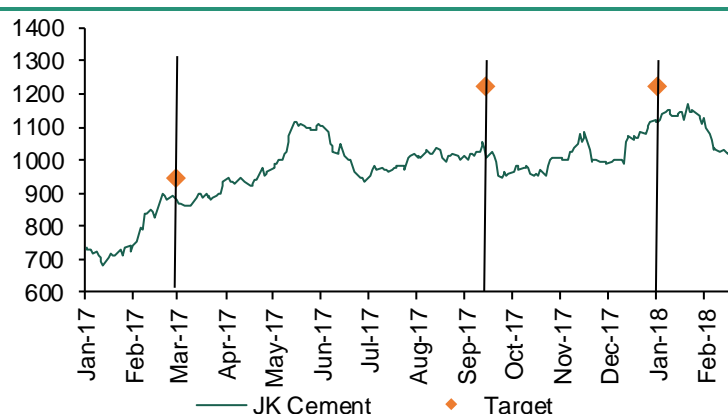
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Feb-17	Accumulate	945	878
Sept-17	Accumulate	1,220	1,040
Jan-18	Accumulate	1,220	1,103

* As on Recommended Dated

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