

J K Cement

BSE SENSEX	S&P CNX
34,992	10,530
Bloomberg	JKCE IN
Equity Shares (m)	70
M.Cap.(INRb)/(USDb)	47.4 / 0.6
52-Week Range (INR)	1194 / 650
1, 6, 12 Rel. Per (%)	-8/-31/-36
12M Avg Val (INR M)	44
Free float (%)	35.8

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	48.5	52.5	58.8
EBITDA	7.9	7.8	9.5
PAT	3.0	2.4	2.9
EPS (INR)	42.8	33.9	42.1
Gr. (%)	63.0	-20.9	24.3
BV/Sh (INR)	282.4	307.8	341.5
RoE (%)	16.5	11.5	13.0
RoCE (%)	10.8	8.6	8.9
P/E (x)	15.8	20.0	16.1
P/BV (x)	2.4	2.2	2.0

Estimate change

TP change

Rating change



CMP: INR678

TP: INR883 (+30%)

Buy

Profitability improves sequentially led by better realization

- **Both grey/white cement volumes decline...:** Grey cement volumes (incl. clinker) declined by 3% YoY to 1.87mt and white cement volumes by 2% YoY to 0.29mt in 2QFY19. Grey cement realizations stood at INR4,005/ton (+5% QoQ) and white cement realizations (incl. putty) at INR11,664 (+4% YoY; -1% QoQ). Revenue declined 1% YoY to INR11b in the quarter.
- **...but healthy sequential realizations boost profitability:** Cost/t increased 3% QoQ (+6% YoY) to INR4,310 due to higher power & fuel cost/t (+5% QoQ) and other expenses/t (+12% QoQ), partly offset by lower freight cost/t (down 4% QoQ due to lower lead distance and higher direct dispatches). EBITDA declined 18% YoY (+13% QoQ) to INR1.7b, with the margin contracting 3.3pp YoY (+1.9pp QoQ) to 15.4%. Blended EBITDA/t declined 16% YoY (+21% QoQ) to INR786. Consequently, PAT declined by 26% YoY to INR647m in the quarter.
- **Concall highlights:** (1) Capacity expansion of 4.2mt is on track and should complete as scheduled by Mar'20. Environment clearance for the split grinding unit is expected by Dec'18. (2) JKCE is planning to raise INR13,000m of debt to fund expansion. (3) In 2QFY19, JKCE focused its sales in regions of higher realizations. The company plans to maintain its focus on profitability without jeopardizing its market share.
- **1HFY19 performance:** Volumes grew 3% YoY, while sales increased 3% YoY. EBITDA/PAT declined by 21%/32% YoY. For 2HFY19, we expect volumes to grow 10% YoY, with sales/EBITDA/PAT growth of 13%/25%/6% YoY.
- **Valuation view:** We cut our EBITDA/PAT estimate by 4%/5% for FY19 and by 23%/46% for FY20 in light of recent cost inflation, and higher depreciation/interest cost. We value white cement at 10x Sept'20 EV/EBITDA, grey cement at 8x Sept'20 EV/EBITDA and Fujairah at 6x Sept'20 EV/EBITDA to arrive at a TP of INR883. **Buy.**

Quarterly Performance (Standalone)

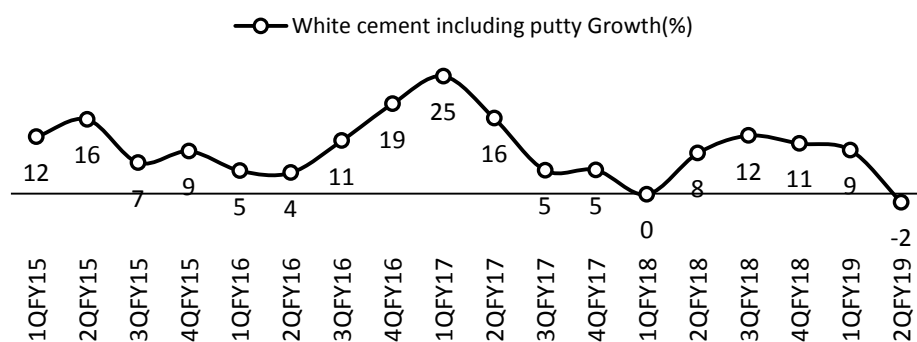
Y/E March	FY18				FY19				FY18	FY19E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales Dispatches (m ton)	2.12	2.22	2.32	2.72	2.32	2.16	2.51	3.04	9.37	10.02
YoY Change (%)	12.7	15.8	20.4	25.0	9.0	-2.9	8.0	11.7	18.3	6.9
Realization (INR/ton)	4,902	4,981	4,847	4,839	4,819	5,096	5,029	4,931	4,901	4,965
YoY Change (%)	3.3	3.8	2.8	2.4	-1.7	2.3	3.7	1.9	3.4	1.3
QoQ Change (%)	3.7	1.6	-2.7	-0.2	-0.4	5.8	-1.3	-1.9		
Net Sales	10,415	11,077	11,261	13,160	11,156	11,006	12,613	14,975	45,912	49,750
YoY Change (%)	16.4	20.1	23.7	28.0	7.1	-0.6	12.0	13.8	22.3	8.4
EBITDA	1,977	2,072	1,702	1,816	1,504	1,698	2,035	2,349	7,604	7,586
Margins (%)	19.0	18.7	15.1	13.8	13.5	15.4	16.1	15.7	16.6	15.2
Depreciation	450	492	451	470	474	487	500	515	1,863	1,976
Interest	680	633	578	562	547	583	585	597	2,454	2,312
Other Income	186	220	249	533	158	180	180	164	1,153	682
PBT before EO expense	1,033	1,167	923	1,317	640	808	1,130	1,401	4,440	3,980
Extra-Ord expense	0	-58	1	91	0	0	0	0	34	0
PBT	1,033	1,225	922	1,227	640	808	1,130	1,401	4,406	3,980
Tax	240	293	193	265	147	161	283	354	991	945
Rate (%)	23.2	23.9	20.9	21.6	22.9	20.0	25.0	25.3	22.5	23.8
Reported PAT	793	931	729	962	493	647	848	1,047	3,415	3,035
Adj PAT	793	873	731	1,052	493	647	848	1,047	3,449	3,035
YoY Change (%)	13.1	113.5	10.9	130.2	-37.8	-25.9	16.0	-0.5	49.9	-12.0

E: MOSL Estimates

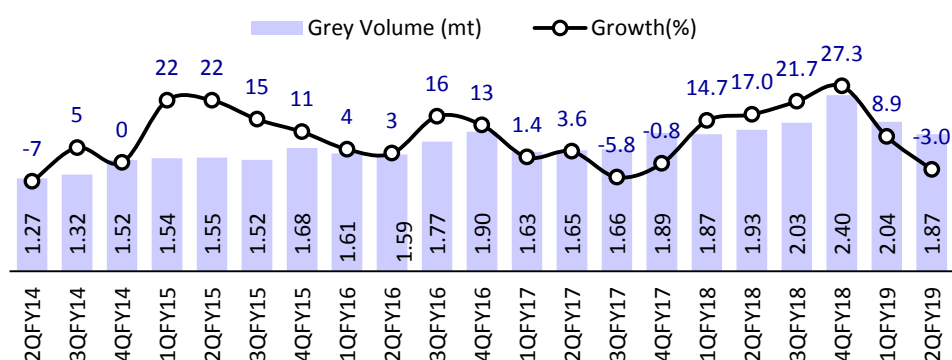
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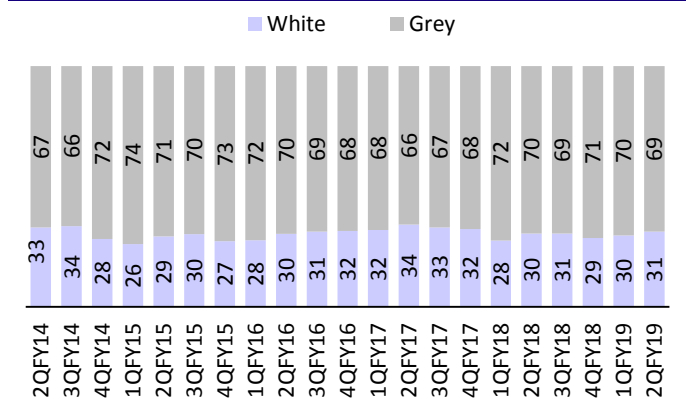
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Exhibit 1: White cement incl. putty volumes decline 2% YoY

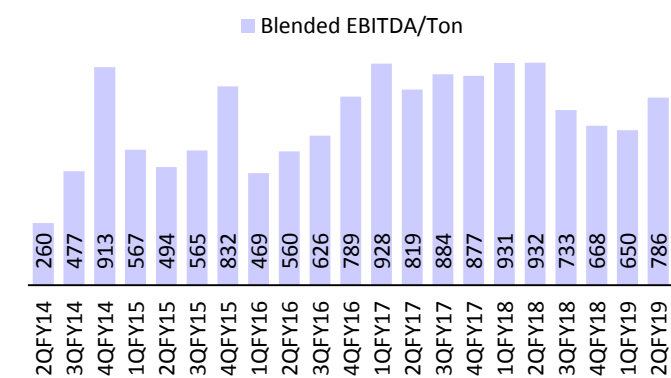
Source: MOSL, Company

Exhibit 2: Grey cement volumes decline 3% YoY

Source: Company, MOSL

Exhibit 3: Revenue mix (%)

Source: Company, MOSL

Exhibit 4: Blended EBITDA/ton (INR/t) trend

Source: Company, MOSL

Exhibit 5: Key performance indicators (blended)

INR/Ton	2QFY19	2QFY18	YoY (%)	1QFY18	QoQ (%)
Net realization	5,096	4,981	2.3	4,819	5.8
RM Cost	782	861	-9.2	764	2
Employee Expenses	418	352	18.6	392	7
Power, Oil & Fuel	1,115	925	20.5	1,065	5
Freight	1,092	1,121	-2.6	1,141	-4
Other Expenses	903	790	14.4	807	12
Total Exp	4,310	4,049	6.4	4,169	3
EBITDA	786	932	-15.6	650	21

Source: Company, MOSL

Key takeaways from the concall

- Capacity expansion of 4.2mt is happening as per schedule. Environment clearance for the split grinding unit is expected by Dec'18. Entire capacity should come on stream by Mar'20.
- The company is planning to raise INR13,000m of debt to fund expansion.
- JKCE had launched a premium product in south; also will be launching it in north markets subsequently.
- In 2QFY19, JKCE focused its sales in regions of higher realizations. The company plans to keep its focus on profitability without jeopardizing its market share.
- Road/rail mix is 80:20.
- Petcoke prices stood at INR10,000/t in 2QFY19, as against INR 9,600/t in 1QFY19. Petcoke usage in kiln is 100%. In some plants, AFR is used to the extent of 10%.
- Trade constitutes ~72% of overall volume mix in 2QFY19 (68% in 1QFY19).

Valuation and views

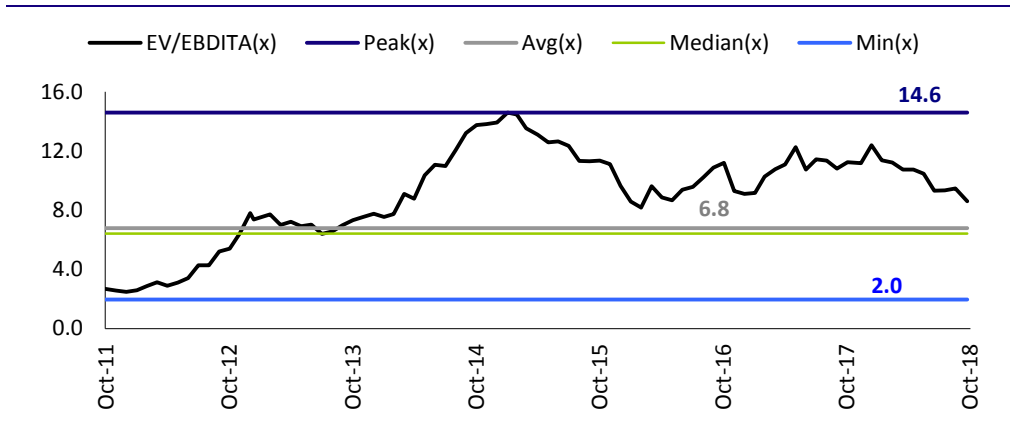
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Exhibit 6: Revision in estimates

(INR M)	FY19E			FY20E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	48,463	53,089	-8.7	52,521	59,112	-11.2
EBITDA	7,875	8,211	-4.1	7,766	10,084	-23.0
Net Profit	2,992	3,137	-4.6	2,368	4,352	-45.6
EPS (INR)	42.8	44.9	-4.6	33.9	62.2	-45.6

Source: MOSL, Company

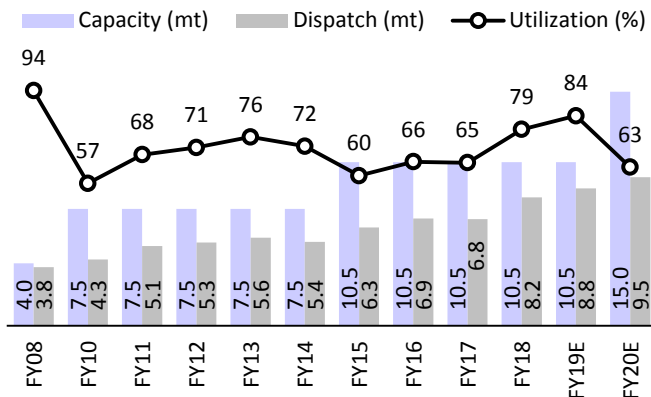
Exhibit 7: EV/EBITDA chart



Source: MOSL, Company

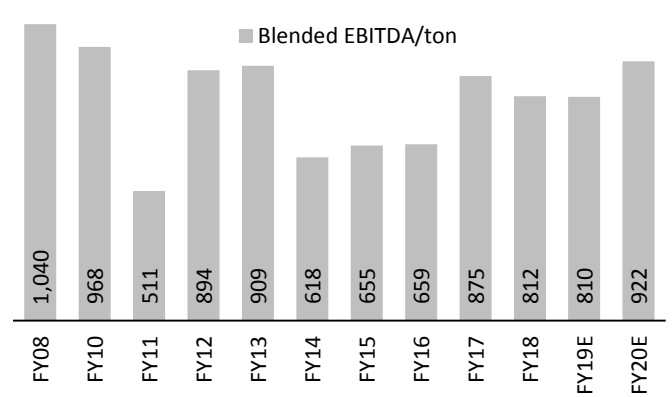
Story in charts

Exhibit 8: Capacity expansion to aid volume growth



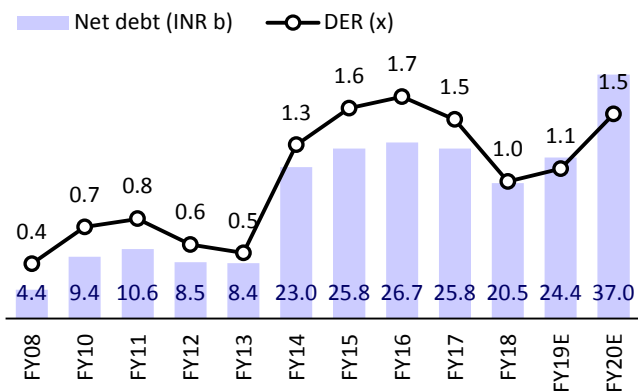
Source: Company, MOSL

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



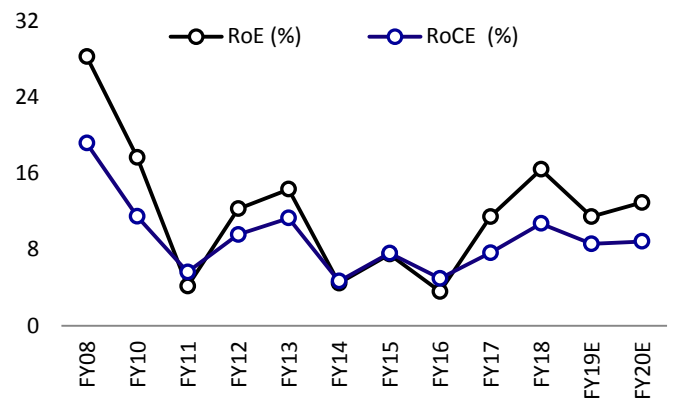
Source: Company, MOSL

Exhibit 10: Net debt to equity to reach 1.5x by FY20



Source: Company, MOSL

Exhibit 11: RoE and RoCE trend (%)



Source: Company, MOSL

Financials and Valuations

Income Statement (INR Million)

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Gross Revenues	33,426	32,017	39,095	43,291	46,540	50,205	52,521	58,760
Less: Excise Duty	4,385	4,202	5,222	5,828	6,326	1,742	0	0
Net Sales	29,040	27,815	33,874	37,463	40,214	48,463	52,521	58,760
Change (%)	14.4	-4.2	21.8	10.6	7.3	20.5	8.4	11.9
EBITDA	5,493	3,384	4,308	5,065	7,261	7,875	7,766	9,515
Margin (%)	18.9	12.2	12.7	13.5	18.1	16.2	14.8	16.2
Depreciation	1,287	1,342	1,461	1,974	2,169	2,313	2,423	2,777
EBIT	4,206	2,042	2,847	3,091	5,092	5,561	5,342	6,738
Int. and Finance Charges	1,398	1,526	2,291	3,049	3,027	2,841	2,711	3,169
Other Income - Rec.	567	626	713	895	984	1,281	682	567
PBT bef. EO Exp.	3,375	1,142	1,269	936	3,049	4,002	3,313	4,137
EO Expense/(Income)	0	0	-172	0	193	182	0	0
PBT after EO Exp.	3,375	1,142	1,441	936	2,856	3,820	3,313	4,137
Current Tax	1,071	392	22	388	705	941	945	1,194
Deferred Tax	0	0	0	0	432	23	0	0
Tax Rate (%)	31.7	34.4	1.5	41.4	39.8	25.2	28.5	28.9
Reported PAT	2,305	749	1,419	548.3	1,719.3	2,855.9	2,368	2,943
PAT Adj for EO items	2,305	749	1,250	548	1,835	2,992	2,368	2,943
Change (%)	28.5	-67.5	66.8	-56.1	234.8	63.0	-20.9	24.3
Margin (%)	7.9	2.7	3.7	1.5	4.6	6.2	4.5	5.0
Less: Mionrity Interest	-3.083	-22.1	-17.2	-30.2	-57.7	-39.9	0.0	0.0
Net Profit	2,308	772	1,267	578	1,893	3,032	2,368	2,943

Balance Sheet (INR Million)

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Equity Share Capital	699	699	699	699	699	699	699	699
Total Reserves	16,206	16,762	15,470	15,171	16,408	19,049	20,827	23,180
Net Worth	16,905	17,462	16,170	15,870	17,107	19,749	21,527	23,879
Deferred Liabilities	2,490	2,685	2,798	2,165	2,599	2,670	2,670	2,670
Total Loans	12,482	27,750	30,308	31,204	30,961	27,306	31,306	40,306
Capital Employed	31,925	48,041	49,404	49,337	50,706	49,724	55,502	66,855
Gross Block	30,822	31,743	50,671	53,636	58,456	59,334	60,334	81,176
Less: Accum. Deprn.	7,132	8,474	9,935	11,100	13,039	14,900	17,323	20,101
Net Fixed Assets	23,690	23,269	40,736	42,535	45,417	44,433	43,010	61,076
Capital WIP	2,546	17,875	3,373	3,211	1,267	1,043	8,043	1,200
Total Investments	324	675	365	786	803	1,189	1,189	1,189
Curr. Assets, Loans&Adv.	13,518	15,814	16,027	15,261	16,621	17,877	18,520	14,856
Inventory	4,614	5,420	5,415	4,931	5,609	5,898	6,170	5,152
Account Receivables	1,153	1,117	1,771	2,113	2,019	2,358	2,467	2,760
Cash and Bank Balance	3,753	4,086	4,171	3,731	4,353	5,595	5,671	2,115
Loans and Advances	3,998	5,191	4,670	4,486	4,640	4,026	4,212	4,830
Curr. Liability & Prov.	8,152	9,592	11,097	12,511	13,403	14,818	15,260	11,466
Account Payables	7,353	9,095	10,424	12,141	13,074	14,316	14,976	11,108
Provisions	799	497	673	370	329	502	284	358
Net Current Assets	5,365	6,222	4,929	2,750	3,219	3,059	3,260	3,390
Appl. of Funds	31,925	48,041	49,404	49,282	50,706	49,724	55,502	66,855

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR) *								
Consol EPS	33.0	10.7	17.9	7.8	26.2	42.8	33.9	42.1
Cash EPS	51.4	29.9	38.8	36.1	57.3	75.9	68.5	81.8
BV/Share	241.7	249.7	231.2	227.0	244.6	282.4	307.8	341.5
DPS	6.5	3.0	4.0	4.0	8.0	10.0	7.0	7.0
Payout (%)	23.1	32.5	22.9	61.4	39.2	29.5	24.9	20.1

Valuation (x) *

P/E	20.6	63.3	37.9	86.5	25.8	15.8	20.0	16.1
Cash P/E	13.2	22.7	17.5	18.8	11.8	8.9	9.9	8.3
P/BV	2.8	2.7	2.9	3.0	2.8	2.4	2.2	2.0
EV/Sales	1.8	1.9	2.1	1.9	1.8	1.4	1.2	1.4
EV/EBITDA	9.7	15.5	16.2	14.0	9.9	8.5	8.2	8.7
EV/Ton (US\$)	93	85	81	81	81	74	71	68
Dividend Yield (%)	1.0	0.4	0.6	0.6	1.2	1.5	1.0	1.0

Return Ratios (%)

RoIC	11.4	5.3	8.4	4.4	7.1	9.6	9.3	9.3
RoE	14.4	4.5	7.5	3.6	11.5	16.5	11.5	13.0
RoCE	11.3	4.7	7.6	5.0	7.7	10.8	8.6	8.9

Leverage Ratio (x)

Current Ratio	1.7	1.6	1.4	1.2	1.2	1.2	1.2	1.3
Debt/Equity	0.7	1.6	1.9	2.0	1.8	1.4	1.5	1.7

Cash Flow Statement

(INR Million)

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
OP/(Loss) before Tax	3,375	1,142	1,442	1,010	2,856	3,832	3,313	4,137
Depreciation	1,287	1,350	1,461	1,974	2,170	2,313	2,423	2,777
Interest & Finance Charges	980	1,077	1,850	2,629	2,527	2,348	2,711	3,169
Direct Taxes Paid	-1,181	-766	-609	-306	-633	-996	-945	-1,194
(Inc)/Dec in WC	-669	840	-1,611	722	416	1,193	-125	-3,686
CF from Operations	3,793	3,642	2,532	6,029	7,335	8,691	7,377	5,203
Others	27.4	0.3	30	-229.1	382.9	140.7	0	0
CF from Operating incl EO	3820.1	3642.7	2562	5800	7718.2	8831.2	7377.48	5202.6
(Inc)/Dec in FA	-5,448	-15,576	-5,472	-3,813	-3,840	-1,443	-8,000	-14,000
Free Cash Flow	-1,628	-11,934	-2,910	1,987	3,879	7,388	-623	-8,797
(Pur)/Sale of Investments	-232	-343	354	-499	8	-369	0	0
Others	412	345	338	4	192	1,581	0	0
CF from Investments	-5,267	-15,575	-4,780	-4,308	-3,640	-231	-8,000	-14,000
Issue of Shares	0	112	0	0	0	0	0	0
Inc/(Dec) in Debt	1,552	14,105	3,673	1,413	328	-3,316	4,000	9,000
Interest Paid	-1,359	-1,767	-2,254	-3,009	-2,971	-2,789	-2,711	-3,169
Dividend Paid	0	0	0	-337	-337	-673	-590	-590
Others	674	-184	885	0	-476	-580	0	0
CF from Fin. Activity	868	12,266	2,303	-1,932	-3,456	-7,358	699	5,241
Inc/Dec of Cash	-579	333	85	-440	622	1,242	77	-3,556
Opening Balance	4,332	3,753	4,086	4,171	3,731	4,353	5,595	5,671
Closing Balance	3,753	4,086	4,171	3,731	4,353	5,595	5,671	2,115

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 0.9mt Wall Putty capacity. JKCE has 141MW captive power capacity its North (Rajasthan) and South (Karnataka) locations.

Exhibit 1: Sensex rebased

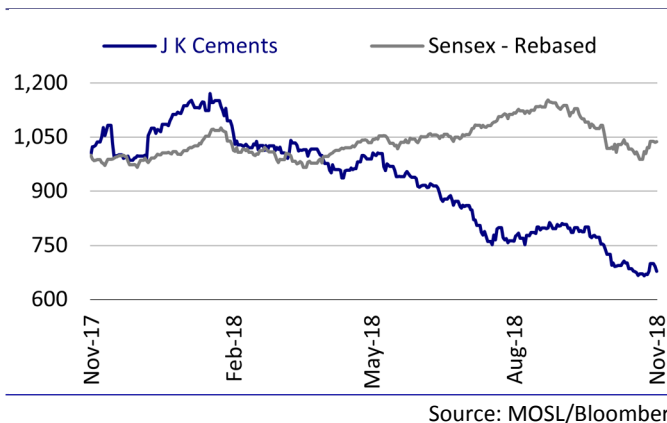


Exhibit 2: Shareholding pattern (%)

	Sep-18	Jun-18	Sep-17
Promoter	64.2	64.2	64.2
DII	16.7	17.2	16.4
FII	10.7	10.0	11.2
Others	8.5	8.7	8.3

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Fidelity Investment Trust Fidelity Series	3.8
Franklin Templeton Investment Funds	2.9
HDFC Standard Life Insurance Co.	2.9
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
Kailash Nath Khandelwal	Director
Paul Hugentobler	Director
Sushila Devi Singhania	Director
Shambhu Singh	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Achintya Karati	K B Agarwal
J N Godbole	R K Lohia
	Suparas Bhandari

*Independent

Exhibit 6: Auditors

Name	Type
K G Goyal & Co	Cost Auditor
Reena Jakhodia	Secretarial Audit
S R Batliboi & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	33.9	43.5	-22.1
FY20	42.1	59.4	-29.1

Source: Bloomberg

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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