

Strong profitability continues; reiterate BUY!

JK Cement saw strong profit growth in Q1FY20 on the back of a strong pricing environment during the quarter. Revenues for the quarter were at ₹ 1328 crore (marginally below I-direct estimate of ₹ 1348 crore). The revenue growth was supported by 19.4% growth in blended realisations to ₹ 5754/t (above I-direct estimate of ₹ 5437/t). Blended volumes remained flat YoY at 2.31 MT (vs. I-direct estimate of 2.48 MT). EBITDA/t and EBITDA doubled YoY to ₹ 1315/t (vs. I-direct estimate of ₹ 1112/t) and ₹ 303.5 crore (vs. I-direct estimate of ₹ 276 crore) respectively. Led by a strong operational performance, PAT jumped 212% YoY to ₹ 153.8 crore YoY.

Capacity expansion to be growth engine in FY21E

While northern operations of the company were facing clinker bottlenecks, soft demand led to grey cement volume decline of 3.3% for JK Cement for Q1FY20. To address clinker bottlenecks, the company has capex plans underway. The new clinker line at Mangrol unit for a 7500 TPD capacity is expected to be commissioned by September 2019. Further, in FY21E (December 2020) the capacity of the third clinker line at Nimbahera plant would be enhanced by 1000 TPD to 6000 TPD. Another 1 MT brownfield expansion of grinding capacity at its Mangrol unit would be commissioned in H1FY20 while similar capacity addition at its Nimbahera grinding unit is undergoing trial run and would get on stream from H2FY20E. Further, the greenfield GUs at Aligarh and Balasinor are expected to be completed in FY20E as well. Out of the total estimated capex outlay of ₹ 2000 crore, the company has already spent ₹ 900 crore while the balance would be spent over FY20E and FY21E, thus taking the company's grinding capacity to 14.7 MT by FY21E. While growth of ~3.4% is expected in FY20E, led by capacity addition, we model 16.5% volume growth in FY21E.

EBITDA margins to stay firm going ahead

The company has been working towards rationalising its operational costs by consulting a major management consultancy firm while the company expects logistics costs to be optimised during FY20E. Further, strong margins from the white cement business supported by improving realisations for grey cements are expected to lead to EBITDA margins expanding from 16.3% in FY19 to 19.1% in FY21E.

Valuation & Outlook

The company currently is in an expansion phase. Led by additional debt required to fund these expansions, debt is expected to breach ₹ 3100 crore. However, with higher volumes and improving margins, the debt/EBITDA ratio is expected to improve to 2.5x in FY21E from 2.9x in FY21E. Also, taking into consideration the current valuations, we maintain **BUY** recommendation on the company, with a target price of ₹ 1150.

JK Cement LTD.

Stock Data

Particulars	Amount
Mcap	₹ 7340 Crore
Debt (FY19)	₹ 2355 Crore
Cash & Invest (FY19)	₹ 878 Crore
EV	₹ 8818 Crore
52 week H/L	₹ 1195 / 748
Equity cap	₹ 69.9 crore
Face value	₹ 10

Key Highlights

- With completion of FY20E planned expansions, the company's grinding capacity would touch 14.7 MT
- Clinker debottlenecking under way to add 7500 TPD at Mangrol and enhance Nimbahera capacity by 1000 TPD
- Debt/EBITDA to improve from 2.9x in FY19 to 2.5x in FY21E
- Maintain BUY with target price of ₹ 1150 per share

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Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	3704	4591	4981	5526	6413	13.5%
EBITDA	641	761	810	1038	1222	22.8%
EBITDA (%)	17.3	16.6	16.3	18.8	19	
PAT	230	359	324	453	508	25.1%
EPS (₹)	32.9	51.3	42.0	58.6	65.7	
EV/EBITDA	13.7	11.1	10.1	8.7	7.3	
EV/Tonne (\$)	147	117	103	101	100	
RoNW	12.3	16.7	11.2	13.9	13.9	
RoCE	12.8	14.6	12.5	13.3	14.3	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Total Operating Income	1328.0	1348.8	1115.6	19.0	1,491.9	-11.0	Topline growth driven mainly by 19.4% growth in blended realizations while volumes broadly remained flat YoY
Other Income	17.2	16.6	15.8	9.0	34.9	-50.8	
Raw Material Expenses	211.7	214.6	193.9	9.2	235.4	-10.1	
Employee Expenses	96.8	93.0	90.6	6.8	83.6	15.8	
Stock Adjustments	-29.3	0.0	-16.9	NA	29.5	NA	
Power & Fuel	262.1	267.9	246.5	6.3	303.4	-13.6	P&F costs per tonne higher YoY due to higher input costs
Freight cost	247.4	266.7	264.1	-6.3	304.5	-18.7	Efforts towards freight costs rationalisation help reduce freight costs per tonne by 6.1% YoY
Others	235.7	230.7	186.9	26.1	256.1	-8.0	
EBITDA	303.5	275.8	150.4	101.8	279.5	8.6	Higher realisation and lower freight costs per tonne aid EBITDA growth
EBITDA Margin (%)	22.9	20.4	13.5	938 bps	18.7	412 bps	
Interest	53.4	52.6	54.7	-2.4	53.3	0.2	
Depreciation	49.4	54.7	47.4	4.1	49.7	-0.6	
PBT	217.9	185.0	64.0	240.4	211.4	3.1	
Total Tax	64.1	59.2	14.7	336.3	61.4	4.3	Better operational performance drives PAT higher
PAT	153.8	125.8	49.3	211.9	150.0	2.6	

Key Metrics

Volume (MT)	2.31	2.48	2.32	-0.3	2.88	-19.8	Grey cement volumes marginally lower to 2 MT vs 2.04 MT YoY while white cement volumes up 21% YoY to 0.34 MT
Realisation (₹)	5,754	5,437	4,819	19.4	5,182	11.0	Realisations higher on account of higher prices south as well as north
EBITDA per Tonne (₹)	1,315	1,112	650	102.4	971	35.5	19% growth in realisations push EBITDA/t higher, overshadowing costs per tonne rising 6% YoY

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5,609.3	5,526.0	-1.5	6,210.9	6,413.3	3.3	Capacity addition to drive the revenue growth
EBITDA	982.4	1,037.5	5.6	1,116.5	1,222.4	9.5	
EBITDA Margin (%)	17.5	18.8	126 bps	18.0	19.1	108 bps	Cost rationalisation and higher realisation to aid margin expansions
PAT	433.6	452.6	4.4	491.9	507.9	3.2	
EPS (₹)	56.1	58.6	4.4	63.7	65.7	3.2	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current					Earlier		Comments
	FY17	FY18	FY19P	FY20E	FY21E	FY20E	FY21E	
Volume (MT)	7.9	9.4	9.8	10.1	11.8	10.9	12.0	Volumes to increase at a CAGR of 9.7% over FY19-21E
Realisation (₹)	4,747	4,906	5,090	5,463	5,442	5,158	5,188	Prevailing strong pricing environment to keep realizations elevated
EBITDA per Tonne (₹)	877	809	828	1,026	1,037	903	933	EBITDA/t to cross ₹1000/t supported by higher realizations

Source: Company, ICICI Direct Research

Annual Report Key Highlights

- **Performance** - JK Cement witnessed ~8% growth in revenues during the year to ₹ 4919 crore during FY19 driven by sustained demand from housing and infrastructure spending. EBITDA during the year increased to ₹ 810 crore, growing 6.5% YoY. Industry cement production capacity stands at ~480 MT and is expected to cross 500 MT by 2020.
- **Volumes** - During the year, the company's grey cement production increased 6% YoY to 8.36 MT while that of white cement increased 7% YoY to 1.26 MT
- **Grey cement expansion** - The company has expansions ongoing, which will enhance the capacity to 15 MT from the present 10.5 MT. The brownfield expansion of its grinding capacity at Nimbahera and Mangrol is expected to be commissioned during FY20. While expansion is also underway for its Aligarh unit and additional clinker production line at Mangrol unit, During FY19, the company has received environmental clearance for its Balasinor grinding unit. All these projects are expected to be completed in FY20E while the upgradation of 3rd clinker line at Nimbahera is scheduled to be completed in FY21E.
- **White cement expansion** - The wall putty capacity during the year was enhanced by 0.2 MT Katni unit. The company would also undertake 0.2 MT further expansion at this unit in FY21E, which would take the wall putty capacity to 1.1 MT
- **Investment** - The combined investment outlay for all these expansions has been estimated at ~₹ 2000 crore, which would be funded as 65% debt and the balance being company funds. To fund these expansions, the company raised capital via QIP in December 2018. It raised ~₹ 511 crore by issuing ~73.41 lakh shares to qualified institutional buyers at a price of ₹ 695.8 per share. Further to set up capacity in Madhya Pradesh, the company has acquired 2 mining leases.
- **Leverage and Liquidity** – As at March 31, 2019, the company's total indebtedness was at ₹ 2609 crore (including current maturities of long term debt and interest accrued on borrowings). With respect to the liquidity position, the company had ~₹ 290 crore as cash in hand and bank balances. Other deposits with banks stood at ₹ 194 crore while liquid investments were at ₹ 394.3 crore. Thus, cash and liquid investments total to ~₹ 895 crore as on March 31, 2019

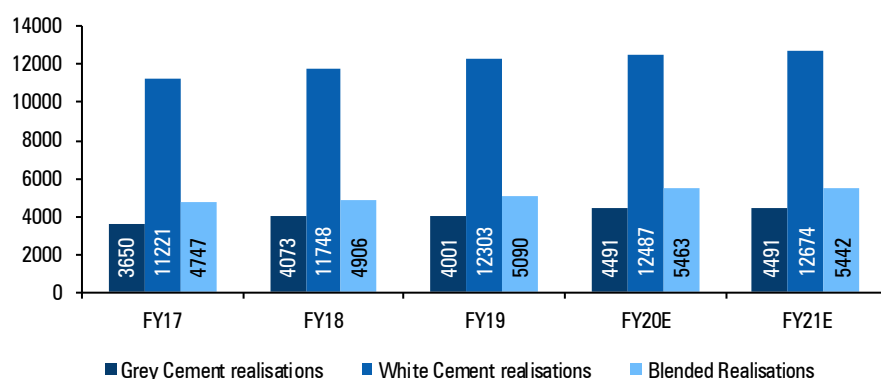
Financial Story in Charts

Exhibit 4: Capacity addition plans

Particulars	MT	MT	
Current installed capacity	10.5		
On going expansion	Cement	Clinker	Cost
Nimbahera, Rajasthan	1.0		
Mangrol, Rajasthan	1.0	2.5	₹ 1300 crore Debt
Aligarh, UP	1.5		₹ 700 crore - Internal accruals
Silvassa, Gujarat	0.7		
Total	4.2		
Capacity post expansion	14.7		

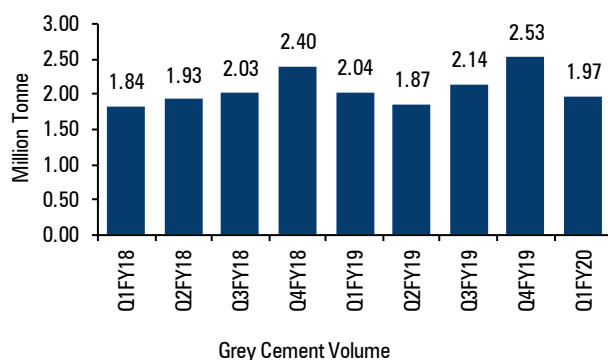
Source: Company, ICICI Direct Research

Exhibit 5: Blended realisations to grow at 3.4% CAGR over FY19-21E



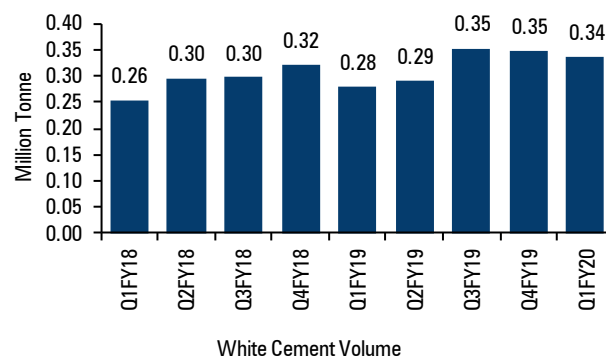
Source: Company, ICICI Direct Research

Exhibit 6: Grey cement volumes down 3.2% YoY



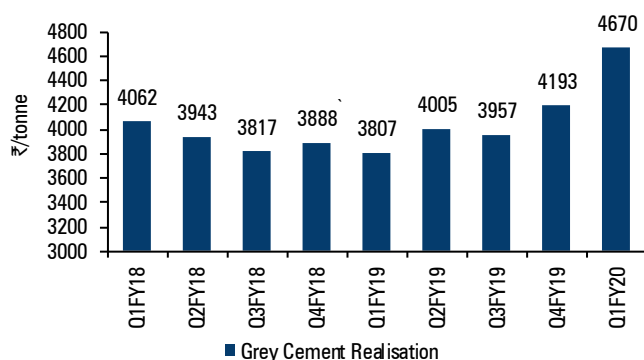
Source: Company, ICICI Direct Research

Exhibit 7: White cement volumes higher by ~21% YoY



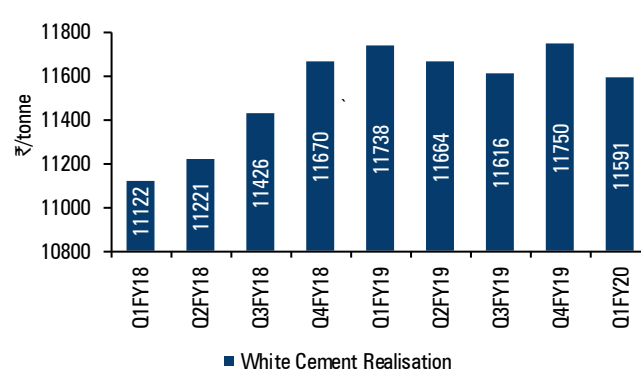
Source: Company, ICICI Direct Research

Exhibit 8: Grey cement realisations up 22.7% YoY



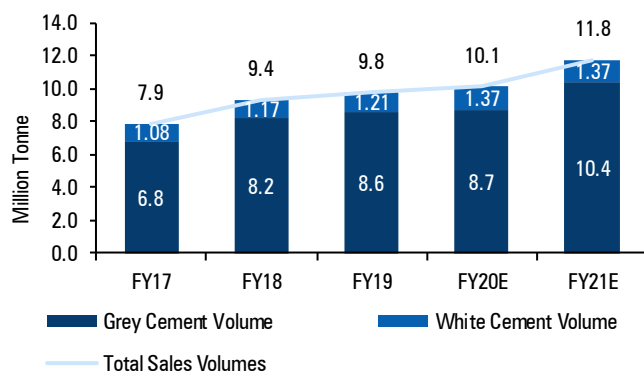
Source: Company, ICICI Direct Research

Exhibit 9: White cement realisations decline 1.2% YoY



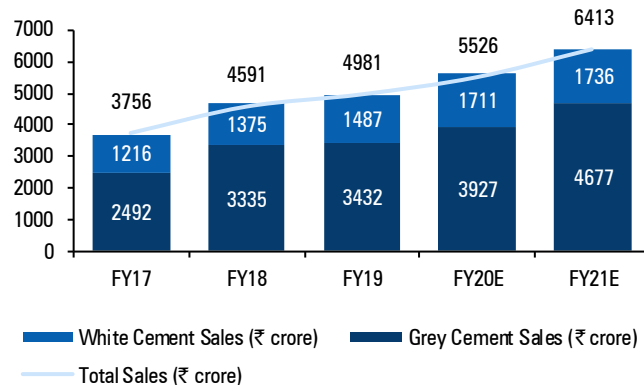
Source: Company, ICICI Direct Research

Exhibit 10: Volumes to grow at 9.7% CAGR over FY19-21E



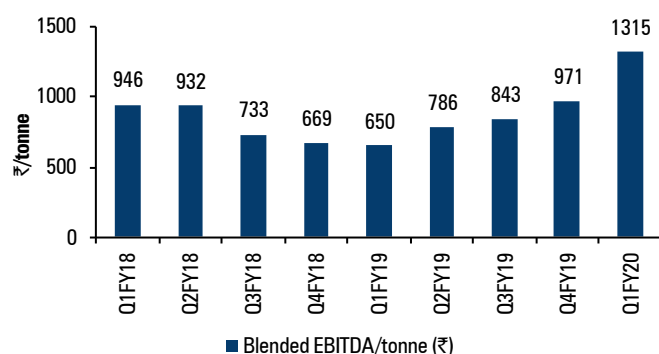
Source: Company, ICICI Direct Research

Exhibit 11: Revenues to grow at 13.5% CAGR over FY19-21E



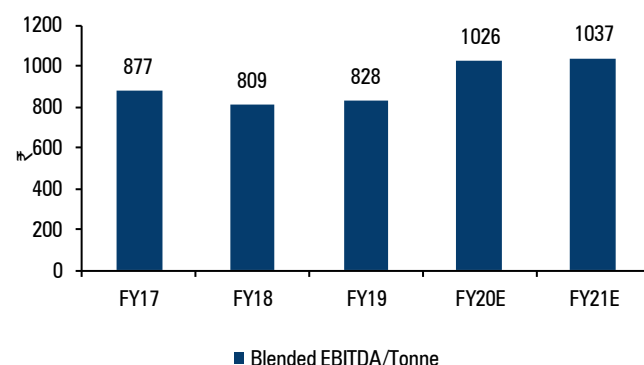
Source: Company, ICICI Direct Research

Exhibit 12: EBITDA/t for Q1FY20 doubles YoY to ₹ 1315/t



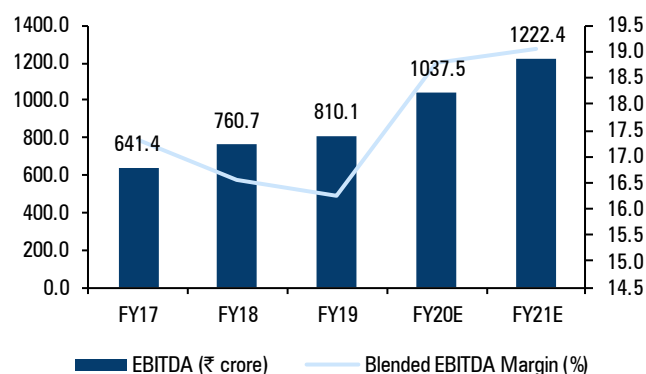
Source: Company, ICICI Direct Research

Exhibit 13: Annual EBITDA/t to cross ₹ 1,000/t in FY20E



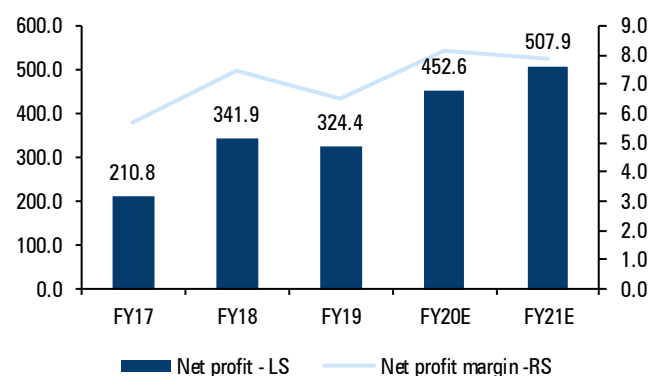
Source: Company, ICICI Direct Research

Exhibit 14: EBITDA to grow at 23% CAGR over FY19-21E



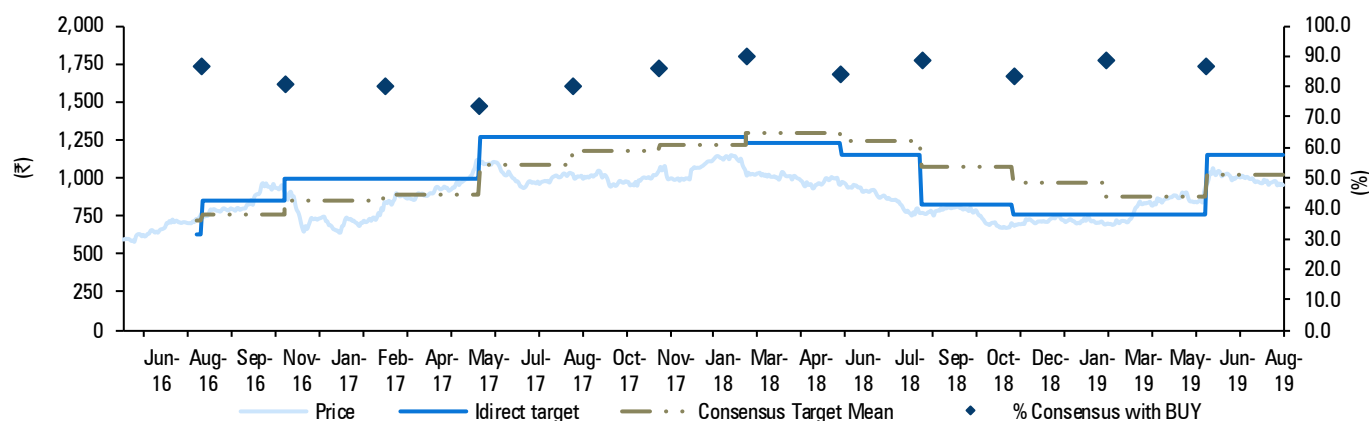
Source: Company, ICICI Direct Research

Exhibit 15: PAT to experience 25% CAGR over FY19-21E



Source: Company, ICICI Direct Research

Exhibit 16: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 17: Top 10 Shareholders

Rank	Name	Filing Date	% O/S	Position (m)	Change (m)
1	Yadu International, Ltd.	30-Jun-19	0.4	30.2	0.0
2	Singhania (Yadupati)	30-Jun-19	0.2	12.1	0.0
3	SBI Funds Management Pvt. Ltd.	30-Jun-19	0.1	4.1	-0.2
4	Franklin Templeton Asset Management (India) Pvt. Ltd.	30-Jun-19	0.0	3.2	0.0
5	Templeton Asset Management Ltd.	30-Jun-19	0.0	2.8	0.0
6	Fidelity Management & Research Company	30-Jun-19	0.0	2.7	-0.3
7	HDFC Life Insurance Company Limited	30-Jun-19	0.0	1.5	-0.2
8	Singhania (Kavita Y)	30-Jun-19	0.0	1.3	0.0
9	Sundaram Asset Management Company Limited	30-Jun-19	0.0	1.2	0.0
10	Mirae Asset Global Investments (India) Pvt. Ltd.	30-Jun-19	0.0	1.2	0.8

Source: Company, ICICI Direct Research

Exhibit 18: Recent Activity

Buys			Sells		
Investor name	Value(mn)	Shares(mn)	Investor name	Value(mn)	Shares(mn)
Mirae Asset Global Investments (India) Pvt. Ltd.	11.83	0.81	DSP Investment Managers Pvt. Ltd.	-6.02	-0.41
Indiabulls Asset Management Company Limited	0.07	0.01	Fidelity Management & Research Company	-4.69	-0.32
Florida State Board of Administration	0.06	0.00	Reliance Nippon Life Asset Management Limited	-3.29	-0.23
BlackRock Institutional Trust Company, N.A.	0.06	0.00	SBI Funds Management Pvt. Ltd.	-2.93	-0.20
Fidelity Investments Canada ULC	0.03	0.00	Tata Asset Management Limited	-2.70	-0.19

Source: Company, ICICI Direct Research

Exhibit 19: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	64.16	64.16	58.07	58.07	58.07
FII	10.27	10.64	9.83	10.01	10.70
DII	16.77	16.69	24.69	24.74	24.36
Others	8.80	8.51	7.41	7.18	6.87

Source: Company, ICICI Direct Research

Financial summary

Exhibit 20: Profit and Loss Statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating Income	4,591.2	4,981.3	5,526.0	6,413.3
Growth (%)	24.0	8.5	10.9	16.1
Raw material cost	773.2	838.0	890.3	1048.8
Employee Expenses	325.5	353.5	420.6	453.7
Power, Oil & Fuel	889.7	1052.3	1134.2	1319.8
Freight cost	1072.4	1081.8	1097.8	1284.5
Other Expenses	769.7	845.6	945.7	1084.1
Total Operating Exp.	3,830.5	4,171.2	4,488.5	5,190.9
EBITDA	760.7	810.1	1,037.5	1,222.4
Growth (%)	18.6	6.5	28.1	17.8
Depreciation	186.3	194.4	223.1	269.5
Interest	245.4	222.7	233.7	295.0
Other Income	127.6	80.0	60.5	60.5
Exceptional items	17.0	0.0	0.0	0.0
PBT	439.7	473.1	641.2	718.4
Total Tax	97.9	148.7	188.6	210.5
PAT	341.9	324.4	452.6	507.9
Growth (%)	62.2	-5.1	39.5	12.2
Adjusted EPS (₹)	44.2	42.0	58.6	65.7

Source: Company, ICICI Direct Research

Exhibit 22: Balance Sheet ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	69.9	77.3	77.3	77.3
Reserve and Surplus	2,077.4	2,813.0	3,172.4	3,587.1
Total Shareholders funds	2,147.3	2,890.2	3,249.6	3,664.3
Total Debt	2,390.0	2,355.2	3,005.2	3,105.2
Deferred Tax Liability	267.2	310.7	310.7	310.7
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	4,804.5	5,556.1	6,565.5	7,080.2
Assets				
Gross Block	5,097.3	5,324.3	6,418.1	7,768.1
Less: Acc Depreciation	1,505.0	1,699.4	1,922.5	2,192.0
Net Block	3,592.3	3,624.9	4,495.6	5,576.1
Capital WIP	87.8	543.8	750.0	150.0
Total Fixed Assets	3,680.1	4,168.7	5,245.6	5,726.1
Intangible Asset	4.4	10.4	10.4	10.4
Investments	634.5	1,196.3	1,196.3	1,196.3
Inventory	531.6	570.5	652.8	766.9
Debtors	188.0	205.6	228.6	265.3
Loans and Advances	399.9	313.2	515.7	446.3
Cash	543.5	483.3	305.9	513.9
Total Current Assets	1,663.0	1,572.6	1,703.0	1,992.5
Creditors	851.1	1,114.4	1,135.5	1,317.8
Provisions	326.4	277.5	454.2	527.1
Total Current Liabilities	1,177.4	1,391.8	1,589.7	1,844.9
Net Current Assets	485.5	180.8	113.3	147.5
Application of Funds	4,804.5	5,556.1	6,565.6	7,080.2

Source: Company, ICICI Direct Research

Exhibit 21: Cash Flow Statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	341.9	324.4	452.6	507.9
Add: Depreciation	186.3	194.4	223.1	269.5
(Inc)/dec in Current Assets	-23.8	30.1	-307.8	-81.4
Inc/(dec) in CL and Provisions	96.6	214.4	197.8	255.2
CF from operating activities	600.9	763.3	565.8	951.3
(Inc)/dec in Investments	-12.3	-316.9	0.0	0.0
(Inc)/dec in Fixed Assets	-85.9	-689.0	-1,300.0	-750.0
Others	-83.7	-201.3	0.0	0.0
CF from investing activities	-181.9	-1,207.2	-1,300.0	-750.0
Issue/(Buy back) of Equity	0.0	7.3	0.0	0.0
Inc/(dec) in loan funds	-236.4	-34.8	650.0	100.0
Dividend paid & dividend tax	-84.3	-84.3	-93.2	-93.2
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	18.2	495.5	0.0	0.0
CF from financing activities	-302.5	383.7	556.8	6.8
Net Cash flow	116.6	-60.2	-177.4	208.1
Opening Cash	426.9	543.5	483.3	305.9
Closing Cash	543.5	483.3	305.9	513.9

Source: Company, ICICI Direct Research

Exhibit 23: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
Adjusted EPS	44.2	42.0	58.6	65.7
Cash EPS	68.4	67.1	87.4	100.6
BV	277.9	374.1	420.6	474.2
DPS	10.0	9.0	0.0	0.0
Cash Per Share	70.3	62.5	39.6	66.5
Operating Ratios (%)				
EBITDA Margin	16.6	16.3	18.8	19.1
PAT Margin	7.4	6.5	8.2	7.9
Inventory days	40.9	40.4	40.4	40.4
Debtor days	14.9	15.1	15.1	15.1
Creditor days	67.7	81.7	75.0	75.0
Return Ratios (%)				
RoE	16.7	11.2	13.9	13.9
RoCE	14.6	12.5	13.3	14.3
RoIC	14.0	14.9	15.9	14.5
Valuation Ratios (x)				
P/E	19.4	22.6	16.2	14.5
EV / EBITDA	11.1	10.0	8.6	7.2
EV / Net Sales	1.8	1.6	1.6	1.4
Market Cap / Sales	1.4	1.3	1.2	1.0
Price to Book Value	3.1	2.5	2.3	2.0
Solvency Ratios				
Debt/EBITDA	3.1	2.9	2.9	2.5
Debt / Equity	1.1	0.8	0.9	0.8
Current Ratio	1.4	1.1	1.1	1.1
Quick Ratio	1.0	0.8	0.9	0.8

Source: Company, ICICI Direct Research

Exhibit 24: ICICI Direct coverage universe (Cement)

Company	CMP		Rating	M Cap (₹ Cr)	EPS(₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
ACC*	1,514	1,765	HOLD	28,454	81	73	83	14.4	11.7	10.0	114	111	108	14.7	18.5	19.6	14.9	12.7	13.7
Ambuja Cem*	199	205	HOLD	39,514	8.1	7.5	7.9	19.2	16.2	15.4	130	128	126	11.4	14.9	16.1	11.3	10.0	10.6
UltraTech Cem	4,290	5,300	BUY	117,718	89	157	160	20.8	15.3	12.5	240	192	189	9.7	12.4	14.7	8.8	13.5	12.2
Shree Cement	20,000	22,040	HOLD	69,600	318	521	615	27.4	19.7	17.1	211	168	165	11.5	18.3	19.2	11.5	16.3	16.5
Heidelberg Cem	189	220	HOLD	4,283	9.7	11.3	13.1	10.3	8.7	7.8	135	127	111	21.8	24.7	25.2	20.5	20.7	20.8
India Cement	85	115	HOLD	2,611	2.3	3.6	4.8	9.7	8.6	7.8	62	67	68	4.5	5.2	5.8	1.3	2.1	2.7
JK Cement	950	1,220	BUY	6,643	42.0	58.6	65.7	10.0	8.6	7.2	103	100	99	12.5	13.3	14.3	11.2	13.9	13.9
JK Lakshmi Cem	333	485	BUY	3,919	6.8	23.3	21.9	12.1	7.3	6.8	64	63	56	5.2	15.4	12.7	5.2	15.4	12.7
Mangalam Cem	218	215	REDUCE	582	-3.7	7.3	4.7	20.5	8.1	9.7	45	42	45	3.2	8.8	7.7	-2.0	3.8	2.4
Star Cement	95	105	HOLD	3,993	7.2	6.8	8.3	8.4	8.9	7.3	137	138	93	18.9	16.6	18.2	17.3	15.3	16.1
Ramco Cement	719	950	BUY	17,118	20.6	29.3	32.8	17.7	13.4	11.2	175	161	135	8.0	9.9	10.9	11.2	14.3	14.4
Sagar Cement	566	800	BUY	1,155	6.7	25.7	34.1	10.9	8.0	7.6	51	52	56	6.4	9.7	10.2	1.6	5.4	6.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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