21 June 2020

J K Cements

Rating: **Buy**
Target Price: ₹1,534
Share Price: ₹1,305

Firm realisations and cost optimisation to help; retaining a Buy

On higher realisations and cost savings in Q4, J K Cements' EBITDA rose 24% y/y, though revenue dipped 1% y/y on lower volumes. The company said all capex would begin with a delay of 3-4 months and it would focus on cost optimisation and conserving cash. We expect the ongoing expansion to keep leverage high; however, the ramp-up of the new capacities would help restrict volumes falling y/y in FY21. We retain our Buy rating, with a higher target of ₹1,534 (earlier ₹1,287).

Robust operating performance. The higher realisation by ~7% y/y backed by firm prices and reversal of annual dealer scheme offset the volume decline of 7.3% y/y to 2.67m tons restricting revenue to dip 1% y/y to ₹14.8bn. On higher realisations and cost savings (P&F cost ~down 4.3%, freight cost flat y/y), EBITDA/ton grew firm 33.7% y/y to ₹1,298 (vs ₹971 in Q4FY19). The exceptional expense of ₹1.8bn on provision towards investment in JK Cement (Fuzairah) FZC alongwith higher interest, depreciation & Tax exp led the reported PAT to dip 99.8% y/y to ₹2.3m.

Expansion to be delayed by 3-4 months. Management said all capex would continue, but with a 3/4-month delay, and peak gross term debt would be ₹35bn in FY21. It talked of ₹600m-700m reduction in fixed costs and 20-25% in professional payouts. It had high-cost pet-coke inventory required till Aug'20, restricting the present low-cost benefit of pet-coke.

Valuation. Cement prices have been intact with a small rise. However, labour and driver issues, and the monsoon will keep demand sluggish. The ramp-up of the new capacities would help restrict volumes falling y/y, but utilisation will be under pressure. We expect volumes to fall 5% in FY21, and grow 16% in FY22, with ₹1,028/₹1,167 EBITDA/ton in FY21/FY22 (vs. ₹1,209 in FY20). We maintain our Buy rating, with a higher TP of ₹1,534 (11x FY22e EV/EBITDA) implying EV of $113/ton. **Risk:** Rise in pet-coke and diesel prices; extension of the lockdown.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	45,426	49,813	54,638	52,622	61,907
Net profit (₹ m)	3,588	3,249	5,785	3,708	5,828
EPS (₹)	51.3	42.0	74.9	48.0	75.4
PE (x)	19.8	20.5	12.5	27.2	17.3
EV / EBITDA (x)	12.7	10.4	8.1	13.3	9.6
EV / ton ($)	102.7	93.9	82.0	103.8	98.3
RoE (%)	17.9	12.9	19.2	11.3	15.7
RoCE (%)	8.2	7.8	9.7	7.4	10.0
Dividend yield (%)	1.0	1.2	0.8	0.6	0.6
Net debt / equity (x)	0.9	0.6	0.7	0.7	0.5

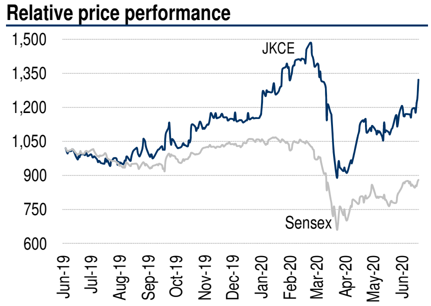
Source: Company, Anand Rathi Research

Key data	JKCE IN / JKCE.BO
52-week high / low	₹1505 / 795
Sensex / Nifty	34565 / 10200
3-m average volume	$1.4m
Market cap	₹102bn / $1340.3m
Shares outstanding	77m

Shareholding pattern (%)	Mar '20	Dec '19	Sept '19
Promoters	58.1	58.1	58.1
- *of which, Pledged*	-	-	-
Free float	41.9	41.9	41.9
- Foreign institutions	12.4	12.1	11.9
- Domestic institutions	23.8	23.6	23.5
- Public	5.7	6.3	6.5

Estimates revision (%)	FY21e	FY22e
Sales	(1.6)	1.2
EBITDA	7.2	13.8
PAT	16.0	22.9

Relative price performance



Source: Bloomberg

Manish Valecha
Research Analyst

Vibha Jain
Research Asociate

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Sales volumes (m tons)	9.4	9.9	9.8	9.2	10.7
Net revenues	45,426	49,813	54,638	52,622	61,907
Growth (%)	*22.7*	*9.7*	*9.7*	*-3.7*	*17.6*
Direct costs	30,509	29,721	29,019	27,635	32,275
SG&A	7,796	11,991	13,803	15,483	17,154
EBITDA	**7,120**	**8,101**	**11,815**	**9,504**	**12,477**
EBITDA margins (%)	*15.7*	*16.3*	*21.6*	*18.1*	*20.2*
- Depreciation	1,863	1,944	2,144	2,523	2,771
Other income	1,763	799	859	737	805
Interest expenses	2,454	2,221	2,229	2,421	2,186
PBT	4,567	4,736	8,302	5,297	8,326
Effective tax rate (%)	*22*	*31*	*39*	*30*	*30*
+ Associates / (Minorities)	-	-	-	-	-
Net income	3,419	3,249	4,004	3,708	5,828
Adjusted income	3,588	3,249	5,785	3,708	5,828
WANS	70	77	77	77	77
FDEPS (₹/ sh)	51	42	75	48	75
FDEPS growth (%)	*56*	*-18*	*78*	*-36*	*57*

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	699	773	773	773	773
Net worth	21,473	28,928	31,289	34,418	39,666
Debt	25,605	25,864	29,388	29,388	24,388
Minority interest	-	-	-	-	-
DTL / (Assets)	2,672	3,125	4,181	4,181	4,181
Capital employed	**49,750**	**57,917**	**64,858**	**67,986**	**68,235**
Net tangible assets	35,905	36,250	44,551	53,920	52,649
Net intangible assets	62	105	130	130	130
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	878	5,564	5,092	1,000	500
Investments (strategic)	5,157	5,665	5,652	5,652	5,652
Investments (financial)	1,189	4,382	10	10	10
Current assets (ex cash)	11,213	13,209	16,804	16,003	18,526
Cash	5,435	4,297	6,311	3,958	5,692
Current liabilities	10,088	11,556	13,693	12,687	14,925
Working capital	1,125	1,653	3,111	3,316	3,601
Capital deployed	**49,750**	**57,917**	**64,858**	**67,986**	**68,235**
Contingent liabilities	11,219	11458	-	-	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	4,567	4,736	8,302	5,297	8,326
+ Non-cash items	1,863	1,944	2,144	2,523	2,771
Oper. prof. before WC	6,430	6,679	10,446	7,820	11,096
- Incr. / (decr.) in WC	-940	528	1,458	205	285
Others incl. taxes	941	1,037	1,712	1,389	2,298
Operating cash-flow	6,428	5,114	7,275	6,226	8,514
- Capex (tang. + intang.)	859	7,018	9,998	7,800	1,000
Free cash-flow	5,569	-1,904	-2,723	-1,574	7,514
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	843	932	699	580	580
+ Equity raised	0	5,108	0	0	0
+ Debt raised	-2,591	259	3,524	0	-5,000
- Fin investments	989	3,702	-4,385	0	0
- Misc. (CFI + CFF)	-20	-33	2,474	200	200
Net cash-flow	1,166	-1,138	2,014	-2,353	1,734

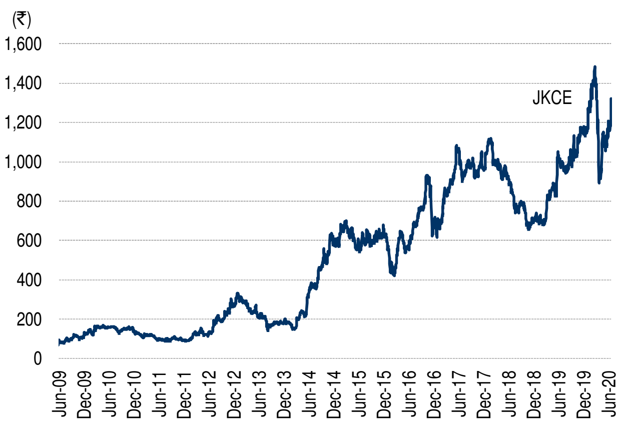
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	19.8	20.5	12.5	27.2	17.3
EV / EBITDA (x)	12.7	10.4	8.1	13.3	9.6
EV / Sales (x)	2.0	1.7	1.7	2.4	1.9
P/B (x)	3.3	2.3	2.3	2.9	2.5
RoE (%)	17.9	12.9	19.2	11.3	15.7
RoCE (%) - after tax	8.2	7.8	9.7	7.4	10.0
DPS (₹ / sh)	10.0	10.0	7.5	7.5	7.5
Dividend payout (%) - incl. DDT	24.7	28.7	17.4	15.6	9.9
Net debt / equity (x)	0.9	0.6	0.7	0.7	0.5
WC days	9.0	12.1	20.8	23.0	21.2
EV / ton ($)	102.7	93.9	82.0	103.8	98.3
NSR / ton (₹)	4,836	5,057	5,591	5,691	5,791
EBITDA / ton (₹)	758	822	1,209	1,028	1,167
Volumes (m tons)	9.39	9.85	9.77	9.25	10.69
CFO : PAT %	179.1	157.4	125.7	167.9	146.1

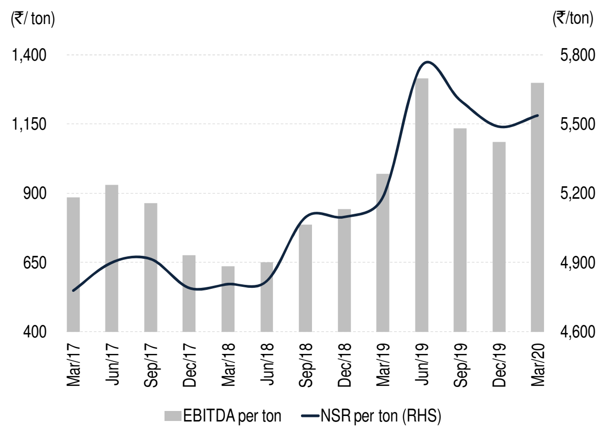
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Quarterly per-ton NSR and EBITDA trends



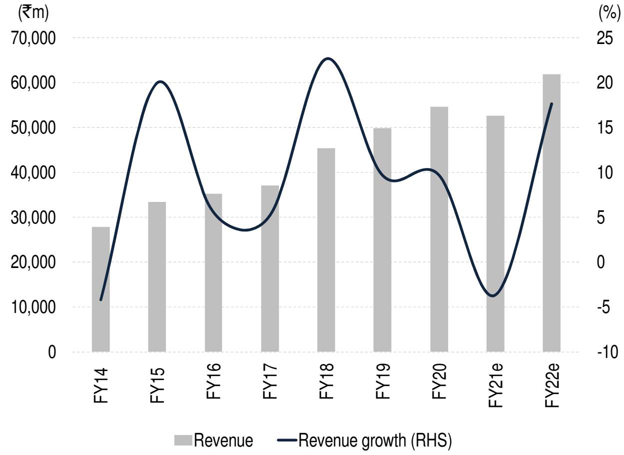
Source: Company

Other key highlights

Revenue growth

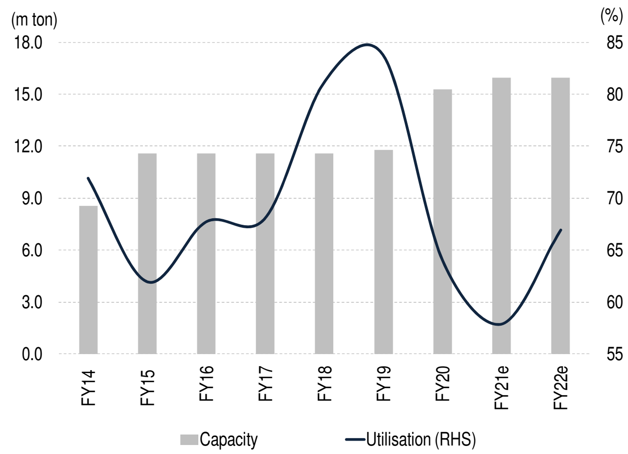
Despite its Q4 volumes dropping 7.3% y/y to 2.67m tons, the steady 6.9% y/y realisation growth to ₹5538/ton restricted JK Cement's Q4 revenue to falling only 1% y/y to ₹14.8bn. Besides firm prices, the realisation growth was due to reversal of ₹200-250m reserves of annual schemes to dealers. The annual schemes pertained to volumes from the expanded capacity, which was impacted by the decline in demand on the lockdown. Grey cement volumes declined 6.6% y/y to 2.36m tons, while NSR/ton rose 2.9% y/y. White cement volumes slid 12.9% y/y to 0.30m tons, with realisations rising 2.8% y/y.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



Source: Company, Anand Rathi Research

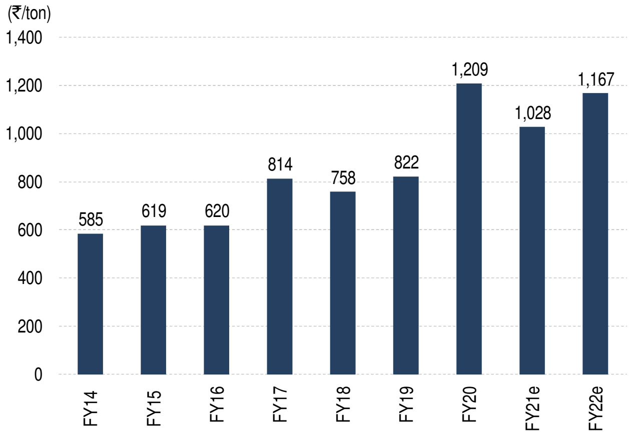
Operating performance

On the good realisation growth and 4.3% lower power & fuel costs y/y and flat freight cost/ton, the company reported EBITDA/ton up 33.7% y/y to ₹1,298. Per-ton other expenditure, raw material cost and staff cost rose respectively 15.7%, 8.6% and 27.4% y/y.

During the year, based on the business valuation of JK Cement Works (Fuzairah) (a subsidiary of JK Cement (Fuzairah) by an independent external valuer, the company recognised provisions toward the diminution of the carrying amount of investment of ₹1,615m and provided for outstanding receivables for earlier years of ₹166m. The total amount charged to P&L as exceptional items was ₹1781.5m.

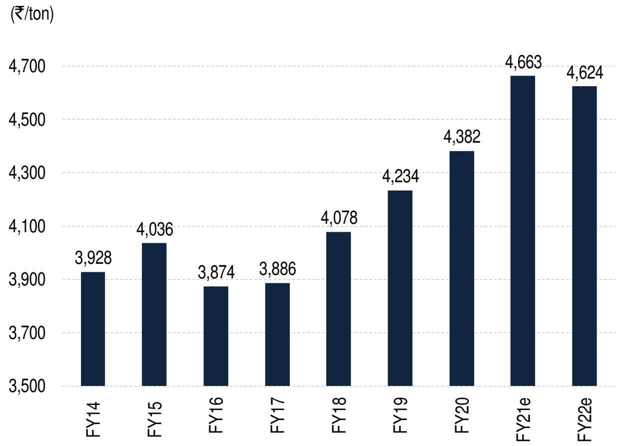
The enhanced operating performance pushed up adj. net profit 19% y/y to ₹1.8bn, though it was partially offset by 16% y/y higher depreciation expense, 7% y/y higher interest cost and 22.6% y/y lower other income. Reported PAT was ₹2.27m vs. ₹15bn mainly due to an exceptional item of ₹1.8bn.

Fig 9 – EBITDA-per-ton trend



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend



Source: Company, Anand Rathi Research

Result highlights

Fig 11 – Quarterly trend

(₹ m)	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q
Sales	10,928	11,129	13,074	11,156	11,006	12,732	14,919	13,280	12,542	14,042	14,774	*(1.0)*	*5.2*
EBITDA	1,924	1,571	1,734	1,504	1,698	2,105	2,795	3,035	2,540	2,777	3,463	*23.9*	*24.7*
EBITDA margins (%)	*17.6*	*14.1*	*13.3*	*13.5*	*15.4*	*16.5*	*18.7*	*22.9*	*20.3*	*19.8*	*23.4*	*470bps*	*366bps*
EBITDA per ton (₹)	865	676	637	650	786	843	971	1,315	1,135	1,086	1,298	*33.7*	*19.5*
Interest	633	578	562	547	583	564	533	534	561	561	572	*7.2*	*1.8*
Depreciation	492	451	470	474	487	486	497	494	518	556	577	*16.1*	*3.8*
Other income	492	381	618	158	180	118	349	172	180	237	271	*(22.6)*	*14.4*
PBT	1,213	922	1,230	640	808	1,173	2,114	2,179	1,641	1,897	803	*(62.0)*	*(57.6)*
Tax	281	193	265	147	161	564	614	641	553	521	801	*30.4*	*53.7*
Adj. PAT	1,009	731	1,055	493	647	609	1,500	1,538	1,088	1,376	1,784	*18.9*	*29.7*

Source: Company, Anand Rathi Research

Fig 12– Per-ton analysis

(₹)	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	%Y/Y	%Q/Q
Realisations	4,915	4,789	4,806	4,819	5,096	5,098	5,182	5,753	5,604	5,490	5,538	*6.9*	*0.9*
EBITDA	865	676	637	650	786	843	971	1,315	1,135	1,086	1,298	*33.7*	*19.5*
Sales volumes (m tons)	2.22	2.32	2.72	2.31	2.16	2.50	2.88	2.31	2.24	2.56	2.67	*(7.3)*	*4.3*
Costs													
Raw material	860	798	750	838	873	901	818	991	971	956	888	*8.6*	*(7.1)*
Power & Fuel	960	948	1,041	1,065	1,116	1,047	1,054	1,136	1,003	992	1,008	*(4.3)*	*1.7*
Stores & spares	385	314	329	-	-	-	-	-	-	-	-	*NA*	*NA*
Freight	1,121	1,128	1,207	1,141	1,092	1,111	1,058	1,072	1,038	1,058	1,056	*(0.1)*	*(0.1)*
Staff	365	341	332	392	418	357	290	420	430	388	370	*27.4*	*(4.6)*
Other expenditure	435	522	452	807	903	830	890	1,021	1,031	971	1,029	*15.7*	*5.9*

Source: Company, Anand Rathi Research

Concall highlights

Financial and Operational highlights

- Grey cement sales volumes were down 6.6% y/y, to 2.36m tons. White cement sales volumes were down 12.9% y/y, to 0.30m tons impacted by lockdown imposed in Mar'20.
- The reversal of ₹200m-250m of annual schemes to dealers contributed to the higher realisation y/y, besides firm prices in its operational region.
- The company will continue to avail of BCG's consulting services in FY21, also. The annual expenditure in FY20 on professional services was ₹780m. Management said this would dip 20-25% in FY21.
- The company has high-cost pet-coke inventory for requirements till August.
- The current cost of debt is 8.75%. Management expects it to slip 25-40bps by Mar'21.
- The company had to send ₹1.05bm-1.2bn to its Fuzirah unit in CY20.
- In Q1 CY20, the UAE unit sold 100,000 tons of cement and clinker, of which 8,800 tons were sold in India.

Capex and Debt

- Management said peak gross and net debt in FY21 would be ₹35bn and ₹26bn.
- Of the ₹20bn estimated capex, ₹14.95bn had been incurred by FY20. Management talked of capex of ₹4bn for the Balasinor project, the WHRS and limesone-transfer expenses, ₹2.5bn for the Nimbahera clinker-line modernisation/expansion and ₹400m-500m for other projects.
- The grinding unit at Balasinor will be commissioned by Sep/Oct'20 (a delay of 3-4 months), and the Nimbahera clinker line by Dec'20.
- Also, the company plans to expand the wall-putty capacity at Katni by 300,000 tons at ₹250m-300m capex, expected to be complete by Q2 FY21 (a delay of 2-3 months).
- At Penna (MP), in FY20 the company acquired 80% of the required land (500 acres). It expects environment clearances and the acquisition of the balance 75 acres to be completed by end-FY21 with a delay of 3-4 months. It has already acquired 500 acres of mining land.
- The company will spend ₹120m-150m by Aug'20 on repairs at fire-affected power plant at Mangrol. It expects to receive the amount in 2-3 months from the insurance company, after incurring the expenses on the repairs.
- It enjoys a 25-26% market share in wall putty and white cement. In FY20, white cement sales grew only 4% (expected to have grown 10% were there no lockdown).

Outlook

- At present, most demand for cement arises from retail sales in rural and semi-urban areas. Cement demand is expected to be sluggish due to shortage of labour in urban areas.

- Despite the annual dealer scheme-reversal effect in Q4 FY20 realisation, management said Q1 FY21 realisations would be higher q/q. At present, prices are ₹10 a bag higher than in Q4.
- All the ongoing expansions have been delayed by 3-4 months.
- Fewer truck drivers available may impact inbound and outbound transport. Further, labour shortage may slow clearance of material at the railway yard and the turnaround time of rakes.
- Management expects fixed-cost saving of ₹600m-700m in FY21.

Valuations

On the higher realisation and cost savings, the company reported a good Q4 operating performance, though revenue slipped 1% y/y on lower volumes, and the bottom line shrank mainly because of exceptional expenses and higher interest, depreciation and tax expense. The company said all capex would commence with a 3/4-month delay and it plans to further focus on cost optimisation and conserving cash. We expect the ongoing expansion to keep leverage high; however, lower sales volumes would cap the ramping up of the new capacities.

Change in estimates

We have broadly maintained our revenue estimates and have increased our FY21e and FY22e EBITDA respectively 7.2% and 13.8% on the firm realisations and cost optimisation. We, correspondingly, increase our FY21e and FY22e PAT respectively 16% and 23%.

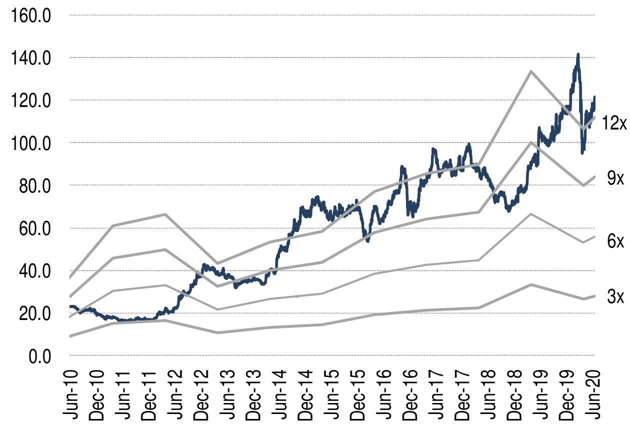
Fig 13 – Change in estimates

(₹ m)	Old		New		Variance	
	FY21e	FY22e	FY21e	FY22e	%chg	%chg
Sales	53,482	61,172	52,622	61,907	(1.6)	1.2
EBITDA	8,866	10,965	9,504	12,477	7.2	13.8
PAT	3,197	4,742	3,708	5,828	16.0	22.9

Source: Anand Rathi Research

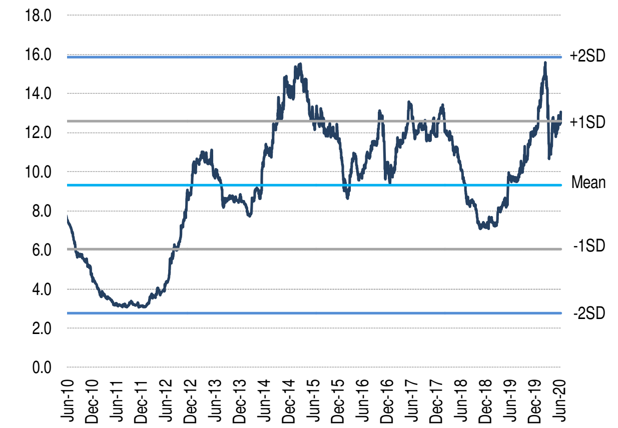
We maintain our Buy recommendation with a higher TP of ₹1,534 (on 11x FY22e EV/EBITDA), implying a PE of 20.3x and an EV/ton of $113.

Fig 14 – EV/EBITDA band, one-year-forward



Source: Bloomberg, Anand Rathi Research

Fig 15 – EV/EBITDA: Standard deviation, one-year-forward



Source: Bloomberg, Anand Rathi Research

Risks

- Extension of the lockdown
- High prices of pet-coke and diesel.

Fig 16 – Peer comparison - Valuations

	CMP	P / E		EV / EBITDA		EV / ton ($)	
	(₹)	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
JK Cement	1,305	27.2	17.3	13.3	9.6	104	98
Birla Corp.	551	17.3	12.4	7.8	6.5	58	48
Dalmia Bharat	589	NA	191.4	8.1	6.7	81	68
Deccan Cement	282	14.2	7.7	6.5	3.9	21	19
Heidelberg Cement	174	21.8	14.8	10.0	7.6	78	73
India Cement	131	NA	29.5	13.0	9.8	61	63
JK Lakshmi	261	43.8	12.9	10.0	5.7	46	40
Mangalam Cement	196	15.6	7.9	7.2	4.9	36	34
NCL Indus	77	11.5	6.1	5.3	3.6	27	23
Orient Cement	74	96.6	21.8	9.5	7.0	42	40
Prism Johnson	45	NA	27.1	10.5	7.6	50	47
Ramco Cement	641	37.0	25.5	19.1	14.2	111	107
Sanghi Industries	26	NA	16.0	13.3	8.5	38	39

Source: Anand Rathi Research

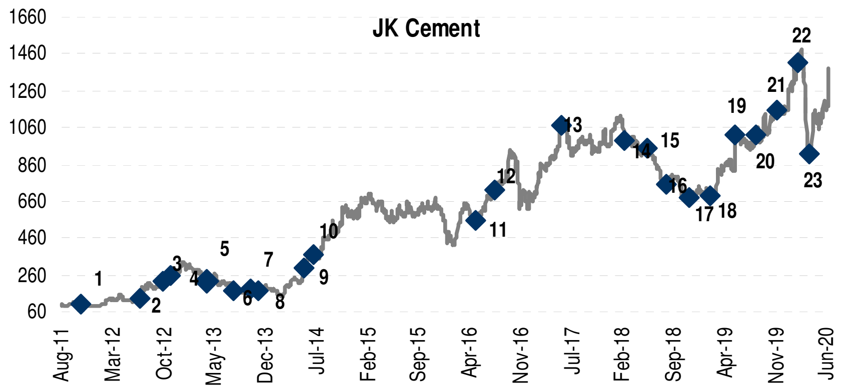
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 19 June 2020)



	Date	Rating	TP (₹)	Share Price (₹)
1	19-Oct-11	Buy	170	109
2	29-Jun-12	Buy	225	155
3	03-Oct-12	Buy	303	252
4	05-Nov-12	Buy	403	271
5	09-Apr-13	Buy	390	262
6	31-Jul-13	Buy	290	171
7	09-Oct-13	Buy	260	194
8	13-Nov-13	Hold	212	189
9	20-May-14	Buy	425	300
10	04-Jul-14	Buy	575	390
11	16-May-16	Buy	804	565
12	10-Aug-16	Buy	874	744
13	17-May-17	Hold	1,150	1,116
14	07-Feb-18	Hold	1,243	1,058
15	17-May-18	Hold	1,100	976
16	02-Aug-18	Hold	941	775
17	12-Nov-18	Hold	774	695
18	07-Feb-19	Hold	815	689
19	24-May-19	Hold	1,052	980
20	07-Aug-19	Buy	1,204	961
21	14-Nov-19	Buy	1,394	1,180
22	12-Feb-20	Buy	1,692	1,418
23	04-May-20	Buy	1,287	1,103

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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
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