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Q4FY20 result review and
earnings revision

Cement

Target price Rs1,460

Earnings revision

(%)	FY21E	FY22E
Sales	↓ 2.0	↓ 2.0
EBITDA	↑ 5.5	↑ 6.4
PAT	↑ 23.1	↑ 23.4

Target price revision

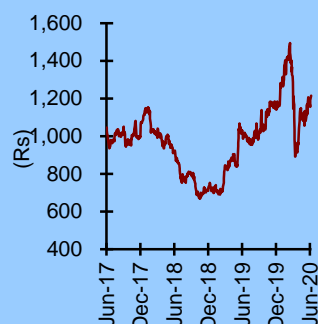
Rs1,460 from Rs1,260

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	58.1	58.1	58.1
Institutional investors	35.4	35.6	36.2
MFs and other	21.2	21.3	21.4
Insurance Cos.	2.3	2.2	2.3
FIs	11.9	12.1	12.5
Others	6.5	6.3	5.7

Source: CMIE

Price chart



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INDIA

ICICI Securities

JK Cement

BUY

Maintained

Rs1,215

EBITDA/te at near all-time high

JK Cement's (JKCE) Q4FY20 standalone EBITDA grew 24% YoY to Rs3.5bn, above our / consensus estimates owing to better grey cement realisation which increased 10% YoY / 6% QoQ (I-Sec: 2.3% QoQ). Blended EBITDA/te rose sharply 34% YoY to Rs1,298/te (I-Sec: Rs1,105/te). Recent commissioning of new capacity at Mangrol is likely to further improve cost structure / profitability. With majority of the planned capex (Rs12.4bn) done in FY20, consolidated net debt has peaked-out at Rs23.3bn in FY20 and unlikely to increase over FY21-22E, in our view. Factoring better realisation, we raise our FY21E-FY22E EBITDA by 6% and EPS by 23% and increase our target price to Rs1,460/share (earlier Rs1,260/share) based on unchanged 9x FY22E EV/E. Maintain BUY.

Conference call on Jun 18 (Thu) at 16:00hrs IST, (022 6280 1143)

- **Standalone revenues stood flat YoY at Rs14.6bn, in line with estimates.** Grey cement volumes (including clinker) declined 7% YoY to 2.36mnte. Realisation increased 10.1% YoY / 6% QoQ to Rs4,618/te vs our estimate of 2.3% QoQ owing to better than expected prices in key markets of North and change in market mix. White cement and wall care putty volumes declined 13% YoY to 0.3mnte. Other operating income declined 12% YoY to Rs187mn.
- **Standalone EBITDA increased 24% YoY to Rs3.5bn, despite loss of volume in Mar'20.** Blended EBITDA/te increased 34% YoY to Rs1,298/te (I-Sec: Rs1,105/te). Blended cost/te declined 1.6% YoY / 3.7% QoQ to Rs4,240/te. Raw material and power & fuel cost/te declined 6% YoY and freight cost/te shrunk 3% YoY while fixed cost/te was up 6% owing to poor operating leverage in Q4FY20. Adjusted PAT increased 19% YoY to Rs1.8bn (I-Sec: Rs1.5bn). Reported PAT stood at Rs2mn post an exceptional item of Rs1.8bn relating to provision for diminution in value of UAE investments/subsidiary. Consolidated EBITDA increased 23% YoY to Rs3.5bn with UAE subsidiary's EBITDA declining 24% YoY to Rs58mn.
- **Impact of Covid-19:** As per management demand during Q1FY21E is being driven by rural / semi-urban areas; while urban demand is likely to remain weak as these regions are more impacted by Covid and also faces labour shortage. Fly ash is currently being sourced from distant markets owing to lower availability as fewer power plants are operational.
- **JKCE has already commissioned 2.6mnte clinker unit at Mangrol** and 3.5mnte grinding capacity in H2FY20; while commissioning of 0.7mnte grinding unit at Balasinor has been delayed by six months to Oct'20 due to Covid-19. Company has already spent Rs15bn (out of planned Rs20bn) for the said project and its focus now would be on conserving cash. Capex guidance for FY21 is Rs5bn. Consolidated net debt increased by Rs2.7bn YoY to Rs23.3bn as at Mar'20-end post OCF generation of Rs11.4bn, capex spend of Rs12.4bn and dividend payment of Rs1.6bn.
- **Appointment of additional directors:** Mr Madhav Krishna Singhania has been appointed as ED (grey cement), Mr Raghavpat Singhania as ED (Corporate and white cement) and Mr Ajay Kumar Saraogi as ED and CFO for a period of five years.

Market Cap	Rs94bn/US\$1.2bn
Reuters/Bloomberg	JKCE.BO/JKCE IN
Shares Outstanding (mn)	77.3
52-week Range (Rs)	1494/891
Free Float (%)	41.9
FII (%)	12.5
Daily Volume (US\$'000)	1,498
Absolute Return 3m (%)	4.3
Absolute Return 12m (%)	25.5
Sensex Return 3m (%)	9.9
Sensex Return 12m (%)	(13.1)

Year to Mar	2019	2020	2021E	2022E
Revenue (Rs mn)	52,587	58,016	56,084	65,362
EBITDA (Rs mn)	8,345	12,134	12,250	14,724
Net Income (Rs mn)	2,958	4,964	4,903	6,565
% Chg YoY	(9.0)	67.8	(1.2)	33.9
P/E (x)	31.7	18.9	19.1	14.3
CEPS (Rs)	69.5	101.5	103.2	127.5
EV/E (x)	13.7	9.7	9.5	7.7
Dividend Yield	0.8	0.6	1.2	1.3
RoCE (%)	8.5	11.0	10.1	11.8
RoE (%)	12.7	17.3	15.2	17.9

Please refer to important disclosures at the end of this report

Table 1: Q4FY20 result review – standalone*(Rs mn, year ending March 31)*

	Q4FY20	Q4FY19	% chg (YoY)	Q3FY20	% chg (QoQ)	I-Sec estimates	(%) Var
Volume	2.67	2.88	(7.3)	2.56	4.3	2.72	(2.0)
Blended realisation	5,468	5,109	7.0	5,424	0.8	5,333	2.5
Net Sales	14,587	14,707	(0.8)	13,875	5.1	14,515	0.5
Other Operating income	187	212	(11.7)	167	12.0	173	8.2
Raw Materials	2,071	2,649	(21.8)	2,546	(18.7)	2,336	(11.3)
Personnel Cost	987	836	18.1	992	(0.5)	1,002	(1.5)
Power & fuel costs	2,690	3,034	(11.4)	2,536	6.0	2,964	(9.3)
Freight	2,818	3,045	(7.4)	2,705	4.2	2,846	(1.0)
Other Expenses	2,745	2,561	7.2	2,485	10.5	2,533	8.4
Total Expenses	11,312	12,124	(6.7)	11,264	0.4	11,681	(3.2)
EBITDA	3,463	2,795	23.9	2,777	24.7	3,007	15.2
EBITDA/te	1,298	971	33.7	1,086	19.5	1,105	17.5
Interest	572	533	7.2	561	1.8	589	(2.9)
Depreciation	577	497	16.1	556	3.8	571	1.0
Other Income	271	349	(22.6)	237	14.4	283	(4.3)
Recurring pre-tax income	2,585	2,114	22.3	1,897	36.3	2,130	21.4
Extraordinary income/ (exps)	(1,782)	-		-		-	
Taxation	801	614	30.4	521	53.7	639	25.4
Reported Net Income	2	1,500	(99.8)	1,376	(99.8)	1,491	(99.8)
Recurring Net Income	1,784	1,500	18.9	1,376	29.7	1,491	19.7
Ratios (%)							
EBITDA margins	23.7	19.0		20.0		20.7	
Net profit margins	12.2	10.2		9.9		10.3	

Source: Company data, I-Sec research

Table 2: Historical quarterly analysis

(Rs/te)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Blended realisations	5,109	5,681	5,535	5,424	5,468
Growth % (YoY)	6.3	19.3	9.9	9.9	7.0
Raw materials	920	790	967	995	776
Staff costs	290	290	429	388	370
Power & fuel costs	1,054	1,136	1,002	992	1,008
Outward freight	1,058	1,072	1,037	1,058	1,056
Other expenditure	890	1,021	1,030	971	1,029
Total	4,212	4,439	4,466	4,404	4,240
Other operating income	74	72	65	65	70
EBITDA-blended	971	1,315	1,134	1,086	1,298

Source: Company data, I-Sec research

Table 3: Segmental analysis*(Rs mn)*

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Grey Cement					
Revenue (Rs mn)	10,607	9,203	8,523	9,599	10,916
Realisation (Rs/te)	4,193	4,670	4,467	4,355	4,618
Volumes (mnte)	2.5	2.0	1.9	2.2	2.4
White Cement					
Revenue (Rs mn)	4,100	3,911	3,873	4,276	3,671
Realisation (Rs/te)	11,752	11,591	11,687	12,095	12,086
Volumes (mnte)	0.35	0.34	0.33	0.35	0.30

Source: Company data, I-Sec research

Table 4: Q4FY20 result review – consolidated*(Rs mn, year ending March 31)*

	Q4FY20	Q4FY19	% chg (YoY)	Q3FY20	% chg (QoQ)
Net Sales	15,457	15,646	(1.2)	14,718	5.0
Raw Materials	2,104	2,651	(20.6)	2,483	(15.3)
Personnel Cost	1,123	953	17.9	1,127	(0.4)
Power fuel costs	2,826	3,260	(13.3)	2,735	3.3
Freight	2,970	3,185	(6.8)	2,841	4.5
Other Expenses	2,913	2,725	6.9	2,637	10.5
Total Expenses	11,936	12,774	(6.6)	11,823	1.0
EBITDA	3,521	2,872	22.6	2,895	21.6
Interest	661	632	4.6	663	(0.3)
Depreciation	725	611	18.6	702	3.3
Other Income	273	350	(22.1)	232	17.7
Recurring pre-tax income	2,407	1,978	21.7	1,762	36.6
Extraordinary income/ (exps)	-	-		-	
Taxation	799	613		519	54.0
Reported Net Income	1,608	1,365	17.9	1,243	29.4
Recurring Net Income	1,608	1,365	17.9	1,243	29.4
Ratios (%)					
EBITDA margins	22.8	18.4		19.7	
Net profit margins	10.4	8.7		8.4	

Source: Company data, I-Sec research

Table 5: Performance trend and assumptions

	FY18	FY19	FY20	FY21E	FY22E
Grey cement ('000 te)					
Capacity	10,472	10,472	14,672	14,672	14,672
Production	7,890	8,578	8,447	8,278	9,520
Capacity utilisation (%)	79	86	79	59	68
Growth (%)	20.4	4.3	(1.5)	(2.0)	15.0
Realisation (Rs/te)	3,906	4,001	4,527	4,617	4,687
Growth (%)	7.2	2.4	13.2	2.0	1.5
White cement ('000 te)					
Capacity	1,200	1,200	1,200	1,200	1,200
Production	919	938	1,021	819	926
Capacity utilisation (%)	77	78	85	68	77
Growth (%)	4.4	2.1	8.8	(19.8)	13.1
Realisation (Rs/te)	10,325	10,668	10,686	11,141	11,285
Growth (%)	(1.0)	3.3	0.2	4.3	1.3

Source: Company data, I-Sec research

Table 6: Segment-wise estimates*(Rs mn)*

	FY18	FY19	FY20	FY21E	FY22E
Revenue					
White cement	15,859	17,513	19,110	17,240	20,155
--India	13,310	14,872	15,731	14,869	17,401
--Fujairah	2,549	2,641	3,379	2,371	2,754
Grey Cement	32,117	34,320	38,240	38,225	44,618
Total	47,975	51,833	57,350	55,465	64,773
EBITDA					
White cement	4,091	4,286	4,223	3,797	4,471
--India	3,823	4,057	3,832	3,612	4,214
--Fujairah	268	228	391	186	256
Grey Cement	3,783	4,059	7,911	8,453	10,253
Total	7,875	8,345	12,134	12,250	14,724

Source: Company data, I-Sec research

Table 7: Per-tonne estimate analysis

(Rs/te)	FY18	FY19	FY20	FY21E	FY22E
Net realisation – Grey cement	3,906	4,001	4,527	4,617	4,687
Net realisation – White cement	10,325	10,668	10,686	11,141	11,285
Blended realisation	4,916	5,072	5,603	5,645	5,729
Raw materials consumed	821	865	851	933	956
Power and fuel	976	1,083	1,069	974	1,009
Freight	1,133	1,100	1,077	1,114	1,125
Others	1,229	1,280	1,485	1,440	1,389
Total operating expenses	4,159	4,329	4,483	4,461	4,479
Other operating income	50	74	65	63	52
EBITDA/te – Grey cement	460	473	937	1,021	1,077
EBITDA/te – White cement	2,664	2,611	2,362	2,454	2,503
EBITDA/te – blended	807	817	1,186	1,247	1,302

Source: Company data, I-Sec research

Valuation methodology and key risks

Factoring better realisation, we raise our FY21E-FY22E EBITDA by 6% and EPS by 23% and increase our target price to Rs1,460/share (earlier Rs1,260/share) based on unchanged 9x FY22E EV/E. Maintain BUY.

Table 8: Valuations based on 9x FY22E EV/E

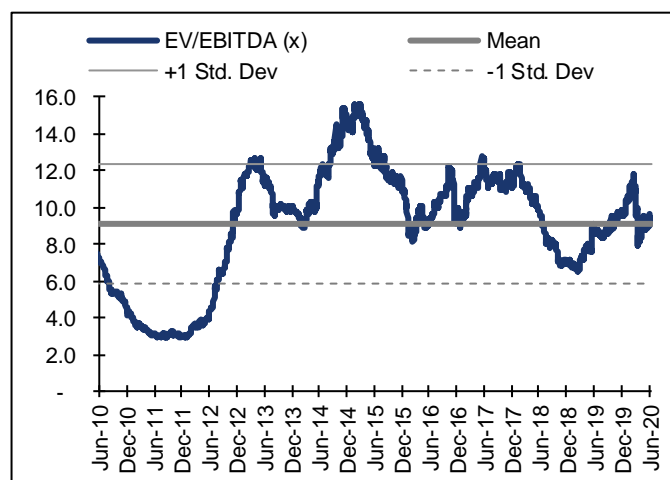
(Rs.mn)	
Target EV/ EBITDA multiple (x)	9
Target EV (Rs mn)	132,513
Net debt / (cash) (Rs mn)	19,569
Target value (Rs mn)	112,944
No. of shares (mn)	77
Target price per share (Rs)	1,460

Source: I-Sec research

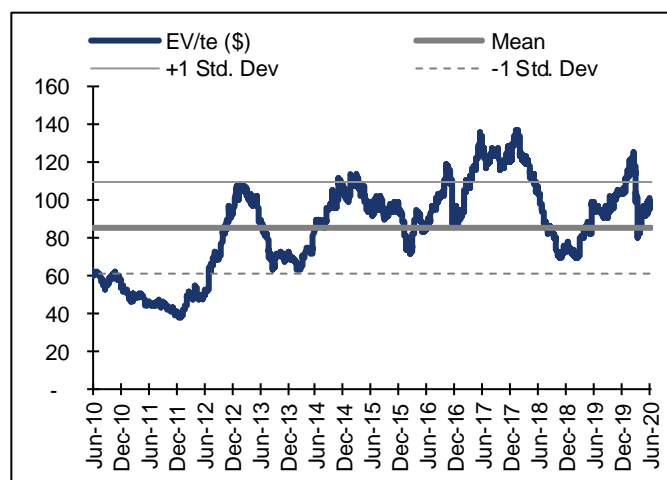
Table 9: Earnings revision

(Rs mn)	FY21E			FY22E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	56,084	57,249	(2.0)	65,362	66,709	(2.0)
EBITDA	12,250	11,616	5.5	14,724	13,834	6.4
PAT	4,903	3,982	23.1	6,565	5,321	23.4

Source: Company data, I-Sec research

Chart 1: Rolling EV/EBITDA

Source: I-Sec research

Chart 2: Rolling EV/te

Financial summary (consolidated)

Table 10: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	51,833	57,350	55,465	64,773
of which				
Grey cement	34,320	38,240	38,225	44,618
White cement	17,513	19,110	17,240	20,155
Other operating income	754	666	620	589
Operating Expenses	44,242	45,882	43,834	50,638
EBITDA	8,345	12,134	12,250	14,724
% margin	16.1	21.2	22.1	22.7
Depreciation & Amortisation	2,413	2,880	3,071	3,286
Gross Interest	2,611	2,764	2,737	2,662
Other Income	804	853	773	773
Recurring PBT	4,124	7,344	7,214	9,549
Add: Extraordinaries	(254)	-	-	-
Less: Taxes	1,234	2,511	2,442	3,114
Net Income (Reported)	2,703	4,964	4,903	6,565
Recurring Net Income	2,958	4,964	4,903	6,565

Source: Company data, I-Sec research

Table 11: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	18,808	24,122	24,215	27,461
Current Liab. & Prov.	14,374	21,481	19,051	20,361
Net Current Assets	4,434	2,641	5,165	7,099
Investments of which	4,383	458	458	458
Strategic/Group	440	448	448	448
Marketable	3,943	10	10	10
Net Fixed Assets*	50,987	60,840	62,819	65,584
of which				
Capital Work-in-Progress	5,618	5,295	4,295	5,295
Total Assets	59,803	63,940	68,442	73,142
of which cash & cash equivalents	9,059	6,355	7,587	8,624
Liabilities				
Borrowings	29,731	29,693	29,693	28,193
Deferred Tax Liability	3,123	4,173	4,905	5,839
Minority Interest	-	(203)	(253)	(317)
Equity Share Capital	773	773	773	773
Face value per share (Rs)	10	10	10	10
Reserves & Surplus	26,177	29,504	33,325	38,654
Net Worth	26,950	30,277	34,098	39,426
Total Liabilities	59,803	63,940	68,442	73,142

Source: Company data, I-Sec research

Table 12: Quarterly trend

(Rs mn, year ending March 31)

	Jun-19	Sep-19	Dec-19	Mar-20
Net sales	13,113	12,396	13,875	14,587
% growth (YoY)	19.0	13.9	10.3	(0.8)
Recurring EBITDA	3,035	2,540	2,778	3,463
Margin (%)	23.1	20.5	20.0	23.7
Other income	172	180	237	271
Extra ordinaries Inc / (Loss)	-	-	-	-
Recurring Net Income	1,538	1,088	1,376	1,784

Source: Company data

Table 13: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	5,288	8,569	7,407	10,167
Working Capital changes	(681)	2,820	(765)	(1,052)
Capital Commitments	(6,313)	(12,428)	(5,000)	(6,000)
Net Operating FCF	(1,706)	(1,039)	1,641	3,115
Investing Activities	(2,077)	(2,622)	773	773
Issue of Share Capital	5,043	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	325	3,109	-	(1,500)
Dividend paid	(841)	(1,627)	(1,082)	(1,236)
Others	-	-	(101)	(114)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank	744	(2,179)	1,231	1,037

Source: Company data, I-Sec research

Table 14: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS(Basic)	35.0	64.2	63.4	85.0
Diluted Recurring EPS	38.3	64.2	63.4	85.0
Diluted Recurring CEPS	69.5	101.5	103.2	127.5
Dividend per share	10.0	7.5	14.0	16.0
Book Value	349	392	441	510
Growth Ratios (% YoY)				
Operating Income	8.0	10.6	(3.3)	16.8
EBITDA	6.0	45.4	1.0	20.2
Recurring Net Income	0.5	67.8	(1.2)	33.9
Diluted Recurring EPS	(9.0)	67.8	(1.2)	33.9
Diluted Recurring CEPS	(7.5)	46.1	1.7	23.5
Valuation Ratios (x)				
P/E	31.7	18.9	19.1	14.3
P/CEPS	17.5	12.0	11.8	9.5
P/BV	3.5	3.1	2.8	2.4
EV / EBITDA	13.7	9.7	9.5	7.7
EV / te (US\$)	131	98	97	95
EV / Operating Income	2.2	2.0	2.1	1.8
EV / Operating FCF	27.8	10.8	17.5	12.4
Operating Ratios (%)				
Raw Material / Sales	17	15	17	17
SG&A expenses / Sales	39	38	37	37
Other Income / PBT	19	12	11	8
Effective Tax Rate	32	34	34	33
NWC / Total Assets	(0.0)	(0.1)	(0.0)	(0.0)
Inventory (x)	3.2	3.0	2.8	3.3
Receivables (days)	17	17	17	15
Payable (days)	48	48	38	32
D/E Ratio (x)	0.9	0.9	0.8	0.6
Profitability Ratios (%)				
Rec. Net Income Margins	5.6	8.5	8.7	10.0
RoCE	8.5	11.0	10.1	11.8
RoNW	12.7	17.3	15.2	17.9
Dividend Payout	26.1	11.7	22.1	18.8

Source: Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

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