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Company update and
earnings revision

Cement

Target price: Rs1,725

Earnings revision

(%)		FY21E	FY22E
Sales	↑	3.6	↑ 5.3
EBITDA	↑	1.2	↑ 4.0
PAT	↑	1.5	↑ 5.7

Target price revision

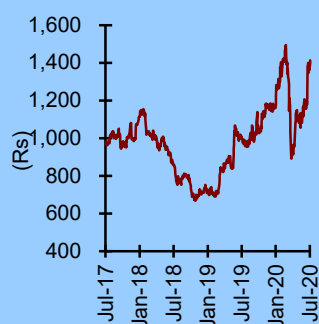
Rs1,725 from Rs1,460

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



Research Analysts:

Krupal Maniar, CFA

krupal.maniar@icicisecurities.com
+91 22 6637 7254

Dharmesh Shah

shah.dharmesh@icicisecurities.com
+91 22 6637 7480

INDIA

ICICI Securities

JK Cement

Ripe for re-rating

BUY

Maintained

Rs1,413

JK Cement's (JKCE) recent capacity additions in high utilisation / better pricing markets of North / Central regions are likely to see a quick ramp-up along with better cost efficiencies. Consolidated net debt is likely to peak out at Rs24bn in FY21E as JKCE could generate OCF of >Rs10bn p.a. from FY22E which would be sufficient for its future capex requirements. Besides, JKCE enjoys better than peers' RoEs of 16-18% over FY20-22E. Factoring higher utilisation, we raise our FY22E EBITDA / EPS by 4-6%. With improving growth / market share and profitability, we raise our target multiple to 10x (earlier 9x) and increase our target price to Rs1,725/share (earlier: Rs1,460) based on 10x FY22E EV/E. Maintain BUY.

- **Key triggers for re-rating:** Quick ramp-up of new capacities (better volume growth), improved cost efficiencies resulting in grey cement EBITDA/te sustaining above Rs1,000/te, peaking-out of consolidated net debt in FY21.
- **Key risks to re-rating:** Any pricing weakness in JKCE's key markets of North, increased investments / losses in UAE subsidiaries, higher pay outs to consultants, lower growth / profitability in white cement portfolio.
- **Capacity expansion benefits to kick in:** JKCE commissioned 2.6mnte clinker unit at Mangrol and 3.5mnte grinding capacities at Mangrol and Aligarh in H2FY20. Given that new capacity additions are in high growth / utilisation markets of North and Central regions, they may see a quick ramp up, in our view. Besides, pricing is expected to remain firm in these regions as utilisation remains at >80% owing to better supply / demand dynamics. Commissioning of 0.7mnte grinding unit at Balasinor is likely by Oct'20, while modernisation of 0.3mnte line-3 at Nimbahera is expected to complete by Dec'20.
- **Cost savings of Rs100/te possible over the next two years** on the back of better cost efficiencies from new capacity at Mangrol and modernisation of line-3 at Nimbahera in FY21. Besides, the management is targeting fixed-cost reduction of Rs600mn-700mn in FY21, which includes ~25% YoY cut in professional charges. Grey cement EBITDA/te is likely to increase to Rs1,065/te by FY22E from ~Rs940/te (our estimate) in FY20.
- **Consolidated net debt likely to peak out at Rs24bn in FY21E:** JKCE would incur capex of Rs4bn for ongoing expansion projects and Rs2.5bn for line-3 Nimbahera modernisation in FY21. Net debt to EBITDA ratio may decline from 1.9x in FY20 to 1.3x in FY22E. JKCE is likely to generate OCF of >Rs10bn p.a. from FY22E which would be sufficient for its future capex requirements. JKCE also enjoys better than peers' RoEs of 16-18% over FY20-22E. The stock trades at an attractive valuation of 8.4x FY22E EV/E.

Market Cap	Rs109bn/US\$1.5bn
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)	1,731
Absolute Return 3m (%)	54.8
Absolute Return 12m (%)	44.1
Sensex Return 3m (%)	30.8
Sensex Return 12m (%)	(8.6)

Year to Mar	2019	2020	2021E	2022E
Revenue (Rs mn)	52,587	58,016	58,085	68,850
EBITDA (Rs mn)	8,345	12,134	12,398	15,320
Net Income (Rs mn)	2,958	4,964	4,979	6,942
% Chg YoY	(9.0)	67.8	0.3	39.4
P/E (x)	36.9	22.0	21.9	15.7
CEPS (Rs)	69.5	101.5	104.7	133.1
EV/E (x)	15.6	10.9	10.7	8.4
Dividend Yield	0.7	0.5	1.0	1.1
RoCE (%)	8.5	11.0	10.3	12.3
RoE (%)	12.7	17.3	15.5	18.7

Please refer to important disclosures at the end of this report

Table 1: Performance trend and key 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	8,870	10,289
Capacity utilisation (%)	79	86	79	63	74
Growth (%)	20.4	4.3	(1.5)	5.0	16.0
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	796	921
Capacity utilisation (%)	77	78	85	66	77
Growth (%)	4.4	2.1	8.8	(22.0)	15.6
Realisation (Rs/te)	10,325	10,668	10,686	11,106	11,280
Growth (%)	(1.0)	3.3	0.2	3.9	1.6

Source: Company data, I-Sec research

Table 2: Segment-wise estimates

(Rs mn)

	FY18	FY19	FY20	FY21E	FY22E
Revenue					
White cement	15,859	17,513	19,110	16,510	20,041
--India	13,310	14,872	15,731	14,139	17,286
--Fujairah	2,549	2,641	3,379	2,371	2,754
Grey Cement	32,117	34,320	38,240	40,955	48,221
Total	47,975	51,833	57,350	57,466	68,261
EBITDA					
White cement	4,091	4,286	4,223	3,552	4,360
--India	3,823	4,057	3,832	3,366	4,103
--Fujairah	268	228	391	186	256
Grey Cement	3,783	4,059	7,911	8,846	10,960
Total	7,875	8,345	12,134	12,398	15,320

Source: Company data, I-Sec research

Table 3: 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	11,106	11,280
Blended realisation	4,916	5,072	5,603	5,549	5,658
Raw materials consumed	821	865	851	904	937
Power and fuel	976	1,083	1,069	973	1,004
Freight	1,133	1,100	1,077	1,112	1,122
Others	1,229	1,280	1,485	1,423	1,374
Total operating expenses	4,159	4,329	4,483	4,412	4,437
Other operating income	50	74	65	60	49
EBITDA/te – Grey cement	460	473	937	997	1,065
EBITDA/te – White cement	2,664	2,611	2,362	2,389	2,454
EBITDA/te – blended	807	817	1,186	1,197	1,270

Source: Company data, I-Sec research

Valuation methodology and key risks

With improving growth / market share and profitability, we see merit in re-rating for the stock, and accordingly, raise our target multiple to 10x (earlier 9x) and increase our target price to Rs1,725/share (earlier: Rs1,460/share) based on 10x FY22E EV/E. Maintain BUY.

Table 4: Valuations based on 10x FY22E EV/E

(Rs.mn)	
Target EV/ EBITDA multiple (x)	10
Target EV (Rs mn)	153,203
Net debt / (cash) (Rs mn)	19,895
Target value (Rs mn)	133,308
No. of shares (mn)	77
Target price per share (Rs)	1,725

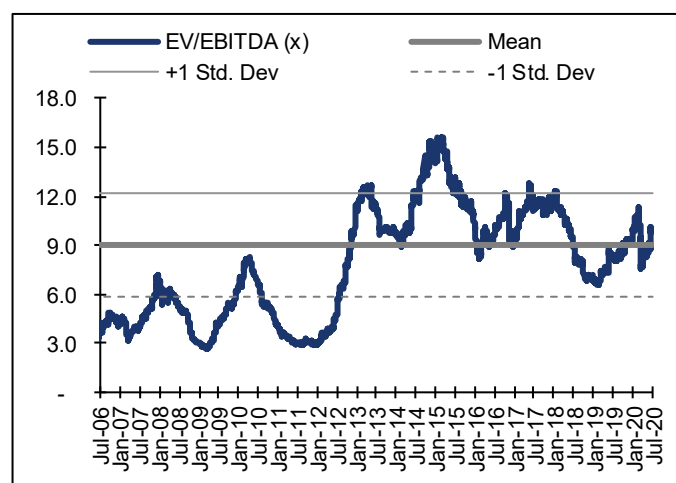
Source: I-Sec research

Table 5: Earnings revision

(Rs mn)	FY21E			FY22E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	58,085	56,084	3.6	68,850	65,362	5.3
EBITDA	12,398	12,250	1.2	15,320	14,724	4.0
PAT	4,979	4,903	1.5	6,942	6,565	5.7

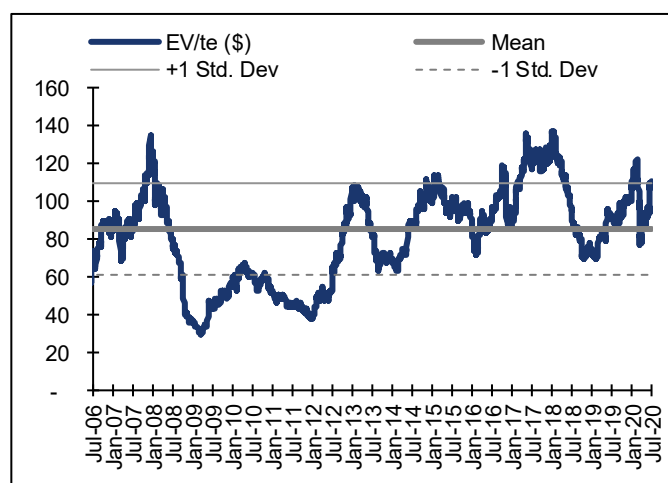
Source: Company data, I-Sec research

Chart 1: Rolling EV/EBITDA



Source: I-Sec research

Chart 2: Rolling EV/te



Financial summary (consolidated)

Table 6: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	51,833	57,350	57,466	68,261
of which				
Grey cement	34,320	38,240	40,955	48,221
White cement	17,513	19,110	16,510	20,041
Other operating income	754	666	620	589
Operating Expenses	44,242	45,882	45,687	53,530
EBITDA	8,345	12,134	12,398	15,320
% margin	16.1	21.2	21.6	22.4
Depreciation & Amortisation	2,413	2,880	3,110	3,344
Gross Interest	2,611	2,764	2,737	2,662
Other Income	804	853	773	773
Recurring PBT	4,124	7,344	7,323	10,087
Add: Extraordinaries	(254)	-	-	-
Less: Taxes	1,234	2,511	2,475	3,275
Net Income (Reported)	2,703	4,964	4,979	6,942
Recurring Net Income	2,958	4,964	4,979	6,942

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	18,808	24,122	23,121	28,191
Current Liab. & Prov.	14,374	21,481	19,831	21,483
Net Current Assets	4,434	2,641	3,290	6,708
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	64,780	66,487
of which				
Capital Work-in-Progress	5,618	5,295	4,295	5,295
Total Assets	59,803	63,940	68,529	73,653
of which cash & cash equivalents	9,059	6,355	5,844	8,298
Liabilities				
Borrowings	29,731	29,693	29,693	28,193
Deferred Tax Liability	3,123	4,173	4,915	5,898
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	33,401	39,107
Net Worth	26,950	30,277	34,174	39,879
Total Liabilities	59,803	63,940	68,529	73,653

Source: Company data, I-Sec research

Table 8: 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 9: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	5,288	8,569	7,532	10,650
Working Capital changes	(681)	2,820	(633)	(1,119)
Capital Commitments	(6,313)	(12,428)	(7,000)	(5,000)
Net Operating FCF	(1,706)	(1,039)	(101)	4,531
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)	(511)	2,454

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS(Basic)	35.0	64.2	64.4	89.8
Diluted Recurring EPS	38.3	64.2	64.4	89.8
Diluted Recurring CEPS	69.5	101.5	104.7	133.1
Dividend per share	10.0	7.5	14.0	16.0
Book Value	349	392	442	516
Growth Ratios (% YoY)				
Operating Income	8.0	10.6	0.2	18.8
EBITDA	6.0	45.4	2.2	23.6
Recurring Net Income	0.5	67.8	0.3	39.4
Diluted Recurring EPS	(9.0)	67.8	0.3	39.4
Diluted Recurring CEPS	(7.5)	46.1	3.1	27.2
Valuation Ratios (x)				
P/E	36.9	22.0	21.9	15.7
P/CEPS	20.3	13.9	13.5	10.6
P/BV	4.1	3.6	3.2	2.7
EV / EBITDA	15.6	10.9	10.7	8.4
EV / te (US\$)	148	111	112	108
EV / Operating Income	2.5	2.3	2.3	1.9
EV / Operating FCF	31.6	12.3	19.3	13.5
Operating Ratios (%)				
Raw Material / Sales	17	15	16	17
SG&A expenses / Sales	39	38	38	37
Other Income / PBT	19	12	11	8
Effective Tax Rate	32	34	34	32
NWC / Total Assets	(0.0)	(0.1)	(0.0)	(0.0)
Inventory (x)	3.2	3.0	2.9	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	8.5	10.1
RoCE	8.5	11.0	10.3	12.3
RoNW	12.7	17.3	15.5	18.7
Dividend Payout	26.1	11.7	21.7	17.8

Source: Company data, I-Sec research

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