

View: Muted quarter, fair valuation; Maintain Accumulate

- JKCE's revenue was in line however, EBITDA margin, EBITDA/tn and PAT was above estimates. Volumes were in line whereas realization below estimates.
- JKCE posted muted set of numbers with 27.3%/ 29.1%/ 49.5% YoY de-growth in revenue/ EBITDA/ PAT to Rs9.6 bn/ Rs2.2 bn/ Rs777 mn in Q1FY21 due to 5.1% YoY de-growth in blended realization (-1.4% QoQ) coupled with 23.5% YoY decline in blended volume to 1.77 mt.
- We expect 10.5%/ 81%/ 0.7% revenue/ EBITDA/ APAT CAGR over FY20-22E led by 6.6%/ 13.8% blended volume growth and (1.2%)/ 1.7% blended cement realization growth in FY21E/ FY22E.
- We increase our revenue and APAT estimates by 9.6%/ 5.1% and 24.9%/ 8.2% for FY21E/ FY22E factoring Q1FY21 results. We broadly maintain our EBITDA margin estimates. We like JKCE because of its sizable presence in higher EBITDA margin contributing white cement & putty business and healthy cash generation & RoE. Moreover, its strategical expansion (3.5mtpa done during FY20 + 0.7mtpa by Q3FY21) of its grey cement into strong pricing markets of north/central will benefit it. However, 19% run up in stock price post our Q4FY20 result update dated 18 Jun'20, leaves limited upside. Thus, we maintain Accumulate with revised TP of Rs1,689 (11x FY22E EV/EBITDA + 0.5x FY22E CWIP).

Blended EBITDA/tn – down 7.3%/ 6.1% YoY/ QoQ

Lower than expected blended realization (-5.1% YoY/ -1.4% QoQ to Rs5,463/tn), in line blended volume (-23.5% YoY/ -33.8% QoQ to 1.77mt) and lower than estimate operating cost (-4.4% YoY/ +0.1% QoQ to Rs4,244/tn) led to muted growth in blended EBITDA/tn to Rs1,219 (-7.3% YoY/ -6.1% QoQ).

Grey cement volume stood at 1.59mt (-19.3%/ -32.7% YoY/ QoQ) whereas white cement & putty volume stood at 0.18mt (-47.9%/ -42.1% YoY/ QoQ) during Q1FY21. Grey cement realization was -0.5%/ +0.7% YoY/ QoQ to Rs4,648/tn and white cement & putty realization was +3.1%/ -1.1% YoY/ QoQ to Rs11,953/tn.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	9,650	13,280	(27.3)	14,774	(34.7)
Total Expense	7,497	10,245	(26.8)	11,312	(33.7)
EBITDA	2,153	3,035	(29.1)	3,463	(37.8)
Depreciation	580	494	17.4	577	0.6
EBIT	1,573	2,541	(38.1)	2,886	(45.5)
Other Income	203	172	18.2	271	(24.9)
Interest	572	534	7.0	572	0.0
EBT	1,204	2,179	(44.7)	4,366	(72.4)
Tax	427	641	(33.3)	801	(46.6)
RPAT	777	1,538	(49.5)	3,565	(78.2)
APAT	777	1,538	(49.5)	5,347	(85.5)
			(bps)		(bps)
Gross Margin (%)	45.7	47.9	(219)	48.7	(299)
EBITDA Margin (%)	22.3	22.9	(55)	23.4	(113)
NPM (%)	8.1	11.6	(353)	24.1	(1608)
Tax Rate (%)	35.5	29.4	608	18.3	1714
EBIT Margin (%)	16.3	19.1	(284)	19.5	(324)

CMP	Rs 1,487
Target / Upside	Rs 1,689 / 14%
BSE Sensex	39,106
NSE Nifty	11,535

Scrip Details

Equity / FV	Rs 773mn / Rs 10
Market Cap	Rs 115bn
	US\$ 2bn
52-week High/Low	Rs 1,615/Rs 795
Avg. Volume (no)	91,871
NSE Symbol	JKCEMENT
Bloomberg Code	JKCE IN

Shareholding Pattern Jun'20(%)

Promoters	58.1
MF/Banks/FIs	23.3
FIIIs	13.4
Public / Others	5.2

Valuation (x)

	FY20A	FY21E	FY22E
P/E	12.3	23.2	19.6
EV/EBITDA	11.5	11.8	10.2
ROE (%)	25.1	14.8	15.4
RoACE (%)	13.5	11.3	11.8

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	54,638	57,574	66,677
EBITDA	11,815	11,746	13,797
PAT	9,348	4,945	5,869
EPS (Rs.)	121.0	64.0	76.0

VP Research: Shravan Shah

Tel: +91 22 40969749

E-mail: shravans@dolatcapital.com

Associate: Maulik Shah

Tel: +91 22 40969775

E-mail: mauliks@dolatcapital.com

Exhibit 1: Actual V/s DART estimates (Rs mn)

Particulars	Actual	DART Est	% Variance	Comments
Revenue (Rs mn)	9,650	9,990	(3.4)	+0.1%/ -3.5% higher/ lower than estimated volume/ realization
EBITDA (Rs mn)	2,153	1,982	+8.6	-3.5%/ -6.5% lower/ lower than estimated realization/ cost
EBITDA%	22.3	19.8	+247 bps	
APAT (Rs mn)	777	588	+32.1	Better operational efficiency

Source: DART, Company

Exhibit 2: Change in estimates – Increase FY21E and FY22E estimates

(Rs mn)	FY21E			FY22E		
	New	Old	% change	New	Old	% change
Net revenues	57,574	52,535	9.6	66,677	63,441	5.1
EBIDTA	11,746	10,396	13.0	13,797	13,195	4.6
EBIDTA(%)	20.4	19.8	61	20.7	20.8	(11)
APAT	4,945	3,958	24.9	5,869	5,425	8.2
EPS (Rs)	64.0	51.2	24.9	76.0	70.2	8.2

Source: DART, Company

Exhibit 3: Grey Cement

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20	FY19	YoY (%)
Volume (mt)	1.59	1.97	(19.3)	2.36	(32.7)	8.45	8.58	(1.5)
Revenue (Rs)	7,394	9,203	(19.7)	10,916	(32.3)	38,240	34,320	11.4
Realization/ tn (Rs)	4,648	4,670	(0.5)	4,618	0.7	4,527	4,001	13.2

Source: Company, DART

Exhibit 4: White Cement

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20	FY19	YoY (%)
Volume (mt)	0.18	0.34	(47.9)	0.30	(42.1)	1.33	1.27	4.2
Revenue (Rs)	2,101	3,911	(46.3)	3,671	(42.8)	15,731	14,872	5.8
Realization/ tn (Rs)	11,953	11,591	3.1	12,086	(1.1)	11,863	11,685	1.5

Source: Company, DART

Exhibit 5: Per ton matrix (Grey + White)

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20	FY19	YoY (%)
Volume (mt)	1.77	2.31	(23.5)	2.67	(33.8)	9.77	9.85	(0.8)
Realization/ tn (Rs)	5,463	5,753	(5.1)	5,538	(1.4)	5,590	5,057	10.6
Blended EBITDA/ tn	1,219	1,315	(7.3)	1,298	(6.1)	1,209	822	47.0
Cost/ tn	4,244	4,439	(4.4)	4,240	0.1	4,382	4,234	3.5
Raw Material Cost/ tn	1,105	790	39.8	776	42.4	881	851	3.5
Employee Expenses/ tn	538	420	28.3	370	45.4	400	359	11.5
Power and Fuels/ tn	867	1,136	(23.7)	1,008	(14.0)	1,033	1,068	(3.3)
Freight Expenses/ tn	994	1,072	(7.3)	1,056	(6.0)	1,056	1,098	(3.8)
Other expenses/ tn	740	1,021	(27.5)	1,029	(28.1)	1,012	858	17.9

Source: Company, DART

Exhibit 6: cost as a % of revenue

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20	FY19	YoY (%)
Raw Material Cost	20.2	13.7	650	14.0	622	15.8	16.8	(107)
Employee Expenses	9.8	7.3	256	6.7	317	7.2	7.1	6
Power and Fuels	15.9	19.7	(387)	18.2	(233)	18.5	21.1	(266)
Freight Expenses	18.2	18.6	(44)	19.1	(89)	18.9	21.7	(283)
Other expenses	13.5	17.7	(420)	18.6	(503)	18.1	17.0	113
Total expenses	77.7	77.1	55	76.6	113	78.4	83.7	(536)

Source: Company, DART

Key earnings concall KTAs

- **Cement Volumes** - Jul'20 and Aug'20 volumes were strong and reported ~20% YoY growth. By mid Sept'20, volumes should further increase once monsoon settles in. Trade: Non trade mix stood at 75:25 (Q1FY21) vs. 69:31 (Q4FY20). Jul'20 reported lower trade volumes of 65-70%. Blended cement stood at 69%. Lead distance was same QoQ.
- **White cement & putty industry** – White cement also reported growth in volumes in the month of Jul'20 and Aug'20.
- **Cement Price** - Prices have declined by Rs10-15/ bag in Q2FY21. After adjusting for Rs200-250 mn dealer incentive (Q4FY20), realizations increased 2.5% QoQ in Q1FY21.
- **4.2MTPA grey cement expansion** - JKCE's commissioned 3.5mtpa (1mtpa at Nimbahera, Rajasthan on 29th Sep'19 + 1mtpa Mangrol, Rajasthan in 1st week of Feb'20 + 1.5mtpa at Aligarh, U.P. in 1st week of Feb'20) grinding capacity out of 4.2mtpa and 2.5mtpa clinker capacity in Sep'19. The balance 0.7mtpa at Balasinor, Gujarat to be operational in Q3FY21. These plants will support additional volume growth in FY21E/ FY22E. JKCE planned Rs20bn (Rs13bn through debt and balance through internal accruals) capex for above 4.2mtpa grey cement capacity expansion from 10.5mtpa to 15mtpa. Out of this, it spent Rs15.1 bn till Jun'20 and expects Rs3.5 bn in FY21E.
- **Upgradation of line 3 at Nimbahera** – JKCE spent Rs1.96 bn upto Jun'20 and Rs2.5 bn is remaining to be spent in FY21E. This will increase clinker production by 1000 TPD. JKCE expects commissioning of the same by Q2FY22.
- **3MTPA grey cement/ 0.3MTPA putty expansion** – JKCE plans to expand grey cement by another 2.5-3.5mtpa at Panna, M.P. for which they have received environment clearance for mine and expect 100% land acquisition by Dec'20 and by Q4FY21 the site should be ready. JKCE also plans to add 0.3mtpa (increasing total capacity to 0.7mtpa) putty capacity in Katni, M.P. with a capex of ~Rs300 mn which is likely to be operational by Oct'20.
Expect total capex of ~Rs7 bn for FY21E.
- Aligarh plants running at 40-50% utilization and South plant at 60% utilization. Aligarh plant has incentives on 100% investment over a period of 7 years. Expect maximum Rs200 mn pa savings.
- **Costs** – Power & Fuel cost increased as JKCE didn't operate WHRS plants. Can expect major savings in power and fuel costs once Manglor plant is commissioned and expect savings from Line 3 at Nimahera from Q2FY22 onwards. Total Rs100/ tn of savings can be visible from next year.
- Petcoke prices have increased than inventory rate of JKCE. Current prices are at \$95 vs. \$60 before 3 months. Won't save much on P&F and freight cost.

- Other expenses should increase once business picks up and expect FY21E other expense to be lower than FY20.
- Debt** – Gross Debt/ Net Debt stood at Rs26 bn/ Rs13.4 bn as on Jun'20 and guided for peak gross debt of Rs35bn in FY21E.
- UAE operations** – Volumes are back to normal levels in Jul'20 and Aug'20.

Exhibit 7: Q1FY21 performance (standalone)

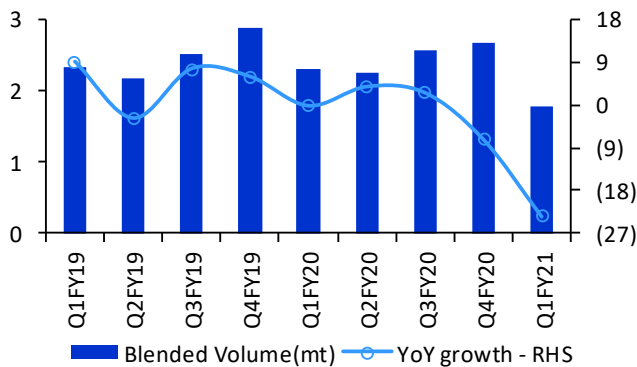
(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20	FY19	YoY (%)
Total Revenue	9,650	13,280	(27.3)	14,774	(34.7)	54,638	49,813	9.7
Raw Material Cost	1,953	1,824	7.0	2,071	(5.7)	8,607	8,380	2.7
Employee Expenses	950	968	(1.8)	987	(3.7)	3,909	3,535	10.6
Power and Fuel	1,531	2,621	(41.6)	2,690	(43.1)	10,091	10,523	(4.1)
Freight Cost	1,755	2,474	(29.1)	2,818	(37.7)	10,321	10,818	(4.6)
Other expenses	1,307	2,357	(44.5)	2,745	(52.4)	9,894	8,456	17.0
Total Expenditure	7,497	10,245	(26.8)	11,312	(33.7)	42,822	41,712	2.7
PBIDT (Excl. OI)	2,153	3,035	(29.1)	3,463	(37.8)	11,815	8,101	45.8
Other Income	203	172	18.2	271	(24.9)	859	805	6.7
Depreciation	580	494	17.4	577	0.6	2,144	1,944	10.3
EBIT	1,776	2,713	(34.5)	3,157	(43.7)	10,530	6,963	51.2
Interest	572	534	7.0	572	0.0	2,229	2,227	0.1
PBT (Excl. E.O)	1,204	2,179	(44.7)	2,585	(53.4)	8,302	4,736	75.3
Exceptional Items	0	0	-	1,782	(100.0)	1,782	0	-
PBT (Incl. E.O)	1,204	2,179	(44.7)	803	49.9	6,520	4,736	37.7
Tax	427	641	(33.3)	801	(46.6)	2,516	1,487	69.2
RPAT	777	1,538	(49.5)	2	34,121.9	4,004	3,249	23.2
Adjustments	0	0		1,782		1,782	0	
APAT	777	1,538	(49.5)	1,784	(56.4)	5,785	3,249	78.1
Adj. EPS (Rs)	10.05	19.91	(49.5)	23.09	(56.4)	74.87	42.05	78.1
			bps		bps			bps
EBIDTA Margin (excl. O.I.)	22.3	22.9	(55)	23.4	(113)	21.6	16.3	536
NPM (%)	8.1	11.6	(353)	12.1	(402)	10.6	6.5	407
Tax Rate (%)	35.5	29.4	608	99.7	(6,422)	38.6	31.4	720

Source: DART, Company

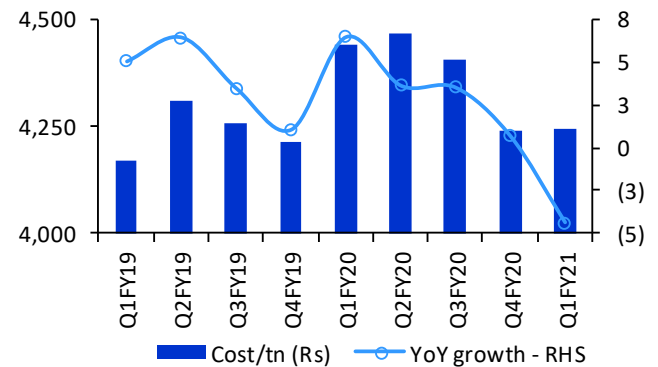
Exhibit 8: Valuation

Particulars	(Rs mn)
Assumed EV/EBITDA multiple (x)	11.0
EBITDA (FY22E)	13,797
(a) EV	1,51,770
(b) Less: Net Debt (FY22E)	26,254
(c) 50 % of FY22E Capital WIP	5,000
Mcap (a-b+c)	1,30,516
Shares o/s (mn)	77
Target price (Rs)	1,689
CMP (Rs)	1,487
Up/(down)side (%)	13.6

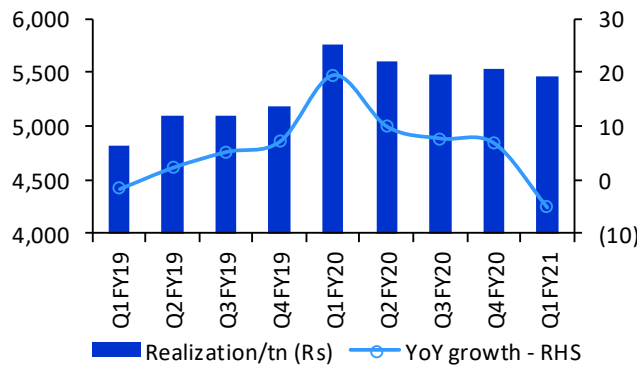
Source: Company, DART

Exhibit 9: Blended Volume (mt)


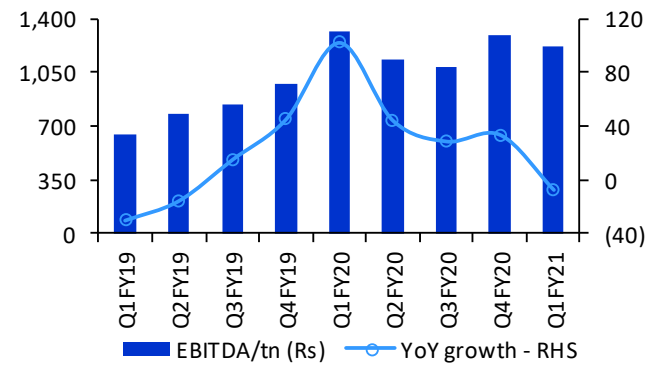
Source: Company, DART

Exhibit 10: Cost/tn (Rs)


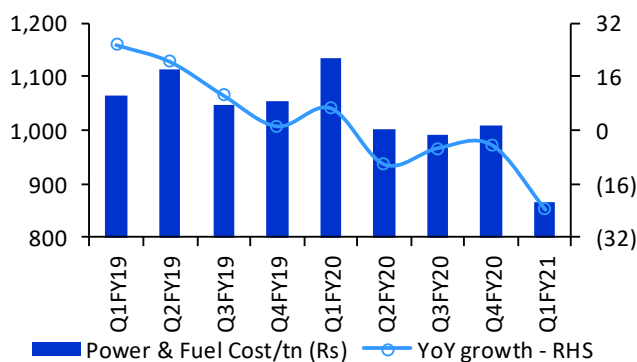
Source: Company, DART

Exhibit 11: Realization/tn (Rs)


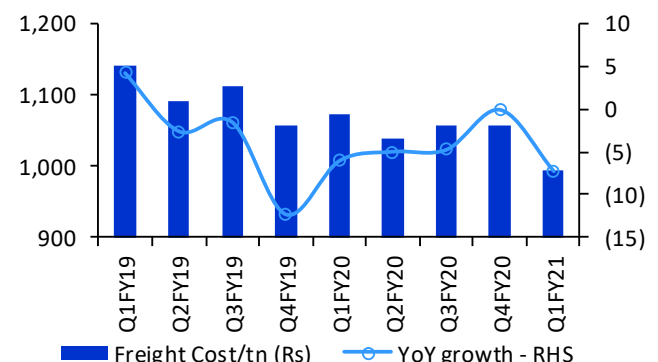
Source: Company, DART

Exhibit 12: EBITDA/tn (Rs)


Source: Company, DART

Exhibit 13: Power & fuel cost/tn (Rs)


Source: Company, DART

Exhibit 14: Freight cost/tn (Rs)


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	49,813	54,638	57,574	66,677
Total Expense	41,712	42,822	45,828	52,880
COGS	29,721	29,019	31,713	36,689
Employees Cost	3,535	3,909	3,987	4,545
Other expenses	8,456	9,894	10,128	11,646
EBIDTA	8,101	11,815	11,746	13,797
Depreciation	1,944	2,144	2,680	3,132
EBIT	6,158	9,671	9,066	10,665
Interest	2,221	2,229	2,692	2,947
Other Income	799	859	691	667
Exc. / E.O. items	0	1,782	0	0
EBT	4,736	10,083	7,065	8,385
Tax	1,487	2,516	2,119	2,515
RPAT	3,249	7,567	4,945	5,869
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	3,249	9,348	4,945	5,869

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	773	773	773	773
Minority Interest	0	0	0	0
Reserves & Surplus	28,155	30,516	34,689	39,786
Net Worth	28,928	31,289	35,462	40,558
Total Debt	23,586	27,598	32,898	32,598
Net Deferred Tax Liability	3,125	4,181	4,181	4,181
Total Capital Employed	55,639	63,069	72,541	77,338

Applications of Funds

Net Block	36,355	44,681	53,593	51,961
CWIP	5,564	5,092	1,500	10,000
Investments	6,104	5,652	5,652	5,652
Current Assets, Loans & Advances	21,450	23,126	26,424	26,025
Inventories	5,579	6,272	6,609	7,654
Receivables	2,022	2,234	2,366	2,740
Cash and Bank Balances	4,297	6,311	8,788	6,344
Loans and Advances	0	0	0	0
Other Current Assets	5,608	8,298	8,661	9,286
Less: Current Liabilities & Provisions	13,833	15,482	14,628	16,300
Payables	4,074	4,526	3,901	4,515
Other Current Liabilities	9,760	10,956	10,727	11,784
<i>sub total</i>				
Net Current Assets	7,616	7,643	11,796	9,725
Total Assets	55,639	63,069	72,541	77,338

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	40.3	46.9	44.9	45.0
EBIDTA Margin	16.3	21.6	20.4	20.7
EBIT Margin	12.4	17.7	15.7	16.0
Tax rate	31.4	25.0	30.0	30.0
Net Profit Margin	6.5	13.8	8.6	8.8
(B) As Percentage of Net Sales (%)				
COGS	59.7	53.1	55.1	55.0
Employee	7.1	7.2	6.9	6.8
Other	17.0	18.1	17.6	17.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.8	0.9	0.9	0.8
Interest Coverage	2.8	4.3	3.4	3.6
Inventory days	41	42	42	42
Debtors days	15	15	15	15
Average Cost of Debt	9.4	8.7	8.9	9.0
Payable days	30	30	25	25
Working Capital days	56	51	75	53
FA T/O	1.4	1.2	1.1	1.3
(D) Measures of Investment				
AEPS (Rs)	42.0	121.0	64.0	76.0
CEPS (Rs)	67.2	148.7	98.7	116.5
DPS (Rs)	9.0	17.5	10.0	10.0
Dividend Payout (%)	21.5	14.5	15.6	13.2
BVPS (Rs)	374.4	404.9	458.9	524.9
RoANW (%)	12.9	25.1	14.8	15.4
RoACE (%)	10.6	13.5	11.3	11.8
RoAIC (%)	13.2	17.9	15.0	15.8
(E) Valuation Ratios				
CMP (Rs)	1487	1487	1487	1487
P/E	35.4	12.3	23.2	19.6
Mcap (Rs Mn)	1,14,921	1,14,921	1,14,921	1,14,921
MCap/ Sales	2.3	2.1	2.0	1.7
EV	1,30,267	1,36,198	1,39,031	1,41,175
EV/Sales	2.6	2.5	2.4	2.1
EV/EBITDA	16.1	11.5	11.8	10.2
P/BV	4.0	3.7	3.2	2.8
Dividend Yield (%)	0.6	1.2	0.7	0.7
(F) Growth Rate (%)				
Revenue	8.5	9.7	5.4	15.8
EBITDA	6.5	45.8	(0.6)	17.5
EBIT	7.2	57.1	(6.3)	17.6
PBT	7.7	112.9	(29.9)	18.7
APAT	(9.5)	187.7	(47.1)	18.7
EPS	(9.5)	187.7	(47.1)	18.7

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	7,111	10,925	8,207	10,802
CFI	(10,322)	(9,086)	(7,556)	(9,685)
CFF	2,072	176	1,825	(3,561)
FCFF	947	1,035	207	802
Opening Cash	5,435	4,297	6,312	8,788
Closing Cash	4,297	6,312	8,788	6,344

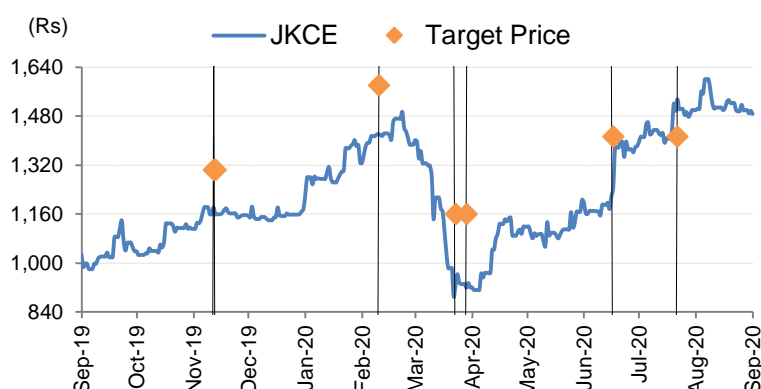
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	Buy	1,305	1,182
Nov-19	Buy	1,305	1,160
Feb-20	Buy	1,582	1,421
Mar-20	Buy	1,160	930
Mar-20	Buy	1,160	920
Jun-20	Accumulate	1,413	1,246
Jul-20	Accumulate	1,413	1,536

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
