

JK Cement

Refer to important disclosures at the end of this report

Capacity expansion to improve volumes; upgrade to Buy

CMP: Rs 1,500 | **TP: Rs 1,801 (▲)** | **Rating: BUY (▲)** | **Upside: 20.0 %**
as of (September 28, 2020) | 12 months

- Our channel checks indicate strong volume growth for JKCE in Q2FY21 as the company benefits from new capacities. We expect 23-25% yoy volume growth for grey cement in Q2FY21 and 8.5%/14.6%/5% yoy in FY21/22/23E.
- Recovery in white cement/wall putty segments has been better than expected and we expect volume growth of 3-5% yoy in Q2FY21, though FY21 volumes may decline 10% yoy. Capacity expansion of 0.3mt (33% of existing capacities) in wall putty in Q3FY21 should help volume growth in FY22-23E.
- JKCE increased production capacity of grey cement by 3.5mt in FY20. The grinding unit of 0.7mt in Balasinor, Gujarat, will be commissioned in Q3FY21. Environment clearance for the proposed expansion at Panna, MP, is expected to be received in Q3FY21.
- We raise sales volume estimates of grey cement by 4-5% and EBITDA estimates by 3-4% for FY21-23. JKCE benefits from stable cash flows in white cement (OPM of 25-30% in last 10 years). Cost saving strategies should help grey cement profits. We upgrade JKCE to Buy, based on 12x/11x Dec'22E (Sep'22E earlier) EV/EBITDA for white/grey segments.
- Strong volume growth led by commissioning of new capacities:** JKCE increased grey cement production capacity by 3.5mt to 14mt in FY20, which will be increased by 0.7mt in Q3FY21. New capacities have helped JKCE push volumes in the North region and we expect 23-25% yoy volume growth in Q2 as per our channel checks. In FY21, we expect volume growth of 8.5% yoy despite volume industry volume decline in the North/South regions, which indicates market share gain.
- White cement segment recovers, provides stable cash flows:** Demand in white cement and wall putty is expected to recover in Q2 after a 48% yoy drop in Q1FY21. We expect volume growth of 15.8%/7% yoy in FY22/23E after a 10.1% yoy drop in FY21. The white cement segment is less volatile compared to grey cement and provides stability to cash flows. OPM of this segment is 25-30% in last 10 years with EBITDA CAGR of ~15% over FY11-20. After an 18.8% yoy EBITDA drop in FY21E, we expect the segment's EBITDA to grow at a CAGR of 17.7% over FY21-23.
- Aims further growth; upgrade to Buy:** JKCE has benefitted from timely capacity additions in grey and white segments. Production capacity of Grey Cement has been increased by 3.3x (CAGR of 10.9%) over FY09-20, which led to sales volume CAGR of 7.5% in the same period. Sales volume of white cement/putty has grown at a CAGR of 12.6% between FY11-20. JKCE plans to increase grey cement capacities through a Greenfield plant at Panna, MP, where it has limestone mines. It will also benefit from cost saving strategies (upgrading Kiln III at Nimbahera and 15MW WHRS at Mangrol plant). We upgrade to Buy from Hold, based on 12x/11x Dec'22E (Sep'22E earlier) EV/EBITDA for white/grey segments. Key risks: Steep decline in cement demand/pressure on cement prices.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Cement & Building Materials \(Page 8\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	52,587	58,016	59,090	69,092	74,430
EBITDA	8,345	12,134	11,371	13,246	14,581
EBITDA Margin (%)	15.9	20.9	19.2	19.2	19.6
APAT	2,703	4,964	3,528	4,677	5,603
EPS (Rs)	35.0	64.2	45.7	60.5	72.5
EPS (% chg)	(19.1)	83.6	(28.9)	32.6	19.8
ROE (%)	11.6	17.3	11.1	13.3	14.1
P/E (x)	42.9	23.3	32.9	24.8	20.7
EV/EBITDA (x)	16.4	11.7	12.7	10.7	9.4
P/BV (x)	4.3	3.8	3.5	3.1	2.8

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	9/7
Target Price change (%)	9.7
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	45.7	60.5
Consensus	51.8	77.0
Mean Consensus TP (12M)	Rs 1,632	

Stock Details

Bloomberg Code	JKCE IN
Face Value (Rs)	10
Shares outstanding (mn)	77
52 Week H/L	1,615 / 795
M Cap (Rs bn/USD bn)	116 / 1.57
Daily Avg Volume (nos.)	97,928
Daily Avg Turnover (US\$ mn)	2.0

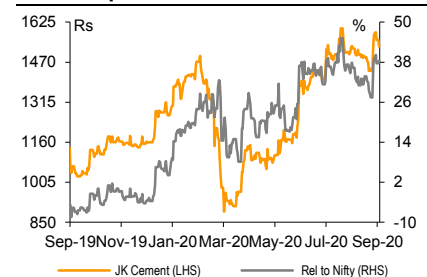
Shareholding Pattern Jun '20

Promoters	58.1%
FIIIs	13.5%
DIIIs	23.3%
Public and Others	5.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	-	7	56	40
Rel. to Nifty	4	-	17	45

Relative price chart



Source: Bloomberg

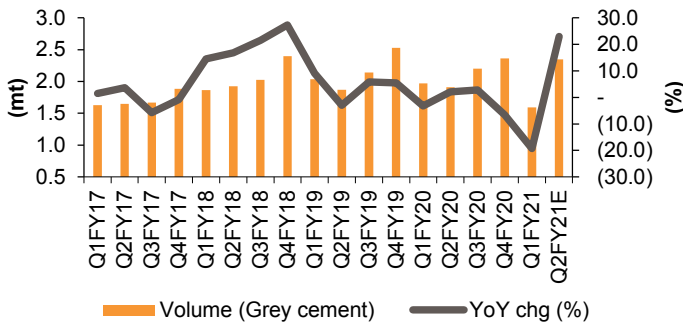
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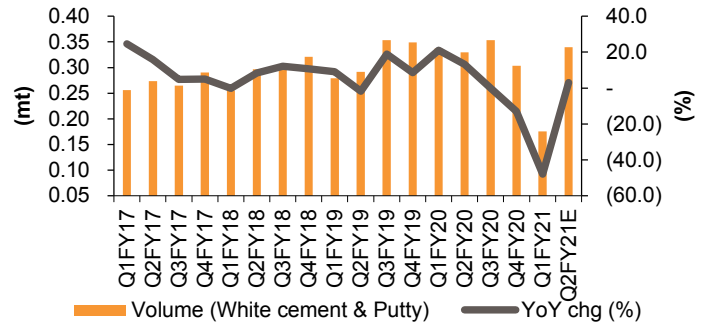
Story in Charts

Exhibit 1: Grey cement volume growth of 23-25% yoy expected in Q2



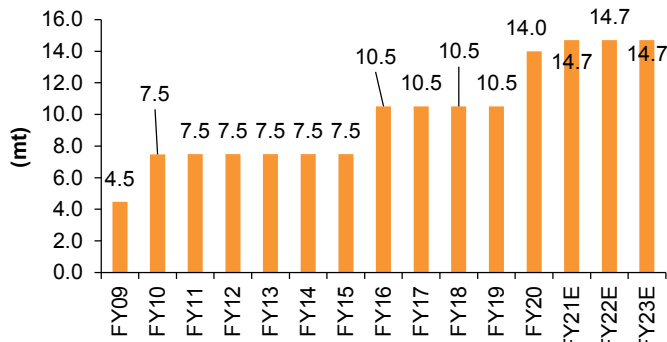
Source: Company, Emkay Research

Exhibit 2: White Cement segment's volume to recover in Q2



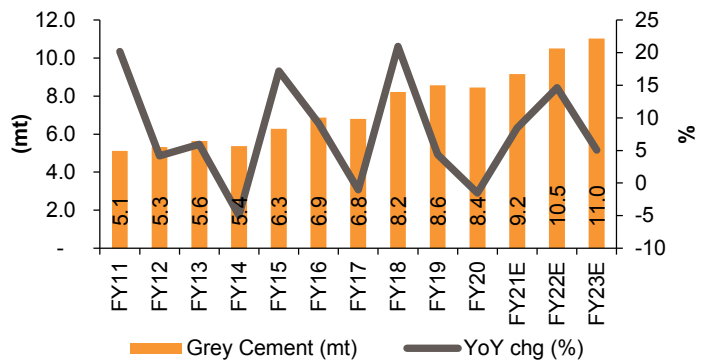
Source: Company, Emkay Research

Exhibit 3: 3.3x increase in Grey Cement's capacity over FY09-20



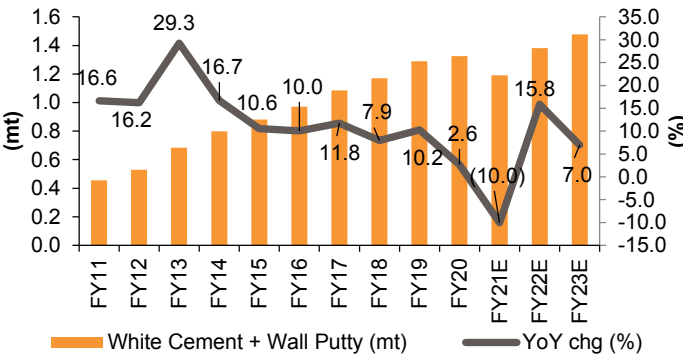
Source: Company, Emkay Research

Exhibit 4: Grey cement volume CAGR of 9% over FY20-23E



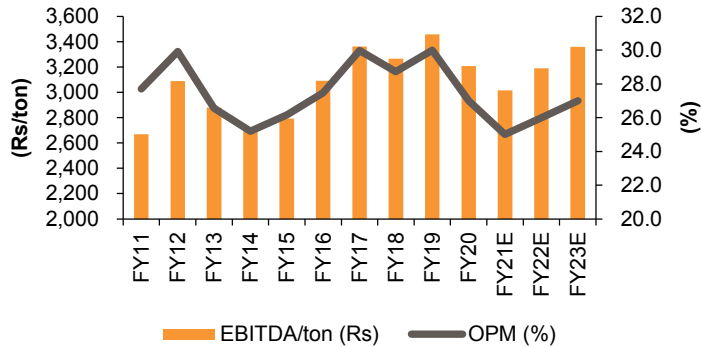
Source: Company, Emkay Research

Exhibit 5: White cement segment's volume to improve in FY22/23E



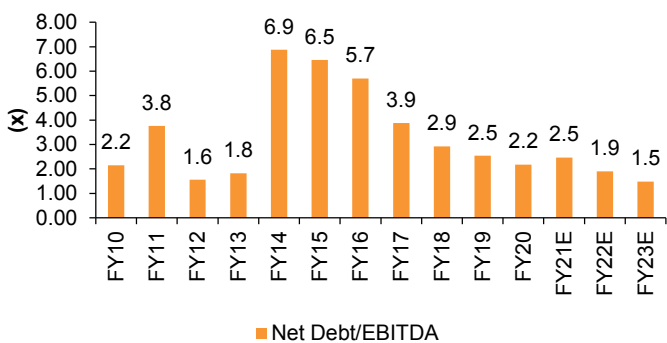
Source: Company, Emkay Research

Exhibit 6: OPM of White cement remained in range of 25-30%



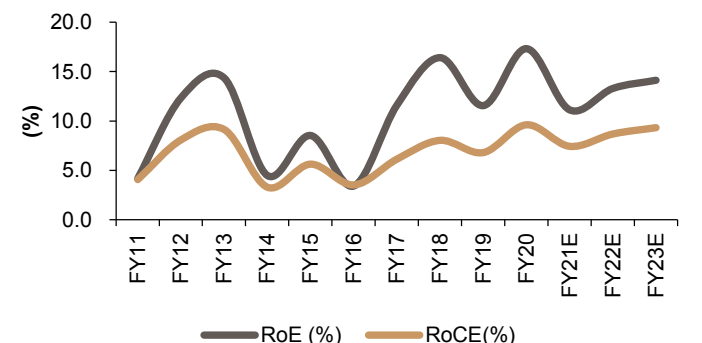
Source: Company, Emkay Research

Exhibit 7: Net debt/EBITDA to improve in FY22/23E



Source: Company, Emkay Research

Exhibit 8: Average RoE of 12.9% over FY21-23E vs. 10.4% during FY11-20



Source: Company, Emkay Research

Change in estimates

Our channel checks indicate strong volume growth for JKCE in Q2FY21 as the company benefits from its capacity expansions in the North region. The company had increased its grey cement production capacities by 3.5mt in FY20 after commissioning grinding units in the North region (1.5mt each at Nimbahera and Mangrol in Rajasthan) and Western UP (1.5mt at Aligarh).

We expect 23-25% yoy volume growth for JKCE in Q2FY21. We factor in 8.5%/14.6%/5% yoy volume growth for FY21/22/23E. Recovery in the white/wall putty segments is also expected to be better than estimates and we expect 3-5% yoy volume growth in Q2FY21 after a 47.9% fall in Q1. We factor in volume growth of 15.8%/7% for FY22/23E after a drop of 10.1% in FY21E.

We raise volume estimates of grey cement by 4-5% for FY21-23E based on current trends. We have increased energy costs by Rs40/ton for FY21-23E considering high pet coke prices. These changes led to a 3.5%/3%/3.6% increase in EBITDA estimates for FY21/22/23. Profit estimates are increased by 8.7%/7.3%/9.4% for FY21/22/23.

Exhibit 9: Changes in Estimates

Particulars (Rs mn)	FY21E			FY22E			FY23E		
	Revised	Previous	Chg (%)	Revised	Previous	Chg (%)	Revised	Previous	Chg (%)
Sales volume (grey)-mt	9.2	8.8	4.1	10.5	9.9	4.5	11.0	10.5	4.7
Realization (Rs/ton)	4,600	4,600	0.0	4,660	4,660	0.0	4,752	4,752	0.0
Sales	59,090	56,740	4.1	69,092	66,129	4.5	74,430	71,100	4.7
EBITDA	11,371	10,987	3.5	13,246	12,858	3.0	14,581	14,075	3.6
OPM (%)	19.2	19.4	(12)	19.2	19.4	(27)	19.6	19.8	(21)
Profit	3,528	3,247	8.7	4,677	4,359	7.3	5,603	5,123	9.4
EPS (Rs)	45.7	42.0	8.7	60.5	56.4	7.3	72.5	66.3	9.4

Source: Company, Emkay Research

Exhibit 10: Key assumptions

Particulars	FY18	FY19	FY20	FY21E	FY22E	FY23E
Grey Cement Sales (mt)	8.2	8.6	8.4	9.2	10.5	11.0
Realization (Rs/ton)	4,011	4,001	4,527	4,599	4,659	4,751
Per ton costs (Rs)						
Raw material	833	885	971	987	1,005	1,038
Employee cost	392	407	466	432	407	412
Power & Fuel	1,014	1,123	1,120	1,033	1,077	1,099
Freight	1,178	1,142	1,128	1,086	1,143	1,170
Other expense	885	921	1,090	1,072	1,069	1,066
Total Cost	4,322	4,491	4,694	4,609	4,701	4,786

Source: Company, Emkay Research

Exhibit 11: SoTP Valuation

Particulars (Rs mn)	Dec-22E
EBITDA- White Cement	4,996
Target multiple (x)	12
EBITDA- Grey Cement	9,251
Target multiple (x)	11
EV (Rs mn)	161,713
Net Debt (Rs mn)	22,571
Target market cap	139,143
No of shares (mn)	77.3
Target price/share (Rs)	1,801
CMP (Rs)	1,500
Upside (%)	20.0%

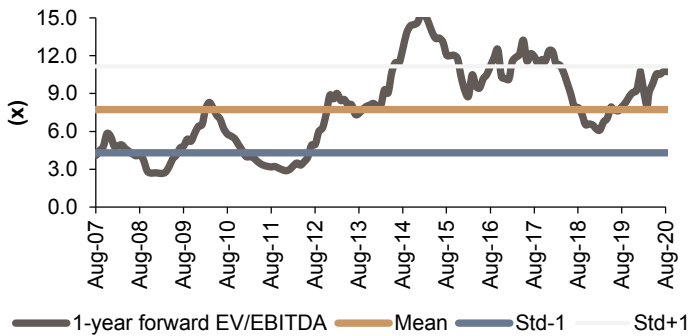
Source: Company, Emkay Research

Exhibit 12: Peer Valuation

Company	Rs bn	EV/EBITDA (x)			EV/Ton (USD)			EPS (Rs)			P/E (x)		
	Mcap	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
JK Cement	116	12.7	10.7	9.4	119	112	109	45.7	60.5	72.5	32.9	24.8	20.7
ACC*	251	9.2	7.7	7.0	81	79	79	60.7	73.0	80.9	22.0	18.3	16.5
Ambuja Cements*	408	12.2	10.1	8.6	122	111	105	7.6	8.5	9.6	27.2	24.1	21.3
India Cements	36	11.2	9.6	7.9	59	57	54	2.3	4.1	6.7	51.5	28.4	17.4
Ramco Cements	167	17.8	16.0	13.6	133	125	120	18.8	20.9	26.4	37.7	33.9	26.8
Shree Cements	686	21.1	17.0	14.5	202	188	182	276.4	415.3	517.3	68.8	45.8	36.7
UltraTech Cement	1,114	14.6	12.0	10.1	126	122	116	119.7	161.2	194.6	32.2	23.9	19.8
JK Lakshmi Cement	29	6.0	5.1	4.3	40	38	34	18.0	22.4	26.5	13.8	11.0	9.4
Orient Cement	13	6.7	6.3	5.2	40	38	36	3.8	4.3	5.9	17.0	14.9	10.8
Prism Cement	28	14.5	9.6	8.6	88	88	87	-1.0	1.1	1.8	-54.4	51.9	31.5
Star Cement	34	8.9	6.6	5.8	77	72	69	5.7	7.3	7.8	14.5	11.4	10.7
Birla Corp	49	8.4	7.3	6.3	71	61	56	30.9	43.8	48.8	20.4	14.4	12.9

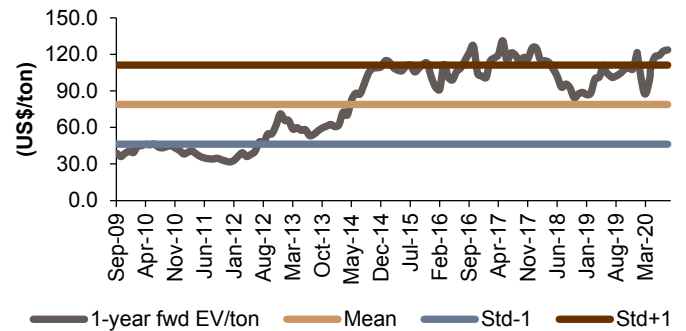
Source: Company, Emkay Research, *Dec-ending companies

Exhibit 13: 1-yr forward EV/EBITDA chart



Source: Company, Emkay Research

Exhibit 14: 1-yr forward EV/ton chart



Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	52,587	58,016	59,090	69,092	74,430
Expenditure	44,242	45,882	47,719	55,846	59,849
EBITDA	8,345	12,134	11,371	13,246	14,581
Depreciation	2,413	2,880	3,348	3,692	3,897
EBIT	5,932	9,255	8,024	9,554	10,684
Other Income	804	853	788	851	998
Interest expenses	2,611	2,764	3,299	3,298	3,170
PBT	4,124	7,344	5,513	7,106	8,513
Tax	1,488	2,511	1,985	2,429	2,910
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	67	130	0	0	0
Reported Net Income	2,703	4,964	3,528	4,677	5,603
Adjusted PAT	2,703	4,964	3,528	4,677	5,603

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	773	773	773	773	773
Reserves & surplus	26,249	29,504	32,334	36,452	41,309
Net worth	27,022	30,277	33,106	37,224	42,082
Minority Interest	(72)	(203)	(203)	(203)	(203)
Loan Funds	29,731	32,840	34,155	32,655	31,155
Net deferred tax liability	3,123	4,173	4,173	4,173	4,173
Total Liabilities	59,803	67,086	71,232	73,850	77,207
Net block	45,367	55,545	63,993	65,301	66,404
Investment	4,383	458	458	458	458
Current Assets	18,632	24,122	22,931	24,881	27,755
Cash & bank balance	4,556	6,345	6,067	7,389	9,469
Other Current Assets	1,565	1,280	1,280	1,280	1,280
Current liabilities & Provision	14,323	18,334	17,651	18,290	18,910
Net current assets	4,309	5,788	5,281	6,591	8,845
Misc. exp	0	0	0	0	0
Total Assets	59,803	67,086	71,232	73,850	77,207

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	4,124	7,344	5,513	7,106	8,513
Other Non-Cash items	(49)	179	0	0	0
Chg in working cap	(681)	2,820	229	13	(175)
Operating Cashflow	7,039	13,668	10,404	11,680	12,494
Capital expenditure	(6,313)	(12,428)	(8,000)	(5,000)	(5,000)
Free Cash Flow	725	1,240	2,404	6,680	7,494
Investments	0	0	0	0	0
Other Investing Cash Flow	(1,710)	(2,338)	0	0	0
Investing Cashflow	(8,023)	(14,765)	(8,000)	(5,000)	(5,000)
Equity Capital Raised	73	0	0	0	0
Loans Taken / (Repaid)	344	3,133	1,000	(1,500)	(1,500)
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	1,311	(4,215)	(3,682)	(3,857)	(3,915)
Financing Cashflow	1,728	(1,081)	(2,682)	(5,357)	(5,415)
Net chg in cash	744	(2,179)	(278)	1,322	2,080
Opening cash position	5,595	4,556	6,345	6,067	7,389
Closing cash position	6,339	2,377	6,067	7,389	9,469

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	15.9	20.9	19.2	19.2	19.6
EBIT Margin	11.3	16.0	13.6	13.8	14.4
Effective Tax Rate	36.1	34.2	36.0	34.2	34.2
Net Margin	5.0	8.3	6.0	6.8	7.5
ROCE	12.1	15.9	12.7	14.3	15.5
ROE	11.6	17.3	11.1	13.3	14.1
RoIC	13.3	18.5	13.6	15.0	16.4

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	35.0	64.2	45.7	60.5	72.5
CEPS	66.2	101.5	89.0	108.3	122.9
BVPS	349.7	391.8	428.5	481.8	544.6
DPS	10.0	7.5	6.0	8.0	10.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	42.9	23.3	32.9	24.8	20.7
P/CEPS	0.0	0.0	0.0	0.0	0.0
P/BV	4.3	3.8	3.5	3.1	2.8
EV / Sales	2.6	2.5	2.4	2.0	1.8
EV / EBITDA	16.4	11.7	12.7	10.7	9.4
Dividend Yield (%)	0.7	0.5	0.4	0.5	0.7

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.8	0.9	0.8	0.7	0.5
Net Debt/EBIDTA	2.5	2.2	2.5	1.9	1.5
Working Cap Cycle (days)	(1.7)	(3.5)	(4.9)	(4.2)	(3.1)

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	8.5	10.3	1.9	16.9	7.7
EBITDA	6.0	45.4	(6.3)	16.5	10.1
EBIT	6.7	56.0	(13.3)	19.1	11.8
PAT	(5.3)	83.6	(28.9)	32.6	19.8

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue	13,280	12,542	14,042	14,774	9,650
EBITDA	3,035	2,540	2,777	3,463	2,153
EBITDA Margin (%)	22.9	20.3	19.8	23.4	22.3
PAT	1,538	1,088	1,376	1,784	777
EPS (Rs)	22.0	15.6	19.7	25.5	11.1

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	58.1	58.1	58.1	58.1	58.1
FIs	10.7	11.9	12.1	12.4	13.5
DIs	24.3	23.5	23.5	23.8	23.3
Public and Others	6.9	6.5	6.3	5.7	5.2

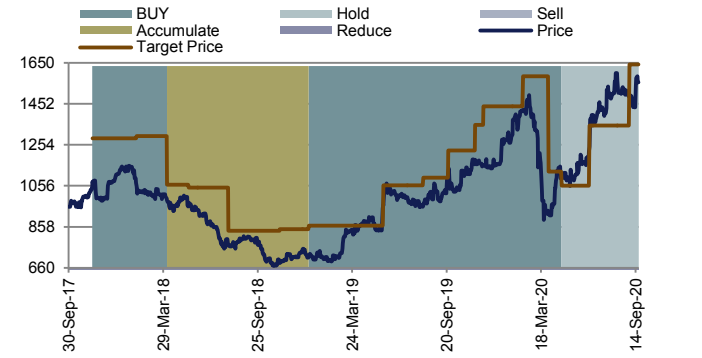
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
02-Sep-20	1,487	1,642	12m	Hold	Sanjeev Kumar Singh
18-Jun-20	1,246	1,348	12m	Hold	Sanjeev Kumar Singh
18-May-20	1,091	1,056	12m	Hold	Sanjeev Kumar Singh
26-Apr-20	1,090	1,056	12m	Hold	Sanjeev Kumar Singh
01-Apr-20	921	1,125	12m	Buy	Sanjeev Kumar Singh
12-Feb-20	1,419	1,585	12m	Buy	Sanjeev Kumar Singh
29-Nov-19	1,157	1,440	12m	Buy	Sanjeev Kumar Singh
20-Nov-19	1,179	1,350	12m	Buy	Sanjeev Kumar Singh
13-Nov-19	1,182	1,350	12m	Buy	Sanjeev Kumar Singh
23-Sep-19	1,117	1,227	12m	Buy	Sanjeev Kumar Singh
26-Aug-19	1,026	1,096	12m	Buy	Sanjeev Kumar Singh
06-Aug-19	961	1,096	12m	Buy	Sanjeev Kumar Singh
24-Jun-19	1,009	1,059	12m	Buy	Sanjeev Kumar Singh
13-Jun-19	1,023	1,059	12m	Buy	Sanjeev Kumar Singh
22-May-19	964	1,059	12m	Buy	Sanjeev Kumar Singh
28-Feb-19	725	864	12m	Buy	Sanjeev Kumar Singh
05-Feb-19	692	864	12m	Buy	Sanjeev Kumar Singh
07-Jan-19	714	864	12m	Buy	Sanjeev Kumar Singh
31-Dec-18	714	864	12m	Buy	Sanjeev Kumar Singh
06-Nov-18	683	846	12m	Accumulate	Sanjeev Kumar Singh
31-Jul-18	768	839	12m	Accumulate	Sanjeev Kumar Singh
16-May-18	975	1,047	12m	Accumulate	Sanjeev Kumar Singh
05-Apr-18	986	1,061	12m	Accumulate	Sanjeev Kumar Singh
06-Feb-18	1,054	1,296	12m	Buy	Sanjeev Kumar Singh
15-Dec-17	1,075	1,286	12m	Buy	Sanjeev Kumar Singh
14-Nov-17	1,077	1,286	12m	Buy	Sanjeev Kumar Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Cement & Building Materials



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Sector

Cement & Building materials

Analyst bio

Sanjeev Kumar Singh holds an MBA and has over 10 years of experience in the Cement sector. His team currently covers 17 stocks in the Cement and Building Materials space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Cement & Building Materials	2.06	2.06	0%	0	100.00
ACC	0.18	0.20	11%	2	9.87
Ambuja Cements	0.25	0.28	14%	3	13.62
Grasim Industries	0.45	0.14	-69%	-31	6.86
Birla Corporation	0.00	0.09	NA	9	4.15
India Cements	0.00	0.00	NA	0	0.00
JK Cement	0.00	0.05	NA	5	2.21
Jk Lakshmi Cement	0.00	0.04	NA	4	2.00
Orient Cement	0.00	0.00	NA	0	0.00
Prism Johnson	0.00	0.00	NA	0	0.00
Ramco Cements	0.15	0.15	0%	0	7.12
Sanghi Industries*	0.00	0.00	NA	0	0.00
Shree Cements	0.30	0.29	-3%	-1	14.17
Star Cement	0.00	0.00	NA	0	0.00
Ultratech Cement	0.73	0.82	13%	10	40.00
Century Plyboards	0.00	0.00	NA	0	0.00
HSIL*	0.00	0.00	NA	0	0.00
Kajaria Ceramics	0.00	0.00	NA	0	0.00
Somany Ceramics	0.00	0.00	NA	0	0.00
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

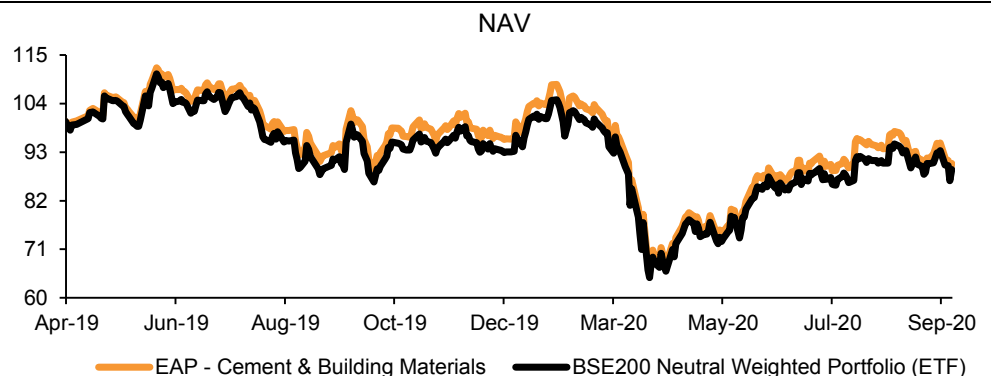
Sector portfolio NAV

	Base					Latest
	1-Apr-19	24-Dec-19	27-Mar-20	26-Jun-20	26-Aug-20	25-Sep-20
EAP - Cement & Building Materials	100.0	96.4	69.4	89.5	95.9	90.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	93.4	67.9	87.0	92.8	89.1

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 28 Sep 2020 18:59:04 (SGT)

Dissemination Date: 28 Sep 2020 19:00:04 (SGT)

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