

View: Historic quarter, growth to continue; upgrade to Buy

- JKCE's revenue was in line and EBITDA, EBITDA/tn and PAT was above estimates. Volumes and realization were in line and cost lower than estimates. This is the highest ever quarterly revenue, EBITDA, EBITDA/tn and PAT for the company.
- JKCE posted strong set of numbers with 23.6%/ 61.7%/ 105.5% YoY growth in revenue/ EBITDA/ PAT to Rs15.5 bn/ Rs4.1 bn/ Rs2.2 bn in Q2FY21 led by 25.5% YoY growth in blended volume, partially offset by decline in blended realization by -1.5% YoY (+1.0 QoQ).
- We expect 12.2%/ 13.7%/ 15.2% revenue/ EBITDA/ APAT CAGR over FY20-23E led by 11.9%/ 13.5%/ 10.0% blended volume growth and (1.3%)/ 1.4%/ 0.9% blended cement realization growth in FY21E/ FY22E/ FY23E.
- We increase our revenue and EBITDA estimates by 4.9%/ 4.2% and 18.8%/ 14.2% for FY21E/ FY22E factoring H1FY21 results. Accordingly, we increase our APAT estimates by 34.2%/ 23.6% for FY21E/ FY22E and introduce FY23E. We like JKCE because of its sizable presence in higher EBITDA margin contributing white cement & putty business and healthy cash generation & RoE. Moreover, its recent 4.2 mtpa strategic expansion into strong pricing markets of north/central will benefit it. Thus, we upgrade to Buy with revised TP of Rs2,240 (11x Sep'22E EV/EBITDA + 0.5x Sep'22E CWIP + 1x PB investment in Fujairah, UAE).

Blended EBITDA/tn - up 28.8%/ 19.9% YoY/ QoQ

In line blended volume (+25.5% YoY/ +59.1% QoQ to 2.81 mt), in line blended realization (-1.5% YoY/ +1.0% QoQ to Rs5,517/tn) and lower than expected operating cost (-9.2% YoY/ -4.4% QoQ to Rs4,056/tn) led to robust growth in blended EBITDA/tn to Rs1,461 (+28.8% YoY/ +19.9% QoQ). Grey cement volume stood at 2.45mt (+28.4%/ +54.0% YoY/ QoQ) and white cement & putty volume stood at 0.36mt (+8.8%/ +105.3% YoY/ QoQ) during Q2FY21. Grey cement realization was +1.1%/ -2.9% YoY/ QoQ to Rs4,514/tn and white cement & putty realization was -0.5%/ -2.7% YoY/ QoQ to Rs11,629/tn.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	15,507	12,542	23.6	9,650	60.7
Total Expense	11,400	10,002	14.0	7,497	52.1
EBITDA	4,107	2,540	61.7	2,153	90.8
Depreciation	597	518	15.2	580	2.9
EBIT	3,510	2,023	73.5	1,573	123.2
Other Income	287	180	59.7	203	41.1
Interest	537	561	(4.3)	572	(6.0)
EBT	3,260	1,641	98.7	1,204	170.7
Tax	1,025	553	85.3	427	139.8
RPAT	2,235	1,088	105.5	777	187.7
APAT	2,235	1,088	105.5	777	187.7
			(bps)		(bps)
Gross Margin (%)	47.5	46.3	117	45.7	178
EBITDA Margin (%)	26.5	20.3	623	22.3	418
NPM (%)	14.4	8.7	574	8.1	636
Tax Rate (%)	31.4	33.7	(226)	35.5	(406)
EBIT Margin (%)	22.6	16.1	651	16.3	634

CMP	Rs 1,856
Target / Upside	Rs 2,240 / 21%
NIFTY	12,749

Scrip Details

Equity / FV	Rs 773mn / Rs 10
Market Cap	Rs 143bn
	USD 2bn
52-week High/Low	Rs 2,000/ 795
Avg. Volume (no)	92,268
Bloom Code	JKCE IN

Price Performance	1M	3M	12M
Absolute (%)	13	22	60
Rel to NIFTY (%)	5	8	52

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	58.1	58.1	58.1
MF/Banks/FIs	23.8	23.3	23.3
FIs	12.4	13.4	14.0
Public / Others	5.7	5.2	4.7

Valuation (x)

	FY21E	FY22E	FY23E
P/E	21.6	19.7	16.2
EV/EBITDA	11.9	10.7	9.7
ROE (%)	19.4	18.0	18.4
RoACE (%)	13.6	13.2	13.9

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	60,384	69,461	77,119
EBITDA	13,952	15,750	17,364
PAT	6,651	7,268	8,843
EPS (Rs.)	86.1	94.1	114.5

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

Particulars	Actual	DART Est	% Variance	Comments
Revenue (Rs mn)	15,507	15,031	3.2	+3.2% higher than estimated volume and inline realization
EBITDA (Rs mn)	4,107	3,019	36.0	Inline realization and -8.0% lower than estimated cost
EBITDA%	26.5	20.1	640	
PAT (Rs mn)	2,235	1,306	71.1	Led by better operating performance

Source: Company, DART

Exhibit 2: Change in estimates – Upgrade FY21E/ FY22E and introduce FY23E estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Previous	Chg %	New	Previous	Chg %	New	Previous	Chg %
Net revenues	60,384	57,574	4.9	69,461	66,677	4.2	77,119	-	-
EBIDTA	13,952	11,746	18.8	15,750	13,797	14.2	17,364	-	-
EBIDTA margin (%)	23.1	20.4	270	22.7	20.7	198	22.5	-	-
Adj. Net Profit	6,651	4,957	34.2	7,268	5,882	23.6	8,843	-	-
EPS (Rs)	86.1	64.2	34.2	94.1	76.1	23.6	114.5	-	-

Source: DART, Company

Exhibit 3: Grey Cement

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Volume (mt)	2.45	1.91	28.4	1.59	54.0	4.04	3.88	4.2
Revenue (Rs)	11,060	8,523	29.8	7,394	49.6	18,454	17,726	4.1
Realization/ tn (Rs)	4,514	4,467	1.1	4,648	(2.9)	4,567	4,570	(0.1)

Source: Company, DART

Exhibit 4: White Cement

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Volume (mt)	0.36	0.33	8.8	0.18	105.3	0.54	0.67	(19.8)
Revenue (Rs)	4,195	3,873	8.3	2,101	99.7	6,296	7,784	(19.1)
Realization/ tn (Rs)	11,629	11,687	(0.5)	11,953	(2.7)	11,735	11,638	0.8

Source: Company, DART

Exhibit 5: Per ton matrix (Grey + White)

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Volume (mt)	2.81	2.24	25.5	1.77	59.1	4.58	4.55	0.7
Realization/ tn (Rs)	5,517	5,600	(1.5)	5,463	1.0	5,496	5,678	(3.2)
Blended EBITDA/ tn	1,461	1,134	28.8	1,219	19.9	1,367	1,226	11.5
Cost/ tn	4,056	4,466	(9.2)	4,244	(4.4)	4,128	4,452	(7.3)
Raw Material Cost/ tn	877	967	(9.3)	1,105	(20.6)	965	877	10.0
Employee Expenses/ tn	347	429	(19.1)	538	(35.5)	421	424	(0.8)
Power and Fuels/ tn	970	1,002	(3.2)	867	11.8	930	1,070	(13.1)
Freight Expenses/ tn	1,050	1,037	1.2	994	5.7	1,028	1,055	(2.5)
Other expenses/ tn	812	1,030	(21.2)	740	9.6	784	1,026	(23.6)

Source: Company, DART

Exhibit 6: cost as a % of revenue

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Raw Material Cost	15.9	17.3	(136)	20.2	(433)	17.6	15.5	211
Employee Expenses	6.3	7.7	(137)	9.8	(356)	7.7	7.5	18
Power and Fuels	17.6	17.9	(32)	15.9	170	16.9	18.8	(192)
Freight Expenses	19.0	18.5	51	18.2	85	18.7	18.6	13
Other expenses	14.7	18.4	(369)	13.5	116	14.3	18.1	(380)
Total expenses	73.5	79.7	(623)	77.7	(418)	75.1	78.4	(329)

Source: Company, DART

Key earnings concall KTAs

- **Cement Volumes** - Q2FY21 volumes were strong from the capacity addition in North and right planning done in that region and reported ~25.5% YoY growth. Trade: Non trade mix stood at 66:34 (Q2FY21) vs. 75:25 (Q1FY21) vs. 69:31 (Q4FY20).
- **White cement & putty industry** – White cement reported 8.8% growth in volumes to 0.360 mt in Q2FY21. JKCE has not lost market share and will grow in double digit and maintain market share. EBITDA margin in this segment has increased in Q2 and JKCE expects to maintain past margin trend.
- **Cement Price** – JKCE has witnessed Rs5-10/ bag fall in prices in their market in Q2FY21. Witnessing increase in non-trade prices and trade prices too increasing by Rs5-10/ bag in Q3FY21.
- **Debt** – Gross Debt/ Net Debt stood at Rs27.44 bn/ Rs13.65 bn as on Sept'20 and guided for peak gross debt of Rs29-30bn in FY21E. Net Debt should not cross Rs25 bn even after considering 3.5-4 mtpa Panna expansion. Incremental Debt can increase by Rs2-3 bn per year. Raised Rs2.5 bn debentures is lying in cash.
- **3.5-4 MTPA Panna expansion** – Budget of expansion is not approved yet. Have received mining lease and environment clearance and 90% factory land is acquired. Rs1.6 bn is spent on land and mining lease and likely to spent Rs750-800 mn for land and mining lease agreement by Mar'21. Another Rs1 bn will spent on land and mining lease over next 2 years. JKCE in the process of preparing detailed DPR and decision will be finalized during Jan-June 2021. This will be a greenfield expansion and can assume \$90-100 cost/tn. Split grinding unit will be in UP. This plant will be more efficient than the older plants. The plant will be put up in its subsidiary.
- **4.2MTPA grey cement expansion** - JKCE's has commissioned 4.2mtpa grinding capacity in Oct'20 (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 + 0.7mtpa at Balasinor, Gujarat in Oct'20) and 2.5mtpa clinker capacity in Sep'19. These plants will support additional volume growth in FY21E/ FY22E. JKCE planned Rs18.5 bn, reduced from earlier 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 Rs15.77 bn till Sept'20 and expects balance Rs1.25 bn-1.5 bn/ balance Rs1.2 bn in Q4FY21E/ FY22E. Excluding 0.7 mtpa Balasinor plant, capacity utilization in Sept'20 stood at 70%.
- **Cost Savings** - With 4.2 mtpa new plants commissioned, no significant savings as of now but expects Rs100/tn savings likely from Q4FY21E.
- Expect additional Rs1 bn for maintenance capex and Putty for FY21E.

- **Upgradation of line 3 at Nimbahera** – JKCE spent Rs2.58 bn upto Sept'20 and Rs1.42 bn is remaining to be spent in FY21E. This will increase clinker production by 1000 TPD. JKCE expects commissioning of the same by Q2FY22 and expects Rs100/tn savings on production from this plant.
- JKCE commissioned **0.3 mtpa** wall putty expansion in Oct'20. With this expansion, it became the largest wall putty player with 1.2 mtpa capacity.
- **Incentive** – There is no clarity for incentive for new grinding units operationalized recently.
- **Costs** - Marginal level of Petcoke inventory left of lower price with JKCE. Current prices are at \$100 vs. \$65 before 3 months. Switching to imported coal from Africa.
- **UAE operations** – The current turnaround plan was not executed due to covid but expects some improvement in 2-3 months. Q2FY21 was very good quarter as there was a big order from Australia and expect some dip in performance in Q3FY21 as there still issues related to covid.
- JKCE evaluated to enter paints segment but no plans to do so.

Exhibit 7: Q2FY21 performance (standalone)

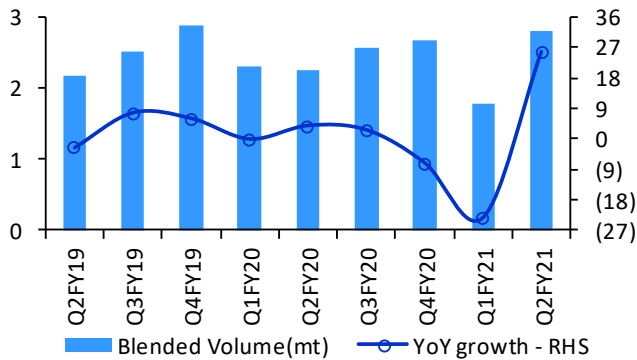
(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Total Revenue	15,507	12,542	23.6	9,650	60.7	25,157	25,822	(2.6)
Raw Material Cost	2,466	2,165	13.9	1,953	26.3	4,419	3,990	10.8
Employee Expenses	976	962	1.5	950	2.7	1,927	1,930	(0.2)
Power and Fuel	2,725	2,244	21.4	1,531	78.0	4,257	4,866	(12.5)
Freight Cost	2,952	2,323	27.1	1,755	68.2	4,707	4,797	(1.9)
Other expenses	2,281	2,307	(1.1)	1,307	74.5	3,589	4,664	(23.1)
Total Expenditure	11,400	10,002	14.0	7,497	52.1	18,897	20,246	(6.7)
PBIDT (Excl. OI)	4,107	2,540	61.7	2,153	90.8	6,259	5,575	12.3
Other Income	287	180	59.7	203	41.1	490	352	39.4
Depreciation	597	518	15.2	580	2.9	1,176	1,012	16.3
EBIT	3,797	2,202	72.4	1,776	113.8	5,573	4,915	13.4
Interest	537	561	(4.3)	572	(6.0)	1,109	1,096	1.2
PBT (Excl. E.O)	3,260	1,641	98.7	1,204	170.7	4,464	3,820	16.9
Exceptional Items	0	0	-	0	-	0	0	-
PBT (Incl. E.O)	3,260	1,641	98.7	1,204	170.7	4,464	3,820	16.9
Tax	1,025	553	85.3	427	139.8	1,452	1,194	21.7
RPAT	2,235	1,088	105.5	777	187.7	3,012	2,626	14.7
Adjustments	0	0		0		0	0	
APAT	2,235	1,088	105.5	777	187.7	3,012	2,626	14.7
Adj. EPS (Rs)	28.93	14.08	105.5	10.05	187.7	38.98	33.99	14.7
			bps		bps			bps
EBIDTA Margin (excl. O.I.)	26.5	20.3	623	22.3	418	24.9	21.6	329
NPM (%)	14.4	8.7	574	8.1	636	12.0	10.2	180
Tax Rate (%)	31.4	33.7	(226)	35.5	(406)	32.5	31.3	128

Source: DART, Company

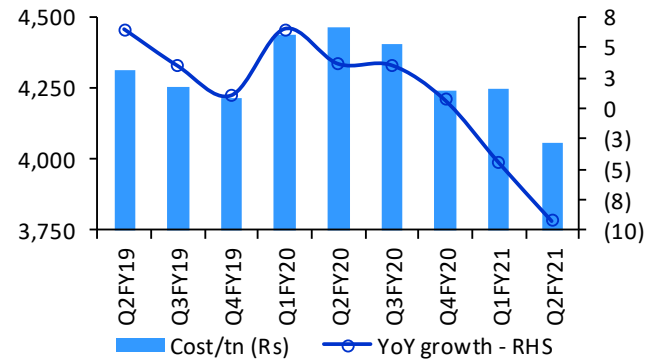
Exhibit 8: Valuation

Particulars	(Rs mn)
Assumed EV/EBITDA multiple (x)	11.0
EBITDA (Sep'22E)	16,557
(a) EV	1,82,131
(b) Less: Net Debt (Sep'22E)	21,823
(c) 50 % of Sep'22E Capital WIP	8,625
1x P/B - Investment in J. K. (d) Cement (Fujairah) FZC, UAE	4,128
Mcap (a-b+c+d)	1,73,061
Shares o/s (mn)	77
Target price (Rs)	2,240
CMP (Rs)	1,856
Up/(down)side (%)	20.7

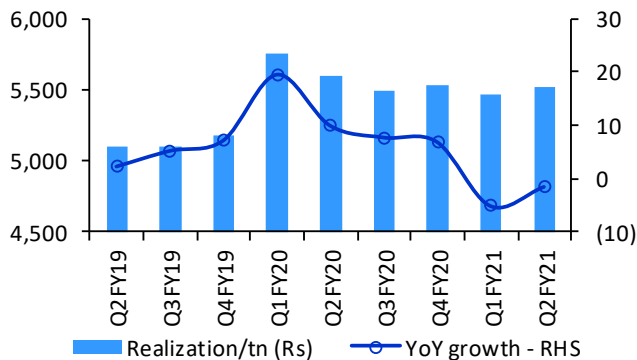
Source: Company, DART

Exhibit 9: Volume (mt)


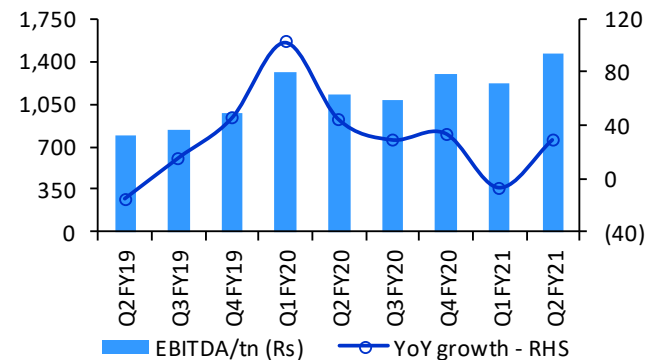
Source: Company, DART

Exhibit 10: Cost/tn (Rs)


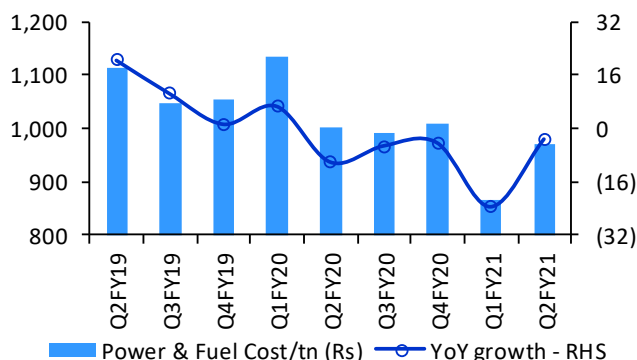
Source: Company, DART

Exhibit 11: Realization/tn (Rs)


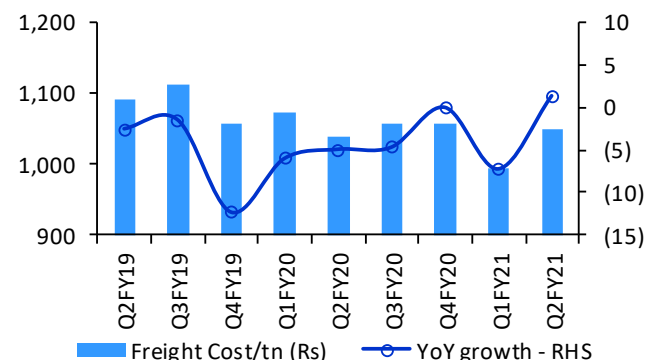
Source: Company, DART

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)	FY20A	FY21E	FY22E	FY23E
Revenue	54,638	60,384	69,461	77,119
Total Expense	42,822	46,433	53,710	59,755
COGS	29,019	32,366	37,497	41,791
Employees Cost	3,909	3,987	4,545	5,000
Other expenses	9,894	10,079	11,668	12,963
EBIDTA	11,815	13,952	15,750	17,364
Depreciation	2,144	2,663	3,114	3,328
EBIT	9,671	11,288	12,636	14,036
Interest	2,229	2,692	2,948	2,921
Other Income	859	906	695	771
Exc. / E.O. items	1,782	0	0	0
EBT	10,083	9,502	10,383	11,886
Tax	2,516	2,850	3,115	3,043
RPAT	7,567	6,651	7,268	8,843
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	9,348	6,651	7,268	8,843

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	773	773	773	773
Minority Interest	0	0	0	0
Reserves & Surplus	30,516	36,395	42,890	51,734
Net Worth	31,289	37,167	43,663	52,506
Total Debt	27,602	32,902	32,602	32,302
Net Deferred Tax Liability	4,181	4,181	4,181	4,181
Total Capital Employed	63,072	74,250	80,446	88,989

Applications of Funds

Net Block	44,681	53,610	51,995	50,167
CWIP	5,092	2,500	12,000	22,500
Investments	5,652	5,652	5,652	5,652
Current Assets, Loans & Advances	23,126	28,170	27,745	29,467
Inventories	6,272	6,931	7,973	8,852
Receivables	2,234	2,978	3,045	3,381
Cash and Bank Balances	6,311	9,958	7,642	7,594
Loans and Advances	0	0	0	0
Other Current Assets	8,298	8,292	9,074	9,630
Less: Current Liabilities & Provisions	15,479	15,681	16,947	18,797
Payables	4,526	4,467	4,704	5,222
Other Current Liabilities	10,953	11,215	12,243	13,574
<i>sub total</i>				
Net Current Assets	7,647	12,489	10,798	10,670
Total Assets	63,072	74,250	80,446	88,989

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	46.9	46.4	46.0	45.8
EBIDTA Margin	21.6	23.1	22.7	22.5
EBIT Margin	17.7	18.7	18.2	18.2
Tax rate	25.0	30.0	30.0	25.6
Net Profit Margin	13.8	11.0	10.5	11.5
(B) As Percentage of Net Sales (%)				
COGS	53.1	53.6	54.0	54.2
Employee	7.2	6.6	6.5	6.5
Other	18.1	16.7	16.8	16.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.9	0.9	0.7	0.6
Interest Coverage	4.3	4.2	4.3	4.8
Inventory days	42	42	42	42
Debtors days	15	18	16	16
Average Cost of Debt	8.7	8.9	9.0	9.0
Payable days	30	27	25	25
Working Capital days	51	75	57	51
FA T/O	1.2	1.1	1.3	1.5
(D) Measures of Investment				
AEPS (Rs)	121.0	86.1	94.1	114.5
CEPS (Rs)	148.7	120.5	134.4	157.5
DPS (Rs)	17.5	10.0	10.0	0.0
Dividend Payout (%)	14.5	11.6	10.6	0.0
BVPS (Rs)	404.9	481.0	565.1	679.5
RoANW (%)	25.1	19.4	18.0	18.4
RoACE (%)	13.5	13.6	13.2	13.9
RoAIC (%)	17.9	18.7	18.4	18.2
(E) Valuation Ratios				
CMP (Rs)	1856	1856	1856	1856
P/E	15.3	21.6	19.7	16.2
Mcap (Rs Mn)	1,43,414	1,43,414	1,43,414	1,43,414
MCap/ Sales	2.6	2.4	2.1	1.9
EV	1,64,694	1,66,347	1,68,363	1,68,111
EV/Sales	3.0	2.8	2.4	2.2
EV/EBITDA	13.9	11.9	10.7	9.7
P/BV	4.6	3.9	3.3	2.7
Dividend Yield (%)	0.9	0.5	0.5	0.0
(F) Growth Rate (%)				
Revenue	9.7	10.5	15.0	11.0
EBITDA	45.8	18.1	12.9	10.2
EBIT	57.1	16.7	11.9	11.1
PBT	112.9	(5.8)	9.3	14.5
APAT	187.7	(28.9)	9.3	21.7
EPS	187.7	(28.9)	9.3	21.7

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	10,925	10,121	11,909	14,099
CFI	(9,086)	(8,460)	(10,657)	(11,420)
CFF	176	1,986	(3,568)	(2,726)
FCFF	1,035	1,121	909	2,099
Opening Cash	4,297	6,312	9,958	7,642
Closing Cash	6,312	9,958	7,642	7,594

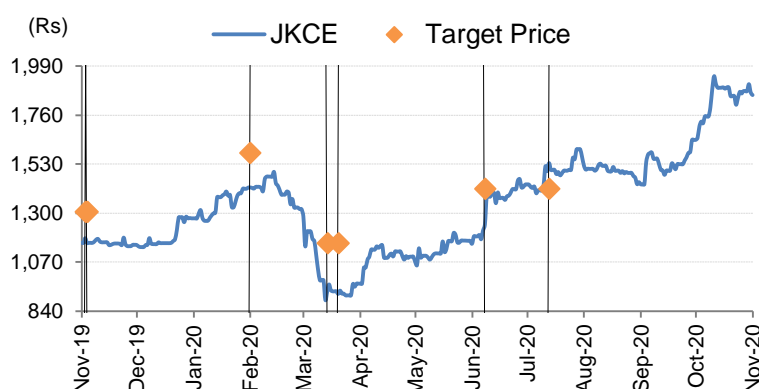
E – Estimates

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

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