

Industry Building Materials
Bloomberg JKCE IN
BSE CODE 532644

Demand pick up post monsoon season

RATING	BUY
CMP	690
Price Target	895
Potential Upside	30%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	1089/649
Mkt Capital (Rs Cr)	5359
Free float (%)	36%
Avg. Vol 1M (,000)	23
No. of Shares (Cr)	7.7
Promoters Pledged %	0%

Research Analyst

ADITYA GUPTA

aditya.gupta@narnolia.com

+91-22-62701231

Q3FY19 Result Update

- ❑ Company has reported strong revenue growth of 13% YoY to Rs.1273 Cr while the PAT has declined by 16% YoY to Rs. 61 Cr. Revenue growth is mainly led by 8% volume upsurge where as the deferred tax payments amounting to Rs.25 Cr impacted PAT growth in Q3 FY19.
- ❑ Grey cement volumes has grown by 6% YoY to 2.14 Million Tons on account of resume in infrastructural activities post monsoon season.
- ❑ Sales volume in white cement and putty has increased by 18% YoY to 0.35 million tons on account of festive season sales falls in Q3 FY19. Generally one month before Diwali, sales of white cement and putty increases which has resulted in higher sales in the month of October 2018.
- ❑ UAE plant reported volume of 2.5 Lakh Ton for cement and 1 Lakh Ton for clinker in the calendar year 2018. This plant is expected to report loss of ~Rs.55-60 Cr in CY18.
- ❑ EBITDA margin of the company has improved by 140bps YoY to 16.5% in Q3 FY19. This is mainly led by the realization growth of 5% YoY and lower freight cost/Ton.
- ❑ In the last quarter freight cost per Ton has declined by 2% on YoY basis where as the power cost has increased by 10% on YoY basis. Power cost has increased due to the higher prices of imported pet coke and depreciation of rupee against dollar.
- ❑ Company has raised debt of Rs.1300 Cr at rate of interest below 9% p.a. This debt is likely to be received by the company at the end of Feb month 2019. Debt outstanding as on 31 Dec 2018 was Rs. 2124 Cr.

View and Valuation

Post monsoon season the demand of cement has started picking up in company's key operating markets (Karnataka, Kerala and Maharashtra) from Dec 2018. As per the management, this growth momentum is expected to continue post which there could be a price hike. However, considering demand headwinds like liquidity issues in NBFC's, low infrastructure spending by the government due to upcoming elections, demand is likely to grow to the tune of 7-8% for at least next two quarters. On the margins front, power and fuel cost is expected to be lower in Q4 FY19 as the company has 3 months inventory of pet coke at low prices. Freight cost is also expected to come down due to lower diesel prices in Q4 FY19. Hence margin of the company is expected to improve (provided crude price does not rise sharply). We are positive on this stock in the long term. **Currently the stock is trading at 7.7x FY20e EBITDA and maintain our BUY rating with previous target price of Rs.895/share.**

Key Risks to our rating and target

- ❑ Slow down in pick of volume demand.
- ❑ Price rise of pet coke, coal, and diesel.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	3559	3756	4591	4946	5239
EBITDA	519	693	761	774	847
EBIT	362	517	574	576	642
PAT	102	211	342	282	360
EPS (Rs)	15	30	49	40	51
EPS growth (%)	-35%	107%	62%	-18%	28%
ROE (%)	6%	11%	16%	12%	14%
ROCE (%)	3%	5%	8%	7%	8%
BV	242	268	307	335	371
P/B (X)	3	3	3	2	2
P/E (x)	46	31	21	17	13

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3Q FY 19 Results In-Line

Better performance

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	1126	1316	1116	1101	1273	13.1%	15.7%	3756	4591	22%
Other Income	25	53	16	18	12	-52.6%	-34.4%	99	128	29%
COGS	200	220	177	169	227	13.9%	34.7%	635	773	22%
Gross Margin	82%	83%	84%	85%	82%	-0.1%	-2.5%	83%	83%	0%
Employee Cost	79	90	91	90	89	12.3%	-1.2%	275	325	18%
Other Expenses	121	123	104	125	126	3.6%	0.6%	477	454	-5%
EBITDA	170	182	150	170	211	23.7%	24.0%	693	761	10%
EBITDA%	15%	14%	13%	15%	17%	1.4%	1.1%	18%	17%	-2%
Depreciation	45	47	47	49	49	7.9%	-0.1%	176	186	6%
EBIT	125	135	103	121	162	29.3%	33.7%	517	574	11%
Interest	58	56	55	58	56	-2.4%	-3.2%	273	245	-10%
PBT	92	132	64	81	117	27.1%	45.1%	344	457	33%
Exceptional	0.1	9.1	-	0	-			19	17	
Tax	19	27	15	16	56	192.9%	249%	114	98	-14%
PAT	73	96	49	65	61	-16.5%	-5.9%	211	342	62%
PAT Margin	6%	7%	4%	6%	5%	-1.7%	-1.1%	6%	7%	2%

Segment Performance:

Grey Cement business

Company's grey cement volume has grown by 6% YoY to 2.14 million Tons. This growth is led by increase in the infrastructure activities, which has increased in month of Dec 2018. Further the demand of cement in housing segment is expected to remain robust in 2019 on account of strong demand panning out in low-cost and affordable housing segment. This is further boosted by the higher MSP and housing schemes like Pradhan Mantri Awas Yojana (PMAY). The ambitious target "Housing of All by 2022 " has partially fulfilled as around 2.95 crores houses are set to be constructed and over 1.5 crore houses are still left for construction. This gives us visibility for rural housing demand to remain strong. We expect volume of grey cement to grow by 7-9% p.a. in upcoming quarters and post general elections demand is expected to pick up and volume is likely to grow in double digit. The management of the company has also guided for the 9 million Ton plus volumes in grey cement in FY20

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ %
Grey Cement	1.89	1.87	1.93	2.03	2.40	2.04	1.87	2.14	6%	15%
Growth YoY	-1%	15%	17%	22%	27%	9%	-3%	6%	-16%	9%
Capacity	72%	71%	74%	78%	92%	78%	71%	82%	4%	11%

White Cement & Putty business

White cement and putty sales volumes has grown by 18% YoY to 0.35 million Ton in Q3 FY19 as Diwali season sales falls in the month of October 2018. JK Cement is the second largest manufacturer of white cement in India, with an annual capacity of 1.2 MTPA in India and also second largest producer of Wall putty with an annual installed capacity of 0.7 MTPA. Company is aggressively pushing sales of white cement in the key markets and its volume is likely to grow in upcoming years. Further the management has guided for the 1 Million Tons for white cement in FY20 which gives us volume growth visibility to the tune of 10-12% p.a. in upcoming years.

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ %
White Cem &	0.29	0.26	0.30	0.30	0.32	0.28	0.29	0.35	18%	20%
Growth YoY	4%	0%	11%	15%	10%	7%	-2%	18%	2%	19%
Capacity	61%	55%	63%	63%	67%	59%	62%	74%	11%	12%

Management Highlights:

Cement volume update:

- Volume guidance for grey cement is 9 million Ton plus and 1 Million for white in FY20.
- Clinker utilization is around 95% in North and 60% in South. Clinker to cement ratio is 72:28
- In January 2019, North and South clinker units operated at ~90% utilization level
- Capacity utilization at white cement and putty is expected to be around 75% in FY19.
- Management has guided for 10-12% volume growth in white cement and putty.
- 19% volume growth is driven by putty sales, which management expects to sustain.
- Good demand was there started from Dec 2018, and Mgt. expects demand growth to continue and post which there could be the price hike.
- Ratio of OPC:PPC in Q3 FY19 is 40:60
- Ratio of Trade : Non-trade mix is 68:20

Cost and Tax guidance:

- Pet coke price has come down to USD 98/Ton in Jan 2019. Company imports around 80% of total requirement. Reliance is going to cut supply of pet coke post which company has to import pet coke. The company maintains inventory of 3 months for imported pet coke and has inventory at lower prices. But the effect of supply cut by Reliance is likely to be visible in Q1 FY20.
- Company is increasing use of alternate fuel like agricultural waste, municipal waste etc. This gives a monthly saving of around Rs.2 Cr across all locations.
- Company is making efforts to save Rs. 60-70/Ton in logistics cost, currently it is saving Rs.40-45/Ton. Further, re-positioning, better modalities and increasing trade volumes to save another Rs. 50-75/Ton. Overall company is working on to save 125-150/Ton. Presently company has achieved 50% of that and balance to be achieved in next 6-8 months.
- Tax rate guidance for FY19& 20 is 25% for full year.

UAE operations:

- In UAE operations, sales fig. for CY18 is 250,000 Ton for cement and 100,000 Ton for clinker.
- Capacity utilization for UAE operations are ~60%.
- Revenue and EBITDA not yet finalized since company follows calendar year for the UAE entity.
- Mgt. guided UAE capacity to be EPS accretive from FY21.
- UAE plant is expected to report loss of around Rs. 55-60 Cr in Calender year 2018.

Capex:

- Expansion of 4.2MT is on full swing and main equipments have started receiving at site.
- Environment clearance for Gujarat Grinding unit is pending where public hearing has already taken place and clearance is expected in this month. Total amount spent on project is Rs.295 Cr. and commissioning of the project is per schedule which is expected to commission in FY20.

Balance sheet items update:

- Debt as on 31 Dec 2018 was Rs.2124 Cr. Term loan of Rs. 1300 Cr is sanctioned and likely to receive in second half of Feb 2019. Rate of interest for Rs. 1300 Cr is below 9%.
- Management has guided for Debt re-payment of Rs. 180 Cr. in FY19.
- Company intends to maintain cash balance of Rs.500 Cr in its books.
- Company has completed a QIP of Rs. 510 Cr in Dec-18 to fund capex.

Exhibit: Cement Volume trend

Cement volumes has improved post monsoon season and some improvement in infra activities

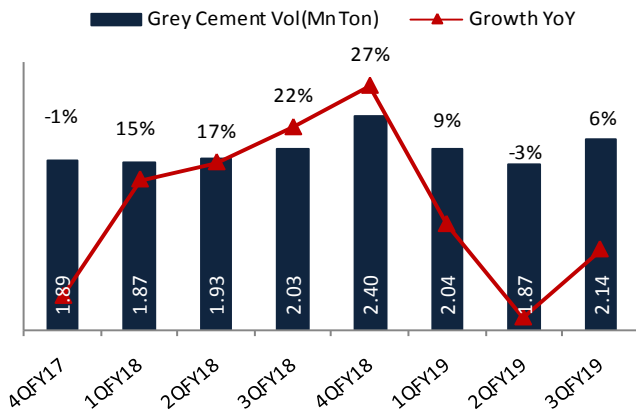


Exhibit: Cement realization trend

Company is focusing on trade sales which lead to improve in realizations

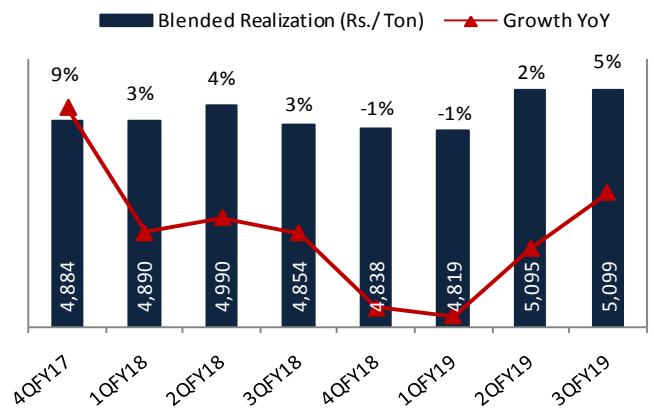


Exhibit: White Cement and putty Volume trend

Sales of white cement and putty increases one month before Diwali

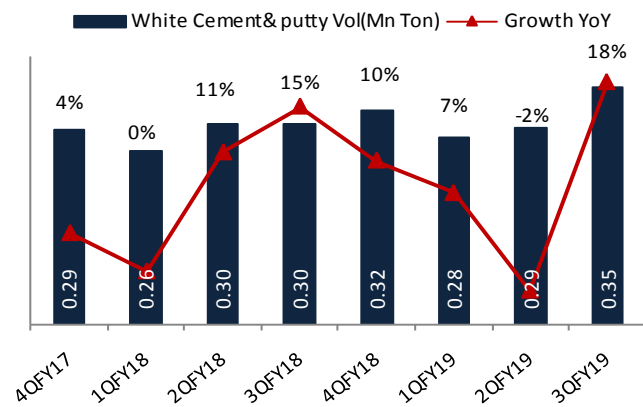


Exhibit: Revenue and revenue growth trend

Revenue has increased on account of higher volumes and realizations

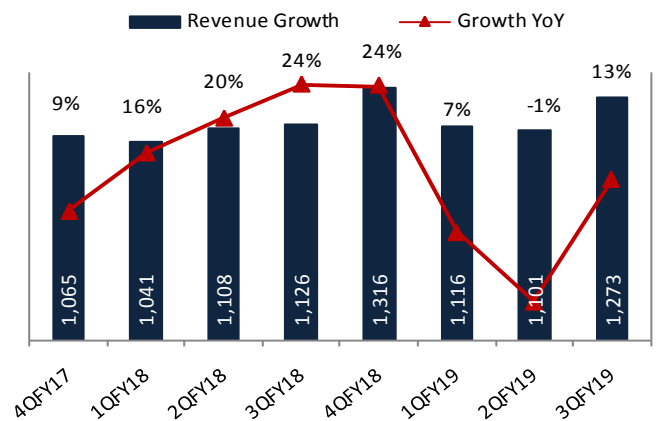


Exhibit: EBITDA margin trend

EBITDA has improved in Q3 FY19 on account of higher realization and lower freight cost/ton

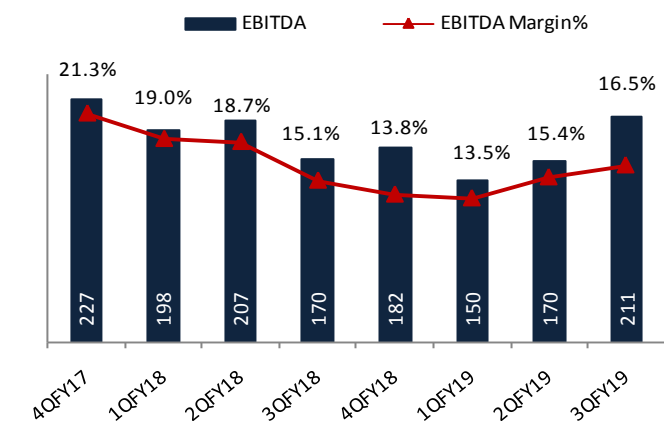
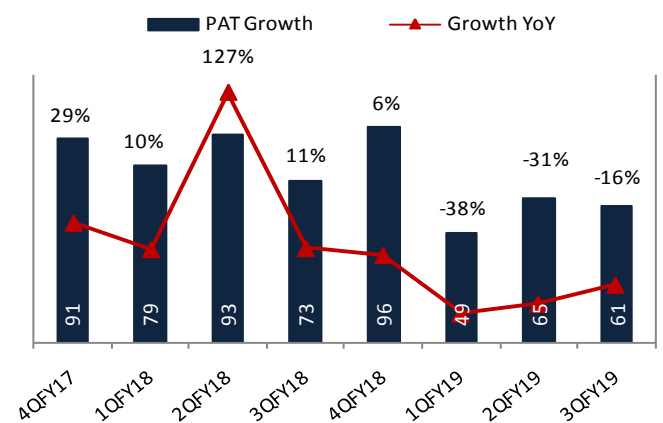


Exhibit: PAT and PAT growth trend

Margins have improved on account of higher realizations in the last quarter



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	70	70	70	70	70	70	70	70
Reserves	1627	1689	1549	1620	1802	2077	2275	2527
Networth	1697	1758	1619	1690	1872	2147	2345	2597
Debt	1142	2185	2414	2497	2450	2183	2235	2191
Total Capital Employed	2651	3745	3771	3993	4154	4217	4276	4528
Net Fixed Assets (incl CWIP)	2641	3668	3523	3675	3785	3684	4054	4164
Non Current Investments	228	142	287	373	470	557	557	557
Other Non Current Assets	0	0	112	128	105	115	127	127
Non Current Assets	2869	3810	3982	4313	4495	4406	4801	4911
Inventory	461	542	510	429	498	532	596	632
Debtors	115	112	139	166	148	188	271	287
Cash & Bank	332	348	385	368	427	544	429	536
Other Current Assets	7	14	187	162	162	146	157	166
Current Assets	1032	1293	1289	1250	1349	1567	1579	1748
Creditors	197	247	229	281	378	414	445	472
Provisions	67	35	14	14	7	19	20	22
Other Current Liabilities	451	498	59	71	156	190	148	157
Curr Liabilities	714	780	837	945	974	1060	1208	1279
Net Current Assets	318	513	452	305	375	507	371	468
Total Assets	3902	5103	5272	5564	5843	5982	6379	6659

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	2912	2798	3357	3559	3756	4591	4946	5239
Change (%)	14%	-4%	20%	6%	6%	22%	8%	6%
Other Income	49	48	51	50	99	128	63	68
EBITDA	560	375	464	519	693	761	774	847
Change (%)	7%	-33%	24%	12%	34%	10%	2%	9%
Margin (%)	19%	13%	14%	15%	18%	17%	16%	16%
Depr & Amor.	128	134	137	156	176	186	198	205
EBIT	432	241	327	362	517	574	576	642
Int. & other fin. Cost	140	153	219	269	273	245	235	230
EBT	341	136	159	144	344	457	405	480
Exp Item	0	0	0	0	19	17	0	0
Tax	107	39	2	42	114	98	123	120
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	234	97	157	102	211	342	282	360
Adjusted PAT	234	97	157	102	198	329	282	360
Change (%)	32%	-58%	62%	-35%	107%	62%	-18%	28%
Margin(%)	8%	3%	5%	3%	6%	7%	6%	7%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	14%	6%	10%	6%	11%	16%	12%	14%
ROCE	9%	3%	4%	3%	5%	8%	7%	8%
Asset Turnover	0.7	0.5	0.6	0.6	0.6	0.8	0.8	0.8
Debtor Days	14	15	15	17	14	15	20	20
Inv Days	58	71	55	44	48	42	44	44
Payable Days	25	32	25	29	37	33	33	33
Int Coverage	0.3	0.6	0.7	0.7	0.5	0.4	0.4	0.4
P/E	8	17	30	46	31	21	17	13
Price / Book Value	1.1	1.0	2.9	2.8	3.5	3.3	2.1	1.9
EV/EBITDA	5	9	14	13	12	11	9	8
FCF per Share	3.9	(109.0)	(7.3)	84.2	58.6	110.4	16.3	69.4
Div Yield	2%	1%	1%	1%	0%	0%	1%	2%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	341	136	159	142	324	440	405	480
(inc)/Dec in Working Capital	-67	-114	22	110	9	55	-42	6
Non Cash Op Exp	128	134	137	164	176	186	198	205
Int Paid (+)	136	143	215	267	267	239	235	230
Tax Paid	-118	-77	-56	-31	-60	-102	-123	-120
others	-35	-35	-42	-64	-4	-28	9	0
CF from Op. Activities	384	187	436	589	712	790	681	800
(inc)/Dec in FA & CWIP	-357	-948	-485	-316	-597	-195	-567	-315
Free Cashflow	28	-761	-48	272	115	594	114	485
(Pur)/Sale of Inv	-158	-129	-11	-116	162	621	39	4
others	38	31	38	42	-221	-557	0	0
CF from Inv. Activities	-477	-1046	-458	-390	-655	-131	-529	-311
inc/(dec) in NW								
inc/(dec) in Debt	-57	1049	219	83	15	-295	52	-44
Int. Paid	-136	-177	-217	-265	-269	-241	-235	-230
Div Paid (inc tax)	0	0	0	-34	-34	-67	-84	-107
others	185	2	79	0	-17	4	0	0
CF from Fin. Activities	-7	874	81	-215	-304	-599	-267	-381
Inc(Dec) in Cash	-100	15	60	-16	-248	59	-115	108
Add: Opening Balance	432	332	348	384	367	122	544	429
Closing Balance	332	348	408	367	120	181	429	537

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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