

Industry	Building Materials
Bloomberg	JKCE IN
BSE CODE	532644

## Volumes driven by white cement & wall putty segment

### RATING ACCUMULATE

CMP	1161
Price Target	1280
Potential Upside	10%

### Rating Change

### Estimate Change

### Target Change

### Stock Info

52wk Range H/L	1197/656
Mkt Capital (Rs Cr)	8965
Free float (%)	36%
Avg. Vol 1M (,000)	2
No. of Shares (Cr)	8
Promoters Pledged %	NA

### Research Analyst

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### 2QFY20 Result Update

- JKCEMENT reported numbers better than our expectation; Revenue grew by 14% YoY to Rs. 1254 cr. (vs. expect. of Rs. 1206 cr.) led by growth in white cement revenue & wall putty while overall volumes remained flat to 2.31MT due to extended monsoon, floods in various regions, and standstill of government spending in infra activities.
- White cement & wall putty posted a volume growth of 12% YoY to 0.33 MT with 47% and 25% market share and 67% capacity utilization in 2QFY20 while Grey cement volumes declined by 1.20% YoY to 1.84 MT on account of lower demand due to monsoon, floods and other unfavorable macroeconomic conditions.
- The Company in order to increase its range of value added products in white cement & putty has launched PrimaxX and ShieldmaxX (well accepted by the market).
- Gross margin declined by 192 bps on account of use of high cost inventory while EBITDA margin improved by 4.8% YoY to 20.3% driven by realization growth of 7% YoY, improved product mix and reduction in employee cost, freight cost/Ton, logistics cost and other expense.
- Employee expense declined by 53 bps (as % of sales) while Freight cost/ton and Power & Fuel cost/ton declined by 7.8% & 12.8% led by company's efforts on freight cost rationalization and change in fuel mix.
- PAT stood at Rs. 109 cr. with PAT growth & PAT margin at 68.2% YoY and 8.7%. The Company is not adopting the new corporate tax rate and will remain under the old tax regime.

### View and valuation:

In 2QFY20, JKCEMENT volumes remained on a higher side at 7% YoY driven by volumes from white cement & wall putty segment despite weak macroeconomic conditions. Going forward, the company's focus on capacity expansion of both Grey as well as white cement (already commissioned 1 MnTPA grey cement grinding unit and 2.64 MnTPA of grey clinker at Nimbahera), commercialization of capacity at Mangrol by 3QFY20, focus on increasing value added product (like launched PrimaxX and ShieldmaxX) along with demand pickup post monsoon is expected to bring in volumes. With regard to white cement capacity expansion the company has intended to expand putty capacity by 4-7 lakh tone by June-20 which will strengthen the company's hold on white cement. On Margin front, benign pet-coke prices will favor gross margin while company's focus on supply chain efficiency and fuel mix will favor EBITDA margin expansion. Thus, we remain positive on the stock but have changed our rating from BUY to ACCUMULATE.

**We continue to value the stock at 9X FY21e EV/EBITDA with target price of Rs. 1280/share.**

### Key Risks to our rating and target

- Continuation of slowdown in the economy
- Steep increase in input prices

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	3756	4591	4981	5642	5693
EBITDA	693	761	810	1247	1258
EBIT	517	574	616	1044	1011
PAT	211	342	325	567	541
EPS (Rs)	30	49	46	81	77
EPS growth (%)	107%	62%	-5%	75%	-5%
ROE (%)	11%	16%	11%	17%	15%
ROCE (%)	5%	8%	7%	9%	8%
EV/EBITDA	12.3	11.5	9.4	8.0	8.2
P/B (X)	3.5	3.3	2.1	2.4	2.2
P/E (x)	31.0	20.8	18.3	14.3	15.0

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## 2QFY20 Results

### Better than Expectation

Financials	Fig in Rs Cr									
	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1101	1273	1492	1328	1254	14.0%	-5.6%	4591	4981	8.5%
Other Income	18	12	35	17	18	-0.2%	4.4%	128	80	-37%
COGS	169	227	265	182	217	28.2%	18.7%	773	838	8.4%
Gross Margin	85%	82%	82%	86%	83%	-1.9%	-3.5%	83%	83%	0.0%
Employee Cost	90	89	84	97	96	6.6%	-0.7%	325	354	8.6%
Other Expenses	125	126	158	236	231	84.8%	-2.1%	454	513	13%
EBITDA	170	211	279	303	254	49.6%	-16.3%	761	810	6.5%
EBITDA%	15%	17%	19%	23%	20%	4.8%	-2.6%	17%	16%	-0.3%
Depreciation	49	49	50	49	52	6.4%	4.8%	186	194	4.3%
EBIT	121	162	230	254	202	67.0%	-20.4%	574	616	7.2%
Interest	58	56	53	53	56	-3.6%	5.1%	245	222	-9.5%
PBT	81	117	211	218	164	103.0%	-24.7%	457	474	3.7%
Exceptional	-	-	-	-	-	-	-	17	-	-
Tax	16	56	61	64	55	242.6%	-13.7%	98	149	51.9%
PAT	65	61	150	154	109	68.2%	-29.3%	342	325	-5.0%
PAT Margin	6%	5%	10%	12%	9%	2.8%	-2.9%	7%	7%	-0.9%

### Segment Performance:

#### Grey Cement

Financials	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Grey Cement	1.87	1.93	2.03	2.40	2.04	1.87	2.14	2.53	1.99	184%
Growth YoY	15%	17%	22%	27%	9%	-3%	6%	5%	-2%	-1%
Cap. Utilization	71%	74%	78%	92%	78%	71%	82%	97%	76%	52%

#### White Cement & Putty business

Financials	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Grey Cement	0.26	0.30	0.30	0.32	0.28	0.29	0.35	0.35	0.32	33%
Growth YoY	0%	11%	15%	10%	7%	-2%	18%	9%	15%	12%
Cap. Utilization	55%	63%	63%	67%	59%	62%	74%	73%	67%	69%

### Concall Highlights:

- The Management expects volumes to increase in 2HFY20 led by higher demand and commercial production from new capacities.
- The Company witnessed rollback of up to 2% due to Monsoons and flood conditions in various parts of India.

### Expansion Updates:

- The Company has commissioned 1 MnTPA grey cement grinding unit and 2.64 MnTPA of grey clinker at Nimbahera.
- 1 MnTPA grinding unit at Mangrol is at advance stage and is expected to complete by 3QFY20.
- 0.7 MT Brownfield project in Balasinor (Gujarat) is expected to complete by March 2020.
- Greenfield project (grinding station) of 1.5 MT at Aligarh is expected to complete by Dec 2019 or Jan-19.
- The Total amount spent for the expansion up to Sep-19 stood at Rs. 1188 cr. out of total cost of Rs. 2000 cr.

## Management Guidance:

- The Management expects the sales volumes to be at 8.5MT for FY20.
- The Company is targeting revenue of 20% from white cement from value added products.
- The Management expects the volumes to increase by 0.8-1 MnTPA post commercialization of newly added capacities.
- 1QFY20 CAPEX-Rs. 335 cr. while Rs. 700 cr. will be incurred in rest 9 months in FY20 (For expansion).
- The Management expects the cost benefit from new kiln to the extent of Rs. 100/ ton (only from grey cement) from North India and is likely to operate in last quarter (FY20) or from next fiscal year (FY21).
- The Management expects to take some price increase in both North & South with pick-up in demand.
- Expected CAPEX for FY21: Spillover of the expansion could be to the extent of Rs. 250-300 cr. on account of OLBC and WHRS, Rs. 275 cr. for debottlenecking of line 3 at Nimbahera and ongoing CAPEX will be in a range of Rs. 100-125 cr. are expected CAPEX for FY21.
- The Company is also working on alternate fuel mix and power sources.
- The Company will expand putty capacity by 4-7 lakh tone by June-20 with estimated CAPEX of Rs. 30 cr.
- Tax rate for FY20--30%

## UAE Operation:

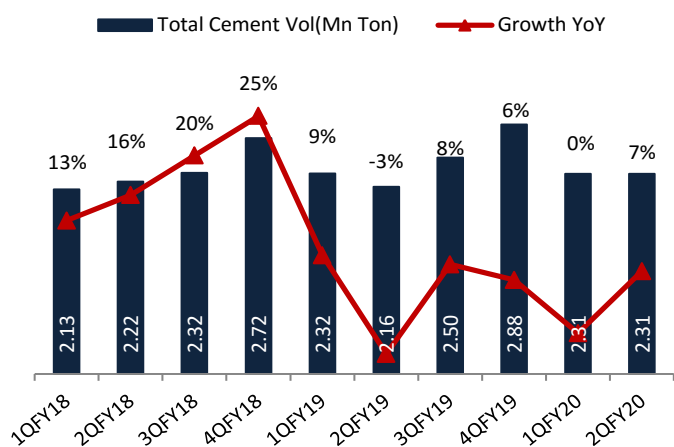
- The Company has already established office in Tanzania and is in the process of opening branch office or subsidiary in Kenya in order to tap African market and will not require any CAPEX.
- Cement sales volume from UAE for 2QFY20 is 35 Mn AED and EBITDA at 2 mn AED.
- The Company's UAE geography supplies white cement to the extent of 4000 ton/month to India and management expects it to scale it up to 6000-7000 ton in another 6 month.

## Result Update:

- The Company's overall utilization in North and South stood at 78% and 51% in 2QFY20.
- Other expenses were higher due to charges paid to Boston Consultancy (will prevail in next 9-12 months) and also on account of rebranding expense involved in both grey and white cement in newer markets. Thus, expects other expense to reduce from 3rd quarter of FY21.
- Pet-coke contributes in a range of 75%-80% of fuel mix. Hence, major fuel benefit is expected from 4QFY20 on account of use of lower priced inventories.
- In Logistics front, the company has already attained the saving of Rs. 80/ton (only from grey cement) and expects a further saving of Rs. Rs. 20-30/ton in next 18-20 months.
- Trade and non-trade mix in 2QFY20 stood at 73:27.
- The Company Gross and Net debt stood at Rs. 2464/Rs. 1601 cr. in 2QFY20.
- The Company is facing challenges in Saudi Arabia with regard to new capacities.
- Total wall putty segment is growing at 6% to 3-3.5Mn with company's share at 25% in 2QFY20.
- White cement segment is growing at 3-5% to 1.3-1.5Mn with company's share at 47% in 2QFY20.

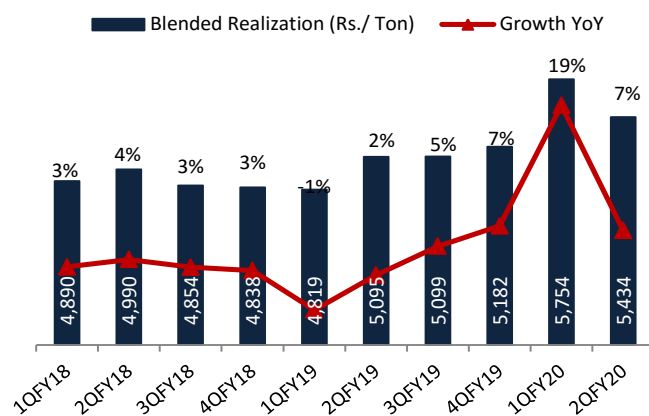
## Exhibit: Cement volume (Million Ton) trend

Vol. increase led by high vol. from white cement & putty;  
Grey vol. remained subdued led by unfavorable demand.



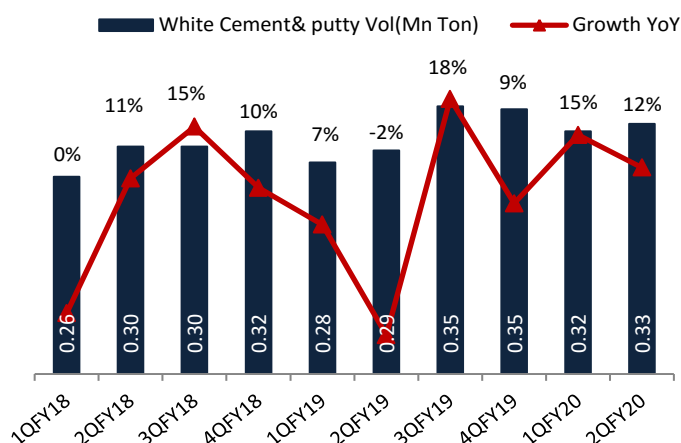
## Exhibit: Cement Realization(Rs./Ton) trend

Realisation improvement led by product mix & higher cement prices (vs. corresponding previous quarter).



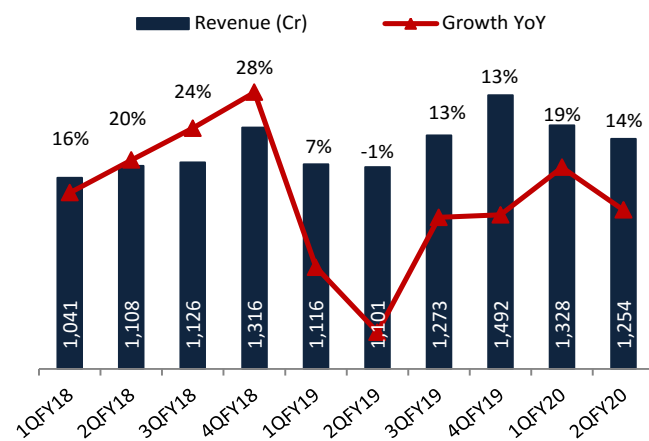
## Exhibit: White Cement and putty Volume trend

Growth in white cement business & Putty with company's market share at 47% and 25% in 2QFY20.



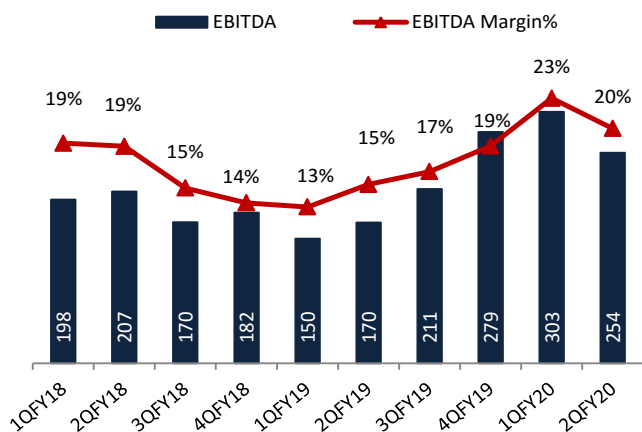
## Exhibit: Revenue and revenue growth trend

Revenue has increased driven by higher realization & higher volumes from White Cement and Putty segment.



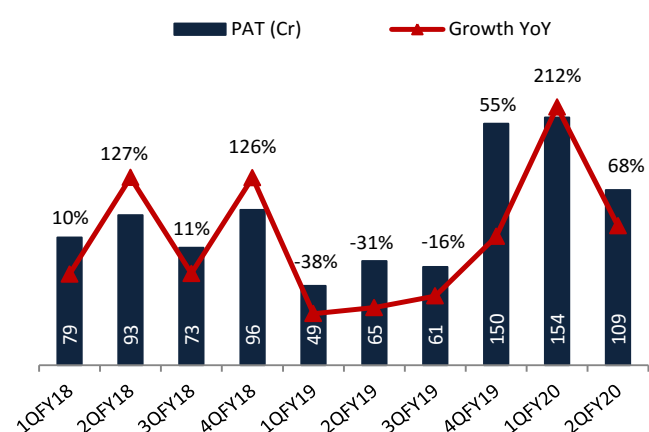
## Exhibit: EBITDA and EBITDA margin%

EBITDA margins expansion driven by decline in freight, power & fuel cost, employee and other expense.



## Exhibit: PAT and PAT growth trend

PAT increase driven by higher realization and EBITDA expansion while PAT margin stood at 8.7% in 2QFY20.



## Financial Details

## Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	70	70	70	70	70	77	77	77
Reserves	1689	1549	1620	1802	2077	2816	3236	3634
<b>Networth</b>	<b>1758</b>	<b>1619</b>	<b>1690</b>	<b>1872</b>	<b>2147</b>	<b>2893</b>	<b>3313</b>	<b>3712</b>
Debt	2185	2414	2497	2450	2183	2116	3516	3376
Total Capital Employed	3745	3771	3993	4154	4217	4849	6570	6788
<b>Net Fixed Assets (incl CWIP)</b>	<b>3668</b>	<b>3523</b>	<b>3675</b>	<b>3785</b>	<b>3684</b>	<b>4179</b>	<b>4898</b>	<b>5556</b>
Non Current Investments	142	287	373	470	557	610	610	610
Other Non Current Assets	0	112	128	105	115	154	154	154
Non Current Assets	3810	3982	4313	4495	4406	5039	5758	6416
<b>Inventory</b>	<b>542</b>	<b>510</b>	<b>429</b>	<b>498</b>	<b>532</b>	<b>571</b>	<b>646</b>	<b>652</b>
Debtors	112	139	166	148	188	206	233	235
Cash & Bank	348	385	368	427	544	486	1619	1223
Other Current Assets	14	187	162	162	146	159	180	181
Current Assets	1293	1289	1250	1349	1567	1913	3184	2798
<b>Creditors</b>	<b>247</b>	<b>229</b>	<b>281</b>	<b>378</b>	<b>414</b>	<b>698</b>	<b>791</b>	<b>798</b>
Provisions	35	14	14	7	19	10	12	12
Other Current Liabilities	498	59	71	156	190	146	165	167
Curr Liabilities	780	837	945	974	1060	1270	1439	1452
<b>Net Current Assets</b>	<b>513</b>	<b>452</b>	<b>305</b>	<b>375</b>	<b>507</b>	<b>642</b>	<b>1745</b>	<b>1345</b>
<b>Total Assets</b>	<b>5103</b>	<b>5272</b>	<b>5564</b>	<b>5843</b>	<b>5982</b>	<b>6952</b>	<b>8941</b>	<b>9213</b>

## Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>2,798</b>	<b>3,357</b>	<b>3,559</b>	<b>3,756</b>	<b>4,591</b>	<b>4,981</b>	<b>5,642</b>	<b>5,693</b>
Change (%)	-4%	20%	6%	6%	22%	8%	13%	1%
Other Income	48	51	50	99	128	80	118	100
<b>EBITDA</b>	<b>375</b>	<b>464</b>	<b>519</b>	<b>693</b>	<b>761</b>	<b>810</b>	<b>1247</b>	<b>1258</b>
Change (%)	-33%	24%	12%	34%	10%	7%	54%	1%
Margin (%)	13%	14%	15%	18%	17%	16%	22%	22%
Depr & Amor.	134	137	156	176	186	194	203	247
<b>EBIT</b>	<b>241</b>	<b>327</b>	<b>362</b>	<b>517</b>	<b>574</b>	<b>616</b>	<b>1044</b>	<b>1011</b>
Int. & other fin. Cost	153	219	269	273	245	222	352	338
<b>EBT</b>	<b>136</b>	<b>159</b>	<b>144</b>	<b>344</b>	<b>457</b>	<b>474</b>	<b>811</b>	<b>773</b>
Exp Item	-	-	-	19	17	0	0	-
Tax	39	2	42	114	98	149	243	232
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	97	157	102	211	342	325	567	541
<b>Adjusted PAT</b>	<b>97</b>	<b>157</b>	<b>102</b>	<b>198</b>	<b>329</b>	<b>325</b>	<b>567</b>	<b>541</b>
Change (%)	-58%	62%	-35%	107%	62%	-5%	75%	-5%
Margin(%)	3%	5%	3%	6%	7%	7%	10%	10%

## Financial Details

## Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	6%	10%	6%	11%	16%	11%	17%	15%
ROCE	3%	4%	3%	5%	8%	7%	9%	8%
Asset Turnover	0.5	0.6	0.6	0.6	0.8	0.7	0.6	0.6
Debtor Days	15	15	17	14	15	15	15	15
Inv Days	71	55	44	48	42	42	42	42
Payable Days	32	25	29	37	33	51	51	51
Int Coverage	1	1	1	1	0	0	0	0
P/E	17	30	46	31	21	18	14	15
Price / Book Value	1.0	2.9	2.8	3.5	3.3	2.1	2.4	2.2
EV/EBITDA	9	14	13	12	11	9	8	8
FCF per Share	(109.0)	(7.3)	84.2	58.6	110.4	54.2	33.2	32.0
Div Yield	1%	0.6%	0.6%	0.4%	0.4%	1.2%	1.5%	1.5%

## Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	136	159	142	324	440	474	811	773
(inc)/Dec in Working Capital	-114	22	110	9	55	-47	32	2
Non Cash Op Exp	134	137	164	176	186	194	203	247
Int Paid (+)	143	215	267	267	239	216	352	338
Tax Paid	-77	-56	-31	-60	-102	-98	-243	-232
others	-35	-42	-64	-4	-28	-32	0	0
<b>CF from Op. Activities</b>	<b>187</b>	<b>436</b>	<b>589</b>	<b>712</b>	<b>790</b>	<b>707</b>	<b>1154</b>	<b>1129</b>
(inc)/Dec in FA & CWIP	-948	-485	-316	-597	-195	-932	-922	-905
Free Cashflow	-761	-48	272	115	594	-225	232	224
(Pur)/Sale of Inv	-129	-11	-116	162	621	63	0	0
others	31	38	42	-221	-557	63	0	0
<b>CF from Inv. Activities</b>	<b>-1046</b>	<b>-458</b>	<b>-390</b>	<b>-655</b>	<b>-131</b>	<b>-807</b>	<b>-922</b>	<b>-905</b>
inc/(dec) in Debt	1049	219	83	15	-295	5	1400	-140
Int. Paid	-177	-217	-265	-269	-241	-218	-352	-338
Div Paid (inc tax)	0	0	-34	-34	-67	-84	-147	-143
others	2	79	0	-17	4	-2	0	0
<b>CF from Fin. Activities</b>	<b>874</b>	<b>81</b>	<b>-215</b>	<b>-304</b>	<b>-599</b>	<b>-299</b>	<b>902</b>	<b>-621</b>
Inc(Dec) in Cash	15	60	-16	-248	59	-399	1134	-397
<b>Add: Opening Balance</b>	<b>332</b>	<b>348</b>	<b>384</b>	<b>367</b>	<b>122</b>	<b>182</b>	<b>486</b>	<b>1619</b>
Closing Balance	348	408	367	120	181	-216	1619	1222

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Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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