

Industry **Building Materials**
 Bloomberg **JKCE IN**
 BSE CODE **532644**

Growth led by higher realization and product mix

RATING	ACCUMULATE
CMP	1418
Price Target	1600
Potential Upside	13%

Rating Change	↔
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	1465/682
Mkt Capital (Rs Cr)	10971
Free float (%)	36%
Avg. Vol 1M (,000)	12
No. of Shares (Crs)	8
Promoters Pledged %	NA

3QFY20 Result update

- JKCEMENT reported numbers better than our expectation; Revenue grew by 10.3% YoY to Rs. 1404 cr. (vs. expect. of Rs. 1399 cr.) led by realization growth of 4% QoQ while overall volumes grew by 3% YoY to 2.49 MT.
- Grey cement volumes grew by 3.34% YoY to 2.14 MT while White cement & wall putty volumes remained flat at 0.354 MT with Premium product contributing to the extent of 10% of company's trade sales volumes.
- Gross margin declined by 28 bps on account of use of high cost inventory while EBITDA margin improved by 324 bps to 19.8% driven by realization growth of 7% YoY and 4% QoQ, improved product mix and reduction in freight cost/Ton and logistics cost.
- EBITDA margin expansion was restricted on account of higher other expense to the extent of Rs.10 cr. led by increase in packing cost due to higher volumes (QoQ) and ad & P expense on account of commissioning of new capacity while Freight and Power & fuel cost declined by 252/247 bps led by company's efforts on freight cost rationalization and change in fuel mix.
- PAT stood at Rs. 138 cr. with PAT growth of 125.8% YoY on account of lower tax. Tax % to PBT stood at 27.5% in 3QFY20 vs. 48.1% in 3QFY19 while PAT margin stood at 9.8%.

View and Valuation

In 3QFY20, despite weak macroeconomic scenario, JKCEMENT managed its volumes and posted volume growth of 3.34% YoY. Going forward, the company's focus on capacity expansion of both Grey as well as white cement & putty (already commissioned 3.5 MTPA capacity out of 4.2 MTPA), commercialization of capacity at Mangrol and Aligarh, focus on increasing value added product along with expectation of demand pickup led by increase in government spends towards infrastructure development and demand for housing are expected to bring in volumes. With regard to white cement capacity expansion the company has intended to expand putty capacity by 3 lakh tone by June-20 which will strengthen the company's hold on white cement. On Margin front, the benefit of lower pet-coke inventory, focus on supply chain efficiency and fuel mix will favor EBITDA margin expansion in coming quarter. Considering above statements we have increased our Sales/PAT estimates for FY21 by 14%/39% and maintain our ACCUMULATE rating with a target price of Rs. 1600. **We continue to value the stock at 9X FY21e EV/EBITDA with target price of Rs. 1600.**

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	5674	6412
EBITDA	693	761	810	1208	1483
EBIT	517	574	616	996	1214
PAT	211	342	325	593	732
EPS (Rs)	30	49	46	85	105
EPS growth (%)	107%	62%	-5%	82%	23%
ROE (%)	11%	16%	11%	18%	19%
ROCE (%)	5%	8%	7%	10%	12%
EV/EBIDTA	12.3	11.5	9.4	10.2	8.2
P/B (X)	3.5	3.3	2.1	3.0	2.6
P/E (x)	31.0	20.8	18.3	16.7	13.6

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3QFY20 Results Better than Expectation

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1273	1492	1328	1254	1404	10.3%	12.0%	4591	4981	8.5%
Other Income	12	35	17	18	24	100.5%	31.7%	128	80	-37%
COGS	227	265	182	217	255	12.0%	17.6%	773	838	8.4%
Gross Margin	82%	82%	86%	83%	82%	-0.3%	-0.9%	83%	83%	0.0%
Employee Cost	89	84	97	96	99	11.3%	3.1%	325	354	8.6%
Other Expenses	126	158	236	231	248	97.7%	7.7%	454	513	13%
EBITDA	211	279	303	254	278	31.9%	9.3%	761	810	6.5%
EBITDA%	17%	19%	23%	20%	20%	3.2%	-0.5%	17%	16%	-0.3%
Depreciation	49	50	49	52	56	14.3%	7.4%	186	194	4.3%
EBIT	162	230	254	202	222	37.2%	9.8%	574	616	7.2%
Interest	56	53	53	56	56	-0.4%	0.0%	245	222	-9.5%
PBT	117	211	218	164	190	61.7%	15.6%	457	474	3.7%
Exceptional Item	-	-	-	-	-	-	-	17	-	-
Tax	56	61	64	55	52	-7.6%	-5.7%	98	149	51.9%
PAT	61	150	154	109	138	125.8%	26.4%	342	325	-5.0%
PAT Margin	5%	10%	12%	9%	10%	5.0%	1.1%	7%	7%	-0.9%

Segment Performance:

Grey Cement

FINANCIALS	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Grey Cement	1.93	2.03	2.40	2.04	1.87	2.14	2.53	1.99	1.84	2.14
Growth YoY	17%	22%	27%	9%	-3%	6%	5%	-2%	-1%	3%
Cap. Utilization	74%	78%	92%	78%	71%	82%	97%	76%	52%	75%

White Cement & Putty business

FINANCIALS	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Grey Cement	0.30	0.30	0.32	0.28	0.29	0.35	0.35	0.32	0.33	0.35
Growth YoY	11%	15%	10%	7%	-2%	18%	9%	15%	12%	0%
Cap. Utilization	63%	63%	67%	59%	62%	74%	73%	67%	69%	75%

Concall Highlights

Expansion Updates:

- The Company has commissioned 8000 TPD Clinker production line at Mangrol and 1 Mntpa cement grinding capacity at Nimbahera while commercial dispatches from these plants started on 29th Sep-2019.
- 1 Mntpa Cement Grinding Capacity at Mangrol and 1.5 Mntpa at Aligarh have also been commissioned & commercial dispatches started on 03-Feb- 2020.
- Work for 0.7 Mntpa Grinding unit at Balasinor is in advance stage and likely to commission by Mar/Apr-20.

3QFY20 Result Update:

- The Company has already taken a price increase of Rs. 8-10/ bag in Jan-Feb, 20.
- Total amount spent for expansion till 31st Dec 2019 stood at Rs. 1415 Cr.
- The Company is still in a process of acquiring land (already acquired 425 acres out of 500 acres) and is waiting for environment clearance for Panna, MP and the same will take another 6 months.

- Trade and non-trade mix in 3QFY20 stood at 69:31.
- Total amount to be paid to Boston consultancy for all their service is expected to be in a range of Rs. 60-65 cr. and will prevail for next 12 months.

3QFY20 Result Update:

- Higher other expense to the extent of Rs. 10 cr. on account of increase in packing cost due to higher volumes (QoQ) and ad & P expense on account of commissioning of new capacity.
- The Company has started operations in Tanzania, also developed Kenya market and is in process of launching value added products in UAE and GCC markets.
- The Company will receive incentive income of up to Rs. 5-10 cr. For the newly commissioned plant in UP on yearly basis and the same will increase with the increase in volumes.
- Premium product did well for the company and is contributing to the extent of 10% of company's trade sales volumes.
- The company's white cement & putty volumes grew by 10.8% vs. putty industry volume growth at 7% for 9MFY20.
- The Company has doubled volume numbers in Gujarat and Aligarh post capacity expansion in the regions.
- Trade and Non trade differential in north stood at Rs. 25/ bag and differential in south stood is in the range of Rs. 25-40/bag.
- The company's OPC share stood at 38% for 3QFY20.

UAE Operation:

- The cement and clinker volumes from company's UAE operation for 3QFY20 and CY19 stood at 76000/275000 ton and 37000/149000 ton.
- The revenue and EBITDA from company's UAE operation for 3QFY20 and CY19 stood at Rs. 67/270 cr. and Rs. 12/26 cr.

Management Guidance:

- The Management expects double digit volume growth post expansion with industry growing at 5-6% for FY20 and volume growth of 4-5% for 4QFY20.
- The saving in power & fuel expense post expansion will materialize from 1QFY21.
- The Company will commission additional putty capacity by 3 lakh tone by June-20.
- The profitability from UAE operations is expected from CY21.

CAPEX:

- Expected CAPEX for 4QFY20-Rs. 250 cr
- Expected CAPEX for FY21- Rs. 700 cr. (including spillover of mangrol plant, Nimbahera line III modernization & putty expansion)
- In Logistics front, the company expects saving of Rs. 50/ton in 4QFY20 and June-20 on account of lower Pet-coke inventory.

Exhibit: Cement volume (Million Ton) trend

Vol. increase led by high vol. from grey cement; white cement & putty vol. remained flat.

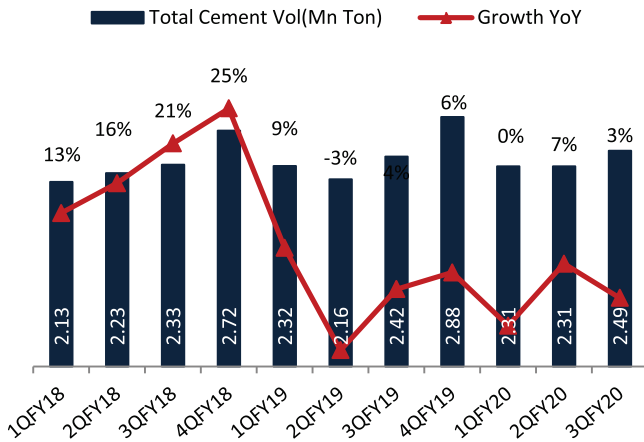


Exhibit: Cement Realization (Rs./Ton) trend

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

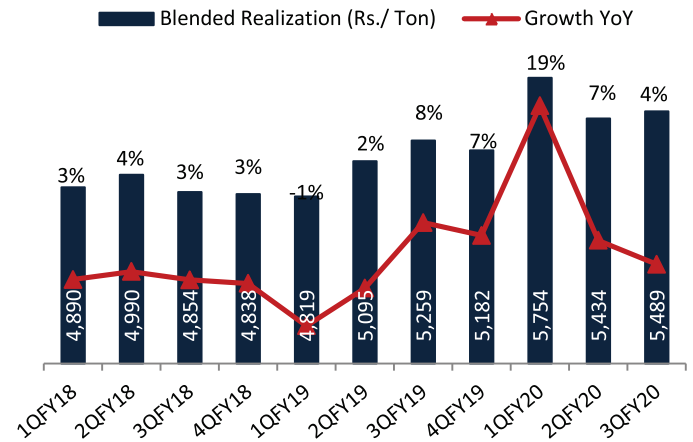


Exhibit: White Cement and putty Volume trend

The company's white cement & putty volumes grew by 10.8% vs. putty industry volume growth at 7% for 9MFY20.

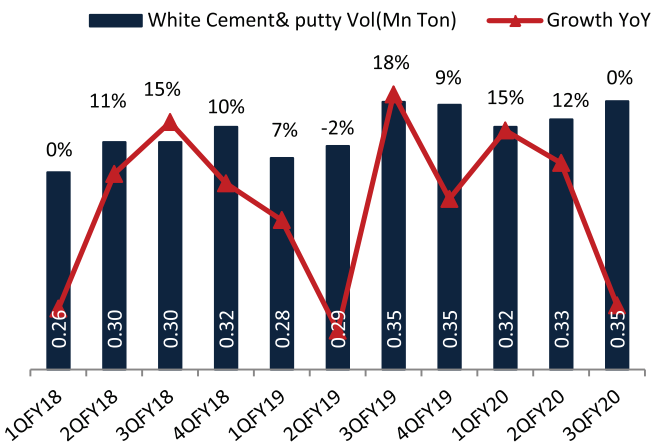


Exhibit: Revenue and revenue growth trend

Growth led by stable realization & higher volumes from White Cement & Putty segment and premium portfolio.

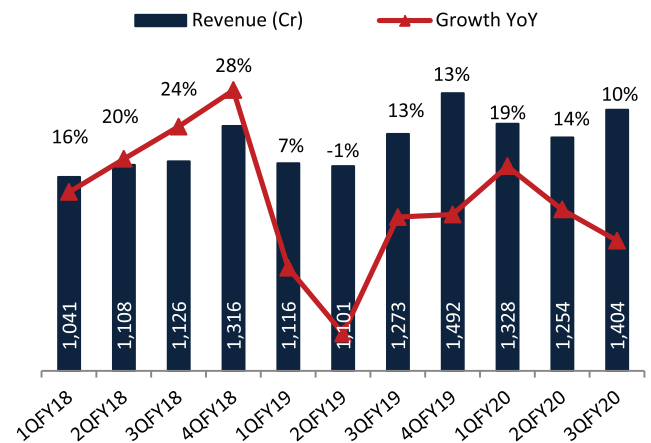


Exhibit: EBITDA and EBITDA margin%

EBITDA margins expansion driven by decline in freight and power & fuel cost.

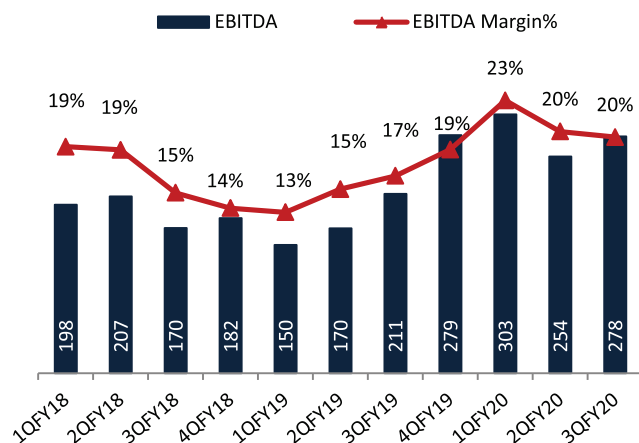
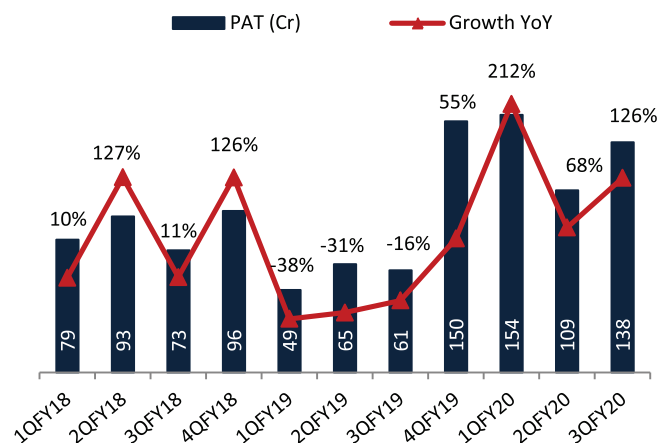


Exhibit: PAT and PAT growth trend

PAT increase driven by product mix, stable realization and EBITDA expansion while PAT margin stood at 9.8%.



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	3255	3793
Networth	1758	1619	1690	1872	2147	2893	3332	3870
Debt	2185	2414	2497	2450	2183	2116	2588	2408
Total Capital Employed	3745	3771	3993	4154	4217	4849	5760	6118
Net Fixed Assets (incl CWIP)	3668	3523	3675	3785	3684	4179	5204	5840
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	6046	6681
Inventory	542	510	429	498	532	571	792	895
Debtors	112	139	166	148	188	206	352	398
Cash & Bank	348	385	368	427	544	486	119	93
Other Current Assets	14	187	162	162	146	159	153	160
Current Assets	1293	1289	1250	1349	1567	1913	1872	1791
Creditors	247	229	281	378	414	698	540	611
Provisions	35	14	14	7	19	10	12	13
Other Current Liabilities	498	59	71	156	190	146	153	173
Curr Liabilities	780	837	945	974	1060	1270	1273	1438
Net Current Assets	513	452	305	375	507	642	600	353
Total Assets	5103	5272	5564	5843	5982	6952	7918	8472

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	2,798	3,357	3,559	3,756	4,591	4,981	5,674	6,412
Change (%)	-4%	20%	6%	6%	22%	8%	14%	13%
Other Income	48	51	50	99	128	80	71	60
EBITDA	375	464	519	693	761	810	1208	1483
Change (%)	-33%	24%	12%	34%	10%	7%	49%	23%
Margin (%)	13%	14%	15%	18%	17%	16%	21%	23%
Depr & Amor.	134	137	156	176	186	194	213	270
EBIT	241	327	362	517	574	616	996	1214
Int. & other fin. Cost	153	219	269	273	245	222	220	229
EBT	136	159	144	344	457	474	847	1045
Exp Item	-	-	-	19	17	0	0	-
Tax	39	2	42	114	98	149	254	314
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	97	157	102	211	342	325	593	732
Adjusted PAT	97	157	102	198	329	325	593	732
Change (%)	-58%	62%	-35%	107%	62%	-5%	82%	23%
Margin(%)	3%	5%	3%	6%	7%	7%	10%	11%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	6%	10%	6%	11%	16%	11%	18%	19%
ROCE	3%	4%	3%	5%	8%	7%	10%	12%
Asset Turnover	0.5	0.6	0.6	0.6	0.8	0.7	0.7	0.8
Debtor Days	15	15	17	14	15	15	23	23
Inv Days	71	55	44	48	42	42	51	51
Payable Days	32	25	29	37	33	51	35	35
Int Coverage	1	1	1	1	0	0	0	0
P/E	17	30	46	31	21	18	17	14
Price / Book Value	1.0	2.9	2.8	3.5	3.3	2.1	3.0	2.6
EV/EBITDA	9	14	13	12	11	9	10	8
FCF per Share	(109)	(7)	84	59	110	54	(85)	45
Div Yield	1%	0.6%	0.6%	0.4%	0.4%	1.2%	1.3%	1.6%

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	847	1045
(inc)/Dec in Working Capital	-114	22	110	9	55	-47	-434	-13
Non Cash Op Exp	134	137	164	176	186	194	213	270
Int Paid (+)	143	215	267	267	239	216	220	229
Tax Paid	-77	-56	-31	-60	-102	-98	-254	-314
others	-35	-42	-64	-4	-28	-32	3	0
CF from Op. Activities	187	436	589	712	790	707	594	1217
(inc)/Dec in FA & CWIP	-948	-485	-316	-597	-195	-932	-1238	-905
Free Cashflow	-761	-48	272	115	594	-225	-644	312
(Pur)/Sale of Inv	-129	-11	-116	162	621	63	110	234
others	31	38	42	-221	-557	63	0	0
CF from Inv. Activities	-1046	-458	-390	-655	-131	-807	-1127	-671
inc/(dec) in Debt								
Int. Paid	1049	219	83	15	-295	5	472	-180
Div Paid (inc tax)	-177	-217	-265	-269	-241	-218	-220	-229
others	0	0	-34	-34	-67	-84	-154	-193
CF from Fin. Activities	2	79	0	-17	4	-2	0	0
Inc(Dec) in Cash	874	81	-215	-304	-599	-299	98	-602
Add: Opening Balance	15	60	-16	-248	59	-399	-435	-56
Closing Balance	332	348	384	367	122	182	486	119

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