

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

## PAT remained impacted due to higher exceptional item

RATING	BUY
CMP	1246
Price Target	1450
Potential Upside	16%

Rating Change	↔
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	1504/800
Mkt Capital (Rs Cr)	9627
Free float (%)	36%
Avg. Vol 1M (,000)	2
No. of Shares (Crs)	8
Promoters Pledged %	NA

### 4QFY20 Result update

- JKCEMENT 4QFY20 revenue de-grew by 1% YoY to Rs. 1477 cr. Impacted on account of lower volumes due to shut down of plants amidst COVID-19.
- Total sales volumes grew by 4% QoQ while de-grew by 7% YoY to 2.667 MT. Volumes from both white as well as grey cement remained impacted due to turbulence caused by COVID-19 while realization growth of 7% YoY favored value growth.
- Gross margin expanded by 373 bps to 86% YoY led by lower volumes of white cement which remained impacted due to COVID-19 in 4QFY20 while EBITDA margin improved by 470 bps to 23.4% driven by realization growth of 7% YoY, improved product mix and reduction in freight cost and power cost.
- Freight and power cost declined by 133 bps/213 bps to 19.1%/18.2% YoY led by company's efforts on freight cost rationalization and change in fuel mix.
- PAT stood at Rs. 0.23 cr. with PAT growth of 0% YoY on account of exceptional item to the extent of Rs. 178 cr. On account of provision made for impairment of J.K. Cement works Fujairah.

### View and Valuation

In 4QFY20, despite COVID, JKCEMENT managed its sales and posted a revenue de-growth of 1% to Rs. 1477 cr. Going forward, the company has started its operations at all plants except those which fall under containment zones and are also witnessing dispatches. On pricing front the company is witnessing an increase of Rs. 10 per bag and expects the prices to remain stable. The Company has already commissioned its Magrol Grey cement unit of 4.2MT while the other expansion like expansion at Balasinor, Nibahera Line III expansion remained interrupted due to Lockdown. Putty capacity expansion by 3 MT will get commissioned by July-Aug,20 which will strengthen the company's hold on white cement. On the Margin front, focus on supply chain efficiency and fuel mix, cost rationalization measures on operational front will favor EBITDA margin expansion in the coming quarter. While demand, labor availability, availability of other raw materials and start of monsoon in many parts will remain the concern but considering past performance of the company we maintain our BUY rating on the stock with a target price of Rs. 1450.

### Key Risks to our rating and target

- Continuation of slowdown in the economy due to lock down.
- Steep increase in input prices

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20
Net Sales	3559	3756	4591	4981	5464
EBITDA	519	693	761	810	1182
EBIT	362	517	574	616	967
PAT	102	211	342	325	400
EPS (Rs)	15	30	49	46	57
EPS growth (%)	-35%	107%	62%	-5%	23%
ROE (%)	6%	11%	16%	11%	13%
ROCE (%)	3%	5%	8%	7%	7%
EV/EBIDTA	13.2	12.3	11.5	9.4	7.1
P/B (X)	2.8	3.5	3.3	2.1	2.1
P/E (x)	46.0	31.0	20.8	18.3	16.4

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## 4QFY20 Results Below expectation

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	1492	1328	1254	1404	1477	-1.0%	5.2%	4981	5464	9.7%
Other Income	35	17	18	24	27	-22.6%	14.4%	80	86	7%
COGS	265	182	217	255	207	-21.8%	-18.7%	838	861	2.7%
Gross Margin	82%	86%	83%	82%	86%	3.7%	4.1%	83%	84%	1.1%
Employee Cost	84	97	96	99	99	18.1%	-0.5%	354	391	10.6%
Other Expenses	158	236	231	248	275	73.8%	10.5%	513	989	93%
EBITDA	279	303	254	278	346	23.9%	24.7%	810	1182	45.8%
EBITDA%	19%	23%	20%	20%	23%	4.7%	3.7%	16%	22%	5.4%
Depreciation	50	49	52	56	58	16.1%	3.8%	194	214	10.3%
EBIT	230	254	202	222	289	25.6%	29.9%	616	967	57.1%
Interest	53	53	56	56	57	7.2%	1.8%	222	223	0.4%
PBT	211	218	164	190	258	22.3%	36.3%	474	830	75.3%
Exceptional Item	-	-	-	-	178	-	-	0	178	-
Tax	61	64	55	52	80	30.4%	53.7%	149	252	69.2%
PAT	150	154	109	138	0	-99.8%	-99.8%	325	400	23.2%
PAT Margin	10%	12%	9%	10%	0%	-10.0%	-9.8%	7%	7%	0.8%

## Segment Performance:

### Grey Cement

FINANCIALS	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Grey Cement	2.03	2.40	2.04	1.87	2.14	2.53	1.99	1.84	2.14	2.32
Growth YoY	22%	27%	9%	-3%	6%	5%	-2%	-1%	3%	-8%
Cap. Utilization	78%	92%	78%	71%	82%	97%	76%	52%	75%	63%

### White Cement & Putty business

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

## Concall Highlights

### 4QFY20 Result Update:

- Volumes increase in white cement would have been 9-10% vs. 4% for FY20 impacted due to COVID-19.
- The Company has reversed Yearly incentives to the extent of Rs. 25 cr. which was given to the dealer for accomplishment of volumes and the same is reflected in higher realization in 4QFY20.
- Major saving in power & fuel cost led by commercialisation of Line III of Nimbahera in FY22 along with other operating efficiencies.
- The Management expects a cost saving of Rs.100/ ton cumulatively in next 2 years.
- The Management expects 3-4 months working to remain impacted in Fujairah due to COVID-19. And further impairment may occur if the company is unable to achieve the desired result from Fujairah.
- Higher Inventory on account of high cost inventories of Pet coke (will last till Aug-29) due to shut down of operations on account of COVID-19.
- COGS remained lower due to lower volumes of white cement which remained impacted due to COVID-19 in 4QFY20.
- The Management expects improvement in realisation in 1QFY20 and have are also witnessing dispatches post opening up of lock down except containment zones.
- The total wall putty market and white cement market in India is at 3MT and 1.2 MT.
- The Company is witnessing upward price movement of Rs. 10/ bag as of now.

### Expansion Updates:

- On Mangrol expansion Rs. 400 cr. is yet to be incurred on WHRS, Balasinor Unit and also for overhead on limestone transportation while Rs. 250 cr. is yet to be incurred for Line III modernisation at Nimbahera (already spent Rs. 140 cr. expect the same to get commissioned by Dec-20). Thus, total CAPEX is expected to be in a range Rs. 600-700 cr. for FY21.
- 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 (3-3.5MT Integrated Plant) post COVID-19 situation gets over.
- The Company will commission additional putty capacity by 3 lakh tone by August-20.

### Management Guidance:

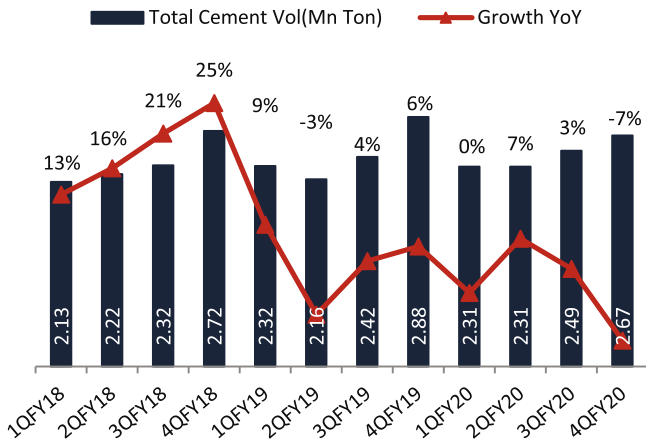
- The Total pay-out toward BCG and other consultants stood at Rs. 78 cr. in FY20 and expecting a drop of 25% in professional charges in FY21 due to COVID-19.
- The Management expects Gross and Net debt at the end of the year to the extent of Rs. 3500 cr. & Rs. 2600 cr. by the end of FY21.

### UAE Operations:

- The cement and clinker volumes from company's UAE operation for 4QFY20 stood at 100000 ton while 8000 ton was sold through India.

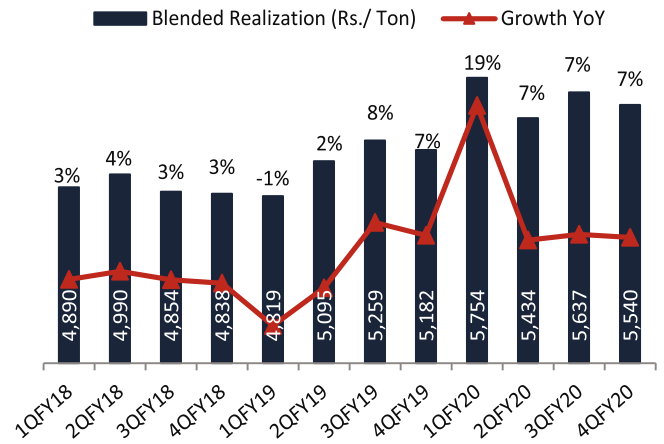
## Exhibit: Cement volume (Million Ton) trend

Cement volumes remained impacted on account of shut down of plants due to COVID-19.



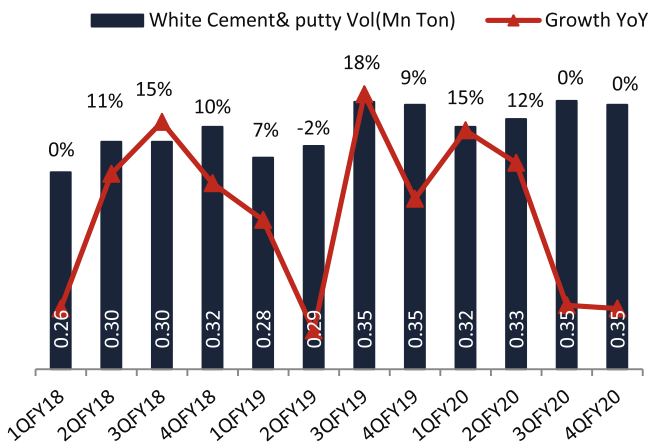
## Exhibit: Cement Realization (Rs./Ton) trend

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



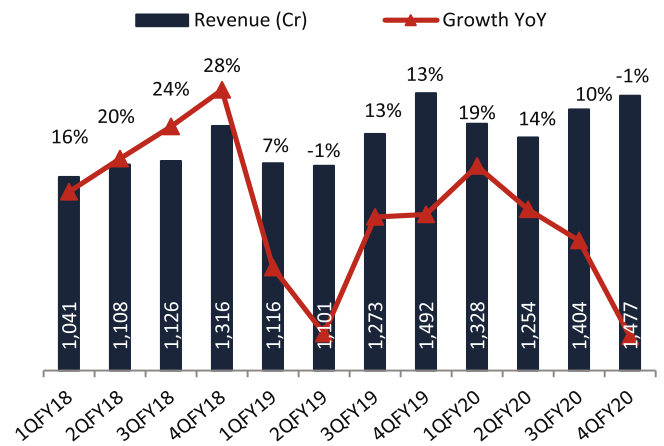
## Exhibit: White Cement and putty Volume trend

White cement & putty volumes remained impacted due to shut down of operations on account of COVID-19.



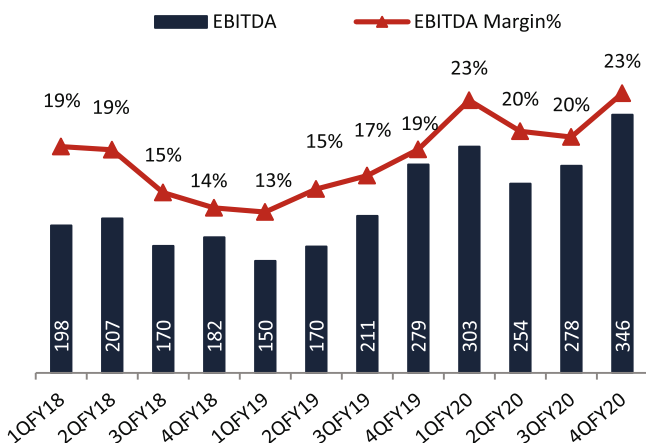
## Exhibit: Revenue and revenue growth trend

Revenue remained impacted due to lower volumes while higher realization subsumed the decline to larger extent.



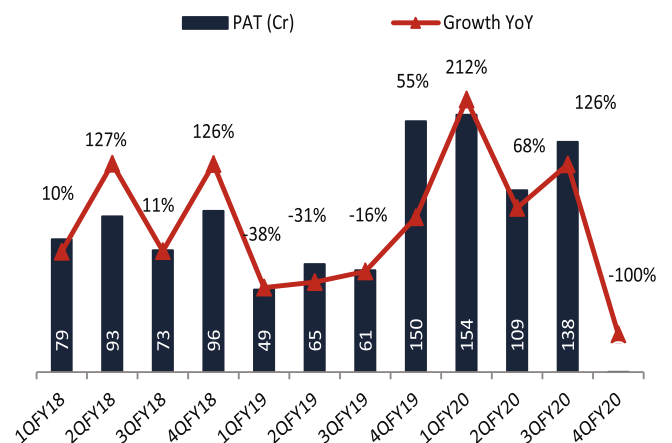
## Exhibit: EBITDA and EBITDA margin%

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



## Exhibit: PAT and PAT growth trend

PAT remained impacted due to exceptional item on account of provision made towards J.K. Cement FZC.



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Share Capital	70	70	70	70	70	70	77	77
Reserves	1627	1689	1549	1620	1802	2077	2816	3052
<b>Networth</b>	<b>1697</b>	<b>1758</b>	<b>1619</b>	<b>1690</b>	<b>1872</b>	<b>2147</b>	<b>2893</b>	<b>3129</b>
Debt	1142	2185	2414	2497	2450	2183	2116	2423
Total Capital Employed	2651	3745	3771	3993	4154	4217	4849	5413
<b>Net Fixed Assets (incl CWIP)</b>	<b>2641</b>	<b>3668</b>	<b>3523</b>	<b>3675</b>	<b>3785</b>	<b>3684</b>	<b>4179</b>	<b>4977</b>
Non Current Investments	228	142	287	373	470	557	610	565
Other Non Current Assets	0	0	112	128	105	115	154	126
Non Current Assets	2869	3810	3982	4313	4495	4406	5039	5740
<b>Inventory</b>	<b>461</b>	<b>542</b>	<b>510</b>	<b>429</b>	<b>498</b>	<b>532</b>	<b>571</b>	<b>627</b>
Debtors	115	112	139	166	148	188	206	223
Cash & Bank	332	348	385	368	427	544	486	631
Other Current Assets	7	14	187	162	162	146	159	162
Current Assets	1032	1293	1289	1250	1349	1567	1913	2115
<b>Creditors</b>	<b>197</b>	<b>247</b>	<b>229</b>	<b>281</b>	<b>378</b>	<b>414</b>	<b>698</b>	<b>453</b>
Provisions	67	35	14	14	7	19	10	111
Other Current Liabilities	451	498	59	71	156	190	146	363
Curr Liabilities	714	780	837	945	974	1060	1270	1481
<b>Net Current Assets</b>	<b>318</b>	<b>513</b>	<b>452</b>	<b>305</b>	<b>375</b>	<b>507</b>	<b>642</b>	<b>635</b>
<b>Total Assets</b>	<b>3902</b>	<b>5103</b>	<b>5272</b>	<b>5564</b>	<b>5843</b>	<b>5982</b>	<b>6952</b>	<b>7855</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
<b>Revenue from Operation</b>	<b>2,912</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>5,464</b>
Change (%)	14%	-4%	20%	6%	6%	22%	8%	10%
Other Income	49	48	51	50	99	128	80	86
<b>EBITDA</b>	<b>560</b>	<b>375</b>	<b>464</b>	<b>519</b>	<b>693</b>	<b>761</b>	<b>810</b>	<b>1182</b>
Change (%)	7%	-33%	24%	12%	34%	10%	7%	46%
Margin (%)	19%	13%	14%	15%	18%	17%	16%	22%
Depr & Amor.	128	134	137	156	176	186	194	214
<b>EBIT</b>	<b>432</b>	<b>241</b>	<b>327</b>	<b>362</b>	<b>517</b>	<b>574</b>	<b>616</b>	<b>967</b>
Int. & other fin. Cost	140	153	219	269	273	245	222	223
<b>EBT</b>	<b>341</b>	<b>136</b>	<b>159</b>	<b>144</b>	<b>344</b>	<b>457</b>	<b>474</b>	<b>830</b>
Exp Item	-	-	-	-	19	17	0	178.15
Tax	107	39	2	42	114	98	149	252
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	234	97	157	102	211	342	325	400
<b>Adjusted PAT</b>	<b>234</b>	<b>97</b>	<b>157</b>	<b>102</b>	<b>198</b>	<b>329</b>	<b>325</b>	<b>276</b>
Change (%)	32%	-58%	62%	-35%	107%	62%	-5%	23%
Margin(%)	8%	3%	5%	3%	6%	7%	7%	7%

## Financial Details

### Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
ROE	14%	6%	10%	6%	11%	16%	11%	13%
ROCE	9%	3%	4%	3%	5%	8%	7%	7%
Asset Turnover	0.7	0.5	0.6	0.6	0.6	0.8	0.7	0.7
Debtor Days	14	15	15	17	14	15	15	15
Inv Days	58	71	55	44	48	42	42	42
Payable Days	25	32	25	29	37	33	51	30
Int Coverage	0	1	1	1	1	0	0	0
P/E	8	17	30	46	31	21	18	17
Price / Book Value	1.1	1.0	2.9	2.8	3.5	3.3	2.1	2.2
EV/EBITDA	5	9	14	13	12	11	9	7
FCF per Share	4	(109)	(7)	84	59	110	54	12
Div Yield	2%	1.3%	0.6%	0.6%	0.4%	0.4%	1.2%	1.1%

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
<b>PBT</b>	<b>341</b>	<b>136</b>	<b>159</b>	<b>142</b>	<b>324</b>	<b>440</b>	<b>474</b>	<b>652</b>
(inc)/Dec in Working Capital	-67	-114	22	110	9	55	-47	27
Non Cash Op Exp	128	134	137	164	176	186	194	214
Int Paid (+)	136	143	215	267	267	239	216	214
Tax Paid	-118	-77	-56	-31	-60	-102	-98	-153
others	-35	-35	-42	-64	-4	-28	-32	138
<b>CF from Op. Activities</b>	<b>384</b>	<b>187</b>	<b>436</b>	<b>589</b>	<b>712</b>	<b>790</b>	<b>707</b>	<b>1092</b>
(inc)/Dec in FA & CWIP	-357	-948	-485	-316	-597	-195	-932	-1995
Free Cashflow	28	-761	-48	272	115	594	-225	-903
(Pur)/Sale of Inv	-158	-129	-11	-116	162	621	63	-121
others	38	31	38	42	-221	-557	63	-184
<b>CF from Inv. Activities</b>	<b>-477</b>	<b>-1046</b>	<b>-458</b>	<b>-390</b>	<b>-655</b>	<b>-131</b>	<b>-807</b>	<b>-2300</b>
inc/(dec) in Debt	-57	1049	219	83	15	-295	5	407
Int. Paid	-136	-177	-217	-265	-269	-241	-218	-217
Div Paid (inc tax)	0	0	0	-34	-34	-67	-84	-163
others	185	2	79	0	-17	4	-2	-2
<b>CF from Fin. Activities</b>	<b>-7</b>	<b>874</b>	<b>81</b>	<b>-215</b>	<b>-304</b>	<b>-599</b>	<b>-299</b>	<b>25</b>
<b>Inc(Dec) in Cash</b>	<b>-100</b>	<b>15</b>	<b>60</b>	<b>-16</b>	<b>-248</b>	<b>59</b>	<b>-399</b>	<b>-1183</b>
<b>Add: Opening Balance</b>	<b>432</b>	<b>332</b>	<b>348</b>	<b>384</b>	<b>367</b>	<b>122</b>	<b>182</b>	<b>237</b>
Closing Balance	332	348	408	367	120	181	-216	-946

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