

JK Cement

Performance Highlights

Quarterly results (Standalone)

Y/E March (₹ cr)	2QFY2016	2QFY2015	% chg yoy	1QFY2016	% chg qoq
Net Sales	868	828	4.8	811	7.1
EBITDA	106	88	21.4	84	26.1
EBITDA margin	12.3	10.6	167bp	10.4	185bp
Net Profit	14	32	(57.5)	0	8473.7

Source: Company, Angel Research

JK Cement (JKCem)'s 2QFY2016 reported numbers have come in better than our estimates. The company's net sales grew by 4.8% yoy to ₹867.9cr (above our estimate of ₹832.2cr). The company's blended sales volume increased by 2.8% yoy, led by 4.3% yoy growth in the white cement (including putty) business. Blended realization/tonne, at ₹4,743, increased 2.0/6.3% yoy/qoq during the quarter (above our estimate of ₹4,596). The EBITDA increased by 21.4% yoy to ₹106.4cr, which is above our estimate of ₹97.1cr. The EBITDA/tonne improved by 18.1% yoy to ₹581 and is above our estimate of ₹536. The Net profit declined 57.5% yoy to ₹13.7cr, on account of higher depreciation and interest expenses.

EBITDA margin at 12.3%, up 167bp yoy: For 2QFY2016, JKCem posted a marginal 4.8% yoy increase in its top-line to ₹867.9cr. The EBITDA came in at ₹106.4cr, an increase of 21.4% yoy (above our estimate of ₹97.1cr). The EBITDA margin at 12.3% is above our estimate of 10.8%, led by better than expected realization and flat operating costs. The operating cost/tonne remained flat yoy at ₹4,161. The EBITDA/tonne came in at ₹581, up by 18.1% yoy, due to increase in realization and flat operating costs.

Outlook and valuation: Going ahead, we expect the company to witness moderation in demand and impact on profitability. The Management has also reduced its grey cement volume guidance from 7.5mt to 6.5mt for FY16 due to soft demand. We forecast top-line to grow at a CAGR of 18.4% and EBITDA to grow at CAGR of 33.3% over FY2015-17E. At the current market price, the stock trades at 7.8x FY2017E EV/EBITDA and EV/tonne of \$96 on FY2017E blended capacity. **We maintain our Buy rating on the stock with a target price of ₹744 based on 8.0x grey cement and 9.5x white cement FY2017 EV/EBITDA.**

Key Financials

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net Sales	2,904	2,782	3,337	3,661	4,613
% chg	1442.9	(421.8)	1998.1	971.2	2597.8
Net Profit	234	97	157	128	297
% chg	26.1	(58.5)	61.7	(18.5)	132.0
EPS (₹)	33	14	22	18	42
P/E (x)	19.4	46.6	28.8	35.4	15.3
P/BV (x)	2.7	2.6	2.7	2.6	2.3
RoE (%)	16.9	6.4	9.8	7.5	16.0
RoCE (%)	13.3	5.8	6.9	8.3	13.6
EV/Sales (x)	1.9	1.9	1.9	1.7	1.3
EV/EBITDA (x)	9.8	14.9	14.2	11.5	7.8

Source: Company, Angel Research; Note: CMP as of November 4, 2015

BUY

CMP	₹647
Target Price	₹744

Investment Period	12 Months
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Stock Info

Sector	Cement
Market Cap (₹ cr)	4,524
Net debt (₹ cr)	1,700
Beta	0.7
52 Week High / Low	754 / 546
Avg. Daily Volume	52,455
Face Value (₹)	10
BSE Sensex	26,553
Nifty	8,040
Reuters Code	JKCE.BO
Bloomberg Code	JKCE IN

Shareholding Pattern (%)

Promoters	67.0
MF / Banks / Indian Fls	14.0
FII / NRIs / OCBs	11.0
Indian Public / Others	8.1

Abs.(%)	3m	1yr	3yr
Sensex	(5.4)	(4.7)	41.5
JK Cement	(2.8)	(1.9)	128.6

3-year price chart



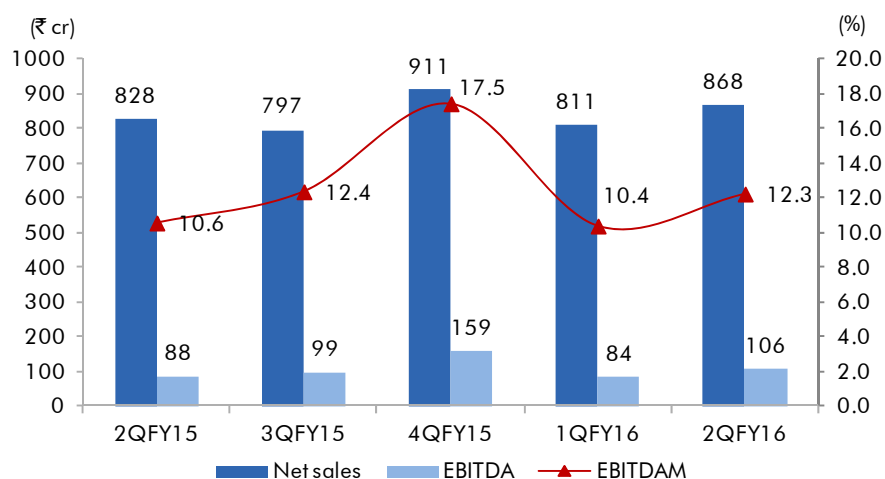
Source: Company, Angel Research

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Exhibit 1: Quarterly Performance (Standalone)

Y/E March (₹ cr)	2QFY2016	2QFY2015	% Chg	1QFY2016	% Chg	1HFY2016	1HFY2015	% Chg
Net sales	868	828	4.8	811	7.1	1,679	1,629	3.0
Net raw-material costs	178	161	10.4	155	14.6	340	291	16.7
(% of sales)	20.5	19.4		19.1		20.2	17.9	
Power & fuel	194	198	(1.9)	179	8.6	372	392	(4.9)
(% of sales)	22.3	23.9		22.0		22.2	24.1	
Staff costs	57	49	16.7	60	(4.9)	117	97	20.2
(% of sales)	6.5	5.9		7.4		6.9	6.0	
Freight & forwarding	180	179	0.2	178	1.2	357	357	0.1
(% of sales)	20.7	21.7		21.9		21.3	21.9	
Other expenses	153	153	(0.2)	155	(1.3)	308	306	0.9
(% of sales)	17.6	18.5		19.1		18.4	18.8	
EBITDA	106	88	21.4	84	26.1	191	186	2.5
EBITDA margin	12.3	10.6	167bp	10.4	185bp	11.4	11.4	(6bp)
Interest	69	46	49.5	66	4.2	135	87	56.4
Depreciation	38	30	29.0	37	4.5	75	58	28.7
Other income	15	16	(6.9)	17	(14.2)	32	32	1.7
PBT (excl. Exp. Items)	14	28	(49.7)	(1)		13	73	(82.4)
Exp. Item	0	0		0		-	-	
PBT (incl. Exp. Items)	14	28	(49.7)	(1)		13	73	(82.4)
Provision for taxation	0	(5)		(1.3)		(1)	3	
(% of PBT)	1.9	(16)		114.4		(7.8)	3.8	
Adjusted PAT	137	323	(57.5)	2	8,473.7	14	70	(80.3)
PATM	1.6	3.9	(232bp)	0.0	156bp	0.8	4.3	(349bp)
EPS (₹)	2.0	4.6		0.0		2.0	1.0	

Source: Company, Angel Research

Exhibit 2: Financial performance


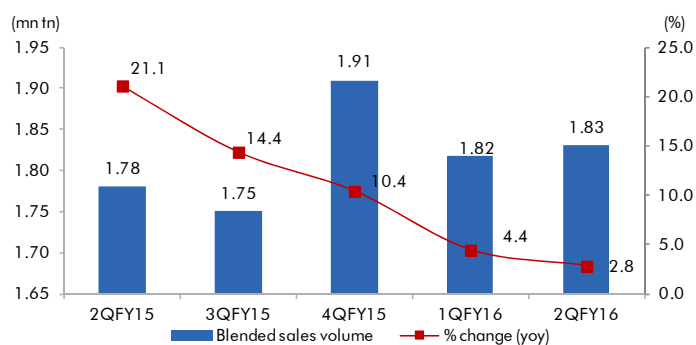
Source: Company, Angel Research

Performance highlights

Top-line up 4.8% yoy

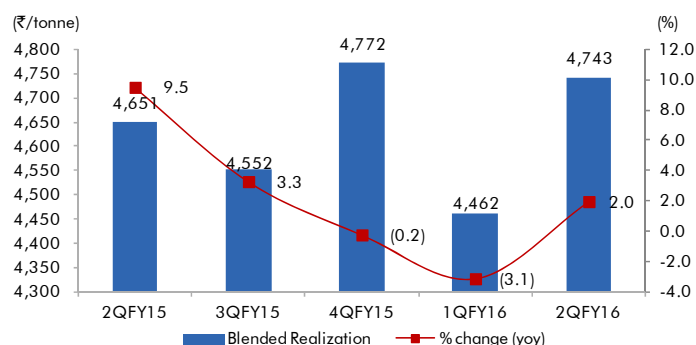
For 2QFY2016, JKCem posted a 4.8% yoy increase in its top-line to ₹867.9cr, which is above our estimate of ₹832.2cr. Blended cement volumes rose by 2.8% yoy to 1.8mn tonne (in line with our estimate), while blended realization/tonne increased by 2.0/6.3% yoy/qoq to ₹4,743 (above our estimate of ₹4,596). Revenue from grey cement improved by 3.4% yoy to ₹605cr, led by 2.8% yoy volume growth, while realization/tonne remained flat at ₹3806. Muted volume growth was due to weak demand in the North while demand pressures in Maharashtra ((JKCem sells 60% of its south based plant's production in Maharashtra) impacted volumes in the South. White cement volume increased by 4.3% yoy to 0.24mn, mainly led the putty segment, which grew by 21.4% yoy to 0.12mn tonne during the quarter as against 0.13mn tonne in 2QFY2015. White cement realization/tonne improved by 3.9% yoy to ₹10,934. Going forward, we expect blended cement volume to grow at a CAGR of 12.8% over FY2015-17E. We expect grey cement volumes to grow at a CAGR of 13.9% and white cement volumes to grow at a CAGR of 4.3% over FY2015-2017E.

Exhibit 3: Blended Cement Volume Trend



Source: Company, Angel Research

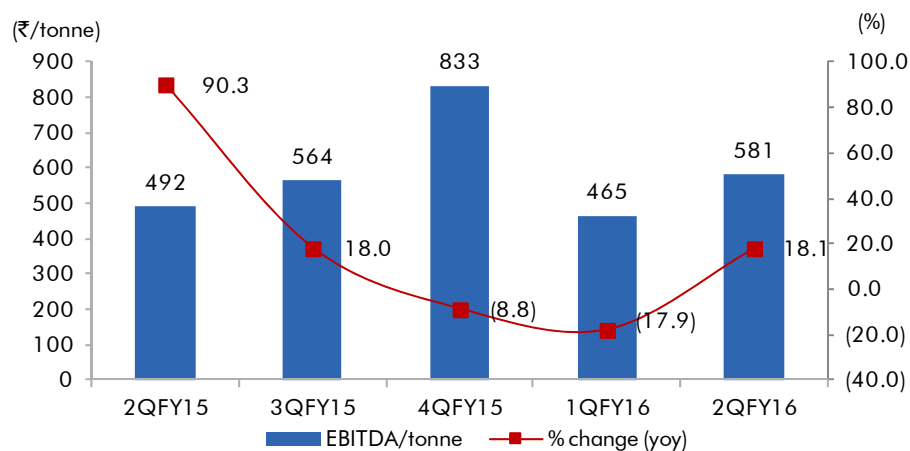
Exhibit 4: Blended Realization Trend



Source: Company, Angel Research

EBITDA margin improved by 167bp yoy to 12.3%

The EBITDA margin for the quarter improved by 167bp yoy to 12.3% on account of higher realization and flat operating expenses. The company's operating cost/tonne remained flat yoy to ₹4,161, due to fall in power & fuel and freight expenses. Thus, the blended EBITDA/tonne rose by 18.1% yoy to ₹581. However, on a segmental basis, grey cement EBIDTA increased by 45.9% yoy to ₹40.2cr. EBITDA/tonne increased by 42.3% yoy to ₹253. White cement EBIDTA grew by 10.1% yoy and came in at ₹66.2cr. EBIDTA/tonne for white cement grew by 5.6% yoy to ₹2,758, during the quarter.

Exhibit 5: Blended EBITDA/tonne trend


Source: Company, Angel Research

Per tonne analysis

During 2QFY2016, JKCem's raw material cost/tonne increased by 2.0% yoy. The power and fuel cost/tonne declined by 4.6% yoy. Freight cost/tonne also reduced, ie by 2.6% yoy. However employee cost/tonne rose by 13.6% yoy to ₹311. The total operating cost/tonne remained flat yoy to ₹4,161. The company's operating profit/tonne increased by 18.1% yoy to ₹581, during the quarter.

Exhibit 6: Per tonne analysis

Particulars (₹/tonne)	2QFY16	2QFY15	1QFY16	yoy chg (%)	qoq chg (%)
Net Realization/tonne	4,743	4,651	4,462	2.0	6.3
Raw-Material* Cost/tonne	970	903	853	7.4	13.8
Power and Fuel cost/tonne	1,059	1,110	983	(4.6)	7.8
Employee Cost/tonne	311	274	329	13.6	(5.6)
Freight Cost/tonne	982	1,008	977	(2.6)	0.5
Other Cost/tonne	837	862	854	(2.9)	(2.0)
Operating costs/tonne	4,161	4,159	3,997	0.1	4.1
Operating Profit/tonne	581	492	465	18.1	25.2

Source: Company, Angel Research; Note Incl. Raw materials and purchase of stock in trade

Outlook and valuation

Going ahead, we expect the company to witness moderation in demand and impact on profitability. The Management has also reduced its grey cement volume guidance from 7.5mt to 6.5mt for FY16 due to soft demand. We forecast the top-line to grow at a CAGR of 18.4% and EBIDTA to grow at CAGR of 33.3% over FY2015-17E. At the current market price, the stock trades at 7.8x its FY2017E EV/EBIDTA and at an EV/tonne of \$96 on FY2017E blended capacity. **We maintain our Buy rating on the stock with a target price of ₹744, based on 8.0x grey cement and 9.5x white cement FY2017E EV/EBIDTA.**

Company Background

JK Cement is one of the leading cement producers in India with installed grey cement capacity of 10.5mtpa (7.5mtpa capacity is located in the North region [Rajasthan and Haryana] and the remaining 3mtpa capacity is located in the South region [Karnataka]). JKCem is the second largest white cement producer in India with installed capacity of 0.6mtpa. The company also has a 0.5mtpa wall putty capacity in Gotan, Rajasthan. It also has a 0.6mtpa white cement plant in UAE to tap the growing Middle East and African markets. JKCem was the first company to install a captive power plant in 1987 at Rajasthan and now it has a total power capacity of 140MW. The company sells cement under the brands of JK Cement and JK Super Cement.

Exhibit 7: Plant Locations

Grey Cement Capacity			
Plant Location	State	Region	Capacity (MTPA)
Nimbahera	Rajasthan	North	3.25
Mangrol*	Rajasthan	North	2.25
Gotan	Rajasthan	North	0.5
Jhajjar*	Haryana	North	1.5
Muddapur	Karnataka	South	3
Total Grey Cement Capacity			10.5

White Cement Capacity			
Plant Location	State	Region	Capacity (MTPA)
Gotan	Rajasthan	North	0.6
UAE			0.6
Total White Cement Capacity			1.2

Source: Company, Angel Research; Note: *New capacity (1.5mtpa at each location) added during 1HFY2015.

Profit & Loss Statement (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net Sales	2,904	2,782	3,337	3,661	4,613
% chg	14.4	(4.2)	20.0	9.7	26.0
Total Expenditure	2,352	2,421	2,893	3,113	3,824
Net Raw Materials	362	425	556	607	743
Power & Fuel cost	714	674	793	866	1,050
Personnel	158	168	203	205	258
Other	1,118	1,155	1,341	1,435	1,772
EBITDA	552	361	444	549	789
% chg	8.7	(34.7)	23.1	23.6	43.8
(% of Net Sales)	19.0	13.0	13.3	15.0	17.1
Depreciation & Amortisation	128	134	137	180	190
EBIT	424	227	307	369	599
% chg	10.9	(46.5)	35.6	20.0	62.3
(% of Net Sales)	14.6	8.1	9.2	10.1	13.0
Interest & other Charges	140	153	219	268	236
Other Income	57	62	71	59	33
(% of PBT)	16.6	45.7	44.7	37.0	8.2
Recurring PBT	341	136	159	160	395
% chg	16.0	(60.0)	16.8	0.4	147.5
Extraordinary Expense/(Inc.)	-	-	-	-	-
PBT (reported)	341	136	159	160	395
Tax	107	39	2	32	99
(% of PBT)	31.4	28.8	1.4	20.0	25.0
PAT (reported)	234	97	157	128	297
ADJ. PAT	234	97	157	128	297
% chg	26.1	(58.5)	61.7	(18.5)	132.0
(% of Net Sales)	8.0	3.5	4.7	3.5	6.4
Basic EPS (₹)	33	14	22	18	42
Fully Diluted EPS (₹)	33	14	22	18	42

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS					
Equity Share Capital	70	70	70	70	70
Reserves & Surplus	1,627	1,689	1,577	1,674	1,899
Shareholders Funds	1,697	1,758	1,647	1,744	1,969
Total Loans	1,272	2,320	2,422	2,242	2,042
Deferred Tax Liability	249	268	280	280	280
Other Long term liabilities	87	97	117	117	117
Total Liabilities	3,305	4,445	4,465	4,382	4,408
APPLICATION OF FUNDS					
Gross Block	3,087	3,180	4,342	4,492	4,642
Less: Acc. Depreciation	722	868	1,004	1,184	1,374
Net Block	2,364	2,313	3,338	3,308	3,268
Capital Work-in-Progress	108	1,102	191	191	191
Investments	169	300	315	315	315
Current Assets	1,261	1,389	1,504	1,348	1,492
Inventories	461	542	510	551	673
Sundry Debtors	115	112	139	153	193
Cash	332	348	408	205	184
Loans & Advances	345	373	438	430	432
Other	7	14	10	10	10
Current liabilities	597	658	883	780	858
Net Current Assets	664	731	622	569	634
Total Assets	3,305	4,445	4,465	4,382	4,408

Cash Flow Statement (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	341	136	159	160	525
Depreciation	128	134	137	180	190
Change in Working Capital	(123)	(51)	169	(149)	(87)
Less: Other income	57	62	71	59	33
Direct taxes paid	107	39	2	32	99
Cash Flow from Operations	182	117	391	99	497
(Inc)/ Decin Fixed Assets	(209)	(1,088)	(251)	(150)	(150)
(Inc)/ Dec in Investments	(158)	(130)	(15)	-	-
Other income	57	62	71	59	33
Cash Flow from Investing	(311)	(1,156)	(195)	(91)	(117)
Issue of Equity					
Inc./ (Dec.) in loans	84	1,078	133	(180)	(200)
Dividend Paid (Incl. Tax)	53	25	34	31	71
Others	2	(0)	235	-	129
Cash Flow from Financing	28	1,054	(136)	(211)	(401)
Inc./ (Dec.) in Cash	(100)	15	60	(203)	(21)
Opening Cash balances	433	332	348	408	205
Closing Cash balances	332	348	408	205	184

Key Ratios (Standalone)

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)					
P/E (on FDEPS)	19.4	46.6	28.8	35.4	15.3
P/CEPS	12.5	19.6	15.4	14.7	9.3
P/BV	2.7	2.6	2.7	2.6	2.3
Dividend yield (%)	1.0	0.5	0.6	0.6	1.3
EV/Sales	1.9	1.9	1.9	1.7	1.3
EV/EBITDA	9.8	14.9	14.2	11.5	7.8
EV / Total Assets	1.6	1.2	1.4	1.4	1.4
Per Share Data (₹)					
EPS (Basic)	33.4	13.9	22.4	18.3	42.4
EPS (fully diluted)	33.4	13.9	22.4	18.3	42.4
Cash EPS	51.7	33.0	42.0	44.0	69.6
DPS	6.5	3.0	4.0	3.7	8.5
Book Value	242.7	251.5	235.5	249.3	281.6
Dupont Analysis					
EBIT margin	14.6	8.1	9.2	10.1	13.0
Tax retention ratio	68.6	71.2	98.6	80.0	75.0
Asset turnover (x)	1.0	0.8	0.8	0.9	1.1
ROIC (Post-tax)	10.4	4.6	7.4	7.2	10.7
Cost of Debt (Post Tax)	7.7	6.0	9.1	9.2	8.3
Leverage (x)	0.5	0.7	1.0	1.0	0.9
Operating ROE	11.7	3.5	5.8	5.1	12.8
Returns (%)					
ROCE (Pre-tax)	13.3	5.8	6.9	8.3	13.6
Angel ROIC (Pre-tax)	16.2	8.4	9.8	10.2	16.2
ROE	16.9	6.4	9.8	7.5	16.0
Turnover ratios (x)					
Asset Turnover (Gross Block)	1.0	0.9	0.9	0.8	1.0
Inventory / Sales (days)	52	66	58	53	48
Receivables (days)	13	15	14	15	14
Payables (days)	87	95	97	97	78
WC cycle (ex-cash) (days)	34	47	33	29	32
Solvency ratios (x)					
Net debt to equity	0.5	1.0	1.0	1.0	0.8
Net debt to EBITDA	1.4	4.6	3.8	3.1	2.0
Interest Coverage (EBIT / Int.)	3.0	1.5	1.4	1.4	2.5

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Disclosure of Interest Statement

JK Cement

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)