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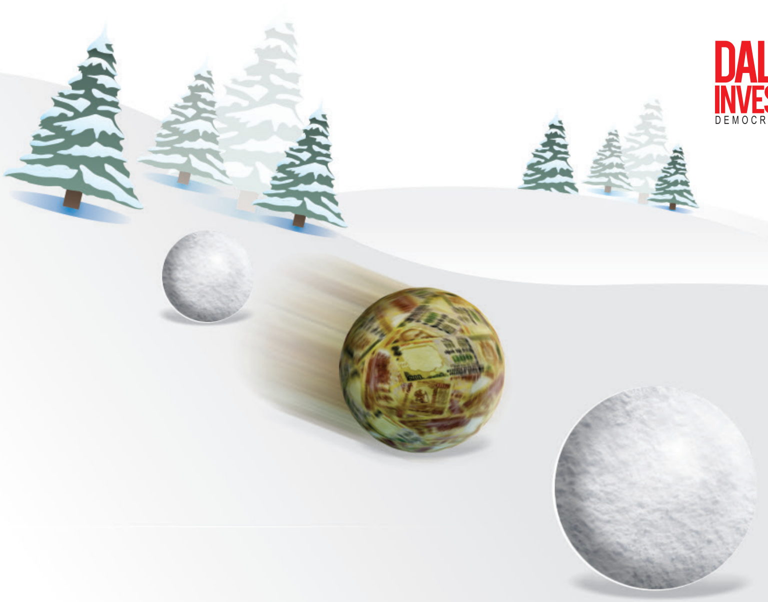
DEMOCRATIZING WEALTH CREATION

MID BRIDGE
THE MIDCAP MARVEL

September 2020



COMPANY NAME	:	**JK Cement Ltd.**
BSE Code	:	**532644**
Time Duration	:	**1 year**
CMP	:	**₹1562.00 (as on 17 September, 2020)**
Target Price	:	**₹1995**

The Mid Bridge recommendation for this month is JK Cement Ltd. It is one of the largest cement and cement-related products manufacturer and seller in India. As of the end of FY20, the company has grown as the third-largest White Cement manufacturer in the world with 1.20 million tonnes per annum (MnTPA) capacity. Besides, it is among the two largest producers of White Cement and Wall Putty in India.

Demand forecast

The cement sector companies are very much dependent on the housing sector. The cement demand in India, as of FY20, stood at 328 MnTPA while the housing segment accounted for 65 per cent of the total consumption. Thus, with a recovery in the economy, a revival of demand is expected to drive growth in the housing sector. During the second half of FY21, demand is expected to pick-up, mainly driven by increased government spending on infrastructure, affordable housing as well as the key infrastructure project in the road, metros & irrigation segment, which would further drive demand for the overall economy.

Strategic expansion & Capex plans

The company has been able to maintain its expansion plans despite challenging times in the recent past. During FY20, the company made significant progress in its expansion plans. It commissioned the 2.6 MnTPA clinker production line at Mangrol (Rajasthan) and 3.5 MnTPA cement grinding capacity, which is a split between Nimbahera (1 MnTPA), Mangrol (1 MnTPA) as well as a split grinding unit at Aligarh (1.5 MnTPA).Though, the work at the split grinding unit at Balasinor (Gujarat) of 0.7 MnTPA suffered some time delay on account of the lockdown. The management further has undertaken the modernisation of line number 3 at Nimbahera plant, which is expected to complete during the current fiscal. The expansion work of 3 lakh tonnes wall putty at Katni (Madhya Pradesh) has also been deferred due to the disruptions caused by the pandemic and is likely to be commissioned by the end of the second quarter of FY 2020-21.

In terms of the guidance for the near future, the company plans to spend Rs 350 crore on Nimbahera modernisation and Rs 250 crore on Mangarol clinker unit. Overall, Capex is expected to be in the range of Rs 750 crore to Rs 800 crore in FY21.

Brand presence

The company continues to maintain its brand expansion. Its brands such as JK Cement TileMaxX (in polymer-modified high strength adhesive segment) are famous in rural parts of the country. Its applications spread across all types of tiles, tiles on tiles, and cementitious substrates. In an effort to further strengthen its presence, it expanded the white cement portfolio, with the launch of JK Wall Putty as JK Cement WallMaxX.

These brands enable it to maintain repetitive demand. The cement sector is highly competitive. Hence, repetitive customers would help it sustain in the long-run.

Research & Development

The cement sector faces a major issue of scattered demand and procurement of raw material. Hence, an enhanced focus on R&D additionally yields long-term benefits. For example, owing to its R&D team efforts, the company manufactured particle level water (PWRT). JK Super Strong Weather Shield Cement has an integral water repellent property at the particle level. These products have strong demand visibility across the country in rural parts. The product was developed & launched through in-house technology. In a few other major steps in R&D activities, the company spent Rs 104 crore to increase efficiency in Nimbahera Unit. It also made efforts in the use of alternative fuel, saving equivalents, which could reduce its costs in the long-run.

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Resilience operating performance in COVID-led slowdown

Despite challenges in revenue growth, the company maintained its operational performance during Q1FY21. The company reported positive operating performance even when its volume declined. The major role in this was from saving in variable cost. The revenue and net profit dropped by 28 per cent and 60 per cent (YoY), respectively on a consolidated basis, reporting an EBITDA margin of 21.2 per cent. The company also saw realisation/tonnes at Rs 5,521 against Rs 5,736 (YoY) for the quarter. Hence its efforts in variable costs could help its sustainability in the current quarter. However, the same trend in key raw material such as limestone, red ochre, and gypsum added to the difficulties.

Financial performance

The company has registered a strong 13 per cent compounded growth rate in the last three fiscal years. While it converted the top-line growth into 33 per cent net profit growth (CAGR) during this period, its ROE for three financial years stood at 18 per cent, showing its long-term sustainability. On the debt front, the total gross debt stood at Rs 3,000 crore (net debt that is including cash of Rs 1,337) as of the Q1FY21 quarter. The company gave guidance that the debt sees a peak value of around Rs 3,500 crore in FY21. Due to the positive operating performance & operational efficiency, the company has maintained its interest coverage ratio at 4x, depicting its stable debt position.

Valuation & Outlook

The stock is currently trading at TTM EPS of Rs 42 and a PE multiple of 37x of its FY20 earnings while the stock is currently trading at just 2x of its annual revenue, price to sales ratio. The economic activity is taking steady steps towards normalcy. The housing construction and infra activities are taking place, which could act as a key trigger for revenue growth. Its operational efficiency has already helped in curing the first quarter; hence, growth in topline could translate into good net profit growth. Thus, with a forecast of positive revenue growth, economic revival, and attractive valuations, we recommend BUY the scrip with a price target of Rs 1,995.

Inc/Exp Statement (Consolidated)

Description	202003	201903	201803	201703	201603
Net Sales	5801.64	5258.68	4853.51	4021.40	3785.52
Total Income	5886.96	5339.06	4981.65	4119.83	3835.33
Total Expenditure	4588.19	4424.22	4066.06	3295.28	3239.36
PBIDT	1298.77	914.83	915.59	824.54	595.96
PAT	483.39	263.63	285.59	171.97	54.83
Dividend %	75.00	100.00	100.00	80.00	40.00
Adj. EPS(Rs)	64.25	34.99	41.41	25.42	8.27

Quarter On Quarter (Consolidated)

Particulars	202006	202003	Q on Q Var %	201906	Y on Y Var %
Net Sales	1004.85	1545.65	-34.99	1393.93	-27.91
Total Expenditure	792.27	1193.56	-33.62	1085.66	-27.02
PBIDT (Excl OI)	212.58	352.09	-39.62	308.27	-31.04
PAT	49.95	160.83	-68.94	132.31	-62.25
PBIDTM% (Excl OI)	21.16	22.78	-7.11	22.12	-4.34
PBIDTM%	23.16	24.55	-5.66	23.36	-0.86
PATM%	4.97	10.4	-52.21	9.49	-47.63
Adj. EPS(Rs)	6.77	20.81	-67.47	17.72	-61.79

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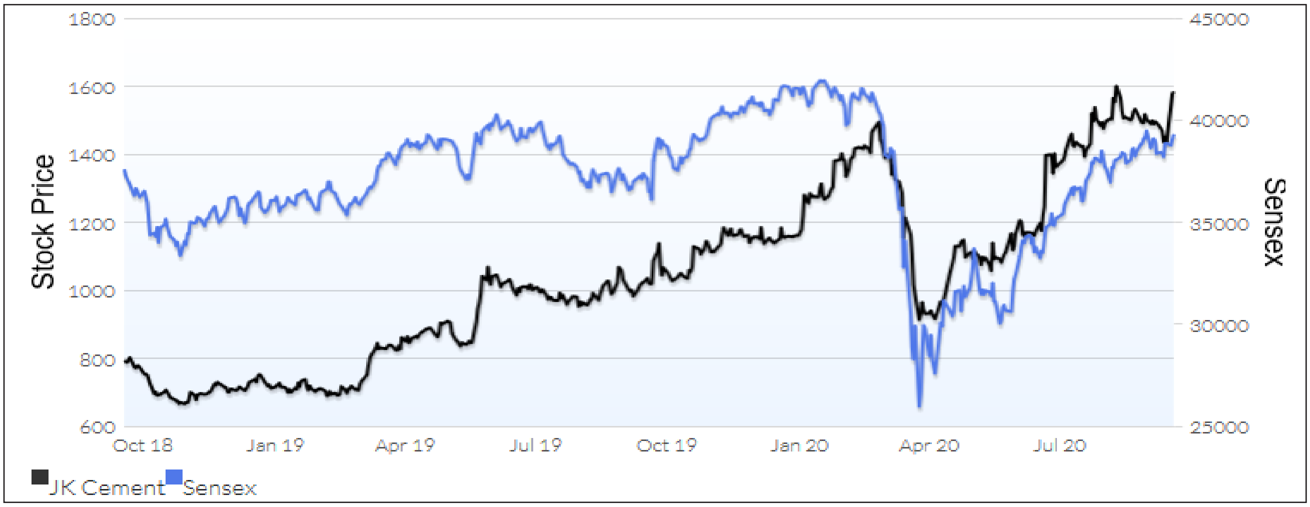
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Stock Price
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Apr 19
Jul 19
Oct 19
Jan 20
Apr 20
Jul 20
JK Cement
Sensex