



THINK DIFFERENT PROFIT MORE

Company Name	: JK CEMENT LTD.
BSE Code	: 532644
Time Duration	: 2 years
CMP	: ₹1009 (as on 06 June., 2019)
Target Price	: ₹1415

Our Upstream Pick for the month of June is J.K. Cements Limited. It is an affiliate of the industrial conglomerate J.K. Organisation. It is a leading cement manufacturer primarily present in North India. It is the third largest white cement manufacturer in the world, with 1.20 MTPA capacity, including 0.6 MTPA white cement plant at Fujairah, U.A.E. Besides, it is the second largest producer of wall putty in India with installed capacity of 0.7 MTPA. Its market reach for grey cement is pan-India covering 15 states with major concentration in Tier-II and Tier-III cities. For white cement and wall putty, it has a distribution network of more than 42,000 dealers and it exports to 35 countries.

Since February-March 2019, cement companies across regions have taken sharp price hikes leading to higher realisations. March being the strongest quarter for cement companies, FY19 ended on a positive note. The input costs have stabilised and with the current price hike, the operational profits are expected to soar with improvement in margins. Also, the normal monsoon expected this year will boost the rural infrastructure development. The recovery in demand for cement is expected from H2FY20 and would continue over the next 2-3 years, led by huge infrastructure and housing initiatives taken by the government. Looking at the current favourable conditions in the cement industry, we consider J.K. Cement as our Upstream Pick.

Extensive capacity expansion plans to drive growth

The company is aiming to double its grey cement production capacity to 18 MnTPA in the next 4-5 years. It has initiated the first phase, a brownfield expansion of 4.2 MnTPA to be on stream by March 2020. The expansion envisages a clinker capacity of 7,500 TPD at Mangrol, with additional grinding capacity of 1 MnTPA each at Nimbahera and Mangrol. It is expected to get commissioned by September 2019. Besides, two split grinding units of 1.5 MnTPA at Aligarh, Uttar Pradesh and 0.7 MnTPA at Balsinor, Gujarat, are planned. It plans to fund the capex of Rs 2,000 crore required for this project through a prudent mix of internal accruals and debt. It is also planning a 3.5 MTPA greenfield project with a capex of Rs 2,500 crore.

Also, it has commissioned an additional installed capacity of 0.20 MnTPA of white cement-based wall putty at the Katni plant in Madhya Pradesh. Post expansion, the installed capacity for wall putty will reach 0.40 MnTPA and total installed capacity will reach 0.90 MnTPA.

The company has obtained environmental clearance and has started work at its split grinding unit at Aligarh. The environmental clearance for the Silvasa unit at Gujarat is expected in the upcoming months and both plants will also come on stream by Q4FY20.

The increased capacity will strengthen its presence in the northern and western markets, which promise attractive growth.

Efforts to reduce logistics costs

The company's Nimbahera and Gotan plants have railway sidings at the plant sites, reducing the transportation cost significantly. It is expanding the clinker-loading facility to cement loading facility at Mangrol to decrease the logistics cost via transport of cement through rail. The new split grinding locations will enable the company to have quicker access to market and also provide significant advantage for logistics. Also, the company is undertaking de-bottlenecking at Nimbahera unit, which will enhance the production capacity from 5000 TPD to 6000 TPD. This process is expected to get completed by FY21.

Easy sourcing of limestone through captive mines

The company operates six limestone quarries in proximity to Nimbahera and Mangrol and two mines in South India to cater to the Muddapur plant. Based on geological surveys, limestone reserves for both grey and white cement are expected to meet the existing and planned limestone requirements for ~30 years. Recently, it was granted mining lease in Madhya Pradesh for two mines with an estimated reserve of ~518 MT – which provides an opportunity for greenfield expansion up to 15 MnTPA. Limestone is the key raw material required in manufacturing of cement and majorly affects the input cost for the company. Through these captive mines, the company manages to control its input costs.

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White cement generates higher realisations

The revenue mix of the company consists of white cement (34%) and grey cement (66%). As many players are engaged in manufacturing of grey cement in India, J K Cement is undergoing extensive expansion to grow at a faster pace. The realisations from white cement and white cement-based products are higher than that of grey cement and prices are less volatile. It is strengthening wall putty volumes through expansions to cater to the growing demand for wall putty in India. It is already the second largest producer of wall putty in India.

Debt level

The company's debt as on March 31, 2019 stood at Rs 2,116 crores. The debt-equity ratio for FY19 stood at 0.73x. Considering the capex to be incurred for the extensive capacity expansions, it expects the debt levels to hover around Rs 3,200 crore in FY20. However, the rising debt would be utilised to generate additional revenues contributing to its growth story.

Cement industry prospects

Growth in the cement sector was visible from H2FY19, driven by a slew of infrastructure projects like Bharatmala, Smart Cities, PM Awas Yojana and Housing for All. The Union Budget for 2019-20 to be presented by the recent government looks promising with increased allocations to infrastructure spending. Cement consumption is derived from demand for housing and real estate projects, infrastructure and commercial and industrial development. The construction of roads, metro and irrigation projects in Maharashtra, Rajasthan, Madhya Pradesh and Uttar Pradesh would drive the growth by 6.8% in North and Central India. As J.K. Cement has major presence in North India, it will benefit from these infrastructure projects. India's cement production capacity is expected to reach 550 million tonnes by 2025.

Financial Performance

JK Cement's revenue in Q4FY19 rose by 13.4% YoY to Rs. 1470 crore from Rs. 1307.44 crore for the same quarter of the last fiscal. The growth was on account of higher production of grey cement and white cement, which rose by 5.7% and 18.9% YoY in volumes, respectively. EBITDA increased by 53.6% YoY to Rs 279 crore with corresponding margin at 53.6% YoY, expanding by 510 bps YoY. EBITDA growth was aided by higher realisation and lower freight costs. The strong operational performance resulted in higher net profit which stood at Rs 149.97 crore for the quarter with a 55% YoY. The gross debt as of Q4FY19 stood at Rs. 2220 crore and the company expects peak debt of Rs 3200 crore by FY20-end, with the sanctioning of Rs 13 crore worth of term loan and factoring in Rs 200 crore as repayment.

For FY19, the company registered sales growth of 4.25% over the previous fiscal. The consolidated revenue for FY19 stood at Rs. 5183.32 crore as against Rs. 4971.62 crore of FY18. The EBITDA for the year stood at Rs 759.01 crore, with corresponding margin at 14.64%. The net profit of FY19 declined by 7.6% mostly due to deferred tax adjustments during the year.

Historically, the company has registered CAGR sales growth of 11.04% over the last three years, while it achieved CAGR net profit growth of 31.77% during same period. At the operating level, since FY14, the company has consistently maintained margins in the range of 13 to 17% till FY19.

Valuation

The company is trading at TTM P/E of 24.6x with TTM EPS of Rs 42.05. In FY19, it delivered ROE and ROCE of 11.2% and 14.3%, respectively. It is trading at attractive valuation as compared to industry P/E of 39.4x. The uptick in infrastructure and housing sectors will trigger demand for cement, leading to company's higher realisations and improved margins. We see potential upside of 40%, with a target price of Rs 1415 over a period of two years.

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201903	201812	Q on Q Var%	201803	Y on Y Var%
Net Sales	1470.71	1258.02	16.91	1307.44	12.49
Total Expenditure	1212.45	1062.66	14.10	1134.03	6.92
PBIDT (Excl OI)	279.47	210.53	32.75	181.92	53.62
PAT	149.97	60.91	146.24	96.45	55.49
PBIDTM% (Excl OI)	18.73	16.54	13.24	13.82	35.53
PBIDTM%	21.07	17.46	20.68	17.88	17.84
PATM%	10.05	4.78	110.25	7.33	37.11
Adj. EPS(Rs)	19.41	7.88	146.32	13.79	40.75

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	4932.37	4591.21	3755.54	3555.41	3357.17
Total Income	5061.20	4718.86	3854.87	3612.51	3408.52
Total Expenditure	4171.18	3830.55	3062.12	3035.52	2893.35
PBIDT	890.03	888.31	792.75	577.00	515.17
PAT	324.90	341.87	210.78	103.32	156.92
Dividend %	100.00	100.00	80.00	40.00	40.00
Adj. EPS(Rs)	42.05	48.89	30.14	14.78	22.44



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