

## JK Cement (JKCEME)

₹ 1033

### Grey cement outperforms white cement...

- JK Cement's Q1FY18 results were broadly in line with our estimates. Revenues increased 16.4% YoY to ₹ 1,041.5 crore (above I-direct estimate of ₹ 983.0 crore) mainly led by 23.5% YoY rise in grey cement revenues to ₹ 745.9 crore (driven by higher volumes: up 12.7% YoY and increase in realisation: up 9.6% YoY)
- EBITDA margin declined 55 bps YoY to 19.0% (vs. I-direct estimate of 19.0%) mainly led by higher power & fuel expenses (up 30.0% YoY led by higher pet coke prices) and rise in freight cost (up 27.7% YoY led by higher diesel prices and freight rates). Blended EBITDA/tonne came in at ₹ 947/tonne (vs. I-direct estimate: ₹ 923/tonne). Grey cement EBITDA/t increased 15.8% YoY to ₹ 699/tonne and white cement EBITDA/t declined 7.9% YoY to ₹ 2,754/tonne

#### Government focus on infrastructure to drive cement demand

The company sells majority (~75%) of its cement production in the north, which has witnessed robust volume growth. This was led by an increase in infrastructure spend by the government (especially in road sector) thereby helping it maintain healthy utilisation. Going forward, we expect JK Cement to register higher utilisation level led by the government's thrust on infrastructure development and stabilisation of expanded capacity (3.0 MT) in North India. Considering this, we expect volumes to grow at a CAGR of 9.3% in FY17-19E.

#### Improving demand from Maharashtra to allay concerns in south

Total 30% of the company's current capacity is in Karnataka (i.e. 3.0 MT), in the southern region. The company's major markets in the south are Maharashtra (with more than 50% share) while balance quantities are sold in Karnataka and Kerala. Going forward, we expect a better monsoon, pick-up in construction activities and higher infra spend in Maharashtra to drive volumes & realisation over FY17-19E. In addition, stabilisation of the south operation will enable the company to maintain its market share. Further, demand in Karnataka and Kerala is expected to gain traction leading to better growth over FY17-19E.

#### Cost efficiency to help in margin expansion

The company has utilised the new capacity at optimum levels while the older three kilns remained partly closed. This has helped the company reduce power consumption by ~10 units. Further, railway siding at these newer capacities coupled with grid connection & refinancing of loans at lower interest cost (from Libor plus 5.6% to Libor plus 3.25%) in UAE would help the company improve margins.

#### Improving demand in south, west, capex in wall putty to boost revenues

JK Cement reported volume growth of 10.7% YoY in the current quarter mainly led by improving demand in the south and west. Going forward, we expect cement demand to further improve led by government's focus on infra projects, healthy monsoons and a revival in the rural economy. Consequently we expect revenues to increase at a CAGR of 12.7% over FY17-19E. In addition, freight cost savings, rationalisation of power cost and grid connection in UAE would help the company improve margins. Further adjusting for white cement valuation, the company's grey cement is trading at an EV/tonne of US\$80/tonne (vs. replacement cost US\$150/tonne). Hence, we believe there is significant upside potential. We maintain our **BUY** rating on the stock with a target price of ₹ 1265/share (i.e. at 12x FY19E EV/EBITDA, \$137/tonne on FY19E capacity of 12.9 MT).

| Rating matrix    |             |
|------------------|-------------|
| Rating           | Buy         |
| Target           | ₹ 1265      |
| Target Period    | 9-12 months |
| Potential Upside | 22%         |

| What's changed? |                               |
|-----------------|-------------------------------|
| Target          | Unchanged                     |
| EPS FY18E       | Changed from ₹ 47.9 to ₹ 48.1 |
| EPS FY19E       | Changed from ₹ 55.2 to ₹ 56.0 |
| Rating          | Unchanged                     |

| Quarterly performance |         |        |         |         |         |
|-----------------------|---------|--------|---------|---------|---------|
|                       | Q1FY18  | Q1FY17 | YoY (%) | Q4FY17  | QoQ (%) |
| Revenue               | 1,041.5 | 895.1  | 16.4    | 1,029.7 | 1.1     |
| EBITDA                | 197.7   | 174.9  | 13.1    | 192.3   | 2.8     |
| EBITDA (%)            | 19.0    | 19.5   | -55 bps | 18.7    | 31 bps  |
| PAT                   | 79.4    | 61.1   | 29.9    | 90.5    | (12.3)  |

| Key financials |         |         |         |         |
|----------------|---------|---------|---------|---------|
| ₹ Crore        | FY16    | FY17    | FY18E   | FY19E   |
| Net Sales      | 3,521.2 | 3,703.6 | 4,268.6 | 4,708.0 |
| EBITDA         | 485.7   | 641.4   | 770.7   | 869.6   |
| Net Profit     | 103.3   | 259.6   | 336.3   | 391.8   |
| EPS (₹)        | 14.8    | 37.1    | 48.1    | 56.0    |

| Valuation summary |      |      |       |       |
|-------------------|------|------|-------|-------|
|                   | FY16 | FY17 | FY18E | FY19E |
| P/E               | 69.9 | 27.8 | 21.5  | 18.4  |
| Target P/E        | 85.6 | 34.1 | 26.3  | 22.6  |
| EV/EBITDA         | 19.4 | 14.7 | 12.0  | 10.4  |
| EV/Tonne(\$)      | 135  | 131  | 119   | 117   |
| P/BV              | 4.3  | 3.8  | 3.3   | 2.9   |
| RoNW (%)          | 6.1  | 13.5 | 15.4  | 15.6  |
| RoCE (%)          | 9.0  | 12.6 | 14.4  | 16.1  |

| Stock data           |              |
|----------------------|--------------|
| Particular           | Amount       |
| Mcap                 | ₹ 7224 Crore |
| Debt (FY17)          | ₹ 2661 Crore |
| Cash & Invest (FY17) | ₹ 484 Crore  |
| EV                   | ₹ 9401 Crore |
| 52 week H/L          | ₹ 1194 / 630 |
| Equity cap           | ₹ 69.9 crore |
| Face value           | ₹ 10         |

| Price performance |       |       |      |      |
|-------------------|-------|-------|------|------|
|                   | 1M    | 3M    | 6M   | 12M  |
| Heidelberg Cem    | -13.4 | -17.2 | -5.8 | -7.2 |
| India Cement      | -14.4 | -17.1 | 8.1  | 44.2 |
| JK Cement         | 6.1   | -2.1  | 23.5 | 36.0 |
| JK Lakshmi Cem    | -10.0 | -16.9 | 8.5  | -4.6 |

| Research Analyst |                                  |
|------------------|----------------------------------|
| Rashesh Shah     | rashes.shah@icicisecurities.com  |
| Devang Bhatt     | devang.bhatt@icicisecurities.com |

### Variance analysis

|                        | Q1FY18 | Q1FY18E | Q1FY17 | YoY (%) | Q4FY17  | QoQ (%) | Comments   |
|------------------------|--------|---------|--------|---------|---------|---------|--|
| Total Operating Income | 1041.5 | 983.0   | 895.1  | 16.4    | 1,029.7 | 1.1     | The increase in revenues was mainly led by 10.7% YoY increase in volumes and 5.1% YoY increase in realisation  |
| Other Income           | 18.6   | 28.4    | 19.4   | -3.7    | 41.0    | -54.5   |  |
| Raw Material Expenses  | 172.8  | 181.9   | 177.2  | -2.5    | 187.0   | -7.6    |  |
| Employee Expenses      | 77.5   | 73.2    | 65.8   | 17.7    | 72.8    | 6.5     |  |
| Stock Adjustments      | 5.2    | 0.0     | -7.3   | NA      | 4.5     | NA      |  |
| Power & Fuel           | 180.3  | 165.1   | 138.7  | 30.0    | 180.0   | 0.2     | Increase in pet coke prices led to rise in power & fuel cost   |
| Freight cost           | 217.2  | 186.2   | 170.0  | 27.7    | 198.2   | 9.6     | Higher diesel prices and increase in freight rates led to higher freight cost  |
| Others                 | 190.7  | 190.0   | 175.7  | 8.6     | 195.0   | -2.2    |  |
| EBITDA                 | 197.7  | 186.6   | 174.9  | 13.1    | 192.3   | 2.8     |  |
| EBITDA Margin (%)      | 19.0   | 19.0    | 19.5   | -55 bps | 18.7    | 31 bps  | The decline in margins was mainly due to increase in power and freight cost  |
| Interest               | 68.0   | 62.8    | 67.5   | 0.8     | 62.8    | 8.3     |  |
| Depreciation           | 45.0   | 45.7    | 42.5   | 5.9     | 45.2    | -0.4    |  |
| PBT                    | 103.3  | 106.5   | 73.1   | LP      | 116.3   | -11.2   |  |
| Total Tax              | 24.0   | 29.8    | 12.1   | NA      | 25.8    | -7.1    |  |
| PAT                    | 79.4   | 76.7    | 61.1   | 29.9    | 90.5    | -12.3   | Reported PAT increased 29.9% YoY in Q1FY18. Adjusting for exceptional expenses (of ₹ 11 crore in Q1FY17), adjusted PAT increased 10.3% YoY to ₹ 79.4 crore |

### Key Metrics

| Volume (MT)          | 2.09  | 2.02  | 1.89  | 10.7 | 2.15  | -2.9 | The increase in volumes was mainly due to higher growth in the south and west |
|----------------------|-------|-------|-------|------|-------|------|---|
| Realisation (₹)      | 4,988 | 4,863 | 4,747 | 5.1  | 4,787 | 4.2  | Heathy pricing in the company's key markets led to rise in realisation        |
| EBITDA per Tonne (₹) | 947   | 923   | 927   | 2.1  | 894   | 5.9  | Improvement in grey cement EBITDA margins led to higher EBITDA/t              |

Source: Company, ICICIdirect.com Research

### Change in estimates

| (₹ Crore)         | FY18E   |         |          | FY19E   |            |          | Comments  |
|-------------------|---------|---------|----------|---------|------------|----------|---|
|                   | Old     | New     | % Change | Old     | Introduced | % Change |   |
| Revenue           | 4,263.1 | 4,268.6 | 0.1      | 4,657.5 | 4,708.0    | 1.1      | We expect revenues to increase at a CAGR of 12.7% over FY17-19E |
| EBITDA            | 750.8   | 770.7   | 2.7      | 837.5   | 869.6      | 3.8      |   |
| EBITDA Margin (%) | 17.6    | 18.1    | 44 bps   | 18.0    | 18.5       | 49 bps   | EBITDA margins are expected to improve 115 bps in FY17-19E      |
| PAT               | 335.1   | 336.3   | 0.4      | 385.9   | 391.8      | 1.5      |   |
| EPS (₹)           | 47.9    | 48.1    | 0.4      | 55.2    | 56.0       | 1.5      |   |

Source: Company, ICICIdirect.com Research

### Assumptions

|                      | Current |       |       |       |       |       | Earlier |       | Comments  |
|----------------------|---------|-------|-------|-------|-------|-------|---------|-------|---|
|                      | FY14    | FY15  | FY16  | FY17  | FY18E | FY19E | FY18E   | FY19E |   |
| Volume (MT)          | 6.2     | 7.2   | 7.8   | 7.9   | 8.7   | 9.4   | 8.8     | 9.40  | Volumes to improve led by capacity expansion and improving demand<br>We expect realisation to increase over the next two years led by price |
| Realisation (₹)      | 4,517   | 4,659 | 4,502 | 4,721 | 4,893 | 4,996 | 4,850   | 4,933 | improvement in north and west   |
| EBITDA per Tonne (₹) | 585     | 620   | 619   | 839   | 884   | 923   | 854     | 887   | We expect EBITDA/tonne of ₹ 923 in FY19E  |

Source: Company, ICICIdirect.com Research

## Company Analysis

### Capacity stabilisation, revival in demand to drive growth

The company has expanded its cement capacity by 3.0 MTPA through two split grinding units (1.5 MTPA each), one at Mangrol (Rajasthan) and another at Jhajjar (Haryana). The total project cost is pegged at ₹ 1,730 crore, which includes a 25 MW coal-based thermal power plant, a 9 MW waste heat recovery-based power plant and also a railway siding at both units. Apart from this, the company has installed a grey cum white cement plant with an installed capacity of 0.6 MTPA (white cement) and 1.02 MTPA (grey cement) in Fujairah (UAE). The company has also commissioned 0.2 MT wall putty plant at Katni village Madhya Pradesh and plans to further expand it by 0.2 MT. With these expansions coupled with demand improvement, we expect revenue CAGR of over 12.7% during FY17-19E.

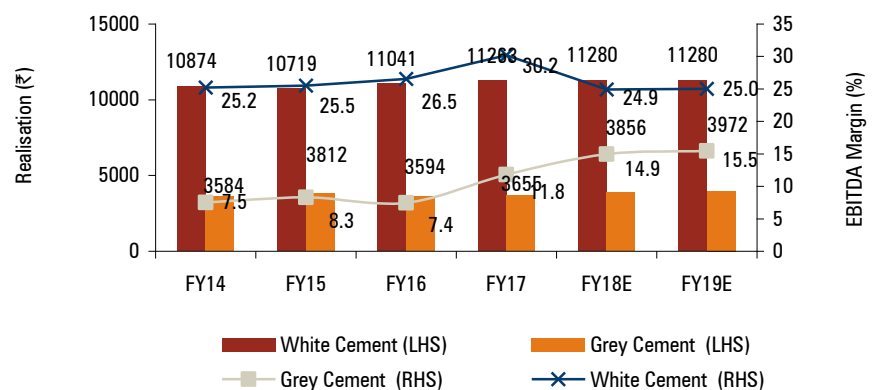
### Demand environment in south to improve

Total 30% of the company's current capacity is in Karnataka (i.e. 3.0 MT), in the southern region. The company's major markets in South are Maharashtra (with more than 50% share) while balance quantities are sold in Karnataka and Kerala. Going forward, we expect a better monsoon, pick-up in construction activities and higher infra spend in Maharashtra to drive volumes & realisation over FY17-19E.

### White cement a cash cow

JK Cement has 0.6 MTPA of white cement capacity. With only two major players manufacturing white cement, the other being UltraTech Cement, coupled with relatively stable white cement demand, white cement commands around three times the realisation fetched by grey cement.

**Exhibit 1: White cement & grey cement comparative analysis of realisation, margin trends**



Source: Company, ICICIdirect.com Research

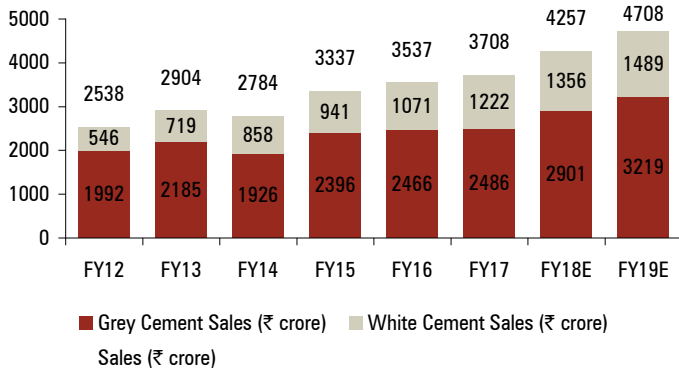
### Cost rationalisation to boost margins

The new expanded capacity of 3 MT has stabilised and the company is expected to reap its benefits in the coming quarters. JK Cement is utilising the new capacity at 100% while the older three kilns are partly closed/unutilised. This has helped the company reduce power consumption by 10 units. Further, the company commissioned railway siding at these newer capacities, which is expected to reduce freight cost. This coupled with grid connection at the UAE plant will help the company improve profitability by ~₹ 5 crore per quarter. Further refinancing of loans (~ ₹ 650 crore) in UAE operation from Libor plus 5.6% to Libor plus 3.25% will help reduce interest cost, thereby boosting margins.

### Expect revenue CAGR of 12.7% during FY17-19E

Revenues have grown at 7.9% CAGR in FY12-17 while volume has grown at a CAGR of 6.4%. Going forward, with capacity expansion of 3.3 MT and 0.2 MT of wall putty we expect expansion led revenue CAGR of 12.7% during FY17-19E. We expect volume CAGR of 9.3% in FY17-19E. We expect the realisation to grow annually at 3.1%.

**Exhibit 2: Expect expansion led revenue CAGR of 12.7% during FY17-19E**



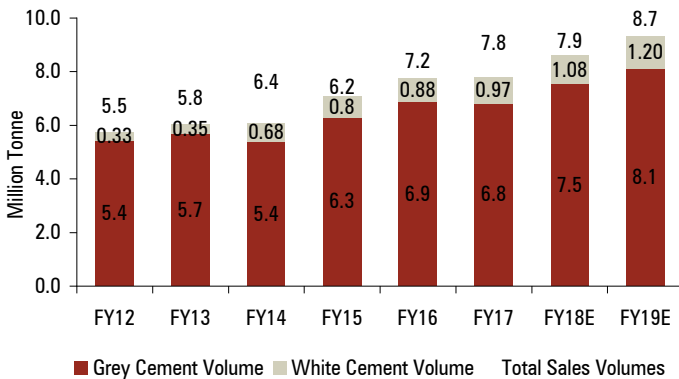
Source: Company, ICICIdirect.com Research

**Exhibit 3: Capacity addition plans**

|                                     | State     | Region | MT                  |
|-------------------------------------|-----------|--------|---------------------|
| <b>Grey Cement</b>                  |           |        |                     |
| Nimbahera                           | Rajasthan | North  | 3.6                 |
| Mangrol                             | Rajasthan | North  | 0.8                 |
| Gotan                               | Rajasthan | North  | 0.5                 |
| Muddapur                            | Karnataka | South  | 3.0                 |
| <b>Total</b>                        |           |        | <b>7.8</b>          |
| <b>White Cement and Wall Putty</b>  |           |        |                     |
| Gotan                               | Rajasthan | North  | 0.6                 |
| Wall Putty                          |           |        | 0.9                 |
| <b>Total</b>                        |           |        | <b>1.5</b>          |
| <b>Grey Cement Expansion plan</b>   |           |        |                     |
| Mangrol                             | Rajasthan | North  | 1.5                 |
| Jhajjar                             | Haryana   | North  | 1.5                 |
| <b>Total (after expansion)</b>      |           |        | <b>10.8</b>         |
| <b>International Expansion plan</b> |           |        |                     |
| Habhab, Tawian Fujariah             | Country   | UAE    | 0.6 white or 1 grey |

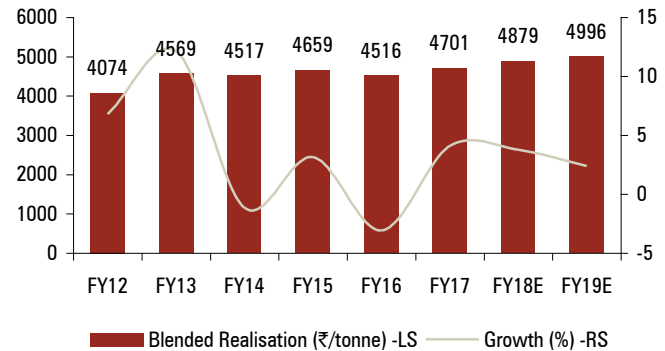
Source: Company, ICICIdirect.com Research

**Exhibit 4: Volume to grow at 9.3% CAGR during FY17-19E**



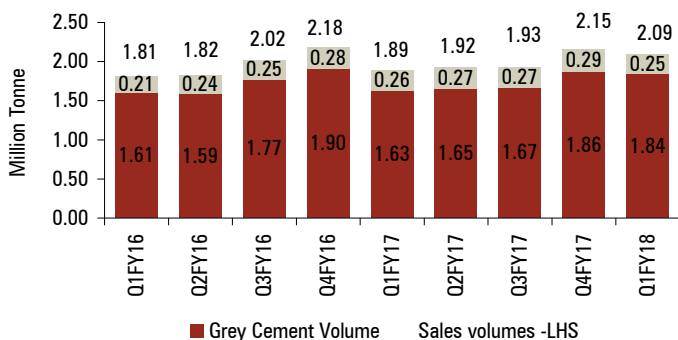
Source: Company, ICICIdirect.com Research

**Exhibit 5: Realisation to grow at 3.1% CAGR during FY17-19E**



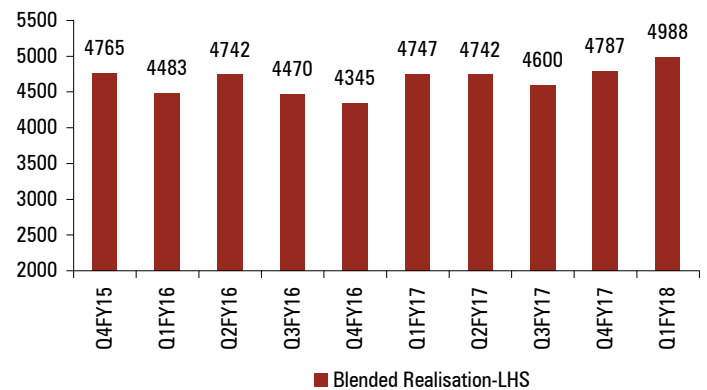
Source: Company, ICICIdirect.com Research

**Exhibit 6: Volume increases 10.7% YoY in Q1FY18**



Source: Company, ICICIdirect.com Research

**Exhibit 7: Realisations increases 5.1% YoY in Q1FY18**

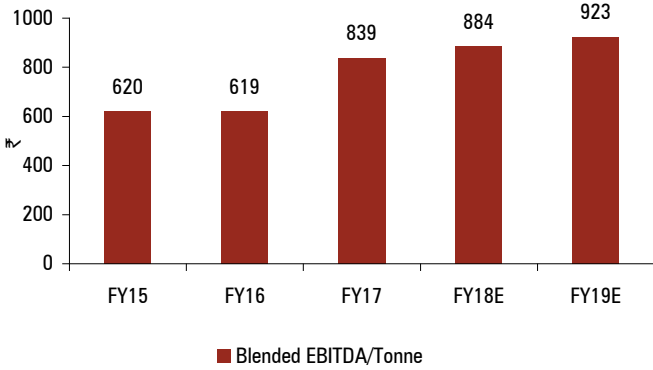


Source: Company, ICICIdirect.com Research

**Margins to improve, going forward**

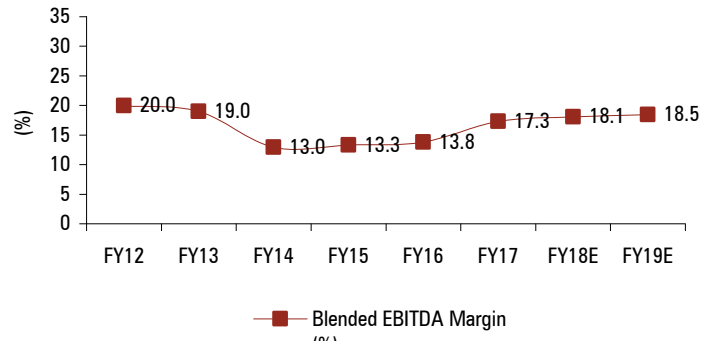
With expanded capacity now in place, the company should be able to benefit from economies of scale. White cement commands better margins than grey cement. Hence, we expect blended margins to improve, going forward, despite concerns over the high cost environment. Focus on two regions along with enough captive power also bode well for the company towards improving margins.

**Exhibit 8: Expect EBITDA/tonne of ₹923 in FY19E**



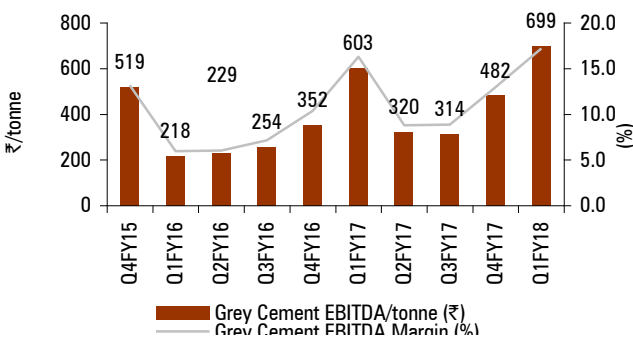
Source: Company, ICICIdirect.com Research

**Exhibit 9: Higher contribution of white cement to aid in margin expansion**



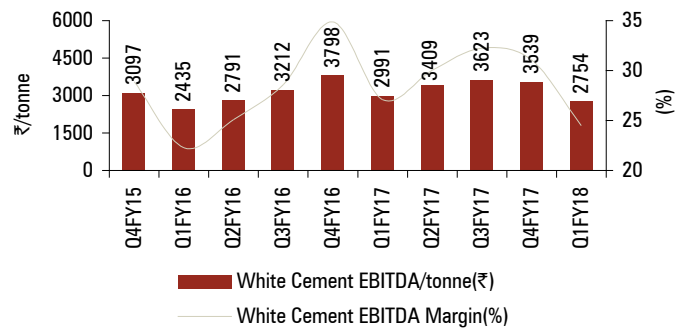
Source: Company, ICICIdirect.com Research

**Exhibit 10: Q1FY18 grey cement EBITDA/tonne at ₹699**



Source: Company, ICICIdirect.com Research

**Exhibit 11: EBITDA/T of white cement**

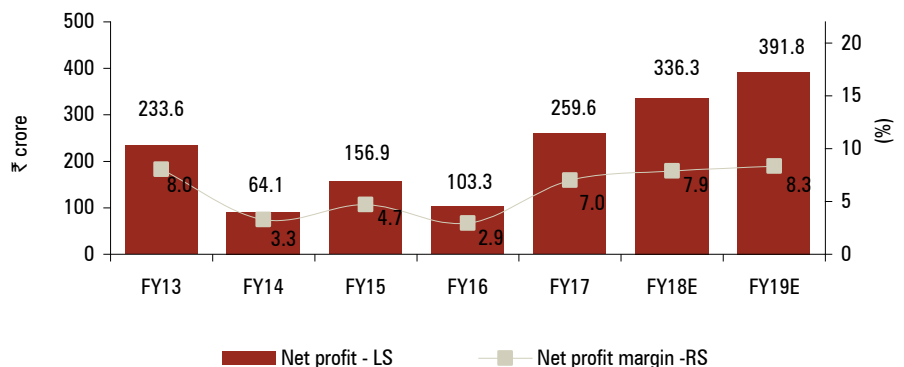


Source: Company, ICICIdirect.com Research

**Expect net margin to improve from 7.0% in FY17 to 8.3% in FY19E**

After witnessing a sharp decline in profit in FY16, we expect net margins to improve to 8.3% in FY19E from 2.9% in FY16. Overall, we expect net profit to grow from ₹ 259.6 crore in FY17 to ₹ 391.8 crore in FY19E.

**Exhibit 12: Profitability trend**



Source: Company, ICICIdirect.com Research

## Outlook and valuation

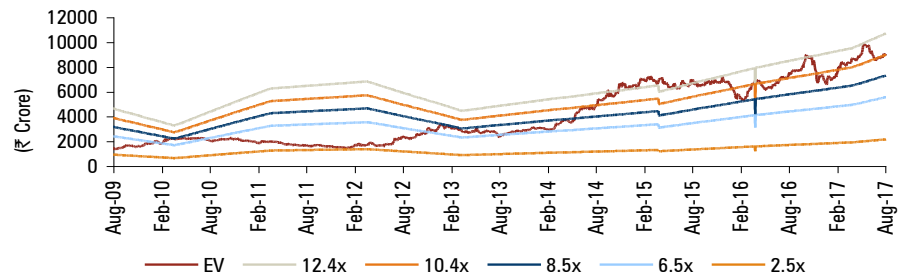
JK Cement reported volume growth of 10.7% YoY in the current quarter mainly led by improving demand in the south and west. Going forward, we expect cement demand to further improve led by the government's focus on infra projects, healthy monsoons and a revival in the rural economy. Consequently, we expect revenues to increase at a CAGR of 12.7% in FY17-19E. In addition, freight cost savings, rationalisation of power cost and grid connection in UAE would help the company to improve margins. Further adjusting for white cement valuation, the company's grey cement is trading at an EV/tonne of US\$80/tonne (vs. replacement cost of US\$150/tonne). Hence, we believe there is significant upside potential. We maintain our **BUY** rating on the stock with a target price of ₹ 1265/share (i.e. at 12x FY19E EV/EBITDA, \$137/tonne on FY19E capacity of 12.9 MT).

**Exhibit 13: Key assumptions**

| ₹ per tonne         | FY14 | FY15 | FY16 | FY17 | FY18E | FY19E |
|---------------------|------|------|------|------|-------|-------|
| Sales Volume (mtpa) | 6.2  | 7.2  | 7.8  | 7.9  | 8.7   | 9.4   |
| Net Realisation     | 4517 | 4659 | 4502 | 4721 | 4893  | 4996  |
| Total Expenditure   | 3932 | 4039 | 3882 | 3882 | 4010  | 4073  |
| EBITDA per Tonne    | 585  | 620  | 619  | 839  | 884   | 923   |

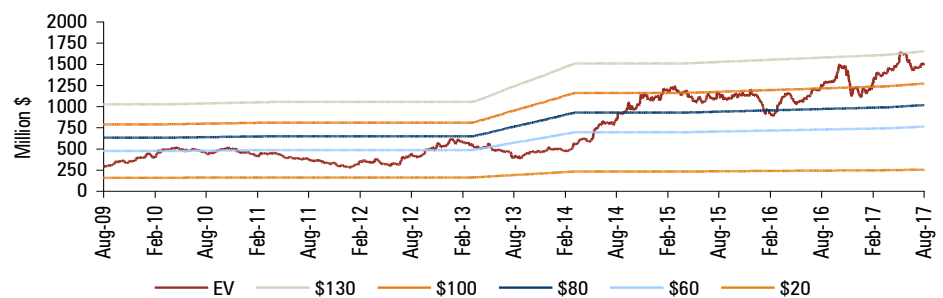
Source: ICICIdirect.com Research

**Exhibit 14: One year forward EV/EBITDA**



Source: Company, ICICIdirect.com Research

**Exhibit 15: One year forward EV/tonne**



Source: Company, ICICIdirect.com Research

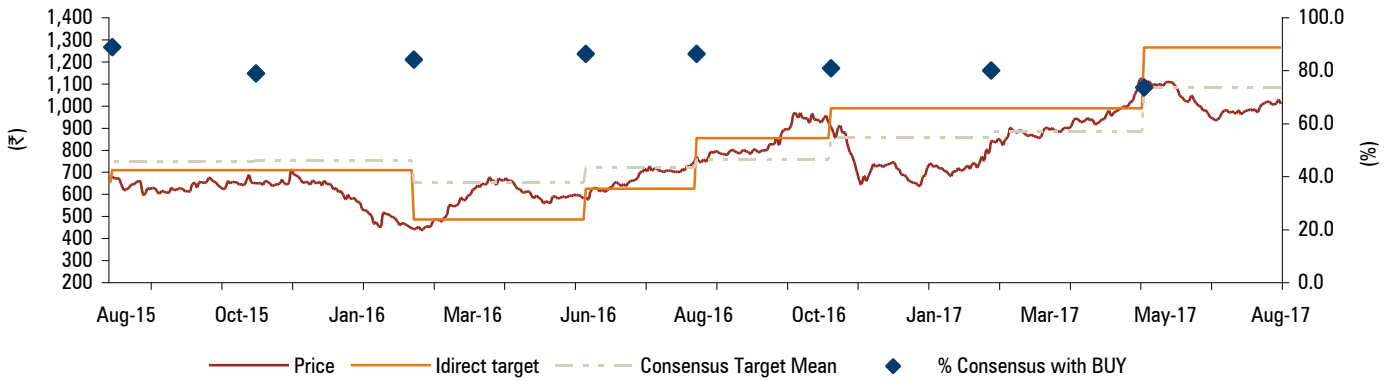
**Exhibit 16: Valuations**

|       | Sales<br>(₹ cr) | Growth<br>(%) | EPS<br>(₹) | Growth<br>(%) | PE<br>(x) | EV/EBITDA<br>(x) | EV/Tonne<br>(\$) | RoNW<br>(%) | RoCE<br>(%) |
|-------|-----------------|---------------|------------|---------------|-----------|------------------|------------------|-------------|-------------|
| FY16  | 3521.2          | 5.5           | 14.8       | -34.1         | 69.9      | 19.4             | 135.5            | 6.1         | 9.0         |
| FY17  | 3703.6          | 5.2           | 37.1       | 151.2         | 27.8      | 14.7             | 130.6            | 13.5        | 12.6        |
| FY18E | 4268.6          | 15.3          | 48.1       | 29.6          | 21.5      | 12.0             | 119.4            | 15.4        | 14.4        |
| FY19E | 4708.0          | 10.3          | 56.0       | 16.5          | 18.4      | 10.4             | 116.5            | 15.6        | 16.1        |

Source: Company, ICICIdirect.com Research



### Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICIdirect.com Research

### Key events

| Date   | Event  |
|--------|--|
| Mar-12 | The company expands its white putty production capacity from 1 lakh tonne to 3 lakh tonne. White cement constitutes ~20% of total revenue for the company with high EBITDA margin of more than 25% compared to grey cement EBITDA margin of 15% to 20% |
| Mar-12 | The government proposes to raise excise duty on the building material from 10% to 12% against expectations of a cut in the same  |
| Jun-12 | The CCI imposes a fine of 50% of annual profit for the fiscal year ending 2010 and 2011, a total of ₹ 6000 crore on 11 cement companies including JK Cement (₹ 128.5 crore) for alleged cartelisation  |
| Oct-13 | Revenue contribution from white cement reached 33% in Q2FY14. During the quarter, grey cement reported negative EBITDA while white cement reported ~22% EBITDA margin, thus proving to be a face saviour for the company                               |
| Mar-14 | Expanding its total grey cement capacity from current 7.5 MTPA to 10.5 MTPA and further capacity of 0.6 MTPA of white cement in UAE. The production from expanded capacity is expected to start from Q2FY15  |
| Jun-14 | Commences grey cement production at Jharli, Haryana having grey cement grinding capacity of 1.5 MT   |
| Sep-14 | Commissions 1.5 MT grey cement plant at Mangrol, Rajasthan   |
| Sep-15 | Commissions railway siding at mangrol and Haryana  |
| Apr-16 | Stoppage of clinker production at Muddapur due to cracks in silo   |
| May-16 | Commences operation of wall putty plant in Madhya Pradesh having total capacity of 0.2 MT  |
| Oct-16 | Company rebuilds clinker silo roof in Karnataka that caved in earlier and makes it operational   |

Source: Company, ICICIdirect.com Research

### Top 10 Shareholders

| Rank | Name  | Latest Filing Date | % O/S | Position (m) | Change (m) |
|------|---|--------------------|-------|--------------|------------|
| 1    | Yadu International, Ltd.                              | 31-Mar-17          | 42.8  | 29.9         | 0.0        |
| 2    | Singhania (Yadupati)                                  | 31-Mar-17          | 17.6  | 12.3         | 0.0        |
| 3    | Franklin Templeton Asset Management (India) Pvt. Ltd. | 31-Mar-17          | 6.1   | 4.2          | -0.1       |
| 4    | Fidelity Management & Research Company                | 31-Mar-17          | 4.6   | 3.2          | -0.2       |
| 5    | HDFC Standard Life Insurance Company Limited          | 31-Mar-17          | 3.8   | 2.7          | 0.1        |
| 6    | Templeton Asset Management Ltd.                       | 30-Jun-17          | 3.2   | 2.2          | 0.0        |
| 7    | Singhania (Kavita Y)                                  | 31-Mar-17          | 1.9   | 1.3          | 0.0        |
| 8    | Mirae Asset Global Investments (India) Pvt. Ltd.      | 30-Jun-17          | 1.4   | 1.0          | 0.0        |
| 9    | DSP BlackRock Investment Managers Pvt. Ltd.           | 31-May-17          | 1.4   | 1.0          | -0.1       |
| 10   | Singhania (Sushila Devi)                              | 31-Mar-17          | 1.3   | 0.9          | 0.0        |

### Shareholding Pattern

| (in %)   | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 |
|----------|--------|--------|--------|--------|--------|
| Promoter | 67.02  | 67.02  | 67.02  | 64.16  | 64.16  |
| FII      | 8.11   | 8.02   | 10.12  | 11.10  | 11.25  |
| DII      | 16.95  | 16.95  | 15.25  | 16.82  | 13.28  |
| Others   | 7.92   | 8.01   | 7.61   | 7.92   | 11.31  |

Source: Reuters, ICICIdirect.com Research

### Recent Activity

| Investor name                                | Buys  |        | Investor name   | Sells |        |
|--|-------|--------|---|-------|--------|
|  | Value | Shares |   | Value | Shares |
| HDFC Standard Life Insurance Company Limited | 0.98  | 0.07   | Fidelity Management & Research Company                | -2.76 | -0.19  |
| Kotak Mahindra Asset Management Company Ltd. | 0.32  | 0.02   | DSP BlackRock Investment Managers Pvt. Ltd.           | -2.00 | -0.12  |
| Nuveen LLC                                   | 0.10  | 0.01   | Franklin Templeton Asset Management (India) Pvt. Ltd. | -1.62 | -0.11  |
| Edelweiss Asset Management Ltd.              | 0.09  | 0.01   | Sundaram Asset Management Company Limited             | -0.49 | -0.03  |
| William Blair & Company, L.L.C.              | 0.08  | 0.01   | General Insurance Corporation of India                | -0.29 | -0.02  |

Source: Reuters, ICICIdirect.com Research

## Financial summary

| Profit and loss statement |         | ₹ Crore |         |         |  |
|---------------------------|---------|---------|---------|---------|--|
| (Year-end March)          | FY16    | FY17    | FY18E   | FY19E   |  |
| Total operating Income    | 3,521.2 | 3,703.6 | 4,268.6 | 4,708.0 |  |
| Growth (%)                | 5.5     | 5.2     | 15.3    | 10.3    |  |
| Raw material cost         | 675.6   | 693.2   | 732.1   | 829.3   |  |
| Employee Expenses         | 234.9   | 275.5   | 323.8   | 344.0   |  |
| Power, Oil & Fuel         | 743.5   | 625.3   | 753.4   | 808.6   |  |
| Freight cost              | 752.5   | 728.3   | 899.2   | 966.0   |  |
| Other Expenses            | 629.0   | 739.9   | 789.3   | 890.6   |  |
| Total Operating Exp.      | 3,035.5 | 3,062.1 | 3,497.8 | 3,838.4 |  |
| EBITDA                    | 485.7   | 641.4   | 770.7   | 869.6   |  |
| Growth (%)                | 9.4     | 32.1    | 20.2    | 12.8    |  |
| Depreciation              | 164.1   | 176.1   | 187.7   | 198.7   |  |
| Interest                  | 270.7   | 265.6   | 272.2   | 251.0   |  |
| Other Income              | 91.3    | 144.1   | 127.0   | 139.7   |  |
| Exceptional items         | 0.0     | 18.7    | 0.0     | 0.0     |  |
| PBT                       | 142.1   | 325.0   | 437.8   | 559.7   |  |
| Total Tax                 | 38.8    | 64.9    | 101.5   | 167.9   |  |
| PAT                       | 103.3   | 259.6   | 336.3   | 391.8   |  |
| Growth (%)                | -34.1   | 151.2   | 29.6    | 16.5    |  |
| Adjusted EPS (₹)          | 14.8    | 37.1    | 48.1    | 56.0    |  |

Source: Company, ICICIdirect.com Research

| Cash flow statement            |        | ₹ Crore |        |        |  |
|--------------------------------|--------|---------|--------|--------|--|
| (Year-end March)               | FY16   | FY17    | FY18E  | FY19E  |  |
| Profit after Tax               | 103.3  | 259.6   | 336.3  | 391.8  |  |
| Add: Depreciation              | 164.1  | 176.1   | 187.7  | 198.7  |  |
| (Inc)/dec in Current Assets    | 150.3  | -150.7  | -132.6 | -114.3 |  |
| Inc/(dec) in CL and Provisions | 80.5   | 23.4    | 110.4  | 113.0  |  |
| CF from operating activities   | 498.3  | 308.4   | 501.8  | 589.1  |  |
| (Inc)/dec in Investments       | -63.4  | -1.9    | -1.0   | -1.0   |  |
| (Inc)/dec in Fixed Assets      | -310.0 | -285.9  | -300.0 | -300.0 |  |
| Others                         | -202.9 | 35.4    | 0.0    | 0.0    |  |
| CF from investing activities   | -576.2 | -252.4  | -301.0 | -301.0 |  |
| Issue/(Buy back) of Equity     | 0.0    | 0.0     | 0.0    | 0.0    |  |
| Inc/(dec) in loan funds        | 98.1   | 23.9    | -200.0 | -200.0 |  |
| Dividend paid & dividend tax   | -33.0  | -66.0   | -66.0  | -66.0  |  |
| Inc/(dec) in Sec. premium      | 0.0    | 0.0     | 0.0    | 0.0    |  |
| Others                         | -26.6  | 36.4    | 0.0    | 0.0    |  |
| CF from financing activities   | 38.5   | -5.6    | -266.0 | -266.0 |  |
| Net Cash flow                  | -39.5  | 50.4    | -65.1  | 22.2   |  |
| Opening Cash                   | 407.9  | 368.4   | 418.8  | 353.7  |  |
| Closing Cash                   | 368.4  | 418.8   | 353.7  | 375.9  |  |

Source: Company, ICICIdirect.com Research

| Balance sheet              |         | ₹ Crore |         |         |  |
|----------------------------|---------|---------|---------|---------|--|
| (Year-end March)           | FY16    | FY17    | FY18E   | FY19E   |  |
| <b>Liabilities</b>         |         |         |         |         |  |
| Equity Capital             | 69.9    | 69.9    | 69.9    | 69.9    |  |
| Reserve and Surplus        | 1,620.4 | 1,850.4 | 2,120.7 | 2,446.5 |  |
| Total Shareholders funds   | 1,690.3 | 1,920.3 | 2,190.7 | 2,516.5 |  |
| Total Debt                 | 2,637.0 | 2,660.9 | 2,460.9 | 2,260.9 |  |
| Deferred Tax Liability     | 273.0   | 268.3   | 268.3   | 268.3   |  |
| Minority Interest / Others | 0.0     | 0.0     | 0.0     | 0.0     |  |
| Total Liabilities          | 4,600.3 | 4,849.6 | 4,919.9 | 5,045.7 |  |
| <b>Assets</b>              |         |         |         |         |  |
| Gross Block                | 4,663.3 | 4,993.2 | 5,293.2 | 5,593.2 |  |
| Less: Acc Depreciation     | 1,142.6 | 1,318.7 | 1,506.4 | 1,705.1 |  |
| Net Block                  | 3,520.6 | 3,674.5 | 3,786.8 | 3,888.1 |  |
| Capital WIP                | 152.4   | 104.8   | 104.8   | 104.8   |  |
| Total Fixed Assets         | 3,673.0 | 3,779.3 | 3,891.6 | 3,992.9 |  |
| Intangible Asset           | 2.0     | 5.6     | 5.6     | 5.6     |  |
| Investments                | 574.0   | 535.6   | 536.6   | 537.6   |  |
| Inventory                  | 428.9   | 498.1   | 570.8   | 608.1   |  |
| Debtors                    | 165.6   | 148.1   | 170.7   | 188.3   |  |
| Loans and Advances         | 351.8   | 450.9   | 488.2   | 547.6   |  |
| Cash                       | 368.4   | 418.8   | 353.7   | 375.9   |  |
| Total Current Assets       | 1,314.8 | 1,516.0 | 1,583.5 | 1,719.9 |  |
| Creditors                  | 860.6   | 865.1   | 997.6   | 1,100.3 |  |
| Provisions                 | 102.9   | 121.8   | 99.8    | 110.0   |  |
| Total Current Liabilities  | 963.5   | 986.9   | 1,097.3 | 1,210.3 |  |
| Net Current Assets         | 351.4   | 529.1   | 486.1   | 509.6   |  |
| Application of Funds       | 4,600.4 | 4,849.6 | 4,919.9 | 5,045.7 |  |

Source: Company, ICICIdirect.com Research

| Key ratios                  |       |       |       |       |  |
|-----------------------------|-------|-------|-------|-------|--|
| (Year-end March)            | FY16  | FY17  | FY18E | FY19E |  |
| <b>Per share data (₹)</b>   |       |       |       |       |  |
| Adjusted EPS                | 14.8  | 37.1  | 48.1  | 56.0  |  |
| Cash EPS                    | 38.2  | 62.3  | 74.9  | 84.4  |  |
| BV                          | 241.7 | 274.6 | 313.3 | 359.9 |  |
| DPS                         | 4.0   | 8.0   | 8.0   | 8.0   |  |
| Cash Per Share              | 52.7  | 59.9  | 50.6  | 53.7  |  |
| <b>Operating Ratios (%)</b> |       |       |       |       |  |
| EBITDA Margin               | 13.8  | 17.3  | 18.1  | 18.5  |  |
| PAT Margin                  | 2.9   | 7.0   | 7.9   | 8.3   |  |
| Inventory days              | 48.7  | 45.7  | 45.7  | 45.7  |  |
| Debtor days                 | 17.2  | 14.6  | 14.6  | 14.6  |  |
| Creditor days               | 89.2  | 85.3  | 85.3  | 85.3  |  |
| <b>Return Ratios (%)</b>    |       |       |       |       |  |
| RoE                         | 6.1   | 14.5  | 15.4  | 15.6  |  |
| RoCE                        | 9.0   | 12.6  | 14.4  | 16.1  |  |
| RoIC                        | 8.0   | 10.9  | 13.3  | 14.9  |  |
| <b>Valuation Ratios (x)</b> |       |       |       |       |  |
| P/E                         | 69.9  | 27.8  | 21.5  | 18.4  |  |
| EV / EBITDA                 | 19.4  | 14.7  | 12.0  | 10.4  |  |
| EV / Net Sales              | 2.7   | 2.5   | 2.2   | 1.9   |  |
| Market Cap / Sales          | 2.1   | 2.0   | 1.7   | 1.5   |  |
| Price to Book Value         | 4.3   | 3.8   | 3.3   | 2.9   |  |
| <b>Solvency Ratios</b>      |       |       |       |       |  |
| Debt/EBITDA                 | 5.4   | 4.1   | 3.2   | 2.6   |  |
| Debt / Equity               | 1.6   | 1.4   | 1.1   | 0.9   |  |
| Current Ratio               | 1.4   | 1.5   | 1.4   | 1.4   |  |
| Quick Ratio                 | 1.0   | 1.1   | 1.1   | 1.1   |  |

Source: Company, ICICIdirect.com Research



## ICICIdirect.com coverage universe (Cement)

| Company        | CMP (₹) |       | Rating | M Cap (₹ Cr) | EPS (₹) |       |       | EV/EBITDA (x) |       |       | EV/Tonne (\$) |       |       | RoCE (%) |       |       | RoE (%) |       |       |
|----------------|---------|-------|--------|--------------|---------|-------|-------|---------------|-------|-------|---------------|-------|-------|----------|-------|-------|---------|-------|-------|
|                |         | TP(₹) |        |              | FY17    | FY18E | FY19E | FY17          | FY18E | FY19E | FY17          | FY18E | FY19E | FY17     | FY18E | FY19E | FY17    | FY18E | FY19E |
| ACC*           | 1800    | 2050  | Buy    | 33,829       | 39.0    | 60.3  | 68.1  | 24.8          | 18.1  | 15.4  | 174           | 152   | 151   | 11.1     | 16.4  | 16.7  | 8.5     | 12.1  | 12.6  |
| Ambuja Cement* | 267     | 305   | Buy    | 53,017       | 4.9     | 6.5   | 6.9   | 22.8          | 17.6  | 15.3  | 187           | 174   | 174   | 3.8      | 7.2   | 8.0   | 5.1     | 6.5   | 6.8   |
| UltraTech Cem  | 3,915   | 4750  | Buy    | 107,428      | 96.3    | 90.8  | 130.0 | 21.3          | 20.5  | 14.6  | 246           | 218   | 206   | 12.1     | 9.2   | 12.3  | 10.8    | 9.6   | 12.5  |
| Shree Cement   | 17,522  | 19700 | Hold   | 60,977       | 385     | 455   | 538   | 24.7          | 20.1  | 16.1  | 354           | 340   | 272   | 12.3     | 14.6  | 15.7  | 17.4    | 17.3  | 17.3  |
| Heidelberg Cem | 118     | 140   | Hold   | 2,674        | 3.4     | 4.9   | 6.8   | 14.1          | 11.8  | 9.6   | 109           | 104   | 101   | 8.2      | 10.5  | 13.8  | 7.9     | 10.8  | 14.2  |
| India Cement   | 183     | 232   | Buy    | 5,622        | 5.4     | 7.3   | 11.1  | 9.9           | 9.4   | 7.7   | 92            | 93    | 84    | 7.5      | 8.1   | 9.2   | 3.3     | 4.3   | 6.1   |
| JK Cement      | 1,033   | 1265  | Buy    | 7,224        | 37.1    | 48.1  | 56.0  | 14.7          | 12.0  | 10.4  | 131           | 119   | 117   | 12.6     | 14.4  | 16.1  | 14.5    | 15.4  | 15.6  |
| JK Lakshmi Cem | 421     | 495   | Hold   | 4,955        | 7.0     | 10.2  | 20.7  | 17.9          | 13.7  | 9.7   | 94            | 84    | 78    | 7.5      | 9.7   | 14.4  | 5.9     | 8.0   | 14.2  |
| Mangalam Cem   | 363     | 425   | Buy    | 969          | 12.9    | 12.8  | 40.5  | 11.7          | 11.2  | 5.5   | 55            | 53    | 49    | 10.2     | 10.8  | 20.8  | 6.8     | 6.4   | 17.0  |
| Star Cement    | 113     | 135   | Hold   | 5,393        | 4.1     | 6.2   | 5.7   | 14.8          | 11.1  | 11.1  | 227           | 221   | 205   | 13.8     | 18.3  | 16.8  | 14.0    | 18.1  | 14.8  |

Source: Company, ICICIdirect.com Research \* CY15E, CY16E, CY17E

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Buy: > 10%/15% for large caps/midcaps, respectively;

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Sell: -10% or more;



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICIdirect.com Research Desk,  
ICICI Securities Limited,  
1<sup>st</sup> Floor, Akruiti Trade Centre,  
Road No. 7, MIDC,  
Andheri (East)  
Mumbai – 400 093**

**research@icicidirect.com**

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