



Expensive valuation !

31st May, 2016

CMP: Rs. 589
Target Price: Rs. 530
Recommendation: Reduce

Stock Info

BSE Group	B
BSE Code	523644
NSE Symbol	JKCEMENT
Bloomberg	JKCE.IN
Reuters	JKCE.BO
BSE Sensex	26,725
NSE Nifty	8,178

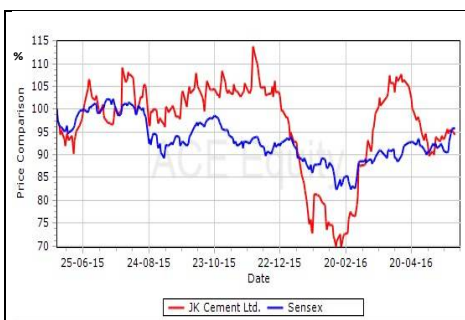
Market Info

Market Capital	Rs 4,124cr
Equity Capital	Rs 70cr
Avg. Trading Vol.	31,580 cr
52 Wk High/ Low	742/425
Face Value	10

Shareholding Pattern (%) (Mar 2016)

Promoters	67.0
Domestic Institutions	14.0
Foreign Institutions	11.0
Public & Others	8.0

Price Chart:



Financial Performance:

JK Cement Ltd. for the quarter ended March, 2016 reported about 4.2% YoY growth in the revenue while the net profit grew marginally by about 1% YoY.

For this quarter, Q4 FY16, company's net sales were Rs. 950 cr compared to Rs. 911cr in the corresponding quarter previous year, up by 4.2% and up by 5.2% on sequential basis.

The company reported profit before depreciation, interest, tax and amortization at Rs 196 cr vs. Rs. 164 cr in the corresponding quarter last year. The EBITDA margin for the quarter was at 20.6%, improving by 260 bps YoY and by 660 bps QoQ, majorly due to the higher top line and reduced the Expenditure cost.

However, the profit after tax for the company was at Rs. 71cr, marginally up by 1% when compared to the corresponding quarter last year. Company also reported a higher tax expense of Rs 27 cr which included deferred taxes & tax adjustments related to earlier years.

Finance costs for this quarter were Rs. 68 cr vs Rs. 69 cr in the corresponding quarter last year, down by 1.49%. However, on sequential basis finance costs were down. Other income for the company also remained low at Rs 12 cr vs Rs19 cr in corresponding last year, down by about 38%.

On the expenditure front, net raw material cost and employee cost were stagnant for this quarter. Net material cost was at Rs. 163cr (about 17% of net sales) while employee cost was at Rs. 55.3cr (about 6% of net sales).

Company having its total installed capacity of 10.5MTPA for grey cement and 1.2MTPA of white cement generates its revenues mainly from the northern and western belt of the country.

For the year FY17E, Company will operate at a capacity utilization of 65% for grey cement and about 85% for white cement. We expect that the company's operate capacity utilization at 65% for grey cement and 85% for white cement for FY17E & EBITDA margin to improve to 16%.

Valuations:

Company has been generating very low ROE as compared to peers for consecutive years and FY17E ROE is 8.1% Thus, we have valued stock on EV/EBITDA of 11(x) its FY17 estimates and arrived at a fair value of Rs 530 per share. At CMP of Rs 589 the stock is available at FY17E P/E(x) and EV/EBITDA(x) of 29.30x and 10.3x respectively. We have **REDUCE** rating on the stock.



Valuations:

	FY15	FY16	FY17E
EV/EBITDA	16.1	10.8	11.0
EBITDA	451	545	624
EV	7272	5898	6863
Net Debt	2614	2647	3158
Market Cap	4658	3252	3705
No shares	7	7	7
CMP			589
Target			530
Downside			-10.1%

Financial Snapshot:

Y/E March, (Rs. in Cr)	FY13	FY14	FY15	FY16	FY17E
Net Revenue	2,912	2,796	3,407	3,790	3,966
EBITDA	557	353	451	545	624
PAT	230	75	142	63	141
EPS	33.0	10.7	20.3	9.1	20.1
EPS Growth (%)	33	(67)	89	(55)	122
RONW (%)	13.6	4.3	8.8	3.9	8.1
P/E (x)	8.1	22.4	32.8	51.3	23.1
EV/EBITDA (x)	4.9	11.1	16.1	10.8	10.3

Q4 FY16 Results (Standalone)

Rs in Crore	Q4FY16	Q4FY15	YOY (%)	Q3FY16	QoQ (%)
Net Sales	950	911	4.2	903	5.2
Other operating income	23.0	4.7		0.4	
Expenditure	777	752	3.2	777	0.0
EBITDA	196	164		126	
EBITDA Margins (%)	20.6	18.0	2.7	14.0	47.4
Other Income	12	19	-38.6	12	-2.5
Interest	68	69	-0.4	66	3.6
Depreciation	42	38		40	
PBT	97	77	27.2	33	196.9
Tax	27	7		16	
Tax rate (%)	27.6%	8.8%		47.9%	
PAT	71	70	1.0	17	312.9
Net Profit Margin (%)	7.4%	7.7%		1.9%	
EPS (Rs)	10.09	9.99	1.0	2.44	312.9



Profit & Loss Statement (consolidated)

Y/E March (Rs Cr)	FY13	FY14	FY15	FY16	FY17E
Revenue	2,912	2,796	3,407	3,790	3,966
% Chg	14.3%	-4.0%	21.9%	11.2%	4.6%
Total Expenditure	2,355	2,443	2,957	3,245	3,342
% chg	15.7%	3.8%	21.0%	9.8%	3.0%
EBITDA	557	353	451	545	624
EBITDA Margin	19%	13%	13%	14%	16%
Depreciation	129	134	146	190	178
EBIT	429	219	305	356	445
Other Income	49	48	51	50	59
Interest	140	153	229	304	317
PBT	338	114	144	105	188
Tax Provisions	107	39	2	42	47
PAT	230	75	142	63	141
PAT Margin	8%	3%	4%	2%	4%

Cash Flow Statement

Particulars, in Rs crore	FY13	FY14	FY15	FY16	FY17E
Operating Activities					
PBT	338	114	144	105	188
Add Depr	129	134	146	190	178
Others	101	108	183	188	228
Total	567	357	473	483	594
Cash Taxes	(77)	(23)	(31)	(42)	(47)
Changes in Working Cap	(108)	31	(186)	(181)	(290)
Cash Flow from Operations	382	364	256	261	257
Investing Activities					
Change in investments	(23)	(34)	35	24	39
Capex	(545)	(1,558)	(547)	(650)	(700)
Others	41	34	34	35	37
Cash Flow from Investing	(527)	(1,558)	(478)	(591)	(624)
Financing Activities					
Others	150	2,609	533	741	834
Change in long term borrowings	(63)	(1,382)	(289)	(347)	(451)
Cash Flow from Financing	87	1,227	230	394	383
Opening Cash	433	375	409	417	481
Changes during year	(58)	34	8	64	17
Closing Cash	375	409	417	481	498

Balance Sheet (consolidated)

	FY13	FY14	FY15	FY16	FY17E
Shareholders' funds	1,691	1,746	1,617	1,626	1,733
Share capital	70	70	70	70	70
Reserves and Surplus	1,621	1,676	1,547	1,556	1,663
Minority Interest	5	14	13	10	10
Non-current liabilities	1,408	2,822	3,145	3,365	3,869
Long-term borrowings	1,060	2,442	2,730	2,877	3,327
Deferred Tax Liabilities (Net)	249	268	415	488	300
Current liabilities	904	1,181	1,276	1,314	1,310
Short-term borrowings	189	206	301	251	329
Short-term provisions	67	35	980	48	60
Total Liabilities	4,008	5,763	6,050	6,315	6,921
Net Fixed assets	2,369	2,327	4,074	4,222	4,152
Capital work-in-progress	254	1,787	337	321	800
Non-current investments	32	21	6	19	26
Long-term loans and advances	276	272	155	165	145
Current assets	1,076	1,356	1,478	1,588	1,798
Inventories	461	542	541	538	659
Trade receivables	115	112	177	211	239
Cash and Cash Equivalents	375	409	417	481	498
Short-term loans and advances	117	233	303	2,870	402
Total Assets	4,008	5,763	6,050	6,315	6,921

Key Ratios

Y/E March (Rs Cr)	FY13	FY14	FY15	FY16	FY17E
EPS	33.0	10.7	20.3	9.1	20.1
CEPS	51.4	29.9	41.2	36.2	45.7
DPS	6.5	3.0	4.0	2.3	5.8
BVPS	242	250	231	233	248
Debt/ Equity (X)	0.7	1.5	1.9	1.9	2.1
Current Ratio (X)	1.2	1.1	1.2	1.2	1.4
RoE (%)	13.6	4.3	8.8	3.9	8.1
RoA (%)	5.8	1.3	2.3	1.0	2.0
Dividend Yield (%)	2.4	1.3	0.6	0.5	1.3
P/E	8.1	22.4	32.8	51.3	29.3
P/BV	1.1	1.0	2.9	2.0	2.4
EV/EBITDA	4.9	11.1	16.1	10.8	11.7

Source: - Company Data Ace Equity, Arihant Research

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Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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