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J. K. Cement: Strengthening growth

The company has strong fundamentals, promising prospects and is trading at reasonable valuations.

Despite its recent outperformance, analysts continue to be bullish on J.K. Cement. This is because this fast-growing mid-cap cement company is expected to maintain its growth momentum. J.K. Cement's operating performance is expected to rise in the first quarter of 2017-18 because of the cement price rise in the South—it rose 7% quarter-on-quarter (q-o-q). Increased demand in the southern region is also helping J.K. Cement improve utilisation of its Karnataka plant. The company's capacity is mainly in the North, where cement prices have spiked 6% q-o-q, and central India, where prices rose 5% q-o-q. Since price increases are helping the company offset rise in cost, J.K. Cement is expected to report 12% growth in sales and 10% rise in net profit in the first quarter of 2017-18.

To maintain its high growth momentum, the company's management is planning on raising ₹1,000 crore—the necessary approval for raising the funds will be obtained in its annual general meeting to be held on 29 July. J.K. Cement is working at high capacity utilisation levels in the North and, at the current growth rate, it will hit 100% capacity utilisation in the next three years. Since commissioning of new capacities takes around 24-30 months, this is a timely move and will help J.K. Cement maintain its growth. According to consensus estimate, the net profit of the company is expected to report an annualised growth of 46% between 2016-17 and 2018-19.

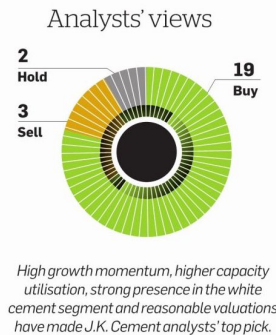
Despite being a mid-cap company, J.K. Cement is the

second-largest white cement manufacturer in India. Since there are only two major players in the white cement segment, it offers relative price stability. In addition to faster volume growth, white cement also commands a higher margin—its price is almost 3-times that of grey cement. Focus on white cement has cushioned J.K. Cement from the price volatility in the grey cement segment.

Reasonable valuation is another factor that is attracting analysts to this counter. Its enterprise value (EV) is placed at \$120 (₹7,722) per tonne, significantly lower than the replacement cost of around \$150 (₹9,653) per tonne. More importantly, if one adjusts white cement valuation separately, its grey cement capacity is trading only at \$90 (₹5,791) per tonne. This means there is a good chance for a further re-rating in the counter.

Selection Methodology: We pick the stock that has shown the maximum increase in 'consensus analyst rating' in the past one month. Consensus rating is arrived at by averaging all analyst recommendations after attributing weights to each of them (5 for strong buy, 4 for buy, 3 for hold, 2 for sell and 1 for strong sell) and any improvement in consensus analyst rating indicates that the analysts are getting more bullish on the stock. To make sure that we pick only companies with decent analyst coverage, this search is restricted to stocks that are covered by at least 10 analysts. You can see similar consensus analyst rating changes during the past week in the ETW 50 table.

—Narendra Nathan



Fundamentals

	Actual		Consensus estimate	
	2015-16	2016-17	2017-18	2018-19
Revenue (₹ cr)	3,755.68	3,989.40	4,636.40	5,289.62
Operating profit (₹ cr)	355.71	550.04	707.40	910.25
Net profit (₹ cr)	63.38	226.53	340.33	496.28
EPS (₹)	8.89	32.69	49.01	70.42

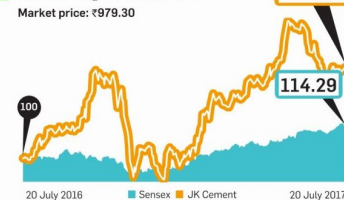
Valuation

	PBV	PE	Dividend yield (%)
JK Cements	3.57	26.38	0.82
Prism Cement	6.55	355.14	0.00
J K Lakshmi Cement	3.95	66.58	0.16
HeidelbergCement India	3.26	40.86	1.46
India Cements	1.33	37.15	0.48
Birla Corporation	2.29	33.90	0.69

Latest brokerage calls

Recd date	Research house	Advice	Target price (₹)
18 Jul '17	Investec	buy	1,253
17 Jul '17	Centrum Broking	buy	1,310
14 Jul '17	Karvy Stock Broking	buy	1,216
10 Jul '17	Motilal Oswal Securities	buy	1,287
10 Jul '17	Edelweiss Capital	buy	1,175

Relative performance



BUY

What experts advise

Stock	Research house	Advice	Market price* (₹)	1-year target price (₹)	Comment
Edelweiss Financial Services	Citi	Buy	200	240	Initiate 'buy'. Edelweiss has rapidly evolved from its earlier capital markets / agency business—accounted for 65% of profit before tax in 2009-10—to a bank-like structure.
L&T Finance Holdings	Motilal Oswal	Buy	153	180	Initiate 'buy'. L&T Finance is a turnaround story. From 20-plus product lines and sub-standard return ratios, it is transforming into a focused financier with eight product lines across three verticals.
Music Broadcast	Angel	Buy	369	434	Initiate 'buy'. It operates FM radio stations under the brand Radio City and Radio Mantra and has sustainable growth opportunities over the next 5-7 years. Most of its capital expenditure also through.
Bata	ICICI Direct	Buy	572	650	Upgrade to 'buy'. Since 60% of the footwear industry comprises unorganised players, GST would be a positive for Bata as higher compliance cost for unorganised players would level the playing field.

SELL

Stock	Research house	Advice	Market price* (₹)	1-year target price (₹)	Comment
KPIT Tech	Reliance Sec	Reduce	130	120	Downgrade to 'reduce'. It will be a challenge for KPIT to maintain the balance between revenue growth and margins, till we see some consistency in the former.
ABB	Elara Capital	Sell	1,459	1,145	Retain 'sell'. Though the stock has underperformed the broader index by 2% in the past 12 months, it still trades at expensive valuation of 63.9-times its expected earnings per share in 2017.
Kotak Mahindra Bank	SBI Cap	Sell	980	835	Maintain 'sell'. The bank's initiatives around new business expansion, participation in the shift towards financial savings and digital customer acquisition (811 platform) are still in their infancy.

*Market price as on 20 July