

**HOLD**

TP: Rs 3,578 | ▲ 6%

**JK CEMENT**

Cement

08 November 2023

### Healthy performance; positive outlook

- Q2 revenue grew 20% YoY to Rs 25.7bn as grey cement volumes surged 22% to 3.9mt
- EBITDA climbed 50% YoY to Rs 4.5bn with 350bps margin expansion to 17.4%
- Our TP rises to Rs 3,578 (vs. Rs 3,474) based on revised estimates and a higher 13x FY25E EV/EBITDA multiple (vs. 12.5x); retain HOLD

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**Healthy topline growth:** JKCE reported 20% YoY (-2% QoQ) standalone revenue growth to Rs 25.7bn in Q2FY24. Grey cement volumes at 3.9mn tonnes jumped 22% YoY (-4% QoQ) while realisation improved 3% YoY (flat QoQ) to Rs 4,985/t due to a better product mix. White cement volumes (including putty) fell 3.1% YoY (+2% QoQ) to 0.4mt and realisation stayed flat at Rs 12,568/t.

**Margins recover on lower pet coke prices:** Operating costs decreased 3% YoY (-1% QoQ) to Rs 4,890/t as raw material-adjusted energy cost fell 10% (-6% QoQ) to Rs 2,186/t. Logistics cost softened 3% YoY (-6% QoQ) to Rs 1,160/t on lower lead time and a high base effect due to the seeding of new markets. EBITDA rose 50% YoY (+11% QoQ) to Rs 4.5bn with margin gains of 350ps YoY (+205bps QoQ) to 17.4%. JKCE saw an additional one-off maintenance charge of Rs 0.15-0.2bn due to scheduled maintenance. Aggregate EBITDA/t climbed 26% YoY (+15% QoQ) to Rs 1,028/t and adj. PAT increased 43% YoY (+27% QoQ) to Rs 1.8bn.

**Expansion plans on track:** JKCE's 1.5mtpa greenfield Ujjain expansion is scheduled to be commissioned by Q3FY24 and the 2mt greenfield Panna expansion is due by Q2FY25. Panna clinker debottlenecking is complete and undergoing trial runs; it is to be used for production from Q4FY24. Management expects clinker capacity to reach 24mt by FY25 with ~85% utilisation. Additionally, the 18MW WHRS capacity at Karnataka is expected to come online by Q3FY24.

**Positives priced in, maintain HOLD:** We revise our FY24/FY25 EBITDA estimates by +7%/+2% to incorporate the healthy H1FY24 performance and improved outlook for FY25 as new capacities kick in. Upon factoring in higher depreciation and interest payment following capex execution, EPS for our forecast years moves down by 9%/11%. Even so, our TP rises to Rs 3,578 (from Rs 3,474) as we raise our FY25E EV/EBITDA multiple to 13x (from 12.5x) to account for JKCE's healthy growth outlook and steady balance sheet. Maintain HOLD as the positives appear priced in at current valuations of 12x FY25E EV/EBITDA.

### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	JKCE IN/Rs 3,365
Market cap	US\$ 3.2bn
Free float	54%
3M ADV	US\$ 5.1mn
52wk high/low	Rs 3,476/Rs 2,540
Promoter/FPI/DII	46%/16%/22%

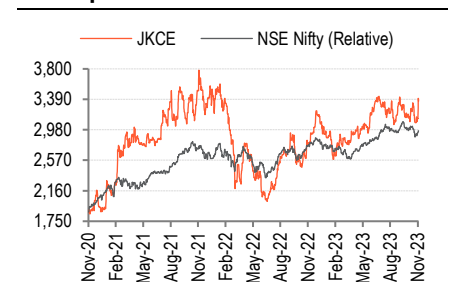
Source: NSE | Price as of 7 Nov 2023

### Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	87,768	1,09,319	1,27,032
EBITDA (Rs mn)	11,175	17,964	23,918
Adj. net profit (Rs mn)	5,626	7,999	10,887
Adj. EPS (Rs)	72.8	103.5	140.9
Consensus EPS (Rs)	72.8	109.0	138.0
Adj. ROAE (%)	12.9	16.2	18.6
Adj. P/E (x)	46.2	32.5	23.9
EV/EBITDA (x)	25.6	16.2	12.2
Adj. EPS growth (%)	(26.0)	42.2	36.1

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q2FY24	Q1FY24	Our view
Volumes and Realisation	<p>Grey cement volumes grew 22% YoY (-4% QoQ) to 3.9mt in Q2FY24 while consolidated white cement volumes fell 3% YoY (+2% QoQ) to 0.4mt. JKCE estimates that the putty industry grew 10% YoY in Q2 and management expects the business to grow in line with the industry over the near term.</p>	<p>Grey cement volumes grew 29% YoY (flat QoQ) to 4.1mt in Q1FY24 while consolidated white cement volumes were flat YoY (-2% QoQ) at 5.2mt.</p> <p>Management maintains grey cement volume growth guidance of ~15% in FY24 despite a strong Q1, citing normalisation of growth.</p>	<p>Healthy growth would enable JKCE to retain market share in the medium term.</p>
Margins	<p>EBITDA grew 50%/11% YoY/QoQ to Rs 4.5bn in Q2FY24 and margin at 17.4% (+350bps/+205bps).</p> <p>Fuel cost in Q2FY24 was ~Rs 1.9/kcal and management does not expect Q3 cost to exceed Q2 amidst fluctuations in pet coke prices. Logistics cost declined 3% YoY/6% QoQ to Rs 1,160/t as a result of reduction in lead distance by ~8km and seasonal railway freight cost discount (13-15% of JKCE's dispatches are by rail).</p> <p>Management expects overall cost savings of ~Rs 50/t in Q3 and Q4FY24.</p>	<p>EBITDA was flat YoY but grew 11% QoQ to Rs 4bn in Q1FY24 and operating margin stood at 15.8% (-340bps/+190bps YoY/QoQ).</p> <p>Fuel cost in Q1FY24 was Rs 2.25/kcal (Rs 2.5/kcal in Q4FY23) and management expects ~Rs 2.0/kcal for Q2 despite pet coke prices swinging back to US\$ 130/t after softening to ~US\$ 105/t. Logistics cost grew marginally by 2% YoY (-0.5% QoQ) to Rs 1,239/t as a result of reduction in lead distance by ~12km.</p>	<p>JKCE's margin uptick was aided by realisation gains, a better product mix and soft cost.</p>
Expansion	<p>JKCE's 1.5mtpa greenfield Ujjain expansion is scheduled to be commissioned by Q3FY24 while the 2mt greenfield Panna expansion is due by Q2FY25.</p> <p>Panna clinker debottlenecking is complete and will be used for production from Q4FY24.</p> <p>Management expects clinker capacity to reach 24mt by FY25 with ~85% utilisation.</p> <p>The 18MW WHRS capacity at Karnataka is expected to be commissioned by Q3FY24.</p>	<p>The Ujjain grinding unit is to be commissioned by Q4FY24. The Prayagraj (Uttar Pradesh) unit has received environmental clearance, following which equipment ordering has been completed, with commissioning due in Q3/Q4FY25.</p> <p>The WHRS was commissioned at Panna in Q1FY24-end and JKCE expects it to reach 50% utilisation in Q2FY24, leading to annual savings of Rs 500mn. Management expects renewable energy to increase from 46MW at present to ~100MW by FY25.</p>	<p>We expect expansion to drive growth.</p>
Capex	<p>Management has guided for capex of Rs 14bn for FY24 after spending Rs 5bn in H1. The capex target for FY25 stands at Rs 7bn.</p>	<p>Management has guided for capex of Rs 12bn-14bn for FY24 (Q1FY24 spend was at Rs 3bn) and Rs 8bn for FY25.</p>	<p>Capex is not stressing balance sheet health.</p>
Other key points	<p>Net debt as on Q2FY24 was ~Rs 30.4bn while net debt-to-EBITDA was ~2.1x. Management indicated that JKCE is at its peak net debt and expects no further increase except minor borrowings for the Ujjain and Prayagraj plants.</p> <p>Revenue from the paints segment for H1FY24 stood at ~Rs 700mn with an EBITDA loss of ~Rs 70mn. Management targets a topline of Rs 1.5bn-2bn by FY25.</p>	<p>Revenue from paints for Q1FY24 was ~Rs 250mn with an EBITDA loss of ~Rs 20mn (JKCE ventured into the paint business by acquiring Acro Paints). JKCE has booked sales incentives of Rs 2.5bn for FY24, anticipating a Rs 600mn-650mn quarterly run-rate.</p>	<p>Other segments are likely to pick up steadily.</p>

Source: Company, BOBCAPS Research | WHRS: Waste Heat Recovery System

**Fig 2 – Key metrics**

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Aggregate volumes (mn mt)	4.3	3.6	19.2	3.2	34.9
Grey cement (mn mt)	3.9	3.2	22.1	4.1	(4.2)
White Cement and Putty (mn mt)	0.4	0.4	(3.1)	0.4	1.7
Aggregate realisations (Rs/mt)	5,919	5,878	0.7	5,820	1.7
Operating costs (Rs/mt)	4,890	5,064	(3.4)	4,927	(0.7)
Aggregate EBITDA (Rs/mt)	1,028	814	26.3	893	15.2

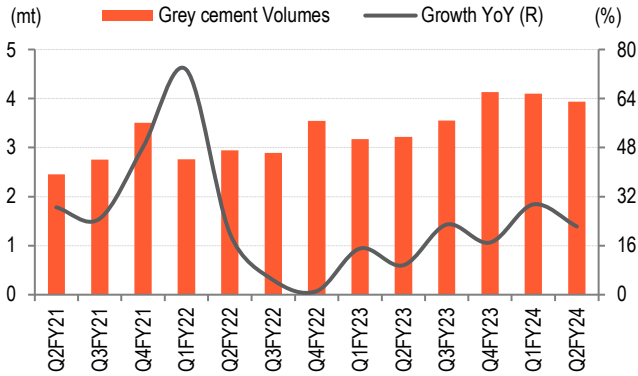
Source: Company, BOBCAPS Research

**Fig 3 – Quarterly performance**

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
<b>Net Sales</b>	<b>25,707</b>	<b>21,418</b>	<b>20.0</b>	<b>26,236</b>	<b>(2.0)</b>
<b>Expenditure</b>					
Change in stock	(431.8)	163.8	-	(220.7)	95.7
Raw material	3,976	3,229	23.1	4,079	(2.5)
Stores and Spares	0	0	0.0	0	0.0
purchased products	679	353	92.4	465	46.0
Power & fuel	5,952	5,500	8.2	6,619	(10.1)
Freight	5,040	4,352	15.8	5,588	(9.8)
Employee costs	1,650	1,404	17.5	1,665	(0.9)
Other exp	4,376	3,449	26.9	4,016	9.0
Total Operating Expenses	21,241	18,451	15.1	22,212	(4.4)
<b>EBITDA</b>	<b>4,467</b>	<b>2,967</b>	<b>50.5</b>	<b>4,024</b>	<b>11.0</b>
EBITDA margin (%)	17.4	13.9	352bps	15.3	204bps
Other Income	278	228	21.7	293	(5.3)
Interest	1,091	625	74.5	1,055	3.4
Depreciation	1,196	897	33.3	1,178	1.6
PBT	2,457	1,673	46.9	2,085	17.8
Non-recurring items	0.0	0.0	-	150.0	-
PBT (after non-recurring items)	2,457	1,673	46.9	1,935	27.0
Tax	668	425	57.3	673	(0.7)
Reported PAT	1,789	1,248	43.3	1,262	41.7
<b>Adjusted PAT</b>	<b>1,789</b>	<b>1,248</b>	<b>43.3</b>	<b>1,412</b>	<b>26.7</b>
NPM (%)	7.0	5.8	113bps	5.4	158bps
<b>Adjusted EPS (Rs)</b>	<b>23.2</b>	<b>16.2</b>	<b>43.3</b>	<b>18.3</b>	<b>26.7</b>

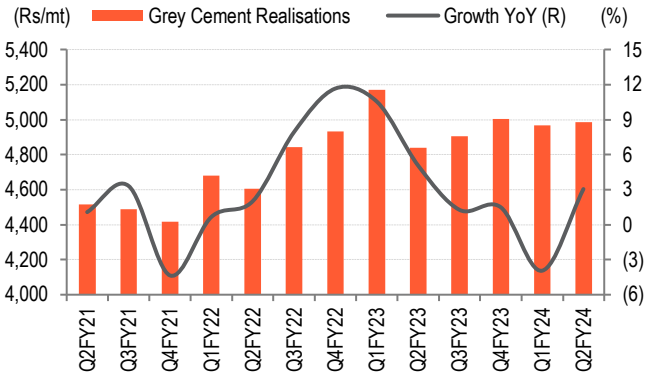
Source: Company, BOBCAPS Research

**Fig 4 – Grey cement volumes growth contributed by new capacity**



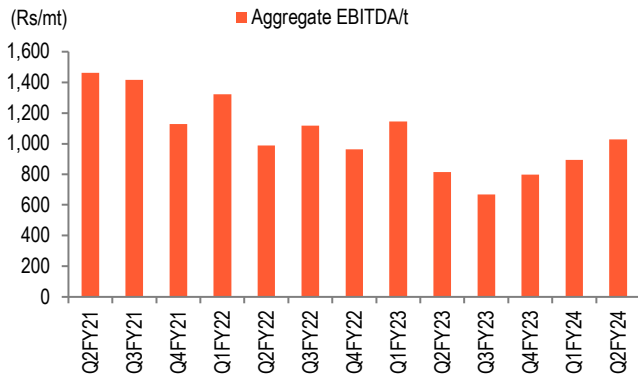
Source: Company, BOBCAPS Research

**Fig 5 – Central India presence aid realization gain**



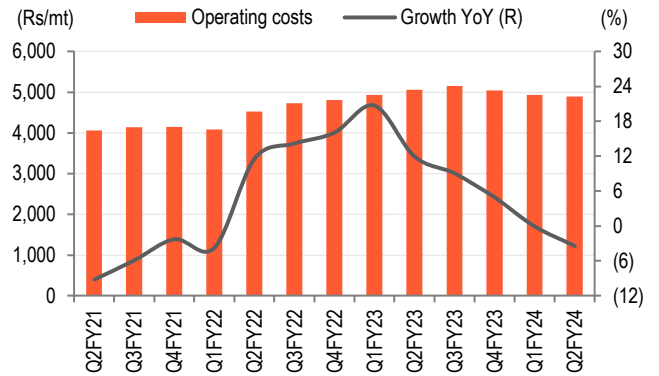
Source: Company, BOBCAPS Research

**Fig 6 – Better EBITDA gains despite one-off expenses**



Source: Company, BOBCAPS Research

**Fig 7 – Operating cost saving commendable**



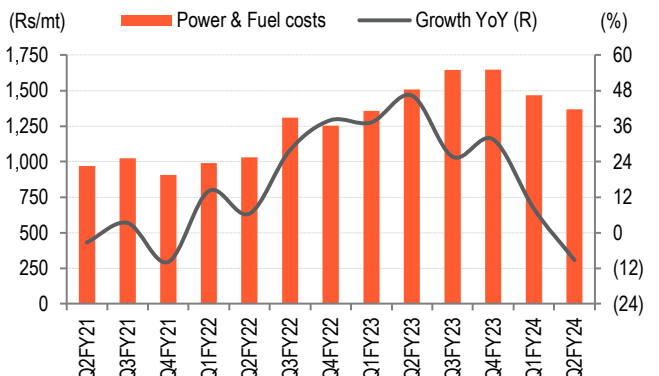
Source: Company, BOBCAPS Research

**Fig 8 – Lead distance reduction aids transportation cost savings**



Source: Company, BOBCAPS Research

**Fig 9 – Savings for the quarter but reversal possible**



Source: Company, BOBCAPS Research

## Valuation methodology

We revise our FY24/FY25 EBITDA estimates for JKCE by 7%/2% to incorporate the healthy H1FY24 performance and improved outlook for FY25 as new capacities kick in. Upon factoring in higher depreciation and interest payment following capex execution, EPS for our forecast years moves down by 9%/11%. Even so, our TP rises to Rs 3,578 (from Rs 3,474) as we raise our FY25E EV/EBITDA multiple to 13x (from 12.5x) to account for JKCE's healthy growth outlook and steady balance sheet. We maintain HOLD as the positives appear priced in at current valuations of 12x FY25E EV/EBITDA.

**Fig 10 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	1,09,319	1,27,032	1,03,621	1,20,392	5.5	5.5
EBITDA	17,964	23,918	16,825	23,370	6.8	2.3
Adj PAT	7,999	10,887	8,748	12,211	(8.6)	(10.8)
Adj EPS (Rs)	103.5	140.9	113.2	158.1	(8.6)	(10.8)

Source: BOBCAPS Research

**Fig 11 – Valuation summary**

Business (Rs mn)	FY25E
Target EV/EBITDA (x)	13.0
EBITDA	23,360
Target EV	307184
Total EV	307184
Net debt	30,740
Target market capitalisation	2,76,444
<b>Target price (Rs/sh)</b>	<b>3,578</b>
Weighted average shares (mn)	77

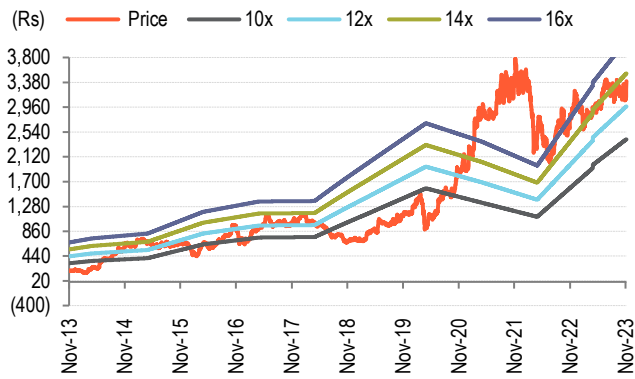
Source: BOBCAPS Research

**Fig 12 – Peer comparison**

Ticker	Rating	Target Price (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
JKCE IN	HOLD	3,578	25.6	16.2	12.2	160	161	161	12.9	16.2	18.6	12.7	18.0	20.7
DALBHARA IN	HOLD	1,917	18.3	15.2	12.0	133	134	131	4.5	7.1	10.5	5.3	7.6	10.4
TRCL IN	SELL	585	22.6	17.6	14.9	143	142	143	4.6	7.1	8.8	5.8	7.8	9.2

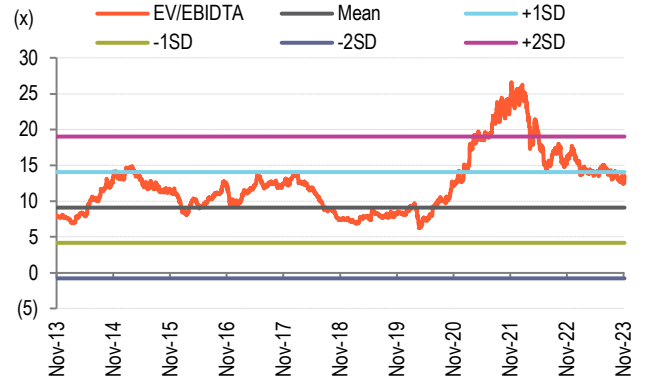
Source: BOBCAPS Research

**Fig 13 – Positives priced in at the current valuations**



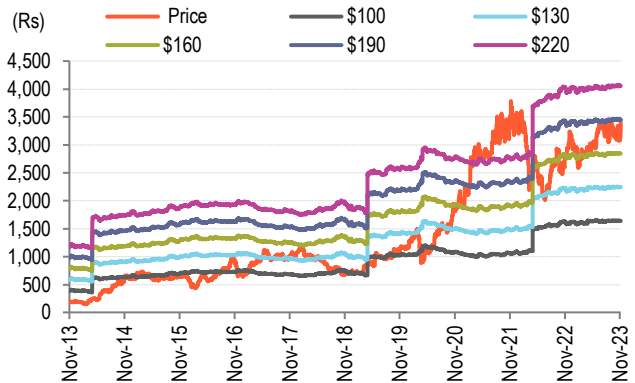
Source: Bloomberg, BOBCAPS Research

**Fig 14 – Earnings trigger will keep valuations healthy**



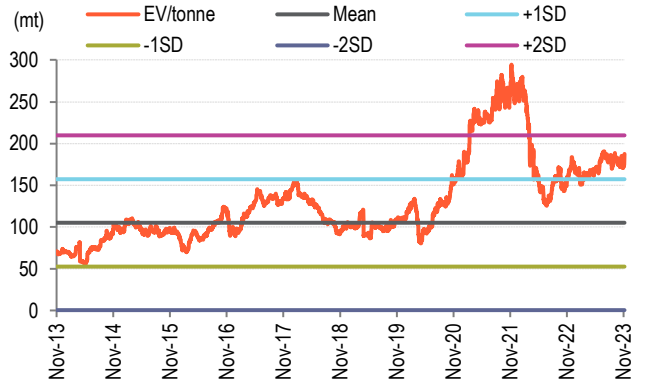
Source: Bloomberg, BOBCAPS Research

**Fig 15 – Replacement cost premium factoring white cement business**



Source: Bloomberg, BOBCAPS Research

**Fig 16 – Replacement cost likely to stay healthy**



Source: Bloomberg, BOBCAPS Research

### Key risks

- Central India is currently the better performing region driven by a strong infrastructure impetus. This can help JKCE gain stronger growth traction than estimated, presenting an upside risk to our estimates.
- Faster softening of raw material and energy costs can be a positive surprise.
- JKCE’s investments in non-core businesses such as paints are currently marginal, but any increase therein needs to be closely monitored. Additionally, the cement business foray into the oversupplied eastern region may dent margins, posing a downside risk.
- Sustained inflationary trends also pose a downside risk to our estimates.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.3	1,861	2,158	BUY
Ambuja Cements	ACEM IN	10.1	420	449	HOLD
Dalmia Bharat	DALBHARA IN	4.7	2,090	2,286	HOLD
JK Cement	JKCE IN	3.2	3,365	3,578	HOLD
JK Lakshmi Cement	JKLC IN	1.1	774	551	SELL
Orient Cement	ORCMNT IN	0.5	206	128	SELL
Shree Cement	SRCM IN	11.7	26,686	25,731	HOLD
Star Cement	STRCEM IN	0.8	158	159	HOLD
The Ramco Cements	TRCL IN	2.9	1,001	585	SELL
Ultratech Cement	UTCEM IN	30.5	8,686	9,396	HOLD

Source: BOBCAPS Research, NSE | Price as of 7 Nov 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>62,334</b>	<b>75,291</b>	<b>87,768</b>	<b>1,09,319</b>	<b>1,27,032</b>
EBITDA	14,190	13,325	11,175	17,964	23,918
Depreciation	(2,447)	(2,820)	(3,615)	(4,830)	(6,016)
EBIT	13,825	13,429	10,608	16,277	21,083
Net interest inc./(exp.)	(2,232)	(2,493)	(2,605)	(4,339)	(5,072)
Other inc./(exp.)	2,082	2,924	3,048	3,143	3,181
Exceptional items	0	0	0	0	0
EBT	11,593	10,936	8,003	11,938	16,011
Income taxes	(3,897)	(3,329)	(2,377)	(3,940)	(5,123)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>7,696</b>	<b>7,608</b>	<b>5,626</b>	<b>7,999</b>	<b>10,887</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>7,696</b>	<b>7,608</b>	<b>5,626</b>	<b>7,999</b>	<b>10,887</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	7,433	6,691	6,042	14,767	16,668
Other current liabilities	7,866	13,284	8,343	6,563	6,629
Provisions	1,266	1,303	1,402	1,426	1,479
Debt funds	30,959	32,201	32,077	34,388	37,357
Other liabilities	6,105	7,457	8,394	7,559	6,808
Equity capital	773	773	773	773	773
Reserves & surplus	37,287	41,713	43,915	52,991	62,607
Shareholders' fund	38,060	42,485	44,688	53,764	63,380
<b>Total liab. and equities</b>	<b>91,689</b>	<b>1,03,422</b>	<b>1,00,946</b>	<b>1,18,467</b>	<b>1,32,321</b>
Cash and cash eq.	11,618	2,826	5,677	4,084	6,617
Accounts receivables	3,161	3,978	3,712	4,493	5,569
Inventories	6,867	11,136	7,779	10,183	12,181
Other current assets	9,000	13,648	6,348	9,723	9,782
Investments	8,070	17,448	22,604	20,389	21,060
Net fixed assets	46,469	51,716	51,121	67,939	75,651
CWIP	6,384	2,526	3,551	1,500	1,300
Intangible assets	121	145	154	157	160
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>91,689</b>	<b>1,03,422</b>	<b>1,00,946</b>	<b>1,18,467</b>	<b>1,32,320</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>9,687</b>	<b>6,108</b>	<b>15,216</b>	<b>10,317</b>	<b>12,673</b>
Capital expenditures	(5,094)	(3,583)	(3,661)	(17,513)	(11,167)
Change in investments	(2,408)	(9,378)	(5,156)	2,215	(671)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(7,501)</b>	<b>(12,960)</b>	<b>(8,817)</b>	<b>(15,298)</b>	<b>(11,838)</b>
Equities issued/Others	729	(761)	(2,296)	2,426	78
Debt raised/repaid	4,046	1,242	(125)	2,311	2,970
Interest expenses	0	0	0	0	0
Dividends paid	(1,356)	(1,159)	(1,159)	(1,356)	(1,356)
Other financing cash flows	(298)	(1,262)	32	6	7
<b>Cash flow from financing</b>	<b>3,121</b>	<b>(1,940)</b>	<b>(3,548)</b>	<b>3,387</b>	<b>1,699</b>
<b>Chg in cash &amp; cash eq.</b>	<b>5,307</b>	<b>(8,792)</b>	<b>2,851</b>	<b>(1,594)</b>	<b>2,534</b>
<b>Closing cash &amp; cash eq.</b>	<b>11,618</b>	<b>2,826</b>	<b>5,677</b>	<b>4,083</b>	<b>6,618</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	99.6	98.5	72.8	103.5	140.9
Adjusted EPS	99.6	98.5	72.8	103.5	140.9
Dividend per share	15.0	15.0	15.0	15.0	15.0
Book value per share	492.6	549.8	578.3	695.8	820.3

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	4.5	3.8	3.3	2.7	2.3
EV/EBITDA	19.7	21.7	25.6	16.2	12.2
Adjusted P/E	33.8	34.2	46.2	32.5	23.9
P/BV	6.8	6.1	5.8	4.8	4.1

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	66.4	69.6	70.3	67.0	68.0
Interest burden (PBT/EBIT)	83.9	81.4	75.4	73.3	75.9
EBIT margin (EBIT/Revenue)	22.2	17.8	12.1	14.9	16.6
Asset turnover (Rev./Avg TA)	73.2	77.2	85.9	99.6	101.3
Leverage (Avg TA/Avg Equity)	2.5	2.4	2.3	2.2	2.1
<b>Adjusted ROAE</b>	<b>22.2</b>	<b>18.9</b>	<b>12.9</b>	<b>16.2</b>	<b>18.6</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	15.5	20.8	16.6	24.6	16.2
EBITDA	27.3	(6.1)	(16.1)	60.8	33.1
Adjusted EPS	33.0	(1.2)	(26.0)	42.2	36.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	22.8	17.7	12.7	16.4	18.8
EBIT margin	22.2	17.8	12.1	14.9	16.6
Adjusted profit margin	12.3	10.1	6.4	7.3	8.6
Adjusted ROAE	22.2	18.9	12.9	16.2	18.6
ROCE	20.0	17.1	12.7	18.0	20.7
<b>Working capital days (days)</b>					
Receivables	19	19	15	15	16
Inventory	40	54	32	34	35
Payables	56	39	29	59	59
<b>Ratios (x)</b>					
Gross asset turnover	1.0	1.0	1.2	1.2	1.2
Current ratio	1.8	1.5	1.5	1.3	1.4
Net interest coverage ratio	6.2	5.4	4.1	3.8	4.2
<b>Adjusted debt/equity</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets



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**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

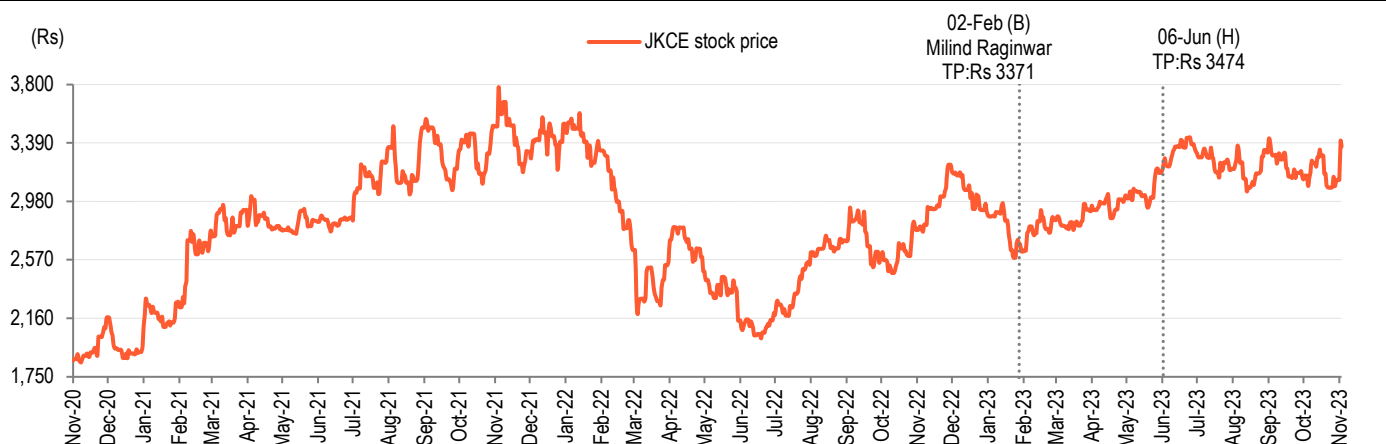
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): JK CEMENT (JKCE IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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