

**HOLD**  
 TP: Rs 4,121 | ▼ 0%

**JK CEMENT**

| Cement

| 24 January 2024

**Healthy performance but priced in**

- Q3 revenue grew 22% YoY to Rs 27.8bn as new grey cement capacities aided 17% volume growth and realisation improved 5%
- EBITDA spiked to Rs 6.1bn with healthy margins of 21.8%, partly supported by Rs 1.2bn inventory adjustment
- TP revised to Rs 4,121 (vs. Rs 3,578) as we roll valuations over to FY26E; maintain HOLD

Milind Raginwar | Shree Kirloskar  
 research@bobcaps.in

**Healthy topline growth continues:** JKCE reported 22%/8% YoY/QoQ standalone revenue growth to Rs 27.8bn in Q3FY24. Grey cement volumes at 4.2mn tonnes increased 17%/6% YoY/QoQ while realisation improved 5%/4% to Rs 5,164/t. White cement volumes (including putty) grew 10%/3% YoY/QoQ to 0.4mt and realisation was flat YoY but grew 2.5% QoQ to Rs 12,877/t.

**Margins double as cost savings continue:** Operating costs fell 8% YoY (-3% QoQ) to Rs 4,756/t as raw material-adjusted energy cost dropped 22% (-10% QoQ) to Rs 1,971/t due to reduced pet coke prices. Logistics cost rose 4%/11% YoY/QoQ to Rs 1,290/t owing to added lead distance to service new markets and busy season surcharge. Other expenditure increased 13% YoY (-5% QoQ) to Rs 4.2bn. Fuel cost savings and a Rs 1.2bn inventory adjustment saw EBITDA surge 2.3x YoY to Rs 6.1bn with strong margin gains to 21.8%. EBITDA/t doubled YoY to Rs 1,330/t.

**Expansion plans on track:** JKCE's 1.5mtpa greenfield Ujjain expansion has been commissioned in Q3FY24 and the 2mt greenfield Panna expansion is due by Q2FY25. The company has also announced a 6mt expansion in Central India (3mt grinding unit in Bihar and 1mt each in Panna, Hamirpur & Prayagra) and 3.3mt clinker line II at Panna at a total project cost of ~Rs 28.5bn, with commissioning within 24 months. Further, an 18MW WHRS unit at Karnataka is expected to be commissioned by Q1FY25.

**Positives priced in, retain HOLD:** We maintain our FY24/FY25 estimates and introduce FY26 forecasts, modelling for an EBITDA/PAT CAGR of 34%/31% over FY23-FY26. Factoring in higher depreciation and interest payment following capex execution, EPS growth is projected to be relatively slower in FY26. Even so, our TP rises to Rs 4,121 (from Rs 3,578) as we roll valuations over to FY26. Our target FY26E EV/EBITDA multiple remains at 13x target EV/EBITDA multiple, premium to its long-term average – to account for both JKCE's healthy growth outlook and balance sheet stress in the capex phase. Maintain HOLD as the positives appear priced in at current valuations.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	JKCE IN/Rs 4,138
Market cap	US\$ 3.9bn
Free float	54%
3M ADV	US\$ 6.9mn
52wk high/low	Rs 4,211/Rs 2,540
Promoter/FPI/DII	46%/16%/22%

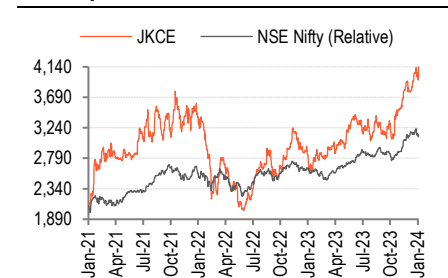
Source: NSE | Price as of 24 Jan 2024

**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	107.0	134.0
Adj. ROAE (%)	12.9	16.2	18.6
Adj. P/E (x)	56.8	40.0	29.4
EV/EBITDA (x)	31.0	19.5	14.7
Adj. EPS growth (%)	(26.0)	42.2	36.1

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q3FY24	Q2FY24	Our view
Volumes	<p>Grey cement volumes grew 17% YoY (+6% QoQ) to ~4.2mt in Q3FY24 while consolidated white cement volumes grew 10% YoY (+3% QoQ) to 0.42mt. The white cement segment grew 5% YoY during 9MFY24 amidst stiff competition, especially in the putty segment.</p>	<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>Healthy volume growth will help JKCE to retain market share in the medium term.</p>
Margins	<p>Fuel cost in Q3FY24 was ~Rs 1.8/kcal and could marginally reduce in Q4FY24 as management expects pet coke cost to fall. Logistics cost increased 4%/11% YoY/QoQ to Rs 1,290/t as a result of higher lead distance to service new markets and busy season surcharge on rail dispatches.</p> <p>Overall cost savings in Q3FY24 totalled ~Rs 100/t; management expects to save Rs 30-40/t in Q4.</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%/6% YoY/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>JKCE's margin gain was contributed by fuel cost savings and higher clinker inventory.</p>
Expansion	<p>The 1.5mt Ujjain grinding unit expansion has been commissioned in Q3FY24 while the 2mt Panna expansion is expected to be complete by Q2FY25.</p> <p>Management has proposed a 6mt expansion in Central India (3mt additional grinding unit in Bihar, 1mt each at Panna, Hamirpur &amp; Prayagra). A 3.3mt clinker line-II at Panna has also been approved.</p> <p>The 18MW WHRS capacity at Karnataka is expected to be commissioned by Q1FY25.</p>	<p>JKCE's 1.5mt 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. 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>JKCE is consolidating its central region presence which we believe will boost earnings in the medium term.</p>
Capex	<p>Capex incurred till Q3FY24 is ~Rs 9bn and capex guidance for FY24 has been revised from Rs 14bn to ~Rs 12bn. Management indicated that the guidance shortfall of ~Rs 2bn shall be carried forward in the outlay for FY25, which is guided at ~Rs 22bn (~Rs 18bn in FY26).</p>	<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>Capex years are not impacting balance sheet health but do weigh on marginal risk.</p>
Other key points	<p>Gross debt and net debt as at Q3FY24 stood at Rs 45.8bn and Rs 30bn respectively. Post capex, peak gross debt is expected to reach Rs 55bn by FY26. Net Debt to EBITDA for Q3FY24 was 1.6x.</p> <p>Revenue from the paints segment stood at Rs 1bn for 9MFY24 with an EBITDA loss of Rs 150mn. Management is targeting a topline of Rs 2.5bn-3bn by FY25.</p>	<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>A steady pickup is visible in JKCE's other segments.</p>

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

**Fig 2 – Key metrics**

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Aggregate volumes (mn mt)	4.6	3.9	16.4	4.3	5.4
Grey cement (mn mt)	4.2	3.5	17.1	3.9	5.6
White Cement and Putty (mn mt)	0.4	0.4	10.3	0.4	3.3
Aggregate realisations (Rs/mt)	6,086	5,821	4.5	5,919	2.8
Operating costs (Rs/mt)	4,756	5,152	(7.7)	4,890	(2.7)
Aggregate EBITDA (Rs/mt)	1,330	669	98.9	1,028	29.3

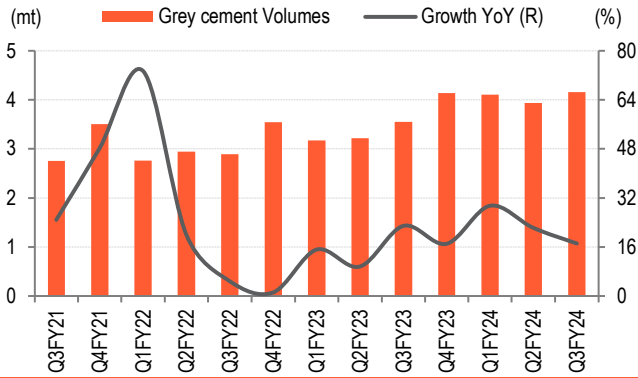
Source: Company, BOBCAPS Research

**Fig 3 – Quarterly performance**

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
<b>Net Sales</b>	<b>27,848</b>	<b>22,880</b>	<b>21.7</b>	<b>25,707</b>	<b>8.3</b>
<b>Expenditure</b>					
Change in stock	(1,187.5)	29.3	-	(431.8)	175.0
Raw material	4,056	3,387	19.7	3,976	2.0
Stores and Spares	0	0	0.0	0	0.0
purchased products	853	367	132.2	679	25.6
Power & fuel	6,153	6,470	(4.9)	5,952	3.4
Freight	5,905	4,876	21.1	5,040	17.2
Employee costs	1,820	1,420	28.2	1,650	10.3
Other expenses	4,164	3,702	12.5	4,376	(4.9)
Total Operating Expenses	21,764	20,252	7.5	21,241	2.5
<b>EBITDA</b>	<b>6,084</b>	<b>2,628</b>	<b>131.5</b>	<b>4,467</b>	<b>36.2</b>
EBITDA margin (%)	21.8	11.5	1,036bps	17.4	447bps
Other Income	352	218	61.3	278	26.8
Interest	1,109	658	68.6	1,091	1.7
Depreciation	1,178	903	30.5	1,196	(1.5)
PBT	4,149	1,286	222.7	2,457	68.9
Non-recurring items	0.0	0.0	-	0.0	-
PBT (after non-recurring items)	4,149	1,286	222.7	2,457	68.9
Tax	1,254	320	291.9	668	87.9
Reported PAT	2,895	966	199.7	1,789	61.8
<b>Adjusted PAT</b>	<b>2,895</b>	<b>966</b>	<b>199.7</b>	<b>1,789</b>	<b>61.8</b>
NPM (%)	10.4	4.2	617bps	7.0	343bps
<b>Adjusted EPS (Rs)</b>	<b>37.5</b>	<b>12.5</b>	<b>199.7</b>	<b>23.2</b>	<b>61.8</b>

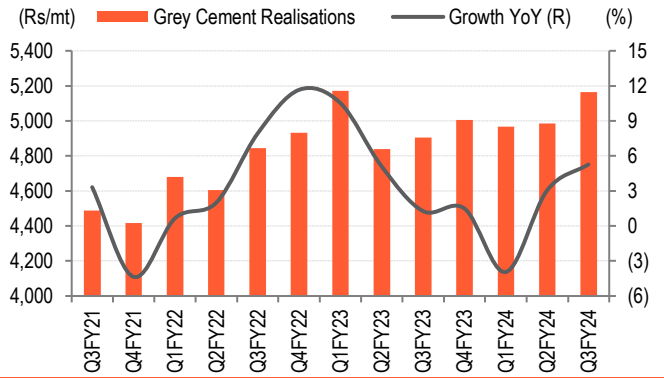
Source: Company, BOBCAPS Research

**Fig 4 – New capacities aided volume growth (grey cement)**



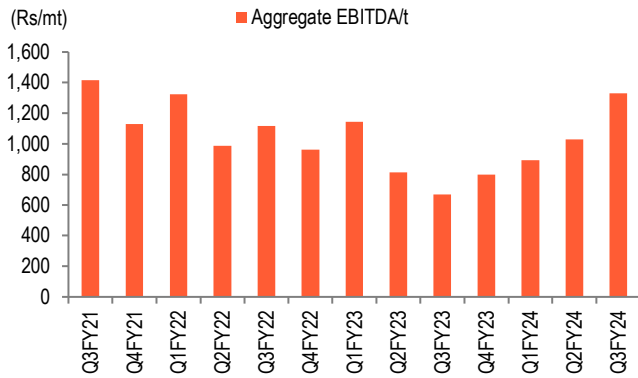
Source: Company, BOBCAPS Research

**Fig 5 – Better region mix helped realisation gains**



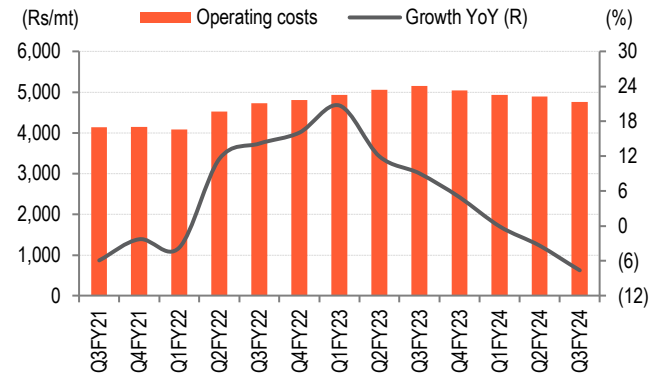
Source: Company, BOBCAPS Research

**Fig 6 – Better realisation and cost savings boosted EBITDA/t**



Source: Company, BOBCAPS Research

**Fig 7 – High fuel inventory used up in Q2, leading to operating cost savings**



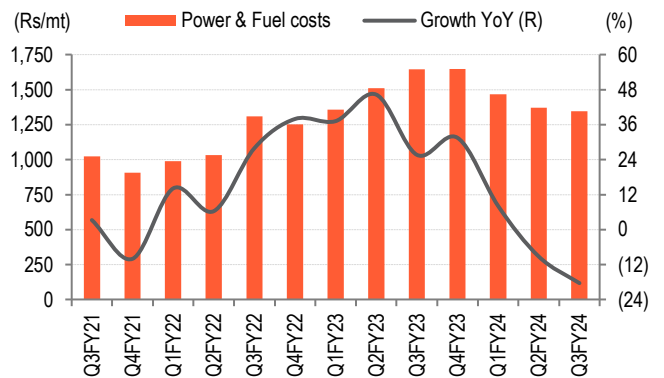
Source: Company, BOBCAPS Research

**Fig 8 – Freight cost inched up on account of new market seeding**



Source: Company, BOBCAPS Research

**Fig 9 – High fuel cost inventory behind JKCE, more savings estimated in Q4**



Source: Company, BOBCAPS Research

## Valuation methodology

We maintain our FY24/FY25 estimates and introduce FY26 forecasts, modelling for an EBITDA/PAT CAGR of 34%/31% over FY23-FY26. Factoring in higher depreciation and interest payment following capex execution, EPS growth is projected to be relatively slower in FY26. Even so, our TP rises to Rs 4,121 (from Rs 3,578) as we roll valuations over to FY26.

Our target EV/EBITDA multiple remains at 13x premium to its long-term average – to account for both JKCE’s healthy growth outlook and balance sheet stress in the capex phase. We maintain HOLD as the positives appear priced in at current valuations of 13x on FY26E EV/EBITDA.

**Fig 10 – Key assumptions**

Parameter	FY23	FY24E	FY25E	FY26E
Volumes (mt)	13.4	17.5	20.3	23.3
Realisations (Rs/mt)	4,656	4,702	4,749	4,820
Operating costs (Rs/mt)	5,700	5,230	5,089	5,183
EBITDA/mt (Rs/mt)	746	945	1,095	1,078

Source: Company, BOBCAPS Research

**Fig 11 – Valuation summary**

Business (Rs mn)	FY25E
Target EV/EBITDA (x)	13.0
EBITDA	26,913
Target EV	361,708
Total EV	361,708
Net debt	43,286
Target market capitalisation	3,18,422
<b>Target price (Rs/sh)</b>	<b>4,121</b>
Weighted average shares (mn)	77

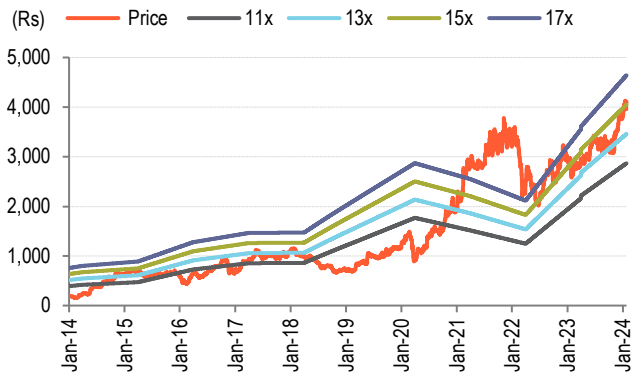
Source: BOBCAPS Research

**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	4,121	19.5	14.7	10.8	160	161	161	16.2	18.6	18.6	18.0	20.7	19.8
DALBHARA IN	HOLD	2,286	17.6	15.4	11.3	126	109	107	4.0	6.3	11.1	5.4	7.2	10.9
TRCL IN	SELL	585	25.5	17.8	14.7	134	133	135	5.2	8.3	10.4	5.8	8.7	10.5

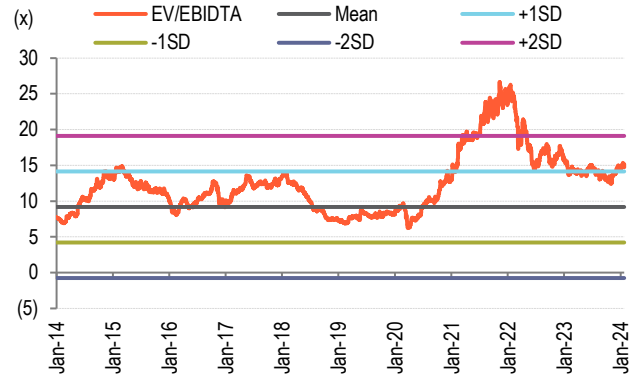
Source: BOBCAPS Research

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



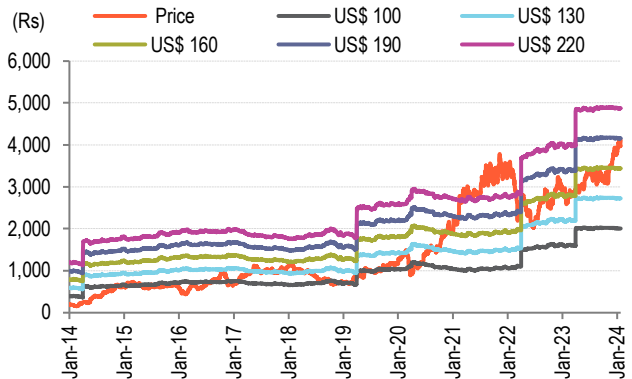
Source: Bloomberg, BOBCAPS Research

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



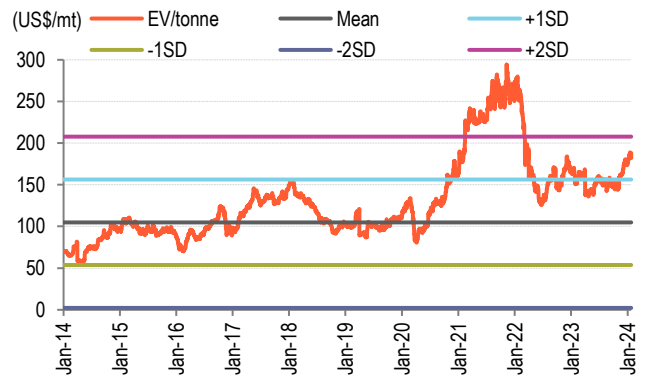
Source: Bloomberg, BOBCAPS Research

**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

- Faster softening of fuel cost can take margins ahead of our estimates, representing a key upside risk to our estimates.
- Adverse pricing in Central India and delays in capacity addition represent key downside risks.

### Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Dalmia Bharat	DALBHARA IN	4.9	2,155	2,286	HOLD
JK Cement	JKCE IN	3.9	4,138	4,121	HOLD
JK Lakshmi Cement	JKLC IN	1.3	883	551	SELL
Orient Cement	ORCMNT IN	0.7	280	128	SELL
The Ramco Cements	TRCL IN	2.8	963	661	SELL
Ultratech Cement	UTCEM IN	35.1	9,991	11,510	BUY

Source: BOBCAPS Research, NSE | Price as of 24 Jan 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Total revenue</b>	<b>75,291</b>	<b>87,768</b>	<b>1,09,319</b>	<b>1,27,032</b>	<b>1,47,690</b>
EBITDA	13,325	11,175	17,964	23,918	26,913
Depreciation	(2,820)	(3,615)	(4,830)	(6,016)	(6,758)
EBIT	13,429	10,608	16,277	21,083	23,376
Net interest inc./(exp.)	(2,493)	(2,605)	(4,339)	(5,072)	(6,019)
Other inc./(exp.)	2,924	3,048	3,143	3,181	3,221
Exceptional items	0	0	0	0	0
EBT	10,936	8,003	11,938	16,011	17,357
Income taxes	(3,329)	(2,377)	(3,940)	(5,123)	(4,513)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>7,608</b>	<b>5,626</b>	<b>7,999</b>	<b>10,887</b>	<b>12,844</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>7,608</b>	<b>5,626</b>	<b>7,999</b>	<b>10,887</b>	<b>12,844</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	6,691	6,042	14,767	16,668	19,523
Other current liabilities	13,284	8,343	6,563	6,629	6,695
Provisions	1,303	1,402	1,426	1,479	1,536
Debt funds	32,201	32,077	34,388	37,357	47,171
Other liabilities	7,457	8,394	7,559	6,808	6,132
Equity capital	773	773	773	773	773
Reserves & surplus	41,713	43,915	52,991	62,607	74,196
Shareholders' fund	42,485	44,688	53,764	63,380	74,969
<b>Total liab. and equities</b>	<b>1,03,422</b>	<b>1,00,946</b>	<b>1,18,467</b>	<b>1,32,320</b>	<b>1,56,027</b>
Cash and cash eq.	2,826	5,677	4,084	6,617	3,885
Accounts receivables	3,978	3,712	4,493	5,569	6,474
Inventories	11,136	7,779	10,183	12,181	14,162
Other current assets	13,648	6,348	9,723	9,782	10,415
Investments	17,448	22,604	20,389	21,060	21,764
Net fixed assets	51,716	51,121	67,939	75,651	94,117
CWIP	2,526	3,551	1,500	1,300	5,046
Intangible assets	145	154	157	160	163
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>1,03,422</b>	<b>1,00,946</b>	<b>1,18,467</b>	<b>1,32,320</b>	<b>1,56,026</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Cash flow from operations</b>	<b>6,108</b>	<b>15,216</b>	<b>10,317</b>	<b>12,673</b>	<b>15,737</b>
Capital expenditures	(3,583)	(3,661)	(17,513)	(11,167)	(26,324)
Change in investments	(9,378)	(5,156)	2,215	(671)	(704)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(12,960)</b>	<b>(8,817)</b>	<b>(15,298)</b>	<b>(11,838)</b>	<b>(27,028)</b>
Equities issued/Others	(761)	(2,296)	2,426	78	94
Debt raised/repaid	1,242	(125)	2,311	2,970	9,814
Interest expenses	0	0	0	0	0
Dividends paid	(1,159)	(1,159)	(1,356)	(1,356)	(1,356)
Other financing cash flows	(1,262)	32	6	7	7
<b>Cash flow from financing</b>	<b>(1,940)</b>	<b>(3,548)</b>	<b>3,387</b>	<b>1,699</b>	<b>8,559</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(8,792)</b>	<b>2,851</b>	<b>(1,594)</b>	<b>2,534</b>	<b>(2,732)</b>
<b>Closing cash &amp; cash eq.</b>	<b>2,826</b>	<b>5,677</b>	<b>4,083</b>	<b>6,618</b>	<b>3,886</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	98.5	72.8	103.5	140.9	166.2
Adjusted EPS	98.5	72.8	103.5	140.9	166.2
Dividend per share	15.0	15.0	15.0	15.0	15.0
Book value per share	549.8	578.3	695.8	820.3	970.2

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	4.6	3.9	3.2	2.8	2.0
EV/EBITDA	26.2	31.0	19.5	14.7	10.8
Adjusted P/E	42.0	56.8	40.0	29.4	24.9
P/BV	7.5	7.2	5.9	5.0	4.3

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	69.6	70.3	67.0	68.0	74.0
Interest burden (PBT/EBIT)	81.4	75.4	73.3	75.9	74.3
EBIT margin (EBIT/Revenue)	17.8	12.1	14.9	16.6	15.8
Asset turnover (Rev./Avg TA)	77.2	85.9	99.6	101.3	102.4
Leverage (Avg TA/Avg Equity)	2.4	2.3	2.2	2.1	2.1
Adjusted ROAE	18.9	12.9	16.2	18.6	18.6

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	20.8	16.6	24.6	16.2	16.3
EBITDA	(6.1)	(16.1)	60.8	33.1	12.5
Adjusted EPS	(1.2)	(26.0)	42.2	36.1	18.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	17.7	12.7	16.4	18.8	18.2
EBIT margin	17.8	12.1	14.9	16.6	15.8
Adjusted profit margin	10.1	6.4	7.3	8.6	8.7
Adjusted ROAE	18.9	12.9	16.2	18.6	18.6
ROCE	17.1	12.7	18.0	20.7	19.8
<b>Working capital days (days)</b>					
Receivables	19	15	15	16	16
Inventory	54	32	34	35	35
Payables	39	29	59	59	59
<b>Ratios (x)</b>					
Gross asset turnover	1.0	1.2	1.2	1.2	1.1
Current ratio	1.5	1.5	1.3	1.4	1.3
Net interest coverage ratio	5.4	4.1	3.8	4.2	3.9
Adjusted debt/equity	0.8	0.7	0.6	0.6	0.6

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

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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

**BUY** – Expected return >+15%

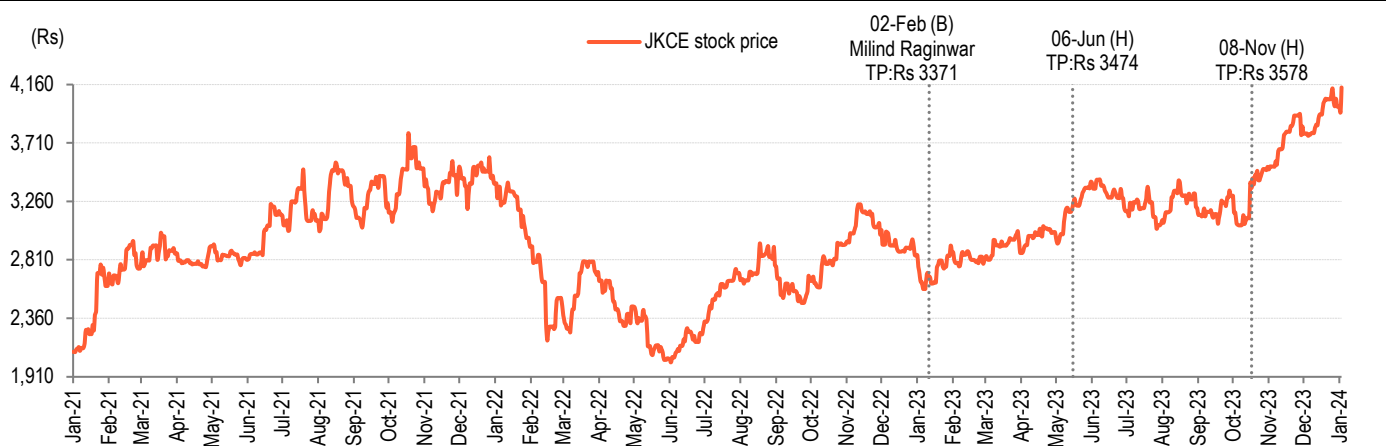
**HOLD** – Expected return from -6% to +15%

**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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