FIRST LIGHT

07 June 2023

RESEARCH

JK CEMENT | TARGET: Rs 3,474 | +8% | HOLD

Outlook intact; downgrade to HOLD on rich valuations

VOLTAS | TARGET: Rs 900 | +9% | HOLD

Annual report analysis: A challenging year

Daily macro indicators

Ticker	02-Jun	05-Jun	Chg (%)
US 10Y yield (%)	3.69	3.68	(1bps)
India 10Y yield (%)	6.98	7.00	1bps
USD/INR	82.30	82.68	(0.5)
Brent Crude (US$/bbl)	76.1	76.7	0.8
Dow	33,763	33,563	(0.6)
Hang Seng	18,950	19,109	0.8
Sensex	62,547	62,787	0.4
India FII (US$ mn)	**01-Jun**	**02-Jun**	**Chg ($ mn)**
FII-D	3.8	38.9	35.1
FII-E	321.6	78.1	(243.5)

Source: Bank of Baroda Economics Research

SUMMARY

JK CEMENT

- Volume growth healthy including contribution from the new Panna unit that has attained 60% capacity utilisation
- High-cost inventory a dampener; benefits of easing commodity cost to flow from Q1FY24, likely helping EBITDA/t reach ~Rs 1,000
- We revise FY24/FY25 EPS by -7%/+2% and raise our TP to Rs 3,474 (vs. Rs 3,371). Cut to HOLD from BUY on limited upside

Click here **for the full report.**

VOLTAS

- FY23 saw competition denting margins in VOLT's AC business and provisioning losses in the projects business
- Medium-term outlook remains positive given under-penetration of ACs in India and product diversification via Beko
- Stiff competitive headwinds lead us to retain HOLD; TP unchanged at Rs 900

Click here **for the full report.**

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RESULT REVIEW

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 3,474 | ⮝ 8%

JK CEMENT | Cement | 06 June 2023

Outlook intact; downgrade to HOLD on rich valuations

- **Volume growth healthy including contribution from the new Panna unit that has attained 60% capacity utilisation**
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Steady topline: JKCE reported 5%/4% YoY/QoQ standalone revenue growth of Rs 23.8bn in Q4FY23. Grey cement volumes at 3.5mn tonnes were flat YoY/QoQ while realisation improved 2%/3% YoY/QoQ to Rs 5,046/t due to higher trade share and lower clinker sales. White cement volumes (incl. putty) grew by 7%/10% YoY/QoQ to 0.4mt and realisation increased 5% YoY (flat QoQ) to Rs 12,789/t.

Margins recover QoQ on pet coke softening, slides YoU: Operating costs increased 6% YoY (-1% QoQ) to Rs 5,092/t as energy cost (adj. for raw material cost) grew by 5% YoY (-10% QoQ) to Rs 2,258/t. Logistics cost moved up 2% YoY (-3% QoQ) to Rs 1,198/t as lead time expanded due to seeding of new markets. EBITDA fell 6% YoY (+36% QoQ) to Rs 3.6bn with 170bps YoY margin contraction (but 354bps QoQ expansion) to 15.2%. Aggregate EBITDA/t fell by 6% YoY (+34% QoQ) to Rs 911/t and adj. PAT reduced 26% YoY (+66% QoQ) to Rs 1.6bn.

Contribution from Panna: The Panna (Madhya Pradesh) plant achieved 60% utilisation in Q4FY23, i.e. volume contribution of ~0.6mt. Revenue from Central India markets totalled Rs 2.8bn and EBITDA Rs 20mn after one-off expenses of Rs 12mn. Management expects total sale volumes of 2.5-3mt for FY24.

Capacity expansion plans: Management expects the 1.5mtpa Ujjain (Madhya Pradesh) grinding unit to be commissioned in FY24. The Prayagraj (Uttar Pradesh) grinding unit is due by Q2FY25. JKCE indicated that Panna ph-2 will be prioritised over greenfield expansion in the north (land acquisition to be completed in FY24). Inorganic expansion in East India will add to revenue/earnings but we await clarity.

Upside capped; cut to HOLD: We revise our EPS estimate for FY24 down by 7% to factor in short-term pricing pressure and for FY25 up by 2% assuming softening costs and healthy prices. Following our estimate changes, our TP rises to Rs 3,474 (vs. Rs 3,371), based on an unchanged 12.5x FY25E EV/EBITDA multiple. JKCE's growth outlook remains healthy and we expect the company to maintain a steady balance sheet and strong return ratios. However, the recent run-up in stock price leaves limited upside potential and hence we downgrade our rating from BUY to HOLD.

Key changes

Target	Rating
▲	▼

Ticker/Price	JKCE IN/Rs 3,208
Market cap	US$ 3.0bn
Free float	54%
3M ADV	US$ 4.0mn
52wk high/low	Rs 3,290/Rs 2,004
Promoter/FPI/DII	46%/16%/22%

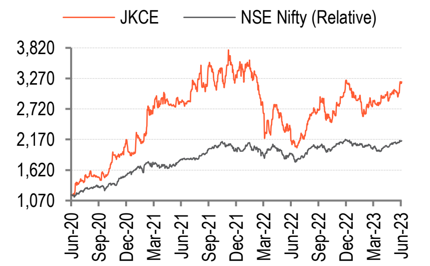
Source: NSE | Price as of 5 Jun 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	89,986	1,03,621	1,20,392
EBITDA (Rs mn)	13,393	17,215	23,816
Adj. net profit (Rs mn)	5,648	8,795	12,289
Adj. EPS (Rs)	73.1	113.8	159.0
Consensus EPS (Rs)	73.1	112.7	147.3
Adj. ROAE (%)	12.6	17.3	20.4
Adj. P/E (x)	43.9	28.2	20.2
EV/EBITDA (x)	20.6	16.2	11.6
Adj. EPS growth (%)	(25.8)	55.7	39.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

COMPANY UPDATE

HOLD

TP: Rs 900 | ⮝ 9%

VOLTAS | Consumer Durables | 06 June 2023

Annual report analysis: A challenging year

- **FY23 saw competition denting margins in VOLT's AC business and provisioning losses in the projects business**
- **Medium-term outlook remains positive given under-penetration of ACs in India and product diversification via Beko**
- **Stiff competitive headwinds lead us to retain HOLD; TP unchanged at Rs 900**

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Challenges galore: FY23 was a difficult year for VOLT as competitors chipped away at its leadership in room ACs, pulling down its market share to 21.6% from 23.4% in FY22 and a peak of 27% in Q2FY21. Segmental EBIT margin contracted to single digits at 9.6% vs. a 10Y average of 12.2%. However, Q3FY23 closed with 10% margins, riding on summer demand. The EMP business also underperformed as a provision of ~Rs 2.5bn toward encashment of bank guarantees resulted in a sharp 73% drop in PAT to Rs 1.4bn despite ~20% topline growth. VOLT's strategy for supply integration also faltered as it had to call off its compressor JV with Highly.

Expanding consumer durables footprint: The medium-term outlook remains positive as VOLT continues to expand its footprint beyond RACs. In four years, Voltbek has sold an impressive 3.3mn units of refrigerators and washing machines, introduced a new line of home appliances, including 'Smart Hygiene' dishwashers, frost-free refrigerators and top-load washing machines, and is aggressively targeting a doubling of its presence in India to 15,000 outlets. Further, VOLT has entered into a technology license agreement with Vestfrost Solutions of Denmark for medical refrigeration and vaccine storage equipment, marking a foray into the biomedical and cold chain industry.

EMP opportunities robust: In the domestic market, VOLT is targeting major solar, underground cabling and rural electrification projects. Water management is another focus area where it can handle the entire water treatment process. In the international business, the Dubai government's 'D33' economic agenda adds visibility for new project opportunities. Further, the upcoming Palm Jebel Ali project could be a game-changer for the EMP business, being nearly four times the size of Palm Jumeirah.

Balance sheet remains sound: VOLT maintains a strong balance sheet with cash and equivalents of Rs 26bn despite a weak FY23. Planned capex of Rs 3.5bn-5bn over the next year and a half toward backward integration is unlikely to be a stretch.

Maintain HOLD: Given market share bleed amid intensifying competition, we retain our HOLD rating on the stock. Our TP remains at Rs 900 as we continue to value the stock at 40x FY25E EPS, 11% premium to the long-term average 2Y fwd P/E.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	VOLT IN/Rs 823
Market cap	US$ 3.3bn
Free float	70%
3M ADV	US$ 11.3mn
52wk high/low	Rs 1,065/Rs 737
Promoter/FPI/DII	30%/21%/33%

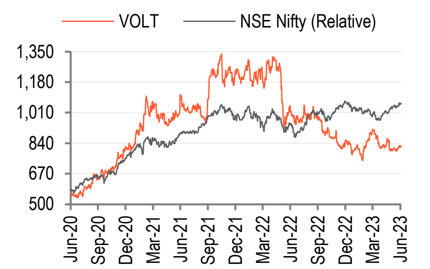
Source: NSE | Price as of 5 Jun 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	94,988	1,07,632	1,27,104
EBITDA (Rs mn)	5,724	8,631	10,941
Adj. net profit (Rs mn)	3,788	5,866	7,471
Adj. EPS (Rs)	11.4	17.7	22.6
Consensus EPS (Rs)	11.4	22.7	27.9
Adj. ROAE (%)	6.9	10.4	12.3
Adj. P/E (x)	71.9	46.4	36.5
EV/EBITDA (x)	47.6	31.6	24.9
Adj. EPS growth (%)	(24.8)	54.9	27.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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

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