

**HOLD**  
 TP: Rs 4,431 | ▼ 1%

**JK CEMENT**

Cement

23 July 2024

**Valuations run up faster than earnings; downgrade to HOLD**

- Grey cement volumes at 4.3mt (excluding clinker volumes) grew by ~6% YoY (-7% QoQ) owing to listless demand
- EBITDA jumped 19% YoY (-13% QoQ) to ~Rs 4.8bn, EBITDA margin rose by 280bps YoY due to lower energy cost YoY
- We trim FY25E/FY26E EBITDA by 8%/5%, value JKCE at 14x 1Y forward EV/EBITDA and lower TP to Rs 4,431. Downgrade to HOLD

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**Muted revenue despite volume growth as realisations drag:** JKCE reported flat YoY (-10% QoQ) growth in revenues at ~Rs 26.4bn in Q1FY25 largely assisted by healthy grey cement volume growth. Grey cement volumes at 4.3mt (excluding clinker volumes) grew by ~6% YoY (-7% QoQ) owing to listless demand in JKCE's key region of operations. However, grey cement realisation fell by ~6%/5% YoY/QoQ to Rs 4,670/t indicating weak demand.

**Cost savings drove margins YoY, flat QoQ:** The overall cost fell 7%/3% YoY/QoQ to Rs 4,581/t, attributed to the lower energy cost which fell by 23% YoY (flat QoQ) to 1,136/t due to fuel prices falling to Rs 1.62/kcal from Rs 2.19/kcal YoY. Logistics cost was flat YoY and fell 2% QoQ to Rs 1,251/t due to lower lead distance of 415km from 426km/419km YoY/QoQ. Other expenditure fell by 3% YoY to Rs 3.9bn with potential to reverse, in our view. The trade mix reduced to 63% from 61% QoQ.

**Cost offset realisation weakness, EBITDA/margins gain:** EBITDA jumped 19% YoY (-13% QoQ) to ~Rs 4.8bn, EBITDA margin rose by 280bps YoY due to lower energy cost YoY offsetting weak realisations. The aggregate EBITDA/t rose sharply to Rs 1,014, ~14% higher YoY but down 6% QoQ.

**Expansion plans on track:** JKCE's 2mt greenfield Prayagraj grinding unit (GU) is due by Q2FY25. JKCE has announced a 3.3mt clinker line-II at Panna (with 1mt GU) to be completed by Q2/Q3FY26. The 3mt grinding unit in Bihar and 1mt each in Hamirpur and Prayagraj will be completed by 2HFY26. The total estimated project cost is ~Rs 28.5bn.

**Valuations ran up fast; downgrade to HOLD:** We trim our FY25/FY26 EBITDA estimates by 8%/5% due to weakness in the demand and supply hangover. We introduce FY27E with an EBITDA/PAT CAGR of 22% over FY24-27E. JKCE's long-term growth outlook continues to be healthy with timely capex, improving earnings quality and less balance sheet stress in the capex phase. However, valuations have run up faster than we expected. We value JKCE at 14x 1Y forward EV/EBITDA to arrive at a lower TP of Rs 4,431 (vs Rs 4,538) and downgrade to HOLD from BUY.

**Key changes**

Target	Rating
▼	▼

Ticker/Price	JKCE IN/Rs 4,472
Market cap	US\$ 4.1bn
Free float	54%
3M ADV	US\$ 9.2mn
52wk high/low	Rs 4,600/Rs 3,030
Promoter/FPI/DII	46%/16%/22%

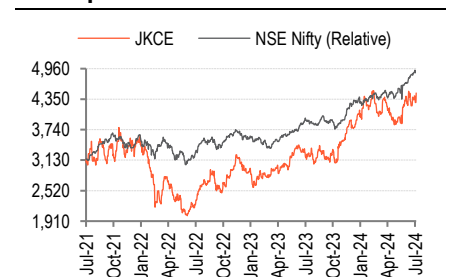
Source: NSE | Price as of 22 Jul 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,05,632	1,23,985	1,44,664
EBITDA (Rs mn)	16,502	22,047	26,322
Adj. net profit (Rs mn)	8,361	11,204	13,675
Adj. EPS (Rs)	108.2	145.0	177.0
Consensus EPS (Rs)	108.2	139.0	158.0
Adj. ROAE (%)	17.2	19.4	19.9
Adj. P/E (x)	41.3	30.8	25.3
EV/EBITDA (x)	23.6	17.8	11.4
Adj. EPS growth (%)	48.6	34.0	22.1

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q1FY25	Q4FY24	Our view
Volumes	<p>Grey cement volumes grew ~6% YoY (-7% QoQ) to ~4.3mt in Q1FY25, while consolidated white cement volumes fell 3%/6% YoY/QoQ to 0.39mt. The white cement segment revenue fell ~2%/6% YoY/QoQ in 1QFY25 amid stiff competition, especially in the putty segment.</p>	<p>Grey cement volumes grew 13% YoY/QoQ to ~4.7mt in Q4FY24, while consolidated white cement volumes fell 2% YoY/QoQ to 0.42mt. The white cement segment revenue fell ~4% YoY in 4QFY24 amid stiff competition, especially in the putty segment.</p>	<p>Performance will be driven by 2H, however challenges to the white cement segment are likely to continue.</p>
Margins	<p>Fuel cost in Q1FY25 eased further and was ~Rs 1.62/kcal and could reduce slightly in FY25 as management expects pet coke cost to reduce marginally. Logistics cost was flat YoY (-2% QoQ) to Rs 1,251/t. The lead distance came down by 9km/4km YoY/QoQ to 415km and prices softened QoQ, but the impact was limited due to region-wise sales breakdown. However, more impact will be reflected in FY25.</p> <p>Management guided for overall cost savings in FY25 of ~Rs 70-80/t.</p>	<p>Fuel cost in Q4FY24 was ~Rs 1.79/kcal and could reduce slightly in FY25 as management expects pet coke cost to reduce marginally. Logistics cost increased 2% YoY (-1% QoQ) to Rs 1,294/t. The lead distance and prices softened QoQ but the impact was limited, which will lead to some more savings in FY25.</p> <p>Management guided for overall cost savings in FY25 of ~Rs 100-150/t.</p>	<p>JKCE's margin gain will be guided by sharp focus on the cost control in the next 12-18 months, driven by lower energy and logistics cost.</p>
Expansion	<p>JKCE's 2mt greenfield Prayagraj GU is due by Q2FY25. JKCE has announced a 3.3mt clinker line-II at Panna (with 1mt GU) will be completed by Q2/Q3FY26. The 3mt grinding unit in Bihar and 1mt each in Hamirpur and Prayagraj will be completed by 2HFY26.</p>	<p>JKCE's 1.5mtpa greenfield Ujjain expansion (grinding unit) is stabilising post commissioning in Q3FY24 and the 2mt greenfield Prayagraj GU is due by Q2FY25.</p> <p>JKCE has announced a 3.3mt clinker line-II at Panna (with 1mt GU) to be completed by Q2/Q3 FY26. The 3mt grinding unit in Bihar and 1mt each in Hamirpur and Prayagraj will be completed by 2HFY26.</p> <p>Further, an 18MW WHRS unit at Karnataka is expected to be commissioned by Q1FY25 and benefits reflecting from Q2FY25.</p>	<p>No major change in the timelines in the capacity expansion plans. All project execution is underway as per earlier guidance.</p>
Capex	<p>The total estimated project cost of the second phase of capex is ~Rs 28.5bn to be spent in a phased manner in FY25/FY26. Management guided for Rs 19bn/Rs 18bn in FY25/FY26.</p>	<p>The total estimated project cost of the second phase of capex is ~Rs 28.5bn to be spent in a phased manner in FY25/FY26. Management guided for Rs 19bn/Rs 18bn in FY25/FY26.</p>	<p>No major change in capex. Capex years are not impacting balance sheet health but do weigh on marginal risk.</p>
Other key points	<p>Gross debt at Q1FY25-end was Rs 45.1bn vs Rs 45.9bn in FY24-end and net debt Rs 28.3bn. Post capex, peak gross debt is expected to reach Rs 55bn by FY26. Net debt to EBITDA for FY24 was 1.3x.</p> <p>Revenue from the paints segment stood at Rs 570mn in Q1FY25 with an EBITDA loss of Rs 100mn. Management is targeting topline of ~Rs 3bn by FY25.</p>	<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>Balance sheet woes are receding and expected to improve if growth momentum takes place post the current lull.</p>

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

**Fig 2 – Key metrics**

Particulars	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)
Aggregate volumes (mn mt)	4.7	4.5	4.8	5.1	(7.2)
Grey cement (mn mt)	4.3	4.1	5.6	4.7	(7.3)
White Cement and Putty (mn mt)	0.4	0.4	(3.3)	0.4	(6.0)
Aggregate realisations (Rs/mt)	6,086	5,821	4.5	5,919	2.8
Operating costs (Rs/mt)	4,581	4,927	(7.0)	4,697	(2.5)
Aggregate EBITDA (Rs/mt)	1,014	893	13.6	1,075	(5.7)

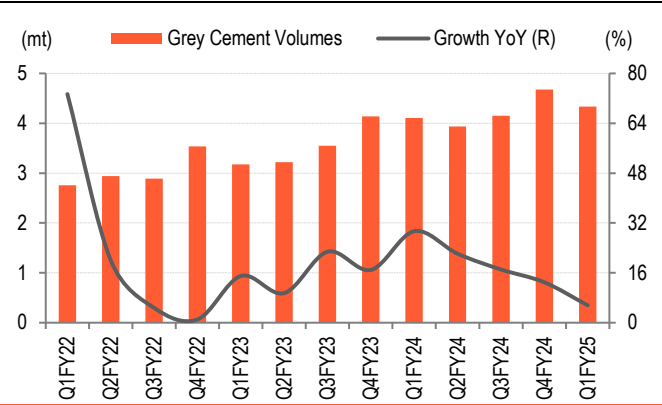
Source: Company, BOBCAPS Research

**Fig 3 – Quarterly performance**

(Rs mn)	1QFY25	1QFY24	YoY%	4QFY24	QoQ %
<b>Net Sales</b>	<b>26,431</b>	<b>26,236</b>	<b>0.7</b>	<b>29,389</b>	<b>(10.1)</b>
<b>Expenditure</b>					
Change in stock	(83.9)	(220.7)	(62.0)	(242.0)	(65.3)
Raw material	3,703	4,079	(9.2)	4,079	(9.2)
Stores and Spares	0	0	0.0	0	0.0
purchased products	851	465	83.0	1,080	(21.1)
Power & fuel	5,369	6,619	(18.9)	5,873	(8.6)
Freight	5,908	5,588	5.7	6,484	(8.9)
Employee costs	1,992	1,665	19.6	1,963	1.4
Other expenses	3,902	4,016	(2.8)	4,678	(16.6)
Total Operating Expenses	21,641	22,212	(2.6)	23,914	(9.5)
<b>EBITDA</b>	<b>4,790</b>	<b>4,024</b>	<b>19.0</b>	<b>5,475</b>	<b>(12.5)</b>
EBITDA margin (%)	18.1	15.3	278bps	18.6	(51bps)
Other Income	438	293	49.5	431	1.6
Interest	1,066	1,055	1.0	1,112	(4.1)
Depreciation	1,245	1,178	5.7	1,307	(4.8)
PBT	2,918	2,085	39.9	3,488	(16.3)
Non-recurring items	0.0	(150.0)	-	95.0	-
PBT (after non-recurring items)	2,918	2,235	30.5	3,393	(14.0)
Tax	891	673	32.5	1,223	(27.2)
Reported PAT	2,027	1,562	29.7	2,170	(6.6)
<b>Adjusted PAT</b>	<b>2,027</b>	<b>1,412</b>	<b>43.5</b>	<b>2,265</b>	<b>(10.5)</b>
NPM (%)	7.7	5.4	228bps	7.7	(4bps)
<b>Adjusted EPS (Rs)</b>	<b>26.2</b>	<b>18.3</b>	<b>43.5</b>	<b>29.3</b>	<b>(10.5)</b>

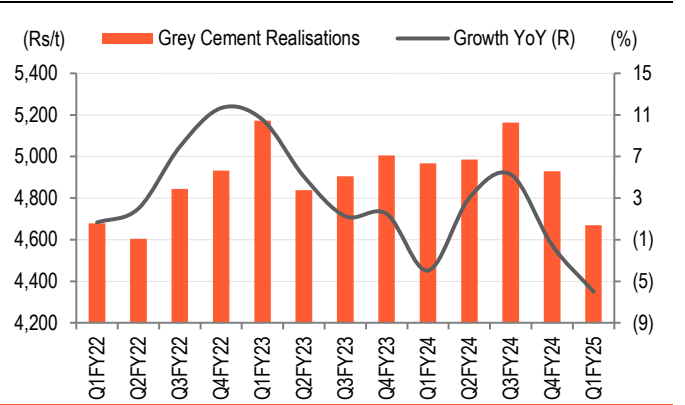
Source: Company, BOBCAPS Research

**Fig 4 – Mid-single digit volume growth in a challenging quarter**



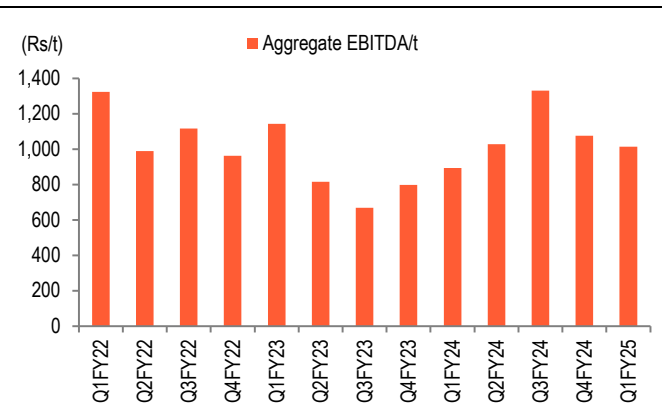
Source: Company, BOBCAPS Research

**Fig 5 – Realisation dent as expected due to weak demand**



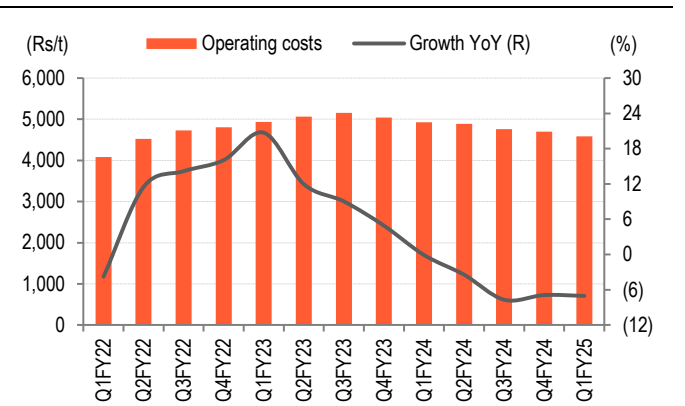
Source: Company, BOBCAPS Research

**Fig 6 – Cost savings key driver to boost EBITDA/t YoY**



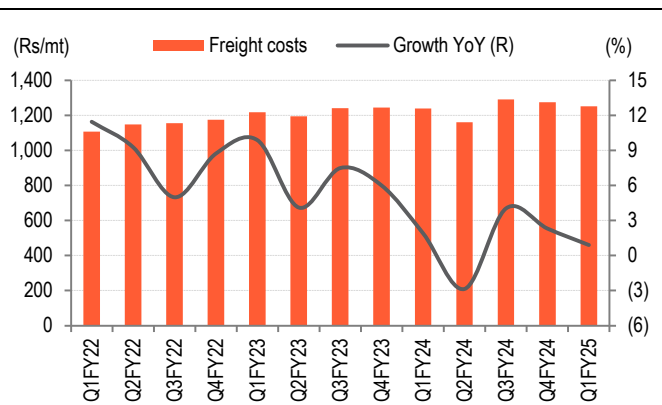
Source: Company, BOBCAPS Research

**Fig 7 – Overall cost efficiencies aided a better showing**



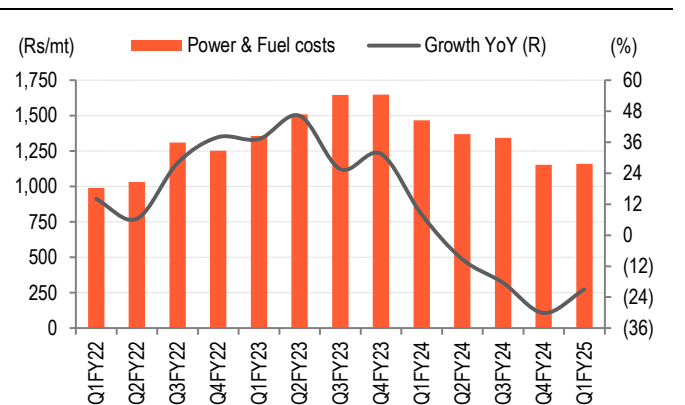
Source: Company, BOBCAPS Research

**Fig 8 – Freight cost savings have more in store**



Source: Company, BOBCAPS Research

**Fig 9 – Fuel efficiencies will be the key cost driver**



Source: Company, BOBCAPS Research

## Valuation methodology

We trim our FY25/FY26 EBITDA estimates by 8%/5% due to weakness in the demand-and-supply hangover. We introduce FY27E with an EBITDA/PAT CAGR of 22% over FY24-27E. JKCE's long-term growth outlook continues to be healthy with timely capex, improving earnings quality and less balance sheet stress in the capex phase.

Even so, we arrive at a lower target price of Rs 4,431 (from Rs 4,538) as we continue to value JKCE at 14x 1-year forward EV/EBITDA. We feel JKCE's valuations have run up faster than earnings growth. At our TP the stock trades at a replacement cost of ~Rs 13bn. The white cement segment is currently under stress due to stiff competition from paint companies in the putty segment. Additionally, Central India could witness heightened competition as JP Associates' assets are involved in insolvency proceedings. Factoring in the same we feel further re-rating of JKCE is unwarranted unless clarity emerges.

**Fig 10 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	1,23,985	1,44,664	1,64,333	1,26,016	1,47,678	NA	(1.6)	(2.0)	NA
EBITDA	22,047	26,322	30,136	23,914	27,835	NA	(7.8)	(5.4)	NA
Adj PAT	11,204	13,675	15,230	11,199	13,519	NA	0.0	1.2	NA
Adj EPS (Rs)	145.0	177.0	197.1	144.9	175.0	NA	0.1	1.1	NA

Source: BOBCAPS Research

**Fig 11 – Key assumptions**

Parameter	FY24	FY25E	FY26E	FY27E
Volumes (mt)	16.9	20.3	23.3	26.1
Realisations (Rs/t)	5,013	5,013	5,188	5,331
Operating costs (Rs/t)	5103	5,031	5,078	5,142
EBITDA/t (Rs/t)	1,163	1,170	1,281	1,278

Source: Company, BOBCAPS Research, Note: Grey Cement Realisation only, cost is aggregate including White cement segment

**Fig 12 – Valuation summary**

Business (Rs mn)	FY26E
Target EV/EBITDA (x)	14.4
EBITDA	26,322
<b>Target EV</b>	<b>3,80,094.</b>
Total EV	3,80,094.
Net debt	51,009
Target market capitalisation	3,29,085
<b>Target price (Rs/sh)</b>	<b>4,431</b>
Weighted average shares (mn)	77.3

Source: BOBCAPS Research, Note: 1-year forward multiple includes partial earnings of FY27E

**Fig 13 – Peer comparison**

Ticker	Rating	Target Price (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
JKCE IN	HOLD	4,431	22.8	17.2	10.8	225	165	137	17.2	19.6	20.3	16.0	16.6	17.3
DALBHARA IN	HOLD	2,062	12.9	12.5	8.5	82.0	87.0	86.0	6.0	8.5	8.9	7.3	9.5	9.7
TRCL IN	SELL	763	14.7	12.4	10.5	134	133	135	5.7	7.7	8.9	7.6	9.3	10.7

Source: BOBCAPS Research

## Key risks

Key upside/downside risks to our estimates are:

- competition intensifying more than estimated in regions of operations including Central India,
- higher-than-estimated costs pose downside risk to earnings, and
- risk of capacity expansion timelines altered based on cement demand.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>87,768</b>	<b>1,05,632</b>	<b>1,23,985</b>	<b>1,44,664</b>	<b>1,64,333</b>
EBITDA	11,175	16,502	22,047	26,322	30,136
Depreciation	(3,615)	(4,859)	(5,690)	(6,777)	(8,251)
EBIT	10,608	16,545	21,249	24,499	26,900
Net interest inc./(exp.)	(2,605)	(4,366)	(5,243)	(6,019)	(6,319)
Other inc./(exp.)	3,048	4,902	4,892	4,954	5,016
Exceptional items	0	0	0	0	0
EBT	8,003	12,179	16,006	18,480	20,581
Income taxes	(2,377)	(3,817)	(4,802)	(4,805)	(5,351)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>5,626</b>	<b>8,361</b>	<b>11,204</b>	<b>13,675</b>	<b>15,230</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>5,626</b>	<b>8,361</b>	<b>11,204</b>	<b>13,675</b>	<b>15,230</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	6,042	8,092	17,036	19,453	22,060
Other current liabilities	8,343	11,187	9,028	9,118	9,209
Provisions	1,402	1,556	1,605	1,658	1,715
Debt funds	32,077	52,216	59,079	61,797	64,563
Other liabilities	8,394	16,262	15,323	14,491	13,756
Equity capital	773	773	773	773	773
Reserves & surplus	43,915	51,934	61,813	74,234	88,208
Shareholders' fund	44,688	52,707	62,586	75,006	88,981
<b>Total liab. and equities</b>	<b>1,00,946</b>	<b>1,42,019</b>	<b>1,64,657</b>	<b>1,81,523</b>	<b>2,00,284</b>
Cash and cash eq.	5,677	7,777	13,345	10,787	10,131
Accounts receivables	3,712	4,604	5,435	6,341	7,204
Inventories	7,779	10,675	11,889	13,674	14,857
Other current assets	6,348	19,993	21,529	23,122	24,834
Investments	22,604	14,001	14,083	14,124	14,166
Net fixed assets	51,121	77,458	84,936	1,03,031	1,20,145
CWIP	3,551	6,073	12,000	9,000	7,500
Intangible assets	154	1,437	1,440	1,443	1,446
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>1,00,946</b>	<b>1,42,019</b>	<b>1,64,656</b>	<b>1,81,523</b>	<b>2,00,284</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>15,216</b>	<b>8,185</b>	<b>17,405</b>	<b>15,600</b>	<b>18,952</b>
Capital expenditures	(3,661)	(34,485)	(17,294)	(19,578)	(21,078)
Change in investments	(5,156)	8,603	(81)	(42)	(42)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(8,817)</b>	<b>(25,882)</b>	<b>(17,375)</b>	<b>(19,619)</b>	<b>(21,120)</b>
Equities issued/Others	(2,296)	1,501	24	94	94
Debt raised/repaid	(125)	20,139	6,864	2,718	2,766
Interest expenses	0	0	0	0	0
Dividends paid	(1,159)	(1,159)	(1,356)	(1,356)	(1,356)
Other financing cash flows	32	(685)	7	7	7
<b>Cash flow from financing</b>	<b>(3,548)</b>	<b>19,796</b>	<b>5,539</b>	<b>1,463</b>	<b>1,511</b>
<b>Chg in cash &amp; cash eq.</b>	<b>2,851</b>	<b>2,099</b>	<b>5,569</b>	<b>(2,557)</b>	<b>(656)</b>
<b>Closing cash &amp; cash eq.</b>	<b>5,677</b>	<b>7,776</b>	<b>13,345</b>	<b>10,788</b>	<b>10,131</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	72.8	108.2	145.0	177.0	197.1
Adjusted EPS	72.8	108.2	145.0	177.0	197.1
Dividend per share	15.0	15.0	15.0	15.0	15.0
Book value per share	578.3	682.1	810.0	970.7	1,151.6

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.2	3.7	3.2	2.1	1.8
EV/EBITDA	33.3	23.6	17.8	11.4	9.9
Adjusted P/E	61.4	41.3	30.8	25.3	22.7
P/BV	7.7	6.6	5.5	4.6	3.9

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	70.3	68.7	70.0	74.0	74.0
Interest burden (PBT/EBIT)	75.4	73.6	75.3	75.4	76.5
EBIT margin (EBIT/Revenue)	12.1	15.7	17.1	16.9	16.4
Asset turnover (Rev./Avg TA)	85.9	87.0	80.9	83.6	86.1
Leverage (Avg TA/Avg Equity)	2.3	2.5	2.7	2.5	2.3
Adjusted ROAE	12.9	17.2	19.4	19.9	18.6

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	16.6	20.4	17.4	16.7	13.6
EBITDA	(16.1)	47.7	33.6	19.4	14.5
Adjusted EPS	(26.0)	48.6	34.0	22.1	11.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	12.7	15.6	17.8	18.2	18.3
EBIT margin	12.1	15.7	17.1	16.9	16.4
Adjusted profit margin	6.4	7.9	9.0	9.5	9.3
Adjusted ROAE	12.9	17.2	19.4	19.9	18.6
ROCE	12.7	16.0	16.5	17.0	16.9
<b>Working capital days (days)</b>					
Receivables	15	16	16	16	16
Inventory	32	37	35	35	33
Payables	29	33	61	60	60
<b>Ratios (x)</b>					
Gross asset turnover	1.2	1.0	1.0	1.0	1.0
Current ratio	1.5	2.1	1.9	1.8	1.7
Net interest coverage ratio	4.1	3.8	4.1	4.1	4.3
Adjusted debt/equity	0.7	1.0	0.9	0.8	0.7

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

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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%

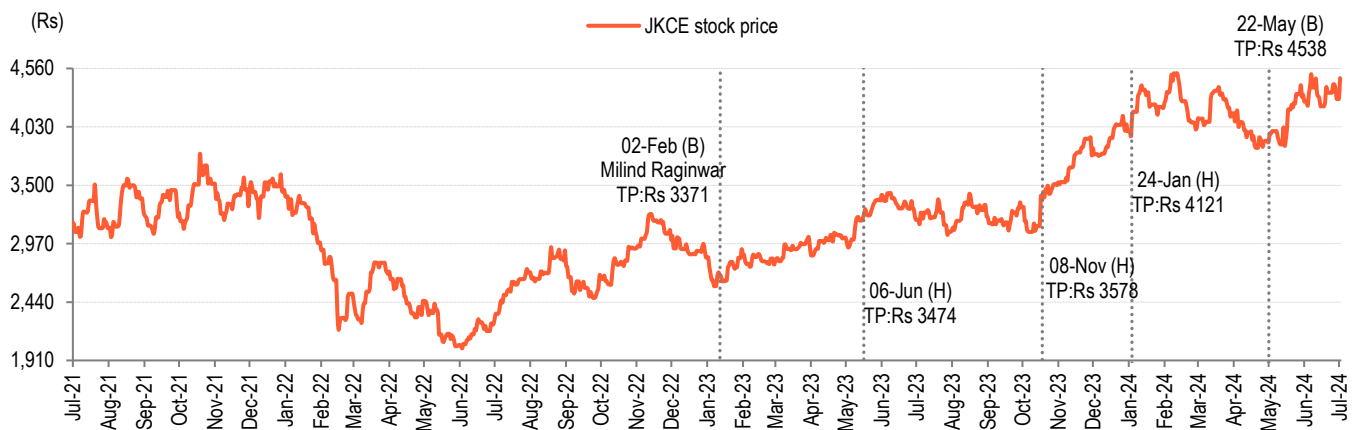
**HOLD** – Expected return from -6% to +15%

**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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