

**HOLD**  
 TP: Rs 4,190 | ▼ 4%

**JK CEMENT**

Cement

30 October 2024

**Steady performance despite challenges; maintain HOLD**

- Grey cement volumes at 3.8mt (excluding clinker volumes) fell by ~3% YoY (-12% QoQ) owing to weak demand impacted by seasonality
- EBITDA fell 39% YoY to ~Rs 2.8bn, EBITDA margin fell sharply YoY to 11.6% on higher other expenses and logistics cost
- We trim FY25E/FY26E/FY27E EBITDA by 14%/10%/4%, value JKCE at 14x 1Y forward EV/EBITDA and lower TP to Rs 4,190. Maintain HOLD

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**Topline performance impacted by tepid volume; realisation stays weak:** JKCE reported 7%/10% YoY/QoQ fall in revenues to ~Rs 23.9bn in Q2FY25 largely dragged by tepid grey cement volume growth and weak realisations. Grey cement volumes at 3.8mt (excluding clinker volumes) fell by ~3% YoY (-12% QoQ) due to listless demand in JKCE's key region of operations in North and Central India. Grey cement realisation too fell by ~6% YoY to Rs 4,706/t indicating weak demand.

**Cost inflation impacts margins YoY:** The overall cost inflated 3%/10% YoY/QoQ to Rs 5,044/t, attributed to the higher logistic cost which jumped by 10%/2% YoY/QoQ to Rs 1,278/t due to higher lead distance and lower rail mix. Other expenditure leaped by 10%/24% YoY/QoQ to Rs 4.8bn due to maintenance shut down and expenses incurred on other value add products. Energy cost savings only partially offset overall inflation. The blended proportion was ~70% in Q2FY25.

**Cost inflation and realisation weakness impact EBITDA/margins:** EBITDA fell 39%/43% YoY/QoQ to ~Rs 2.7bn and EBITDA margin by 600bps YoY due to overall cost inflation YoY combined with weak realisations. The aggregate EBITDA/t fell sharply to Rs 649 a fall of ~36% YoY/QoQ.

**Expansion plans on track:** Prayagraj (GU) has already been commissioned and contributed 83k mnt of cement in the first month of its operations. JKCE's previously-announced 3.3mnt grey clinker line-II at Panna and 3mnt grinding unit in Bihar and 1mnt each in Hamirpur, Prayagraj and Panna (3mnt) are on track to be completed by Q3/Q4FY26.

**Retain valuations and maintain HOLD:** We trim our FY25/FY26/FY27 EBITDA estimates by 15%/10%/4% due to weakness in the demand and supply hangover. Effectively, the EBITDA/PAT CAGR is now at 21%/20% over FY24-27E. JKCE's focus remains on long-term growth with timely capex and is healthy, while improving earnings quality and reducing balance sheet stress are key. We continue to value JKCE at 14x 1Y forward EV/EBITDA to arrive at a lower TP of Rs 4,190 (from Rs 4,431) and maintain HOLD.

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	JKCE IN/Rs 4,350
Market cap	US\$ 4.0bn
Free float	54%
3M ADV	US\$ 6.9mn
52wk high/low	Rs 4,896/Rs 3,065
Promoter/FPI/DII	46%/16%/22%

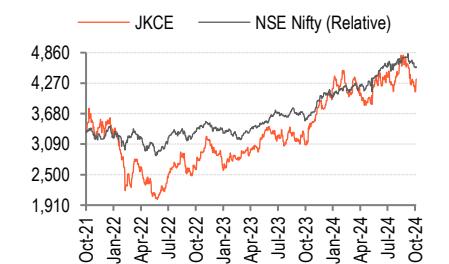
Source: NSE | Price as of 29 Oct 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,05,632	1,17,825	1,37,490
EBITDA (Rs mn)	16,502	18,841	23,755
Adj. net profit (Rs mn)	8,361	8,960	11,776
Adj. EPS (Rs)	108.2	116.0	152.4
Consensus EPS (Rs)	108.2	125.1	158.0
Adj. ROAE (%)	17.2	15.9	18.0
Adj. P/E (x)	40.2	37.5	28.5
EV/EBITDA (x)	23.1	20.5	12.2
Adj. EPS growth (%)	48.6	7.2	31.4

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q2FY25	Q1FY25	Our view
Volumes	<p>Grey cement volumes dropped by ~3% YoY (-12% QoQ) to ~3.8mt in Q2FY25, while consolidated white cement volumes fell 9%/4% YoY/QoQ to 0.53mt. The white cement segment revenue fell ~3% YoY. However, it increased by 0.3% QoQ in Q2FY25 amid stiff competition, especially in the putty segment from paint sector players. As per management, volume grew in the central region, with de-growth on account of reduction in volume from south and north region.</p>	<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>Performance will be driven by 2H, however challenges to the white cement segment are likely to continue.</p>
Margins	<p>During Q2FY25, the fuel cost increased to 1.65/kcal vs 1.62/kcal QoQ on account of the increase in AFR cost. However, pet coke prices have continued to fall. JKCE is in the process of renegotiating pricing and expects it to fall in the following quarters. Logistics cost increased 1%/9% QoQ/YoY to Rs 1,245/mt. The lead distance increased by 1km/4km YoY/QoQ to 419km due to extended footprint.</p> <p>Management guided for overall cost savings in FY25/FY26 of ~Rs 60/t and Rs 90/t respectively.</p>	<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>JKCE's margin gain will be guided by sharp focus on cost control in the next 12-18 months, driven by lower energy and logistics costs notwithstanding the challenges in Q2.</p>
Expansion	<p>Prayagraj (GU) has already been commissioned and produced 83k mt of cement in the first month of its operations. JKCE's previously announced 3.3mt grey clinker line-II at Panna and 3mt grinding unit in Bihar and 1mt each in Hamirpur, Prayagraj and Panna (3mt) are on track to be completed by Q3/Q4FY26.</p>	<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>No major change in the timelines of the capacity expansion plans. All project execution is underway as per earlier guidance with minor delays related to systemic issues.</p>
Capex	<p>In H1FY25 JKCE incurred a capex of Rs 7.50bn on the above-mentioned projects and expects a total capex of Rs 18bn-20bn in FY25.</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 Q2FY25-end was Rs 46.64bn vs Rs 45.9bn in FY24-end and net debt Rs 30.44bn. Net debt/EBITDA is 1.6x 2QFY24-end.</p> <p>Revenue from the paints segment was Rs 0.53bn in Q2FY25 with an EBITDA loss of Rs 0.15bn.</p> <p>JKCE won two new coal blocks at Shahdol and Mahan in Madhya Pradesh and expects to commission the same by FY28 and FY27, respectively, securing fuel consumption for its Central India presence and mitigating fuel cost volatility.</p>	<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>Balance sheet woes are receding and expected to improve if growth momentum takes place post the current lull.</p> <p>Coal block will aid security for smooth flow of key raw materials at lower cost.</p>

Source: Company, BOBCAPS Research | WHRS: Waste Heat Recovery Systems, AFR: Alternative Fuels and Raw Material

**Fig 2 – Key metrics**

Particulars	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Aggregate volumes (mn mt)	4.2	4.3	(3.3)	4.7	(11.1)
Grey cement (mn mt)	3.8	3.9	(3.3)	4.3	(12.3)
White Cement and Putty (mn mt)	0.4	0.4	(2.7)	0.4	2.2
Aggregate realisations (Rs/mt)	6,086	5,821	4.5	5,919	2.8
Operating costs (Rs/mt)	5,044	4,890	3.1	4,581	10.1
Aggregate EBITDA (Rs/mt)	649	1,028	(36.9)	1,014	(36.0)

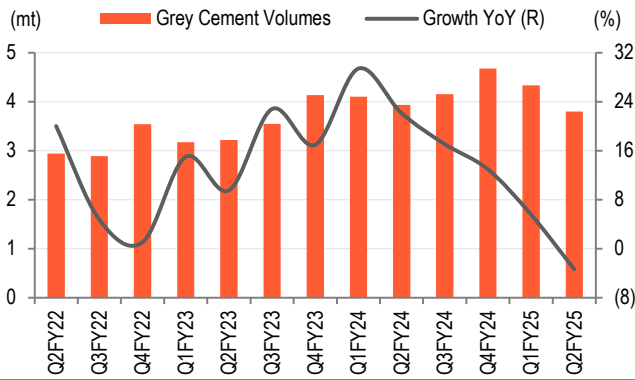
Source: Company, BOBCAPS Research

**Fig 3 – Quarterly performance**

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Q2FY25E	Deviation (%)
<b>Net Sales</b>	<b>23,917</b>	<b>23,917</b>	<b>0.0</b>	<b>26,431</b>	<b>(9.5)</b>	<b>22,390</b>	<b>6.8</b>
<b>Expenditure</b>							
Change in stock	102.2	102.2	0.0	(83.9)	(221.8)	(531.0)	
Raw material purchased products	3,229	3,229	0.0	3,703	(12.8)	3,251	(0.7)
Power & fuel	0	0	0.0	0	0.0	0	NM
Freight	1,033	1,033	0.0	851	21.4	654	58.0
Employee costs	4,587	4,587	0.0	5,369	(14.6)	4,645	(1.3)
Other exp	5,368	5,368	0.0	5,908	(9.2)	5,141	4.4
Total Operating Expenses	2,037	2,037	0.0	1,992	2.3	1,981	2.8
<b>EBITDA</b>	<b>4,835</b>	<b>4,835</b>	<b>0.0</b>	<b>3,902</b>	<b>23.9</b>	<b>3,950</b>	<b>22.4</b>
<b>EBITDA margin (%)</b>	<b>21,189</b>	<b>21,189</b>	<b>0.0</b>	<b>21,641</b>	<b>(2.1)</b>	<b>19,091</b>	<b>11.0</b>
EBITDA margin (%)	2,728	2,728	0.0	4,790	(43.1)	3,299	(17.3)
Other Income	11.4	11.4	0bps	18.1	(672bps)	14.7	(333bps)
Interest	368	368	0.0	438	(16.0)	412	(10.7)
Depreciation	1,196	1,196	0.0	1,066	12.3	1,067	12.1
PBT	1,263	1,263	0.0	1,245	1.5	1,275	(1.0)
Non-recurring items	637	637	0.0	2,918	(78.2)	1,369	(53.5)
PBT (after non-recurring items)	0.0	0.0	-	0.0	-	0.0	-
Tax	637	637	0.0	2,918	(78.2)	1,369	(53.5)
Reported PAT	184	184	0.0	891	(79.3)	383	(51.9)
<b>Adjusted PAT</b>	<b>452</b>	<b>452</b>	<b>0.0</b>	<b>2,027</b>	<b>(77.7)</b>	<b>986</b>	<b>(54.1)</b>
NPM (%)	452	452	0.0	2,027	(77.7)	986	(54.1)
<b>Adjusted EPS (Rs)</b>	<b>1.9</b>	<b>1.9</b>	<b>0bps</b>	<b>7.7</b>	<b>(578bps)</b>	<b>4.4</b>	<b>(251bps)</b>

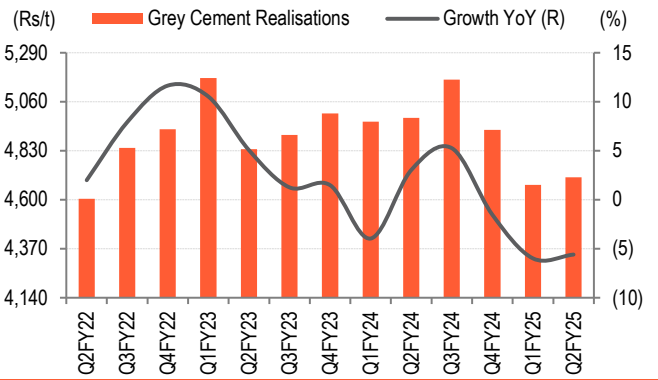
Source: Company, BOBCAPS Research

**Fig 4 – Tepid volume growth due to seasonality**



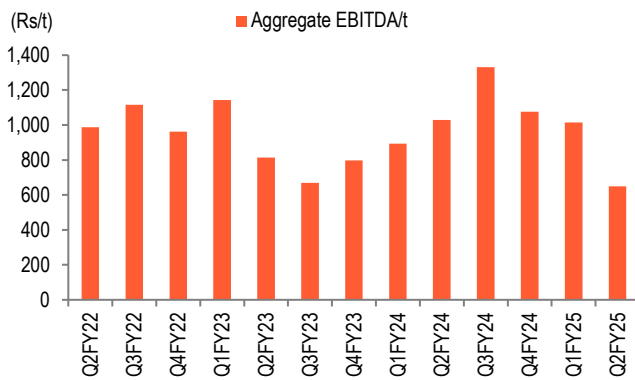
Source: Company, BOBCAPS Research

**Fig 5 – As expected, weak demand dents realisation**



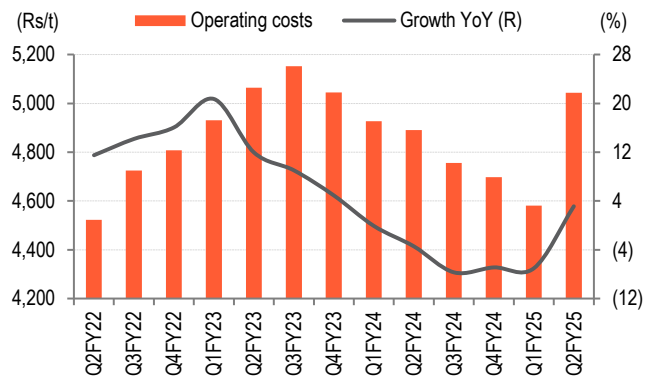
Source: Company, BOBCAPS Research

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



Source: Company, BOBCAPS Research

**Fig 7 – Overall cost efficiencies impacted by cost inflation**



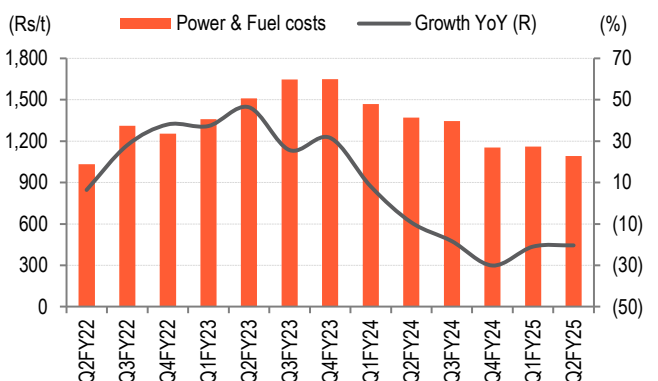
Source: Company, BOBCAPS Research

**Fig 8 – Freight cost savings impacted by higher lead distance**



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/FY27 EBITDA estimates by 15%/10%/4% due to weakness in the demand and supply hangover. Effectively, EBITDA/PAT CAGR is now at 21%/20% over FY24-27E. JKCE's focus remains on long-term growth with timely capex and is healthy. Improving earnings quality and reducing balance sheet stress are key.

We continue to value JKCE at 14x 1Y forward EV/EBITDA to arrive at a lower TP of Rs 4,190 (from Rs 4,431) and maintain our HOLD rating.

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). Central India could witness heightened competition as JP Associates' assets are involved in insolvency proceedings. Factoring in the same, JKCE offers limited upside only.

**Fig 10 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	1,17,825	1,37,490	1,57,595	1,23,985	1,44,664	1,64,333	(5.0)	(5.0)	(4.1)
EBITDA	18,841	23,755	28,875	22,047	26,322	30,136	(14.5)	(9.8)	(4.2)
Adj PAT	8,960	11,776	14,297	11,204	13,675	15,230	(20.0)	(13.9)	(6.1)
Adj EPS (Rs)	116.0	152.4	185.0	145	177.0	197.1	(20.0)	(13.9)	(6.1)

Source: BOBCAPS Research

**Fig 11 – Key assumptions**

Parameter	FY24	FY25E	FY26E	FY27E
Volumes (mt)	17.5	19.0	22.1	24.7
Realisations (Rs/t)	5,013	5,013	5,150	5,305
Operating costs (Rs/t)	5,103	5,201	5,151	5,205
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)	14.0
EBITDA	28,875
<b>Target EV</b>	<b>416,952</b>
Total EV	416,952
Net debt	58,857
Target market capitalisation	3,58,096
<b>Target price (Rs/sh)</b>	<b>4,190</b>
Weighted average shares (mn)	77.3

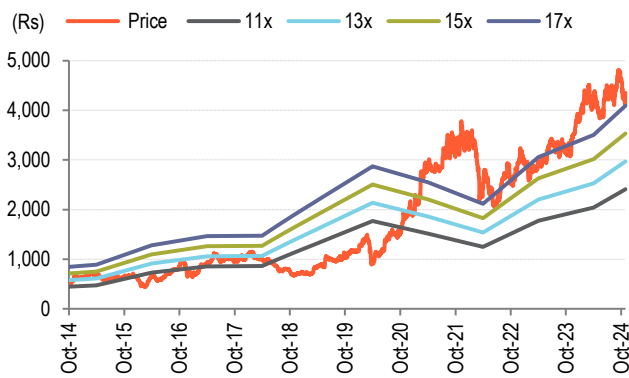
Source: BOBCAPS Research, Note: 1-year forward multiple includes partial earnings of FY27E

**Fig 13 – Peer comparison**

Ticker	Rating	Target Price (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
JKCE IN	HOLD	4,190	20.3	16.3	13.6	225	165	137	15.9	18.0	18.5	14.1	15.6	16.6
DALBHARA IN	HOLD	1,816	15.1	9.8	7.8	82.0	87.0	86.0	4.1	6.7	8.6	5.6	8.0	9.5
TRCL IN	SELL	737	12.8	11.0	10.0	134	133	135	6.4	7.8	8.5	8.6	9.9	10.4

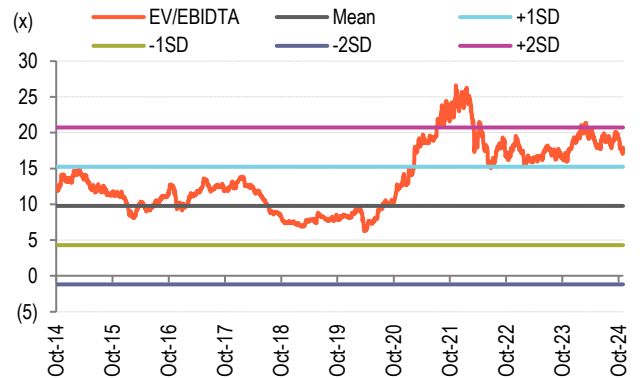
Source: BOBCAPS Research rev

**Fig 14 – Current valuations leave limited room for healthy upside**



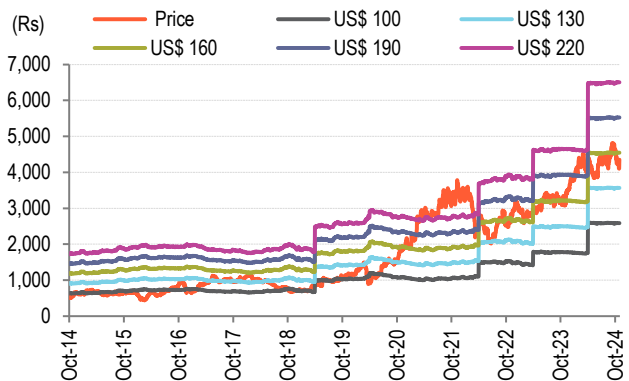
Source: Bloomberg, BOBCAPS Research

**Fig 15 – Valuations may soften in the short term**



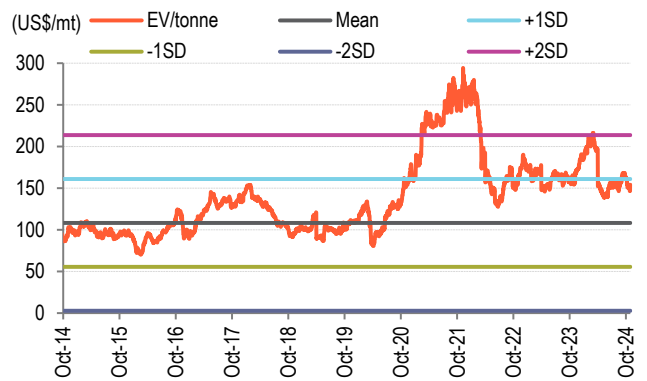
Source: Bloomberg, BOBCAPS Research

**Fig 16 – Replacement cost premium factoring in white cement business but can moderate**



Source: Bloomberg, BOBCAPS Research

**Fig 17 – Replacement cost premium likely to stay range bound**



Source: Bloomberg, 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>1,17,825</b>	<b>1,37,490</b>	<b>1,57,595</b>
EBITDA	11,175	16,502	18,841	23,755	28,875
Depreciation	(3,615)	(4,859)	(5,690)	(6,777)	(8,251)
EBIT	10,608	16,545	18,043	21,932	25,639
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	12,800	15,913	19,320
Income taxes	(2,377)	(3,817)	(3,840)	(4,137)	(5,023)
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>8,960</b>	<b>11,776</b>	<b>14,297</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>5,626</b>	<b>8,361</b>	<b>8,960</b>	<b>11,776</b>	<b>14,297</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	6,042	8,092	16,543	18,696	21,160
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	59,569	70,090	83,132
Shareholders' fund	44,688	52,707	60,342	70,863	83,904
<b>Total liab. and equities</b>	<b>1,00,946</b>	<b>1,42,019</b>	<b>1,61,919</b>	<b>1,76,622</b>	<b>1,94,307</b>
Cash and cash eq.	5,677	7,777	9,468	7,444	5,706
Accounts receivables	3,712	4,604	5,165	6,027	6,908
Inventories	7,779	10,675	11,298	12,431	13,601
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	14,000	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>1,61,919</b>	<b>1,76,622</b>	<b>1,94,307</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>15,528</b>	<b>14,133</b>	<b>17,871</b>
Capital expenditures	(3,661)	(34,485)	(19,294)	(17,578)	(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>(19,375)</b>	<b>(17,619)</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>1,692</b>	<b>(2,023)</b>	<b>(1,738)</b>
<b>Closing cash &amp; cash eq.</b>	<b>5,677</b>	<b>7,776</b>	<b>9,468</b>	<b>7,444</b>	<b>5,706</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	72.8	108.2	116.0	152.4	185.0
Adjusted EPS	72.8	108.2	116.0	152.4	185.0
Dividend per share	15.0	15.0	15.0	15.0	15.0
Book value per share	578.3	682.1	780.9	917.1	1,085.9

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.1	3.6	3.3	2.1	1.8
EV/EBITDA	32.5	23.1	20.5	12.2	9.8
Adjusted P/E	59.8	40.2	37.5	28.5	23.5
P/BV	7.5	6.4	5.6	4.7	4.0

### 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	70.9	72.6	75.4
EBIT margin (EBIT/Revenue)	12.1	15.7	15.3	16.0	16.3
Asset turnover (Rev./Avg TA)	85.9	87.0	77.5	81.2	85.0
Leverage (Avg TA/Avg Equity)	2.3	2.5	2.7	2.6	2.4
Adjusted ROAE	12.9	17.2	15.9	18.0	18.5

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	16.6	20.4	11.5	16.7	14.6
EBITDA	(16.1)	47.7	14.2	26.1	21.6
Adjusted EPS	(26.0)	48.6	7.2	31.4	21.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	12.7	15.6	16.0	17.3	18.3
EBIT margin	12.1	15.7	15.3	16.0	16.3
Adjusted profit margin	6.4	7.9	7.6	8.6	9.1
Adjusted ROAE	12.9	17.2	15.9	18.0	18.5
ROCE	12.7	16.0	14.1	15.6	16.6
<b>Working capital days (days)</b>					
Receivables	15	16	16	16	16
Inventory	32	37	35	33	32
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	1.7	1.7	1.6
Net interest coverage ratio	4.1	3.8	3.4	3.6	4.1
Adjusted debt/equity	0.7	1.0	1.0	0.9	0.8

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

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**BUY** – Expected return >+15%

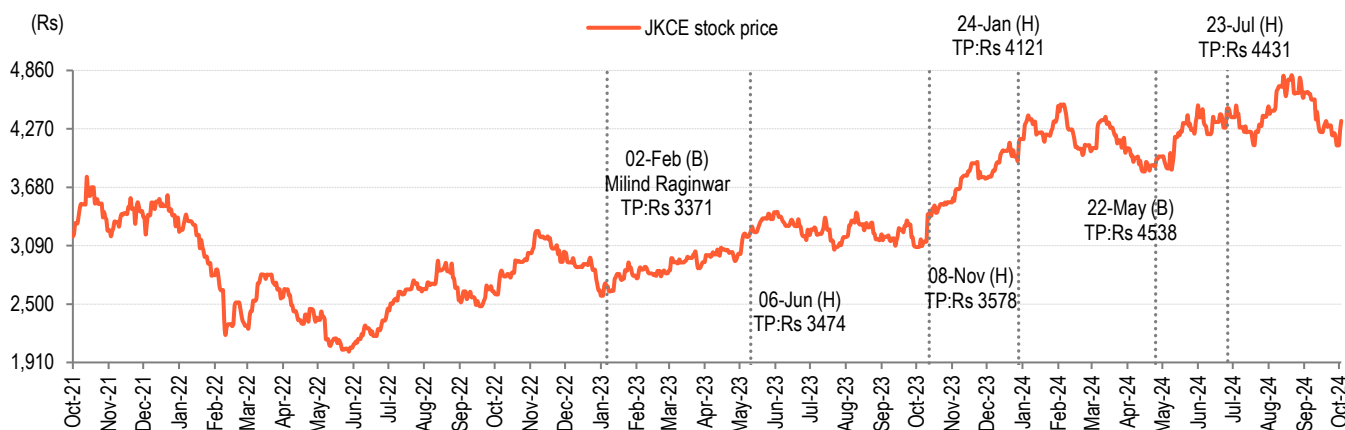
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

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

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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