

HOLD
 TP: Rs 4,511 | ▼ 6%

JK CEMENT

Cement

27 January 2025

Healthy show in challenging times; valuations priced in

- Grey cement volumes at 4.3mt (excluding clinker volumes) rose by ~4%/13% YoY/QoQ as demand revives in key operating regions
- Strong EBITDA reversal by ~80% QoQ to ~Rs 4.9bn (-20% YoY), EBITDA margin too reversed QoQ to 18% (-380bps YoY) on cost savings
- We trim FY25E EBITDA by 4% and tweak FY26E/FY27E, value JKCE at 14x 1Y forward EV/EBITDA and lower TP to Rs 4,511. Maintain HOLD

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Healthy grey cement volume gains aid performance: JKCE reported a 5% YoY fall (+14% QoQ) in revenue to ~Rs 25.4bn in Q3FY25 largely aided by healthy grey cement volume though realisations stayed weak on fragile prices. Grey cement volumes at 4.3mt (excluding clinker volumes) improved by ~4%/13% YoY/QoQ owing to demand reversal in JKCE's key region of operations. Grey cement realisation fell by ~8% YoY to Rs 4,757/t (+1% QoQ) indicating weak demand.

Healthy cost savings push up margins: The overall cost fell 1%/6% YoY/QoQ to Rs 4,726/t, owing to lower energy cost and flat logistics cost. Logistics cost was flat YoY at Rs 1,299/t despite higher transportation to farther markets. Energy cost fell by 8%/4% YoY/QoQ to Rs 1,819/t due to reduction in fuel prices to Rs 1.5/kcal from Rs 1.82/kcal. The blended proportion was ~67% in Q3FY25. Other expenditure was high at 9% YoY to Rs 4.5bn in expenses spent on value-add products and branding.

EBITDA/margins reverse strongly QoQ, YoY still falls short: EBITDA fell 20% YoY but recovered sharply QoQ (+80%) to ~Rs 4.9bn, and EBITDA margin recovered sharply to 18% from 11% in Q2FY25 (fell by 380 bps YoY) due to cost reduction and steady realisations despite volume gains QoQ. The aggregate EBITDA/t recovered sharply by 60% QoQ to Rs 1,040/t (down 22% YoY).

Expansion plans on track: JKCE's board approved the acquisition of Saifco Cements (Saifco) situated in Jammu and Kashmir. Saifco has a clinker capacity of 0.26mt and grinding capacity of 0.42mt. 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 Dec'25.

Retain valuations and HOLD rating: We trim our EBITDA estimates for FY25 EBITDA by 4% and tweak FY26/FY27 due to a weak 9MFY25 but expect a healthy recovery. EBITDA/PAT CAGR is now at 29%/25% over FY24-27E. JKCE's focus remains on long-term growth with timely capex. 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 TP of Rs 4,511 (from Rs 4,190). Maintain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	JKCE IN/Rs 4,786
Market cap	US\$ 4.3bn
Free float	54%
3M ADV	US\$ 5.8mn
52wk high/low	Rs 4,916/Rs 3,642
Promoter/FPI/DII	46%/16%/22%

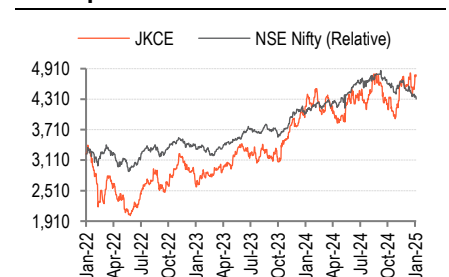
Source: NSE | Price as of 27 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,05,632	1,16,412	1,37,737
EBITDA (Rs mn)	16,502	18,049	23,901
Adj. net profit (Rs mn)	8,361	7,700	11,033
Adj. EPS (Rs)	108.2	99.7	142.8
Consensus EPS (Rs)	108.2	101.4	140.5
Adj. ROAE (%)	17.2	13.8	17.2
Adj. P/E (x)	44.2	48.0	33.5
EV/EBITDA (x)	25.1	23.3	13.5
Adj. EPS growth (%)	48.6	(7.9)	43.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q3FY25	Q2FY25	Our view
Volumes	<p>Grey cement volumes grew by ~5% YoY (13% QoQ) to ~4.3mt in Q3FY25, while consolidated white cement volumes grew 6%/8% YoY/QoQ to 0.57mt. White cement revenue grew 10%/7% QoQ/YoY to Rs 7.51bn. Growth fueled by the central markets served by JKCE. Putty market continues to be competitive among paint players, as a result pricing remains under pressure. Asian Paints volumes grew in the double digits whereas JKCE's grew by 4%.</p>	<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 the South and North regions.</p>	<p>Challenges to the white cement segment will continue for the foreseeable future. However, timely expansion of grey cement capacities in Central India should prove handy.</p>
Margins	<p>During Q3FY25, the fuel cost decreased to 1.5/kcal vs 1.65/kcal QoQ due to the reduction in pet coke price. Logistics cost increased 1% QoQ (-0.4% YoY) to Rs 1,263/t. The lead distance increased by 3km QoQ to 422km due to an extended footprint.</p> <p>Management guided for overall cost savings by FY25 end of Rs 50/t and expects the trend to continue in FY26.</p>	<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 prices and expects it to fall in the following quarters. Logistics cost increased 1%/9% QoQ/YoY to Rs 1,245/t. The lead distance increased by 1km/4km YoY/QoQ to 419km due to an extended footprint. Management guided for overall cost savings in FY25/FY26 of ~Rs 60/t and Rs 90/t respectively.</p>	<p>JKCE's margin gain will be guided by focus on cost control in the next 4-6 quarters, driven by lower energy and logistics costs notwithstanding the challenges of catering new markets.</p>
Expansion	<p>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 Dec'25.</p> <p>The board approved the acquisition of Saifco Cements (Saifco) situated in Jammu and Kashmir. The consideration in the form of enterprise value for 60% stake is Rs 1.74bn. Saifco has a clinker capacity of 0.26mt and grinding unit capacity of 0.42mt.</p>	<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>There is no major change in the timelines of JKCE's capacity expansion plans. All project execution is underway as per earlier guidance with minor delays related to systemic issues.</p> <p>Entry into a new region comes with challenges and opportunities and will be watched keenly.</p>
Capex	<p>Management has a planned capex of Rs 19bn for FY25 (Rs 14bn was incurred in 9MFY25). Guidance for FY26 is Rs 17bn and an additional Rs 1.74bn for the stake in Saifco Cement.</p>	<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>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 Q3FY25-end was Rs 48.6bn vs Rs 45.9bn in FY24-end and net debt Rs 31.1bn vs Rs 25.8bn in FY24-end. Net debt/EBITDA is 1.74x Q3FY25.</p> <p>Revenue from the paints segment was Rs 0.83bn for Q3FY25 vs Rs 0.53bn/ Rs 0.47bn QoQ/YoY. JKCE incurred a loss of Rs 0.17bn in Q3FY25 vs Rs 0.11bn QoQ.</p> <p>JKCE could lose the sale of 100k units of volume to Asian Paints going ahead as the latter plans to set up a white cement plant in the UAE.</p> <p>Management has guided for Rs 0.75bn in incentives per quarter on average.</p>	<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>Balance sheet woes are receding and expected to improve if growth momentum takes place post the current lull.</p> <p>Energy expenses following fuel softening will be handy, however challenges in white cement could continue and will be watched keenly.</p>

Source: Company, BOBCAPS Research | AFR: Alternative Fuels and Raw Material

Fig 2 – Key metrics

Particulars	3QFY25	3QFY24	YoY%	2QFY25	QoQ %
Aggregate volumes (mn mt)	4.7	4.6	2.9	4.2	12.1
Grey cement (mn mt)	4.3	4.2	3.5	3.8	13.1
White Cement and Putty (mn mt)	0.4	0.4	(3.4)	0.4	2.6
Aggregate realisations (Rs/mt)	4,757	5,164	(7.9)	4,706	1.1
Operating costs (Rs/mt)	4,726	4,756	(0.6)	5,044	(6.3)
Aggregate EBITDA (Rs/mt)	1,040	1,330	(21.8)	649	60.1

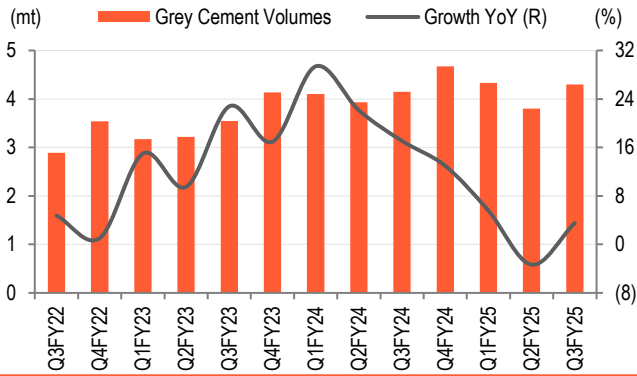
Source: Company, BOBCAPS Research

Fig 3 – Quarterly performance

Rs mn	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	3QFY25E	Deviation (%)
Net Sales	27,155	27,848	(2.5)	23,917	13.5	25,510	6.4
Expenditure							
Change in stock	(333.1)	(1,187.5)	(71.9)	102.2		(141.0)	136.2
Raw material	3,750	4,056	(7.5)	3,229	16.1	3,650	2.7
purchased products	988	853	15.9	1,033	(4.3)	1,011	(2.2)
Power & fuel	5,151	6,153	(16.3)	4,587	12.3	5,129	0.4
Freight	6,118	5,905	3.6	5,368	14.0	6,034	1.4
Employee costs	2,041	1,820	12.1	2,037	0.2	2,010	1.5
Other exp	4,545	4,164	9.1	4,835	(6.0)	4,393	3.5
Total Operating Expenses	22,259	21,764	2.3	21,189	5.0	22,086	0.8
EBITDA	4,896	6,084	(19.5)	2,728	79.5	3,425	43.0
EBITDA margin (%)	18.0	21.8	(382bps)	11.4	663bps	13.4	461bps
Other Income	441	352	25.2	368	19.7	388	13.6
Interest	1,142	1,109	2.9	1,196	(4.6)	1,191	(4.1)
Depreciation	1,247	1,178	5.8	1,263	(1.2)	1,294	(3.6)
PBT	2,948	4,149	(28.9)	637	363.1	1,328	122.1
Non-recurring items	0.0	0.0	-	0.0	-	0.0	-
PBT (after non-recurring items)	2,948	4,149	(28.9)	637	363.1	1,328	122.1
Tax	900	1,254	(28.2)	184	388.2	372	142.2
Reported PAT	2,048	2,895	(29.2)	452	352.9	956	114.3
Adjusted PAT	2,048	2,895	(29.2)	452	352.9	956	114.3
NPM (%)	7.5	10.4	(285bps)	1.9	565bps	3.7	380bps
Adjusted EPS (Rs)	26.5	37.5	(29.2)	5.9	352.9	12.4	114.3

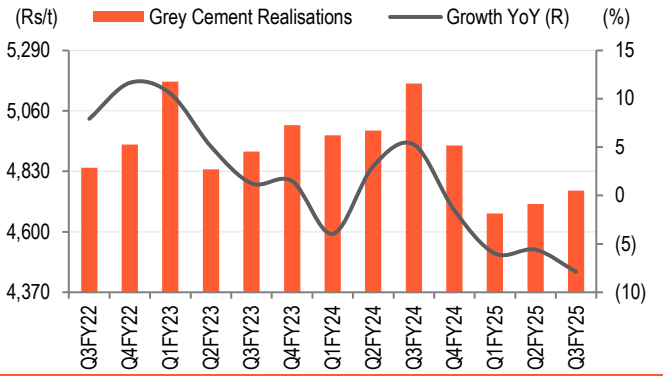
Source: Company, BOBCAPS Research

Fig 4 – Volume reversal QoQ is very encouraging



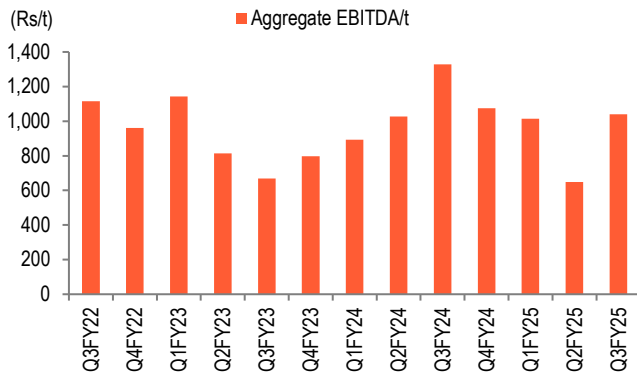
Source: Company, BOBCAPS Research

Fig 5 – Prices recovering from QoQ weakness, fell YoY



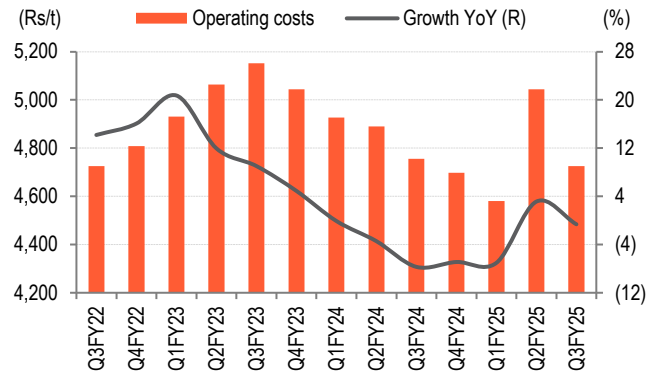
Source: Company, BOBCAPS Research

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



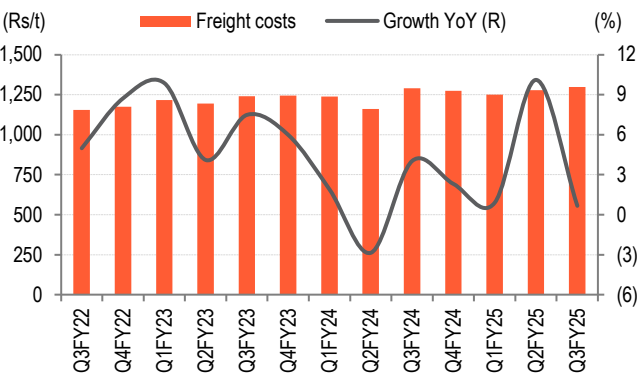
Source: Company, BOBCAPS Research

Fig 7 – Overall cost efficiencies driven by energy and logistics cost savings



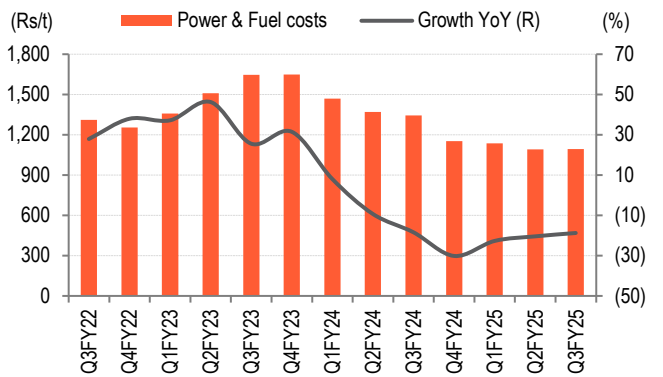
Source: Company, BOBCAPS Research

Fig 8 – Freight cost savings flat despite travelling farther distance in Central India region



Source: Company, BOBCAPS Research

Fig 9 – Fuel efficiencies will be the key cost driver



Source: Company, BOBCAPS Research

Valuation methodology

We trim our FY25E EBITDA by 4% and tweak FY26E/FY27E due to weak 9MFY25 but expect a healthy recovery. The EBITDA/PAT CAGR is now at 29%/25% over FY24-27E. JKCE's focus remains on long-term growth with timely capex, while improving earnings quality and reducing balance sheet stress are key. Though we only tweak EBITDA for FY26E/FY27E we lower our earnings estimates factoring in higher depreciation, lower other income and higher tax.

We continue to value JKCE at 14x 1Y forward EV/EBITDA to arrive at a TP of Rs 4,511 (from Rs 4,190), and maintain HOLD. 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). We believe this can further escalate with Asian Paints having its own white cement manufacturing unit in the Middle East (Gulf). Central India could witness heightened competition as JP Associates' assets are involved in insolvency proceedings. Factoring in the same, we feel JKCE is currently fairly valued with limited upside.

Fig 10 – Revised estimates

Rs mn	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	1,16,412	1,37,737	1,57,880	1,17,825	1,37,490	1,57,595	(1.2)	0.2	0.2
EBITDA	18,049	23,901	29,041	18,841	23,755	28,875	(4.2)	0.6	0.6
Adj PAT	7,700	11,033	13,489	8,960	11,776	14,297	(14.1)	(6.3)	(5.7)
Adj EPS (Rs)	99.7	142.8	174.6	116.0	152.4	185.0	(14.1)	(6.3)	(5.7)

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY24	FY25E	FY26E	FY27E
Volumes (mt)	17.5	18.75	22.13	24.78
Realisations (Rs/t)	5,013	5,013	5,150	5,305
Operating costs (Rs/t)	5,103	5,246	5,145	5,199
EBITDA/t (Rs/t)	1,163	888	1,005	1,091

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	29,041
Target EV	419,355
Total EV	419,355
Net debt	52,252
Target market capitalisation	3,67,103
Target price (Rs/sh)	4,511
Weighted average shares (mn)	77.3

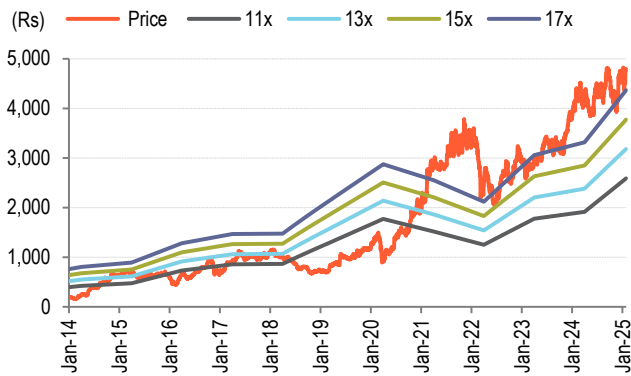
Source: BOBCAPS Research, Note: 1-year forward multiple includes partial earnings of FY27E

Fig 13 – Peer comparison

Ticker	Rating	Target Price (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY25	FY26E	FY27E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
JKCE IN	HOLD	4,511	23.2	13.4	10.9	246	193	156	13.8	17.2	18.0	13.1	16.0	17.8
DALBHARA IN	SELL	1,689	15.4	11.0	8.8	97.0	97.0	99.0	3.6	5.1	6.6	5.0	6.3	7.6
TRCL IN	SELL	726	12.8	11.0	10.0	134	133	135	5.3	6.7	8.4	7.6	8.8	10.2

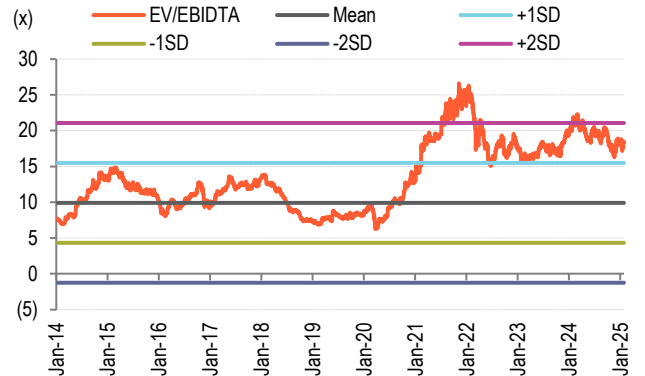
Source: BOBCAPS Research

Fig 14 – Current valuations leave limited room for healthy upside



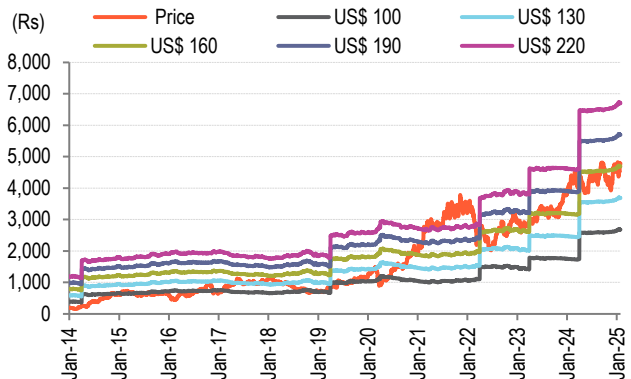
Source: Bloomberg, BOBCAPS Research

Fig 15 – Valuations may be range bound in the short term



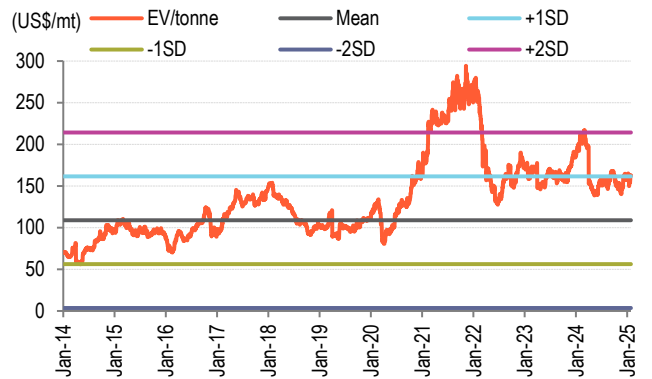
Source: Bloomberg, BOBCAPS Research

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



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
Total revenue	87,768	1,05,632	1,16,412	1,37,737	1,57,880
EBITDA	11,175	16,502	18,049	23,901	29,041
Depreciation	(3,615)	(4,859)	(5,690)	(6,753)	(7,935)
EBIT	10,608	16,545	16,681	22,047	26,067
Net interest inc./(exp.)	(2,605)	(4,366)	(5,681)	(6,286)	(6,230)
Other inc./(exp.)	3,048	4,902	4,323	4,899	4,961
Exceptional items	0	0	0	0	0
EBT	8,003	12,179	11,000	15,761	19,837
Income taxes	(2,377)	(3,817)	(3,300)	(4,728)	(6,348)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	5,626	8,361	7,700	11,033	13,489
Adjustments	0	0	0	0	0
Adjusted net profit	5,626	8,361	7,700	11,033	13,489

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	6,042	8,092	16,439	18,713	21,179
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	59,797	56,563
Other liabilities	8,394	16,262	15,323	13,790	13,042
Equity capital	773	773	773	773	773
Reserves & surplus	43,915	51,934	58,309	68,087	80,321
Shareholders' fund	44,688	52,707	59,082	68,859	81,093
Total liab. and equities	1,00,946	1,42,019	1,60,555	1,71,934	1,82,801
Cash and cash eq.	5,677	7,777	8,301	7,647	4,311
Accounts receivables	3,712	4,604	5,103	5,849	6,596
Inventories	7,779	10,675	11,163	12,453	13,625
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	98,797	1,10,821
CWIP	3,551	6,073	14,000	8,500	7,000
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
Total assets	1,00,946	1,42,019	1,60,554	1,71,934	1,82,801

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	15,216	8,185	14,362	12,753	16,973
Capital expenditures	(3,661)	(34,485)	(19,294)	(12,828)	(15,778)
Change in investments	(5,156)	8,603	(81)	(42)	(42)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(8,817)	(25,882)	(19,375)	(12,869)	(15,820)
Equities issued/Others	(2,296)	1,501	24	94	94
Debt raised/repaid	(125)	20,139	6,864	718	(3,234)
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
Cash flow from financing	(3,548)	19,796	5,539	(537)	(4,489)
Chg in cash & cash eq.	2,851	2,099	525	(654)	(3,336)
Closing cash & cash eq.	5,677	7,776	8,302	7,647	4,311

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	72.8	108.2	99.7	142.8	174.6
Adjusted EPS	72.8	108.2	99.7	142.8	174.6
Dividend per share	15.0	15.0	15.0	15.0	15.0
Book value per share	578.3	682.1	764.6	891.2	1,049.5

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.5	3.9	3.6	2.3	2.0
EV/EBITDA	35.5	25.1	23.3	13.5	11.0
Adjusted P/E	65.7	44.2	48.0	33.5	27.4
P/BV	8.3	7.0	6.3	5.4	4.6

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	70.3	68.7	70.0	70.0	68.0
Interest burden (PBT/EBIT)	75.4	73.6	65.9	71.5	76.1
EBIT margin (EBIT/Revenue)	12.1	15.7	14.3	16.0	16.5
Asset turnover (Rev./Avg TA)	85.9	87.0	76.9	82.9	89.0
Leverage (Avg TA/Avg Equity)	2.3	2.5	2.7	2.6	2.4
Adjusted ROAE	12.9	17.2	13.8	17.2	18.0

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	16.6	20.4	10.2	18.3	14.6
EBITDA	(16.1)	47.7	9.4	32.4	21.5
Adjusted EPS	(26.0)	48.6	(7.9)	43.3	22.3
Profitability & Return ratios (%)					
EBITDA margin	12.7	15.6	15.5	17.4	18.4
EBIT margin	12.1	15.7	14.3	16.0	16.5
Adjusted profit margin	6.4	7.9	6.6	8.0	8.5
Adjusted ROAE	12.9	17.2	13.8	17.2	18.0
ROCE	12.7	16.0	13.1	16.0	17.8
Working capital days (days)					
Receivables	15	16	16	16	15
Inventory	32	37	35	33	32
Payables	29	33	61	60	60
Ratios (x)					
Gross asset turnover	1.2	1.0	1.0	1.0	1.0
Current ratio	1.5	2.1	1.7	1.7	1.5
Net interest coverage ratio	4.1	3.8	2.9	3.5	4.2
Adjusted debt/equity	0.7	1.0	1.0	0.9	0.7

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

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BUY – Expected return >+15%

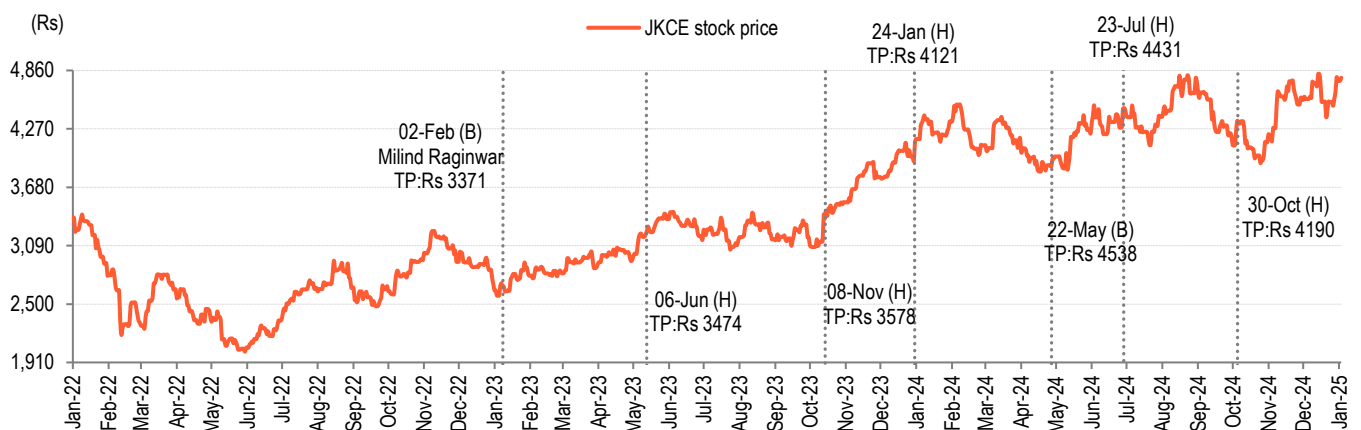
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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



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