

BUY**TP: Rs 3,371 | ▲ 20%****JK CEMENT**

Cement

10 February 2023

Steep costs likely to soften in Q4; maintain BUY

- Grey cement volumes grew 23% YoY in Q3 backed by capacity addition in Central India and presence in remunerative areas guarding prices
- Mix of high-cost inventory, one-off marketing expense and higher clinker transport hit profits but expected to recede in Q4
- Maintain BUY with an unchanged TP of Rs 3,371, based on 12.5x FY25E EV/EBITDA

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Healthy volume-led growth: JKCE reported 18% YoY (+7% QoQ) revenue growth to Rs 22.9bn in Q3FY23 propped up entirely by volumes (+18% YoY, +8% QoQ). Grey cement volumes grew by 23% YoY (+10% QoQ) to 3.6mt (including clinker) and realisations improved by 1% YoY/QoQ to Rs 4,905/t, helped by the company's presence in West and North India. White cement volumes (including putty) fell 11% YoY (-9% QoQ) to 0.38mt, but realisations grew 11% YoY (+3% QoQ) to Rs 12,856/t.

Higher clinker production pushes up costs: Operating expense increased 9% YoY (+2% QoQ) to Rs 5,152/t in Q3 driven by a 21% YoY (+3% QoQ) spike in energy cost (adj. for raw material cost) due to increased clinker production (Rs 200mn impact). Logistics expense rose 8% YoY (+4% QoQ), contributing to the cost spiral due to transport of clinker to new grinding units in Uttar Pradesh (Rs 100mn impact). Additionally, JKCE incurred non-recurring promotional spends of Rs 200mn. We expect a better Q4 as one-offs recede and fuel costs likely ease.

Earnings contract: Q3 EBITDA declined 29% YoY (-11% QoQ) to Rs 2.6bn as cost inflation pulled margins down by 8ppt YoY (-3ppt QoQ) to 11.5%. Aggregate EBITDA/t fell 40% YoY (-18% QoQ) to Rs 669/t, which includes a one-off cost of ~Rs 150/tn. Adj. PAT fell 42% YoY and 23% QoQ to Rs 966mn.

Panna unit commissioned: In Q3, JKCE commissioned the 4mt greenfield plant in Central India and 2mt grinding units each in Panna (Madhya Pradesh) and Hamirpur (Uttar Pradesh). The Panna clinkerisation unit was commissioned in Nov'22. Capex for Panna totalled Rs 27.2bn (Rs 14.6bn funded by borrowing) vs. Rs 29.7bn guided earlier.

Maintain BUY: We model for a 16.5%/19.9%/16.6% revenue/EBITDA/PAT CAGR for JKCE over FY22-FY25 and retain BUY with an unchanged TP of Rs 3,371, based on 12.5x FY25E EV/EBITDA. The stock currently trades at ~11x, well below its 3Y average. We expect a rerating given the strong growth outlook, well-managed balance sheet and healthy return ratios. (ROE/ROCE of 17-19% in FY25E). Our valuation implies a replacement cost of Rs 11.6bn/mt, 65% premium to the industry average based on JKCE's presence in comparatively remunerative regions.

Key changes

Target	Rating
◀ ▶	◀ ▶

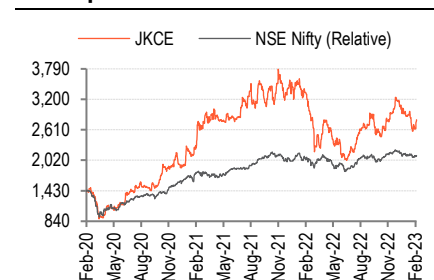
Ticker/Price	JKCE IN/Rs 2,803
Market cap	US\$ 2.6bn
Free float	54%
3M ADV	US\$ 4.3mn
52wk high/low	Rs 3,294/Rs 2,004
Promoter/FPI/DII	46%/16%/22%

Source: NSE | Price as of 10 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	75,291	89,733	103,023
EBITDA (Rs mn)	13,325	15,105	17,976
Adj. net profit (Rs mn)	7,608	7,800	9,481
Adj. EPS (Rs)	98.5	100.9	122.7
Consensus EPS (Rs)	98.5	89.3	117.0
Adj. ROAE (%)	18.9	17.0	17.8
Adj. P/E (x)	28.5	27.8	22.8
EV/EBITDA (x)	18.5	16.8	13.8
Adj. EPS growth (%)	(1.2)	2.5	21.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Earnings call highlights

- During Q3FY23, JKCE hiked cement prices by Rs 5/bag in the northern region. Prices in the south were under pressure whereas the eastern and western regions saw healthy hikes of Rs 20/bag, albeit below expectations. Management expects a price increase across key markets in Q4FY23 given healthy demand trends.
- Capacity utilisation was at 93% (+16% YoY) in Q3, blending ratio at 62% (-1% YoY), trade sales mix at 67% (-2% YoY), and premium product sales at 9% of trade sales (+3% YoY).
- White cement is performing well, though pressure on the putty business continues.
- Power and fuel cost increased by Rs 0.20/kcal to Rs 2.60/kcal against Rs 2.4/kcal in Q2FY23. Management expects a reduction by a minimum of Rs 0.20/kcal in Q4.
- Rail movement formed 19% of the transport mix and the lead distance was 470km in Q3FY23. With the full commissioning of Panna units, the company expects an 8-10% reduction in lead distance.
- In Q3FY23, the company successfully commissioned the 4mt greenfield plant in Central India and 2mt grinding units each in Panna (Madhya Pradesh) and Hamirpur (Uttar Pradesh). The Panna clinkerisation unit was commissioned in Nov'22. Capex incurred on the Panna project totals Rs 27.2bn (Rs 14.6bn funded by borrowing) vs. Rs 29.7bn guided earlier
- JKCE expects the entire Panna project to stabilise by Q1FY24, with stabilisation costs of Rs 200mn/250mn likely in each of the next two quarters.
- JKCE has spent close to Rs 16bn out of the Rs 19bn capex guided for FY23 (including capex on the paints business). The balance will be spent in Q4. Guidance for FY24 is unchanged at Rs 14bn.
- With respect to merger of the Panna subsidiary with JKCE, the matter is already listed with the National Company Law Tribunal (NCLT), and management expects a quick conclusion. The effective date of the merger is 1 Apr 2021.
- The company entered the paints business in Q3FY23 by acquiring a 60% stake in Acro Paints through a subsidiary for Rs 1.53bn. The balance 40% is to be acquired over a period of one year.
- Net debt was at Rs 14.6bn as of Q3FY23 as against Rs 16.06bn in Q3FY22. Net debt/equity stood at 0.32x as against 0.38x. Short-term borrowing is Rs 3.5bn-4bn.

Fig 1 – Key quarterly metrics

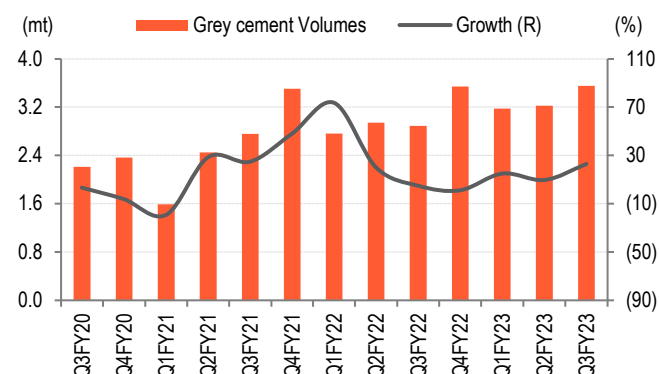
Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Aggregate Volumes (mt)	3.93	3.32	18.3	3.22	22.1
Grey Cement (mt)	3.55	2.89	22.8	2.94	20.6
White Cement and Putty (mt)	0.38	0.43	(11.4)	0.42	(9.3)
Aggregate realisations	4,905	4,844	1.3	4,838	1.4
Operating costs (Rs/mt)	5,152	4,725	9.0	5,064	1.7
Aggregate EBITDA (Rs/mt)	669	1,116	(40.1)	814	(17.9)

Source: Company, BOBCAPS Research

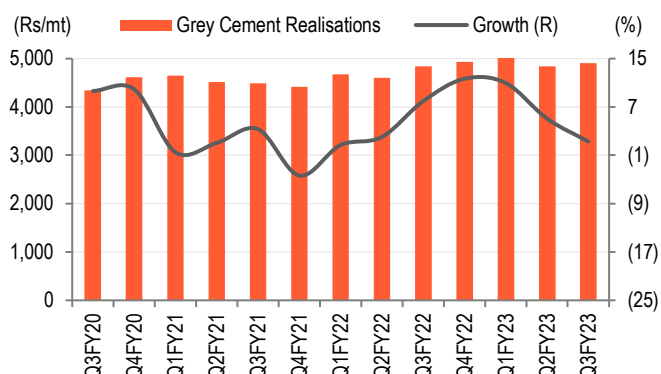
Fig 2 – Quarterly performance

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Net Sales	22,880	19,404	17.9	21,418	6.8
Expenditure					
Change in stock	29.3	(531.0)	(105.5)	163.8	(82.1)
Raw material	3,387	3,105	9.1	3,229	4.9
Stores and Spares	0	0	0.0	0	0.0
Purchased products	367	246	49.5	353	4.1
Power & fuel	6,470	4,351	48.7	5,500	17.6
Freight	4,876	3,834	27.2	4,352	12.0
Employee costs	1,420	1,290	10.1	1,404	1.2
Other expenditure	3,702	3,401	8.8	3,449	7.3
Total Operating Expenses	20,252	15,696	29.0	18,451	9.8
EBITDA	2,628	3,708	(29.1)	2,967	(11.4)
EBITDA margin (%)	11.5	19.1	(762bps)	13.9	(237bps)
Other Income	218	264	(17.3)	228	(4.3)
Interest	658	652	0.8	625	5.2
Depreciation	903	719	25.6	897	0.6
PBT	1,286	2,601	(50.6)	1,673	(23.1)
Non-recurring items	0.0	0.0	0.0	0.0	0.0
PBT (after non-recurring items)	1,286	2,601	(50.6)	1,673	(23.1)
Tax	320.1	926.2	(65.4)	424.5	(24.6)
Reported PAT	966	1,674	(42.3)	1,248	(22.6)
Adjusted PAT	966	1,674	(42.3)	1,248	(22.6)
NPM (%)	4.2	8.6	(441bps)	5.8	(161bps)
Adjusted EPS (Rs)	12.5	21.7	(42.3)	16.2	(22.6)

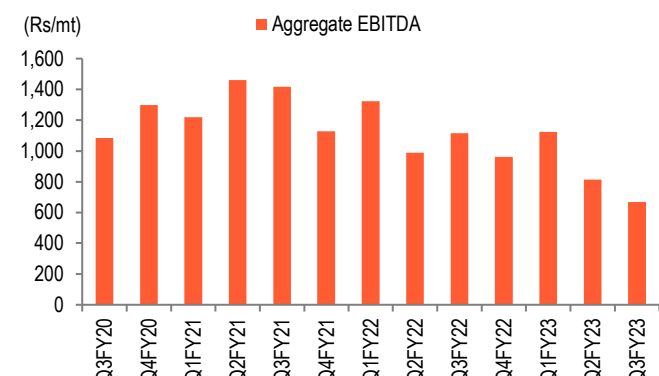
Source: Company, BOBCAPS Research

Fig 3 – Volumes grew following grinding unit commissioning in Central India


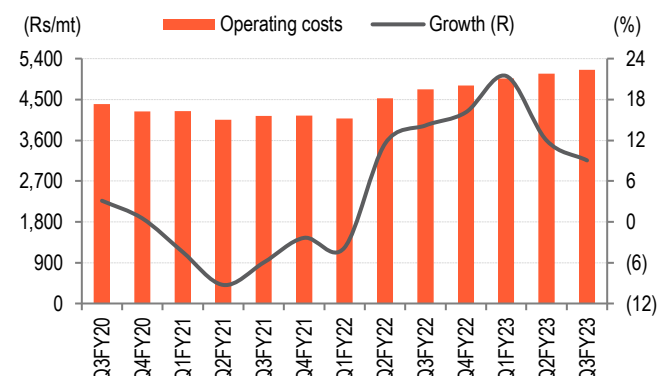
Source: Company, BOBCAPS Research

Fig 4 – Presence in remunerative regions keeps realisations stable


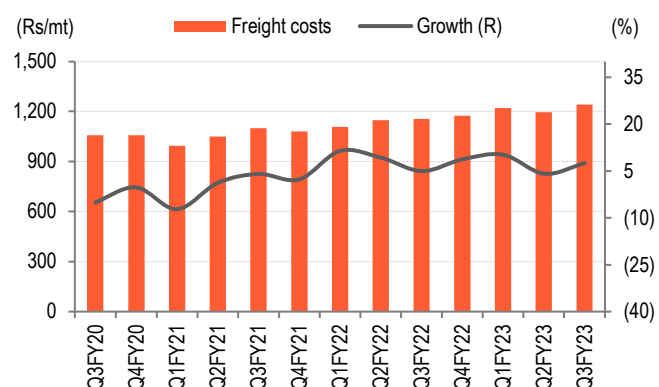
Source: Company, BOBCAPS Research

Fig 5 – One-time hit on EBITDA due to higher costs


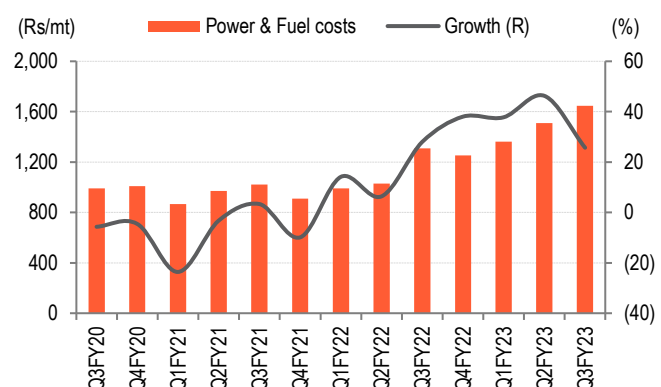
Source: Company, BOBCAPS Research

Fig 6 – Non-recurring expenses kept cost elevated


Source: Company, BOBCAPS Research

Fig 7 – Clinker movement over longer distance inflated freight cost


Source: Company, BOBCAPS Research

Fig 8 – Higher clinker production raised fuel cost


Source: Company, BOBCAPS Research

Valuation methodology

We model for a 16.5%/19.9%/16.6% revenue/EBITDA/PAT CAGR for JKCE over FY22-FY25 and retain our BUY rating with an unchanged TP of Rs 3,371, based on 12.5x FY25E EV/EBITDA. JKCE currently trades at ~11x, well below its three-year average valuations. We anticipate a rerating given the strong growth outlook, well-managed balance sheet and healthy return ratios (ROE/ROCE of 17-19% in FY25E).

Our valuation implies a replacement cost of Rs 11.6bn/mt – 65% premium to the industry average based on JKCE's strong presence in comparatively remunerative regions (northern, western, central). Its high-margin white cement segment lends further earnings visibility. We believe the company will remain in growth mode as it continues to churn healthy cash flow from its expanded capacities, pointing to an ability to push up dispatches without sacrificing margins.

Fig 9 – Key assumptions

Parameter	FY21	FY22E	FY23E	FY24E
Volumes (mt)	12.1	13.4	15.3	17.8
Realisations (Rs/mt)	4,517	4,878	5,013	5,163
Operating costs (Rs/mt)	4,818	5,251	5,274	5,178
EBITDA/mt (Rs)	980	1,008	1,062	1,184

Source: Company, BOBCAPS Research

Fig 10 – Valuation summary

Business (Rs mn)	FY25E
Target EV/EBITDA (x)	12.5
EBITDA	22,940
Target EV	2,86,745
Total EV	2,86,745
Net debt	26,037
Target market capitalisation	2,60,708
Target price (Rs/sh)	3,371
Weighted average shares (mn)	77

Source: BOBCAPS Research

Fig 11 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
JKCE IN	BUY	3,371	16.6	13.7	10.5	207	203	199	17.0	17.8	19.2	16.2	17.0	19.1
DALBHARA IN	HOLD	1,835	17.7	14.6	11.5	134	141	138	4.4	7.0	10.4	5.3	7.6	10.4
TRCL IN	SELL	534	22.9	16.9	13.1	124	124	125	3.2	6.0	8.5	4.5	6.6	8.7

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates:

- Central India is currently the best performing region driven by strong government impetus. Any socio-political change in the region could affect our demand assumptions.
- JKCE has invested in non-core businesses such as paints. The investment is currently marginal but any increase in the same would need to be monitored.
- Unabated inflationary cost trends pose a risk to our estimates.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.3	1,880	2,090	HOLD
Ambuja Cement	ACEM IN	8.7	361	387	HOLD
Dalmia Bharat	DALBHARA IN	4.6	1,939	1,835	HOLD
JK Cement	JKCE IN	2.6	2,803	3,371	BUY
JK Lakshmi Cement	JKLC IN	1.1	758	551	SELL
Orient Cement	ORCMNT IN	0.3	123	140	HOLD
Shree Cement	SRCM IN	10.5	23,971	24,656	HOLD
Star Cement	STRCEM IN	0.6	113	138	BUY
The Ramco Cements	TRCL IN	2.1	734	534	SELL
Ultratech Cement	UTCEN IN	25.2	7,206	8,310	BUY

Source: BOBCAPS Research, NSE | Price as of 10 Feb 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	62,334	75,291	89,733	103,023	119,125
EBITDA	14,190	13,325	15,105	17,976	22,940
Depreciation	(2,447)	(2,820)	(3,696)	(4,073)	(4,834)
EBIT	13,825	13,429	14,324	17,048	21,502
Net interest inc./(exp.)	(2,232)	(2,493)	(2,682)	(2,897)	(3,496)
Other inc./(exp.)	2,082	2,924	2,915	3,145	3,396
Exceptional items	0	0	0	0	0
EBT	11,593	10,936	11,642	14,150	18,006
Income taxes	(3,897)	(3,329)	(3,842)	(4,670)	(5,942)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	7,696	7,608	7,800	9,481	12,064
Adjustments	0	0	0	0	0
Adjusted net profit	7,696	7,608	7,800	9,481	12,064

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	7,433	6,691	12,063	13,747	15,548
Other current liabilities	7,866	13,284	11,351	11,464	11,579
Provisions	1,266	1,303	1,353	1,408	1,468
Debt funds	30,959	32,201	38,444	42,082	45,727
Other liabilities	6,105	7,457	7,146	6,497	5,914
Equity capital	773	773	773	773	773
Reserves & surplus	37,287	41,713	48,358	56,510	67,303
Shareholders' fund	38,060	42,485	49,131	57,283	68,076
Total liab. and equities	91,689	103,422	119,488	132,481	148,311
Cash and cash eq.	11,618	2,826	1,878	10,331	19,690
Accounts receivables	3,161	3,978	4,671	5,363	6,201
Inventories	6,867	11,136	11,063	12,702	14,687
Other current assets	9,000	13,648	8,690	9,180	9,719
Investments	8,070	17,448	17,982	18,543	19,130
Net fixed assets	46,469	51,716	70,556	69,710	77,429
CWIP	6,384	2,526	4,500	6,500	1,300
Intangible assets	121	145	148	151	154
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	91,689	103,422	119,488	132,480	148,311

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	9,687	6,108	17,978	11,349	13,738
Capital expenditures	(5,094)	(3,583)	(23,480)	(4,644)	(6,167)
Change in investments	(2,408)	(9,378)	(535)	(560)	(588)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(7,501)	(12,960)	(24,014)	(5,204)	(6,754)
Equities issued/Others	729	(761)	195	20	78
Debt raised/repaid	4,046	1,242	6,242	3,638	3,646
Interest expenses	0	0	0	0	0
Dividends paid	(1,356)	(1,159)	(1,356)	(1,356)	(1,356)
Other financing cash flows	(298)	(1,262)	7	7	7
Cash flow from financing	3,121	(1,940)	5,088	2,309	2,375
Chg in cash & cash eq.	5,307	(8,792)	(948)	8,454	9,359
Closing cash & cash eq.	11,618	2,826	1,878	10,332	19,690

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	99.6	98.5	100.9	122.7	156.1
Adjusted EPS	99.6	98.5	100.9	122.7	156.1
Dividend per share	15.0	15.0	15.0	15.0	15.0
Book value per share	492.6	549.8	635.9	741.3	881.0

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	3.8	3.3	2.8	2.4	2.0
EV/EBITDA	16.6	18.5	16.8	13.8	10.6
Adjusted P/E	28.1	28.5	27.8	22.8	18.0
P/BV	5.7	5.1	4.4	3.8	3.2

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	66.4	69.6	67.0	67.0	67.0
Interest burden (PBT/EBIT)	83.9	81.4	81.3	83.0	83.7
EBIT margin (EBIT/Revenue)	22.2	17.8	16.0	16.5	18.1
Asset turnover (Rev./Avg TA)	73.2	77.2	80.5	81.8	84.8
Leverage (Avg TA/Avg Equity)	2.5	2.4	2.4	2.4	2.2
Adjusted ROAE	22.2	18.9	17.0	17.8	19.2

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	15.5	20.8	19.2	14.8	15.6
EBITDA	27.3	(6.1)	13.4	19.0	27.6
Adjusted EPS	33.0	(1.2)	2.5	21.5	27.3

Profitability & Return ratios (%)

EBITDA margin	22.8	17.7	16.8	17.4	19.3
EBIT margin	22.2	17.8	16.0	16.5	18.1
Adjusted profit margin	12.3	10.1	8.7	9.2	10.1
Adjusted ROAE	22.2	18.9	17.0	17.8	19.2
ROCE	20.0	17.1	16.2	17.0	19.1

Working capital days (days)

Receivables	19	19	19	19	19
Inventory	40	54	45	45	45
Payables	56	39	59	59	59

Ratios (x)

Gross asset turnover	1.0	1.0	1.0	1.1	1.1
Current ratio	1.8	1.5	1.1	1.4	1.8
Net interest coverage ratio	6.2	5.4	5.3	5.9	6.2
Adjusted debt/equity	0.8	0.8	0.8	0.7	0.7

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

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

BUY – Expected return >+15%

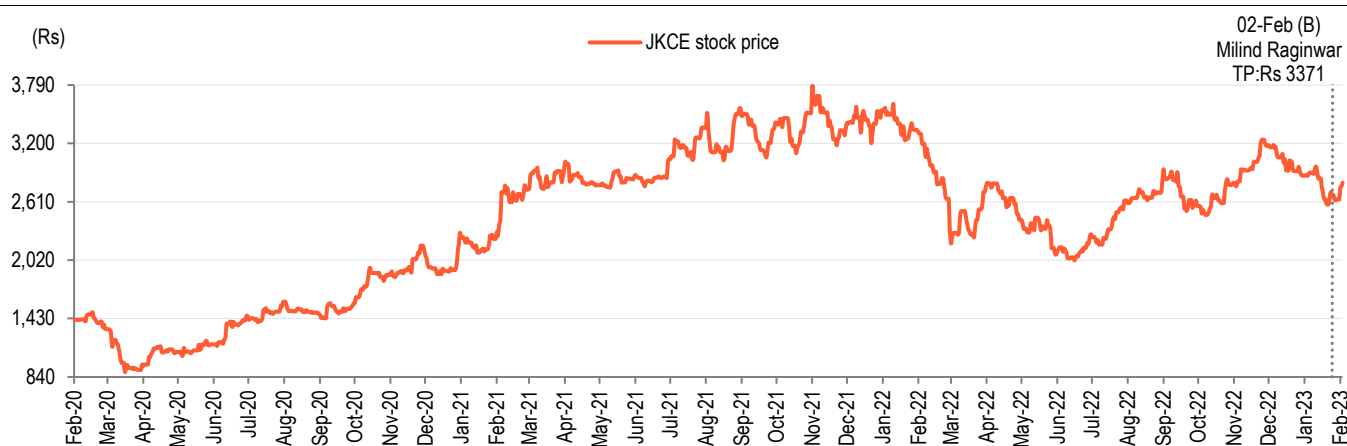
HOLD – Expected return from -6% to +15%

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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