

**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
- 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

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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%

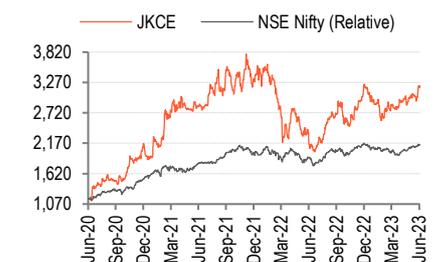
Source: NSE | Price as of 5 Jun 2023

### 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



**Fig 1 – Earnings call highlights**

Parameter	Q4FY23	Q3FY23	Our view
Volume and Realisation	<p>Management expects grey cement volume growth of 15% in FY24.</p> <p>Realisations improved by Rs 70/t YoY in Q4FY23 on account of lower clinker sales and higher trade share at 69% of volumes against 67% in Q3FY23, with no price impact.</p> <p>Exit prices of cement for Q4FY23 have remained flattish. Management expect improvement post monsoon.</p> <p>Central India expansion achieved 60% capacity utilisation. The blending ratio stood at 68%. Premium products formed 10% of trade sales.</p>	<p>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.</p> <p>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).</p>	<p>A better demand outlook, new units and an improved product mix should shore up grey cement realisations in the medium term.</p>
Margins	<p>Fuel cost was at Rs 2.4/kcal for Q4FY23 against Rs 2.6/kcal in Q3. Management indicated that pet coke prices are coming down and expects benefits of Rs 75/t every quarter as overall cost likely reduces to Rs 1.80-85/kcal in Q3FY24.</p> <p>Pet coke constituted 75% of the fuel mix in Q4 and the rest was alternate fuel and others.</p> <p>EBITDA margin stood at 15.3% for FY23, and management expect an increase to ~17% in FY24.</p>	<p>Power and fuel cost increased to Rs 2.6/kcal against Rs 2.4/kcal in Q2FY23. Management expects a reduction by a minimum of Rs 0.2/kcal in Q4.</p>	<p>Cost benefits are likely to flow in from Q1FY24 as the impact of high-cost inventory eases.</p>
Capex	<p>Capex for FY24 is guided at Rs 12bn-14bn (Rs 3.25bn-3.5bn for Prayagraj, Rs 1.5bn-1.6bn for a waste heat recovery system, Rs 3bn for Ujjain, Rs 1.5bn-2bn as spillover capex for Panna and Hamirpur, and normal capex of Rs 2.5bn-3bn).</p> <p>For FY25, capex is planned at Rs 7bn-8bn (spillover capex of Rs 0.5bn for Ujjain, primary capex of Rs 3.25bn-3.5bn for Prayagraj and normal capex of Rs 3bn).</p>	<p>JKCE has spent close to Rs 16bn out of the Rs 19bn capex guided for FY23 (including on the paints business). The balance will be spent in Q4. Guidance for FY24 is unchanged at Rs 14bn.</p>	<p>A better cash position and sound balance sheet would help JKCE continue capex as planned.</p>
Other key points	<p>Management plans to invest Rs 0.5bn towards the paints business (Rs 0.3bn for capex, Rs 0.2bn for brand building). Topline for the business is guided at Rs 1.5bn-1.8bn for FY24 and Rs 2.7bn-3bn for FY25, with ~30% gross margin.</p> <p>Management expects the 8,000tpd panna clinker line to reach 10,000tpd capability post refurbishment.</p> <p>Merger of Jaykaycem will be completed in Q2FY24.</p> <p>Consolidated net debt stood at Rs 29bn as of Q4, and management does not foresee net debt/EBITDA exceeding 2x.</p>	<p>Regarding 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.</p> <p>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 totalled Rs 3.5bn-4bn.</p>	<p>Merger with the Central India unit is to be executed in FY24. JKCE is focused on maintaining healthy debt levels. We remain vigilant on investment in the paints business.</p>

Source: Company, BOBCAPS Research

**Fig 2 – Key metrics**

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Aggregate volumes (mn mt)	4.0	3.93	1.0	3.93	1.1
Grey cement (mn mt)	3.5	3.54	0.3	3.55	0.1
White Cement and Putty (mn mt)	0.42	0.39	7.4	0.38	10.0
Aggregate realisations (Rs/mt)	6,003	5,770	4.0	5,830	3.0
Operating costs (Rs/mt)	5,092	4,797	6.2	5,152	(1.2)
Aggregate EBITDA (Rs/mt)	911	973	(6.4)	678	34.3

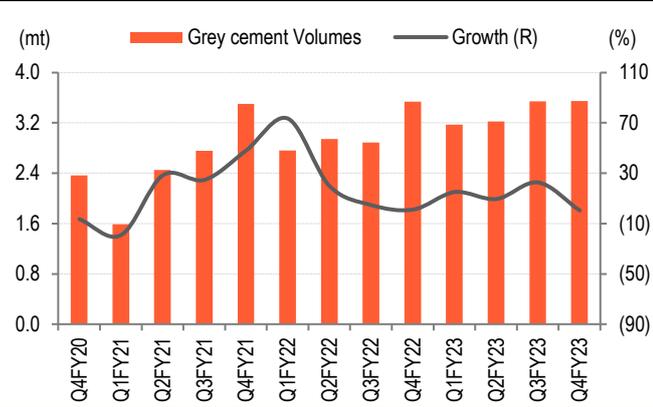
Source: Company, BOBCAPS Research

**Fig 3 – Quarterly performance**

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
<b>Net Sales</b>	<b>23,844</b>	<b>22,690</b>	<b>5.1</b>	<b>22,916</b>	<b>4.1</b>
<b>Expenditure</b>					
Change in stock	37.1	438.7		29.3	
Raw material	3,352	3,094	8.3	3,387	(1.0)
Stores and Spares	0	0	-	0	-
purchased products	435	700	(37.9)	367	18.3
Power & fuel	6,255	4,929	26.9	6,470	(3.3)
Freight	4,986	4,619	8.0	4,876	2.3
Employee costs	1,378	1,216	13.4	1,420	(3.0)
Other exp	3,785	3,866	(2.1)	3,702	2.2
Total Operating Expenses	20,227	18,863	7.2	20,252	(0.1)
<b>EBITDA</b>	<b>3,617</b>	<b>3,827</b>	<b>(5.5)</b>	<b>2,664</b>	<b>35.8</b>
EBITDA margin (%)	15.2	16.9	(170bps)	11.6	354bps
Other Income	340	412	(17.3)	182	86.9
Interest	705	689	2.4	658	7.3
Depreciation	915	757	20.9	903	1.4
PBT	2,337	2,792	(16.3)	1,286	81.7
Non-recurring items	0.0	(1,300.0)	-	0.0	-
PBT (after non-recurring items)	2,337	1,492	56.6	1,286	81.7
Tax	737.0	629.8	17.0	320.1	130.2
Reported PAT	1,600	863	85.4	966	65.7
<b>Adjusted PAT</b>	<b>1,600</b>	<b>2,163</b>	<b>(26.0)</b>	<b>966</b>	<b>65.7</b>
NPM (%)	6.7	9.5	(282bps)	4.2	249bps
<b>Adjusted EPS (Rs)</b>	<b>20.7</b>	<b>28.0</b>	<b>(26.0)</b>	<b>12.5</b>	<b>65.7</b>

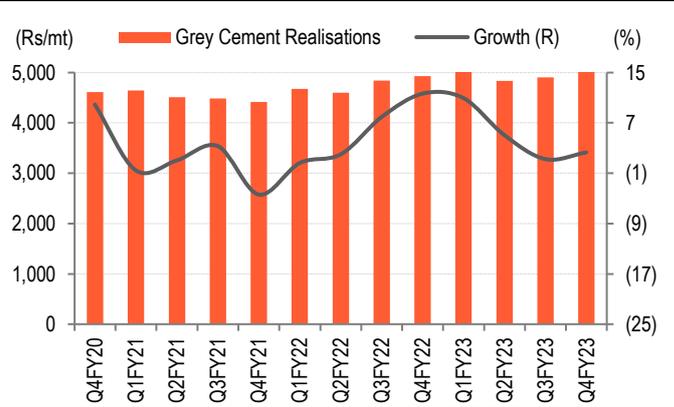
Source: Company, BOBCAPS Research

**Fig 4 – Volume pickup to continue backed by new units**



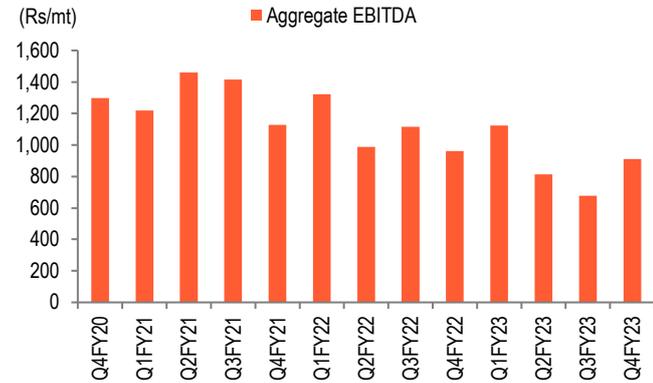
Source: Company, BOBCAPS Research

**Fig 5 – Short-term price pressure but demand pickup lends comfort**



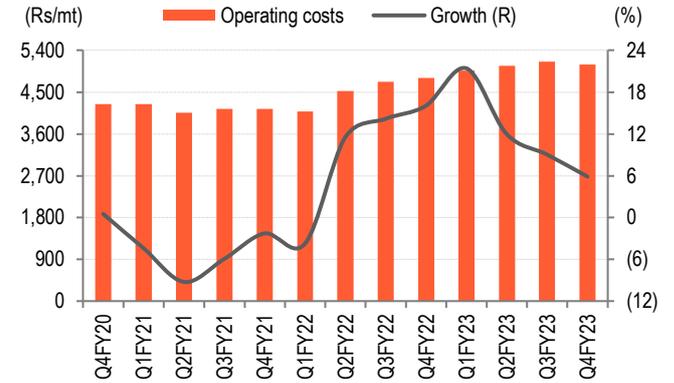
Source: Company, BOBCAPS Research

**Fig 6 – Hit on aggregate EBITDA due to cost pressure expected to reverse from FY24**



Source: Company, BOBCAPS Research

**Fig 7 – High-cost fuel inventory impacts overall cost**



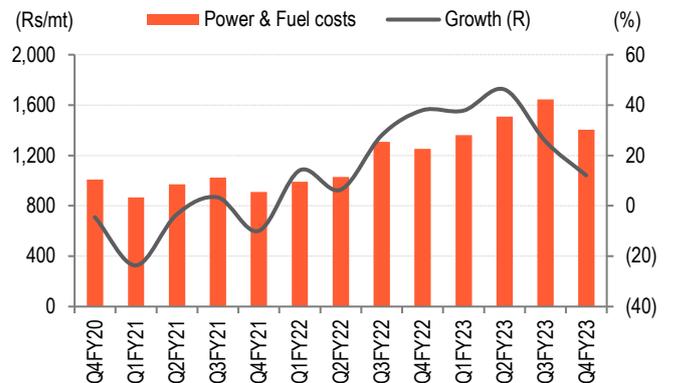
Source: Company, BOBCAPS Research

**Fig 8 – Freight cost moderating due to lower lead distance**



Source: Company, BOBCAPS Research

**Fig 9 – Energy cost to soften as high-cost fuel inventory is cleared**



Source: Company, BOBCAPS Research

## Valuation methodology

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. Overall, we model for a 16.5%/21.4%/17.3% revenue/EBITDA/PAT CAGR for JKCE over FY22-FY25. 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 (ROE/ROCE of 17-20% in FY25E). However, the recent run-up in stock price leaves limited upside potential and hence we downgrade our rating from BUY to HOLD.

Our valuation implies a replacement cost of Rs 12.3bn/mt, which is a 70% premium to the industry average based on JKCE's presence in comparatively remunerative regions such as northern, western and central India. We note that inorganic expansion in the eastern region is likely to cap margin expansion but allow for higher topline growth. Also, though the company's high-margin white cement segment has slowed, we expect revenue contribution to increase (as putty is increasingly replaced), lending continued earnings visibility albeit with lower traction. As regards new ventures (paints business and eastern region entry), we would await further clarity before revisiting our valuation.

**Fig 10 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	103,621	120,392	103,023	119,125	0.6	1.1
EBITDA	17,215	23,816	17,976	22,940	(4.2)	3.8
Adj PAT	8,795	12,289	9,481	12,064	(7.2)	1.9
Adj EPS (Rs)	113.8	159.0	122.7	156.1	(7.3)	1.9

Source: BOBCAPS Research

**Fig 11 – Key assumptions**

Parameter	FY22	FY23	FY24E	FY25E
Volumes (mt)	12.1	13.5	16.1	18.7
Realisations (Rs/mt)	4,517	4,993	5,013	5,163
Operating costs (Rs/mt)	4,818	5,679	5,103	4,950
EBITDA/mt (Rs/mt)	980	982	971	1,172

Source: Company, BOBCAPS Research

**Fig 12 – Valuation summary**

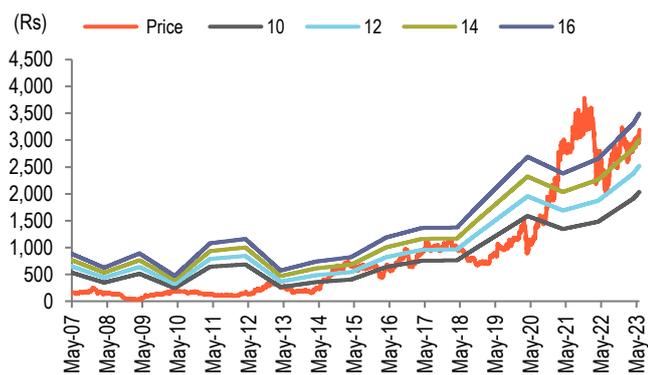
Business (Rs mn)	FY25E
Target EV/EBITDA (x)	12.7
EBITDA	23,360
Target EV	297,606
Total EV	297,606
Net debt	29,141
Target market capitalization	268,465
<b>Target price (Rs/sh)</b>	<b>3,474</b>
Weighted average shares (mn)	77

Source: BOBCAPS Research

Fig 13 – Peer comparison

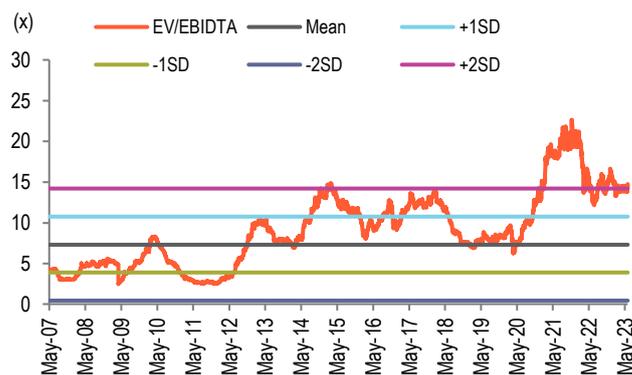
Ticker	Rating	Target Price (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
JKCE IN	HOLD	3,474	20.4	16.0	11.5	160	161	161	12.6	17.3	20.4	12.4	16.6	19.8
DALBHARA IN	HOLD	1,917	18.3	15.2	12.0	133	134	131	4.5	7.1	10.5	5.3	7.6	10.4
TRCL IN	SELL	585	22.6	17.6	14.9	143	142	143	4.6	7.1	8.8	5.8	7.8	9.2

Fig 1 – EV/EBITDA 1Y fwd



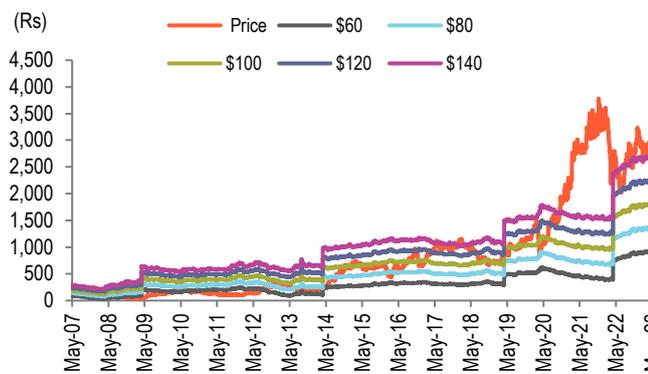
Source: Company, BOBCAPS Research

Fig 2 – EV/EBITDA SD band



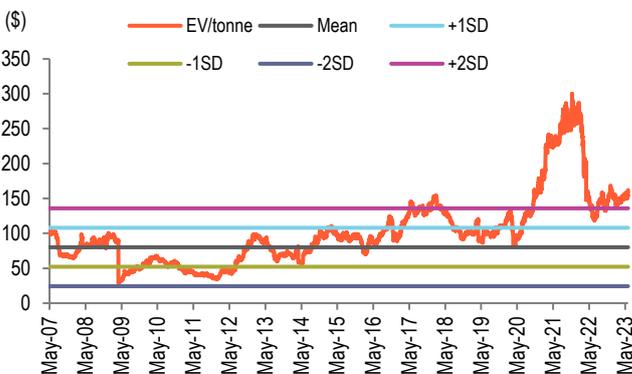
Source: Company, BOBCAPS Research

Fig 3 – EV/tonne



Source: Company, BOBCAPS Research

Fig 4 – EV/tonne SD band



Source: Company, BOBCAPS Research

### Key risks

- Central India is currently the better performing region driven by a strong infrastructure impetus. This can help JKCE gain stronger growth traction than estimated, presenting an upside risk to our estimates.
- Faster softening of raw material and energy costs can be a positive surprise.
- JKCE's investments in non-core businesses such as paints are currently marginal, but any increase therein needs to be closely monitored. Additionally, the cement business foray into the oversupplied eastern region may dent margins, raising a downside risk.
- Sustained inflationary trends pose a downside risk to our estimates.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.1	1,810	1,964	HOLD
Ambuja Cements	ACEM IN	10.6	439	375	HOLD
Dalmia Bharat	DALBHARA IN	4.8	2,140	1,917	HOLD
JK Cement	JKCE IN	3.0	3,208	3,474	HOLD
JK Lakshmi Cement	JKLC IN	1.0	722	551	SELL
Orient Cement	ORCMNT IN	0.3	140	140	HOLD
Shree Cement	SRCM IN	10.9	24,820	24,656	HOLD
Star Cement	STRCEM IN	0.7	143	146	BUY
The Ramco Cements	TRCL IN	2.6	912	585	SELL
Ultratech Cement	UTCEM IN	27.7	7,882	8,678	BUY

Source: BOBCAPS Research, NSE | Price as of 5 Jun 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>62,334</b>	<b>75,291</b>	<b>89,986</b>	<b>1,03,621</b>	<b>1,20,392</b>
EBITDA	14,190	13,325	13,393	17,215	23,816
Depreciation	(2,447)	(2,820)	(3,615)	(4,200)	(5,127)
EBIT	13,825	13,429	10,607	15,969	21,682
Net interest inc./(exp.)	(2,232)	(2,493)	(2,582)	(2,841)	(3,340)
Other inc./(exp.)	2,082	2,924	829	2,954	2,993
Exceptional items	0	0	0	0	0
EBT	11,593	10,936	8,025	13,127	18,342
Income taxes	(3,897)	(3,329)	(2,377)	(4,332)	(6,053)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>7,696</b>	<b>7,608</b>	<b>5,648</b>	<b>8,795</b>	<b>12,289</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>7,696</b>	<b>7,608</b>	<b>5,648</b>	<b>8,795</b>	<b>12,289</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	7,433	6,691	7,043	13,967	15,611
Other current liabilities	7,866	13,284	11,351	11,464	11,579
Provisions	1,266	1,303	1,377	1,408	1,468
Debt funds	30,959	32,201	33,264	40,334	43,136
Other liabilities	6,105	7,457	8,858	8,037	7,301
Equity capital	773	773	773	773	773
Reserves & surplus	37,287	41,713	46,407	53,872	64,890
Shareholders' fund	38,060	42,485	47,180	54,644	65,662
<b>Total liab. and equities</b>	<b>91,689</b>	<b>1,03,422</b>	<b>1,09,073</b>	<b>1,29,854</b>	<b>1,44,757</b>
Cash and cash eq.	11,618	2,826	5,677	10,223	13,995
Accounts receivables	3,161	3,978	3,712	4,258	5,277
Inventories	6,867	11,136	7,779	9,652	11,544
Other current assets	9,000	13,648	13,016	15,000	15,112
Investments	8,070	17,448	22,604	18,543	19,130
Net fixed assets	46,469	51,716	53,756	70,526	78,242
CWIP	6,384	2,526	2,379	1,500	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
<b>Total assets</b>	<b>91,689</b>	<b>1,03,422</b>	<b>1,09,072</b>	<b>1,29,854</b>	<b>1,44,757</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>9,687</b>	<b>6,108</b>	<b>12,396</b>	<b>13,430</b>	<b>13,995</b>
Capital expenditures	(5,094)	(3,583)	(4,497)	(18,685)	(11,167)
Change in investments	(2,408)	(9,378)	(5,157)	4,062	(588)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(7,501)</b>	<b>(12,960)</b>	<b>(9,653)</b>	<b>(14,623)</b>	<b>(11,754)</b>
Equities issued/Others	729	(761)	197	18	78
Debt raised/repaid	4,046	1,242	1,062	7,070	2,803
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)	205	7	7
<b>Cash flow from financing</b>	<b>3,121</b>	<b>(1,940)</b>	<b>108</b>	<b>5,739</b>	<b>1,532</b>
<b>Chg in cash &amp; cash eq.</b>	<b>5,307</b>	<b>(8,792)</b>	<b>2,851</b>	<b>4,546</b>	<b>3,772</b>
<b>Closing cash &amp; cash eq.</b>	<b>11,618</b>	<b>2,826</b>	<b>5,677</b>	<b>10,223</b>	<b>13,996</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	99.6	98.5	73.1	113.8	159.0
Adjusted EPS	99.6	98.5	73.1	113.8	159.0
Dividend per share	15.0	15.0	15.0	15.0	15.0
Book value per share	492.6	549.8	610.6	707.2	849.8

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	4.3	3.7	3.1	2.7	2.3
EV/EBITDA	18.8	20.8	20.6	16.2	11.6
Adjusted P/E	32.2	32.6	43.9	28.2	20.2
P/BV	6.5	5.8	5.3	4.5	3.8

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	66.4	69.6	70.4	67.0	67.0
Interest burden (PBT/EBIT)	83.9	81.4	75.7	82.2	84.6
EBIT margin (EBIT/Revenue)	22.2	17.8	11.8	15.4	18.0
Asset turnover (Rev./Avg TA)	73.2	77.2	84.7	86.7	87.7
Leverage (Avg TA/Avg Equity)	2.5	2.4	2.4	2.3	2.3
Adjusted ROAE	22.2	18.9	12.6	17.3	20.4

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	15.5	20.8	19.5	15.2	16.2
EBITDA	27.3	(6.1)	0.5	28.5	38.3
Adjusted EPS	33.0	(1.2)	(25.8)	55.7	39.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	22.8	17.7	14.9	16.6	19.8
EBIT margin	22.2	17.8	11.8	15.4	18.0
Adjusted profit margin	12.3	10.1	6.3	8.5	10.2
Adjusted ROAE	22.2	18.9	12.6	17.3	20.4
ROCE	20.0	17.1	12.4	16.6	19.8
<b>Working capital days (days)</b>					
Receivables	19	19	15	15	16
Inventory	40	54	32	34	35
Payables	56	39	34	59	59
<b>Ratios (x)</b>					
Gross asset turnover	1.0	1.0	1.2	1.1	1.1
Current ratio	1.8	1.5	1.5	1.5	1.6
Net interest coverage ratio	6.2	5.4	4.1	5.6	6.5
Adjusted debt/equity	0.8	0.8	0.7	0.7	0.7

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

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**BUY** – Expected return >+15%

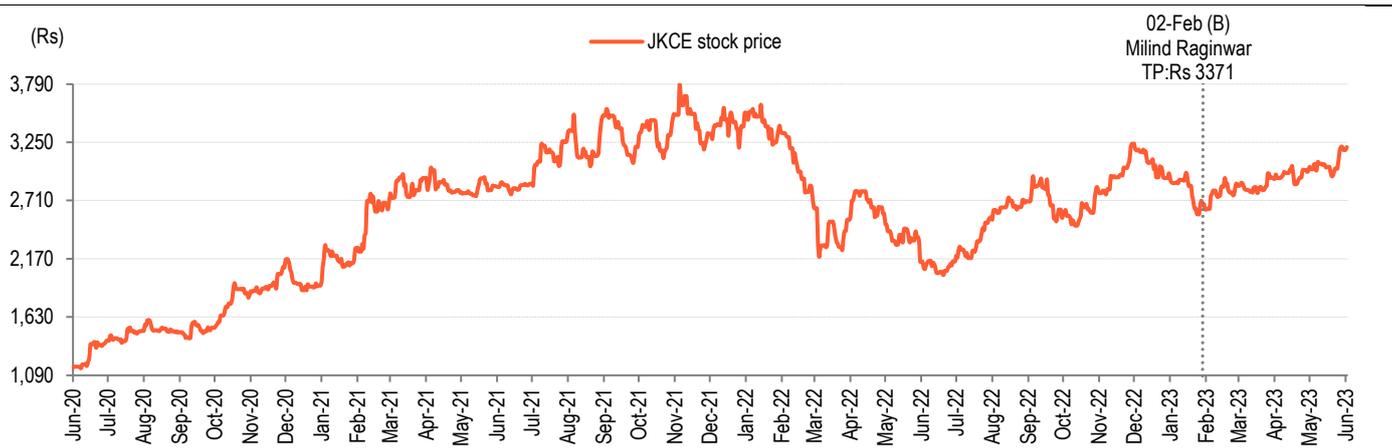
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

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

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)



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