

Strong operating performance led by volumes...

JK Cement's performance was ahead of our estimates for Q3FY21 with revenue growth of 25.3% YoY to ₹ 1760.1 crore (vs. I-direct estimate: ₹ 1672.5 crore). Blended sales volume grew 23.8% YoY to 3.17 MT while realisations improved 1.3% YoY to ₹ 5,554/t and stayed flat QoQ vs. expected decline of ~2%. EBITDA margins improved 572 bps YoY to 25.5%, better than our estimated margins of 24.8%, supported by lower raw material & employee expenses. EBITDA/t came in at ₹ 1,416/t vs. ₹ 1085/t last year and ₹ 1461/t last quarter. It was better than our expected EBITDA/t of ₹ 1,340/t. Reported PAT for Q3FY21 came in at ₹ 238.3 crore, up 73.2% YoY, ahead of our estimated PAT of ₹ 200.6 crore. On the B/S front, gross debt has increased marginally from ₹ 2,733 crore as on Sep-20 to ₹ 2,791 crore of Dec-20, owing to capital expenditure made during the year of ~₹ 1,648 crore. With improved earnings, net debt to EBITDA has declined to 0.98x vs. 1.35x reported in FY20 while net debt to equity was at 0.4x vs. 0.51 as of Mar-20. In the next phase of expansion, the company would set up 4 MT integrated grey cement capacity at Panna MP with split grinding unit in UP and 12 MW WHRS plant for capex of ₹ 2970 crore (i.e. at \$103/t).

Completion of phase-I expansion to fuel growth...

The entire 4.2 MT has been commissioned this fiscal. The newly added capacities include 1 MT grinding unit (GU) each in Nimbahara and Mangrol along with 2.6 MT clinker plant and 1.5 MT GU in Aligarh and 0.7 MT GU in Gujarat (Balasinor). Hence, despite a challenging FY21E, the company is likely to report volume growth of 14% to 11.1MT. For FY20-23E, we expect volume and revenue CAGR of 12.1% and 12.5%, respectively.

Phase-II expansion in MP to add another 4 MT capacity

Post incurring major capex of over ₹ 1,648 crore towards phase-I expansion, the next 2 years would lead to healthy OCF generation. However, the same is going to be mainly utilised towards the next phase of expansion at Panna (MP) for proposed ~4 MT greenfield capacity (8000tpd clinker with 2MTGU in MP & UP along with 22 MW WHRS) as it would entail a capex of ~₹ 2,970 crore (\$102/t). Hence, we expect debt levels to remain higher over the next two years. However, incremental OCF from new capacity would settle down debt/EBITDA at 2.0x in FY23E vs. 2.5x in FY20. The said project would also be entitled to various state government incentives including capital subsidy in MP and GST benefits in UP.

Valuation & Outlook

The management's efforts to improve cost efficiencies through newly added capacities (4.2 MT) are expected to drive profitability. Thus, we believe there is further scope for growth and margin expansion. The funding for phase-II expansion will be partially be done by incremental inflows from newly added capacities. Hence, it would keep debt levels under check. Hence, we maintain **BUY** rating with a revised target price of ₹ 2950/share (i.e. valuing at 13.5x FY23E EV/EBITDA) (earlier TP ₹ 2450).



Stock Data

Particulars	Amount
Mcap	₹ 18390 Crore
Debt (FY20)	₹ 2972 Crore
Cash & Invest (FY20)	₹ 632 Crore
EV	₹ 20730 Crore
52 week H/L	₹ 1505 / 795
Equity cap	₹ 77.3 crore
Face value	₹ 10

Key Highlights

- Construction work for upgradation of Nimbahara line 3 is going on full swing and will get completed in Q2FY22E
- In the next phase, the company is setting up 4MT greenfield capacity in Panna, MP with split GU in UP
- New capacities are set to come on stream by Q1FY24E
- Maintain BUY with a revised target price of ₹ 2950/share

Key risks to our call

- Any delay in commissioning of new capacity may impact growth and return ratios
- Volatility in prices of imported coal/petcoke without corresponding movement in price of cement can affect its profitability

Research Analyst

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Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	4981	5464	6103	6951	7789	12.5%
EBITDA	810	1182	1539	1683	1891	17.0%
EBITDA (%)	16.3	21.6	25.2	24.2	24.3	
PAT	324	400	769	785	896	30.8%
EPS (₹)	42.0	51.8	99.5	101.6	116.0	
EV/EBITDA	23.5	16.8	13.0	12.3	10.8	
EV/Tonne (\$)	207	167	157	162	159	
RoNW	11.2	12.8	20.2	17.5	16.6	
RoCE	12.5	16.2	18.9	17.3	17.4	

Exhibit 1: Variance Analysis

JK	Q3FY21	Q2FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Operating Income	1760.1	1672.5	1404.2	25.3	1,551	13.5	Blended sales volume grew 23.8% YoY to 3.17 MT. Realisations also improved 1.3% YoY
Other Income	30.3	23.7	23.7	28.1	28.7	5.6	
Raw Material Expenses	266.4	277.4	254.6	4.6	246.6	8.0	
Employee Expenses	109.8	107.5	99.2	10.7	97.6	12.5	
Power & Fuel	324.2	302.5	253.6	27.8	272.5	19.0	
Freight cost	348.4	324.1	270.5	28.8	295.2	18.0	
Others	262.5	246.9	248.5	5.6	228.1	15.1	
EBITDA	448.9	414.2	277.7	61.6	410.7	9.3	
EBITDA Margin (%)	25.5	24.8	19.8	572 bps	26.5	-98 bps	Margin expansion was mainly led by decline in cost of production (down 6% YoY to ₹ 4138/t)
Interest	59.3	74.1	56.1	5.7	53.7	10.5	
Depreciation	62.2	59.7	55.6	11.8	59.7	4.2	
PBT	357.7	304.0	189.7	88.6	326.0	9.7	
Total Tax	119.4	103.4	52.1	128.9	102.5	16.5	
PAT	238.3	200.6	137.6	73.2	223.5	6.6	Better operating performance led to healthy profitability
Key Metrics							
Volume (MT)	3.17	3.09	2.56	23.8	2.81	12.7	
Realisation (₹)	5,554	5,413	5,485	1.3	5,517	0.7	
EBITDA per Tonne (₹)	1,416	1,340	1,085	30.6	1,461	-3.1	

Source: Company, ICICI Direct Research

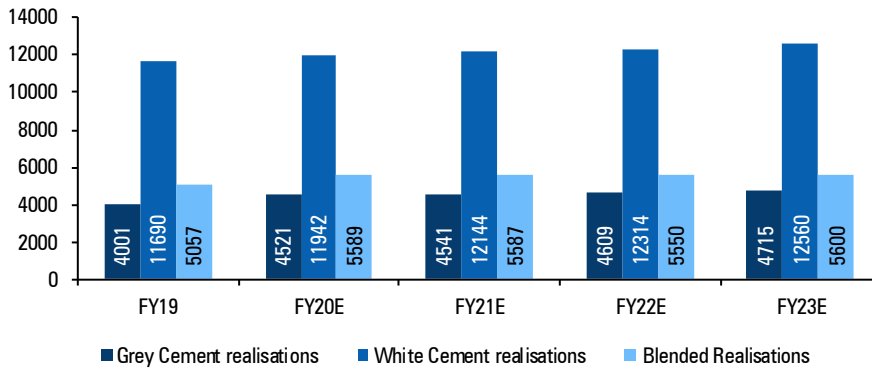
Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6,047.9	6,102.7	0.9	7,002.9	6,951.4	-0.7	
EBITDA	1,468.7	1,538.8	4.8	1,714.0	1,682.8	-1.8	
EBITDA Margin (%)	24.3	25.2	93 bps	24.5	24.2	-27 bps	

Source: Company, ICICI Direct Research

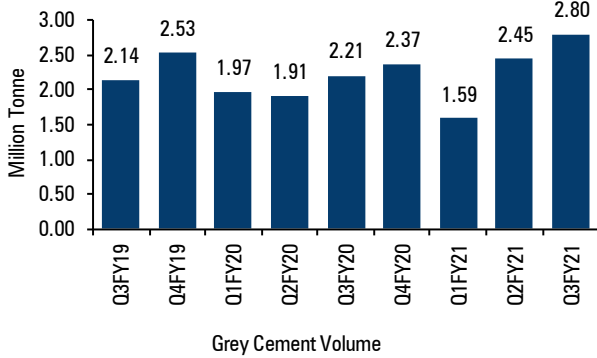
Financial story in charts

Exhibit 3: Blended realisations to remain firm



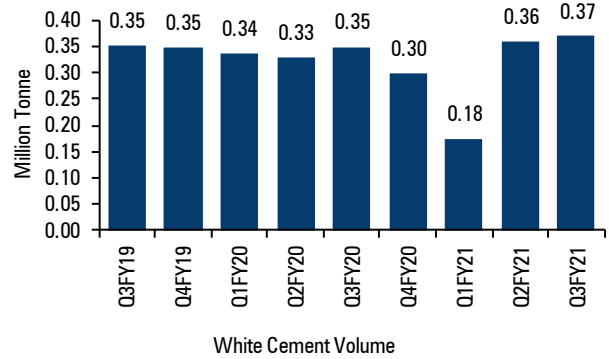
Source: Company, ICICI Direct Research

Exhibit 4: Grey cement volumes likely have improved ~27% YoY



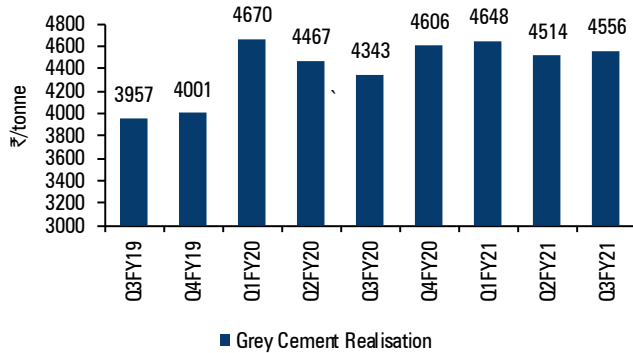
Source: Company, ICICI Direct Research

Exhibit 5: White cement volumes trend (assumed)



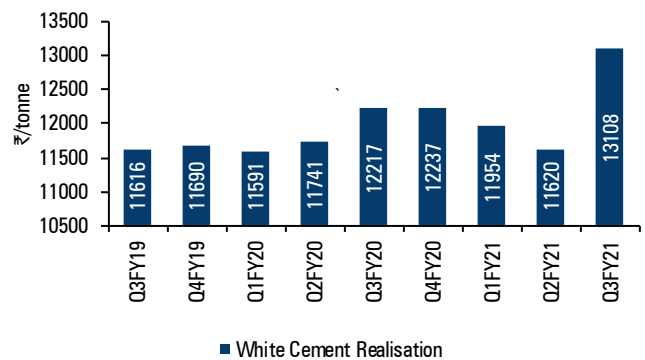
Source: Company, ICICI Direct Research

Exhibit 6: Grey cement realisations likely have declined marginally during Q3 sequentially in line with industry trend



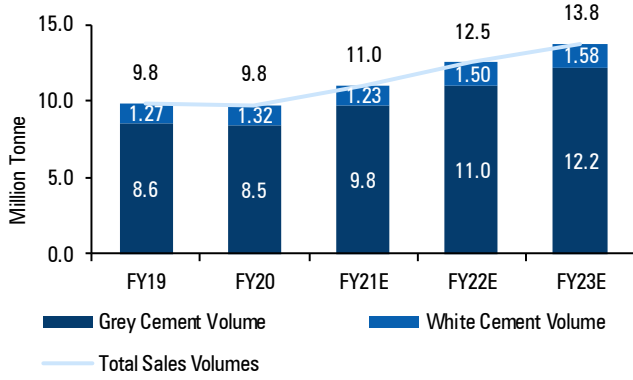
Source: Company, ICICI Direct Research

Exhibit 7: White cement realisations (assumed)



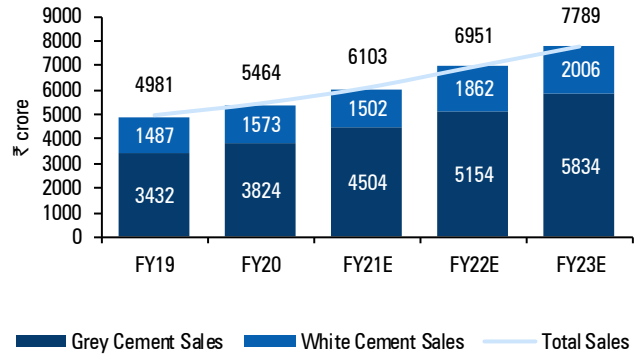
Source: Company, ICICI Direct Research

Exhibit 8: Expect volume CAGR of 12.1% during FY20-23E



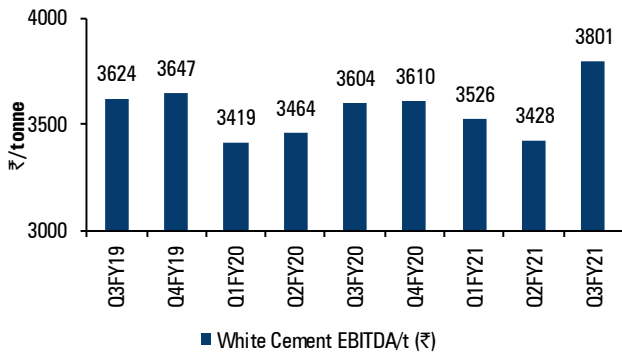
Source: Company, ICICI Direct Research

Exhibit 9: Revenues to grow at 12.5% CAGR over FY20-23E



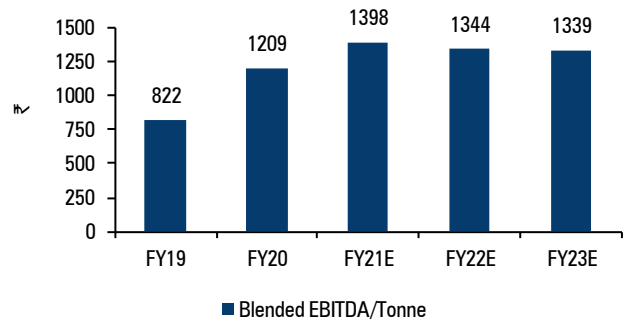
Source: Company, ICICI Direct Research

Exhibit 10: We assume white cement EBITDA of ₹ 3490/t for Q3FY21



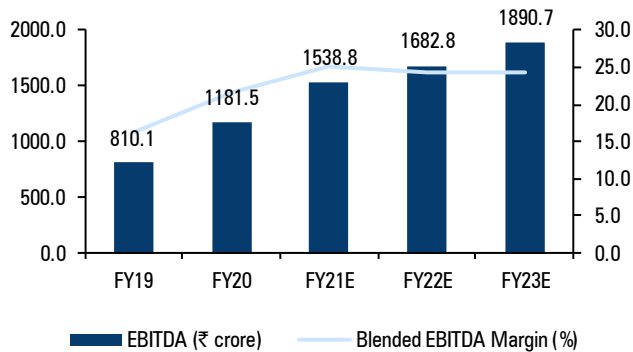
Source: Company, ICICI Direct Research

Exhibit 11: Annual EBITDA/t to stay above ₹1300/t



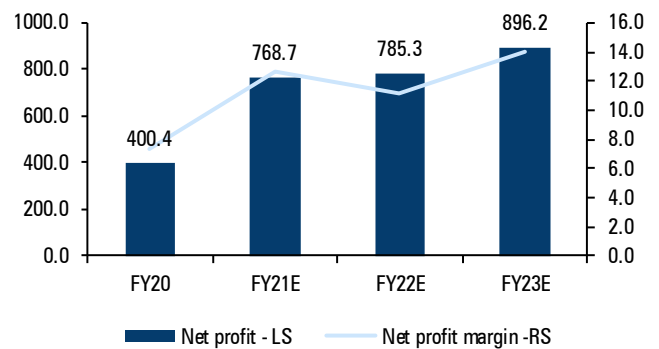
Source: Company, ICICI Direct Research

Exhibit 12: Absolute EBITDA to improve sharply during FY20-23E led by improved volumes and cost efficiencies



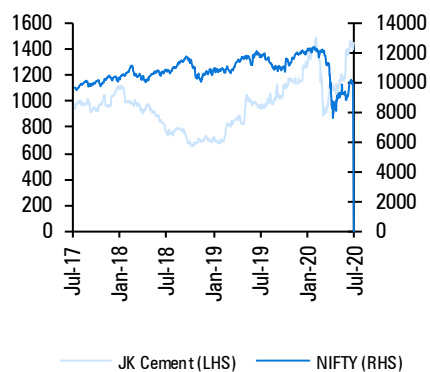
Source: Company, ICICI Direct Research

Exhibit 13: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 14: Price performance vs. Nifty



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 15: Top 10 Shareholders

Rank	Name	Filing Date	% O/S	Position	Change (m)
1	Yadu International L	31-Mar-20	39.9	30.8	0.0
2	Singhania Y adupati	31-Mar-20	15.6	12.1	0.0
3	Sbi Funds Management	31-May-20	7.5	5.8	0.0
4	Fmr Llc	22-Apr-20	7.0	5.4	0.0
5	Franklin Resources	31-May-20	4.2	3.2	-0.3
6	Mirae Asset Global I	31-May-20	3.0	2.3	0.0
7	Axis Asset Managemen	31-May-20	2.0	1.5	0.0
8	Singhania Kavita Y	31-Mar-20	1.7	1.3	0.0
9	Aditya Birla Sun Lif	31-May-20	1.5	1.2	0.1
10	Kotak Mahindra Asset	31-May-20	1.4	1.0	-0.1

Source: Company, ICICI Direct Research

Exhibit 16: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	58.07	58.07	58.07	58.07	57.74
FII	12.12	12.39	13.45	13.98	15.44
DII	23.52	23.80	23.30	23.26	21.61
Others	6.29	5.74	5.18	4.69	5.21

Source: Company, ICICI Direct Research

Financial summary

Exhibit 17: Profit and Loss Statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating income	5,463.8	6,102.7	6,951.4	7,788.5
Growth (%)	9.7	11.7	13.9	12.0
Raw material cost	860.7	1007.8	1158.6	1309.6
Employee Expenses	390.9	411.6	452.7	452.7
Power, Oil & Fuel	1009.1	1075.9	1240.0	1433.6
Freight cost	1032.1	1177.4	1315.1	1488.8
Other Expenses	989.4	891.3	1102.2	1213.1
Total Operating Exp.	4,282.2	4,563.9	5,268.6	5,897.8
EBITDA	1,181.5	1,538.8	1,682.8	1,890.7
Growth (%)	45.8	30.2	9.4	12.4
Depreciation	214.4	259.6	274.2	308.0
Interest	222.9	234.2	291.8	297.8
Other Income	85.9	106.4	73.0	73.0
Exceptional items	178.2	0.0	0.0	0.0
PBT	652.0	1,151.3	1,189.8	1,357.9
Total Tax	251.6	382.6	404.5	461.7
PAT	400.4	768.7	785.3	896.2
Growth (%)	23.4	92.0	2.2	14.1
Adjusted EPS (₹)	51.8	99.5	101.6	116.0

Source: Company, ICICI Direct Research

Exhibit 19: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	77.3	77.3	77.3	77.3
Reserve and Surplus	3,051.6	3,727.1	4,419.2	5,315.5
Total Shareholders funds	3,128.9	3,804.4	4,496.5	5,392.7
Total Debt	2,972.0	3,122.0	3,647.0	3,722.0
Deferred Tax Liability	409.4	409.4	409.4	409.4
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	6,510.3	7,335.8	8,552.9	9,524.1
Assets				
Gross Block	6,216.5	7,445.7	8,225.7	9,375.7
Less: Acc Depreciation	1,913.7	2,173.3	2,447.6	2,755.6
Net Block	4,302.7	5,272.3	5,778.1	6,620.1
Capital WIP	509.2	80.0	800.0	550.0
Total Fixed Assets	4,811.9	5,352.3	6,578.1	7,170.1
Intangible Asset	13.0	13.0	13.0	13.0
Investments	915.7	1,050.7	1,130.7	1,210.7
Inventory	627.2	877.6	836.4	913.3
Debtors	223.4	252.5	247.6	277.4
Loans and Advances	624.0	840.6	827.7	885.8
Cash	631.1	453.8	256.3	551.8
Total Current Assets	2,105.8	2,424.5	2,168.0	2,628.3
Creditors	452.6	501.6	514.2	576.1
Provisions	883.5	1,003.2	822.7	921.8
Total Current Liabilities	1,336.1	1,504.8	1,336.9	1,498.0
Net Current Assets	769.7	919.8	831.1	1,130.3
Application of Funds	6,510.3	7,335.8	8,552.9	9,524.1

Source: Company, ICICI Direct Research

Exhibit 18: Cash Flow Statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	400.4	768.7	785.3	896.2
Add: Depreciation	214.4	259.6	274.2	308.0
(Inc)/dec in Current Assets	-385.3	-496.1	59.0	-164.8
Inc/(dec) in CL and Provisions	-55.7	168.7	-167.8	161.0
CF from operating activi	173.7	700.8	950.7	1,200.4
(Inc)/dec in Investments	393.5	-135.0	-80.0	-80.0
(Inc)/dec in Fixed Assets	-860.3	-800.0	-1,500.0	-900.0
Others	-14.1	0.0	0.0	0.0
CF from investing activi	-480.9	-935.0	-1,580.0	-980.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	616.7	150.0	525.0	75.0
Dividend paid & dividend tax	-84.3	-93.2	-93.2	0.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-77.4	0.0	0.0	0.0
CF from financing activi	455.0	56.8	431.8	75.0
Net Cash flow	147.8	-177.3	-197.5	295.4
Opening Cash	483.3	631.1	453.8	256.3
Closing Cash	631.1	453.8	256.3	551.8

Source: Company, ICICI Direct Research

Exhibit 20: Key Ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Adjusted EPS	51.8	99.5	101.6	116.0
Cash EPS	79.6	133.1	137.1	155.9
BV	404.9	492.4	581.9	697.9
DPS	9.0	10.0	10.0	0.0
Cash Per Share	81.7	58.7	33.2	71.4
Operating Ratios (%)				
EBITDA Margin	21.6	25.2	24.2	24.3
PAT Margin	7.3	12.6	11.3	11.5
Inventory days	40.0	45.0	45.0	41.0
Debtor days	14.9	15.1	13.0	13.0
Creditor days	30.2	30.0	27.0	27.0
Return Ratios (%)				
RoE	12.8	20.2	17.5	16.6
RoCE	16.2	18.9	17.3	17.4
RoIC	18.0	19.2	19.3	19.5
Valuation Ratios (x)				
P/E	43.8	22.8	22.3	19.6
EV / EBITDA	16.8	13.0	12.3	10.8
EV / Net Sales	3.6	3.3	3.0	2.6
Market Cap / Sales	3.2	2.9	2.5	2.3
Price to Book Value	5.6	4.6	3.9	3.3
Solvency Ratios				
Debt/EBITDA	2.5	2.0	2.2	2.0
Debt / Equity	0.9	0.8	0.8	0.7
Current Ratio	1.6	1.6	1.6	1.8
Quick Ratio	1.1	1.3	1.4	1.4

Source: Company, ICICI Direct Research

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Sell: < -15%



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