

Higher non-trade sales drag margins down...

JK Cement's performance remained weak operationally in Q4FY21. While sales volume grew 45.8% YoY 3.89 MT (vs I-direct estimate: 3.87 MT), realisations dipped 4.7% YoY (down 5.1% QoQ) to ₹ 5,271/t that restricted revenue growth to 38.8% YoY at ₹ 2052.5 crore (vs. I-direct estimate: ₹ 2151.1 crore). Grey cement volumes were up 48.1% YoY to 3.5 MT whereas white cements sales grew 29.4% YoY to 0.39 MT. Cost of production broadly stayed flat QoQ at ₹ 4143/t. However, lower realisations led to 204 bps YoY drop in EBITDA margins (down 411 bps QoQ). EBITDA/t was at ₹ 1,128/t vs ₹ 1,297/t last year and ₹ 1416/t last quarter. PAT of ₹ 63.4 crore also stayed far lower than estimate of ₹ 261.2 crore **as the company booked impairment loss of ₹ 166.9 crore w.r.t. its UAE subsidiary.** On the b/s front, gross debt has increased from ₹ 2,594 crore last year to ₹ 2,841 crore in FY21 owing to capital expenditure. Post addition of 4.2 MT cement capacity in FY21, the company would now set-up 4 MT integrated grey cement capacity at Panna MP with split grinding unit in Uttar Pradesh and 12 MW WHRS plant for capex of ₹ 2970 crore (i.e. at \$103/t). Completion is likely by H2FY24E.

Completion of phase-I expansion to fuel growth in FY22E...

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 the challenging environment, the company has been able to post 19% growth in volumes. Going forward also, we expect healthy volume CAGR of 11.1% during FY21-23E.

...but Phase-II expansion to keep debt elevated

The incremental cash flow from new installed capacities would be mainly utilised towards next phase of expansion at Panna (MP) for proposed ~4 MT greenfield capacity as it would entail a capex of ~₹ 2,970 crore (\$102/t). Hence, we expect debt to remain higher in the next two years. However, improved OCF from new capacity would settle down debt/EBITDA at 2.0x in FY23E vs. 2.5x in FY20.

O/s liability of UAE subsidiary to likely fall into Indian entity

The Fujairah unit of the company has consistently remained loss making leading to significant net-worth erosion. The management has highlighted that the UAE entity currently has an outstanding debt of ₹ 387 crore to be paid over the next three years. This will most likely be paid by the India entity if profitability of the UAE entity does not improve.

Valuation & Outlook

While new capacities would drive cost efficiencies, the increase in the non-trade mix would keep check on margins. Further, the Panna expansion along with an additional debt obligation from its UAE subsidiary would continue to keep debt levels high. Post the recent run up in the stock price, we now downgrade our rating from BUY to **HOLD** with a revised target price of ₹ 2850/share (valuing at 13x FY23E EV/EBITDA, earlier TP ₹ 2950).

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	4981	5464	6328	7441	8268	14.3%
EBITDA	810	1182	1514	1698	1917	12.5%
EBITDA (%)	16.3	21.6	23.9	22.8	23.2	
PAT	324	400	603	827	933	24.4%
EPS (₹)	42.0	51.8	99.6	107.0	120.8	
EV/EBITDA	28.5	20.3	15.5	14.1	12.6	
EV/Tonne (\$)	252	201	183	187	189	
RoNW	11.2	12.8	20.6	18.6	17.7	
RoCE	12.5	16.2	18.6	18.2	18.1	



Stock Data

Particulars	Amount
Mcap	₹ 21635 Crore
Debt (FY21)	₹ 3111 Crore
Cash & Invest (FY21)	₹ 1250 Crore
EV	₹ 23496 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 4 MT greenfield capacity in Panna, MP with split GU in UP
- New capacities to come on stream by Q2FY24E
- Expect 8-10% growth in white cement sales
- Downgrade from BUY to HOLD with revised target price of ₹ 2850/share

Key risks to our call

- Any delay in commissioning of new capacity may impact growth and return ratios
- Increase in the trade segment share could lead to better than expected profitability

Research Analyst

Rashesh Shah
rashesh.shah@icicisecurities.com

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Operating Income	2052.5	2151.1	1477.4	38.9	1,760	16.6	Blended sales volume grew 45.8% YoY to 3.89 MT while realisations dipped 4.7% YoY due to higher share of non-trade and clinker sales
Other Income	34.0	27.1	27.1	25.8	30.3	12.3	
Raw Material Expenses	342.8	355.2	207.1	65.5	266.4	28.7	
Employee Expenses	109.7	109.1	98.7	11.1	109.8	-0.1	
Power & Fuel	353.7	415.6	269.0	31.5	324.2	9.1	
Freight cost	420.7	433.0	281.8	49.3	348.4	20.8	
Others	386.5	328.6	274.5	40.8	262.5	47.3	
EBITDA	439.1	509.6	346.3	26.8	448.9	-2.2	
EBITDA Margin (%)	21.4	23.7	23.4	-204 bps	25.5	-411 bps	Cost of production continues to remained stable. Margin erosion was mainly led by a fall in cement prices
Interest	52.9	64.0	57.2	-7.4	59.3	-10.8	
Depreciation	64.9	79.8	57.7	12.5	62.2	4.4	
PBT	188.5	392.8	80.3	134.6	357.7	-47.3	
Total Tax	125.1	131.6	80.1	56.2	119.4	4.8	
PAT	63.4	261.2	0.2	NA	238.3	-73.4	Fall in margins along with impairment loss of ₹ 166.8 crore led to a sharp fall in profitability on a QoQ basis

Key Metrics

Volume (MT)	3.89	3.87	2.67	45.8	3.17	22.9
Realisation (₹)	5,271	5,564	5,533.38	-4.7	5,554	-5.1
EBITDA per Tonne (₹)	1,128	1,318	1,297.00	-13.1	1,416	-20.4

Source: Company, ICICI Direct Research

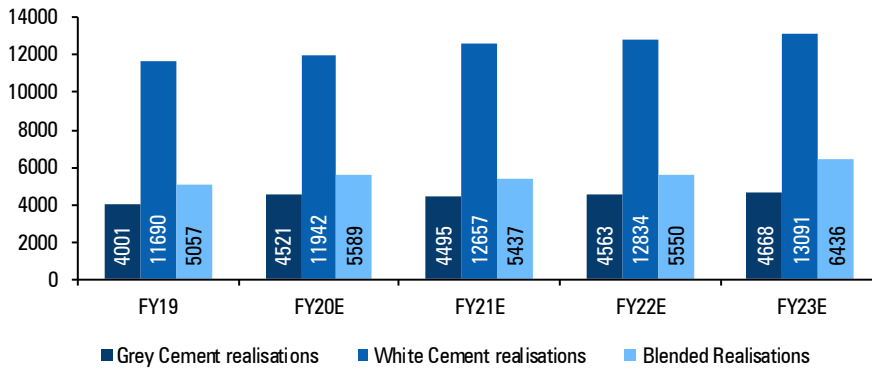
Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6,951.4	7,440.9	7.0	7,788.4	8,120.7	4.3	
EBITDA	1,682.8	1,698.5	0.9	1,890.6	1,875.1	-0.8	
EBITDA Margin (%)	24.2	22.8	-138 bps	24.3	23.1	-118 bps	

Source: Company, ICICI Direct Research

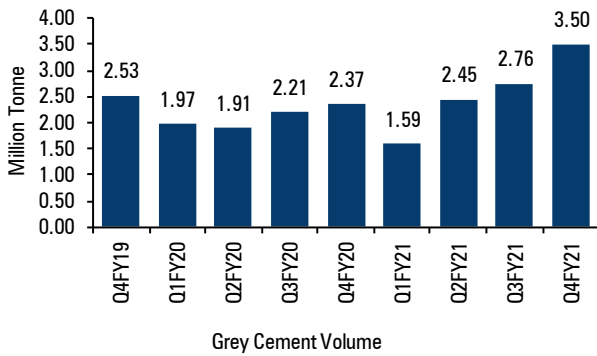
Financial story in charts

Exhibit 3: Blended realisations to remain firm



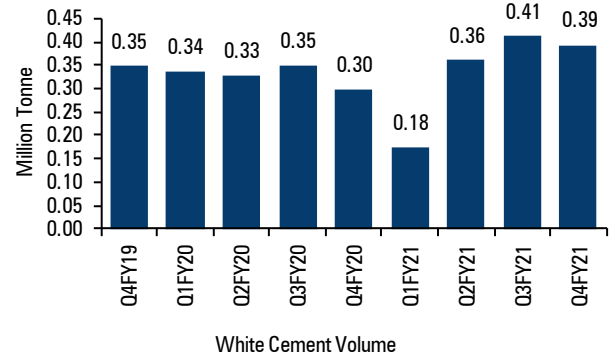
Source: Company, ICICI Direct Research

Exhibit 4: Grey cement volumes improved ~47.7% YoY



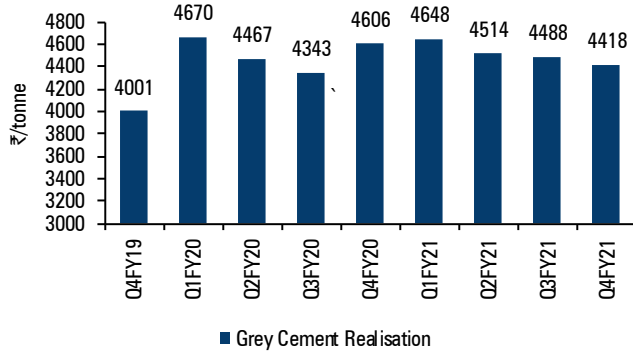
Source: Company, ICICI Direct Research

Exhibit 5: White cement volumes grew 31.3% YoY



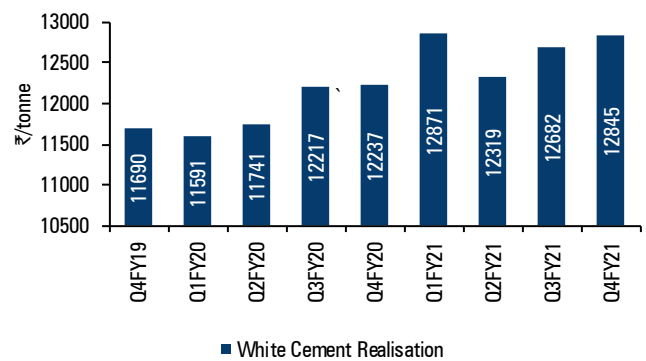
Source: Company, ICICI Direct Research

Exhibit 6: Grey cement has declined 5.1% sequentially



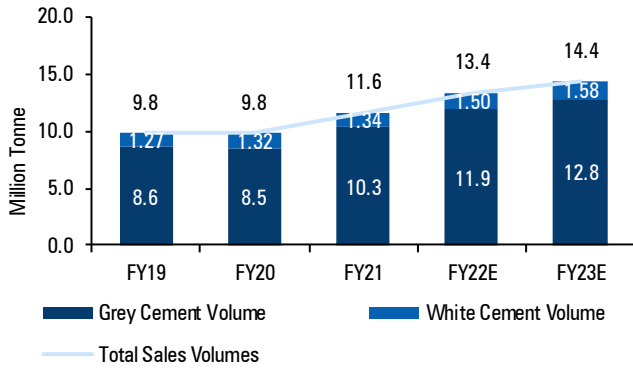
Source: Company, ICICI Direct Research

Exhibit 7: White cement realisations remained firm



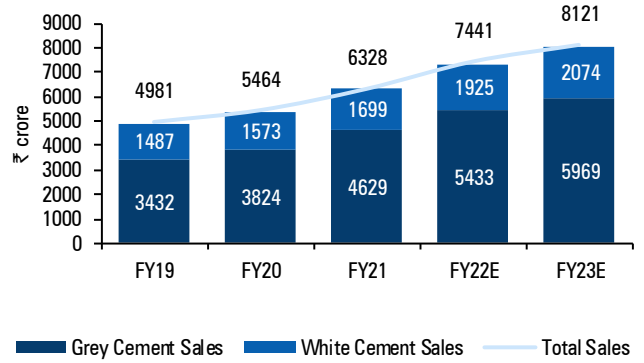
Source: Company, ICICI Direct Research

Exhibit 8: Expect volumes CAGR of 11.1% during FY21-23E



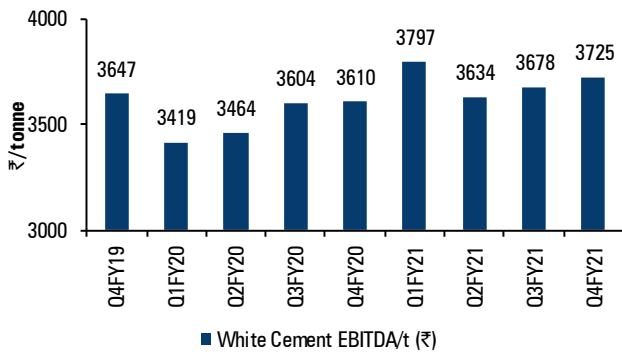
Source: Company, ICICI Direct Research

Exhibit 9: Revenues to grow at 13.3% CAGR over FY21-23E



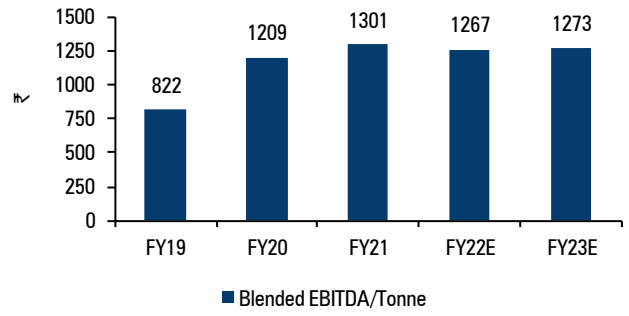
Source: Company, ICICI Direct Research

Exhibit 10: We assume white cement EBITDA of ₹ 3725/t for Q3FY21



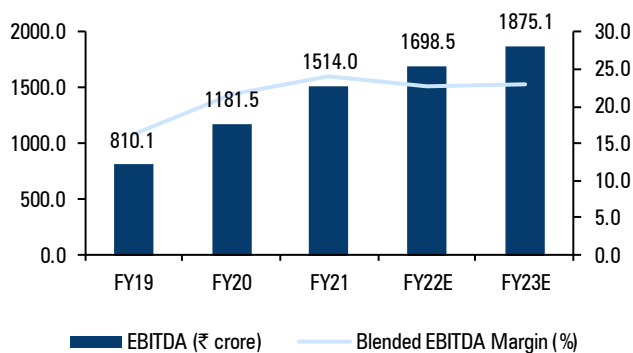
Source: Company, ICICI Direct Research

Exhibit 11: Annual EBITDA/t to stay above ₹ 1250/t



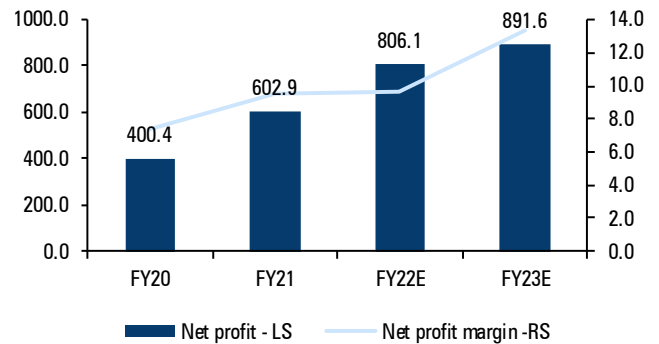
Source: Company, ICICI Direct Research

Exhibit 12: Absolute EBITDA to improve sharply during FY21-23E led by improved volumes and cost efficiencies



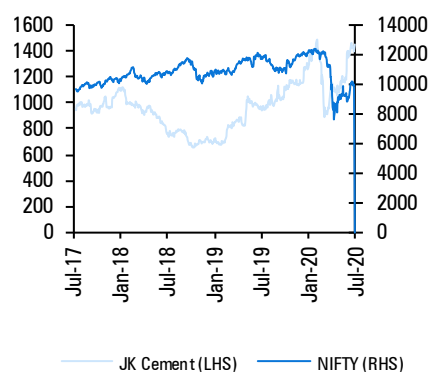
Source: Company, ICICI Direct Research

Exhibit 13: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 14: Price performance



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 %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	58.07	58.07	58.07	57.74	57.65
FII	12.39	13.45	13.98	15.44	16.86
DII	23.80	23.30	23.26	21.61	20.63
Others	5.74	5.18	4.69	5.21	4.86

Source: Company, ICICI Direct Research

Financial summary (Standalone)

Exhibit 17: Profit and Loss Statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating income	5,463.8	6,328.3	7,440.9	8,268.2
Growth (%)	9.7	15.8	17.6	11.1
Raw material cost	860.7	1051.0	1240.1	1390.2
Employee Expenses	390.9	412.1	453.3	453.3
Power, Oil & Fuel	1009.1	1103.6	1394.3	1536.6
Freight cost	1032.1	1239.8	1474.8	1624.4
Other Expenses	989.4	1007.8	1179.8	1346.3
Total Operating Exp.	4,282.2	4,814.3	5,742.4	6,350.8
EBITDA	1,181.5	1,514.0	1,698.5	1,917.4
Growth (%)	45.8	28.1	12.2	12.9
Depreciation	214.4	244.7	254.1	299.4
Interest	222.9	223.2	264.9	276.9
Other Income	85.9	113.3	73.0	73.0
Exceptional items	178.2	166.9	0.0	0.0
PBT	652.0	992.6	1,252.5	1,414.1
Total Tax	251.6	389.7	425.9	480.8
PAT	400.4	602.9	826.7	933.3
Growth (%)	23.4	50.6	37.1	12.9
Adjusted EPS (₹)	51.8	78.0	107.0	120.8

Source: Company, ICICI Direct Research

Exhibit 19: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	77.3	77.3	77.3	77.3
Reserve and Surplus	3,051.6	3,655.8	4,370.6	5,192.1
Total Shareholders funds	3,128.9	3,733.0	4,447.9	5,269.4
Total Debt	2,972.0	3,111.3	3,311.3	3,461.3
Deferred Tax Liability	409.4	593.9	593.9	593.9
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	6,510.3	7,438.2	8,353.1	9,324.6
Assets				
Gross Block	6,216.5	6,789.6	7,728.1	9,378.1
Less: Acc Depreciation	1,913.7	2,158.4	2,412.5	2,711.8
Net Block	4,302.7	4,631.2	5,315.7	6,666.3
Capital WIP	509.2	488.5	800.0	550.0
Total Fixed Assets	4,811.9	5,119.7	6,115.7	7,216.3
Intangible Asset	13.0	27.9	27.9	27.9
Investments	915.7	1,133.5	1,213.5	1,293.5
Inventory	627.2	686.7	781.1	804.6
Debtors	223.4	316.1	265.0	294.5
Loans and Advances	624.0	723.3	764.9	888.8
Cash	631.1	1,161.7	836.2	695.1
Total Current Assets	2,105.8	2,887.7	2,647.3	2,682.9
Creditors	452.6	559.2	550.4	611.6
Provisions	883.5	1,171.4	1,100.8	1,284.4
Total Current Liabilities	1,336.1	1,730.6	1,651.3	1,896.0
Net Current Assets	769.7	1,157.1	996.0	786.9
Application of Funds	6,510.3	7,438.2	8,353.1	9,324.6

Source: Company, ICICI Direct Research

Exhibit 18: Cash Flow Statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	400.4	602.9	826.7	933.3
Add: Depreciation	214.4	244.7	254.1	299.4
(Inc)/dec in Current Assets	-385.3	-251.4	-85.0	-176.8
Inc/(dec) in CL and Provisions	-55.7	394.5	-79.3	244.8
CF from operating activi	173.7	990.6	916.4	1,300.7
(Inc)/dec in Investments	393.5	-87.2	-80.0	-80.0
(Inc)/dec in Fixed Assets	-860.3	-567.3	-1,250.0	-1,400.0
Others	-14.1	53.9	0.0	0.0
CF from investing activi	-480.9	-600.7	-1,330.0	-1,480.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	616.7	139.3	200.0	150.0
Dividend paid & dividend tax	-84.3	-139.8	-111.8	-111.8
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-77.4	141.0	0.0	0.0
CF from financing activi	455.0	140.5	88.2	38.2
Net Cash flow	147.8	530.5	-325.4	-141.2
Opening Cash	483.3	631.1	1,161.7	836.2
Closing Cash	631.1	1,161.7	836.2	695.1

Source: Company, ICICI Direct Research

Exhibit 20: Key Ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adjusted EPS	51.8	78.0	107.0	120.8
Cash EPS	79.6	109.7	139.9	159.5
BV	404.9	483.1	575.6	682.0
DPS	9.0	15.0	12.0	12.0
Cash Per Share	81.7	150.3	108.2	90.0
Operating Ratios (%)				
EBITDA Margin	21.6	23.9	22.8	23.2
PAT Margin	7.3	9.5	11.1	11.3
Inventory days	40.0	37.9	36.0	35.0
Debtor days	14.9	18.2	13.0	13.0
Creditor days	30.2	32.3	27.0	27.0
Return Ratios (%)				
RoE	12.8	20.6	18.6	17.7
RoCE	16.2	18.6	18.2	18.1
RoIC	18.0	22.3	22.1	20.7
Valuation Ratios (x)				
P/E	54.0	35.9	26.2	23.2
EV / EBITDA	20.3	15.5	14.1	12.6
EV / Net Sales	4.4	3.7	3.2	2.9
Market Cap / Sales	4.0	3.4	2.9	2.6
Price to Book Value	6.9	5.8	4.9	4.1
Solvency Ratios				
Debt/EBITDA	2.5	2.1	1.9	1.8
Debt / Equity	0.9	0.8	0.7	0.7
Current Ratio	1.6	1.7	1.6	1.4
Quick Ratio	1.1	1.0	1.1	1.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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