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Company update

Cement

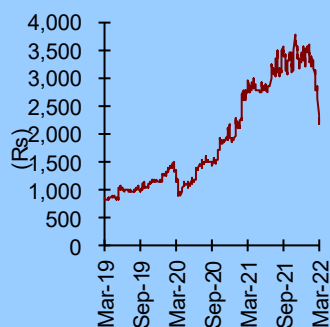
Target price: Rs3,935

Shareholding pattern

	Jun '21	Sep '21	Dec '21
Promoters	57.6	57.6	51.5
Institutional investors			
MFs and other	37.5	37.5	37.5
Insurance Cos.	18.9	18.8	18.7
FIs	1.6	1.2	1.2
Others	17.0	17.5	17.6
	4.9	4.9	11.0

Source: CMIE

Price chart



JK Cement

BUY

Maintained

Rs2,296

Focus on core business intact

Key takeaways from JK Cement (JKCE) management concall on entry into the paint business: (a) maximum investment in paint segment would be Rs6bn over the next five years including any EBITDA loss in the initial years, and no additional debt would be raised at the paint subsidiary level; (b) listing of the paint business separately (once it attains scale / profitability) along with white cement / putty, remains an option in the long run; (c) target is to achieve 7-8% market share in paint in the focused markets of North / Central India with 15-20% EBITDA margin / RoCE in the medium term; and (d) all expansion plans in the core grey cement business remain intact. While JKCE's diversification into paint may raise capital allocation concerns, the segment would likely remain a relatively small business for the company and constitute <5% of capital employed, revenue and EBITDA over the next five years, in our view. Maintain BUY with an unchanged target price of Rs3,935/sh (14x FY24E EV/E). Key risks: lower demand / pricing, and sharp cost escalations.

- **Management intends to leverage strong:** a) *JK White* cement / putty brand, and b) 60,000+ distribution network of white cement / putty dealers (~40% of which pertains to North / Central regions and a large portion of it also sells paints) and a good number of retailers. Besides, paint (high-growth and high-RoCE business as per management) complements JKCE's existing offerings of white cement / putty.
- **JKCE plans to focus only on its core markets in North / Central India** (similar to its market positioning in grey cement). It plans to spend Rs3bn for a 60k-litre capacity plant at Central UP and the balance would include expenses on tinting machines, warehouses, branding and marketing. The business would be headed by white cement / putty head and the new team would be recruited from paint industry.
- **Targeting 7-8% paint market share in North / Central regions** by gaining market share from unorganised market (estimated at ~25%), penetrating into tiers-3&4 cities and leveraging the strong brand equity and distribution network. JKCE may commercialise the proposed paint business in Apr'24 and it expects revenue of Rs1bn-1.5bn in FY25, inching upto Rs8.5bn in the fifth year after launch. As per the management, JKCE is unlikely to compete on pricing and is aiming at 15-20% EBITDA margins / RoCE in the medium term. Management believes the option to separately list the paint business (once it attains scale / profitability) along with white cement / putty remains in the long run to unlock value.
- **Core business (grey cement) expansion plans unlikely to be affected by entry into paint biz.** JKCE's balance sheet remains strong and its consolidated net debt may not exceed Rs25bn and 'net debt to EBITDA' is likely to remain below 1.5x, in our view. JKCE is likely to continue to gain market share with improved profitability in grey cement backed by strong expansion plans and execution track record.

Market Cap	Rs177bn/US\$2.3bn
Reuters/Bloomberg	JKCE.BO/JKCE IN
Shares Outstanding (mn)	77.3
52-week Range (Rs)	3837/2135
Free Float (%)	48.5
FII (%)	17.6
Daily Volume (US\$'000)	5,084
Absolute Return 3m (%)	(32.8)
Absolute Return 12m (%)	(20.8)
Sensex Return 3m (%)	(5.3)
Sensex Return 12m (%)	9.4

Year to Mar	FY21	FY22E	FY23E	FY24E
Revenue (Rs mn)	66,061	79,331	90,095	1,04,729
EBITDA (Rs mn)	15,777	15,621	19,398	22,737
Net Income (Rs mn)	7,487	7,065	9,540	11,772
% Chg YoY	52.1	(5.6)	35.0	23.4
P/E (x)	23.7	25.2	18.6	15.1
CEPS (Rs)	136.5	135.6	171.1	209.2
EV/E (x)	12.3	12.8	10.3	8.4
Dividend Yield	0.4	0.5	0.6	0.7
RoCE (%)	12.7	11.0	12.8	14.0
RoE (%)	22.1	17.6	20.2	21.0

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Table 1: Historical quarterly analysis

(Rs/te)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Blended realisations	5,459	5,209	5,300	5,407	5,728
Growth % (YoY)	0.6	(4.7)	(1.4)	(0.4)	4.9
Raw materials	841	880	795	960	849
Staff costs	347	282	410	390	388
Power & fuel costs	1,023	908	989	1,032	1,310
Outward freight	1,099	1,080	1,107	1,147	1,154
Other expenditure	828	892	783	916	1,024
Total	4,138	4,043	4,085	4,445	4,725
Other operating income	95	62	107	103	113
EBITDA-blended	1,417	1,228	1,323	1,066	1,116

Source: Company data, I-Sec research

Table 2: Segmental analysis

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Grey Cement					
Revenue (Rs mn)	12,370	15,464	12,903	13,540	13,989
Realisation (Rs/te)	4,487	4,416	4,679	4,604	4,844
Volumes (mnte)	2.8	3.5	2.8	2.9	2.9
White Cement					
Revenue (Rs mn)	4,930	4,821	3,111	4,472	5,039
Realisation (Rs/te)	11,956	12,262	11,811	11,455	11,615
Volumes (mnte)	0.41	0.39	0.26	0.39	0.43

Source: Company data, I-Sec research

Table 3: Performance trend and assumptions

	FY20	FY21	FY22E	FY23E	FY24E
Grey cement ('000 te)					
Capacity	14,672	14,672	14,972	14,972	18,972
Production	8,447	10,299	11,998	13,078	15,170
Capacity utilisation (%)	79	74	84	92	84
Growth (%)	(1.5)	21.9	16.5	9.0	16.0
Realisation (Rs/te)	4,527	4,494	4,773	5,036	5,161
Growth (%)	13.2	(0.7)	6.2	5.5	2.5
White cement ('000 te)					
Capacity	1,200	1,200	1,200	1,200	1,200
Production	1,021	829	932	973	1,016
Capacity utilisation (%)	85	69	78	81	85
Growth (%)	8.8	(18.8)	12.5	4.4	4.4
Realisation (Rs/te)	10,684	11,403	11,148	11,305	11,460
Growth (%)	0.1	6.7	(2.2)	1.4	1.4

Source: Company data, I-Sec research

Table 4: Segment-wise estimates

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue					
White cement	19,107	18,825	20,658	22,764	24,877
--India	15,731	16,047	17,463	19,376	21,284
--Fujairah	3,376	2,778	3,195	3,388	3,593
Grey Cement	38,240	46,287	57,268	65,855	78,302
Total	57,347	65,111	77,926	88,620	1,03,179
EBITDA					
White cement	4,638	4,392	4,663	5,231	5,731
--India	4,247	4,082	4,556	5,040	5,520
--Fujairah	391	311	107	191	211
Grey Cement	7,496	11,384	10,958	14,167	17,006
Total	12,134	15,777	15,621	19,398	22,737

Source: Company data, I-Sec research

Table 5: Per-tonne estimate analysis

<i>(Rs/te)</i>	FY20	FY21	FY22E	FY23E	FY24E
Net realisation – Grey cement	4,527	4,494	4,773	5,036	5,161
Net realisation – White cement	10,684	11,403	11,148	11,305	11,460
Blended realisation	5,603	5,449	5,626	5,872	5,950
Raw materials consumed	855	896	942	953	960
Power and fuel	1,072	975	1,150	1,192	1,206
Freight	1,077	1,089	1,167	1,198	1,217
Others	1,479	1,247	1,341	1,342	1,346
Total operating expenses	4,483	4,208	4,600	4,685	4,728
Other operating income	65	79	101	98	89
EBITDA/te – Grey cement	887	1,105	913	1,083	1,121
EBITDA/te – White cement	2,594	2,661	2,516	2,598	2,640
EBITDA/te – blended	1,186	1,320	1,128	1,285	1,311

Source: Company data, I-Sec research

Table 6: Valuations based on 14x FY24E EV/E

<i>(Rs.mn)</i>	
Target EV/ EBITDA multiple (x)	14
Target EV (Rs mn)	3,18,317
Net debt / (cash) (Rs mn)	14,344
Target value (Rs mn)	3,03,973
No. of shares (mn)	77
Target price per share (Rs)	3,935

Source: I-Sec research

Financial summary (consolidated)

Table 7: Profit and Loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Operating Income (Sales)	65,111	77,926	88,620	1,03,179
of which				
Grey cement	46,287	57,268	65,855	78,302
White cement	18,825	20,658	22,764	24,877
Other operating income	950	1,405	1,476	1,550
Operating Expenses	50,284	63,710	70,698	81,992
EBITDA	15,777	15,621	19,398	22,737
% margin	24.2	20.0	21.9	22.0
Depreciation & Amortisation	3,062	3,415	3,678	4,394
Gross Interest	2,528	2,703	2,669	2,381
Other Income	1,130	1,338	1,404	1,475
Recurring PBT	11,317	10,840	14,455	17,437
Add: Extraordinaries	(390)	-	-	-
Less: Taxes	3,896	3,842	4,982	5,731
Net Income (Reported)	7,097	7,065	9,540	11,772
Recurring Net Income	7,487	7,065	9,540	11,772

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Assets				
Total Current Assets	32,831	29,670	31,763	36,058
Current Liab. & Prov.	21,755	22,500	25,676	30,138
Net Current Assets	11,075	7,170	6,087	5,921
Investments of which	1,422	1,422	1,422	1,422
Strategic/Group	440	440	440	440
Marketable	983	983	983	983
Net Fixed Assets*	64,467	75,182	85,635	90,371
of which				
Capital Work-in-Progress	5,093	6,093	7,093	8,093
Total Assets	76,965	83,774	93,144	97,714
of which cash & cash equivalents	17,079	11,781	11,490	12,581
Liabilities				
Borrowings	33,925	33,925	33,925	26,925
Deferred Tax Liability	5,930	7,053	8,509	10,184
Minority Interest	(257)	(322)	(402)	(503)
Equity Share Capital	773	773	773	773
Face value per share (Rs)	10	10	10	10
Reserves & Surplus	36,595	42,346	50,340	60,335
Net Worth	37,367	43,119	51,113	61,108
Total Liabilities	76,965	83,774	93,144	97,714

Source: Company data, I-Sec research

Table 9: Quarterly trend

(Rs mn, year ending March 31)

	Mar-21	Jun-21	Sep-21	Dec-21
Net sales	21,341	17,141	18,950	20,305
% growth (YoY)	38.1	70.6	15.9	10.8
Recurring EBITDA	4,834	4,029	3,558	3,655
Margin (%)	22.6	23.5	18.8	18.0
Other income	340	273	479	258
Extra ordinaries Inc / (Loss)	(390)	-	(260)	-
Recurring Net Income	2,533	1,901	1,755	1,402

Source: Company data

Table 10: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Operating Cashflow	12,398	10,191	13,501	16,599
Working Capital changes	1,715	(1,318)	560	1,025
Capital Commitments	(7,590)	(14,000)	(14,000)	(9,000)
Net Operating FCF	6,523	(5,127)	61	8,624
Investing Activities	(6,582)	1,338	1,404	1,475
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	1,177	-	-	(7,000)
Dividend paid	(3)	(1,314)	(1,545)	(1,777)
Others	(24)	(195)	(211)	(231)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank	1,091	(5,298)	(291)	1,090

Source: Company data, I-Sec research

Table 11: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Per Share Data (Rs)				
EPS(Basic)	91.9	91.4	123.5	152.4
Diluted Recurring EPS	96.9	91.4	123.5	152.4
Diluted Recurring CEPS	136.5	135.6	171.1	209.2
Dividend per share	15.0	17.0	20.0	23.0
Book Value	484	558	661	791
Growth Ratios (% YoY)				
Operating Income	13.5	19.7	13.7	16.4
EBITDA	30.0	(1.0)	24.2	17.2
Recurring Net Income	52.1	(5.6)	35.0	23.4
Diluted Recurring EPS	52.1	(5.6)	35.0	23.4
Diluted Recurring CEPS	35.2	(0.7)	26.1	22.3
Valuation Ratios (x)				
P/E	23.7	25.2	18.6	15.1
P/CEPS	16.8	17.0	13.4	11.0
P/BV	4.7	4.1	3.5	2.9
EV / EBITDA	12.3	12.8	10.3	8.4
EV / te (US\$)	160	162	130	124
EV / Operating Income	3.0	2.5	2.2	1.8
EV / Operating FCF	17.0	22.2	14.0	10.8
Operating Ratios (%)				
Raw Material / Sales	16	17	16	16
SG&A expenses / Sales	36	38	37	37
Other Income / PBT	10	12	10	8
Effective Tax Rate	36	35	34	33
NWC / Total Assets	(0.1)	(0.0)	(0.0)	(0.1)
Inventory (x)	3.1	3.6	3.6	3.6
Receivables (days)	18	19	21	21
Payable (days)	40	36	37	37
D/E Ratio (x)	0.6	0.7	0.6	0.4
Profitability Ratios (%)				
Rec. Net Income Margins	11.3	8.9	10.6	11.2
RoCE	12.7	11.0	12.8	14.0
RoNW	22.1	17.6	20.2	21.0
Dividend Payout	15.5	18.6	16.2	15.1

Source: Company data, I-Sec research

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