

JK CEMENT LTD.

NEUTRAL

Choice

Capex led volume uptake already priced in; energy cost pressures still remain

JK Cements' Q2FY23 standalone volumes stood at 3.64mnt (up 9% YoY and up 2% QoQ). Blended realization/t for Q2FY23 came in at INR 5,878 (up 7% YoY though down 3% QoQ) as a result of rising total costs. Higher cost pressures led to a drop in EBITDA margins to 13.9% (down 407bps YoY and down 462bps QoQ).

- **Utilization dropped slightly but operational factors seem steady:** During Q2FY23, JKCE operated at 84% utilization. The Trade Mix during Q2FY23 stood at 69:31 (up 3% YoY). Green power mix stood at 43% in H1FY23 as against 32% in FY22 and thermal substitution rate stood at 11.2% in H1FY23 as against 9% in FY22. Premium product sales stood at 9% (up 3% YoY) of trade sales. Rail road mix stood at 19:81. Lead distance for current quarter stood at 477kms v/s 473kms last quarter.
- **Capacity Expansion:** JK Cement has a planned Capex of Rs.1900Cr. for FY23 (of which ~Rs.1000Cr. has been spent in H1FY23 for Panna expansion) and Rs.1400Cr. for FY24 (increased from previous guidance of Rs.1700Cr and Rs.1100Cr capex for FY23 and FY24 respectively). The company will be increasing its cement capacity by 5.5mntpa over the next two years by revamping the grinding capacity of existing units at Mangrol, Mirzapur, Jhalawar and Aligarh (resulting in increase of 2 million tons) and also by setting up a green field cement grinding capacity in Ujjain (with the capacity of over 1.5 mntpa) and a Greenfield grinding capacity at Prayagraj of 2 mntpa. It will also increase clinker capacity at Panna by 0.66mntpa.
- **Cost Inflation still impacting EBITDA margins:** Total Cement Cost/t for Q2FY23 came in at INR 5,063 (up 12% YoY and up 2% QoQ) on account of increasing Power & Fuel cost. Power & Fuel cost/t came in at INR 1,509 (up 46% YoY and up 11% QoQ) on account of global geopolitical uncertainties. Freight charges/t came in at INR 1,194 (up 4% YoY though down 2% QoQ). Raw material cost/t came in at INR 886 (up 5% YoY though down 1% QoQ). Hence, EBITDA/t came in at INR 814 (down 18% YoY and down 28% QoQ).
- **View & Valuation:** We have estimated an EBITDA CAGR of ~10% upto FY25E, keeping in mind the possibility of sustained cost inflationary pressure. JKCE is currently available at 13.2x of our FY25 EBITDA estimates, and is at a premium of 1% to our target EV EBITDA multiple of 13x. We ascribe a target price of INR 3,069 and **attribute a NEUTRAL rating to the stock.**

Financial Snapshot

Quarter end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue (INR Mn.)	54,638	63,283	76,786	86,409	94,534	1,02,297
EBITDA (INR Mn.)	11,815	15,139	14,821	16,192	17,992	19,541
EBITDA Margins (%)	21.6	23.9	19.3	18.7	19.0	19.1
Adj. PAT	5,785	7,697	7,607	7,971	9,259	10,278
PAT Margins (%)	10.6	9.5	8.2	9.2	9.8	10.0
EPS	74.9	78.0	81.6	103.2	119.8	133.0
EV/EBITDA	7.6	15.9	18.9	15.6	13.8	12.5
EV/Tonne (\$)	71	192	217	172	166	163
ROIC (%)	23.9	27.3	18.8	18.0	18.9	18.9
EV/IC	2.0	4.8	3.9	3.3	3.0	2.7

Source: Company, CEBPL

Nov 17, 2022

CMP (Rs)	2,945
Target Price (Rs)	3,069
Potential Upside (%)	4

Company Info

BB Code	JKCE IN EQUITY
ISIN	INE823G01014
Face Value (Rs.)	10
52 Week High (Rs.)	3665
52 Week Low (Rs.)	2003.7
Mkt Cap (Rs bn.)	224.11
Mkt Cap (\$ bn.)	2.76
Shares o/s (Mn.)/F.Float	77.3/32.0
TTM EPS (Rs)	72.4
EPS FY24E (Rs)	119.8

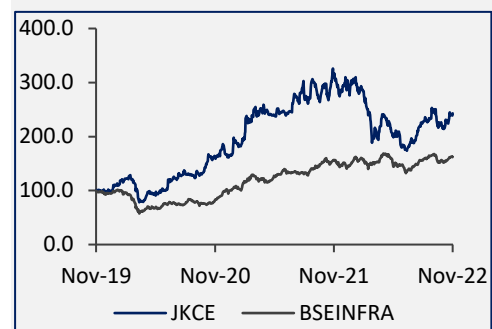
Shareholding Pattern (%)

	Sep-22	Jun-22	Mar-22
Promoters	45.84	45.84	45.82
FII's	15.63	16.06	16.47
DII's	21.91	21.09	20.65
Public	16.63	17.01	17.06

Relative Performance (%)

YTD	3Y	2Y	1Y
Bse Infra	65.9	94.8	3.7
JK CEMENT	139.0	50.7	(23.3)

Rebased Price Performance



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Sequential Operating Performance

Operating Metrics INR/t	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Blended Realisation	5,408	5,510	5,831	5,773	6,084	5,878
Raw Material Cost	824	843	933	787	891	886
Employee Cost	410	390	388	309	402	385
Power & Fuel Cost	990	1,032	1,308	1,254	1,364	1,509
Freight & Handling Expense	1,107	1,147	1,152	1,175	1,220	1,194
Other Expenses	783	994	1,022	984	1,009	946
Total Costs	4,085	4,523	4,717	4,800	4,960	5,063
EBITDA	1,323	988	1,114	974	1,124	814

Source: Company, CEBPL

CEBPL Estimates vs Actual for Q2 FY23

PARTICULARS	Q2 FY23	CEBPL Est.	Dev. (%)	Q2 FY22	YoY (%)	Q1 FY23	QoQ (%)
Volumes	3.6	2.6	39.6	3.3	9.4	3.6	2.3
Revenues (INR mn.)	21,418	15,560	37.6	18,355	16.7	21,664	(1.1)
Gross Profit (INR mn.)	17,672	12,881	37.2	15,157	16.6	18,226	(3.0)
Gross Margin (%)	82.5	82.8	(26.9)bps	82.6	(6.3)bps	84.1	(161.5)bps
EBITDA (INR mn.)	2,967	2,486	19.4	3,290	(9.8)	4,001	(25.8)
EBITDA Margin (%)	13.9	16.0	(212.1)bps	17.9	(407.1)bps	18.5	(461.5)bps
EBIT (INR mn.)	2,298	1,980	16.1	3,083	(25.5)	3,324	(30.9)
EBIT Margin (%)	10.7	12.7	(199.4)bps	16.8	(606.5)bps	15.3	(461.4)bps
PAT (INR mn.)	1,249	960	30.1	1,688	26.0	1,811	(31.1)
Basic EPS (INR)	16.2	12.4	30.1	21.8	26.0	23.4	(31.1)

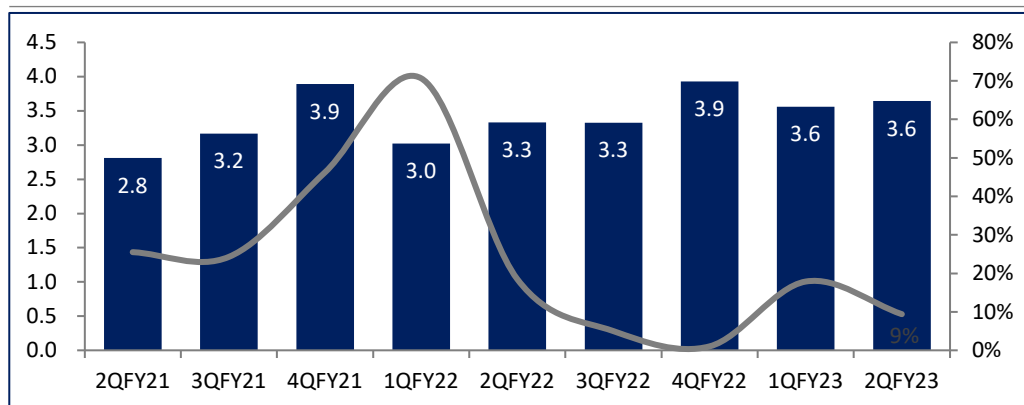
Source: Company, CEBPL

Change in estimates for FY23E & FY24E

Income Statement (INR Mn.)	FY23E			FY24E		
	Old	New	Dev. (%)	Old	New	Dev. (%)
Revenues	79,170	86,409	9.1	84,077	94,534	12.4
Gross Margin (%)	84.3	84.3%	(6.1)bps	84.6	84.5	(10.3)bps
EBITDA	16,047	16,192	0.9	18,010	17,992	(0.1)
EBITDA Margin (%)	20.3	18.7%	(153.1)bps	21.4	19.0	(238.8)bps
EPS (Rs)	101.1	103.2	2.1	120.3	119.8	(0.4)

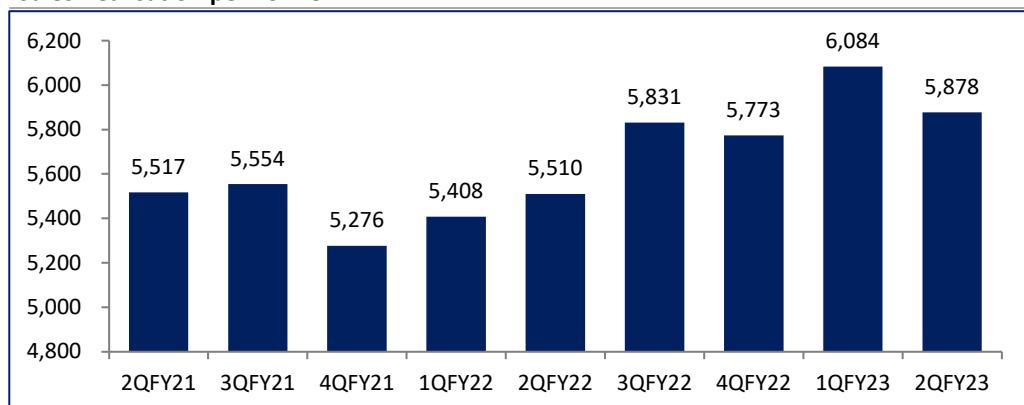
Source: Company, CEBPL

Sales Volume (MT) & YoY Growth (%)



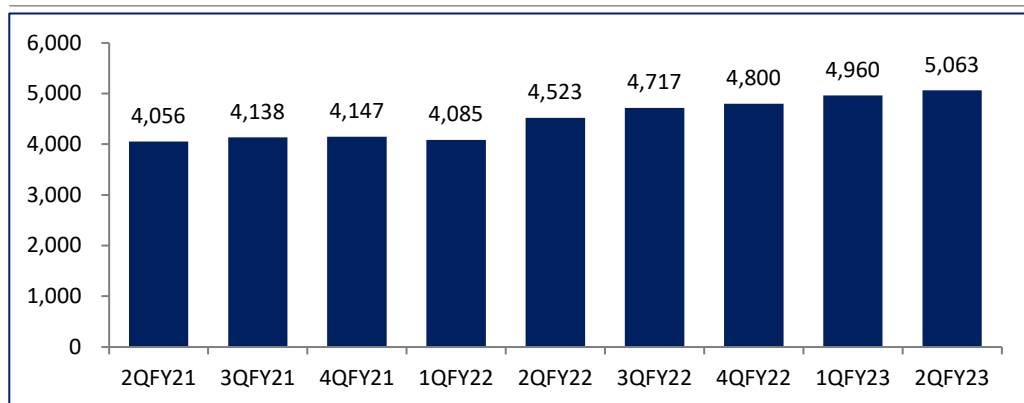
Source: Company, CEBPL

Sales Realisation per Tonne



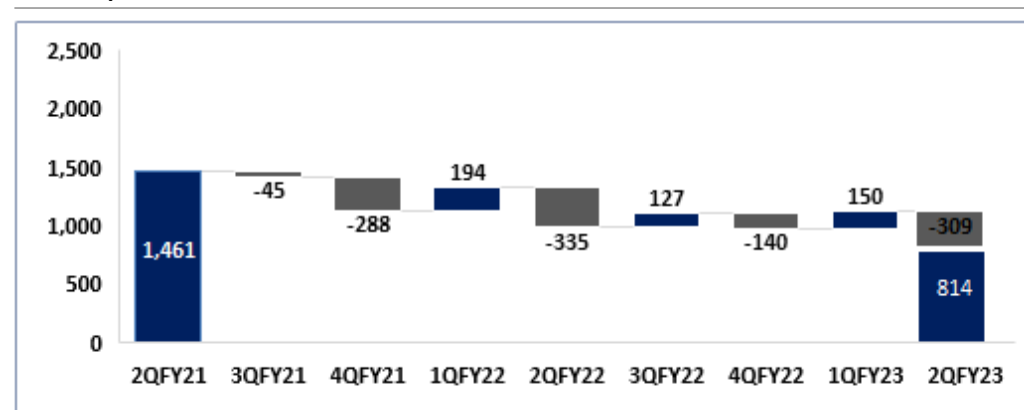
Source: Company, CEBPL

Total Costs per Tonne



Source: Company, CEBPL

EBITDA per Tonne



Source: Company, CEBPL

Financial Summary (Standalone in INR Mn.)

Income Statement (INR Mn.)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	63,283	76,786	86,409	94,534	1,02,297
Gross profit	52,772	64,132	72,833	79,881	86,737
EBITDA	15,139	14,821	16,192	17,992	19,541
Depreciation	2,447	2,820	3,317	3,604	3,928
EBIT	13,826	13,429	13,925	15,588	16,813
Other income	1,134	1,428	1,050	1,200	1,200
Interest expense	2,232	2,493	2,322	1,971	1,698
PAT	6,028	6,307	7,971	9,259	10,278
EPS (INR)	78.0	81.6	103.2	119.8	133.0

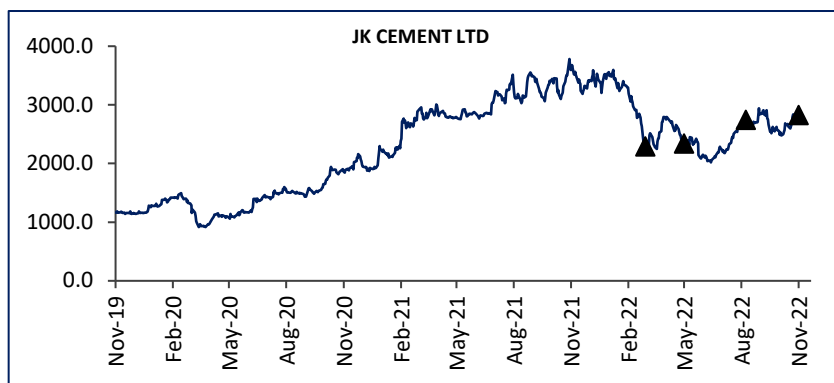
Balance Sheet (INR Mn.)	FY21	FY22	FY23E	FY24E	FY25E
Tangible fixed assets	46,590	51,861	61,544	65,441	70,012
Capital Work in Progress	4,885	710	710	710	710
Investments	8,070	17,448	15,265	15,755	17,049
Cash & Cash equivalents	11,618	2,826	2,212	1,819	2,143
Loans & Advances and Other Assets	10,498	15,463	16,766	18,342	19,848
Net Working Capital	4,528	8,422	10,659	11,683	12,518
Total assets	86,190	96,731	1,07,156	1,13,750	1,22,280
Shareholder's funds	37,331	42,517	50,488	59,747	70,025
Borrowings	29,804	32,274	29,774	25,274	21,774
Deffered Tax	5,939	7,385	7,385	7,385	7,385
Other Liabilities & Provisions	13,115	14,556	19,509	21,343	23,096
Total equity & liabilities	86,190	96,731	1,07,156	1,13,750	1,22,280
Capital Employed	67,135	74,791	80,262	85,021	91,799
Invested Capital	50,632	71,254	77,340	82,492	88,946

Cash Flows (INR Mn.)	FY21	FY22	FY23E	FY24E	FY25E
Cash flows from Operations	15,660	10,092	20,338	17,926	19,653
Cash flows from Investing	(15,120)	(9,056)	(10,317)	(7,490)	(9,294)
Cash flows from financing	(63)	(1,231)	(4,822)	(6,471)	(5,198)

Ratio Analysis 8	FY21	FY22	FY23E	FY24E	FY25E
Growth Ratios (%)					
Revenues	15.8	21.3	12.5	9.4	8.2
Gross Profit	14.6	21.5	13.6	9.7	8.6
EBITDA	28.1	(2.1)	9.2	11.1	8.6
EBIT	31.3	(2.9)	3.7	11.9	7.9
Margin Ratios (%)					
Gross Profit Margin	83.4	83.5	84.3	84.5	84.8
EBITDA Margin	23.9	19.3	18.7	19.0	19.1
EBIT Margin	21.8	17.5	16.1	16.5	16.4
Profitability (%)					
Return on equity	20.6	17.9	15.8	15.5	14.7
Return on invested capital	27.3	18.8	18.0	18.9	18.9
Return on capital employed	20.6	18.0	17.3	18.3	18.3
Valuation					
OCF / IC (%)	30.9	14.2	26.3	21.7	22.1
EV / EBITDA (x)	15.9	18.9	15.6	13.8	12.5
EV/IC (x)	4.8	3.9	3.3	3.0	2.7

Source: Company, CEBPL

Historical recommendations and target price: JKCE



JK Cements Ltd.

1. 09-02-2022 NEUTRAL, Target Price, 3,412
2. 26-05-2022 ADD, Target Price, 2,404
3. 16-08-2022 ADD, Target Price, 2,849
4. 17-11-2022 NEUTRAL, Target Price, 3,069

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OUTPERFORM	The security is expected to generate more than 15% returns over the next 12 months
ADD	The security is expected to generate greater than 5% to less than 15% returns over the next 12 months
NEUTRAL	The security expected to show downside or upside returns by 5% over the next 12 months
REDUCE	The security expected to show less than -5% to greater than -15% over the next 12 months
UNDERPERFORM	The security is expected to generate returns in excess of -15% over the next 12 months

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