

JK Cement

Refer to important disclosures at the end of this report

White-cement/wall-putty shine; capacity expansion announced

JK Cement's Q2FY23 standalone EBITDA declined 16% YoY and 26% QoQ to Rs3bn, standing 7-10% above consensus' and our estimates owing to better-than-expected performance in the wall-putty and white-cement businesses. Blended EBITDA/ton fell 24% YoY/28% QoQ to Rs814 (Emkay Est: Rs750). The Board has approved cement-capacity expansion of 5.5mt and clinker capacity-addition of 0.66mt at a capex of Rs11.6bn (US\$26/ton) over the next two years. Accordingly, Company has revised upward its capex guidance to Rs19bn/Rs14bn vs earlier guidance of Rs17bn and Rs11bn for FY23 and FY24, respectively. Net debt increased by Rs8bn in H1FY23, to Rs29bn as of Sep-22, and Management expects peak net debt of ~Rs35bn by Jun-23. Factoring-in the Q2 beat and higher volume growth with the capacity addition announcement, we increase our EBITDA estimates for FY24-25 by ~5%. We maintain HOLD on the stock, with a revised Sep-23 TP of Rs2,725/share (Rs2,600 earlier). Our DCF-based-TP implies 1-yr forward EV/EBITDA of 11x.

Results summary: Grey-cement volume (incl. clinker) rose 10% YoY to 3.22mt, in line with our estimate, while grey-cement realization fell 7% QoQ (+5% YoY) to Rs4,838 (Emkay est.: Rs4,904/ton). Premium product sales stood at 9% (+100bps QoQ) of trade sales in Q2FY23. White-cement plus wall-care putty volumes rose 9% YoY and QoQ to 0.42mt, beating our estimate by 8%; realization rose 10% YoY/~3% QoQ to Rs12,540/ton (Emkay est.: Rs11,686/ton). Total cost/ton rose 14% YoY/~2% QoQ to Rs5,064. Consol. EBITDA declined 14% YoY and 24% QoQ to Rs3.1bn, implying that the UAE subsidiary's EBITDA stood at Rs84mn in Q2FY23 vs. EBITDA of Rs7mn/Rs36mn in Q2FY22/Q1FY23. **What we liked:** Better-than-expected performance in the white-cement and wall-putty businesses; low-cost capex announcement. **What we did not like:** increase in leverage.

Earnings-call KTAs: 1) Industry has witnessed price hike of Rs15-20/bag in the South and of Rs10/bag in the West post Sep-22. In the North, the extent of absorption of the Rs10/bag price hike taken in the past couple of days is awaited. 2) Company has already planned for volumes from upcoming capacity in Panna and is hopeful of ramping-up the Panna capacity within 6-9 months. Management maintained grey-cement volume growth guidance of 10% YoY for FY23. To recall, grey-cement volumes increased 12% YoY in H1FY23, which implies 8% volume growth in H2FY23. 3) Fuel mix for the company: Petcoke is 50%, in terms of volume. Fuel cost has gone up by 20% QoQ to Rs2.4/Kcal, and Management expects material benefit from the fuel-cost reduction, likely to be witnessed in Q4FY23. 4) The lead distance stood at 477km in Q2 which the Management expects to decline post the Panna capacity turning fully operational. Road: Rail mix for the quarter stood at 81:19. 4) Project update: 2mt de-bottlenecking capacity at existing plants is likely to be completed by Ma-23. New GU at Ujjain is likely by Mar-24, while that of the grinding unit at Prayagraj, UP is likely in H1FY25. With clinker capacity addition of 0.66mt (Panna clinker line increasing, from 8ktpd to 10ktpd), clinker capacity will increase to 14.5mt, which Management expects can support cement volumes of up to 21mt. 5) Capex guidance revised upward to Rs19bn (vs Rs17bn earlier) for FY23 and Rs14bn (vs Rs11bn earlier) for FY24. Maintenance capex is likely to log at around Rs3bn. Management expects to achieve peak debt of ~Rs35bn by Jun-23.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Cement & Building Materials \(Page 7\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	66,061	79,908	92,713	1,06,402	1,19,957
EBITDA	15,777	14,824	15,387	20,123	23,136
EBITDA Margin (%)	23.9	18.6	16.6	18.9	19.3
APAT	7,707	6,871	5,906	9,993	12,240
EPS (Rs)	99.7	88.9	76.4	129.3	158.4
EPS (% chg)	56.5	(10.9)	(14.1)	69.2	22.5
ROE (%)	22.8	17.0	12.9	19.0	19.8
P/E (x)	29.5	33.1	38.5	22.7	18.6
EV/EBITDA (x)	15.9	16.4	16.4	12.8	11.1
P/BV (x)	6.1	5.3	4.7	4.0	3.4

Source: Company, Emkay Research

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CMP	Target Price
Rs 2,940 as of (November 14, 2022)	Rs 2,725 (▲) 12 months
Rating	Upside
HOLD (■)	(7.3) %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(1)/3
Target Price change (%)	4.8
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	76.4	129.3
Consensus	77.4	107.9
Mean Consensus TP (12M)	Rs 2,864	

Stock Details

Bloomberg Code	JKCE IN
Face Value (Rs)	10
Shares outstanding (mn)	77
52 Week H/L	3,665 / 2,004
M Cap (Rs bn/USD bn)	227 / 2.79
Daily Avg Volume (nos.)	1,50,067
Daily Avg Turnover (USD mn)	5.0

Shareholding Pattern Sep '22

Promoters	45.8%
FIIIs	15.6%
DIIIs	21.9%
Public and Others	16.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	19	11	28	(20)
Rel. to Nifty	11	7	10	(21)

Relative price trend



Source: Bloomberg

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Quarterly Highlights

Exhibit 1: Actual vs. Estimates (Q2FY23) – Standalone

(Rs mn)	Actual	Estimates		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales	20,889	20,397	20,763	2.4	0.6	Broadly in-line
EBITDA	2,967	2,710	2,779	9.5	6.8	Owing to better-than-expected performance in the white-cement and wall-putty businesses
Adj PAT	1,248	1,129	1,057	10.5	18.1	Due to higher EBITDA
Volume (mt)	3.6	3.6		0.8		
Blended Realization (Rs/ton)	5,733	5,641		1.6		
EBITDA (Rs/ton)	814	750		8.6		

Source: Company, Bloomberg, Emkay Research

Exhibit 2: Quarterly financial highlights (Standalone)

(Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY (%)	QoQ (%)	H1FY22	H1FY23	YoY (%)
Net Sales	18,012	19,028	22,236	21,224	20,889	16.0	(1.6)	34,026	42,113	23.8
Other operating income	344	376	453	441	529	53.9	20.0	666	969	45.6
Revenue	18,355	19,404	22,690	21,664	21,418	16.7	(1.1)	34,692	43,082	24.2
Expenditure	14,805	15,696	18,863	17,663	18,451	24.6	4.5	27,146	36,114	33.0
Total RM	3,198	2,819	4,233	3,439	3,746	17.1	8.9	5,602	7,184	28.3
Power & Fuel	3,437	4,351	4,929	4,856	5,500	60.1	13.3	6,426	10,356	61.2
Freight	3,822	3,834	4,619	4,345	4,352	13.9	0.2	7,168	8,697	21.3
Staff cost	1,298	1,290	1,216	1,430	1,404	8.2	(1.8)	2,536	2,834	11.7
Other expenditure	3,050	3,401	3,866	3,594	3,449	13.1	(4.0)	5,415	7,042	30.1
EBITDA	3,550	3,708	3,827	4,001	2,967	(16.4)	(25.8)	7,546	6,968	(7.7)
Depreciation	687	719	757	899	897	30.6	(0.2)	1,344	1,797	33.7
EBIT	2,863	2,989	3,070	3,102	2,070	(27.7)	(33.3)	6,202	5,172	(16.6)
Other Income	480	264	412	222	228	(52.5)	2.6	753	450	(40.2)
Interest	591	653	689	617	625	5.7	1.3	1,151	1,242	7.9
PBT	2,752	2,600	2,792	2,707	1,673	(39.2)	(38.2)	5,803	4,380	(24.5)
Total Tax	803	926	630	896	425	(47.2)	(52.6)	1,773	1,320	(25.5)
Adjusted PAT	1,948	1,673	2,163	1,811	1,248	(35.9)	(31.1)	4,031	3,060	(24.1)
Extra ordinary items	(260)	-	(1,300)	-	-			(260)	-	
Reported PAT	1,688	1,673	863	1,811	1,248	(26.0)	(31.1)	3,771	3,060	(18.8)
Adjusted EPS (Rs)	25.2	21.7	28.0	23.4	16.2	(35.9)	(31.1)	52.2	39.6	(24.1)

Source: Company, Emkay Research

Margins (%)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY (bps)	QoQ (bps)	H1FY22	H1FY23	YoY (%)
EBITDA	19.3	19.1	16.9	18.5	13.9	(549)	(462)	21.8	16.2	(558)
EBIT	15.6	15.4	13.5	14.3	9.7	(593)	(465)	17.9	12.0	(587)
EBT	15.0	13.4	12.3	12.5	7.8	(718)	(468)	16.7	10.2	(656)
PAT	10.6	8.6	9.5	8.4	5.8	(478)	(253)	11.6	7.1	(452)
Effective Tax rate	29.2	35.6	22.6	33.1	25.4			30.5	30.1	

Source: Company, Emkay Research

Exhibit 3: Quarterly analysis on per-ton basis (Standalone)

Rs/ton	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY (%)	QoQ (%)	H1FY22	H1FY23	YoY (%)
Grey Cement vols. (mt)	2.9	2.9	3.5	3.2	3.2	9.5	1.5	5.7	6.4	12.2
WC + WP vols. (mt)*	0.4	0.4	0.4	0.4	0.4	8.5	8.8	0.7	0.8	24.3
Total volume (mt)	3.3	3.3	3.9	3.6	3.6	9.4	2.3	6.4	7.2	13.4
Grey Cement realization	4,604	4,844	4,932	5,191	4,838	5.1	(6.8)	4,640	5,013	8.0
White Cement realization	11,455	11,615	12,156	12,230	12,540	9.5	2.5	11,598	12,392	6.8
Blended Realization	5,407	5,728	5,655	5,960	5,733	6.0	(3.8)	5,356	5,845	9.1
Raw Material costs	960	849	1,076	966	1,028	7.1	6.5	882	997	13.1
Power & Fuel costs	1,032	1,310	1,254	1,364	1,510	46.3	10.7	1,012	1,437	42.1
Freight costs	1,147	1,154	1,175	1,220	1,195	4.1	(2.1)	1,128	1,207	7.0
Staff cost	390	388	309	402	385	(1.1)	(4.1)	399	393	(1.5)
Other expenditure	916	1,024	983	1,009	946	3.4	(6.2)	852	977	14.7
Operating cost	4,445	4,725	4,797	4,960	5,064	13.9	2.1	4,273	5,013	17.3
Other operating income	103	113	115	124	145	40.7	17.3	105	135	28.4
Blended EBITDA/ton	1,066	1,116	973	1,124	814	(23.6)	(27.5)	1,188	967	(18.6)

Source: Company, Emkay Research; *white cement and wall putty

Exhibit 4: We have increased our EBITDA estimates by ~2% for FY23 and by 5% for FY24-25

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	90,129	92,713	2.9	1,02,247	1,06,402	4.1	1,14,586	1,19,957	4.7
EBITDA	15,062	15,387	2.2	19,176	20,123	4.9	22,038	23,136	5.0
PAT	5,960	5,906	(0.9)	9,685	9,993	3.2	11,927	12,240	2.6

Source: Emkay Research

Exhibit 5: We maintain HOLD, with revised TP of Rs2,725/share, based on Sep-24E EV/EBITDA

EV/EBITDA valuation, backed by DCF analysis	
Sep-24E EBITDA (Rs bn)	22
Implied EV/EBITDA (x)	11
EV (Rs bn)	240
Net debt (Sep-23E; Rs bn)	30
Equity value (Rs bn)	211
No. of shares (mn)	77
Sep-23 Target Price (Rs/share)	2,725

Source: Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	66,061	79,908	92,713	1,06,402	1,19,957
Expenditure	50,284	65,084	77,326	86,279	96,820
EBITDA	15,777	14,824	15,387	20,123	23,136
Depreciation	3,062	3,425	4,290	4,627	4,802
EBIT	12,715	11,399	11,097	15,496	18,335
Other Income	1,130	1,429	1,000	1,050	1,155
Interest expenses	2,528	2,697	2,969	3,227	3,165
PBT	11,317	10,131	9,127	13,319	16,324
Tax	3,675	3,337	3,300	3,404	4,163
Extraordinary Items	(610)	0	0	0	0
Minority Int./Income from Assoc.	66	77	79	79	79
Reported Net Income	7,097	6,871	5,906	9,993	12,240
Adjusted PAT	7,707	6,871	5,906	9,993	12,240

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	773	773	773	773	773
Reserves & surplus	36,595	42,476	47,496	55,990	66,394
Net worth	37,367	43,249	48,269	56,763	67,167
Minority Interest	(257)	(343)	(428)	(535)	(669)
Loan Funds	34,017	38,549	41,549	41,549	40,049
Net deferred tax liability	5,930	7,383	8,583	9,258	10,081
Total Liabilities	77,057	88,838	97,972	1,07,035	1,16,628
Net block	59,374	65,437	74,298	93,722	1,01,221
Investment	5,578	9,698	9,698	9,698	9,698
Current Assets	28,674	28,574	26,780	27,840	36,688
Cash & bank balance	12,246	3,252	1,194	1,267	8,936
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	21,663	25,192	29,124	30,546	31,800
Net current assets	7,011	3,382	(2,345)	(2,706)	4,888
Misc. exp	0	0	0	0	0
Total Assets	77,057	88,838	97,972	1,07,035	1,16,628

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	9,643	8,779	8,207	12,348	15,249
Other Non-Cash items	600	908	1,200	675	823
Chg in working cap	1,531	(5,366)	3,669	434	75
Operating Cashflow	13,689	7,107	17,036	17,907	19,950
Capital expenditure	(6,680)	(14,386)	(19,000)	(14,000)	(6,750)
Free Cash Flow	7,008	(7,279)	(1,964)	3,907	13,200
Investments	(5,128)	(4,449)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(10,679)	(17,406)	(18,000)	(12,950)	(5,595)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	4,324	4,532	3,000	0	(1,500)
Dividend paid (incl tax)	(1,159)	(1,159)	(886)	(1,499)	(1,836)
Other Financing Cash Flow	2,255	629	(237)	(158)	(184)
Financing Cashflow	2,892	1,305	(1,093)	(4,884)	(6,686)
Net chg in cash	5,902	(8,995)	(2,057)	73	7,669
Opening cash position	6,345	12,246	3,252	1,194	1,267
Closing cash position	12,246	3,252	1,194	1,267	8,936

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	23.9	18.6	16.6	18.9	19.3
EBIT Margin	19.2	14.3	12.0	14.6	15.3
Effective Tax Rate	32.5	32.9	36.2	25.6	25.5
Net Margin	11.6	8.5	6.3	9.3	10.1
ROCE	19.6	15.5	13.0	16.1	17.4
ROE	22.8	17.0	12.9	19.0	19.8
RoIC	16.2	12.8	10.4	14.4	14.6

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	99.7	88.9	76.4	129.3	158.4
CEPS	139.4	133.2	132.0	189.2	220.5
BVPS	483.6	559.7	624.7	734.6	869.3
DPS	15.0	15.0	11.5	19.4	23.8

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	29.5	33.1	38.5	22.7	18.6
P/CEPS	21.1	22.1	22.3	15.5	13.3
P/BV	6.1	5.3	4.7	4.0	3.4
EV / Sales	3.7	3.2	2.8	2.5	2.1
EV / EBITDA	15.9	16.4	16.4	12.8	11.1
Dividend Yield (%)	0.5	0.5	0.4	0.7	0.8

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	0.4	0.6	0.6	0.5	0.3
Net Debt/EBIDTA	1.1	1.7	2.0	1.5	0.9
Working Cap Cycle (days)	(28.9)	0.6	(13.9)	(13.6)	(12.3)

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	13.9	21.0	16.0	14.8	12.7
EBITDA	30.0	(6.0)	3.8	30.8	15.0
EBIT	37.4	(10.3)	(2.7)	39.6	18.3
PAT	44.1	(3.2)	(14.1)	69.2	22.5

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Revenue	18,355	19,404	22,690	21,664	21,418
EBITDA	3,550	3,708	3,827	4,001	2,967
EBITDA Margin (%)	19.3	19.1	16.9	18.5	13.9
PAT	1,688	1,673	863	1,811	1,248
EPS (Rs)	21.8	21.7	11.2	23.4	16.2

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	57.6	51.5	45.8	45.8	45.8
FIs	17.4	17.7	16.5	16.1	15.6
DIs	20.0	19.8	20.6	21.1	21.9
Public and Others	5.0	11.0	17.1	17.0	16.6

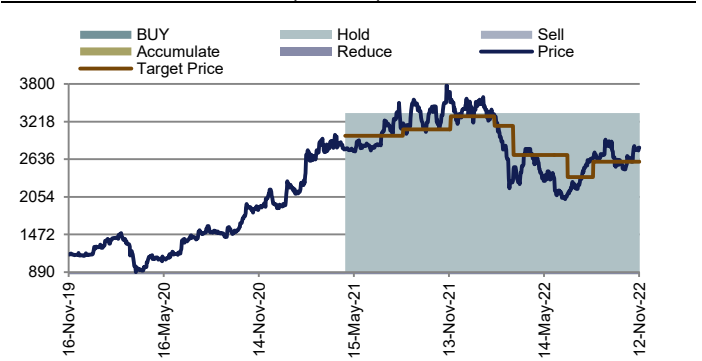
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
05-Nov-22	2,780	2,600	12m	Hold	Dharmesh Shah
04-Oct-22	2,589	2,600	12m	Hold	Dharmesh Shah
04-Sep-22	2,705	2,600	12m	Hold	Dharmesh Shah
16-Aug-22	2,653	2,600	12m	Hold	Dharmesh Shah
04-Jul-22	2,197	2,360	12m	Hold	Dharmesh Shah
28-Jun-22	2,100	2,360	12m	Hold	Dharmesh Shah
23-May-22	2,436	2,700	12m	Hold	Dharmesh Shah
16-Mar-22	2,486	2,700	12m	Hold	Dharmesh Shah
11-Mar-22	2,296	3,150	12m	Hold	Dharmesh Shah
06-Mar-22	2,640	3,150	12m	Hold	Dharmesh Shah
08-Feb-22	3,306	3,150	12m	Hold	Dharmesh Shah
31-Dec-21	3,399	3,300	12m	Hold	Dharmesh Shah
02-Dec-21	3,333	3,300	12m	Hold	Dharmesh Shah
16-Nov-21	3,518	3,300	12m	Hold	Dharmesh Shah
05-Sep-21	3,500	3,100	12m	Hold	Dharmesh Shah
17-Aug-21	3,192	3,100	12m	Hold	Dharmesh Shah
13-Jun-21	2,851	3,000	12m	Hold	Dharmesh Shah
06-Jun-21	2,838	3,000	12m	Hold	Dharmesh Shah
28-Apr-21	2,789	3,000	12m	Hold	Dharmesh Shah

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Cement & Building Materials



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Sector

Cement & Building Materials

Analyst bio

Dharmesh is a CA and has around 10 years of experience in equity research. His team currently covers ten stocks in cement sector.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Cement & Building Materials	2.20	2.20	0%	0	100.00	
ACC	0.19	0.19	0%	0	8.43	0
Ambuja Cements	0.38	0.37	-2%	-1	16.76	0
Birla Corporation	0.00	0.00	NA	0	0.00	0
Dalmia Bharat	0.12	0.06	-48%	-6	2.91	0
Grasim Industries*	0.59	0.59	0%	0	26.75	0
JK Cement	0.00	0.04	NA	4	2.03	0
Ramco Cements	0.00	0.00	NA	0	0.00	0
Shree Cements	0.20	0.20	0%	0	9.29	0
Star Cement	0.00	0.00	NA	0	0.00	0
Ultratech Cement	0.72	0.75	3%	2	33.83	0
Cash	0.00	0.00	NA	0	0.00	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	12-Nov-21	13-May-22	12-Aug-22	11-Oct-22	11-Nov-22
EAP - Cement & Building Materials	100.0	192.9	150.6	159.9	161.0	175.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	186.0	144.0	153.1	155.6	169.2

*Performance measurement base date 1st April 2019

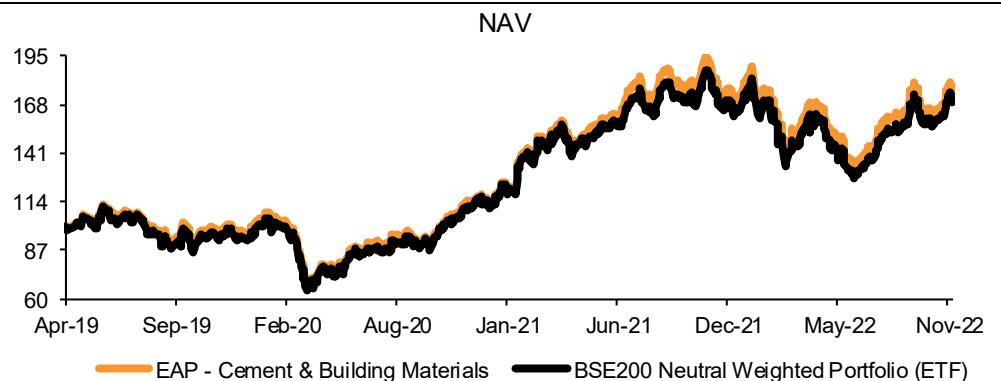
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Cement & Building Materials	8.7%	9.4%	16.2%	-9.3%
BSE200 Neutral Weighted Portfolio (ETF)	8.7%	10.5%	17.4%	-9.0%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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