

BSE SENSEX

63,284

S&P CNX

18,813



Stock Info

Bloomberg	JKCE IN
Equity Shares (m)	77
M.Cap.(INRb)/(USDb)	247.4 / 3
52-Week Range (INR)	3659 / 2005
1, 6, 12 Rel. Per (%)	11/21/-12
12M Avg Val (INR M)	418

Financials Snapshot (INR b)

Y/E MARCH	FY23E	FY24E	FY25E
Sales	92.7	102.1	112.3
EBITDA	15.4	19.1	22.1
Adj. PAT	6.4	7.2	8.9
EBITDA Margin (%)	16.6	18.7	19.7
Adj. EPS (INR)	83.2	93.7	115.7
EPS Gr. (%)	(5.4)	12.7	23.4
BV/Sh. (INR)	623	695	786

Ratios

Net D:E	0.6	0.6	0.5
RoE (%)	14.1	14.2	15.6
RoCE (%)	9.7	10.3	11.3
Payout (%)	21.1	23.5	21.6

Valuations

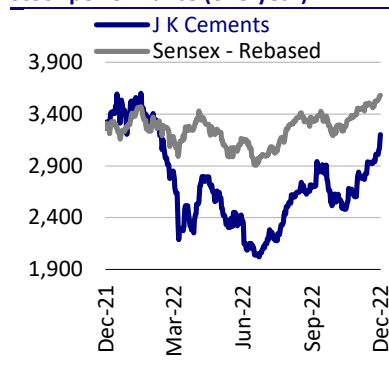
P/E (x)	38.5	34.2	27.7
P/BV (x)	5.1	4.6	4.1
EV/EBITDA(x)	16.5	14.3	12.2
EV/ton (USD)	180	158	121
Div. Yield (%)	0.5	0.7	0.8
FCF Yield (%)	(0.5)	1.1	3.3

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	45.8	45.8	57.6
DII	21.9	21.1	20.1
FII	15.6	16.1	17.4
Others	16.6	17.0	4.9

FII Includes depository receipts

Stock performance (one-year)



CMP: INR3,203 TP: INR3,550 (+11%)

BUY

Enhancing its foothold in Central India

We interacted with JKCE's management to gauge their growth plans, industry demand and pricing trends, scope for cost reduction, and the dynamics of the White Cement and Putty business. The key takeaways are:

Completes expansion of 4mtpa; further expansion plans underway

- JKCE recently commenced commercial operations at its greenfield integrated plant at Panna, Madhya Pradesh (Clinker/Grinding capacity of 2.64mtpa/2mtpa) and a greenfield grinding unit at Hamirpur, Uttar Pradesh (Grinding capacity of 2mtpa) ahead of its original schedule. Production capacity in Gray Cement now stands at 18.7mtpa.
- It is increasing its Gray Cement capacity by 5.5mtpa at an estimated capex of INR11.6b. This will include brownfield expansion of 2mtpa through debottlenecking at four units and will be completed by Mar'23. JKCE will set up two split greenfield grinding units at Ujjain, Madhya Pradesh and Prayagraj, Uttar Pradesh with an expected commissioning by 2QFY25.
- Clinker capacity at the Panna plant will increase by 2,000tpd to 10,000tpd (from 2.64mtpa to 3.3mtpa) by Sep'23. This, along with the surplus Clinker in North India, will help meet the Clinker requirements of the above mentioned plants. The management is targeting 9-10% market share in Central India.
- Peak production capacity after all expansions will be 22mtpa (90% capacity utilization), based on 68% Clinker factor. A Clinker factor of 63% may result in full capacity utilization. In FY22, it achieved a Clinker factor of 66%.

Scope exists for further cost reductions in logistics and energy

- JKCE has multiple scope for cost reductions, a few of them are: 1) Increase in Clinker factor through higher trade sales, which currently stands ~68%. The target is to increase it to ~70%. Increase in blending by 1% leads to cost saving of INR25-30/t. 2) Increase in AFR and renewable power share – 18MW WHRS at its Muddapur (South) plant. 3) Cost reduction of INR20-30/t in logistics cost.
- Share of alternate fuel in total energy consumption is in double-digits (in calorific value terms) and the management aims to further improve its usage. WHRS of 22MW at the Panna plant will be commissioned by Mar'23.

Expect profitability to remain at 2Q levels in 3QFY23

- No major savings in energy cost are expected for JKCE in 3QFY23 as it consumed its low-cost inventory and its cost increase was lower v/s that of the industry. The latter may see cost benefits of INR100-150/t ([in line with our estimate](#)).
- There has not been much improvement in Cement prices in the company's key markets. North India has seen a price increase of INR5-7/bag in Nov'22. Prices in South and West India rose INR10/bag each in Oct'22. No price increase in South and West India occurred in Nov'22.

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Capex guidance and other highlights

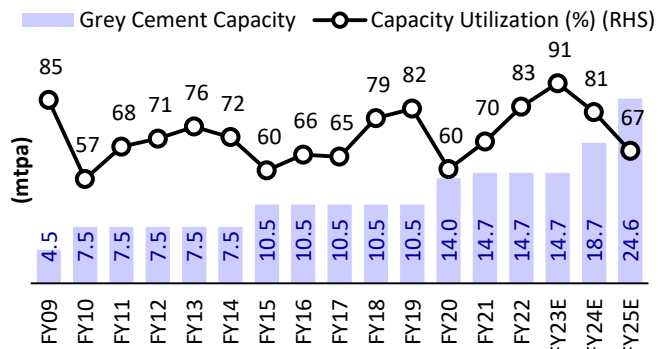
- The profitability of its Panna plant will be lower in 2HFY23 due to stabilization of the plant, a gradual pick-up in capacity utilization and commissioning of other infrastructure (WHRS and one raw mill are yet to be commissioned). The management aims to achieve 0.3mt/2-2.5mt volumes from this plant in 4QFY23/FY24.
- Premium product sales constitute 10% of trade volumes, and the aim is to increase it to 15% first and then 20%.
- Capex is pegged at INR19b/INR16-17b/INR5b for FY23E/FY24E/FY25E. Equipment prices have increased by 30-40% in the last two years. Capex cost for the greenfield plant is estimated at USD110-120/t.
- Net debt is estimated to peak out at INR37b by Sep'23 (net debt stood at INR29b as of Sep'22). New expansion plans will only be considered in Mar'24 after considering its leverage position and profitability.
- JKCE is eligible for incentives (Aligarh, Hamirpur, Prayagraj, and Panna units) under the state government industrial promotion schemes. The company is not receiving incentives for its Aligarh plant at present and expects to start receiving the same from Mar'23. Cumulative incentives over a 10-year period from the Panna and Hamirpur units are pegged at INR5b/INR7-8b, respectively.
- The OPM for White Cement and Wall Putty is hovering ~20% v/s ~24% earlier. White Cement is doing better, but higher competition in Putty is restricting price increases (the cost of imported materials has increased and the depreciation in the USD:INR is hurting).
- As White Cement faces an import threat from Iran, supplies to unorganized and Paint players can't be restricted. White Cement usage in Putty is 16-18%.
- In the Putty business, the market share of the two leading players has fallen to 40-45% from 85-90% four years back.

Valuation and view

- JKCE trades at 14.3x/12.2x FY24E/FY25E EV/EBITDA, with an EV/t of USD158/USD121. A further upside will be driven by: 1) EBITDA growth (13% CAGR over FY22-25E), 2) improvement in profitability of the Gray Cement business (blended EBITDA/t of INR1,110/INR1,180 in FY24E/FY25E), and 3) higher OCF, which will support expansion as well as the deleveraging of its Balance Sheet.
- We value JKCE at 14.5x Sep'24E EV/EBITDA considering its growth plans (one of the best among mid-sized companies) and cost saving strategies. **We maintain our Buy rating with a revised TP of INR3,550. We had recently upgraded our rating to Buy and the stock has risen 18% since then, outperforming the BSE200 index by 15%.**

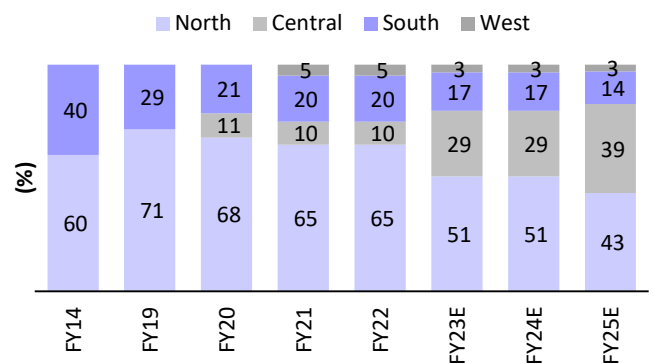
Story in charts

Exhibit 1: JKCE has been consistent in capacity expansion



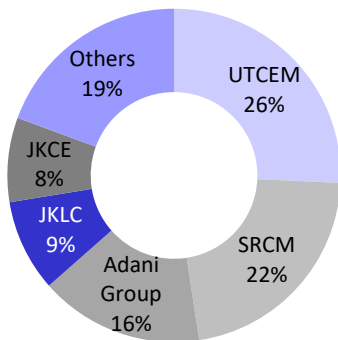
Source: MOFSL, company reports

Exhibit 2: Capacity-mix improves in North and Central India



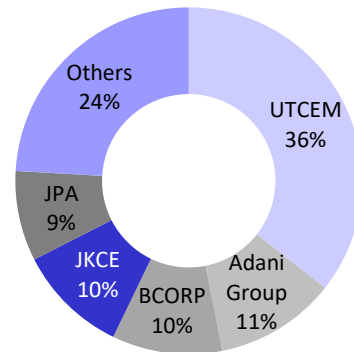
Source: MOFSL, company reports

Exhibit 3: Top five players share in capacity* in North India (FY25E)



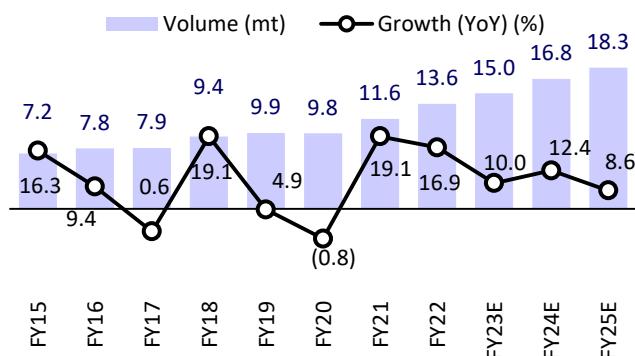
Source: Company reports, MOFSL; Note: Installed Gray Cement capacity

Exhibit 4: Top five players share in capacity* in Central India (FY25E)



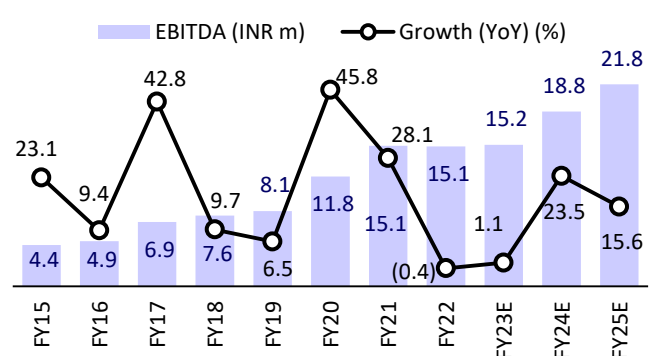
Source: Company reports, MOFSL; Note: Installed Gray Cement capacity

Exhibit 5: Expect sales volume* CAGR of ~10% over FY22-25

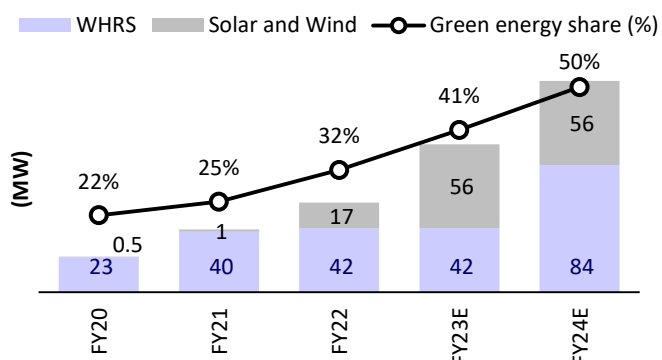


Source: MOFSL, company reports, *Combined Gray and White Cement

Exhibit 6: Expect EBITDA CAGR of ~13% over FY22-25



Source: MOFSL, company reports

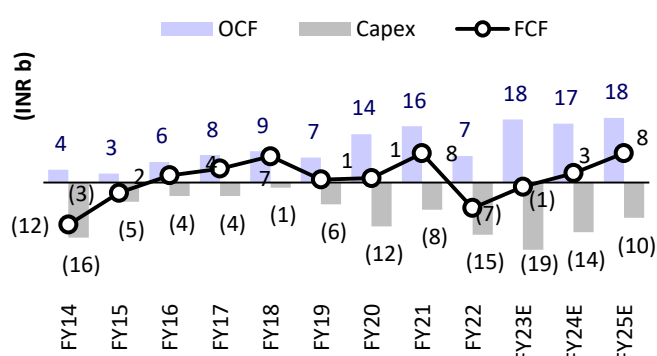
Exhibit 7: Green energy share to increase further...

Source: Company reports, MOFSL

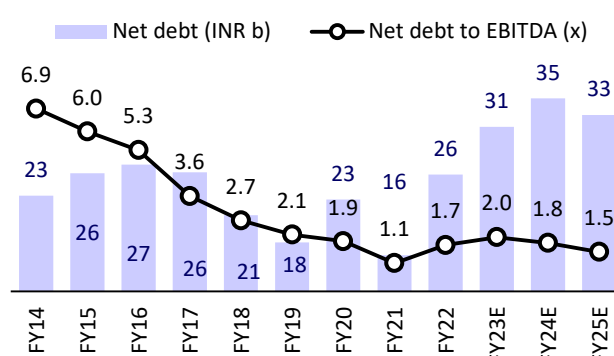
Exhibit 8: ...to result in a cost reduction of INR105/t

Particulars	WHRs	Solar Power
Incremental capacity (MW)	42	39
PLF assumed (%)	75%	23%
Power generation (m kwh)	249.5	76.5
Cost savings (INR/kwh)	5.3	3.5
Total savings (INR m)	1,310	268
Cost reduction (INR/t)	87	18

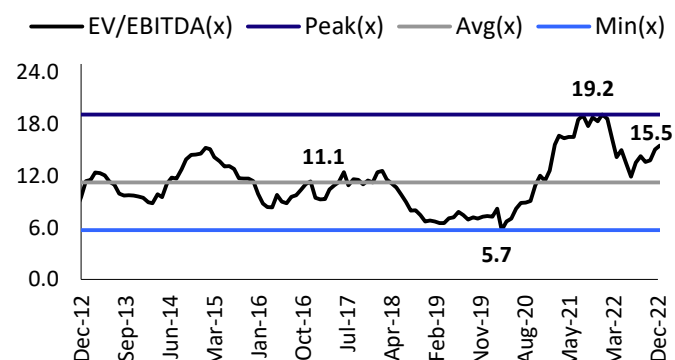
Source: Company reports, MOFSL; Note: Cost reduction is estimated after stabilization of plants

Exhibit 9: OCF to improve, will partly support expansion

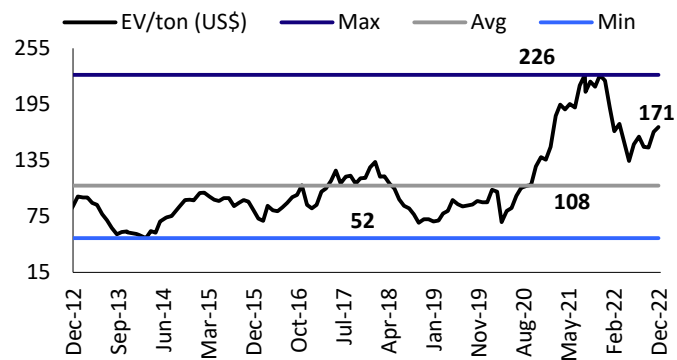
Source: MOFSL, Company reports

Exhibit 10: Expect consolidated net debt to peak out in FY24

Source: MOFSL, Company reports

Exhibit 11: One-year forward EV/EBITDA trend

Source: MOFSL, company reports

Exhibit 12: One-year forward EV/t trend

Source: MOFSL, company reports

Consolidated financials and valuations

Income Statement								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	48,535	52,587	58,016	66,061	79,908	92,683	1,02,060	1,12,268
Change (%)	20.7	8.3	10.3	13.9	21.0	16.0	10.1	10.0
EBITDA	7,875	8,345	12,134	15,387	14,824	15,417	19,113	22,110
Margin (%)	16.2	15.9	20.9	23.3	18.6	16.6	18.7	19.7
Depreciation	2,313	2,413	2,880	3,062	3,425	3,443	4,481	4,755
EBIT	5,561	5,932	9,255	12,325	11,399	11,973	14,632	17,355
Int. and Finance Charges	2,841	2,611	2,764	2,528	2,697	3,041	4,256	4,375
Other Income – Rec.	1,269	804	853	1,130	1,429	1,136	1,266	1,400
PBT bef. EO Exp.	3,989	4,124	7,344	10,927	10,131	10,069	11,642	14,380
EO Expense/(Income)	157	0	0	0	0	310	0	0
PBT after EO Exp.	3,832	4,124	7,344	10,927	10,131	9,758	11,642	14,380
Current Tax	941	1,037	1,593	3,296	2,429	2,673	4,400	5,440
Deferred Tax	35	451	917	600	908	855	0	0
Tax Rate (%)	25.5	36.1	34.2	35.7	32.9	36.2	37.8	37.8
Reported PAT	2,856	2,636	4,834	7,031	6,794	6,230	7,242	8,940
PAT Adj. for EO items	2,973	2,636	4,834	7,031	6,794	6,428	7,242	8,940
Change (%)	62.0	-11.3	83.4	45.5	-3.4	-5.4	12.7	23.4
Margin (%)	6.1	5.0	8.3	10.6	8.5	6.9	7.1	8.0
Less: Minority Interest	-39.9	-67.1	-90.0	-66.2	-77.0	0.0	0.0	0.0
Net Profit	3,013	2,703	4,924	7,317	6,729	6,428	7,242	8,940

Balance Sheet								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	699	773	773	773	773	773	773	773
Total Reserves	19,049	26,249	29,504	36,595	42,476	47,392	52,935	59,943
Net Worth	19,749	27,022	30,277	37,367	43,249	48,165	53,708	60,716
Deferred Liabilities	2,670	3,123	4,173	5,930	7,383	8,238	8,238	8,238
Minority Interest	0	-72	-203	-257	-343	-343	-343	-343
Total Loans	27,306	26,779	32,840	34,017	38,549	42,549	47,049	45,049
Capital Employed	49,724	56,852	67,086	77,057	88,838	98,609	1,08,652	1,13,660
Gross Block	59,334	62,681	75,780	82,126	91,614	96,335	1,26,935	1,34,935
Less: Accum. Deprn.	14,900	17,313	20,235	22,752	26,177	29,620	34,101	38,856
Net Fixed Assets	44,433	45,367	55,545	59,374	65,437	66,715	92,834	96,079
Capital WIP	1,043	5,618	5,295	5,093	10,321	24,600	8,000	10,000
Total Investments	1,189	4,383	458	1,422	2,157	2,157	2,157	2,157
Curr. Assets, Loans, and Adv.	17,877	18,810	24,122	32,831	36,115	31,839	33,678	34,474
Inventory	5,898	6,365	6,904	7,566	12,087	9,757	10,112	10,142
Account Receivables	2,358	2,606	2,677	3,615	4,268	4,204	4,331	4,737
Cash and Bank Balance	5,595	5,115	9,649	16,416	10,793	9,212	10,368	10,329
Loans and Advances	4,026	4,722	4,892	5,233	8,967	8,667	8,867	9,267
Curr. Liability and Prov.	14,818	17,325	18,334	21,663	25,192	26,701	28,017	29,049
Account Payables	14,316	16,809	16,725	20,276	23,803	25,249	26,525	27,516
Provisions	502	516	1,609	1,388	1,389	1,452	1,493	1,534
Net Current Assets	3,059	1,484	5,788	11,167	10,923	5,137	5,661	5,425
Appl. of Funds	49,724	56,852	67,086	77,057	88,838	98,609	1,08,652	1,13,660

E: MOFSL estimates

Consolidated financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)*								
EPS	42.5	34.1	62.6	91.0	87.9	83.2	93.7	115.7
Cash EPS	75.6	65.3	99.8	130.6	132.3	127.7	151.7	177.2
BV/Share	282.4	349.7	391.8	483.6	559.7	623.3	695.1	785.8
DPS	9.0	10.0	17.5	15.0	15.0	17.0	22.0	25.0
Payout (%)	29.5	35.3	33.7	16.5	17.1	21.1	23.5	21.6
Valuation (x)*								
P/E ratio		93.9	51.2	35.2	36.4	38.5	34.2	27.7
Cash P/E ratio		49.0	32.1	24.5	24.2	25.1	21.1	18.1
P/BV ratio		9.2	8.2	6.6	5.7	5.1	4.6	4.1
EV/Sales ratio		4.9	4.6	3.9	3.3	2.7	2.7	2.4
EV/EBITDA ratio		31.1	21.8	16.8	17.7	16.5	14.3	12.2
EV/t (USD)		255	204	187	186	180	158	121
Dividend Yield (%)		0.3	0.5	0.5	0.5	0.5	0.7	0.8
Return Ratios (%)								
RoIC	9.6	9.1	13.0	15.0	12.8	11.9	12.1	12.0
RoE	16.4	11.6	17.2	21.6	16.7	14.1	14.2	15.6
RoCE	10.7	8.5	11.4	12.9	11.2	9.7	10.3	11.3
Working Capital Ratios								
Asset Turnover (x)	1.0	0.9	0.9	0.9	0.9	0.9	0.9	1.0
Inventory (Days)	44.4	44.2	43.4	41.8	55.2	38.4	36.2	33.0
Debtor (Days)	17	18	17	20	19	17	15	15
Creditor (Days)	108	117	105	112	109	99	95	89
Working Capital Turnover (Days)	-19	-25	-24	-29	1	-16	-17	-16
Leverage Ratio (x)								
Current Ratio	1.2	1.1	1.3	1.5	1.4	1.2	1.2	1.2
Debt/Equity ratio	1.4	1.0	1.1	0.9	0.9	0.9	0.9	0.7

Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	3,832	4,124	7,344	10,927	10,131	10,069	11,642	14,380
Depreciation	2,313	2,413	2,880	3,062	3,425	3,443	4,481	4,755
Interest and Finance Charges	2,348	2,209	1,975	1,666	2,697	3,041	4,256	4,375
Direct Taxes Paid	-996	-977	-1,530	-1,959	-2,429	-2,673	-4,400	-5,440
(Inc.)/Dec. in WC	1,193	-778	2,819	1,715	-5,379	4,204	633	197
CF from Operations	8,691	6,991	13,488	15,411	8,445	18,084	16,612	18,267
Others	140.7	5	179.2	490	-967	-310	0	0
CF from Operations incl. EO	8831.2	6996.1	13,668	15,901	7,478	17,774	16,612	18,267
(Inc.)/Dec. in FA	-1,443	-6,191	-12,428	-7,678	-14,716	-19,000	-14,000	-10,000
Free Cash Flow	7,388	805	1,240	8,223	-7,238	-1,226	2,612	8,267
(Pur.)/Sale of Investments	-369	-3,193	-2,622	-11,747	-734	0	0	0
Others	1,642	182	6,998	11,665	2,234	0	0	0
CF from Investments	-170	-9,202	-8,052	-7,760	-13,216	-19,000	-14,000	-10,000
Issue of Shares	0	5,043	0	0	0	0	0	0
Inc./(Dec.) in Debt	-4,010	328	3,133	1,120	4,532	4,000	4,500	-2,000
Interest Paid	-2,789	-2,798	-2,507	-2,427	-2,697	-3,041	-4,256	-4,375
Dividend Paid	-673	-843	-1,630	0	-1,159	-1,314	-1,700	-1,932
Others	54	-3	-77	-68	-562	0	0	0
CF from Fin. Activity	-7,419	1,727	-1,081	-1,375	114	-355	-1,456	-8,306
Inc./Dec. in Cash	1,242	-479	4,534	6,767	-5,624	-1,581	1,156	-39
Opening Balance	4,353	5,595	5,116	9,650	16,416	10,793	9,212	10,368
Closing Balance	5,595	5,116	9,650	16,416	10,793	9,212	10,368	10,329

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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