

JK Cement

Healthy grey volumes; sharp margin contraction

We maintain our REDUCE rating on JK Cement (JKCE) with a lower TP of INR 2,485 (11x Mar-25E consolidated EBITDA). We believe its margin will be subdued for the next 2-3 quarters, on account of Panna stabilisation costs and intensifying pressure in white cement. In Q3FY23, JKCE reported healthy consolidated volume growth of 21/11% YoY/QoQ, led by strong traction in grey cement, while white volumes declined. Consolidated unitary EBITDA contracted INR 230/MT QoQ on stabilisation expense in grey, competition pressure in the white segment, and an increase in fuel and freight costs. Fuel cost is expected to cool off by 8% QoQ in Q4. JKCE's 4mn MT central expansion got commissioned in Q3FY23. The company will further add 5.5mn MT of grey cement capacity spread across the north, central and south and 0.66mn MT clinker across the central region (Panna) by FY25E to strengthen its distribution reach.

- **Q3FY23 performance:** Grey cement volume reported strong growth (+27/14% YoY/QoQ) to 3.7mn MT. NSR grew ~1% QoQ on better pricing. Segmental unitary EBITDA contracted ~30/50% QoQ/YoY to INR 430/MT (our estimates) on account of higher fuel costs and Panna stabilisation costs. Segmental EBITDA thus fell ~20/40% QoQ/YoY. The white/putty business also got adversely impacted. Rising competition pulled down white/putty volume by 12/4% YoY/QoQ to 0.47mn MT. Segmental EBITDAM slumped to ~15% (down ~300-400bps both YoY/QoQ on competition).
- **Capex update and outlook:** JKCE's expansions are on track to increase clinker/cement capacity to 13.7/24.2mn MT by FY25E. It has recently acquired a 60% stake in Acro paints at INR 1.53bn and will acquire the balance stake in the next year. JKCE will incur a total Capex of ~INR 19/14bn in FY23/24E. Fuel cost is expected to cool off by 8% QoQ in Q4FY23. Factoring in weak Q3FY23 performance and poor margin outlook for the white segment, we reduce our FY23/24/25E consolidated EBITDA estimates by 16/11/10% respectively. Reduced profitability would also inflate leverage. Factoring these in, we lower our valuation multiple to 11x EV/EBITDA vs 11.5x earlier.

Consolidated quarterly/annual financial summary

YE Mar (INR bn)	Q3 FY23	Q3 FY22	YoY (%)	Q2 FY23	QoQ (%)	FY21	FY22	FY23E	FY24E	FY25E
Sales (mn MT)	4.1	3.4	20.7	3.7	11.3	12.0	14.0	16.4	18.3	20.0
NSR (INR/MT)	5,884	5,930	(0.8)	5,999	(1.9)	5,485	5,695	5,910	5,849	5,963
EBITDA (INR/MT)	590	1,067	(44.8)	822	(28.2)	1,310	1,075	823	1,003	1,072
Net Sales	24.33	20.30	19.8	22.28	9.2	66.06	79.91	97.16	106.98	119.01
EBITDA	2.44	3.66	(33.3)	3.05	(20.1)	15.78	15.08	13.54	18.34	21.39
APAT	0.39	1.43	(72.7)	1.12	(65.3)	7.49	7.13	4.46	6.21	8.72
AEPS (INR)	24.8	6.8	267.2	33.0	(24.7)	96.9	92.3	57.8	80.4	112.9
EV/EBITDA(x)						14.6	15.9	18.7	14.2	12.0
EV/MT (INR bn)						11.8	12.3	10.8	11.1	8.7
P/E (x)						28.4	29.8	47.7	34.2	24.4
RoE (%)						22.3	17.8	10.0	12.6	15.7

Source: Company, HSIE Research; Operating trends are on a blended basis (grey cement+ white/putty)

Consolidated Estimates revision summary

INR bn	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %
Net Sales	98.70	97.16	-1.6	109.08	106.98	-1.9	121.51	119.01	-2.1
EBITDA	16.11	13.54	-16.0	20.57	18.34	-10.9	23.63	21.39	-9.5
APAT	6.17	4.46	-27.7	7.89	6.21	-21.2	10.69	8.72	-18.4

Source: Company, HSIE Research

REDUCE

CMP (as on 08 Feb 2023) INR 2,753

Target Price INR 2,485

NIFTY 17,872

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,980	INR 2,485
EBITDA revision %	FY23E (16.0)	FY24E (10.9)

KEY STOCK DATA

Bloomberg code	JKCE IN
No. of Shares (mn)	77
MCap (INR bn) / (\$ mn)	213/2,577
6m avg traded value (INR mn)	383
52 Week high / low	INR 3,400/2,004

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(1.8)	6.0	(16.7)
Relative (%)	(0.9)	2.9	(21.7)

SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	45.84	45.83
FIs & Local MFs	21.90	21.86
FPIs	15.63	15.88
Public & Others	16.63	16.43
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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