

JK Cement

Healthy volume ramp-up; margins remain sub-par

We maintain our REDUCE rating on JK Cement (JKCE), with a revised TP of INR 2,755 (11x Mar-25E consolidated EBITDA). In Q4FY23, JKCE reported 16% YoY consolidated volume growth led by the fast ramp-up of Panna IU in the central region. Consolidated unitary EBITDA recovered ~INR 150/MT QoQ on fuel cost reduction and op-lev gains. Fuel cost is expected to further cool off in FY24E, driving margin recovery. The upcoming expansions in UP and MP will increase grey cement capacity to 24mn MT in FY25E.

- **Q4FY23 performance:** Grey cement volume rose 17/13% YoY/QoQ to 4.14mn MT, led by a ramp-up of its central India capacity. NSR improved by 1% QoQ. As per our estimates, unit EBITDA recovered ~INR 170/MT QoQ to ~INR 600/MT (down ~INR 200/MT YoY). Despite achieving high utilization and healthy trade sales (69% share), high 40%+ green power consumption and 13% TSR, the operating margin remains sub-par, in our view. Segmental EBITDA recovered ~55% QoQ (on a low base, but down ~15% YoY) to ~INR 2.5bn (70% EBITDA share). White/Putty (w/p) volumes rose 7/9% YoY/QoQ to 0.52 mn MT. Segmental EBITDA rose ~15/5% QoQ/YoY to INR 1bn. Segmental EBITDA margin remained flattish at ~16% QoQ (down 200bps YoY, our estimation as the company doesn't disclose the same).
- **FY23 cash flows:** FY23 consolidated volume rose 16% YoY (grey +17%. w/p +7%). However, EBITDA fell 13% YoY (grey down ~20% YoY, w/p down ~2% YoY). Despite lower EBITDA, FY23 OCF jumped 57% YoY to INR 13.8bn on strong inventory management. The company spent INR 18.7bn towards expansions and paint business acquisition. Net debt increased ~50% YoY to INR 37bn, increasing its net debt to EBITDA to 2.8x vs 1.9x YoY.
- **Capex update and outlook:** JKCE will incur a total Capex of ~INR 12-14/7-8bn in FY24/25E towards ongoing expansions. Fuel costs are expected to cool off in FY24E, boosting margins. The company expects to deliver ~15%+ grey cement volume offtake in FY24E on the ramp-up of central plants. Factoring in strong Q4FY23 result, we marginally increase our FY24/25E EBITDA estimates by 1/4% respectively.

Consolidated quarterly/annual financial summary

YE Mar (INR bn)	Q4 FY23	Q4 FY22	YoY (%)	Q3 FY23	QoQ (%)	FY21	FY22	FY23	FY24E	FY25E
Sales (mn MT)	4.7	4.0	15.7	4.1	12.8	12.0	14.0	16.2	18.5	21.0
NSR (INR/MT)	5,967	5,844	2.1	5,900	1.1	5,485	5,718	6,013	5,912	5,999
EBITDA (INR/MT)	751	955	(21.4)	599	25.3	1,310	1,079	813	1,007	1,076
Net Sales	27.78	23.51	18.1	24.36	14.0	66.06	79.91	97.20	109.56	126.27
EBITDA	3.50	3.84	(9.0)	2.47	41.3	15.78	15.08	13.14	18.66	22.64
APAT	1.12	2.01	(44.2)	0.39	188.0	7.49	7.13	4.26	6.56	10.07
AEPS (INR)	24.8	6.8	267.2	33.0	(24.7)	96.9	92.3	55.2	84.9	130.4
EV/EBITDA(x)						16.5	17.8	21.2	15.1	12.4
EV/MT (INR bn)						13.4	13.7	10.9	11.0	9.5
P/E (x)						32.7	34.4	57.5	37.4	24.3
RoE (%)						22.3	17.8	9.5	13.3	18.0

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

Consolidated Estimates revision summary

INR bn	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %
Net Sales	107.83	109.56	1.6	121.69	126.27	3.8
EBITDA	18.41	18.66	1.4	21.84	22.64	3.7
APAT	6.21	6.56	5.6	8.98	10.07	12.2

Source: Company, HSIE Research

REDUCE

CMP (as on 30 May 23)	INR 3,178
Target Price	INR 2,755
NIFTY	18,634

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,545	INR 2,755
EBITDA revision %	FY24E 1.4	FY25E 3.7

KEY STOCK DATA

Bloomberg code	JKCE IN
No. of Shares (mn)	77
MCap (INR bn) / (\$ mn)	245/3,002
6m avg traded value (INR mn)	344
52 Week high / low	INR 3,290/2,004

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.9	3.2	31.0
Relative (%)	8.1	3.4	18.4

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	45.83	45.83
FIs & Local MFs	21.86	22.47
FPIs	15.88	15.55
Public & Others	16.43	16.16
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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