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India | Equity Research | Q1FY24 Result review

JK Cement

Cement

Good show; bright prospects

JK Cement's (JKCE) Q1FY24 performance stood strong, being one of the few cement companies to report a QoQ margin improvement of ~170bps (EBITDA stood 15% ahead of estimates). We see scope of further margin improvement owing to near-term benefits of a) incentives from new Panna unit (in Madhya Pradesh); b) and savings from the recently commissioned WHRS plant of 22MW at Panna and the upcoming 16MW in Muddapur (Karnataka). In the medium term, margins have the potential to scale up from c) reduction in clinker factor (post ramp-up of the upcoming split grinding units at Ujjain (Madhya Pradesh) and Prayagraj (Uttar Pradesh) and d) JKCE's efforts to pursue fixed cost reduction. Overall, JKCE remains a compelling investment story. Maintain **BUY** with an unchanged TP of INR 3,856.

QoQ margin improvement appears sustainable

JKCE's grey cement volumes surged 29% YoY, while realisation slipped 0.8% QoQ. For white segment, volumes rose just ~4% YoY, while realisations slipped ~3% QoQ. However, with benefits of high other operating income (INR 830mn vs INR 524 in Q4FY23 due to incentives from the Panna unit) and QoQ fuel cost savings of INR 154/t, blended EBITDA/t rose 12% QoQ to INR 893 (down 22% YoY). Factoring in the incentive benefits (which are likely to sustain) and further reduction in fuel cost (JKCE's guidance of ~INR 75/t savings in Q2FY24 and Q3FY24, each) as well as ramp-up of the new 22MW WHRS, we revise up FY24E EBITDA by ~5%. Our FY25E EBITDA stays largely unchanged. Key risks: Sharp drop in cement prices; sharp rise in fuel cost.

Remains a compelling investment story

JKCE remains a compelling investment story given a) the imminent margin improvement (owing to benefits of low fuel cost and efficiency enhancement measures like commissioning of WHRS power plants and reduction in clinker factor); b) net debt has 'peaked-out' (net debt/EBITDA set to reduce from 2.6x in FY23 to 1.4x in FY25E) as the next leg of capex (mostly line 2 at Panna) may incur very low cost. JKCE's FCF is likely to be enough to fund the same offering visibility of steady volume growth; c) industry superior RoE of 14-16% and d) structural improvement in regional mix and efficiency mix. We continue to value JKCE at 15x FY25E EV/EBITDA and maintain **BUY** with a TP of INR 3,856.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	79,908	97,202	1,10,227	1,17,960
EBITDA	14,824	13,143	18,863	22,321
EBITDA (%)	18.6	13.5	17.1	18.9
Net Profit	6,794	4,191	6,901	9,002
EPS (Rs)	87.9	54.2	89.3	116.5
EPS % Chg YoY	(3.4)	(38.3)	64.7	30.4
P/E (x)	35.7	57.8	35.1	26.9
EV/EBITDA (x)	18.1	21.0	14.8	12.3
RoCE (%) (Post-tax)	10.0	6.4	9.0	10.6
RoE (%)	16.9	9.3	13.9	15.9

Navin Sahadeo

navin.sahadeo@icicisecurities.com

+91 22 6807 7622

Harsh Mittal

harsh.mittal@icicisecurities.com

Market Data

Market Cap (INR)	242bn
Market Cap (USD)	2,912mn
Bloomberg Code	JKCE IN
Reuters Code	JKCE.BO
52-week Range (INR)	3,467 / 2,425
Free Float (%)	44.0
ADTV-3M (mn) (USD)	4.5

Price Performance (%)	3m	6m	12m
Absolute	3.4	14.2	18.7
Relative to Sensex	6.5	7.9	11.0

ESG Disclosure	2021	2022	Change
ESG score	63.5	67.0	3.4
Environment	62.0	68.8	6.8
Social	38.0	41.5	3.5
Governance	90.5	90.5	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	3.5	2.1
EBITDA	4.7	-0.1
EPS	8.0	-0.4

Previous Reports

31-05-2023: [Q4FY23 results review](#)

19-04-2023: [Re-initiating coverage](#)

Other key highlights

- JKCE has received all the approvals to merge the Panna unit subsidiary. Accordingly, it has booked INR 150mn as an exceptional expense, being the cost for merger.
- The difference between consolidated and standalone EBITDA stood at a positive INR 54mn (vs a loss of INR 140mn in Q4FY23), implying that the UAE operations have reported a positive EBITDA. The difference could have been higher at INR 74mn had it not been for a loss of INR 20mn reported by the company for its paints subsidiary (Acro Paints).

Q1FY24 conference call: Key takeaways

Demand/volume

- JKCE has guided for a minimum 15% and maximum 20% YoY volume growth in FY24.
- Demand in Q1FY24 was impacted by a) intense monsoon and flooding situations in operating areas and b) planned maintenance shutdown.
- Panna unit achieved ~75% capacity utilisation in Q1FY24 and its EBITDA/t is at par with the existing operations.
- Total putty market is ~4mtpa while white cement is 1.4-1.5mtpa in India. JKCE enjoys a market share of 22-23% in putty business.
- White cement is imported in India, mainly from RAK White of UAE and JKCE's Fujairah, UAE unit.

Price

- There has been price improvement in the range of INR 7-8/bag in north India during Jul'23. However, prices in south India have remained under pressure while prices in Central India stood flat.
- JKCE has guided for an NSR improvement of INR 50-70/te QoQ in Q2FY24.
- JKCE aims to maintain other income run-rate of ~INR 750mn/quarter primarily led by incentives/subsidies (INR 600-650mn) received from Panna (MP), Hamirpur (HP), Aligarh (UP) and Nimbahera (Rajasthan) units.

Cost/capex

- Capex guidance: FY24 - ~INR 14bn; FY25 - ~INR 8bn. Working capital loan requirement remains at ~INR 4bn.
- Q1FY24 capex: INR 1.5bn excluding the spill-over capex of Panna unit.
- Work at Ujjain grinding unit (1.5mtpa) is in advanced stage and JKCE aims to commission it by Q3FY24.
- The debottlenecking of the Panna unit (from 8k tpd to 10k tpd) is expected to complete by Q3FY24.
- Decision on Panna line-II shall be taken early next year.
- Grinding unit at Prayagraj has received EC; orders for main equipment have been placed and work may start post monsoon season. Commissioning is expected by Q3FY25.
- Total green power capacity stands at ~47MW as on Q1FY24. JKCE aims to reach total capacity of 100MW by FY25-end.
- JKCE expects cost savings of 30-40% vs the grid power rates post the commissioning of green power capacities.
- JKCE expects further improvement in Panna's unit EBITDA in upcoming quarters led by optimal utilisation of WHRS and higher usage of AFR.
- JKCE has guided for cost savings of INR 500-600mn per annum post the full ramp-up of the 22MW WHRS plant at Panna.
- Karnataka's 16MW WHRS is expected by Dec'23.

- JKCE expects fuel cost savings of INR 250-300/te in FY24, of which, ~INR 150/te have already been achieved in Q1FY24 and savings of INR 65-70/te are expected in each of the next two quarters.
- Spot pet coke cost is ~USD 130/te vs a recent low of ~USD 115/te.
- Toshali Cements: JKCE is awaiting government approval before going ahead with the transaction.
- JKCE shall look to increase Toshali Cements' capacity by 2-3mtpa (as and when it gets acquired). There is no major cement unit in 400-500kms radius of the existing unit of Toshali Cements.
- Next leg of expansion (post Ujjain and Prayagraj) shall be through brownfield or greenfield route as scope of debottlenecking in existing units has largely exhausted.
- Fuel consumption cost (blended basis) stood at INR 2.2/kcal in Q1FY24 vs INR 2.5/kcal QoQ led by consumption of cheap domestic coal.
- JKCE expects reduction of INR 20paise/kcal each over the next 2 quarters (to reach fuel consumption cost of INR 1.8/kcal by Q3FY24).
- The company is working on reducing the fixed costs (manpower, other expenses etc.) in upcoming quarters.
- Rail despatches stood at 14%; lead distance was 426kms.
- Fuel mix: 60% pet coke and balance is other fuel and AFR.
- EBITDA margin (industry average) in paints business is 12-18%, while similar levels can be expected in white cement.

Others

- For paints business, JKCE is targeting revenue of ~INR 1.2-1.5bn in FY24 and ~INR 3bn in FY25. The recently acquired business of Acro Paints had achieved a top-line of INR 900mn in FY23.
- Paints segment's Q1FY24 revenue stood at ~INR 250mn, while EBITDA reported a loss of INR 20mn.
- Net debt (INR 30.3bn as on Jun'23) has peaked out. It increased sequentially due to additional borrowings for Ujjain project and capex.
- Clinker factor is expected to reduce post full ramp up of the upcoming split grinding units of Ujjain (1.5mtpa) and Prayagraj (2mtpa).
- JKCE has received water pipeline approvals from the state government for the proposed Jaisalmer unit. It had acquired limestone mines in Jaisalmer a couple of quarters back.

Exhibit 1: Q1FY24 result review – standalone

(INR mn, year ending March 31)	Q1FY24	Q1FY23*	YoY (%)	Q4FY23*	QoQ (%)	Q1FY24E	Var(%)
Volume Sales	4,51	3,56	26.6	4,56	(1.2)	3,79	18.9
Blended realisations	5,636	5,943	(5.2)	5,727	(1.6)	5,793	(2.7)
Net Sales	26,236	21,632	21.3	26,646	(1.5)	22,511	16.5
Raw Materials	4,323	3,427	26.2	4,252	1.7	3,448	25.4
Personnel Cost	1,665	1,428	16.6	1,479	12.6	1,502	10.9
Power fuel costs	6,619	4,836	36.9	7,523	(12.0)	5,841	13.3
Freight	5,588	4,332	29.0	5,678	(1.6)	4,703	18.8
Other Expenses	4,016	3,538	13.5	4,078	(1.5)	3,711	8.2
Total Expenses	22,212	17,561	26.5	23,010	(3.5)	19,205	15.7
EBITDA	4,024	4,071	(1.1)	3,636	10.7	3,307	21.7
EBITDA / te	893	1,143	(21.9)	797	12.0	872	2.4
Interest	1,055	617	70.9	976	8.1	976	8.1
Depreciation	1,178	898	31.1	1,117	5.4	1,212	(2.9)
Other Income	293	149	96.3	361	(18.9)	361	(18.9)
Recurring pre-tax income	2,085	2,705	(22.9)	1,904	9.5	1,480	40.9
Extraordinary inc/(exp)	(150)	-	-	-	-	-	-
Taxation	672	896	(25.0)	510	31.7	444	51.4
Reported Net Income	1,263	1,809	(30.2)	1,394	(9.4)	1,036	21.9
Recurring Net Income	1,413	1,809	(21.9)	1,394	1.4	1,036	36.4
Ratios (%)							
EBITDA margins	15.3	18.8		13.6		14.7	
Net profit margins	5.4	8.4		5.2		4.6	

Source: I-Sec research, Company data, * Restated numbers

Exhibit 2: Historical quarterly analysis

(INR/te)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Blended realisations	5,943	5,733	5,683	5,727	5,636
Growth % (YoY)	12.6	6.0	(0.8)	3.8	(5.2)
Raw materials	962	1028	963	932	959
Staff costs	401	385	361	324	369
Power & fuel costs	1,358	1,510	1,646	1,649	1,468
Outward freight	1,217	1,195	1,240	1,245	1,239
Other expenditure	994	946	942	894	891
Total	4,931	5,064	5,152	5,045	4,927
EBITDA-blended	1,143	814	669	797	893

Source: I-Sec research, Company data

Exhibit 3: Segmental analysis

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Grey Cement					
Revenue (INR mn)	16,404	15,577	17,395	20,714	20,385
Realisation (INR/te)	5,172	4,838	4,905	5,006	4,967
Volumes (mnte)	3.17	3.22	3.55	4.14	4.10
White Cement					
Revenue (INR mn)	4,760	5,312	4,941	5,408	5,021
Realisation (INR/te)	12,230	12,540	12,856	12,789	12,431
Volumes (mnte)	0.39	0.42	0.38	0.42	0.40

Source: I-Sec research, Company data

Exhibit 4: Q1FY24 result review – consolidated

(INR mn, year ending March 31)	Q1FY24	Q1FY23	% chg (YoY)	Q4FY23	% chg (YoY)
Net Sales	27,626	22,697	21.7	27,779	(0.5)
Raw Materials	4,644	3,572	30.0	4,556	1.9
Personnel Cost	1,839	1,568	17.3	1,681	9.4
Power fuel costs	6,910	5,165	33.8	7,748	(10.8)
Freight	5,842	4,619	26.5	5,905	(1.1)
Other Expenses	4,312	3,736	15.4	4,393	(1.8)
Total Expenses	23,548	18,660	26.2	24,284	(3.0)
EBITDA	4,078	4,037	1.0	3,495	16.7
Interest	1,090	654	66.8	1,011	7.8
Depreciation	1,348	1,055	27.7	1,285	4.8
Other Income	316	176	79.1	380	(16.8)
Recurring pre-tax income	1,956	2,505	(21.9)	1,578	23.9
Extraordinary income/ (exps)	(150)	-	NA	3	NA
Taxation	671	896	(25.1)	481	39.6
Reported Net Income	1,135	1,609	(29.5)	1,101	3.1
Recurring Net Income	1,285	1,609	(20.1)	1,097	17.1
Ratios (%)					
EBITDA margins	14.8	17.8		12.6	
Net profit margins	4.7	7.1		4.0	

Source: I-Sec research, Company data

Exhibit 5: Valuations based on 15x Mar'25E EV/E

Target EV/ EBITDA multiple (x)	15
Target EV (INR mn)	3,34,815
Net debt / (cash) (INR mn)	36,846
Target value (INR mn)	2,97,969
No. of shares (mn)	77
Target price per share (INR)	3,856

Source: I-Sec research, Company data

Exhibit 6: Earnings revision

(INR mn)	FY24E			FY25E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenues	1,10,227	1,06,472	3.5	1,17,960	1,15,530	2.1
EBITDA	18,863	18,020	4.7	22,321	22,352	(0.1)
PAT	6,901	6,387	8.0	9,002	9,041	(0.4)

Source: I-Sec research

Exhibit 7: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	45.8	45.8	45.8
Institutional investors	37.4	38.0	38.8
MFs and others	20.5	21.0	21.9
FIs/Banks	-	-	-
Insurance	1.3	1.5	1.4
FIIIs	15.6	15.5	15.5
Others	16.8	16.2	15.4

Source: Bloomberg

Exhibit 8: Price chart

Source: Bloomberg

Financial Summary (Consolidated)

Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	79,908	97,202	1,10,227	1,17,960
Operating Expenses	52,206	68,131	74,366	77,508
EBITDA	14,824	13,143	18,863	22,321
EBITDA Margin (%)	18.6	13.5	17.1	18.9
Depreciation & Amortization	3,425	4,582	5,428	5,846
EBIT	11,399	8,561	13,435	16,475
Interest expenditure	2,697	3,122	4,246	4,033
Other Non-operating Income	1,429	874	1,188	1,095
Recurring PBT	10,129	6,313	10,377	13,536
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	3,337	2,122	3,476	4,535
PAT	6,792	4,191	6,901	9,002
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(1)	-	-	-
Net Income (Reported)	6,792	4,191	6,901	9,002
Net Income (Adjusted)	6,794	4,191	6,901	9,002

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	36,439	40,885	38,941	40,090
of which cash & cash eqv.	12,855	16,209	12,891	13,594
Total Current Liabilities & Provisions	18,021	20,527	21,414	21,874
Net Current Assets	18,418	20,358	17,527	18,216
Investments	110	215	215	215
Net Fixed Assets	65,437	84,456	94,028	97,682
Capital Work-in-Progress	12,044	7,295	6,295	4,795
Total Assets	96,008	1,12,324	1,18,065	1,20,908
Liabilities				
Borrowings	38,549	49,951	49,951	44,951
Deferred Tax Liability	14,553	15,949	15,949	15,949
Equity Share Capital	773	773	773	773
Reserves & Surplus	42,476	46,095	51,836	59,679
Total Net Worth	43,249	46,868	52,609	60,452
Minority Interest	(343)	(444)	(444)	(444)
Total Liabilities	96,008	1,12,324	1,18,065	1,20,908

Source Company data, I-Sec research

Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	22,280	24,325	27,779	27,626
% growth (YOY)	17.6	19.8	18.1	21.7
EBITDA	3,051	2,437	3,495	4,078
Margin %	13.7	10.0	12.6	14.8
Other Income	217	223	380	316
Extraordinaries	11	18	3	(150)
Net Profit	1,113	372	1,101	1,135

Source Company data, I-Sec research, Consolidated nos.

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	15,230	13,129	15,805	19,383
Working Capital Changes	(4,308)	2,264	(487)	14
Capital Commitments	(15,275)	(18,697)	(14,000)	(8,000)
Free Cashflow	(6,490)	(4,926)	(2,159)	6,862
Other investing cashflow	5,312	(1,451)	708	-
Cashflow from Investing Activities	(9,963)	(20,148)	(13,292)	(8,000)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	4,449	11,514	-	(5,000)
Dividend paid	(1,156)	(1,159)	(1,159)	(1,159)
Others	(2,676)	(2,942)	-	-
Cash flow from Financing Activities	617	7,413	(1,159)	(6,159)
Chg. in Cash & Bank balance	(562)	1,036	(2,610)	703

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	87.9	54.2	89.3	116.5
Adjusted EPS (Diluted)	87.9	54.2	89.3	116.5
Cash EPS	132.2	113.5	159.6	192.2
Dividend per share (DPS)	15.0	15.0	15.0	15.0
Book Value per share (BV)	559.7	606.6	680.9	782.4
Dividend Payout (%)	17.1	27.7	16.8	12.9
Growth (%)				
Net Sales	21.0	21.6	13.4	7.0
EBITDA	(3.7)	(11.3)	43.5	18.3
EPS (INR)	(3.4)	(38.3)	64.7	30.4
Valuation Ratios (x)				
P/E	35.7	57.8	35.1	26.9
P/CEPS	23.7	27.6	19.7	16.3
P/BV	5.6	5.2	4.6	4.0
EV / EBITDA	18.1	21.0	14.8	12.3
EV / te (USD)	242.7	161.2	160.5	137.8
Dividend Yield (%)	0.5	0.5	0.5	0.5
Operating Ratios				
Gross Profit Margins (%)	83.9	83.6	84.6	84.6
EBITDA Margins (%)	18.6	13.5	17.1	18.9
Effective Tax Rate (%)	32.9	33.6	33.5	33.5
Net Profit Margins (%)	8.5	4.3	6.3	7.6
NWC / Total Assets (%)	19.2	18.1	14.8	15.1
Net Debt / Equity (x)	0.6	0.7	0.7	0.5
Net Debt / EBITDA (x)	1.7	2.6	2.0	1.4
Profitability Ratios				
RoCE (%) (Post Tax)	10.0	6.4	9.0	10.6
RoE (%)	16.9	9.3	13.9	15.9
RoIC (%)	14.1	8.4	11.5	12.9
Fixed Asset Turnover (x)	1.3	1.3	1.2	1.2
Inventory Turnover Days	78	65	56	56
Receivables Days	18	17	17	17
Payables Days	52	45	47	48

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](#) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
