

J K Cement

Estimate change	↔
TP change	↑
Rating change	↔

Bloomberg	JKCE IN
Equity Shares (m)	77
M.Cap.(INRb)/(USD\$)	260 / 3.1
52-Week Range (INR)	3477 / 2540
1, 6, 12 Rel. Per (%)	8/5/13
12M Avg Val (INR M)	373

Financial Snapshot (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	113.9	124.1	136.3
EBITDA	19.7	21.8	24.4
Adj. PAT	7.2	8.3	10.8
EBITDA Margin (%)	17.3	17.6	17.9
Adj. EPS (INR)	93.0	106.9	139.9
EPS Gr. (%)	68.6	14.9	30.9
BV/Sh. (INR)	680	762	871

Ratios

Net D:E	0.7	0.5	0.3
RoE (%)	14.5	14.8	17.1
RoCE (%)	10.0	10.4	12.2
Payout (%)	21.5	23.4	21.4

Valuations

P/E (x)	36.0	31.4	24.0
P/BV (x)	4.9	4.4	3.8
EV/EBITDA(x)	14.6	13.0	11.4
EV/ton (USD)	139	128	125
Div. Yield (%)	0.6	0.7	0.9
FCF Yield (%)	1.7	4.6	5.6

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	45.8	45.8	45.8
DII	24.3	23.2	21.9
FII	14.4	15.5	15.6
Others	15.5	15.5	16.6

FII Includes depository receipts

CMP: INR3,365 TP: INR3,900 (+16%) Buy

Performance improvement continues led by lower cost

Grey cement capacity to expand to ~24mtpa by FY25E

- J K Cement (JKCE) reported consol. EBITDA of INR4.7b (est. INR4.1b) in 2QFY24, led by higher white cement volume in subsidiary and lower cost. EBITDA/t stood at INR1,029 (est. INR931), and adj. PAT was at INR1.8b (est. INR1.2b) during the quarter.
- The white cement volume included a one-off big order (~40k ton shipment) to Australia from its UAE subsidiary. JKCE is working to turn around the UAE business, aided by the normalization of operations and moderation in fuel prices and supply chain constraints. Management expects the Central India plants' profitability to improve further with the stabilization of WHRS and increase in AFR usage.
- We largely retain our FY24/FY25 EBITDA estimates. We prefer JKCE for its steady expansion and strong execution strategy vs. peers. We value JKCE at 14x Sep'25E (earlier FY25E) EV/EBITDA to arrive at our revised TP of INR3,900 (vs. INR3,640 earlier). **Reiterate BUY.**

Grey cement sales volumes up 22% YoY, opex/t declined 5% YoY

- JKCE's consolidated revenue/EBITDA/adj. PAT stood at INR27.5b/INR4.7b/INR1.8b (up 23%/49%/60% YoY and up 4%/14%/49% vs. our estimate). Total sales volumes stood at 4.5mt (up 24% YoY). Blended realization was at INR6,068/t (declined 1% YoY; 1% above our estimates) in 2QFY24.
- Opex/t was down 5% YoY (1% below our estimates), led by a 7% decline in variable/freight costs (each). Other expense/t rose 5% YoY, whereas employee cost/t dipped 4% YoY. OPM was up 3pp YoY to 17% (est. 15.5%), while EBITDA/t was up 20% YoY to INR1,029.
- In 1HFY24, revenue grew 22% YoY led by 25% volume growth and a 3% YoY drop in realization. EBITDA grew 22% YoY to INR8.75b and OPM remained flat YoY at ~16%. Adj. PAT grew 10% YoY to INR3b. CFO rose 2.9x YoY to INR7.2b in 1HFY24. Capex stood at INR5.1b vs. INR9.6b in 1HFY23.

Highlights from the management commentary

- Demand is estimated to remain strong barring some moderation in Nov'23, due to festivals and state elections in its two key markets. Further, cement prices have increased in its key markets, and currently, the average price is up ~3-4% vs. 2QFY24 average.
- Fuel cost was INR1.9/kcal in 2QFY24 vs. INR2.4/INR2.2 in 2QFY23/1QFY24. This should decline by INR0.1/kcal (~5% QoQ) in 3QFY24E.
- Capex is pegged at INR14b/INR7b in FY24/FY25E. Reviewing various options for the next phase of expansion and after the Boards' approval, the same will be announced.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

View and valuation

- JKCE has shown strong volume growth (up 25% YoY in 1HFY24), aided by capacity expansion. We estimate its volumes to report ~12% CAGR over FY23-26, higher than the industry average growth.
- JKCE trades at 14.6x/13.0x FY24E/FY25E EV/EBITDA. We maintain our **BUY** rating with a revised TP of INR3,900 (vs. INR3,640 earlier), based on 14x Sep'25E (earlier FY25E) EV/EBITDA, considering its growth plans (one of the best among mid-sized companies) and cost-saving strategies.

Consolidate quarterly performance

(INR b)

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Sales Dispatches (mt)	3.7	3.6	4.1	4.7	4.6	4.5	4.8	5.1	16.23	19.02	4.4	3
YoY Change (%)	22.0	9.4	24.8	15.8	25.4	24.5	15.8	8.2	16.4	17.2	20.4	
Realization (INR/t)	6,149	6,138	5,879	5,947	5,968	6,068	6,053	5,877	5,988	5,989	6,018	1
YoY Change (%)	8.6	7.9	(3.8)	2.1	(2.9)	(1.1)	3.0	(1.2)	4.5	0.0	(2.0)	
QoQ Change (%)	5.5	(0.2)	(4.2)	1.2	0.4	1.7	(0.2)	(2.9)			0.8	
Net Sales	22.7	22.4	24.4	27.8	27.6	27.5	29.1	29.7	97.2	113.9	26.4	4
YoY Change (%)	32.4	18.0	20.0	18.1	21.7	23.1	19.3	7.0	21.6	17.2	18.1	
Total Expenditure	18.7	19.2	21.9	24.3	23.5	22.9	23.8	24.0	84.1	94.2	22.3	2
EBITDA	4.0	3.1	2.5	3.5	4.1	4.7	5.2	5.7	13.1	19.7	4.1	14
Margin (%)	17.8	14.0	10.2	12.6	14.8	17.0	18.0	19.3	13.5	17.3	15.5	149
Depreciation	1.1	1.1	1.2	1.3	1.3	1.4	1.4	1.4	4.6	5.5	1.4	1
Interest	0.7	0.7	0.8	1.0	1.1	1.2	1.2	1.2	3.1	4.6	1.1	4
Other Income	0.2	0.1	0.2	0.4	0.3	0.3	0.3	0.3	0.9	1.2	0.3	(4)
PBT before EO expense	2.5	1.5	0.7	1.6	2.0	2.4	3.0	3.5	6.3	10.8	1.9	27
Extra-Ord. expense	-	-	-	-	0.2	-	-	-	-	0.2	-	
PBT	2.5	1.5	0.7	1.6	1.8	2.4	3.0	3.5	6.3	10.7	1.9	27
Tax	0.9	0.4	0.3	0.5	0.7	0.7	1.0	1.3	2.1	3.6	0.7	
Profit from associate and MI	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	-	-	(0.1)	(0.0)	-	
Rate (%)	35.8	27.6	46.2	30.5	37.2	26.9	35.0	36.8	32.5	33.9	37.2	
Reported PAT	1.6	1.1	0.4	1.1	1.1	1.8	1.9	2.2	4.3	7.1	1.2	49
Adj. PAT	1.6	1.1	0.4	1.1	1.2	1.8	1.9	2.2	4.3	7.2	1.2	49
YoY Change (%)	(15.3)	(26.1)	(73.2)	(43.1)	(23.7)	59.8	394.3	95.2	(37.9)	67.9	7.6	

Source: Company, MOFSL estimates

Consolidated quarterly performance

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Gray Cement (mt)	3.2	3.2	3.7	4.1	4.1	3.9	4.2	4.5	14.2	16.8	3.9	1
Growth (%)	15.0	9.5	26.6	17.0	29.4	22.1	16.2	9.4	17.0	18.5	20.4	
As a percentage of total volume	85.9	88.4	88.2	88.6	88.7	86.7	88.5	89.6	87.4	88.4	88.3	
White Cement (mt)	0.5	0.5	0.49	0.5	0.5	0.6	0.55	0.5	2.0	2.2	0.5	18
Growth (%)	93.4	29.6	12.7	7.2	1.2	19.2	13.0	(1.2)	12.4	7.8	21.0	
As a percentage of total volume	14.1	13.9	11.8	11.4	11.3	13.3	11.5	10.4	12.6	11.6	11.7	

Per tonne analysis (INR)

Net realization	6,149	6,138	5,879	5,947	5,968	6,068	6,053	5,877	5,988	5,989	6,018	1
RM Cost	968	1,009	995	975	1,003	1,010	990	943	981	986	980	3
Employee Expenses	425	419	386	360	397	403	391	388	393	395	424	(5)
Power, Oil, and Fuel	1,399	1,581	1,680	1,659	1,493	1,396	1,346	1,206	1,579	1,356	1,393	0
Freight and handling	1,252	1,270	1,250	1,264	1,262	1,182	1,245	1,257	1,252	1,237	1,255	(6)
Other Expenses	1,012	997	971	941	932	1,048	990	951	973	979	1,035	1
Total Exp.	5,055	5,277	5,282	5,199	5,087	5,039	4,962	4,745	5,178	4,953	5,087	(1)
EBITDA	1,094	861	597	748	881	1,029	1,091	1,132	810	1,036	931	11

Source: Company, MOFSL estimates



Highlights from the management commentary

Demand and pricing trends

- Demand is healthy and has not seen a major decline in Oct'23. However, due to the festivals and state elections in two key markets (Rajasthan and Madhya Pradesh), there could be some disruption in supplies and demand. However, management believes it will bounce back in Dec'23.
- Prices have increased in the North (~4-5%) in the later part of 2QFY24; while, in the South, prices have increased in Oct'23 (~5-7%). In Central region also, prices have increased marginally. On an average, cement price is up ~3-4% for the company vs. 2QFY24 average.

Operational highlights

- Debottlenecking at the Panna clinker line from 8,000tpd to 10,000 has been done and this is under trial run production. It is expected to start regular production from 4QFY24. EBITDA/t at this plant is in line with the grey cement EBITDA of other plants. Profitability will further increase with stabilization of WHRS (22MW capacity) and increase in AFR usage.
- Green energy usage/thermal substitution rate stood at 48%/14.2% in 2QFY24 vs. 45%/15.6% in 1QFY24. It targets to increase green energy/TSR to 75%/35% by FY30.
- Fuel cost was at INR1.9/kcal in 2QFY24 vs. INR2.4/INR2.2 in 2QFY23/1QFY24. This should decline by INR0.1/kcal (~5% QoQ) in 3QFY24E.
- Lead distance declined to 418Kms vs. 426Km in 1QFY24. The rail:road mix stood at 11:89 in 2QFY24 vs. 14:86 in 1QFY24.
- Blended cement sales stood at 69% vs. 68% in 1QFY24 and trade sales stood at 69% vs. 66% in 1QFY24. Premium products sales as a % of trade sales stood at 13% vs. 11% in 1QFY24.

Capacity expansion and Capex update

- The company is expanding its grey cement capacity by setting up greenfield grinding units - 1) at Ujjain with a capacity of 1.5mtpa, which is likely to be commissioned in Nov-Dec'23 and capex YTD stands at INR2.3b; and 2) at Prayagraj with a capacity of 2mtpa, which is likely to be commissioned in 2HFY25 and capex YTD stands at INR610m. Foundation stone was laid in Aug'23 & orders for main equipment have been placed. Further, civil & mechanical contractors have been mobilized at the site and civil work has started.
- Capex guidance has been maintained for FY24/FY25 at INR14b/INR7b. Capex stood at INR5b in 1HFY24. It is reviewing various options for the next phase of expansion and after the Board's approval, it will soon announce its expansion plans.
- The company is still awaiting approval for allotment of mining lease for Toshali Cement acquisition.

Debt and other highlights

- Net debt at INR30.4b as of Sep'23 is estimated to have peaked out. The net debt-to-EBITDA ratio stood at 2.08x vs. 2.21x in Mar'23.

- During the quarter white cement volume includes a one-off big order (~40k ton shipment) to Australia from its UAE subsidiary. Hence, this volume number will not be there in the coming quarter.
- In Putty market, the industry witnessed growth of ~10% and the company's growth was in line with the industry growth. However, Putty market is quite competitive as Paint companies are very aggressive leading to lower pricing. Prices are not expected to decline materially from hereon in Putty business.
- Paint business revenue stood at INR700m and reported EBITDA loss of INR70m in 1HFY24. Revenue target for the Paints business is at INR1.5-2b in FY24 and JKCE estimates an operating loss of ~INR200m in FY24. It expects to achieve break-even in the Paints business from FY25-exit.

Key exhibits

Exhibit 1: Total sales volumes (consol.) up 22% YoY

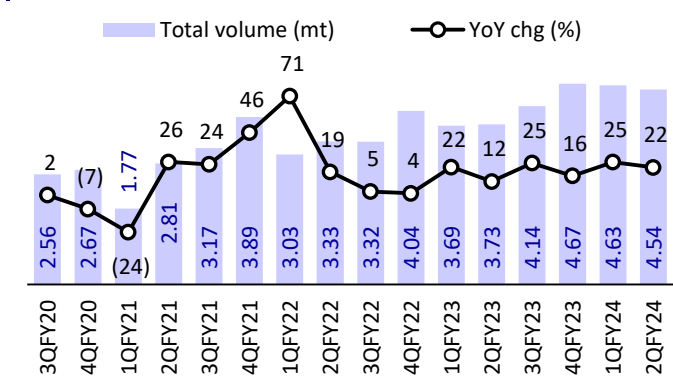


Exhibit 2: Grey cement realization was up 3% YoY

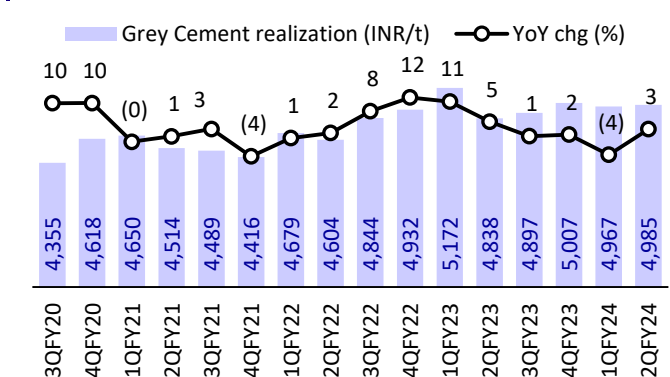


Exhibit 3: OPEX/t declined 5% YoY

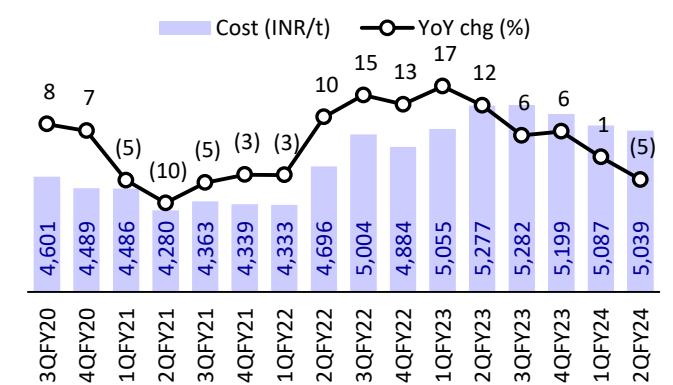


Exhibit 4: EBITDA/t grew 20% YoY

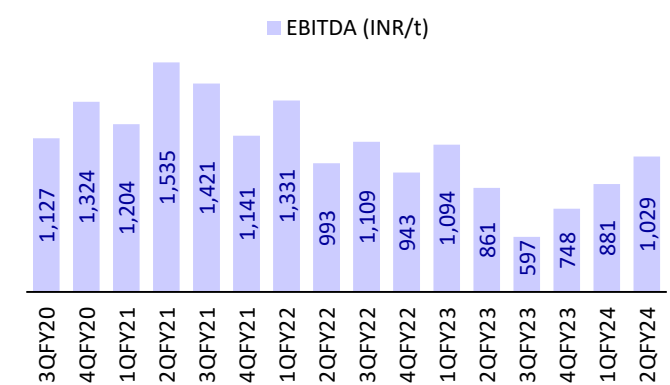
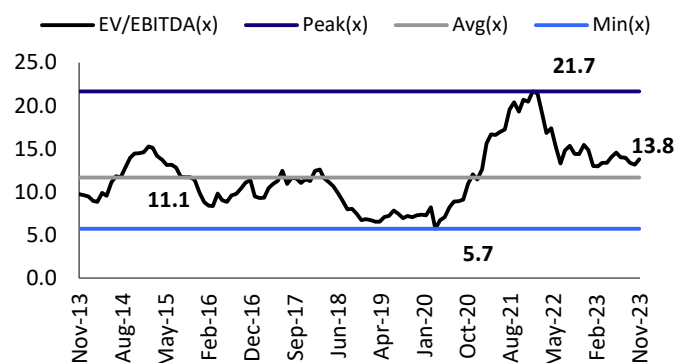


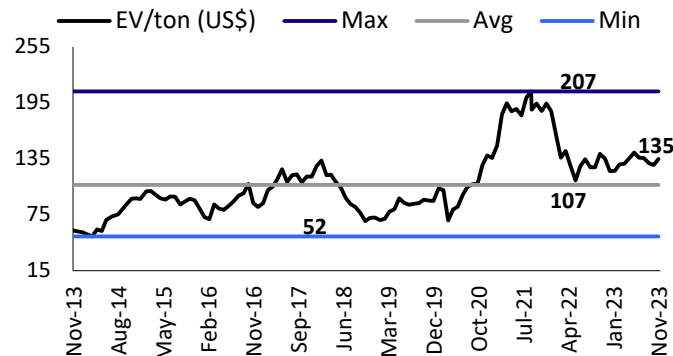
Exhibit 5: Key operating metrics consolidated (blended)

INR/t	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ(%)
Blended realization	6,068	6,138	(1)	5,968	2
Gray Cement realization	4,985	4,838	3	4,967	0
White Cement realization	11,645	12,540	(7)	12,218	(5)
Raw Material Cost	1,010	1,009	0	1,003	1
Staff Cost	403	419	(4)	397	1
Power and fuel	1,396	1,581	(12)	1,493	(6)
Freight and selling Exp.	1,182	1,270	(7)	1,262	(6)
Other Exp.	1,048	997	5	932	12
Total Exp.	5,039	5,277	(5)	5,087	(1)
EBITDA	1,029	861	20	881	17

Source: Company, MOFSL

Exhibit 6: One-year forward EV/EBITDA trend

Source: Company, MOFSL

Exhibit 7: One-year forward EV/t trend

Source: Company, MOFSL

Consolidated financials and valuations

Income Statement								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	52,587	58,016	66,061	79,908	97,202	1,13,922	1,24,060	1,36,256
Change (%)	8.3	10.3	13.9	21.0	21.6	17.2	8.9	9.8
EBITDA	8,345	12,134	15,387	14,824	13,143	19,708	21,836	24,356
Margin (%)	15.9	20.9	23.3	18.6	13.5	17.3	17.6	17.9
Depreciation	2,413	2,880	3,062	3,425	4,582	5,530	6,090	5,411
EBIT	5,932	9,255	12,325	11,399	8,561	14,178	15,747	18,945
Int. and Finance Charges	2,611	2,764	2,528	2,697	3,122	4,568	4,597	4,097
Other Income – Rec.	804	853	1,130	1,429	874	1,217	1,296	1,441
PBT bef. EO Exp.	4,124	7,344	10,927	10,131	6,313	10,828	12,446	16,289
EO Expense/(Income)	0	0	0	0	0	0	0	0
PBT after EO Exp.	4,124	7,344	10,927	10,131	6,313	10,828	12,446	16,289
Current Tax	1,037	1,593	3,296	2,429	1,424	3,640	4,184	5,476
Deferred Tax	451	917	600	908	698	0	0	0
Tax Rate (%)	36.1	34.2	35.7	32.9	33.6	33.6	33.6	33.6
Reported PAT	2,636	4,834	7,031	6,794	4,191	7,188	8,262	10,814
PAT adj. for EO items	2,636	4,834	7,031	6,871	4,263	7,188	8,262	10,814
Change (%)	-11.3	83.4	45.5	-2.3	-38.0	68.6	14.9	30.9
Margin (%)	5.0	8.3	10.6	8.6	4.4	6.3	6.7	7.9
Less: Minority Interest	-67.1	-90.0	-66.2	-77.0	-72.5	0.0	0.0	0.0
Net Profit	2,703	4,924	7,317	6,871	4,263	7,188	8,262	10,814

Balance Sheet								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	773	773	773	773	773	773	773	773
Total Reserves	26,249	29,504	36,595	42,476	46,095	51,737	58,068	66,564
Net Worth	27,022	30,277	37,367	43,249	46,868	52,510	58,841	67,336
Deferred Liabilities	3,123	4,173	5,930	7,383	8,094	8,094	8,094	8,094
Minority Interest	-72	-203	-257	-343	-444	-444	-444	-444
Total Loans	26,779	32,840	34,017	38,549	49,951	54,451	52,451	43,951
Capital Employed	56,852	67,086	77,057	88,838	1,04,469	1,14,611	1,18,942	1,18,937
Gross Block	62,681	75,780	82,126	91,614	1,12,857	1,25,777	1,34,777	1,42,777
Less: Accum. Deprn.	17,313	20,235	22,752	26,177	30,759	36,289	42,379	47,790
Net Fixed Assets	45,367	55,545	59,374	65,437	82,097	89,487	92,398	94,987
Capital WIP	5,618	5,295	5,093	10,321	5,920	7,000	5,000	2,000
Total Investments	4,383	458	1,422	2,157	923	923	923	923
Curr. Assets, Loans, and Adv.	18,810	24,122	32,831	36,115	41,552	46,905	51,963	52,786
Inventory	6,365	6,904	7,566	12,087	9,821	11,515	12,364	12,680
Account Receivables	2,606	2,677	3,615	4,268	4,801	5,530	5,927	6,408
Cash and Bank Balance	5,115	9,649	16,416	10,793	15,874	18,605	22,016	21,642
Loans and Advances	4,722	4,892	5,233	8,967	11,056	11,256	11,656	12,056
Curr. Liability and Prov.	17,325	18,334	21,663	25,192	26,024	29,704	31,342	31,758
Account Payables	16,809	16,725	20,276	23,803	24,512	28,151	29,747	30,090
Provisions	516	1,609	1,388	1,389	1,511	1,554	1,595	1,668
Net Current Assets	1,484	5,788	11,167	10,923	15,528	17,201	20,621	21,028
Appl. of Funds	56,852	67,086	77,057	88,838	1,04,469	1,14,611	1,18,942	1,18,937

Source: Company, MOFSL estimates

Consolidated financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)*								
Consol. EPS	34.1	62.6	91.0	88.9	55.2	93.0	106.9	139.9
Cash EPS	65.3	99.8	130.6	133.2	114.5	164.6	185.7	210.0
BV/Share	349.7	391.8	483.6	559.7	606.6	679.6	761.5	871.5
DPS	10.0	17.5	15.0	15.0	15.0	20.0	25.0	30.0
Payout (%)	35.3	33.7	16.5	17.1	27.7	21.5	23.4	21.4
Valuation (x)*								
P/E	98.3	53.6	36.9	37.7	60.8	36.0	31.4	24.0
Cash P/E	51.3	33.6	25.7	25.2	29.3	20.4	18.1	16.0
P/BV	9.6	8.6	6.9	6.0	5.5	4.9	4.4	3.8
EV/Sales	5.2	4.8	4.1	3.4	2.9	2.5	2.3	2.0
EV/EBITDA	32.5	22.8	17.6	18.5	21.8	14.6	13.0	11.4
EV/t (USD)	262	209	192	191	162	139	128	125
Dividend Yield (%)	0.3	0.5	0.4	0.4	0.4	0.6	0.7	0.9
Return Ratios (%)								
RoIC	9.1	13.0	15.0	12.8	7.7	11.1	11.7	13.6
RoE	11.6	17.2	21.6	17.0	9.5	14.5	14.8	17.1
RoCE	8.5	11.4	12.9	11.2	7.0	10.0	10.4	12.2
Working Capital Ratios								
Asset Turnover (x)	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.1
Inventory (Days)	44.2	43.4	41.8	55.2	36.9	36.9	36.4	34.0
Debtor (Days)	18	17	20	19	18	18	17	17
Creditor (Days)	117	105	112	109	92	90	88	81
Working Capital Turnover (Days)	-25	-24	-29	1	-1	-4	-4	-2
Leverage Ratio (x)								
Current Ratio	1.1	1.3	1.5	1.4	1.6	1.6	1.7	1.7
Debt/Equity ratio	1.0	1.1	0.9	0.9	1.1	1.0	0.9	0.7

Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	4,124	7,344	10,927	10,131	6,313	10,828	12,446	16,289
Depreciation	2,413	2,880	3,062	3,425	4,582	5,530	6,090	5,411
Interest and Finance Charges	2,209	1,975	1,666	2,697	3,122	4,568	4,597	4,097
Direct Taxes Paid	-977	-1,530	-1,959	-2,429	-1,424	-3,640	-4,184	-5,476
(Inc.)/Dec. in WC	-778	2,819	1,715	-5,379	476	1,059	-9	-781
CF from Operations	6,991	13,488	15,411	8,445	13,069	18,344	18,939	19,541
Others	5	179.2	490	-967	-785	0	0	0
CF from Operations incl. EO	6996.1	13,668	15,901	7,478	12,283	18,344	18,939	19,541
(Inc.)/Dec. in FA	-6,191	-12,428	-7,678	-14,716	-16,842	-14,000	-7,000	-5,000
Free Cash Flow	805	1,240	8,223	-7,238	-4,559	4,344	11,939	14,541
(Pur.)/Sale of Investments	-3,193	-2,622	-11,747	-734	1,234	0	0	0
Others	182	6,998	11,665	2,232	-344	0	0	0
CF from Investments	-9,202	-8,052	-7,760	-13,218	-15,952	-14,000	-7,000	-5,000
Issue of Shares	5,043	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	328	3,133	1,120	4,532	11,402	4,500	-2,000	-8,500
Interest Paid	-2,798	-2,507	-2,427	-2,697	-3,122	-4,568	-4,597	-4,097
Dividend Paid	-843	-1,630	0	-1,159	-1,159	-1,545	-1,932	-2,318
Others	-3	-77	-68	-559	1,036	-1	1	0
CF from Fin. Activity	1,727	-1,081	-1,375	117	8,158	-1,614	-8,528	-14,915
Inc./Dec. in Cash	-479	4,534	6,767	-5,623	4,489	2,730	3,412	-374
Opening Balance	5,595	5,116	9,650	16,416	11,385	15,874	18,605	22,016
Closing Balance	5,116	9,650	16,416	10,793	15,874	18,605	22,016	21,642

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NOTES

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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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