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India | Equity Research | Q2FY24 result review

JK Cement

Cement

QoQ margin improvement drives upgrade

QoQ margin improvement in a seasonally weak Q2 is rare and JK Cement (JKCE) has surprised on this front with >200bps margin jump. As a result, EBITDA in Q2FY24 stood ~12% ahead of estimate at ~INR4.5bn. Calibrating the upbeat in H1FY24 and firm underlying cement prices in key markets of North and South India, we revise up our FY24E EBITDA by ~6% but keep FY25E largely intact. We also introduce FY26E EBITDA assuming >9% YoY growth. Factoring in a) consistent volume growth visibility; b) scope of efficiency enhancement; c) peaking out of net debt and d) consistent industry superior RoEs, JKCE remains a compelling investment story. We continue to value JKCE at 15x EV/EBITDA and roll over valuations to Q2FY26E; maintain **BUY** with a revised TP of INR 4,138 (INR 3,856 earlier).

Margins set to improve further

JKCE's grey cement volumes surged 22% YoY, while realisation inched-up 0.4% QoQ. For white segment, volume came off ~3% YoY, while realisation slipped ~2% QoQ. However, on the back of – a) high other operating income (INR 943mn vs INR 537mn in Q2 last year due to incentive benefit from Panna unit) and b) ~4% QoQ drop in variable cost/t (benefits of low fuel cost, reduction in lead distance and lean-season discount on rail freight), blended EBITDA/t rose >15% QoQ to INR 1,028 (up 23% YoY). Factoring in the upbeat performance in H1FY24 and imminent margin improvement owing to firm underlying cement prices across its key markets, we revise up our FY24E blended EBITDA/t by ~5%. While we keep FY25E EBITDA/t unchanged at INR 1,134, we introduce FY26E EBITDA/t of INR 1,163 (implying ~3% YoY growth).

Remains a compelling investment story

JKCE remains a compelling investment story given – a) scope of efficiency enhancement from commissioning and ramp-up of WHRS power plants and reduction in clinker factor; b) net debt has 'peaked-out' (net debt/EBITDA is 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; c) industry superior RoE of ~16% and d) structural improvement in regional mix and efficiency mix. We continue to value JKCE at 15x EV/EBITDA and maintain **BUY** with a revised TP of INR 4,138.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	97,202	1,11,992	1,19,358	1,28,711
EBITDA	13,143	19,980	22,507	24,630
EBITDA (%)	13.5	17.8	18.9	19.1
Net Profit	4,191	7,483	9,033	10,765
EPS (Rs)	54.2	96.8	116.9	139.3
EPS % Chg YoY	(38.3)	78.6	20.7	19.2
P/E (x)	62.0	34.7	28.8	24.2
EV/EBITDA (x)	22.3	14.8	12.9	11.3
RoCE (%) (Post-tax)	6.4	9.7	10.7	11.5
RoE (%)	9.3	15.0	15.8	16.3

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Market Data

Market Cap (INR)	260bn
Market Cap (USD)	3,125mn
Bloomberg Code	JKCE IN
Reuters Code	JKCE.BO
52-week Range (INR)	3,477 / 2,540
Free Float (%)	44.0
ADTV-3M (mn) (USD)	5.0

Price Performance (%)	3m	6m	12m
Absolute	3.8	12.6	20.6
Relative to Sensex	5.0	5.0	13.1

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	1.6	1.2
EBITDA	5.9	0.8
EPS	8.4	0.3

Previous Reports

17-08-2023: [Q1FY24 results review](#)

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

Other key highlights

- The difference between consolidated and standalone EBITDA stood at a positive INR 203mn vs INR 54mn in Q1FY24 (and a mere INR 16mn in Q2FY23), implying UAE operations have reported a positive EBITDA. The difference could have been higher at INR 253mn had it not been for a loss of ~INR 50mn reported by the company for its paints subsidiary (Acro Paints).
- The improved performance was led by spike in volumes (193kt vs 121kt in Q1FY24 and 83kt in Q2FY23) on account of increase in exports.

Conference call takeaways

Industry demand

- Factors like assembly elections (in Rajasthan & Madhya Pradesh), festive season and construction ban (in Delhi-NCR) during Nov'23 could slow down volume growth temporarily.
- The dip in Nov'23 is likely to be compensated by demand recovery in subsequent months.
- South India did not witness any major dip in demand owing to the price hikes in Oct'23.

Prices

- If current cement prices stay put, JKCE expects Q3FY24 prices to be higher by 5-7% (~INR 20/bag) QoQ in South India and 4-5% in North India.
- On a blended basis, the hikes could be ~4% QoQ in Q3FY24.
- Central India witnessed only marginal price hikes during Sep-Oct'23.
- Company expects incentives of ~INR 2.5bn in FY24; it accrued INR 690mn in Q2FY24.

Cost

- Fuel consumption cost in Q2FY24 stood at INR 1.9/'000kcal vs INR 2.4/'000kcal YoY.
- JKCE expects fuel consumption cost to decrease to INR 1.8-1.85/'000kcal in Q3FY24.
- Rail dispatches in Q2FY24 stood at 11% vs 14% in Q1FY24; Q3FY24 rail dispatches likely at ~13-15%. Lead distance in Q2FY24 was 418kms vs 426kms in Q1FY24.
- The benefit of no busy season surcharge in Q2FY24 (15% of rail freight) was ~INR 20-25/te and may reverse in Q3FY24.
- The company expects overall cost savings of ~INR 50/te QoQ in Q3FY24.

Capex

- Capex guidance stood at ~INR 14bn in FY24 (INR 5bn spent in H1FY24); FY25 guidance stands at INR 7-8bn.
- Prayagraj Grinding Unit (2mtpa) may start commissioning by Q2FY25; Ujjain unit may start commissioning by Q3FY24.
- Panna unit's capacity utilisation in Q2FY24 was ~75%.
- Panna clinker debottlenecking of 2,000tpd has largely complete and JKCE expects regular production from Q4FY24.
- Overall clinker capacity (post Panna debottlenecking) stands at ~15mtpa. Break up of which is as follows - Panna at 3.3mtpa, Karnataka at 2.5mtpa and balance in Rajasthan at 9.2mtpa.
- JKCE can easily scale up cement volumes to ~22mt on existing clinker capacity.
- 18MW of WHRS at Karnataka is in advanced stage of completion and is likely to be commissioned in Q3FY24.
- JKCE expects profitability of Panna unit to improve further post - (1) ramp-up of recently commissioned WHR units; (2) increase in consumption of AFR and (3) benefits of debottlenecking. These benefits will accrue Q3FY24 onwards.
- Company is awaiting the allotment of mining lease (which was the main consideration for the deal) before proceeding with Toshali Cements acquisition.
- Panna line-2 will be preferred over Toshali Cements expansion.

Others

- Paints: H1FY24 turnover stood at INR 700mn with EBITDA loss of INR 70mn. Target for FY24 turnover: INR 1.75-2bn.
- JKCE expects paints business to breakeven by Q4FY25.
- ACRO Paints: Post acquiring 60% stake in Q4FY23, JKCE has acquired another 20% in H1FY24 and the remaining 20% is likely to be acquired by Dec'23.
- The company expects to merge ACRO Paints with JK Maxx Paints post 100% acquisition.
- Company expects 10% volume growth in putty segment which is in line with industry growth rate.
- No major margin drop is expected in putty business (from hereon) despite strong competition from paint companies.
- Net debt has peaked out for JK Cement.
- UAE business markets have normalised with easing container availability (for shipments).
- UAE volumes - Q2FY24 stood at 1.93LT vs 1.21LT in Q1FY24. Volumes in Q2FY24 rose due to high order for exports.
- Material billed to India from UAE business was ~60KT in H1FY24.

Key Risk: A sharp drop in cement prices remains the key risk to our recommendation.

Exhibit 1: Q2FY24 result review – standalone

	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	Q2FY24E	Variance
Volume Sales (mt)	4.34	3.64	19.2	4.51	(3.7)	4.30	1.0
Blended realisations (INR/te)*	5,702	5,733	(0.5)	5,636	1.2	5,722	(0.4)
Net Sales	25,707	21,426	20.0	26,236	(2.0)	25,348	1.4
Raw Materials	4,223	3,735	13.1	4,323	(2.3)	3,907	8.1
Personnel Cost	1,650	1,401	17.8	1,665	(0.9)	1,656	(0.4)
Power fuel costs	5,952	5,483	8.6	6,619	(10.1)	6,190	(3.8)
Freight	5,040	4,341	16.1	5,588	(9.8)	5,330	(5.4)
Other Expenses	4,376	3,430	27.6	4,016	9.0	4,259	2.8
Total Expenses	21,241	18,391	15.5	22,212	(4.4)	21,343	(0.5)
EBITDA	4,467	3,036	47.1	4,024	11.0	4,005	11.5
EBITDA / te (INR)	1,028	833	23.4	893	15.2	932	10.4
Interest	1,091	625	74.5	1,055	3.4	1,065	2.5
Depreciation	1,196	896	33.5	1,178	1.6	1,193	0.3
Other Income	278	158	75.9	293	(5.3)	298	(6.9)
Recurring pre-tax income	2,457	1,672	46.9	2,085	17.8	2,046	20.1
Extraordinary inc/(exp)	-	-		(150)		-	
Taxation	668	425	57.3	672	(0.6)	675	(1.1)
Reported Net Income	1,789	1,248	43.4	1,263	41.7	1,371	30.5
Recurring Net Income	1,789	1,248	43.4	1,413	26.6	1,371	30.5
Ratios (%)							
EBITDA margins	17.4	14.2		15.3		15.8	
Net profit margins	7.0	5.8		5.4		5.4	

Source: I-Sec research, Company data, *Excluding other operating income

Exhibit 2: Historical quarterly analysis

(INR/te)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Blended realisations*	5,733	5,683	5,727	5,636	5,702
Growth % (YoY)	6.0	-0.8	1.3	-5.2	-0.5
Raw materials	1025	963	932	959	972
Staff costs	385	361	324	369	380
Power & fuel costs	1,505	1,646	1,649	1,468	1,370
Outward freight	1,192	1,240	1,245	1,239	1,160
Other expenditure	941	942	894	891	1,008
Total	5,047	5,152	5,045	4,927	4,890
EBITDA-blended	833	669	797	893	1,028

Source: I-Sec research, Company data, *Excluding other operating income

Exhibit 3: Segmental analysis

	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Grey Cement					
Revenue (INR mn)	15,577	17,395	20,714	20,385	19,604
Realisation (INR/te)	4,838	4,905	5,006	4,967	4,985
Volumes (mnt)	3.22	3.55	4.14	4.10	3.93
White Cement					
Revenue (INR mn)	5,312	4,941	5,408	5,021	5,161
Realisation (INR/te)	12,540	12,856	12,789	12,431	12,568
Volumes (mnt)	0.42	0.38	0.42	0.40	0.41

Source: I-Sec research, Company data

Exhibit 4: Q2FY24 result review – consolidated

(INR mn)	Q2FY24	Q2FY23	% chg (YoY)	Q1FY24	% chg (QoQ)
Net Sales	27,528	22,280	23.6	27,626	(0.4)
Raw Materials	4,584	3,678	24.6	4,644	(1.3)
Personnel Cost	1,829	1,528	19.7	1,839	(0.6)
Power fuel costs	6,332	5,762	9.9	6,910	(8.4)
Freight	5,362	4,627	15.9	5,842	(8.2)
Other Expenses	4,752	3,633	30.8	4,312	10.2
Total Expenses	22,858	19,228	18.9	23,548	(2.9)
EBITDA	4,670	3,051	53.0	4,078	14.5
Interest	1,150	670	71.7	1,090	5.5
Depreciation	1,371	1,061	29.2	1,348	1.7
Other Income	293	217	35.2	316	(7.2)
Recurring pre-tax income	2,442	1,538	58.8	1,956	24.9
Extraordinary income/ (exps)	-	-	NA	(150)	NA
Taxation	657	425	54.6	671	(2.1)
Reported Net Income	1,785	1,113	60.4	1,135	57.3
Recurring Net Income	1,785	1,113	60.4	1,285	38.9
Ratios (%)					
EBITDA margins	17.0	13.7		14.8	
Net profit margins	6.5	5.0		4.7	

Source: I-Sec research, Company data

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

Target EV/ EBITDA multiple (x)	15
Target EV (INR mn)	3,53,530
Net debt / (cash) (INR mn)	33,810
Target value (INR mn)	3,19,720
No. of shares (mn)	77.3
Target price per share (INR)	4,138

Source: I-Sec research, Company data

Exhibit 6: Earnings revision

(INR mn)	FY24E			FY25E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenues	1,11,992	1,10,227	1.6	1,19,358	1,17,960	1.2
EBITDA	19,980	18,863	5.9	22,507	22,321	0.8
PAT	7,483	6,901	8.4	9,033	9,002	0.3

Source: I-Sec research, Company data

Exhibit 7: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	45.8	45.8	45.8
Institutional investors	38.0	38.8	38.7
MFs and others	21.0	21.9	23.0
FIs/Banks	-	-	-
Insurance	1.5	1.4	1.2
FIIIs	15.5	15.5	14.5
Others	16.2	15.4	15.5

Source: Bloomberg

Exhibit 8: Price chart



Source: Bloomberg

Financial Summary (Consolidated)

Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	97,202	1,11,992	1,19,358	1,28,711
Operating Expenses	68,131	74,649	78,753	84,375
EBITDA	13,143	19,980	22,507	24,630
EBITDA Margin (%)	13.5	17.8	18.9	19.1
Depreciation & Amortization	4,582	5,428	5,846	6,132
EBIT	8,561	14,552	16,661	18,498
Interest expenditure	3,122	4,496	4,271	3,821
Other Non-operating Income	874	1,196	1,091	1,390
Recurring PBT	6,313	11,253	13,482	16,067
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	2,122	3,770	4,449	5,302
PAT	4,191	7,483	9,033	10,765
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	4,191	7,483	9,033	10,765
Net Income (Adjusted)	4,191	7,483	9,033	10,765

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	40,885	39,304	40,482	48,976
of which cash & cash eqv.	16,209	13,260	13,593	20,718
Total Current Liabilities & Provisions	20,527	21,194	21,652	22,408
Net Current Assets	20,358	18,110	18,830	26,568
Investments	215	215	215	215
Net Fixed Assets	84,456	94,028	97,682	95,049
ROU Assets	-	-	-	-
Capital Work-in-Progress	7,295	6,295	4,795	4,295
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	1,12,324	1,18,648	1,21,521	1,26,127
Liabilities				
Borrowings	49,951	49,951	44,951	39,951
Deferred Tax Liability	15,949	15,949	15,949	15,949
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	773	773	773	773
Reserves & Surplus	46,095	52,419	60,292	69,898
Total Net Worth	46,868	53,192	61,065	70,671
Minority Interest	(444)	(444)	(444)	(444)
Total Liabilities	1,12,324	1,18,648	1,21,521	1,26,127

Source Company data, I-Sec research

Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	24,325	27,779	27,626	27,528
% growth (YoY)	19.8	18.1	21.7	23.6
EBITDA	2,437	3,495	4,078	4,670
Margin %	10.0	12.6	14.8	17.0
Other Income	223	380	316	293
Extraordinaries	18	3	(150)	0
Adjusted Net Profit	372	1,101	1,135	1,785

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

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	13,129	16,681	19,328	22,199
Working Capital Changes	642	(4,470)	(4,836)	(5,915)
Capital Commitments	(18,697)	(14,000)	(8,000)	(3,000)
Free Cashflow	-	-	-	-
Other investing cashflow	(1,451)	708	-	-
Cashflow from Investing Activities	(20,148)	(13,292)	(8,000)	(3,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(1,159)	(1,159)	(1,159)	(1,159)
Others	8,572	-	(5,000)	(5,000)
Cash flow from Financing Activities	7,413	(1,159)	(6,159)	(6,159)
Chg. in Cash & Bank balance	1,036	(2,240)	333	7,125
Closing cash & balance	12,349	13,260	13,593	20,718

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	54.2	96.8	116.9	139.3
Adjusted EPS (Diluted)	54.2	96.8	116.9	139.3
Cash EPS	113.5	167.1	192.6	218.7
Dividend per share (DPS)	15.0	15.0	15.0	15.0
Book Value per share (BV)	606.6	688.4	790.3	914.6
Dividend Payout (%)	27.7	15.5	12.8	10.8
Growth (%)				
Net Sales	21.6	15.2	6.6	7.8
EBITDA	(11.3)	52.0	12.6	9.4
EPS (INR)	(38.3)	78.6	20.7	19.2
Valuation Ratios (x)				
P/E	62.0	34.7	28.8	24.2
P/CEPS	29.6	20.1	17.5	15.4
P/BV	5.5	4.9	4.3	3.7
EV / EBITDA	22.3	14.8	12.9	11.3
EV / te (USD)	171.1	170.1	144.6	138.6
Dividend Yield (%)	0.4	0.4	0.4	0.4
Operating Ratios				
Gross Profit Margins (%)	83.6	84.5	84.8	84.7
EBITDA Margins (%)	13.5	17.8	18.9	19.1
Effective Tax Rate (%)	33.6	33.5	33.0	33.0
Net Profit Margins (%)	4.3	6.7	7.6	8.4
NWC / Total Assets (%)	18.1	15.3	15.5	21.1
Net Debt / Equity (x)	0.7	0.7	0.5	0.3
Net Debt / EBITDA (x)	2.6	1.8	1.4	0.8
Profitability Ratios				
RoCE (%) (Post Tax)	6.4	9.7	10.7	11.5
RoE (%)	9.3	15.0	15.8	16.3
RoC (%)	8.4	12.3	13.1	14.7
Fixed Asset Turnover (x)	1.3	1.3	1.2	1.3
Inventory Turnover Days	48	44	43	44
Receivables Days	20	18	18	18
Payables Days	40	37	36	37

Source Company data, I-Sec research

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